

2006 Report

and

Financial Statements

Index	
Summary of financial data	3
Head Office and Branches	4
Corporate Officers	9
Convening of the Shareholders' Meeting	10
Resolutions of the Shareholders' Meeting	11
Directors' Report	12
▪ The Global Economy	13
▪ The National Economy	14
▪ The Local Economy	14
▪ Bank Activities	20
Report by the Board of Statutory Auditors	35
Balance Sheet and Income Statement	37
Statement of changes in shareholders' equity	40
Cash flow statement (direct method)	41
Note to the accounts	43
▪ Part A - Accounting Policies	44
▪ Part B - Information on the Balance Sheet	53
▪ Part C - Information on the Income Statement	98
▪ Part D – Segment Reporting	122
▪ Part E – Information on Risks and Relative Hedging Policies	123
▪ Part F – Information on Capital	180
▪ Part G - Business Combinations	182
▪ Part H – Transactions with Related Parties	183
▪ Part I – Share-based Payment Arrangements	186
Adoption of the IAS/IFRS	187
Financial statements of subsidiary companies	197
Independent Auditors' Report	206

Summary of financial data

Balance sheet (in millions of Euro)	31/12/2006	31/12/2005	variation (+/-)
Assets and liabilities	4,528	4,033	12.26%
Total receivables	3,709	3,258	13.85%
- of which due from customers	3,643	3,172	14.85%
Financial assets	566	544	4.13%
Total payables	3,952	3,494	13.09%
- of which due to customers:			
* direct deposits	3,476	2,894	20.14%
* indirect deposits	2,257	2,063	9.39%
Shareholders' equity	425	405	5.07%
Income statement (in millions of Euro)	31/12/2006	31/12/2005	variation (+/-)
Interest margin	108	99	9.89%
Net commissions	37	34	8.43%
Banking margin	150	140	7.26%
Net income from banking activities	144	132	9.15%
Net operating costs	93	91	2.05%
- of which personnel costs	53	53	0.55%
- of which other administrative costs	40	38	3.94%
Profit from current operations before tax	51	40	26.14%
Profit for the year	29	24	20.29%
Economic-financial indices and other data	31/12/2006	31/12/2005	variation (+/-)
Shareholders' equity/total assets	9.39%	10.03%	-6.38%
Solvency coefficients:			
- tier I regulatory capital/risk weighted assets	8.58%	9.01%	-4.77%
- total regulatory capital/risk weighted assets	10.42%	11.07%	-5.87%
Profit for the year/average shareholders' equity	7.01%	6.23%	12.52%
Profit for the year/total average assets	0.68%	0.64%	6.25%
Average number of employees	901	888	13
Shareholders	14,930	15,220	-290
Number of branches as at 31 December	102	98	4

Head Office and Branches

Società cooperativa a responsabilità limitata
(Cooperative with limited liability)
Share capital and reserves as at 31/12/2006 € 396,073,544
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
Fax: (0471) 979188
Swift: BPAAIT2B

39042 Bressanone, Portici Maggiori, 2
Telephone: (0472) 811111
Fax: (0472) 811285
Website: www.bancopopolare.it
e-mail: gsinfo@volksbank.it

65 branches in the Province of Bolzano

Appiano sulla Strada del Vino _ Via J. G. Plazer, 50

Bolzano/Asiago _ Via Claudia Augusta, 5

Bolzano – bank4fun _ Via Alto Adige, 12-16

Bolzano/Don Bosco _ Via Sassari, 4 b/c

Bolzano/Gries _ Galleria Telser, 1

Bolzano _ Piazza Mazzini, 2

Bolzano _ Piazza Parrocchia, 4

Bolzano _ Via del Macello, 55

Bolzano _ Via Galvani, 39

Bolzano _ Via Leonardo da Vinci, 2

Bolzano _ Via Resia, 130

Bolzano _ Via Roma, 45

Bolzano _ Viale Druso, 64

Bolzano/Zona Europa _ Via del Ronco, 15

Bressanone/Millan _ Via Plose, 38/b

Bressanone _ Portici Maggiori, 2

Bressanone/Tiniga _ Via Rio Scaleres, 26

Bressanone, bank4fun _ Via Brennero, 2
Bressanone/Zona Industriale _ Via Julius Durst, 28
Brunico _ Branch and bank4fun _ Bastioni, 24
Brunico/S. Giorgio _ Via Valle Aurina, 30
Brunico/Stegona _ Via S. Nicolò, 14
Cadi Pietra _ Cadi Pietra, 105
Caldaro sulla strada del vino _ Piazza Principale, 13
Caldaro sulla strada del vino _ Via Stazione, 10
Campo Tures _ Via Municipio, 4
Chienes _ Via Chienes, 1
Chiusa _ Piazza Tinne, 5
Dobbiaco _ Viale S. Giovanni, 23
Egna _ Largo Municipio, 22
Fiè allo Sciliar _ Via Bolzano, 3
Fortezza _ Via Brennero, 7/c
Gargazzone _ Vicolo dei Campi, 2
La Villa/La Ila _ Via Colz, 56
Laces _ Via Stazione, 1/B
Laives _ Via Kennedy, 123
Lana _ Piazza Tribus, 17
Lasa _ Via Venosta, 44
Lazfons _ Paese, 18
Luson _ Vicolo Dorf, 19
Malles Venosta _ Via Stazione, 9/b
Merano, Branch and bank4fun _ Piazza del Grano, 3
Merano _ Corso Libertà, 124
Merano _ Via Goethe, 74/a
Merano _ Via Matteotti, 43
Merano _ Via Monte Tessa, 34
Merano _ Via Roma, 278
Monguelfo _ Via Parrocchia, 13

Naturno _ Via Principale, 37/b
Nova Levante _ Via Roma, 8
Ora _ Via Stazione, 8
Ortisei/Urtijëi _ Piazza San Durich, 3
Racines _ Stanghe, 18
Rio di Pusteria _ Via Katharina Lanz, 50
San Leonardo in Passiria _ Via Passiria, 14
San Lorenzo di Sebato _ Via Josef Renzler, 17
Scena _ Piazza Arciduca Giovanni, 7
Selva di Val Gardena/Sëlva _ Via Mëisules, 155/a
Silandro _ Via Covelano, 10
Siusi _ Via Sciliar, 16
Valles _ Valles, 116
Vandoies _ Via J. A. Zoller, 8
Varna _ Via Brennero, 101
Velturno _ Paese, 34
Vipiteno _ Via Città Nuova, 22/a

18 branches in the Province of Belluno

Auronzo di Cadore _ Via Corte, 33
Belluno _ Via Caffi, 1a-3
Belluno _ Via Vittorio Veneto, 278
Cencenighe Agordino _ Via XX Settembre, 107
Cortina D'Ampezzo _ Largo delle Poste, 49
Domegge di Cadore _ Via Roma, 48
Dosoledo _ Piazza Tiziano, 2
Feltre _ Via Monte Grappa, 28
Forno di Zoldo _ Via Roma, 70/b
Mel _ Via Tempietto, 33/a
Padola _ Piazza San Luca, 22
Ponte nelle Alpi _ Viale Roma, 87
San Pietro di Cadore _ Via P.F. Calvi, 16

Santo Stefano di Cadore _ Via Venezia, 30

Sèdico _ Via Cordevole, 2/b

S. Giustina _ Via Feltre, 17

Tali di Cadore _ Via Ferdinando Coletti, 15

Valle di Cadore _ Via XX Settembre, 76

18 branches in the Province of Trento

Ala _ Via della Roggia, 10

Arco _ Via S. Caterina, 20

Borgo Valsugana _ Via Hippoliti, 11/13

Cavalese _ Viale Libertà, 7

Cles _ Piazza Navarrino, 16/17

Fondo _ via Cesare Battisti, 39

Lavis _ Via Rosmini, 65

Mezzolombardo _ Via Alcide Degasperì, 4

Moena _ Piazza Italia, 16

Mori _ Via della Terra Nera 48/d

Pergine Valsugana _ Viale Venezia, 44

Rovereto _ Via G. M. Della Croce, 2

Tione _ Via Circonvallazione, 56

Trento _ Piazza Lodron, 31

Trento _ Via S. Croce, 44

Trento/Nord _ Via Brennero 302/a

Trento/Sud _ Via Enrico Fermi, 11

Villa Lagarina _ Via degli Alpini, 4

1 branch in the Province of Treviso

Valdobbiadene _ Via Foro Boario, 21/23/13

Our registered offices

Bolzano _ Via Leonardo da Vinci, 2

Bolzano/Gries _ Galleria Telser, 1

Bressanone _ Portici Maggiori, 2

Brunico _ Bastioni, 24

Merano _ Piazza del Grano, 3

Trento _ Piazza Lodron, 31

Tai di Cadore _ Via Ferdinando Coletti, 15

Treviso/Pordenone_ Via Foro Boario, 21/23/13

Banca Popolare . Volksbank - Corporate Officers 2006

Board of Directors	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 *	
Board of Statutory Auditors	Mr. Franz Vigl	Chairman
	Mr. Joachim Knoll	
	Mr. Günther Überbacher	
	Mr. Franz Defatsch	Substitute Auditor
	Mr. Hermann Steiner ***	Substitute Auditor
Board of Arbitrators:	Mr. Max Bauer	Chairman
	Mr. Gino Bernardi	
	Walter Kompatscher	
	Hansjörg Cimadom	Substitute member
	Richard Stampfl	Substitute member
General Management	Mr. Johannes Schneebacher	General Manager
	Mr. Paul Zanon	Assistant General Manager

* Members of the Executive Committee

** Mr. Hansjörg Bergmeister member of the Executive committee until April 2006

** Mr. Gregor Wierer, member of the Executive committee since April 2006

*** Mr. Hermann Steiner, member of the Board of statutory auditors until June 2006 (not yet replaced)

Convening of the Shareholders' Meeting

Ordinary Shareholders' Meeting on 19 April 2007

Ordinary session

1. Adoption of new articles of association with consequent amendment of articles 1 to 53. Relevant and consequent resolutions.

Extraordinary session

1. Reports by the Board of Directors and by the Board of Statutory Auditors for the 2006 financial year; presenting of the financial statements and subsequent resolutions;
2. Determination of the 2007 share issue price, based on art.6 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. Establishment of fees to be paid to directors under art. 31 of the articles of association;
5. Appointment of the Board of Statutory Auditors, including therein the election of the Chairman for the three year term 2007-2009 under art. 38 of the articles of association;
6. Establishment of fees to be paid to statutory auditors under art. 38 of the articles of association;
7. Engagement of the independent auditing company to audit fiscal years 2007, 2008 and 2009 and establishment of fees for said assignment;
8. Updating of the regulations of the Shareholders' Meeting following the approvals of the amendments to the articles of associations cited in point 1 of the agenda above (extraordinary session). Relevant and consequent resolutions.

* From 4/4/2007, the articles of association in force with the proposed amendments are available for consultation by shareholders at the registered office and branches.

Resolutions of the Shareholders' Meeting

Directors' Report

- **The Global Economy**
- **The National Economy**
- **The Local Economy**
- **Bank Activities**

The Global Economy

The global economy showed strong growth in 2006, the springboard being high levels of global trade. However, the so called young industrialised countries like China and India, in particular, contributed to the growth.

The growth of Europe's economy was higher than that of the United States in 2006. This was due to strong economic development, the ability to adapt with regard to other economic regions and the implementation and continuation of new economic reforms.

The enormous trade balance deficit in the USA increased again considerably last year, reaching an all-time record peak of 764 billion dollars. Only with China did the USA's trade balance show a negative balance of more than 234 billion dollars.

Despite the large increase in oil prices, a restrictive monetary policy and the slow down in the American economy, EU countries managed to attain a rate of growth equal to almost double that of their GDP (in 2005: 1.4%, in 2006: 2.7%).

This positive and satisfactory recovery was attributed to an increase in domestic demand, through investments and increased consumption, and was also conditioned by higher wages and a relatively low rise in prices.

Economic growth of EU countries had a positive impact on the labour market: +1.8% of those in employment with a slight decrease in unemployment.

Even inflation remained at manageable levels: the price increase in the EU27 was recorded at 2.2%.

Even though the economic situation was positive, it was not however, free of risk: on one hand there was the uncertainty of oil prices, and on the other hand, exchange rates, even the most significant EU partners, i.e. the USA and China. In particular, the weakness of the YEN caused problems for competitiveness in Europe.

The German economy recorded one of its best years in 2006, following the record year in 2000, achieving growth of 2.7%, and gaining a reputation as a leading international exporter. At the same time it substantially reduced the level of unemployment, which is currently at around 10 PP (percentage points).

Prospects for 2007

GDP growth of 2.4% is forecast for EU countries, following a strong recovery in 2006. Taking into consideration the new members of the EU, that is the EU27, we could in fact forecast growth of 2.7%. This means that Europe would still be ahead of the USA, even if only slightly: the USA's growth is forecast at roughly 2.5%.

All this, despite a strong Europe, increased oil prices, a rise in VAT in Germany and finally a rise in ECB interest rates.

The increase in labour productivity and strong price competition should avert the risk of inflation in the Eurozone, meaning that the increase in prices will stay under 2%.

The National Economy

The increase in GDP, at 1.9%, surpassed all expectations, given that such a percentage rise had not been recorded since 2000.

It was driven by increased industrial production (very strong in the fourth quarter of 2006), by greater foreign demand (the more noteworthy orders coming from Germany), and increased private consumption.

If economic growth was to remain at 2006 levels, Italy would be in a position to repair the damage done up to now in relations with other significant partners in the EU and in the USA.

Exports rose overall by 8.8%, a result which has not been achieved for some time. And this, despite the trade balance deficit having more than doubled when compared to 2005, totalling 21.1 billion Euro. A determining factor, as usual, was the energy sector, in regards to the price of oil, otherwise positive figures would have been recorded in the balance sheet.

Again related to GDP, overall borrowing remained the same at more than 100% also in the year just passed. The level of the Italian trade balance deficit is also worrying, which at 4.4% of GDP is the highest that it's been for the last ten years. The deficit recorded was substantially higher than the threshold set by the stability pact, which is around 3%.

Inflation was measured at 2.2%, maintaining itself at European levels (also at 2.2%).

Prospects for 2007

For the current year, Italy predicts a whirlpool/vortex effect coming from the German economy. In this way the economic situation should improve further, despite the expected restructuring measures taken at company level.

The accounts/national budget(s) also profit from the recovery: a deficit of 2.5% is forecast.

A slight decrease in the rate of inflation is forecast; it should stabilise at around 2%.

The Local Economy

According to a report published by the Institute of economic research at the Bolzano Chamber of Commerce, economic growth is forecast at 2.1% in 2006. There are several determining factors in this increase, which are: on one hand the prosperous global economy, and on the other hand, exports (+5.6%), which have contributed to the positive economic situation.

The number of those in employment rose again and totalled 176,000 employees, with a modest level of unemployment at around 2.8%.

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

In the **trades** sector an increase in the number of orders was recorded. Sales prices and therefore revenue forecasts increased.

In the **construction** sector we showed precisely the reverse trend compared to the trades sector: in this case the national market was the driving force behind strengthened demand. However the pressure on sales prices remained, caused by strong competitiveness

In the **agricultural** sector a satisfactory apple harvest was recorded. The reduction in the harvest quantities in the EU should have a positive impact on the price trend and as a result improve saleability. With regards to wine, the grape harvest was similar in quantity to last year's harvest with the quality meeting the demands of the market. Whereas, with regards to the sale of milk, the competitive situation led to price pressure which was at times considerable.

The **Wholesale trade** is one of those sectors which has seen the greatest growth in recent years. In all three markets, in Alto Adige, Italy and abroad, revenues/returns were more than satisfactory.

The **Retail trade** experienced a rather weak climate. The decrease in consumption occurred even more frequently, with foreign visitors in particular reducing their spending. It was unusual that sales prices on the other hand increased slightly.

In the **services** sector the outlook was totally positive: there was a marked increase in turnover, as well as in jobs/orders received, and increased sales prices. Only in some sectors, first and foremost in that of haulage, the overall result recorded was less marked compared to others.

Industrial firms may be viewed as the economic driving force; orders increased, especially in the national market but also in the foreign market. Revenues were maintained at the levels recorded up until now. Despite this, a decrease in confidence/ and optimism has been forecast with regard to these.

In the summer months **tourism** again experienced a record year in terms of arrivals and overnight stays: the 16 million mark was passed, with almost 3 million visitors, i.e. +3.2% compared to 2005. Again, there was a sharp slow down in luxury expenses. Improvements in the quality of hotel establishments, in addition, afforded the possibility of an increase in sector revenues.

Forecasts and expectations for 2007

According to a survey on the economic situation, the 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.

This optimism is centred more on wholesale trade, on the construction and services sectors and on tourism; whereas the trades sector considers/gauges the overall situation in a less positive light.

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

The positive economic situation continued in 2006. Economic growth remained at a consistent and high level, in particular, because of exports and domestic demand. On the other hand, in the local market everything took place in smaller measures.

The processing industry especially, i.e. in this case medium-large companies, was able to profit greatly as a result of this positive trend.

Even employment, which remained relatively static, enjoyed improvements in the final months of the year in question.

Greater variations in turnover were recorded by the construction sector (+14% compared with the same period in 2005), whilst the transport sector registered the greatest increase in terms of employment, i.e. up 7% compared to the previous year.

Forecasts for the current year are viewed overall in a positive light, in particular in the Eurozone where the economic revival is expected to provide further boosts, and in this case especially in Germany.

The economic situation in the Province of Belluno

Overall, the economy in the province of Belluno recorded rather modest growth. However, we should point out that employment did increase.

With regard to industry, two different rates/speeds need to be distinguished: small and very small companies had a few problems, whilst the medium-large companies instead grew at a faster rate compared to the rest.

In the optical sector, one of the most important in the region, an increase in both turnover and employment was recorded. The restructuring of various companies continued to take place, which was already implemented some time ago, and as a result their numbers decreased again.

The forecasts predict a strengthening of the economic situation in Belluno, with growth predicted in both internal/domestic and foreign demand.

The economic situation in the Province of Treviso

In the year of the report, the relatively stable starting position in 2005 could take experience a gentle phase of recovery, with a consolidation trend. Increased domestic demand contributed to this positive situation, as well as the increase in turnover in foreign markets, where unusual situations of price competition were found to exist.

Industrial production too made progress, however capacities were still not fully exploited. Private consumption was again slightly measured, this leading to some problems in the retail trade, both in terms of turnover and revenues.

Companies registered at the Chamber of Commerce (excluding agricultural companies), totalled more than 75,000, representing a slightly positive trend compared to the previous year.

The services sector made an appreciable contribution to GDP and not tourism in this case, which recently has provided support for services and has aided economic performance.

The leading economic sectors in the Province of Treviso expect a further vortex effect from the economic revival currently taking place in the EU, which should have a positive impact.

Innovations in the regulatory framework regarding preparation of financial statements

The regulatory situation in which Credit Institutions operate continues to be in a constant state of change. In particular, 2005 was characterised by the entry into force of new international accounting standards in Italy which greatly modified the accounting criteria and preparation methods of the financial statements. A detailed description is included in the section this Report dedicated to comments on the economic results. At this registered office, we are obligated to recall that on 22 December 2005, the Bank of Italy issued circular no. 262 and with it, provided the instructions relating to the new schemes and preparation guidelines for banks' financial statements, constituting the balance sheet, the income statement, the statement of changes in shareholder's equity, the cash flow statement and the notes to the accounts, including the directors' report.

Activities and lines of development of strategic importance

The Industrial Plan

The main guidelines governing the activities of our Bank are outlined in the industrial plan, a summary document of ratings in which the Bank highlights and updates on an annual basis, consistent with recent developments, the growth objectives and the strategies for achieving them.

The completion of the 2006 strategic guidelines revised the previous programmatic document based on knowledge gained in the course of 2005 and is included in the new 2006-2008 three-year industrial plan. In the document, the results achieved by environmental variables are discussed (macroeconomic factors and characteristics of the home market) and reduced in terms of value added for the strategic interest bearers at the Banca Popolare, in order to highlight the areas of organisational improvement and to establish appropriate guidelines for intervention to consolidate operations and sustain research and development, the driving force for prosperity to which the Bank is committed.

For the financial year just ended, the Bank developed essentially in line with the programmatic guidelines indicated in the industrial plan. In particular, in regards to their complementary relationship with the quantitative result shown in the income statement, the following activities of strategic importance were highlighted in the business performance management implemented in 2006:

- **Corporate Governance**

The development of company legislation concerned in particular:

- Company Articles of Association
In 2006 the articles of association were subjected to a detailed assessment concerning the development of the operating situation and exchange rules solicited by agencies responsible for market regulation. The rewriting of the memorandum of association favours the potential growth of the Bank, and at the same time, aims to facilitate the orientation of complex relations which govern the company relationship. The new text proposed for discussion and resolution at the extraordinary shareholders' meeting, convened to the meeting to approve the 2006 financial statements, proposes conceptual updating and a rearrangement of subject matter with particular emphasis on the accuracy of arguments and descriptive simplicity.
- Regulation of the shareholders' meeting
On 19 April 2005, the Shareholders' Meeting introduced the regulation which governs the carrying out of shareholders' meetings and completed the reference framework for the exercising of shareholders' rights to attend, participate and vote. The document is now awaiting agreement with the amended articles of association as indicated in the meeting agenda on the subject of approval of the 2006 financial statements.
- The role of compliance
In company experience, updating and implementation of lines of conduct regarding prevention of regulatory risks are of primary importance, in principle, through the strong assonance in terms of value with the Bank's corporate culture, the intangible dimension, an asset and driving force behind the Bank's position, always sensitive with cautious treatment of confidence and monitoring of balance sheet integrity. At all stages during the planning, each commitment remained transversal so that, in a constantly changing environmental context, the role of compliance accompanied the Bank's development and ensured its activities complied with the highest levels of behavioural integrity.
- The Organisational model Leg. Decree 231/2001
In 2006 our Bank published the organisational model - Leg. Decree 231/2001, approved by the Board of Directors at the end of 2005. The regulatory provisions concerned the administrative responsibility of the Bank in regards to offences committed from which it stands to benefit or which profit individuals in high level positions and individuals who have a subordinate working relationship with the Bank. Administrative responsibility does not rest with the Bank if it has implemented the appropriate organisational and operational models to prevent offences of this kind and entrusted the responsibilities of monitoring the functioning of and compliance with these models to an independent company equipped with autonomy in terms of initiative and control. Therefore in 2006, the document bearing organisational model leg.decree. 231/2001 and the associated disciplinary code were rendered operational. This reaffirms, also through reference to the Bank's code of ethics, introduced in March 2005, that together with the rules of moral and specific conduct, that they bind together the implementation of company responsibilities and of all collaborators.
- **The Banca Popolare Volksbank trademark**
The Banca Popolare trademark represents a regional bank with a marked ability for bringing together the local characteristics of the areas in which it is established. Engrained deeply in corporate culture, these characteristics through symbolic strength and capabilities make it possible to generate significant, positive knock-on effects on marketing activities.
A competitive and strategic asset, in the year just ended, the Banca Popolare trademark required great skill in learning and understanding the dynamics of branding and projecting the trademark into the business field. In the project field, detailed studies and comparative panel analyses were carried out and company redesign was launched.
- **Organisational development**
The organisational planning of our Bank tends to aims to achieve constant improvement in the qualitative indicators of our commercial activities. In order to increase the potential of the service and customer satisfaction, in 2006 this led to the assessment of the following strategic aspects:
 - The organisation of distribution
In 2006, Banca Popolare channel management continued the migration from over the counter branch transactions to the consultancy branch according to business plan directives.
The conversion was carried out through a complex feedback process; in the accounting period, in particular, this process required the researching and development of alternative transaction channels

(electronic channels), environmental and functional restructuring of the traditional banking establishment, preparation of new tools and transaction interfaces, the standardisation of workflows, investment in specialist training of employees as well as targeted marketing activities, consent solicitation and sustained commercial communication.

At the same time, the Bank consolidated the commercial segmentation model which essentially reshapes the organisational rationale of production and sales of banking products and services. The model provides for the management of client portfolios grouped in clusters constructed around a prototype of potential demand for services/products with appropriate structured support options.

- Implementation of the branch plan

The Banca Popolare is a regional bank with a territorial reach, which in 2006 linked the provinces of Bolzano, Trento, Belluno and Treviso with 102 operational branches, among which, in the year just passed, branches were established in Arco, Cavalese, Trento Sud and Villa Lagarina nel Trentino whilst in Valdobbiadene the first branch was launched in Treviso.

The expansion of the branch network is being carried out in compliance with the priorities set out in the business plan and according to long-term profitability analysis, aimed at achieving growth by maintaining the number of collaborators relatively unchanged at bank level through retraining, functional rebalancing and internal flexibility.

In the provinces where it is established, and in line with its principles, the Bank can turn to any private individual or company if they can offer lasting commercial relationships which meet requirements.

- The product basket

The basket of products and services replicates the commercial corporate and private clusters in order to implement suitable basket solutions on the prototype client segment of reference. This entails intervention in defining the basket and on methods of product development. The standardisation of procedures and developing of new skills and operational competencies was pertinent in this context. In 2006, these aspects brought important project resources into focus, and following the first successes in implementation, now expect further developments to be on the agenda in 2007.

- the Pricing

During 2006 our Bank continued to develop the new pricing policy launched in 2005. Application of the causal relationship in determining the cost of the service rendered the price of the service transparent making it possible to negotiate its outcome.

▪ **Marketing development**

The project commitment derived from the 2006 strategic plan regarding liquidity management, led to an emphasis on new market objectives with completion of the first securitisation in foreign markets. In fact in December 2006 the Bank launched the residential mortgage backed securities in bonis* with a value of more than 378 million Euro, with Natixis, the French corporate bank created by Banque Populaire and Caisse d'Epargne. The securitised assets were equal to a portfolio of more than 4,000 mortgages with a LTV* OF 46.32%. The credit was given to Voba Finance S.r.l., who financed the acquisition with the issue of four classes of securities on the London and Paris markets with returns in certain interest. 95% of the transaction was covered by the first two classes of securities with a rating by FitchRatings [AAA] and Mood's [Aaa].

* residential mortgages

** loan to value: ratio mortgage amount/current value of the property market

Furthermore, 2006 marketing management recorded in particular, the following activities of communication, motivation and analyses of feedback of satisfaction:

Thanks to an analysis of the opinion surveys administered to collaborators and customers in spring 2006, the Bank ascertained significant indicators of its qualitative position.

In September 2006 news4you was born, the Bank's newsletter distributed periodically to partners and collaborators on the mailing list. Requests from customers and interested individuals are warmly welcomed at the branch.

With particular satisfaction, on 28 September in Vienna (A) last year, our Bank won the prestigious Victor 2006 award for the most innovative bank of the year, contested between projects, which accompanied

the opinion surveys regarding the position of European credit institutions in German speaking regions. The Bank won through implementation of *banca giovane*, the outreach project which built the branch around young people, realised today through the bank4fun logo in Bolzano, Merano and Bressanone. In autumn the Bank closed, with satisfactory returns, a new edition of bonus banking, the award competition (DPR 430/2001 and implementation instructions) which accompany the transition from the traditional bank counter to alternative channels for banking transactions relevant to your current account.

▪ **Organisational development**

- Human resources and commitment to training

As at 31.12.2006 there were 912 collaborators with the Bank, 41% of which were female; due to a redesigning of the full time equivalent of working hours workforce coverage fell to 817.29 units.

The distribution of collaborators recorded branch assignments of 64.8% compared to 35.2% in additions to central services.

The group photograph shows 120 graduates (13%) and 641 (70.3%) diploma holders; the average employee age is under 40 years old, the average age of female collaborators is lower at 36 years old.

Initiatives geared toward development of human resources in the year just passed promoted 33.127 training hours and formal professional training for the benefit of 838 collaborators (92%) who took advantage of classroom based courses (taken by internal representatives and supervisors from external companies), inter-company seminars, individual on the job training sessions with a personal tutor, participation in decentralised initiatives at the branches, workshops (quality groups) and instructed e-learning modules.

Training activities are managed through a database. For each activity an educational objective is set, an implementation plan is agreed and the feedback of the pupil is assessed.

The training commitment is geared significantly towards preparing in a transverse manner, tools in support of organisational change, to promoting communicative and relational abilities and as well as management skills to increase the knowledge and know-how of collaborators.

- ICT

The constant strain in optimisation passes necessarily for research and development in the ICT environment. In 2006 the Bank, in particular, redefined some management aspects of outsourcing of IT support with partner SEC - Services, re-affirming the common goal of offering services of the highest quality and cost containment.

The direct participation of experts in the ITC planning and development of SEC has made significant contributions to the implementation of and increase in work platforms, for which, by way of example, improvements brought about in the year in question were noted in the "customer focus" marketing initiative of the commercial network.

Business continuity activities and the simulation of critical incidents, promoted in 2006, ensured high definition standards to data security.

The Bank's commitment on the fraud prevention in cash point machines front saw the distribution of the first non cloneable microchip cards in the summer of 2006: so in Aldo Adige our Bank responded first to the new security measures.

- property

In 2006 the logistical rearranging of administrative services, still scattered throughout the region due to commitments to the 1992 memorandum of association and due to factors regarding the Bank's growth, in order to create a more functional organisational structure and realise economies of scale by taking the appropriate action on structural costs of production.

▪ **Rating**

In October 2006 Moody's reviewed the rating of Banca Popolare again confirming the A3 rating. In its report the ratings company highlighted the strong position of the Bank, basically giving credit for the balanced orientation of the management policies dedicated to combining opportunities for change with the needs for stability as part of its strategic choices.

Bank Activities

Dear Shareholders,

In 2006 our bank had to face an ever increasingly difficult market also due to growing competition in the sector.

Despite this, we continued on our way and expanded our network of branches in the nearby Trentino region.

We also celebrated an important event during the financial year. We opened our hundredth branch, already announced at the general shareholders' meeting, in Valdobbiadene, in the Province of Treviso. This is the first branch opened outside the Provinces of the current customer base of Bolzano, Trento and Belluno. To continue expansion in this territory, we set up a new Office called Treviso/Pordenone (the eighth for the bank), which will be responsible for developing the network of branches in the above-mentioned Province.

We also followed alternative ways to obtain liquid assets. Through securitization (sale of credits) of over 4,000 house loans, we managed to penetrate international loan markets for a total value of 378 million Euro and refinance at favourable conditions. The quality of our operations is confirmed by two rating agencies, Moody's and Fitch, with the highest rating at AAA.

If we can define the year-end result as good, despite the situation at the beginning of the year (described above), it is above-all due to the rise in loans and deposits, growing sales of our products and services, together with the constant commitment of our employees.

On the whole we managed to achieve the following objectives: for direct deposits we recorded an increase of 583 million Euro (+20.2 %); for indirect deposits growth was 194 million Euro (+9.4 %), again in comparison with 2005. The loans segment rose by 14.8% over the previous year which in absolute figures amounts to 471 million Euro.

So for the first time the total amount of funds administered for customers exceeded the threshold of 9 billion Euro: the situation of all deposits and amounts due from customers reached 9,376 million Euro as at 31/12/06, an increase of 1,247 million Euro (15.4%) compared to the end of 2005.

Adoption of IAS/IFRS international accounting standards

It is known that EU Regulation 1606/2002 requires that, starting on 1 January 2005, companies listed on EU regulated markets must draft consolidated financial statements applying IFRS (International Financial Reporting Standard, formerly called IAS) issued by IASB and approved by the European Commission. With Legislative Decree 38 of 28 February 2005, Italy, exercising its entitlement provided for in art. 5 of the above Regulation, greatly extended the area of application of IAS/IFRS, and, among other prescriptions, required its adoption by banks and financial institutions governed by Bank of Italy regulations. More specifically, these standards were adopted starting from the 2005 financial statements. They were required for the consolidated financial statements of banking groups and optional for bank financial statements; starting from 2006, financial statements must be drafted in compliance with IAS/IFRS.

In this context, Banca Popolare dell'Alto Adige drafted the financial statements as at 31 December 2006 according to IAS/IFRS and in compliance with prescriptions recently issued by the Bank of Italy as part of the regulatory powers attributed pertaining to "technical forms" for bank and financial institution financial statements. Concerning this point, it should be mentioned that at the end of December 2005 the Bank of Italy published Circular 262 on the schemes and regulations for drafting bank financial statements in compliance with IAS and also issued the calendar for updates to the regulatory system adopted in 2006.

All the information concerning the procedures for adopting IAS/IFRS by the Bank and its effects on the financial and economic position on First Time Adoption (FTA) to comply with IFRS requirements are described in an annex to the notes to the accounts, which the reader is referred to for further details.

Deposits

As mentioned above, the 2006 financial statements were drafted applying IAS/IFRS and also provide information for comparison with 2005, as prescribed by the standards in question.

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 3,465 million Euro at the end of the year. Considering own bonds, sold to banks, we recorded an increase of 21.0 %.

Total deposits are broken down as follows:

(in thousands of Euro)			
Technical type	31/12/06	31/12/05	Change %
- customer deposits by traditional types: savings and current accounts, certificates of deposit, bonds etc.	2,995,204	2,768,280	8.20%
- liabilities corresponding to assets sold and not cancelled	356,163	-	-
- reverse repurchase agreements on securities	113,238	74,407+	52.19%
- own bonds sold to banks	125,000	125,000	-
Total	3,589,605	2,967,687	+ 20.96%

With an amount of 1,422 million Euro, corresponding to a percentage of about 47.5%, bonds make up the most important item, followed by current account deposits, amounting to 1,147 million Euro, amounting to about 38.3%. Savings accounts amounted to 296 million Euro; their percentage compared to overall savings amounted to 9.9%.

Liabilities corresponding to assets sold and not cancelled concern the securitization transaction which, as described in the section on loans, was subject to "recovery" since it did not satisfy IAS 39 requirements to proceed with the derecognition.

Third-party administered securities recorded an increase for a total of 155 million Euro compared to 2005, amounting to 7.8%.

At year-end the item reached an amount of 2,144 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.

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 accounts and house loans segments.

The over all situation of loans reached 3,643 million Euro, 471 million Euro (14.8%) over the previous year, with a loan/deposit ratio of about 105%.

The increases were mainly achieved due to higher sales of products related to current accounts (+21.3%). Within our offer of products, current accounts, in proportion, are at first place with a share amounting to 39.7%, followed by house loans at 33.8%.

In 2006, performing mortgage loans to private customers were securitized to the special purpose company VOBA-Finance, now recorded under assets sold and not cancelled.

The transaction does not satisfy IAS 39 standard for the derecognition, since the bank fully subscribed the "junior" tranche of securities issued by the special purpose company.

As a result, concerning the above securitization transaction, the securitized assets remaining at the date were recorded for the amount referring to loans sold by the Bank and the "junior" tranche subscribed was reversed.

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	2,468,265	67.75%
Manufacturing industry	395,590	10.86%
Commerce	224,476	6.16%
Services	506,466	13.90%
Public entities, financial and insurance sector	48,276	1.33%
Total	3,643,073	100.00%

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

Technical type of loan	31/12/06	31/12/05	Change %	Percentage share
1. Current accounts	1,446,184	1,191,948	21.33%	39.70%
2. Repurchase agreements	1,418	803	76.59%	0.04%
3. Mortgages	1,229,990	1,375,024	- 10.55%	33.76%
4. Credit cards, personal loans and salary-backed loans	18,430	19,762	- 6.74%	0.51%
5. Financial leases	-	-	-	-
6. Factoring transactions	-	-	-	-
7. Other transactions	420,238	427,617	1.73%	11.54%
8. Debt securities	-	-	-	-
8.1 Structured securities	-	-	-	-
8.2 Other debt securities	-	-	-	-
9. Impaired assets	159,386	156,884	1.59%	4.37%
10. Assets sold and not cancelled	367,427	-	-	10.08%
Total	3,643,073	3,172,038	14.85%	100.00%

Lastly, it should be mentioned that as at 31 December 2006, the analytical and lump value adjustments include the effect of "discounting" pertaining to assessing the timeframes necessary to collect amounts that can be recovered which amount to 11.1 million Euro for analytical write-downs and 6.3 million Euro for lump adjustments respectively. If the initial estimate on recovery time is later confirmed this effect is "transferred" to the income statement in future financial years thus bringing write-backs.

Doubtful loans

The ratio between net non-performing loans and cash loans amounts to 1.18% (2005: 0.95%), the ratio between gross non-performing loans and cash loans amounts to 1.93% (2005: 1,76%).

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".

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)

	31/12/06	31/12/05	Change %
A) Non-performing loans			
Gross amounts	71,365	56,868	25.49%
less: specific value adjustments	(28,368)	(26,706)	6.22%
Net amounts	42,997	30,162	42.55%
B) Problem loans			
Gross amounts	80,880	110,441	-26.77%

less: specific value adjustments	(7,869)	(11,645)		- 32.43%
Net amounts	73,011	98,796		- 26.10%
C) Restructured loans				
Gross amounts	-	5,020		- 100.00%
less: specific value adjustments	-	(1,317)		-100.00%
Net amounts	-	3,703		-100.00%
D) Loans overdue by over 180 days				
Gross amounts	43,718	24,395	79.21%	97.67% 79.08%
less: portfolio value adjustments	(340)	(172)		
Net amounts	43,378	24,223		15.55%
E) Performing loans				
Gross amounts	3,506,162	3,034,275		17.54% 15.54%
less: specific value adjustments	-	-		
less: portfolio adjustments	(22,475)	(19,121)		
Net amounts	3,483,687	3,015,154		
Total net amounts	3,643,073	3,172,038		14.85%

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.

From the point of view of numbers, 2006 was characterized by a decrease in watch-list positions and positions classified as problem loans, while concerning the amount there was an increase in watch-list positions. 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 the increase in the number of loans.

In 2006 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), namely the so-called “trend rating” with updates to related audit procedures. At the end of 2006 the RMS (“Risk Management System”), which draws on rating data, permanently replaced the SEAC procedure as the control and monitoring system.

Risk Management

Our Bank 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 the 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 2006 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 2006 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 2007, 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 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 the case of a correspondent bank without an official rating the method of 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 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, our Bank 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 2006 as follows: a VaR with a holding period of 1 day and confidence level of 99%, amounting to 1.66 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 liquid (in cash) value methodology. The calculation of liquid value (in cash) 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 31/12/2006, the trading portfolio of our Bank shows a worst case figure of about 3.8 million Euro.

The Value-at-Risk of the trading book of the Bank 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 at 31/12/06	29,174	327,728	135,231	492,133
Minimum Value-at-Risk in 2006 (17.01.2006)	50,032	154,923	83,498	288,453
Maximum Value-at-Risk in 2006 (16/06/2006)	60,955	542,933	246,373	850,261
* 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 implicit 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.

Since 2003, 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. This orientation focuses on the development of brands and one of them, “Private Banking”, was launched in 2006.

New branches

Trentino

With the opening of branches Villa Lagarina, Trento Sud and Cavalese we have expanded our commercial structure in the province of Trento, which amounts to 18 branches. The logo “Banca Popolare – Volksbank” is established and has become clearly visible throughout the province.

Treviso/Pordenone

In April 2006, in Valdobbiadene we opened our hundredth branch, the first in the province of Treviso. This opening marked the beginning of a process to create a new Office, the Treviso/Pordenone office. This year an additional four branches are planned for the Provinces of Treviso and Pordenone.

Private Banking

In November 2006 the brand “Banca Popolare Private Banking” was introduced. With this new brand Banca Popolare acquires the awareness to say that the needs of the customer come first. The objective is to provide an exceptional tool by providing excellent quality in assistance and consultancy.

Only the customer counts. In the end it is their ideas, needs and condition that count. This is why in “Private Banking – Banca Popolare”, the bank gathers the entire range of high-quality products suitable for industrious customers. All of this allows creating an exclusive and custom segment for constant and proactive customer service.

A personal consultant is assigned to every customer. The consultant makes a personal analysis through an interview with the customer. The customer’s portfolio is carefully set up based on an investor profile to meet their needs. This means the customer’s propensity towards risk, their experience on financial markets, the duration of investments and their performance expectations are the guidelines the consultant adheres to. The objective of the consultant is to optimize revenues, always according to their propensity towards risk. At the same time the consultant attempts to reduce risk to a minimum in order to achieve the performance desired. To develop a custom solution new technologies and innovations are introduced as well as new communications technologies such as text messaging and e-mail, so the customer is able to communicate with his/her consultant quickly and directly.

The success of “Private Banking Banca Popolare” depends first of all on our employees. In order to guarantee an adequate and standard level of quality in consultancy and assistance services, employees will be prepared and trained for that. Certification procedures will also be used to retain all the process and social skills needed to provide consultancy services.

bank4fun – an idea that breaks a record

For almost 6 years Banca Popolare has been known all over the province of Bolzano for its bank4fun brand, above all with young people who live there. We are very happy to see how bank4fun has built up the positive image of the bank.

The development of almost any type of brand can not take place from one day to another. It can happen through a continuing, long-term process. This is a sensitive process because attention is placed on young customers who need to have a clear and emotional perception of the bank4fun concept, a circumstance/condition that young people tends to change very quickly.

- 30.000 registered users in the community on www.bank4fun.it, above all in the 14 to 18 age range,
- four bank4fun branches, facilities daily used as bank branches but also as meeting points and study rooms,
- initiatives in branches and big events in all the province as a bonus for customers and to encourage potential new customers and
- the "most orange" coloured product range in Europe tailored to meet the needs of young customers.

All of this gives young people – and not only – the feeling of belonging to something special.

Bank4fun not only concerns young people, it is a part of this world

The bank4fun brand successfully laid its roots in the world of youth. Confirmation not only comes from its popularity, but also and above all from the fact that bank4fun is a phenomenon to be taken into account when considering everyday life and the institutions regarding young people. Now all we have to do is shift the enthusiasm of bank4fun young customers to Banca Popolare. To achieve this goal we start from the feeling of belonging, the "us" in young people, felt within and around bank4fun. We will start with the first steps in this process during the year. Whether they are new products, specific support, important events, new benefits in the orange club or innovations on the homepage, bank4fun will attract attention also in 2007.

The insurance segment

In 2006, 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 +13.4%, for life insurance and global family insurance the increase reached 23.7% and 39.4%.

The finance segment

The positive trend in the financial markets in recent years continued also in 2006. What turned out to be an easy year was characterized by 4 different cycles as shown by the Eurostoxx 50. At first it rose until mid-May by 8%, then it fell until the beginning of June by 12%, and then went back to the level seen in May. It took some time before rising again at the end of September and by the end of December it had risen by 6% and closed with an overall increase of 14.4% in 2006.

After a pause that lasted over 2.5 years, the ECB increased interest rates for the first time in December 2005 by 0.25%, in 2006 not less than five increases in the prime rate follows (currently 3.50%), which had total effect in the short term. The Euribor 6 months increased from 2.63% at the beginning of the year of 122 PB and reached 3.85% while ten-year interest rates rose from 3.44% of 76 PB to 4.20%, a circumstance that levelled off the curve even more to a level not yet considered low since the introduction of the Euro.

Among the principal currencies, the Euro played an important role. After a relatively calm quarter, the value of the Euro rose steadily against the Dollar starting from the beginning of the year at 1.21 and ending at 1.32, an increase that amounted to 9%. Even against the Yen (+12%) and less against the Swiss Franc (+1.9%), the Euro remained the strongest currency. Instead against the English Pound (-1.74%) and the Kroner (-2.75%); against all currencies the Euro increased by 0.8%.

Our bank focused on the finance segment at a slightly higher risk, this to achieve good performance on invested capital in the long term and to maintain or even increase our rating. The agency Moody's confirmed its valuation made last year and assigned an "A3" rating on long-term liabilities/deposits. This means placement in the mid-upper class which corresponds to low credit risk (Moody's definition). The securities portfolio, an average of 545 million Euro, was higher compared to last year by about 6 million Euro; the share of securities managed by third parties was offset by high-solvency bonds and maturities mainly in the short term.

This way of operating, brought our bank an income from trading transactions of 3.87% (for comparison: the average income on investments at 6 months without risk amounted to 3.174%).

Payment systems

Further development of payment systems was influenced last year by the new application of SEPA (Single Euro Payment Area), an initiative from the European Commission. The goal of SEPA is to create a Euro payment system area that enables customers to make international payments in the same way as national payments. SEPA concerns payment tools such as bank transfers, debits and cards. The threshold of EU transfers was increased in 2006 from 12,500 to 50,000 Euro; this way 93% of old international transfers were placed on the same level of national transfers. So our customers will have great benefits concerning costs. For debits, like card payments, we are still at the beginning of developing a single European standard and/or mutual opening of single systems on a national scale.

In the corporate segment we focused specifically on the intensification and further development of Cob@Web and Internet banking for business clients. The corresponding procedure underwent in-depth development for ease-of-use, introducing several new functions made available to our customers in the Q4 2006. The replacement of all POS devices, started in 2005, was concluded bringing the entire system up to the newest technology standards including payment with microchip smartcards.

Automation is continuing to advance also in the treasury service for entities segment, services that we perform for various bodies. During the financial year we laid ground to create the so-called "Local Electronic Ordering" in collaboration with our data processing centre and local institutions. By using this new electronic processing system we will soon be able to provide a treasury service for public entities that is much more efficient and cost-effective.

Virtual banking – our virtual bank

Technology in electronics is developing very quickly especially in the banking sector. In addition to this we also note a close connection between the card sector and multi-channel sector. In brief:

Cards

We have been providing our cards since 2005. These cards complete our range of products in the card segment: ONE is a disposable card and topped up only once, whereas ONE MORE and ONE MORE ORANGE are rechargeable cards dedicated to private customers and young customers.

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

ATM cards

As the first bank in Alto Adige, in August Banca Popolare began issuing ATM cards with microchips. At the same time preparations were undertaken to replace existing ATM cards. The microchip will continue to replace the magnetic strip both in Italy and throughout Europe, which ensures increased security with additional innovative features for customers.

Security

During the financial year our bank introduced the !Banca Popolare! information service for international ATM cards, which is an important aid to customers for making safe transactions with their ATM card. The customer is informed by text message/e-mail when a withdrawal or payment is made abroad using their ATM card. This way the amount of payment for damages for ATM fraud is reduced significantly.

bank4u: the most direct and fastest way to reach us

Under the brand name bank4u are all customer services that enable them to contact Banca Popolare without being bound by branch business hours and without needing to physically go to the bank.

direct b@nking – bank transactions without timetables

Direct b@nking enables online access to customers' current accounts and deposits 24/7. All that is needed is an Internet connection and contract. The services available range from consulting balances to ordering transfers, from topping up your phone or card to payment of ICI tax using the F24 document and many other features.

online tr@ding

Online tr@ding is for online trading of shares listed on the Italian, German and American stock exchanges. Online tr@ding has different service models: basic, basic plus, full and top. This way customers can choose the profile that suits their needs the most.

sms b@nking push

An initial step was completed with the introduction, in November 2005, of SMS b@nking. This service makes it possible for the customer to receive information on their current account, deposits and securities on the Milan stock exchange and choose whether to receive messages on their mobile phone and/or at their email address.

The success of the new service is considerable and growing constantly.

sms b@nking pull

The SMSb@nking service introduced in 2005 was expanded to include a PULL version, which enables customers to contact our bank through text messaging (number 339 994 58 88) and receive certain information concerning bank relations in real time. It is also possible to top up their mobile phone with a text message.

pda b@nking

With the introduction of pda b@nking it is possible to access direct b@nking services on the run using a PDA (personal digital assistant) and the Internet or using a smartphone. For instance, it enables customers to check the balance in their current account while on the train or order a transfer they forgot while waiting in the airport. Queries and transactions can be made without installing special software. To use pda b@nking it is necessary to activate direct b@nking. Customers log in on mobile.volksbank.it with the same access information needed for direct b@nking (account and password). Security is guaranteed by the high standard of code provided for the direct b@nking service.

Security

Security and ease-of-use are considered of primary importance. Banca Popolare uses SSL3 128 bit security protocol to exchange data with the customer. This system makes it impossible for unauthorized persons to have access to data exchanged. Security codes are organized following a "knowledge and possession" policy. The first part of the security code is formed by the account and password, two different codes that the customer knows by heart. This way they access the first security level for general information. The second part of the security code – a random succession of 3 characters on the authorization card – enabling them to make transactions. This way we are able to combine the highest security levels with more flexibility.

Developments expected

Our bank pays a great deal of attention on new 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 that is also suitable to ensure the security required by the customer (e.g.notification of international ATM withdrawals). We are stimulated to commit ourselves even more to finding new innovative solutions that enable the customer to maintain a relationship with their bank that is easy, fast and as safe as possible.

Equity investments

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 the Banking Group and is registered with the Bank of Italy in the Banking Group Register. The financial company Berger S.p.A., Bolzano, entirely controlled by our Bank as parent bank is a part of the Group and is recorded in the financial statements with a value of 992 thousand Euro. The above financial company operates in leasing, through the possession and management of the following assets (as at 31/12/06) for use by the bank:

- Building in Bolzano, Via del Macello n. 55, recorded in the subsidiary's financial statements less: related provision for amortization and depreciation	10,550,73 (7,450,975)
	3,099,798
- Building in Bolzano, Piazza Parrocchia n. 4, recorded in the subsidiary's financial statements less: related provision for amortization and depreciation	3,458,587 (2,397,013)
	1,061,574
- 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 (390,481)
	199,295
- Building in Bressanone/Millan, Via Plose, recorded in the subsidiary's financial statements less: related provision for amortization and depreciation	2,089,402 (737,277)
	1,352,125
- Building in Trento, Piazza Lodron n. 2, recorded in the subsidiary's financial statements less: related provision for amortization and depreciation	4,285,820 (588,155)
	3,697,665
- 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 (134,831)
	613,453
- Building in Cavalese, Via Libertà n. 7, recorded in the subsidiary's financial statements less: related provision for amortization and depreciation	1,462,626 --
	1,462,626

It should be mentioned that pursuant to art. 2497-bis Civil Code, amended by Legislative Decree 6/2003, Banca Popolare dell'Alto Adige exercises management and coordination over companies in the Group and does not draft the consolidated financial statements by effect of "*Framework for Preparation and Presentation of Financial Statement*" (the so-called *Framework*), which the reader is referred to in application of international accounting standards.

This framework does not contain standards on issues concerning valuation or information but sets forth basic concepts (rules) for the preparation and presentation of year-end and consolidated financial statements.

In particular, after defining the purpose and rules of the financial statements, it defines and prescribes general policies for recording and valuating their contents i.e. assets, liabilities and net shareholders' equity, costs and revenues.

Paragraphs 26 to 30 outline the main concepts and significant information.

In particular, paragraph 26 sets forth that "*the information is qualitatively significant when it is able to influence the financial decisions of users and help them assess past, present or future events or confirm or correct assessments made in the past*".

Paragraph 29 establishes that "*the importance of the information is influenced by its nature and its relevance*". Lastly, paragraph 30 specifies relevance as "*providing a threshold or limit rather than represent a primary qualitative characteristic that the information should possess to be useful*".

Paragraph 8 of IAS 8 should also be noted, "*Accounting standards, changes in estimates and errors*", approved by the Accounting Regulation Committee on 30 November 2004 and published in the EU official Gazette on 31 December 2004, which prescribes that it is not necessary to apply accounting policies dictated by IAS/IFRS when the effect of their application is not significant.

Based on the above provisions the Bank decided not to draft consolidated financial statements and excluded their subsidiaries considered irrelevant or of little significance in order to improve the information which would result from their consolidation.

- Berger Spa

Concerning relations with the above company during the financial year, the following tables show equity and financial figures, listed by subject, nature and type of transaction.

Equity relations

Company name	Loans granted	Subscribed bonds	Loans obtained	Bonds issued	Guarantees	Loans
Berger Spa	6,826	–	–	–	–	–

The assets and liabilities shown above are mainly for financial relations falling under normal leasing operations. These operations are governed by market conditions which are normally applied by independent parties.

Financial relations

Company name	Interest income on loans granted	Interest owed on loans received and bonds issued	Commissions and other revenues	Commissions and other costs
Berger Spa	427	–	–	–

Interest assets and liabilities are the remunerations of loans granted and received at market interest rates.

Equity investments in subsidiaries and companies subject to significant influence

This item shows equity investments in the company Immobiliare A&A S.r.l., Bolzano, 100% controlled by our Bank and recorded in the financial statements for a value of 33 million Euro and in Casa di Cura Villa Sant'Anna S.r.l., Merano, acquired to recover credit position.

Concerning the latter, our Bank holds 35% for a value recorded in financial statements of 516 thousand Euro.

Net shareholders' equity and regulatory capital

The net shareholders' equity of the Bank, including year-end profit, went from 405 million Euro as at 31 December 2005 (including effects related to the transition to international accounting standards IAS/IFRS, and IAS 32 and 39) to 425 million Euro as at 31 December 2006, with an increase of 20 million Euro, amounting to 5.1%. Among the "valuation reserves" are the reserves from fair value revaluation of assets made when first applying IAS/IFRS international accounting standards, valuation reserves concerning financial assets available for sale and the reserves recorded in adherence to special revaluation laws. The increase shown is related to the change in fair value of financial assets available for sale acknowledged in the financial year. The "other reserves" include already existing profit reserves (legal reserve, statutory, extraordinary, reserve for buying treasury shares, etc.), as well as positive and negative reserves related to the effects of the transition to IAS/IFRS not recorded under the other items mentioned above.

Regulatory capital consists of:

(in thousands of Euro)

	31/12/2006	31/12/2005	Change (+/-)
Tier 1 capital	340,546	319,908	20,638
Tier 2 capital	73,156	75,309	(2,153)
Prescribed deductions	-	(1,917)	(1,917)
Regulatory capital	413,702	393,300	20,402

Concerning prudential regulatory requirements, the overall solvency ratio is 10.42% (compared to a minimum requirement of 7%), while the ratio between Regulatory Capital and the total of credit risk assets amounts to 11.38%.

Our personnel

At the end of 2006 the personnel of our bank amounted to 912 workers i.e. 22 over the previous year. The share of female employees (371) amounts to 40.7%. Last year 39 employees left our bank and 61 new employees were hired. Overall, there were 591 employees in branches and 319 in internal divisions.

Overall, 4 employees were hired with a temporary contract, 39 with an insertion/integration contract and 124 with a part-time contract; 30 employees were on maternity leave and 19 were on unpaid leave.

In consideration of these absences and the reduction in work hours with a part-time contract, an average of 817 employees were on duty in 2005: 558 of these (68.3%) in the branches and 259 (31.7%) in internal divisions. Compared to last year (803 employees) the total number of employees rose by 14 (1.7%), there were 16 additional employees in branches – and 2 less in internal services.

The number of employees in the branches in the province of Belluno (including the branch in Valdobbiadene (TV) increased by 7 and the one in the province of Trento by 12. The number of workers in the five offices in the province of Bolzano dropped by 5 due to rationalization.

Personnel development

Also last year we focused on professionalism, skill, affability and availability of our employees who want to work for our company. Organizational units raised in quality, the new employees were mainly placed in our new customer basins mentioned above.

The annual interview with employees was used as a central tool for management and direction and also executives paid more attention to the effects of the interview after receiving specific training on the issue. This enabled a more accurate final assessment which brings forth the training needed.

The installation of an e-learning platform laid the foundations for new forms of training programmes which enable the introduction of wide-scale and extremely flexible learning modules.

Our shareholders

Planting roots for our Bank among the people in our customer base has always been one of our primary objectives. In order to strengthen this bond, last year we also took on new shareholders. The total number of shareholders at the end of 2006 amounted to 14,930 people. With this number of shareholders we are and remain the most important cooperative bank in the region.

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 15.15 Euro which corresponds to an increase in value of 7.45%.

This increase in value, together with dividends distributed on the price of shares set in 2005, represents an annual growth rate of 9.44%.

Internal organization

In the organization segment attention was placed on expansion/strengthening tools/means suitable to support our employees to provide efficient consulting to our customers. To do so it is necessary to have thorough knowledge on the subject and also technical support with adequate tools. Therefore all the procedures are constantly analyzed as such and new ways are always searched for to make the process more efficient and to automate each work stage.

We received certification to issue smartcards with microchips and we are one of the first banks in the country to implement this new technology. Already from October 2006, our customers started receiving new ATM cards with microchips. In the first half of 2007 most of the current ATM cards will be replaced. In addition to offering new services in the future, the card with the microchip is an investment in security.

In 2006 we contracted a consultancy firm to analyze our security standards and to assess our current situation and how we can protect ourselves from external attacks. The result of this research/analysis is very good and we are very happy with it because it certifies that we possess a very high security standard.

In the electronic banking segment we continue our drive towards development. After introducing SMS banking in 2005, we launched Mobile.Banking, an additional service that is very much appreciated by our customers. Further development of bank4u until the final objective of creating a customer communication platform is currently at a tangible stage.

Concerning our outsourcer, the company SEC-Servizi, 2006 was for consolidation. The large projects of previous years were concluded. The project to reform financial statements in compliance with IAS standards, the new module for position classification, the new electronic platform for managing treasury services (electronic ordering) and the application of the framework law on 2005 financial statements.

In addition to the development of interesting services and products for the credit segment, there are still a series of demands/requests to carry out for the legislature and regulatory bodies. To fulfil these requirements, the organization has a tough job since it is compelled to find solutions with the resources available at a certain moment.

Updating the “Document on data 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.

Subsequent events

After year-end there were no important events that may have worsened equity standing or performance in the current year.

Income statement

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

As mentioned above, the 2006 financial statements were drafted applying IAS/IFRS and also provide information for comparison with 2005, as prescribed by the standards in question.

It should be noted that for 2006 and 2005, remuneration for board members and costs for third-party personnel at the Bank, previously classified among administrative expenses, according to IAS/IFRS, are now listed among personnel expenses; similarly cost recovery for our employees working at third-party premises previously classified among other operating income. Concerning net value adjustments on loans, the increase in the item compared to the previous year is mainly due to the different valuation method used for the performing and non-performing loan portfolio which was first applied in 2006 by effect of the adoption of IAS 32 and 39 accounting standards. The introduction of new international accounting standards also resulted in an important innovation concerning the assessment of time necessary to collect amounts deemed recoverable which are now subject to discounting.

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 interest income, which rose by 9.9% to 108.4 million Euro;
- Concerning services, there was an increase in net commissions of 8.4% to 37.4 million Euro; The net result from trading recorded earnings of 3.4 million Euro, 21.3% less than 2005;
- Net operating costs rose by 2.0%, reaching 93.0 million Euro; Among the various cost components it was noted that employee costs rose to 53.2 million Euro (+0.5%) and other administrative expenses rose to 39.7 million Euro (+3.9%).

Profit from current operations totalled 50.9 million Euro. As a result we recorded income amounting to 21.8 million Euro.

Each item in the income statement is described in detail in the Notes to the accounts.

Year-end profit in 2006 and net shareholders' equity

Net profit for 2006 amounted to 29,068,490 million Euro, an increase of 20.3% over 2005.

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

(Euro)

- Legal reserve	16,600,000
- Statutory reserve	3,012,948
- Dividends to shareholders amounting to 0.30 Euro per share	9,455,542
	29,068,490

After dividing net profit, according to the proposal of the Board of directors, the equity provisions shall increase by 19,612,948 Euro bringing total net shareholders' equity to 415,686,492 Euro, for an increase of 5.0% compared with 2005.

Bolzano, 08 March 2007

THE BOARD OF DIRECTORS

Report by the Board of Statutory Auditors

Dear Shareholders,

The 2006 financial statements submitted for your approval show the following accounting results:

Balance sheet (Euro)

- Assets	4,527,844,439
- Liabilities	4,102,702,405
- Shareholders' equity and net profit	425,142,034

Income statement (Euro)

- Revenues and profit	295,665,322
- Costs and losses	266,596,832
- Net profit	29,068,490

During the financial year ending 31/12/2006, we carried out our supervisory activity as indicated by the law, observing the relative code of conduct for Board of Statutory Auditors.

On the basis of the above, we report as follow:

- we have supervised compliance with the Law, the Articles of Association and the respect of the principles of proper management;
- the directors and top management provided us with general information on operations and on transactions with the most significant equity, economic and financial impact made by the bank;
- we can confirm that any measures resolved upon and carried out were compliant to the Law and to the Articles of association and that the same do not appear to be obviously imprudent, reckless or risky, or with any potential conflict of interest and do not disregard the resolutions passed by the Shareholders' Meeting or are such that compromise the integrity of the bank's equity;
- we have gained knowledge and verified the adequacy of the organisational and accounting structures and of the Bank's internal auditing system, and we consider all of the former to be satisfactory, and in this regard we have no particular observations to make;
- we have met with the representatives of BDO Sala Scelsi Farina, the joint-stock auditing company from Milan, in accordance with the provisions of art. 2409, paragraph 7 of the Civil Code and no data or information of any particular significance has arisen from such that merits inclusion herein;

As regards the financial statements as at 31/12/2006, we report the following:

- the above-cited external auditing company has been asked to perform the audit on the content of the financial statements;
- we have verified the form given to the financial statements, its general compliance with the Law in terms of its formation and structure, also taking into consideration the adoption of international accounting standards IAS/IFRS and the provisions issued by the Bank of Italy in Circular no. 262 dated 22 December 2005 regarding the "technical form" of bank and financial statements;
- the above-cited external auditing company informed us in advance that their report did not contain any particular findings or recommendations;

- the notes to the accounts contain, in addition to an indication of the valuation criteria adopted, detailed information on the items of the Balance sheet and the Income statements, as well as the other information required in order to provide a true and correct representation of the Bank's equity, economic and financial position;
- we confirm that net income figure for the year corresponds to a profit of 29,068,490 Euro and we invite the Shareholders' Meeting to resolve upon its allocation, as proposed by the Board of Directors.

Over the past year, the Board of Statutory Auditors has attended all meeting of the Board of Directors and of the Executive committee and has conducted periodic audits to ascertain the consistency of operations.

In summary, the Board of Statutory Auditors confirms that the financial statements have been correctly prepared and provide a true representation of the Bank's equity and financial situation 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, 30 March 2007

The Board of Statutory Auditors

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

Balance Sheet

Banca Popolare dell'Alto Adige

Financial Statements as at 31 December 2006

BALANCE SHEET AS AT 31/12/2006		
Asset item	31/12/2006	31/12/2005
10. Cash and cash equivalents	29,856,134	22,532,294
20. Financial assets held for trading	566,367,887	543,890,240
40. Available-for-sale financial assets	10,313,539	9,912,122
60. Due from banks	66,388,734	86,080,547
70. Due from customers	3,643,072,799	3,172,038,072
100 Equity investments	1,541,317	3,616,425
110. Property, plant and equipment	121,319,948	128,449,302
120. Intangible assets	263,680	510,747
of which:		
- goodwill	-	-
130. Tax assets	31,640,765	27,074,995
a) current	22,178,513	16,311,067
b) deferred	9,462,252	10,763,928
150. Other assets	57,079,636	39,389,691
Total assets	4,527,844,439	4,033,494,435

BALANCE SHEET AS AT 31/12/2006		
Liability item and shareholders' equity	31/12/2006	31/12/2005
10. Due to banks	356,178,714	526,111,836
20. Due to customers	1,964,471,287	1,481,116,671
30. Outstanding securities	1,138,052,052	1,066,328,442
40. Financial trading liabilities	5,863,848	530,161
50. Financial liabilities measured at fair value	487,081,306	420,242,170
80. Tax liabilities	65,666,835	63,303,503
a) current	26,051,268	23,724,806
b) deferred	39,615,567	39,578,697
100. Other liabilities	59,520,937	46,061,854
110. Staff severance indemnities	23,746,031	23,459,008
120. Provisions for risks and charges:	2,121,395	1,706,434
a) pensions and similar commitments	-	-
b) other provisions	2,121,395	1,706,434
130. Valuation reserves	74,876,733	74,612,373
160. Reserves	160,988,621	145,649,329
170. Share premium reserve	97,171,246	97,171,246
180. Share capital	63,036,944	63,036,944
200. Profit (loss) for the year (+/-)	29,068,490	24,164,464
Total liabilities and shareholders' equity	4,527,844,439	4,033,494,435

INCOME STATEMENT AS AT 31/12/2006		
INCOME STATEMENT	31/12/2006	31/12/2005
10. Interest income and similar income	189,950,482	157,451,003
20. Interest expense and similar charges	(81,592,476)	(58,843,104)
30. Interest Margin	108,358,006	98,607,899
40. Commission income	42,920,168	39,393,042
50. Commission expense	(5,547,340)	(4,924,777)
60. Net commission	37,372,828	34,468,265
70. Dividends and similar income	411,834	2,528,181
80. Net income from trading activities	3,394,767	4,315,535
100. Profit (Loss) from sale or repurchase of:	295,204	34,917
a) receivables	-	-
b) available-for-sale financial assets	48,088	-
c) financial assets held to maturity	-	-
d) financial liabilities	247,116	34,917
110. Net income of financial assets and liabilities measured at fair value	55,995	(214,500)
120. Banking margin	149,888,634	139,740,297
130. Net value adjustments/write-backs for impairment of:	(6,287,539)	(8,182,346)
a) receivables	(6,228,421)	(8,182,346)
b) available-for-sale financial assets	-	-
c) financial assets held to maturity	-	-
d) other financial transactions	(59,118)	-
140. Net income from financial management	143,601,095	131,557,951
150. Administrative costs:	(92,829,566)	(91,035,965)
a) personnel costs	(53,178,724)	(52,888,466)
b) other administrative costs	(39,650,842)	(38,147,497)
160. Net allocations to provisions for risks and charges	(994,800)	(754,681)
170. Net value adjustments/write-backs on property, plant and equipment	(10,435,896)	(12,215,672)
180. Net value adjustments/write-backs on intangible assets	(570,536)	(359,757)
190. Other operating costs/income	11,783,863	13,187,725
200. Operating costs	(93,046,935)	(91,178,350)
210. Profit (Loss) on equity investments	285,399	-
240. Profit (Loss) from disposal of investments	17,192	(62,013)
250. Profit (Loss) from current operations before tax	50,856,751	40,317,588
260. Income tax for the year on current operations	(21,788,261)	(16,153,124)
270. Profit (Loss) from current operations after tax	29,068,490	24,164,464
290. Profit (Loss) for the year	29,068,490	24,164,464

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Balances as at 31/12/2005 (*)	Changes to opening balances	Balances as at 01/01/2006	Allocation of net result from previous year		Changes during the year								Shareholders' equity as at 31/12/2006
				Reserves	Dividends and other allocations	Changes to reserves	Shareholders' equity transactions					Profit(Loss) for 2006		
							Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividend	Change in capital instruments	Derivatives on treasury shares		Stock Options	
Capital:	63,036,944	-	63,036,944	-	-	-	-	-	-	-	-	-	-	63,036,944
a) ordinary shares	63,036,944	-	63,036,944	-	-	-	-	-	-	-	-	-	-	63,036,944
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	97,171,246	-	97,171,246	-	-	-	-	-	-	-	-	-	-	97,171,246
Reserves:	142,322,999	3,326,330	145,649,329	15,339,292	-	-	-	-	-	-	-	-	-	160,988,621
a) profit reserve	105,361,966	-	105,361,966	6,143,509	-	-	-	-	-	-	-	-	-	111,505,475
b) other	36,961,033	3,326,330	40,287,363	9,195,783	-	-	-	-	-	-	-	-	-	49,483,146
Valuation reserves:	28,388,434	46,223,939	74,612,373	-	-	264,360	-	-	-	-	-	-	-	74,876,733
a) available for sale	-	162,791	162,791	-	-	264,360	-	-	-	-	-	-	-	427,151
b) cash flow hedging	-	-	-	-	-	-	-	-	-	-	-	-	-	-
c) other	28,388,434	46,061,148	74,449,582	-	-	-	-	-	-	-	-	-	-	74,449,582
- property, plant and equipment	-	46,061,148	46,061,148	-	-	-	-	-	-	-	-	-	-	46,061,148
- special revaluation laws	28,388,434	-	28,388,434	-	-	-	-	-	-	-	-	-	-	28,388,434
Capital instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit/(Loss) for the year	17,368,681	6,795,783	24,164,464	(15,339,292)	(8,825,172)	-	-	-	-	-	-	-	29,068,490	29,068,490
Shareholders' equity	348,288,304	56,346,052	404,634,356	-	(8,825,172)	264,360	-	-	-	-	-	-	29,068,490	425,142,034

(*) Amounts taken from financial statements as at 31/12/2005 drawn up according to L. 87/92

CASHFLOW STATEMENT (DIRECT METHOD) AS AT 31/12/2006

A. OPERATING ACTIVITIES	31/12/2006	31/12/2005
1. Operations	43,308,705	41,602,983
- interest income (+)	189,950,482	157,451,003
- interest expense (-)	(81,592,476)	(58,843,104)
- Dividends and similar income (+)	411,834	2,528,181
- Net commissions (+/-)	37,372,828	34,468,265
- Personnel costs (-)	(53,178,724)	(52,888,468)
- Other costs (-)	(40,538,394)	(40,614,792)
- Other revenues (+)	12,671,416	15,655,022
- Taxes and fees (-)	(21,788,261)	(16,153,124)
- costs/revenues from groups of assets being disposed of net of taxes (+/-)	-	-
2. Liquidity generated by/used for financial assets	(496,483,572)	(409,297,322)
- Financial assets held for trading	(15,249,275)	29,726,201
- Financial assets measured at fair value	-	-
- Available-for-sale financial assets	(353,329)	(1,928,484)
- Due from customers	(478,257,948)	(408,122,635)
- Due from banks: on demand	(15,805,320)	(548,165)
- Due from banks: other payables	35,497,133	(43,806,495)
- Other assets	(22,314,833)	15,382,256
3. Cash flows generated/absorbed by financial liabilities	469,896,870	475,336,165
- Due to banks: on demand	40,585,340	46,903,233
- Due to banks: other payables	(210,518,462)	139,342,272
- Due to customers	483,354,616	58,156,460
- Outstanding securities	71,970,726	60,125,824
- Financial trading liabilities	1,500,081	3,868,959
- Financial liabilities measured at fair value	66,895,131	111,449,500
- Other liabilities	16,109,438	55,489,917
Net cashflow generated/absorbed by operating activities	16,722,003	107,641,826
B. INVESTING ACTIVITIES		
1. Cash flows from:	2,416,561	-
- Sale of equity investments	2,360,507	-
- Dividends from equity investments	-	-
- Sale/repayment of financial assets held to maturity	-	-
- Disposal of property, plant and equipment	56,054	-
- Disposal of intangible assets	-	-
- Disposal of business branches	-	-
2. Cash flows absorbed by:	(3,668,873)	(106,587,532)
- Purchase of equity investments	-	-
- Purchase of financial assets held to maturity	-	-
- Purchase of property, plant and equipment	(3,345,404)	(110,359,571)
- Purchase of intangible assets	(323,469)	3,772,039
- Purchase of business branches	-	-
Net cashflow generated/absorbed by investing activities	(1,252,312)	(106,587,532)
C. FUNDING ACTIVITIES		
- Issue/Purchase of treasury shares	-	-
- Issue/Purchase of capital instruments	679,321	-
- Dividend distribution and other purposes	(8,825,172)	-
Net cash flow generated/absorbed by funding activities	(8,145,851)	
NET CASH FLOW GENERATED/ABSORBED DURING THE YEAR	7,323,840	1,054,294

KEY:

(+) generated

(-) absorbed

RECONCILIATION

Items	31/12/2006	31/12/2005
Cash and cash equivalents at the beginning of the year	22,532,294	21,472,302
Total cash generated/absorbed during the year	7,323,840	1,054,294

Cash and cash equivalents: impact of exchange differences	-	5,698
Cash and cash equivalents at year end	29,856,134	22,532,294

NOTES TO THE ACCOUNTS

Form and content of the financial statements as at 31 December 2006

PART A – Accounting Policies

PART B – Information on the Balance Sheet

PART C – Information on the Income Statement

PART D – Segment Reporting

PART E – Information on Risks and Relative Hedging Policies

PART F – Information on Capital

PART G – Business Combinations

PART H – Transactions with Related Parties

PART I – Share-based Payment Arrangements

PART A

ACCOUNTING POLICIES

A.1 – GENERAL INFORMATION

Section 1 – Statement of compliance with international accounting standards

The financial statements, comprising the balance sheet, income statement, statement of changes in shareholders' equity, cash flow statement and these notes to the accounts, together with the report on operations, have been drawn up in accordance with IAS/IFRS, as introduced into Italian legislation by recent European Community Regulations, starting from EC Regulation nr. 1725/03 and subsequent.

Section 2 – Basis of preparation

The financial statements have been prepared with a view to business continuity and making reference to the following general principles for the preparation of financial statements:

- principle of a true and fair view;
- accrual principle;
- principle of consistency of accounting;
- principle of prohibition to offset items, unless expressly permitted;
- principle of the prevalence of substance over form;
- principle of prudence.

The financial statements have been prepared in accordance with the schedules and the instructions issued by in the Bank of Italy Circular nr. 262 of 22 December 2005. Furthermore, any additional information considered useful to the representation of financial statement items, even if not specifically required by legislation, has been provided.

The balance sheet and income statement schedules and the statement of changes in shareholders' equity have been drawn up in Euro, while the cash flow statement and these notes to the accounts, unless otherwise indicated, are expressed in thousands of Euro, rounded off in accordance with legal provisions.

Section 3 – Events subsequent to the balance sheet date

The main events that occurred subsequent to the financial statements as at 31 December 2006 are summarised below.

Section 4 – Other aspects

For information regarding how IAS/IFRS have been adopted by the Bank and their effects on the balance sheet, income statement and cash flows on first time adoption (FTA) prepared in accordance with the provisions of IFRS 1, please refer to the specific attachment to the notes to the accounts which is to be considered an integral part of these notes.

The financial statements and the reconciliation statements between national principles and IAS/IFRS relative to the date of transition to IAS, referring to financial year 2005 and as provided for by IFRS 1, have been audited by independent auditing company BDO S.p.A.

A.2 – INFORMATION ON THE MAIN FINANCIAL STATEMENT ITEMS

This section illustrates the accounting policies adopted for the preparation of the financial statements as at 31 December 2006.

ASSETS

1. Financial assets held for trading

Classification criteria

This item comprises financial instruments held to be traded in the short term, specifically:

- listed and unlisted debt securities, held for the purpose of trading;
- listed equity instruments, held for the purpose of trading;
- unlisted equity instruments, held for the purpose of trading only when their fair value can be reliably determined;

- structured securities;
- UCI shares (mutual investment funds and Sicav) held for the purpose of trading;
- derivative contracts with a positive fair value at the balance sheet date;
- outright forward contracts.

The designation of a financial instrument to the category of financial assets held for trading is made on initial recognition. Subsequent reclassifications are not permitted.

Recognition criteria

The initial recognition of financial assets held for trading occurs: on the settlement date for debt securities, equity instruments and UCI shares; on the date of subscription for derivative contracts.

Financial assets held for trading are initially recognised at their fair value, any costs and/or income resulting from the transaction that are directly attributable to said instrument are not recognised. For contracts drawn up on market conditions, the fair value of the instrument corresponds to the cost incurred for the purchase.

Valuation criteria and measurement of income components

Following initial recognition, financial assets held for trading are recorded at fair value, any changes are recorded in the income statement. IAS 39 defines the fair value as “the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction”. Fair value is therefore determined as follows:

- in the case of financial instruments traded on an “active market”, the relative “market price”;
- in the case of financial instruments not traded on an “active market”, the value resulting from the use of prices recorded on over the counter markets or alternatively referring to the internal valuation models generally used in the financial world.

Financial assets whose fair value cannot be reliably determined on the basis of the above, are maintained at cost.

The gains and losses made following the disposal or repayment and the unrealised gains or losses resulting from changes in the fair value of financial assets held for trading are classified in the income statement under the item “net income from trading activities” together with the result of valuations of assets and liabilities in currencies.

Derecognition criteria

Financial assets held for trading are derecognised when the contractual rights on the financial flows deriving from the assets are lost, or in the case of a transfer, when the same entails the substantial transfer of all risks and benefits related to the assets.

2. Available-for-sale financial assets

Classification criteria

This item includes non derivative financial assets that are not classified in the above category, or in the categories of financial assets valued at fair value, financial assets held to maturity or “receivables”. It is therefore a residual category which encompasses:

- equity investments that cannot be categorised as controlling, associated or joint-venture.

Recognition criteria

Available-for-sale financial assets are initially recognised on the settlement date. Initial recognition of the financial assets classified in this category is made at their fair value, increased by any transaction costs that are directly attributable to the financial instrument.

Valuation criteria and measurement of income components

Following initial recognition, available-for-sale financial assets are recorded at their fair value. Any gains or losses resulting from a change in fair value are recorded in a specific reserve under equity until said financial asset is derecognised or sold or an impairment loss is recorded.

If an available-for-sale financial asset suffers an impairment loss, the cumulative unrealised loss previously recorded under shareholders’ equity, is reversed from net equity and recorded in the income statement under “value adjustments of financial instruments classified as available for sale”. Any write-backs of financial instruments classified as available-for-sale are recorded in the income statement in the case of debt securities and under net equity in the case of equity instruments. The write-back may not, in any event, exceed the amortised cost that the instrument would have had in the absence of the previous adjustments.

The fair value is determined in accordance with the criteria illustrated for financial assets held for trading.

Financial assets whose fair value cannot be reliably determined on the basis of the above, are maintained at cost.

Derecognition criteria

Available-for-sale financial assets are derecognised when the contractual rights on the financial flows deriving from the assets are lost, or in the case of a transfer, when the same entails the substantial transfer of all risks and benefits related to the financial assets.

3. Due from customers

Classification criteria

This category includes short and medium term loans, paid directly or acquired from third parties with fixed and determinable payments, that are not listed on active markets.

Recognition criteria

Loans are initially recognised on the date on which they were provided on the basis of the fair value of the financial instrument, corresponding to the amount provided including any directly related transaction costs or commission, known at the time of the same.

Costs with the above characteristics that will be repaid by the debtor or that can be considered as standard administrative costs are excluded.

Valuation criteria and measurement of income components

Following initial recognition, customer loans are stated at amortised cost, equal to the initial recognition value reduced/increased by capital repayments, by any value adjustments/write-backs and the amortisation – calculated on the basis of the effective interest rate – of the difference between the amount provided and that repayable at maturity, usually the cost/income directly attributed to the individual loan.

The effective interest rate is the rate that discounts the flow of future payments estimated for the expected duration of the loan, in order to obtain the exact net book value at the time of initial recognition, which includes both the directly attributable transaction costs and all of the fees paid or received between the parties. This accounting method, based on financial logic, enables the economic effect of costs/income to be spread over the expected residual life of the loan.

The estimation of the flows and of the contractual duration of the loan takes into account all contractual clauses that may influence the amounts and the maturities (such as, for example, early extinction and various exercisable options), without considering, on the other hand, any losses expected on the loan. The effective interest rate calculated initially is that (original) which is always used to discount the expected cash flows and to determine the amortised cost, subsequent to initial recognition.

The amortised cost method is not applied to short-term loans, as the effect of discounting is considered negligible and the same are therefore valued at their historic cost. The same valuation criteria is adopted in the case of on-demand loans or loans whose duration is undetermined. The amortised cost method is also not applied to loans for which the effect of discounting would generate insignificant results.

Furthermore, an analysis is performed to identify problem loans that show objective evidence of possible impairment. The latter include loans classified under the risk categories “non-performing”, “problem”, “restructured” and “due or overdue by more than 180 days” as established by regulations.

The measurement of non-performing loans is made on an individual basis regardless of the amount.

The measurement of problem, restructured and due or overdue loans is also made analytically on an individual basis.

Value adjustments of each loan correspond to the difference between the amortised cost (or historic cost for short-term, on demand loans or loans with a negligible “amortised cost”) at the time of their valuation and the present value of the expected future cash flows, calculated by applying the original effective interest rate.

In order to determine the present value of future cash flows, the fundamental elements are represented by the identification of the estimated realisable value of any guarantees supporting said items, expected recovery times and charges that are expected to be incurred to recover the credit risk.

In particular, as regards non-performing loans, the method used to calculate the recovery value of the same is determined by the amount of the loan:

- loans up to €500,000 loans are valued analytically, by estimating the recovery value to be discounted on the basis of average recovery times, determined on a historic-statistical basis;
- loans exceeding €500,000 are valued analytically, by estimating the recovery value to be discounted on the basis of actual recovery times, determined by the competent company functions.

Non-performing, restructured, due and overdue loans are valued analytically by estimating the recovery value to be discounted, which is applied to loans for which impairment loss is envisaged and determined on the basis of average recovery times determined on a historic-statistical basis.

Loans for which no objective evidence of impairment loss has been identified, namely performing loans

(including those to counterparties in countries at risk), are measured on a portfolio basis. Said valuation is made using a simplified method, which envisages the use of a default probability at one year (PD) meaning the probability that the customer will become insolvent within one year. Said probability is calculated by relating, for the previous 5 years, the value of performing loans that have become non-performing and performing loans that have become problem (the latter adjusted on a lump-sum basis by the historic percentage of problem loans returning to performing status) to the average performing loans of the previous year. Furthermore, the impairment percentage of non-performing loans (PMS) is calculated on the basis of the average historic impairment of non-performing loans extinguished in the previous 5 years, by relating the impairment loss realised and the amount that has become non-performing. The collective impairment percentage corresponds to $PD \times PMS$. Finally, to calculate the realisable value, the effect of discounting is also taken into account, calculated on the basis of estimations of recovery times of non-performing loans.

Write-downs are calculated as the difference between amortised cost, or historic cost, of loans belonging to the same category and the corresponding assumed recoverable amount.

Write-backs of provisions made for impaired loans are made only when the quality of the loan has improved to the point at which there is reasonable certainty that the capital and interest will be recovered in accordance with the original contractual terms of the loan, or when the amount actually recovered exceeds the previously estimated recoverable value. Said write-backs also include the positive effect related to the return of the discounting effect resulting from the progressive reduction of the time estimated for the recovery of the loan under valuation.

Repurchase agreement transactions are not written down as they do not represent a credit risk.

The amount of value adjustments net of previous provisions and the partial or full recovery of amounts previously written-down are recorded in the income statement under the item "net value adjustments/write-backs due to impairment".

Derecognition criteria

Loans are eliminated from balance sheet assets when they are considered totally unrecoverable or in the case of a transfer, when the same entails the substantial transfer of all risks and rewards related to the loans.

4. Due from banks

Classification criteria

This category includes unlisted financial assets held at banks (current accounts, guarantee deposits, debt securities etc.) classified in the "receivables" portfolio. It also includes amounts due from Central Banks that are not demand deposits (for example compulsory reserves).

The criteria adopted for recognition, valuation, derecognition and measurement of the income component criteria of this category is the same as that adopted in the due from customers category.

5. Equity investments

Classification criteria

This category includes investments in subsidiaries, associates and joint ventures. Minority interest held by the Bank are included under the item "available-for-sale financial assets".

Recognition criteria

Equity investments are recorded in the balance sheet at cost including additional charges.

Valuation criteria

If there is evidence that the value of an equity investment may be impaired, the recoverable value of said equity investment is estimated by considering the present value of future cash flows that the investment could generate including the final disposal value of the investment.

If the recoverable amount is permanently lower than the book value, the relative difference is recorded in the income statement under the item "net profit (loss) from equity investments".

If the reasons for the impairment are removed following an event that occurs after the recognition of the impairment, write-backs are made to the income statement under the same item as above in the measure of the previous adjustment.

Derecognition criteria

Equity investments are derecognised when the contractual rights to cash flows deriving from the same are lost or when the investment is transferred, with the substantial transfer of all related risks and rewards.

Criteria for measurement of income components

In accordance with IAS 18, dividends are recorded when the right of the shareholder to receive the payment has been established and, therefore, after the date of the resolution of the Shareholders' Meeting of the

Company in which the investment is held.

6. Tangible assets

Classification criteria

This item includes assets for permanent use, held to generate income, to be leased, or for administrative purposes, such as land, functional property, property investments, electrical equipment, furniture and fittings and equipment of any nature.

Fixed assets that are held under a finance lease contract that have been recorded according to the method illustrated in IAS 17, which envisaged the recognition of the asset under tangible assets.

“Functional property” is represented by assets held for the provision of services or for administrative purposes, while “property investments” are those held to collect lease rentals and/or held for capital appreciation.

The bank only holds functional property.

Tangible assets also include costs for improvements to third party assets if they can be separated from the assets in question (if the above costs do not display functional or usefulness-related autonomy, but future economic benefits are expected of the same, they are recorded under “other assets” and are depreciated over the shorter period between that of expected usefulness of the improvements in question and the residual duration of the lease).

Tangible assets also include payments on account made for the purchase and revamping of assets that are not yet part of the production process and therefore not yet subject to depreciation.

Tangible assets that meet the requirements envisaged by IFRS 5 are classified under the item “ non-current assets and groups of assets being disposed of”.

Recognition criteria

Tangible assets are initially recorded at cost, including all costs directly attributable to the installation of the asset. Extraordinary maintenance costs and costs for improvements which lead to an effective improvement of the asset, or an increase in the future benefits generated by the same, are attributed to the assets to which they refer and are depreciated on the basis of their residual useful life.

Valuation criteria and measurement of income components

Following initial recognition, tangible assets are recorded at cost, less accumulated depreciation and any write-downs for impairment losses, in line with the “cost model” illustrated in paragraph 30 of IAS 16.

Tangible assets are depreciated each year, on the basis of their useful life, adopting the accelerated depreciation, with the exception of:

- land, regardless of whether it has been purchased separately or was incorporated into the value of the building, which, insofar as it has an indefinite useful life, is not depreciated. Free-standing buildings that the Bank owns more than 50% of, and for which the value of the land has been incorporated into the value of the building, the separation between the value of the land and the value of the building, if not directly inferred by the contract of sale, will be made on the basis of assessments made by independent experts;
- property investments that are recorded at fair value in accordance with IAS 40.

As regards assets purchased during the course of the year, their depreciation rate is halved in this way the time from which the assets are available for use can be correctly estimated and the different times at which said assets become operational are offset. Furthermore, the effects of the pro rata method (daily amortisation on the basis of the asset’s effective useful life) would be negligible. Furthermore, the effects of the pro rata method (daily depreciation on the basis of the asset’s effective useful life) would be negligible.

At the end of each year, if there is any evidence that an asset may have suffered an impairment loss, a comparison is made between its book value and its recoverable amount equal to the higher of the fair value, net of any costs to sell, and the relative value in use of the asset, intended to be the present value of the future cash flows expected from the asset. Any adjustments are recorded on the income statement under the item “net value adjustments/write-backs on tangible assets”. If the reasons that led to the recognition of the impairment loss cease to apply, a write-back is recorded that may not exceed the value that the asset would have had net of the depreciation calculated in the absence of previous impairment losses.

Derecognition criteria

A tangible asset is cancelled from the balance sheet on its disposal or when the asset is permanently retired from use and no future economic benefit is expected from its disposal.

7. Intangible assets

Classification criteria

This item includes non-monetary assets without physical substance that satisfy the following requirements:

- they can be identified;
- they can be controlled;
- they are able to generate future economic benefits.

In the absence of one of the above characteristics, the expense of acquiring or generating the same internally, is recorded as a cost in the year in which it was incurred.

Intangible assets include, in particular, software to be used over a period of several years and other identifiable intangible assets generated by legal or contractual rights.

Recognition criteria

Intangible assets are initially recognised at cost, including any directly attributable charges.

Valuation criteria

Following initial recognition, intangible assets are recorded at cost less any accumulated amortisation and any impairment losses, applying the “cost model” referred to in paragraph 74 of IAS 38.

Intangible assets are systematically amortised each year on the basis of their estimated useful life, on a straight line basis.

As regards assets purchased during the course of the year, their amortisation rate is halved insofar as in this way the time from which the assets are available for use can be correctly estimated and the different times at which said assets become operational are offset. Furthermore, the effects of the pro rata method (daily amortisation on the basis of the asset’s effective useful life) would be negligible.

Derecognition criteria

Intangible assets are cancelled from the balance sheet when no future benefits are expected from their use or on their disposal.

8. Non-current assets and groups of assets being disposed of

Classification criteria

This item includes all non-current assets and groups of assets being disposed of as set forth in IFRS 5, namely those assets or groups of assets whose book value will be recovered mainly through their sale rather than through their ongoing use.

Valuation criteria

These assets are valued at the lower of book and fair value net of selling costs, with the exclusion of the following assets which continue to be valued in accordance with the reference principle:

- deferred tax assets;
- assets deriving from employee benefits;
- financial instruments;
- property investments.

Criteria for measurement of income components

The income (interest income, dividends etc.) and the charges (interest expense, amortisation and depreciation, etc.) that refer to “groups of assets” and relative liabilities being disposed of are recorded, net of the relative current and deferred tax, under the item “profit (loss) of groups of assets being disposed of net of taxes” in the income statement. The income and the charges relative to individual non-current assets being disposed of continue to be recorded under the relevant item.

LIABILITIES

1. Due to customers, due to banks and outstanding securities

Classification criteria

Due to customers, due to banks and outstanding securities include the various forms of funding from customers, interbank funding and deposits made through interest-bearing notes, certificates of deposit and bonds, net of any amounts repurchased by the Bank. It also includes securities which, on the date of the financial statements, were due but not yet repaid. This item also includes the residual debt owed to the grantor of the finance lease transactions which have been recognised in accordance with the method illustrated in IAS 17.

Recognition criteria

These financial liabilities are initially recognised when the deposits are received or when the debt securities

are issued. Initial recognition is usually made on the basis of the fair value of the liabilities, usually equal to the amount received or to the issue price plus any additional costs/income directly attributable to the individual funding or issue transaction and that have not been reimbursed by the creditor. Internal administrative costs are excluded.

Valuation criteria

After initial recognition, the above financial liabilities are recorded at amortised cost using the effective interest rate method, with the exception of short-term liabilities, which remain recorded at their face value insofar as the effect of discounting would be negligible.

Derecognition criteria

The above financial liabilities are cancelled from the balance sheet at maturity or when they are extinguished. Cancellation takes place even in the case of the repurchase, even temporary, of previously-issued securities. Any difference between the book value of the extinguished liability and the amount paid is recorded in the income statement, under the item "profit/loss from sale or repurchase". If the Bank, subsequent to the repurchase, re-replaces its own securities on the market, said transaction is considered a new issue and the liability is recorded at the new placement price.

2. Financial trading liabilities

Classification criteria

This item includes financial liabilities, whatever their technical form (debt securities, loans, etc.), classified in the trading portfolio. The item includes the negative value of outright trading derivative contracts, as well as the negative value of derivative contracts that fall within the scope of application of the fair value option. It also includes liabilities that originate from technical losses generated by the trading of securities.

Valuation criteria

All trading liabilities are measured at fair value established in the manner illustrated in the paragraph relative to "financial assets held for trading".

3. Financial liabilities measured at fair value

Classification criteria

This item includes liabilities or groups of financial liabilities which are designated at fair value with the effects of said designation recorded in the income statement, on the basis of the so-called "Fair Value Option" (FVO) envisaged by IAS 39.

On the reference date of these Financial Statements, bonds issued by the bank, hedged by derivative contracts, have been classified in this category.

Recognition, valuation, derecognition criteria and measurement of income components

As regards the recognition, valuation, derecognition and measurement of income components of said financial liabilities, please refer to the paragraph regarding "financial assets held for trading".

4. Liabilities associated to assets being disposed of

Please refer to the paragraph entitled "non-current assets and groups of assets being disposed of".

5. Staff severance indemnities

According to IFRIC, the staff severance fund is determined as a "benefit subsequent to an employment relationship" and, therefore is covered by the provisions of IAS 19. Consequently, at year end, this item is estimated on an actuarial basis and is discounted using the projected unit credit method. The latter entails forecasting future payments on the basis of historic, statistic and probabilistic analyses as well as the adoption of the appropriate demographic data. The rate used for discounting is determined on the basis of the spot rate curve deduced from domestic market conditions for Government securities and the average remaining period of service of Bank employees.

6. Provisions for risks and charges

In line with the requirements of IAS 37, provisions for risks and charges cover liabilities, the amount or timing of which is uncertain, related to current obligations (legal or implicit), owing to a past event for which it is likely that financial resources will be used to fulfil the obligation, on condition that an estimate of the amount required to fulfil said obligation can be made. Where the deferral of the liability is expected to generate a significant discounting effect, provisions are discounted using current market rates. The provision is recorded in the income statement under the item "net allocation to provisions for risks and

charges”.

7. Tax assets and liabilities

Current and deferred income taxes are calculated according to tax legislation in force. Income tax is recorded in the income statement, with the exception of that relative to items charged or credited directly to net equity.

Provisions for income tax are calculated on the basis of a prudent estimate of current, prepaid and deferred tax charges. In particular, prepaid and deferred taxes are determined on the basis of the temporary differences between the book value of assets and liabilities and their value for taxation purposes. Prepaid tax assets are recorded in the balance sheet to the extent that it is probable that they will be recovered on the basis of the Bank’s ability to generate positive taxable income with continuity.

Prepaid taxes and deferred taxes are recorded in the balance sheet as open balances, without any balancing entry, including the former under “Tax assets” and the latter under “Tax liabilities”.

Deferred tax assets and deferred tax liabilities are recorded in the income statement with the exception of those relative to gains or losses on available-for-sale financial assets.

Lastly, we would like to point out that as regards revaluation reserves and positive balances subject to future taxation, no allocation has been made for the relative deferred taxes, in line with the provision of IAS 12, par. 52b, which makes the allocation of a “deferred tax liability” to reserves subject to future taxation conditional to their distribution; in this regard, the Bank has not taken, nor is it considered likely that it will take measures in the short-medium term that would result in the payment of deferred taxes.

Other information

1. Currency transactions

Foreign currency transactions are recorded, at the time of initial recognition, in Euro, applying the exchange rate in force on the date of the transaction to the amount in foreign currency.

Subsequently, assets and liabilities in foreign currency are converted into Euro using the year-end exchange rate. As regards repurchase agreements and derivative contracts in foreign currency, please refer to the paragraphs regarding financial assets and liabilities held for trading.

Exchange rate differences relative to the translation of non-monetary items or to the conversion of monetary items at exchange rates that differ from those used for the initial conversions, or for the conversion on the previous financial statements, are recorded in the income statement for the period in which they arose under the item “net income from trading activities” for financial assets or liabilities denominated in foreign currency, separately to those designated at their fair value, those whose fair value and financial flows are hedged as well as hedging derivatives.

2. Repurchase agreement transactions

Transactions for the “spot” sale or purchase of securities with the simultaneous obligation to “forward” repurchase or sell, are classified as items carried forward and therefore the amounts received and paid are shown in the financial statements as payables and receivables. In particular, spot sale and forward repurchase transactions are recognised as receivables using the amount paid in the spot transaction. Likewise, the cost of the funding and the income resulting from the investment, represented by the coupons matured on the securities and by the spread between the spot price and the forward price of the same, are recorded on an accrual basis under the income statement items relating to interest.

3. Criteria for determination of fair value

The criteria to determine the fair value of securities are as follows:

- Securities listed on active markets

The following price configurations are considered the fair value of financial instruments traded on “active markets”:

- equity instruments and debt securities listed on Borsa Italia: the official price of the last day of trading of the stock exchange for the period considered;
- equity instruments and debt securities listed on foreign markets: the official price (or other equivalent price) of the last day of the period considered;
- UCI shares (mutual investment funds and SICAV): the official price (or other equivalent price) of the share on the last day of the period considered.

- Securities not listed on active markets

The following price configurations are considered the fair value of financial instruments not traded on “active markets”:

- when available and reliable, the price provided by other information sources such as Bloomberg, Reuters or other Market Maker platforms;

- when the prices of Bloomberg, Reuters or other Market Maker platforms are not available, measurement techniques such as the following are used:
 - for national debt securities: the present value of the expected cash flows of the securities in question, determined on the basis of current yield (in terms of spread against a no-risk investment) at the end of the period for securities with the same maturity and, more specifically:
 - based on swap rates with the same maturity for fixed-rate securities;
 - based on Euribor rates for coupons with the same maturity for variable rate securities.

When determining the fair value of national debt securities the “counterparty risk” is taken into account, also considering the residual life of the security and/or its “liquidity risk”; to this end, the price of the securities resulting from the application of the above technique is adjusted by a “credit spread” corresponding to the credit risk associated to the issuing counterparty;

- for foreign debt securities: the last ICMA price recorded in the period considered;
 - for UCI shares (mutual investment funds and SICAV): the last value of the share published by the management company;
 - for insurance contracts to be capitalised: the value accrued in compliance with the issue regulations.
- securities not listed on “active markets” for which the fair value cannot be calculated reliably according to the above rules are valued at cost, adjusted to take into account any significant impairment losses.

The criteria to determine the fair value of derivative contracts are as follows:

- derivative contracts traded on regulated markets: the market price of the last day of trading of the year is designated the fair value;
- over the counter derivative contracts: the fair value is designated as the market value at the reference date calculated using the techniques indicated below on the basis of the type of contract:
 - contracts on interest rates: the market value is represented by the so-called replacement cost, calculated by discounting the differences, at the adjustment dates envisaged, between the flows calculated at the contract rates and the expected flows calculated at objectively determined current market rates at year end for an equal residual term;
 - option contracts on securities, currency and other instruments: the market value is presented by the “theoretic premium” on the reference date, calculated using the “Black & Scholes” formula or other equivalent criteria.

For over the counter contracts, the fair value is calculated by adjusting the market value where positive, of the credit risk associated to the counterparty.

The fair value of investments in equity instruments classified as “available for sale financial assets” is calculated as follows:

- for investments in companies listed on “active markets”: the fair value is considered the market price of the last trading day of the year;
- for investments in companies not listed on “active markets”: if the amount is significant, the fair value is assumed to be the value resulting from independent assessments or from recent transactions, if available, or failing such, the value corresponding to the share of net equity held, as recorded in the company’s last approved financial statements; equity investments of insignificant amounts are maintained at cost.

PART B

INFORMATION ON THE BALANCE SHEET

Assets

SECTION 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	31/12/2006	31/12/2005
a) Cash	29,856	22,532
b) Demand deposits at Central Banks	-	-
Total	29,856	22,532

SECTION 2 – Financial assets held for trading – Item 20

2.1 Financial assets held for trading: breakdown by type

Items/Amounts	31/12/2006		31/12/2005	
	Listed	Not listed	Listed	Not listed
A. Cash assets				
1. Debt securities	248,972	90,976	127,729	355,269
1.1 Structured securities	-	-	-	-
1.2 Other debt securities	248,972	90,976	127,729	355,269
2. Equity instruments	2	-	2	-
3. UCI shares	90,448	-	50,671	-
4. Loans	-	-	-	-
4.1 Repurchase agreements	-	-	-	-
4.2 Other	-	-	-	-
5. Impaired assets	-	-	-	-
6. Assets sold not written-off	133,048	-	-	-
Total A	472,470	90,976	178,402	355,269
B. Derivative instruments				
1. Financial derivatives	-	2,922	-	10,219
1.1 trading	-	62	-	499
1.2 related to the fair value option	-	2,860	-	9,720
1.3 other	-	-	-	-
2. Credit derivatives	-	-	-	-
2.1 trading	-	-	-	-
2.2 related to the fair value option	-	-	-	-
2.3 other	-	-	-	-
Total B	-	2,922	-	10,219
Total (A+B)	472,470	93,898	178,402	365,488

2.2 Financial assets held for trading: breakdown by debtor/issuer

Items/Amounts	31/12/2006	31/12/2005
A CASH ASSETS		
1. Debt securities	339,948	482,998
a) Governments and Central Banks	57,577	86,847
b) Other public authorities	5,674	-
c) Banks	177,520	283,105
d) Other issuers	99,177	113,046
2. Equity instruments	2	2
a) Banks	-	-
b) Other issuers:	2	2
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	2	2
- other	-	-
3. UCI shares	90,448	50,671
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Other public authorities	-	-
c) Banks	-	-
d) Other entities	-	-
5. Impaired assets	-	-
a) Governments and Central Banks	-	-
b) Other public authorities	-	-
c) Banks	-	-
d) Other entities	-	-
6. Assets sold not and written-off	133,048	-
a) Governments and Central Banks	18,638	-
b) Other public authorities	-	-
c) Banks	114,410	-
d) Other issuers	-	-
Total A	563,446	533,671
B. DERIVATIVE INSTRUMENTS		
a) Banks	2,860	9,720
b) Customers	62	499
Total B	2,922	10,219
Total (A+B)	566,368	543,890

2.3 Financial assets held for trading: derivative instruments

Type of derivative/underlying assets	Interest rates	Currency and gold	Equity instruments	Receivables	Other	31/12/2006	31/12/5002
A) Listed derivatives							
1. Financial derivatives:	-	-	-	-	-	-	-
a) With trading of capital	-	-	-	-	-	-	-
- Options purchased	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-
b) Without trading of capital	-	-	-	-	-	-	-
- Options purchased	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	-	-
a) With trading of capital	-	-	-	-	-	-	-
b) Without trading of capital	-	-	-	-	-	-	-
Total A	-	-	-	-	-	-	-
B) Unlisted derivatives							
1. Financial derivatives:	2,860	62	-	-	-	2,922	10,219
a) With trading of capital	-	62	-	-	-	62	499
- Options purchased	-	-	-	-	-	-	-
- Other derivatives	-	62	-	-	-	62	499
b) Without trading of capital	2,860	-	-	-	-	2,860	9,720
- Options purchased	-	-	-	-	-	-	-
- Other derivatives	2,860	-	-	-	-	2,860	9,720
2. Credit derivatives:	-	-	-	-	-	-	-
a) With trading of capital	-	-	-	-	-	-	-
b) Without trading of capital	-	-	-	-	-	-	-
Total B	2,860	62	-	-	-	2,922	10,219
Total (A+B)	2,860	62	-	-	-	2,922	10,219

2.4 Financial cash assets held for trading other than those sold and not written-off and from impaired assets: annual changes

	Debt securities	Equity instruments	UCI shares	Loans	Total
A. Opening balance	482,998	2	50,671	-	533,671
B. Increases	2,079,348	5,194	48,032	-	2,132,574
B.1 Purchases	2,073,893	5,179	44,795	-	2,123,867
B.2 Positive changes in fair value	179	1	3,117	-	3,297
B.3 Other changes	5,276	14	120	-	5,410
C. Decreases	2,222,398	5,194	8,255	-	2,235,847
C.1 Sales	2,007,709	5,194	-	-	2,012,903
C.2 Repayments	74,910	-	8,213	-	83,123
C.3 Negative changes in fair value	3,575	-	42	-	3,617
C.4 Other changes	136,204	-	-	-	136,204
D. Closing balance	339,948	2	90,448	-	430,398

SECTION 3 – Financial assets measured at fair value – Item 30

This section has not been completed.

SECTION 4 – Available-for-sale financial assets – Item 40

Available-for-sale financial assets as at 31 December 2006 amount to 10,313 thousand Euro. Please note that, in accordance with prior accounting principles, these assets were classified as equity investments.

4.1 Available-for-sale financial assets: breakdown by type

Items/Amounts	31/12/2006		31/12/2005	
	Listed	Not listed	Listed	Not listed
1. Debt securities	-	-	-	-
1.1 Structured securities	-	-	-	-
1.2 Other debt securities	-	-	-	-
2. Equity instruments	596	9,717	303	9,609
2.1 Measured at fair value	596	-	303	-
2.2 Measured at cost	-	9,717	-	9,609
3. UCI shares	-	-	-	-
4. Loans	-	-	-	-
5. Impaired assets	-	-	-	-
6. Assets sold and not written-off	-	-	-	-
Total	596	9,717	303	9,609

4.2 Available-for-sale financial assets: breakdown by debtor/issuer

Items/Amounts	31/12/2006	31/12/2005
1. Debt securities	-	-
a) Governments and Central Banks	-	-
b) Other public authorities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity instruments	10,313	9,912
a) Banks	3,212	2,919
b) Other issuers:	7,101	6,993
- insurance companies	-	-
- financial companies	195	195
- non-financial companies	6,906	6,798
- other	-	-
3. UCI shares	-	-
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Other public authorities	-	-
c) Banks	-	-
d) Other entities	-	-
5. Impaired assets	-	-
a) Governments and Central Banks	-	-
b) Other public authorities	-	-
c) Banks	-	-
d) Other entities	-	-
6. Assets sold not and written-off	-	-
a) Governments and Central Banks	-	-
b) Other public authorities	-	-
c) Banks	-	-
d) Other issuers	-	-
Total	10,313	9,912

4.5 Available-for-sale financial assets other than those sold and not written-off and from impaired assets: annual changes

	Debt securities	Equity instruments	UCI shares	Loans	Total
A. Opening balance	-	9,912	-	-	9,912
B. Increases	-	537	-	-	537
B.1 Purchases	-	2	-	-	2
B.2 Positive changes in fair value	-	293	-	-	293
B.3 Write-backs	-	-	-	-	-
- allocated to the income statement	-	-	-	-	-
- allocated to net equity	-	-	-	-	-
B.4 Transfers from other portfolios	-	158	-	-	158
B.5 Other changes	-	84	-	-	84
C. Decreases	-	136	-	-	136
C.1 Sales	-	100	-	-	100
C.2 Repayments	-	-	-	-	-
C.3 Negative changes in fair value	-	-	-	-	-
C.4 Write-downs from impairment	-	-	-	-	-
- allocated to the income statement	-	-	-	-	-
- allocated to net equity	-	-	-	-	-
C.5 Transfers to other portfolios	-	-	-	-	-
C.6 Other changes	-	36	-	-	36
D. Closing balance	-	10,313	-	-	10,313

In 2006, the financial asset SI Holding S.p.A. in Rome was sold, while the amount of 36 thousand Euro, recorded under other changes – decreases, refers to the disposal of the financial asset Euros S.p.A. in Rome.

SECTION 5 – Financial assets held to maturity – Item 50

This section has not been completed.

SECTION 6 – Due from banks – Item 60

6.1 Due from banks: breakdown by type

Type of transaction/Amounts	31/12/2006	31/12/2005
A. Due from Central Banks	28,112	26,603
1. Fixed-term deposits	-	-
2. Obligatory reserve	28,112	26,603
3. Repurchase agreements	-	-
4. other	-	-
B. Due from banks	38,277	59,478
1. Current accounts and demand deposits	19,243	3,437
2. Fixed-term deposits	12,965	55,550
3. Other loans	6,069	491
3.1 Repurchase agreements	6,047	491
3.2 Finance leases	-	-
3.3 Other	22	-
4. Debt securities	-	-
4.1 Structured securities	-	-
4.2 Other debt securities	-	-
5. Impaired assets	-	-
6. Assets sold and not written-off	-	-
Total (book value)	66,389	86,081
Total (fair value)	66,389	86,081

SECTION 7 – Due from customers – Item 70

7.1 Due from customers: breakdown by type

Type of transaction/Amounts	31/12/2006	31/12/2005
1. Current accounts	1,446,184	1,191,948
2. Repurchase agreements	1,418	803
3. Mortgages	1,229,990	1,375,024
4. Credit cards, personal loans and loans on salary	18,430	19,762
5. Financial leases	-	-
6. Factoring	-	-
7. Other transactions	420,238	427,617
8. Debt securities	-	-
8.1 Structured securities	-	-
8.2 Other debt securities	-	-
9. Impaired assets	159,386	156,884
10. Assets sold and not written-off	367,427	-
Total (book value)	3,643,073	3,172,038
Total (fair value)	3,810,055	n.a.

Over the course of 2006, several performing mortgages were securitised to the vehicle company VOBA-Finance, and are now recorded as assets sold and not written-off.

This transaction does not meet the requirements of IAS 39 and therefore cannot be derecognised as the bank had fully underwritten the “junior” tranche of the securities issued by the vehicle company.

As a consequence, as regards the above securitisation transaction, the securitised assets remaining at said date, specifically the share related to loans granted by the bank and to the reversal of the subscribed junior tranche have been recognised.

7.2 Due from Customers: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2006	31/12/2005
1. Debt securities:	-	-
a) Governments	-	-
b) Other public authorities	-	-
c) Other issuers	-	-
- non-financial companies	-	-
- financial companies	-	-
- insurance companies	-	-
- other	-	-
2. Loans to:	3,116,260	3,015,154
a) Governments	-	-
b) Other public authorities	2,545	3,806
c) Other issuers	3,113,715	3,011,348
- non-financial companies	2,293,324	2,026,334
- financial companies	61,697	29,313
- insurance companies	40	4,653
- other	758,654	951,048
3. Impaired assets:	159,386	156,884
a) Governments	-	-
b) Other public authorities	-	-
c) Other issuers	159,386	156,884
- non-financial companies	102,439	110,806
- financial companies	2,021	-
- insurance companies	1,277	581
- other	53,649	45,497
4. Assets sold not and written-off:	367,427	-
a) Governments	-	-
b) Other public authorities	-	-
c) Other issuers	367,427	-
- non-financial companies	267	-
- financial companies	-	-
- insurance companies	-	-
- other	367,160	-
Total	3,643,073	3,172,038

SECTION 8 – Hedging derivatives – Item 80

This section has not been completed.

SECTION 9 – Value adjustments of financial assets subject to macrohedging – Item 90

This section has not been completed.

SECTION 10 – Equity Investments – Item 100

10.1 Equity investments in subsidiary companies, jointly controlled companies or companies subject to significant control: information on investment relationships

Company name	Registered office	% investment
A. COMPANIES CONTROLLED EXCLUSIVELY		
1. Berger S.p.A.	Bolzano	100%
2. Immobiliare A&A S.r.l.	Bolzano	100%
B. JOINTLY CONTROLLED COMPANIES		
C. COMPANIES SUBJECT TO SIGNIFICANT CONTROL		
1. Casa di cura Villa S. Anna S.r.l.	Merano	35%

10.2 Equity investments in subsidiary companies, jointly controlled companies or companies subject to significant control: accounting information

Company name	Total assets	Total income	Profit/Loss	Net equity	Book value	Fair value
A. COMPANIES CONTROLLED EXCLUSIVELY						
1. Berger S.p.A.	7,866	565	(39)	365	33	
2. Immobiliare A&A S.r.l.						
B. JOINTLY CONTROLLED COMPANIES						
C. COMPANIES SUBJECT TO SIGNIFICANT CONTROL						
1. Casa di cura Villa S. Anna *	4,233	5,505	578	1,311	516	
TOTAL	23,923	8,948	517	6,643	1,541	

* the figures of this equity investment refer to the year ended 31/12/2005

10.3 Equity Investment: annual changes

	31/12/2006	31/12/2005
A. Opening balance	3,616	3,594
B. Increases	285	22
B.1 Purchases	-	22
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	285	-
C. Decreases	2,360	-
C.1 Sales	2,202	-
C.2 Value adjustments	-	-
C.3 Other changes	158	-
D. Closing balance	1,541	3,616
E. Opening balance	-	-
F. Increases	1,038	1,038

The amount of 2,202 thousand Euro, recorded under sales, regards the sale of the equity investment to Optima Broker Banca Popolare S.r.l., Bolzano.

The decrease of 158 thousand Euro, recorded under other changes, is due to the transfer of our equity investment in Argentea S.p.A., Trento, to item 40, which is now therefore included in available-for-sale financial assets.

Section 11 – Property, plant and equipment – Item 110

11.1 Property, plant and equipment: breakdown of assets carried at cost

Assets/Amounts	31/12/2006	31/12/2005
A. Assets for functional use		
1.1 owned	104,464	110,953
a) land	30,348	30,348
b) buildings	54,692	56,618
c) furniture	14,817	18,103
d) electronic equipment	1,712	2,287
e) other	2,895	3,597
1.2 acquired under finance leases	16,856	17,496
a) land	3,593	3,593
b) buildings	13,263	13,903
c) furniture		
d) electronic equipment		
e) other		
Total A	121,320	128,449
B. Assets held as investments		
2.1 owned	-	-
a) land	-	-
b) buildings	-	-
2.2 acquired under finance leases	-	-
a) land	-	-
b) buildings	-	-
Total B	-	-
Total A+B	121,320	128,449

11.3 Property, plant and equipment for functional use: annual changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balance	33,942	85,075	41,684	15,922	8,089	184,712
A.1 Net total impairment	-	14,555	23,581	13,635	4,492	56,263
A.2 Net opening balance	33,942	70,520	18,103	2,287	3,597	128,449
B. Increases:	-	139	1,424	943	895	3,401
B.1 Purchases	-	-	1,368	943	895	3,206
B.2 Capitalised improvement expenses	-	139	-	-	-	139
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive changes in fair value allocated to:	-	-	-	-	-	-
a) net equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Transfer from property held as investments	-	-	-	-	-	-
B.7 Other changes	-	-	56	-	-	56
C. Decreases	-	2,704	4,710	1,518	1,598	10,530
C.1 Sales	-	-	56	-	-	56
C.2 Depreciation	-	2,704	4,615	1,518	1,598	10,435
C.3 Value adjustments for impairment allocated to:	-	-	-	-	-	-
a) net equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Negative changes in fair value allocated to:	-	-	-	-	-	-
a) net equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) property, plant and equipment held as investments	-	-	-	-	-	-
b) assets being disposed of	-	-	-	-	-	-
C.7 Other changes	-	-	39	-	-	39
D. Net closing balance	33,942	67,955	14,817	1,712	2,894	121,320
D.1 Total net impairment	-	17,259	27,894	15,142	4,417	64,712
D.2 Gross closing balance	33,942	85,214	42,711	16,854	7,311	186,032
E. Valuation at cost	-	-	-	-	-	-

SECTION 12 – Intangible assets – Item 120

12.1 Intangible assets: breakdown by asset type

Assets/Amounts	31/12/2006		31/12/2005	
	Fixed term	No fixed term	Fixed term	No fixed term
A.1 Goodwill	-	-	-	-
A.2 Other intangible assets	264	-	511	-
A.2.1. Assets valued at cost:	264	-	511	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	264	-	511	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	264	-	511	-

12.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		Fixed	Not fixed	Fixed	Not fixed	
A. Gross opening balance	-	-	-	921	-	921
A.1 Net total impairment	-	-	-	410	-	410
A.2 Net opening balance	-	-	-	511	-	511
B. Increases:	-	-	-	323	-	323
B.1 Purchases	-	-	-	323	-	323
B.2 Increases in internal intangible assets	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive changes in fair value allocated to:	-	-	-	-	-	-
a) net equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	-	-	-	570	-	570
C.1 Sales	-	-	-	-	-	-
C.2 Value adjustments	-	-	-	570	-	570
- Amortisation	-	-	-	570	-	570
- Write-downs	-	-	-	-	-	-
+ net equity	-	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Negative changes in fair:	-	-	-	-	-	-
a) on net equity	-	-	-	-	-	-
b) on income statement	-	-	-	-	-	-
C.4 Transfers to non current assets being disposed of	-	-	-	-	-	-
C.5: Negative exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net closing balance	-	-	-	264	-	264
D.1 Total net impairment	-	-	-	980	-	980
E Gross closing balance	-	-	-	1,244	-	1,244
F. Valuation at cost	-	-	-	-	-	-

Key

Fixed: fixed term

Not fixed: No fixed term

SECTION 13 – Tax assets and tax liabilities – Item 130 under assets and item 80 under liabilities

13.1 Deferred tax assets: breakdown

IRES	31/12/2006		31/12/2005	
	amount of temporary differences	tax	amount of temporary differences	tax
- Value adjustments on loans	24,673	8,142	28,884	9,532
- Provisions for risks and charges	2,067	682	1,392	459
- Administrative costs	108	36	96	32
- Revaluation of furniture (L. 23.12.05 no. 266)	948	313	-	-
- Cancellation of repurchased securities from assets	-	-	35	12
- Staff severance indemnities	-	-	930	307
- Write-downs of equity investments	368	121	958	316
- Other	145	48	-	-
Total	28,309	9,342	32,295	10,658

IRAP	31/12/2006		31/12/2005	
	amount of temporary differences	tax	amount of temporary differences	tax
- Value adjustments on loans	23	1	23	1
- Provisions for risks and charges	2,067	53	1,392	59
- Administrative costs	108	4	96	4
- Revaluation of furniture (L. 23.12.05 no. 266)	948	40	-	-
- Cancellation of repurchased securities from assets	-	-	35	1
- Staff severance indemnities	-	-	-	-
- Write-downs of equity investments	368	16	958	41
- Other	145	6	-	-
Total	3,659	120	2,504	106

13.2 Deferred tax liabilities: breakdown

IRES	31/12/2006		31/12/2005	
	amount of temporary differences	tax	amount of temporary differences	tax
- Value adjustments on loans	26,376	8,704	34,471	9,263
- Land depreciation	3,533	1,166	3,533	1,166
- Revaluation of property to deemed cost	68,501	22,605	69,871	23,057
- Finance leasing	5,947	1,963	5,159	1,702
- Valuation of derivatives and bonds hedged by derivatives (FVO)	126	42	70	23
- Valuation of asset securities at fair value	4,646	1,533	2,566	847
- Valuation of AFS securities	451	24	172	9
- Gains on sale of property	42	14	162	54
- Staff severance indemnities	141	46	-	-
- Other	-	-	-	-
Total	109,763	36,097	116,004	36,121

(*) with corresponding entry under shareholders' equity

IRAP	31/12/2006		31/12/2005	
	amount of temporary differences	tax	amount of temporary differences	tax
- Value adjustments on loans	-	-	-	-
- Land depreciation	3,533	150	3,533	150
- Revaluation of property to deemed cost	68,501	2,911	69,871	2,970
- Finance leasing	5,947	253	5,159	219
- Valuation of derivatives and bonds hedged by derivatives (FVO)	126	5	70	3
- Valuation of asset securities at fair value	4,646	198	2,566	109
- Valuation of AFS securities (*)	-	-	-	-
- Gains on sale of property	42	2	162	7
- Staff severance indemnities	-	-	-	-
- Other	-	-	-	-
Total	82,795	3,519	81,361	3,458

(*) with corresponding entry under shareholders' equity

13.3 Changes in prepaid taxes (with corresponding entry in the income statement)

	IRES	IRAP	31/12/2006	31/12/2005
1. Initial amount			10,764	11,755
2. Increases	8,840	56	8,896	539
2.1 Prepaid taxes recognised during the year	8,840	56	8,896	539
a) relative to previous years	-	-	-	-
b) due to changes in accounting criteria	-	-	-	-
c) write-backs	-	-	-	-
d) other	8,840	56	8,896	539
2.2 New taxes or increases in tax rates	-	-	-	-
2.3 Other increases	-	-	-	-
3. Decreases	10,156	42	10,198	1,530
3.1 Prepaid taxes cancelled during the year	10,156	42	10,198	1,530
a) reallocations	10,156	42	10,198	1,530
b) write-downs due to irrecoverability	-	-	-	-
c) changes in accounting criteria	-	-	-	-
3.2 Decreases in tax rates	-	-	-	-
3.3 Other decreases	-	-	-	-
Final amount			9,462	10,764

13.4 Changes in deferred taxes (with corresponding entry in the income statement)

	IRES	IRAP	31/12/2006	31/12/2005
1. Initial amount			39,570	39,615
2. Increases	1,380	169	1,549	-
2.1 Deferred taxes recognised during the year	1,380	169	1,549	-
a) relative to previous years	-	-	-	-
b) due to changes in accounting criteria	-	-	-	-
c) other	1,380	169	1,549	-
2.2 New taxes or increases in tax rates	-	-	-	-
2.3 Other increases	-	-	-	-
3. Decreases	1,419	108	1,527	45
3.1 Deferred taxes cancelled during the year	1,419	108	1,527	45
a) reallocations	1,419	108	1,527	45
b) changes in accounting criteria	-	-	-	-
c) other	-	-	-	-
3.2 Decreases in tax rates	-	-	-	-
3.3 Other decreases	-	-	-	-
Final amount			39,592	39,570

13.6 Changes in deferred taxes (with corresponding entry under shareholders' equity)

	IRES	IRAP	31/12/2006	31/12/2005
1. Initial amount			9	9
2. Increases	15	-	15	-
2.1 Deferred taxes recognised during the year	15	-	15	-
a) relative to previous years	-	-	-	-
b) due to changes in accounting criteria	-	-	-	-
c) other	15	-	15	-
2.2 New taxes or increases in tax rates	-	-	-	-
2.3 Other increases	-	-	-	-
3. Decreases	-	-	-	-
3.1 Deferred taxes cancelled during the year	-	-	-	-
a) reallocations	-	-	-	-
b) changes in accounting criteria	-	-	-	-
c) other	-	-	-	-
3.2 Decreases in tax rates	-	-	-	-
3.3 Other decreases	-	-	-	-
Final amount			24	9

13.7 Other information

Breakdown of "current tax assets"

	31/12/2006	31/12/2005
1. Advance payment of IRES – IRAP – VAT taxes	17,668	13,983
2. Advance payment of stamp duty, withholding tax on interest	4,007	1,620
3. Withholding tax paid	58	57
4. Other current tax assets	446	651
Total	22,179	16,311

At the end of 2006, the Bank's tax position was as follows:

As regards VAT and all direct and indirect taxes, no inspections are underway, nor has any legal action been taken against the company.

Breakdown of “current tax liabilities”

	31/12/2006	31/12/2005
1. Liabilities for direct taxes	20,593	17,883
2. Indirect taxes	13	19
3. Withholding tax at source to be paid	5,030	4,649
4. Other current tax liabilities	415	1,174
Total	26,051	23,725

**SECTION 14 – Non-current assets and groups of assets being disposed of and related liabilities –
Item 140 and Item 90 under liabilities**

This section has not been completed.

SECTION 15 – Other assets – Item 150**15.1 Other assets: breakdown**

	31/12/2006	31/12/2005
1. Unprocessed transactions with branches	-	-
2. Deposits	71	40
3. Work in progress	48,998	31,731
4. Various outstanding items (items waiting final allocation)	1,088	744
5. Income accrued and due to be received	5,698	6,117
6. Cash items in hand	806	410
7. Accruals and deferrals not reported	419	348
Total	57,080	39,390

Liabilities

SECTION 1 – Due to banks – Item 10

1.1 Due to banks: breakdown by type

Type of transaction/Amounts	31/12/2006	31/12/2005
1. Due to central banks	-	-
2. Due to banks	356,179	526,112
2.1 Current accounts and demand deposits	136,425	95,846
2.2 Fixed term deposits	197,086	383,472
2.3 Loans	-	40,738
2.3.1 Finance leases	-	-
2.3.2 Other	-	40,738
2.4 Debts for repurchase of own capital instruments	-	-
2.5 Liabilities from assets sold and not cancelled from the accounts	22,668	6,056
2.5.1 Repurchase agreements	22,668	6,056
2.5.2 Other	-	-
2.6 Other amounts due	-	-
Total	356,179	526,112
Fair value	356,179	526,112

SECTION 2 – Due to customers – Item 20

2.1 Due to customers: breakdown by type

Type of transaction/Amounts	31/12/2006	31/12/2005
1. Current accounts and demand deposits	1,440,068	1,340,168
2. Fixed-term deposits	2,200	9,621
3. Third party funds under administration	42,630	44,390
4. Loans	10,172	12,531
4.1 Finance leases	10,172	12,531
4.2 Other	-	-
5. Debts for commitments to repurchase own capital instruments	-	-
6. Liabilities from assets sold and not cancelled from the accounts	469,401	74,407
6.1 Repurchase agreements	113,238	74,407
6.2 Other	356,163	-
7. Other amounts due	-	-
Total	1,964,471	1,481,117
Fair value	1,964,471	1,481,117

Liabilities from assets sold and not cancelled and others regard securitisation transactions which, as illustrated in the section dedicated to loans, were the subject of a “write-back” insofar as the requirements of IAS 39 to proceed with their derecognition were not met.

2.5 Amounts due for finance leases

Amounts due for finance leases refer to the property of Berger S.p.A., Bolzano, details of which were fully illustrated in the report of the Board of directors.

SECTION 3 – Outstanding securities – Item 30

3.1 Outstanding securities: breakdown by type

Type of security/Amounts	31/12/2006		31/12/2005	
	Book value	Fair value	Book value	Fair value
A. Listed securities	-	-	-	-
1. Bonds	-	-	-	-
1.1 Structured	-	-	-	-
1.2 Other	-	-	-	-
2. Other securities	-	-	-	-
2.1 Structured	-	-	-	-
2.2 Other	-	-	-	-
B. Unlisted securities	1,138,052	-	1,066,328	-
1. Bonds	1,059,906	-	986,914	-
1.1 Structured	-	-	-	-
1.2 Other	1,059,906	-	986,914	-
2. Other securities	78,146	-	79,414	-
2.1 Structured	-	-	-	-
2.2 Other	78,146	-	79,414	-
Total	1,138,052	-	1,066,328	-

SECTION 4 – Financial trading liabilities – Item 40

4.1 Financial trading liabilities: breakdown by type

Type of security/Amounts	31/12/2006				31/12/2005			
	FCV	FV		FV*	FCV	FV		FV*
		L	NL			L	NL	
A. Cash liabilities								
1. Due to banks	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	X	-	-	-	X
3.1.1 Structured	-	-	-	-	-	-	-	-
3.1.2 Other bonds	-	-	-	-	-	-	-	-
3.2 Other securities	-	-	-	X	-	-	-	X
3.2.1 Structured	-	-	-	-	-	-	-	-
3.2.2 Other	-	-	-	-	-	-	-	-
Total A								
B. Derivative instruments								
1. Financial derivatives	X	-	5,864	X	X	-	530	X
1.1 Trading	X	-	51	X	X	-	530	X
1.2 Related to the fair value option	X	-	5,813	X	X	-	-	X
1.3 Other	X	-	-	X	X	-	-	X
2. Credit Derivatives								
2.1 Trading	X	-	-	X	X	-	-	X
2.2 Related to the fair value option	X	-	-	X	X	-	-	X
2.3 Other	X	-	-	X	X	-	-	X
Total B	X	-	5,864	X	X	-	530	X
Total (A+B)	X	-	5,864	X	X	-	530	X

Key

FV = fair value

FV* = fair value calculated excluding changes in value due to changes in the credit rating of the issuer with respect to the issue date

FCV = face value or notional value

L = listed

NL = not listed

4.4 Financial trading liabilities: derivative instruments							
Type of derivative/underlying assets	Interest rates	Currency and gold	Equity instruments	Receivables	Other	31/12/2006	31/12/2002
A) Listed derivatives							
1. Financial derivatives:	-	-	-	-	-	-	-
a) With trading of capital	-	-	-	-	-	-	-
- Options issued	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-
b) Without trading of capital	-	-	-	-	-	-	-
- Options issued	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	-	-
a) With trading of capital	-	-	-	-	-	-	-
b) Without trading of capital	-	-	-	-	-	-	-
Total A	-	-	-	-	-	-	-
B) Unlisted derivatives							
1. Financial derivatives:	5,813	51	-	-	-	5,864	530
a) With trading of capital	-	51	-	-	-	51	530
- Options issued	-	-	-	-	-	-	-
- Other derivatives	-	51	-	-	-	51	530
b) Without trading of capital	5,813	-	-	-	-	5,813	-
- Options issued	-	-	-	-	-	-	-
- Other derivatives	5,813	-	-	-	-	5,813	-
2. Credit derivatives:	-	-	-	-	-	-	-
a) With trading of capital	-	-	-	-	-	-	-
b) Without trading of capital	-	-	-	-	-	-	-
Total B	5,813	51	-	-	-	5,864	530
Total (A+B)	5,813	51	-	-	-	5,864	530

SECTION 5 – Financial liabilities measured at fair value – Item 50

5.1 Financial liabilities: breakdown by type

Type of transaction/Amounts	31/12/2006				31/12/2005			
	FCV	FV		FV*	FCV	FV		FV*
		L	NL			L	NL	
1. Due to banks	-	-	-	X	-	-	-	X
1.1 Structured	-	-	-	-	-	-	-	-
1.2 Other	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	X	-	-	-	X
2.1 Structured	-	-	-	-	-	-	-	-
2.2 Other bonds	-	-	-	-	-	-	-	-
3. Debt securities	487,700	-	487,081	X	411,489	-	420,242	X
3.1 Structured	1,939	-	1,950	-	2,673	-	2,627	-
3.2 Other	485,761	-	485,131	-	408,816	-	417,615	-
Total	487,700	-	487,081	-	411,489	-	420,242	-

Key

FV = fair value

FV* = fair value calculated excluding changes in value due to changes in the credit rating of the issuer with respect to the issue date

FCV = face value or notional value

L = listed

NL = not listed

5.3 Financial liabilities measured at fair value: annual changes

	Due to banks	Due to customers	Outstanding securities	Total
A. Opening balance	-	-	420,242	420,242
B. Increases	-	-	136,463	136,463
B.1 Issues	-	-	104,057	104,057
B.2 Sales	-	-	25,991	25,991
B.3 Positive changes in fair value	-	-	47	47
B.4 Other changes	-	-	6,368	6,368
C. Decreases	-	-	69,624	69,624
C.1 Purchases	-	-	28,630	28,630
C.2 Repayments	-	-	24,117	24,117
C.3 Negative changes in fair value	-	-	9,555	9,555
C.4 Other changes	-	-	7,322	7,322
D. Closing balance	-	-	487,081	487,081

SECTION 6 – Hedging derivatives – Item 60

This section has not been completed.

SECTION 7 – Value adjustment of financial liabilities subject to macrohedging – Item 70

This section has not been completed.

SECTION 8 – Tax liabilities – Item 80

Refer to section 13 under assets.

SECTION 9 – Liabilities related to assets being disposed of – Item 90

This section has not been completed.

SECTION 10 – Other liabilities – Item 100**15.1 Other liabilities: breakdown**

	31/12/2006	31/12/2005
1. Adjustments of non-liquid items relative to securities portfolios	25,418	29,027
2. Unprocessed transactions with branches	-	-
3. Amounts available to third parties (banks, suppliers etc.)	7,537	6,109
4. Amounts available to customers	3,709	1,968
5. Work in progress (money orders etc.)	6,571	4,465
6. Other items due to various creditors	16,176	4,470
7. Provisions for risks and charges for guarantees and commitments	82	23
8. Accruals and deferrals not reported	28	-
Total	59,521	46,062

SECTION 11 – Staff severance indemnities – Item 110**11.1 Staff severance indemnities: annual changes**

	31/12/2006	31/12/2005
A. Opening balance	23,459	20,929
B. Increases	1,598	3,518
B.1 Provisions for the year	1,598	3,518
B.2 Other increases	-	-
C. Decreases	1,311	988
C.1 Amounts paid out	1,311	988
C.2 Other decreases	-	-
D. Closing balance	23,746	23,459

Note that according to IFRIC, the staff severance fund for employees is determined as a “benefit subsequent to an employment relationship” and, therefore is covered by the provisions of IAS 19. Consequently, at year end, this item is estimated by an independent actuary applying the method envisaged for a “defined benefits plan” as envisaged by the above IAS.

SECTION 12 – Provisions for risks and charges – Item 120

12.1 Provisions for risks and charges: breakdown

Items/Amounts	31/12/2006	31/12/2005
1. Company pension funds	-	-
2. Other provisions for risks and charges	2,121	1,706
2.1 legal disputes	2,121	1,580
2.2 personnel charges	-	-
2.3 other	-	126
Total	2,121	1,706

12.2 Provisions for risks and charges: annual changes

Items/Amounts			
A. Opening balance	-	1,706	1,706
B. Increases	-	995	995
B.1 Provisions for the year	-	995	995
B.2 Changes due to the elapsing of time	-	-	-
B.3 Changes due to discount rate adjustments	-	-	-
B.4 Other increases	-	-	-
C. Decreases	-	580	580
C.1 Use during the year	-	580	580
C.2 Changes due to discount rate adjustments	-	-	-
C.3 Other decreases	-	-	-
D. Closing balance	-	2,121	2,121

SECTION 13 – Redeemable shares – Item 140

This section has not been completed.

SECTION 14 – Company capital – Items 130, 150, 160, 170, 180, 190 and 200**14.1 Company capital: breakdown**

Items/Amounts	31/12/2006	31/12/2005
1. Share capital	63,037	63,037
2. Share premium reserve	97,171	97,171
3. Reserves	160,989	144,872
4. (Treasury shares)	-	-
5. Valuation reserves	74,877	75,390
6. Capital instruments	-	-
7. Profit (loss) for the year	29,068	24,164
Total	425,142	404,634

14.2 “Share capital” and “Treasury shares”: breakdown

	31/12/2006	31/12/2005
- Number of treasury shares and quotas	31,518,472	31,518,472
- Face value	Euro 2.00	Euro 2.00

14.3 Share capital: annual changes

Items/Type	Ordinary	Other
A. Number of shares at beginning of year	31,518,472	-
- fully paid-up	31,518,472	-
- not fully paid-up	-	-
A.1 Treasury shares (-)	-	-
A.2 Shares in circulation: opening balance	31,518,472	-
B. Increases	-	-
B.1 New issues	-	-
- against payment:	-	-
- business combinations	-	-
- bond conversions	-	-
- warrant exercises	-	-
- other	-	-
- on a free basis:	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	-	-
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Sale of companies	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	31,518,472	-
D.1 Treasury shares (+)	-	-
D.2 Number of shares at end of year	31,518,472	-
- fully paid-up	31,518,472	-
- not fully paid-up	-	-

14.4 Share capital: other information

All ordinary shares in circulation as at 31 December 2006 are fully paid-up. The face value per share is 2 Euro; shares do not have restrictions or privileges of any kind and each share has equal rights in terms of collection of dividends and redemption of capital. At the date of the financial statements, the Bank does not hold any treasury shares.

14.5 Reserve from profits: other information

Items/Components	31/12/2006	31/12/2005
1. Legal reserve	77,100	72,700
2. Statutory reserve	34,289	32,546
3. Other reserves	116	116
Total	115,505	105,362

14.7 Valuation reserves: breakdown

Items/Components	31/12/2006	31/12/2005
1. Available-for-sale financial assets	427	163
2. Property, plant and equipment	-	-
3. Intangible assets	-	-
4. Foreign investment hedges	-	-
5. Financial flow hedges	-	-
6. Exchange differences	-	-
7. Non-current assets being disposed of	-	-
8. Special revaluation laws	74,450	74,450
Total	74,877	74,613

14.8 Valuation reserves: annual changes

	Available-for-sale financial assets	Property, plant and equipment	Intangible assets	Foreign investment hedges	Financial flow hedges	Exchange differences	Non-current assets being disposed of	Special revaluation laws
A. Opening balance	163		-	-	-	-	-	74,450
B. Increases	264	-	-	-	-	-	-	-
B.1 Increases in fair value	264	-	-	-	-	-	-	-
B.2 Other changes	-	-	-	-	-	-	-	-
C. Decreases	-	-	-	-	-	-	-	-
C.1 Decreases in fair value	-	-	-	-	-	-	-	-
C.2 Other changes	-	-	-	-	-	-	-	-
D. Closing balance	427	-	-	-	-	-	-	74,450

14.9 Valuation reserves of available-for-sale financial assets: breakdown

	31/12/2006		31/12/2005	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	-	-	-	-
2. Equity instruments	427	-	174	(11)
3. UCI Shares	-	-	-	-
4. Loans	-	-	-	-
Total	427	-	174	(11)

14.10 Valuation reserve of available-for-sale financial assets: annual changes

	Debt securities	Equity instruments	UCI shares	Loans
1. Opening balance	-	163	-	-
2. Positive changes	-	264	-	-
2.1 Increases in fair value	-	264	-	-
2.2 Reallocation to income statement of negative reserves:				
a) from impairment	-	-	-	-
b) from disposal	-	-	-	-
2.3 Other changes				
3. Negative changes	-	-	-	-
3.1 Decreases in fair value	-	-	-	-
3.2 Reallocation to income statement of positive reserves: from disposals	-	-	-	-
3.3 Other changes	-	-	-	-
4. Closing balance	-	427	-	-

OTHER INFORMATION

1. Guarantees issued and commitments

Transaction	31/12/2006	31/12/2005
1) Financial guarantees issued	27,764	19,592
a) Banks	1,314	604
b) Customers	26,450	18,988
2) Commercial guarantees issued	486,434	394,181
a) Banks	251	372
b) Customers	486,183	393,809
3) Irrevocable commitments to disburse funds	394,333	13,845
a) Banks	7,153	9,021
i) certain to be used	5,626	7,703
ii) not certain to be used	1,527	1,318
b) Customers	387,180	4,824
i) certain to be used	2,018	994
ii) not certain to be used	385,162	3,830
4) Commitments underlying credit derivatives: protection sales	-	-
5) Assets pledged to guarantee third party obligations	-	-
6) Other commitments	-	-
Total	908,531	427,618

2. Assets pledged as a guarantee of own liabilities and commitments

Portfolios	31/12/2006	31/12/2005
1. Financial assets held for trading	198,824	135,940
2. Financial assets measured at fair value	-	-
3. Available-for-sale financial assets	-	-
4. Financial assets held to maturity	-	-
5. Due from banks	-	-
6. Due from customers	-	-
7. Property, plant and equipment	-	-

4. Management and brokerage on behalf of third parties

Type of service	Amount
1. Trading of financial instruments on behalf of third parties	7,067
a) Purchases	3,488
1. Settled	3,488
2. Not settled	-
b) Sales	3,579
1. settled	3,579
2. Not settled	-
2. Assets under management	387,332
a) Individual	387,332
b) collective	-
3. Custody and administration of securities	3,677,615
a) Third party securities held on deposit: related to depositary bank services (excluding assets under management)	1,629,564
1. securities issued by the bank that prepares the financial statements	1,463,273
2. other securities	166,291
b) Third party securities held on deposit (excluding assets under management): other	30,492
1. securities issued by the bank that prepares the financial statements	20,153
2. other securities	10,339
c) Third party securities deposited with third parties	1,586,564
d) Treasury securities deposited with third parties	430,995
4. Other transactions	-

PART C

INFORMATION ON THE INCOME STATEMENT

SECTION 1 – Interest – Items 10 and 20

1.1 Interest income and similar income: breakdown

Items/Technical form	Performing financial assets		Impaired financial assets	Other assets	31/12/2006	31/12/5002
	Debt securities	Loans				
1. Financial assets held for trading	18,088	-	-	-	18,088	13,574
2. Available-for-sale financial assets	-	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-	241
4. Due from banks	-	1,991	-	-	1,991	1,884
5. Due from customers	-	155,101	10,250	-	165,351	135,155
6. Financial assets measured at fair value	-	-	-	-	-	-
7. Hedging derivatives	X	X	X	-	-	6,497
8. Financial assets sold and not written-off	-	4,409	-	-	4,409	-
9. Other assets	X	X	X	111	111	100
Total	18,088	161,501	10,250	111	189,950	157,451

1.3 Interest income and similar income: other information

1.3.1 Interest income on financial assets in foreign currency

	31/12/2006	31/12/2005
a) on assets in foreign currency	2,776	2,836

1.4 Interest expense and similar charges: breakdown

Items/Technical form	Payables	Securities	Other liabilities	31/12/2006	31/12/2005
1. Due to banks	16,085	X	-	16,085	10,225
2. Due to customers	16,925	X	-	16,925	11,387
3. Securities outstanding	X	32,627	-	32,627	27,412
4. Financial trading liabilities	-	-	-	-	-
5. Financial liabilities measured at fair value	-	15,217	-	15,217	9,819
6. Financial liabilities related to assets sold and not written-off	738	-	-	738	-
7. Other liabilities	X	X	-	-	-
8. Hedging derivatives	X	X	-	-	-
Total	33,748	47,844	-	81,592	58,843

1.6 Interest expense and similar charges: other information

1.6.1 Interest expense on liabilities in currency

	31/12/2006	31/12/2005
a) on liabilities in currency	1,855	1,666

1.6.2 Interest expense on liabilities for finance lease transactions

	31/12/2006	31/12/2005
a) on liabilities for finance lease transactions	428	302

SECTION 2 – Commission – Items 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	31/12/2006	31/12/2005
a) Guarantees issued	2,354	1,881
b) Derivatives on receivables	-	-
c) Management, brokerage and consulting services:	16,212	15,556
1. trading of financial instruments	37	36
2. currency trading	388	481
3. assets under management	5,100	4,803
3.1 individual	5,100	4,803
3.2 collective	-	-
4. custody and administration of securities	295	310
5. depositary bank	-	-
6. placement of securities	4,070	4,418
7. order collection	1,224	1,101
8. consulting activities	-	-
9. distribution of third party services:	5,098	4,407
9.1 assets under management	1,663	1,359
9.1.1 individual	1,663	1,359
9.1.2 collective	-	-
9.2 insurance products	1,521	1,364
9.3 other products	1,914	1,684
d) Payment and collection services	4,244	4,037
e) Servicing for securitisation transactions	-	-
f) Factoring transaction services	-	-
g) Tax collection services	-	-
h) Other services	20,110	17,919
1. recovery of current account costs	12,592	11,264
2 other	7,518	6,655
Total	42,920	39,393

2.2 Commission income: distribution channels for products and services

Channels/Amounts	31/12/2006	31/12/2005
a) At own branches:	14,268	13,628
1. assets under management	5,100	4,803
2. placement of securities	4,070	4,418
3. third party services and products	5,098	4,407
b) External supply:	-	-
1. assets under management	-	-
2. placement of securities	-	-
3. third party services and products	-	-
c) Other distribution channels:	-	-
1. assets under management	-	-
2. placement of securities	-	-
3. third party services and products	-	-

2.3 Commission expense: breakdown

Services/Amounts	31/12/2006	31/12/2005
a) Guarantees received	20	19
b) Credit derivatives	-	-
c) Management and brokerage services:	1,108	999
1. trading of financial instruments	522	510
2. currency trading	231	249
3. assets under management:	-	-
3.1 own portfolio	-	-
3.2 third party portfolios	-	-
4. custody and administration of securities	158	179
5. placement of financial instruments	196	58
6. external supply of financial instruments, products and services	1	3
d) Collection and payment services	640	657
e) Other services	3,779	3,250
1. transmission duties for cashpoint card details, POS	1,997	1,823
2. transmission duties for the bank network	838	555
3. other	944	872
Total	5,547	4,925

SECTION 3 – Dividends and similar income – Item 70**3.1 Dividends and similar income: breakdown**

Items/Amounts	31/12/2006		31/12/2005	
	Dividends	Income from UCI shares	Dividends	Income from UCI shares
A. Financial assets held for trading	-	-	-	1,996
B. Available-for-sale financial assets	412	-	532	-
C. Financial assets measured at fair value	-	-	-	-
D. Equity investments	-	X	-	X
Total	412	-	532	1,996

SECTION 4 – Net income from trading activities

4.1 Net income from trading activities: breakdown

Transactions/Income components	Gains	Profit from trading	Losses	Losses from trading	Net income
1. Financial trading assets	3,297	3,862	(3,617)	(206)	3,336
1.1 Debt securities	179	1,190	(3,575)	(206)	(2,412)
1.2 Equity instruments	1	15	-	-	16
1.3 UCI shares	3,117	94	(42)	-	3,169
1.4 Loans	-	-	-	-	-
1.5 Other	-	2,563	-	-	2,563
2. Financial trading liabilities	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	X	X	X	X	-
4. Derivative instruments	-	230	-	(213)	59
4.1 Financial derivatives:	-	230	-	(213)	59
- on debt securities and interest rates	-	230	-	(213)	17
- on equity instruments and share indices	-	-	-	-	-
- on currency and gold	X	X	X	X	42
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	3,297	4,092	(3,617)	(419)	3,395

SECTION 5 – Net income from hedging activities – Item 90

This section has not been completed.

SECTION 6 – Profit (Loss) from sale/repurchase – Item 100

6.1 Profit/Loss from sale/repurchase: breakdown

Items/Income components	31/12/2006			31/12/2005		
	Profit	Loss	Net income	Profit	Loss	Net income
Financial assets						
1. Due from banks	-	-	-	-	-	-
2. Due from customers	-	-	-	-	-	-
3. Available-for-sale financial assets	84	(36)	48	-	-	-
3.1 Debt securities	-	-	-	-	-	-
3.2 Equity instruments	84	(36)	48	-	-	-
3.3 UCI shares	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	84	(36)	48	-	-	-
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Outstanding securities	247	-	247	35	-	35
Total liabilities	247	-	247	35	-	35

SECTION 7 – Net income from financial assets and liabilities measured at fair value – Item 110

7.1 Net changes in value of financial assets and liabilities measured at fair value: breakdown

Transactions/Income components	Gains	Profit from disposal	Losses	Losses from disposal	Net income
1. Financial assets	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-
1.3 UCI shares	-	-	-	-	-
1.4 Loans	-	-	-	-	-
2. Financial liabilities	10,125	-	(10,743)	-	(618)
2.1 Outstanding securities	10,125	-	(10,743)	-	(618)
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities in currency: exchange differences	X	X	X	X	-
4. Derivative instruments	674	-	-	-	674
4.1 Financial derivatives:	674	-	-	-	674
- on debt securities and interest rates	674	-	-	-	674
- on equity instruments and share indices	-	-	-	-	-
- on currency and gold	X	X	X	X	-
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total derivatives	674	-	-	-	674
Total	10,799	-	(10,743)	-	56

SECTION 8 – Net value adjustments/write-backs due to impairment – Item 130

8.1 Net value adjustments for impairment of receivables: breakdown

Transactions/ Income components	Value adjustments			Value adjustments				31/12/2006	31/12/2005
	Specific		Portfolio	Specific		Portfolio			
	Cancellations	Other		A	B	A	B		
A. Due from banks	-	-	-	-	-	-	-	-	-
B. Due from customers	(13,016)	(3,176)	(3,521)	1,634	11,851	-	-	(6,228)	(8,182)
C. Total	(13,016)	(3,176)	(3,521)	1,634	11,851	-	-	(6,228)	(8,182)

8.4 Net value adjustments for impairment of other financial transactions: breakdown

Transactions/ Income components	Value adjustments			Value adjustments				31/12/2006	31/12/2005
	Specific		Portfolio	Specific		Portfolio			
	Cancellations	Other		A	B	A	B		
A. Guarantees issued	-	(59)	-	-	-	-	-	(59)	-
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
E. Total	-	(59)	-	-	-	-	-	(59)	-

KEY

A = From interest

B = Other write-backs

SECTION 9 – Administrative costs – Item 150

9.1 Personnel costs: breakdown

Type of cost/Amounts	31/12/2006	31/12/2005
1. Employees	52,630	52,242
a) wages and salaries	36,761	35,533
b) social security contributions	9,957	9,994
c) staff severance indemnities	-	-
d) pension costs	4	4
e) provisions to staff severance indemnities	1,598	2,588
f) provisions to pension fund and similar	-	-
- to defined contribution plans	-	-
- to defined benefit plans	-	-
g) payments to additional external pension funds	2,299	2,198
- to defined contribution plans	2,299	2,198
- to defined benefit plans	-	-
h) costs resulting from payment agreements based on own equity instruments	-	-
i) other benefits in favour of employees	2,011	1,925
2. Other staff	15	127
3. Directors	534	519
Total	53,179	52,888

9.2 Average number of employees per category

	31/12/2006	31/12/2005
1. Employees	912	890
a) Senior managers	29	29
b) Line managers	242	234
<i>of which: 3rd and 4th level</i>	<i>100</i>	<i>98</i>
c) Remaining employees	641	627
2. Other staff	-	-
Total	912	890

9.5 Other administrative costs: breakdown

	31/12/2006	31/12/2005
1. Telephone, postal, data transmission and telex	2,061	2,110
2. Property, furniture and plant maintenance	2,094	2,514
3. Property rental	2,404	2,431
4. Security services	383	427
5. Transport	558	529
6. Fees for professional services	2,767	1,782
7. Office supplies	907	907
8. Electricity, heating and condominium fees	1,191	1,058
9. Advertising and entertainment	3,613	2,576
10. Legal fees for credit collection	1,012	878
11. Insurance premiums	946	942
12. Investigation and commercial information	632	534
13. Indirect taxes	258	225
14. Deductible VAT	-	-
15. Stamp duty and tax on stock exchange contracts	6,187	6,019
16. Office cleaning	1,201	1,149
17. Taxes and duties	1,874	1,464
18. Donations	180	187
19. Fees to statutory auditors	189	173
20. Vehicle circulation and travel/accommodation reimbursements	725	723
21. Equipment and software leasing charges	1,060	1,187
22. Reimbursement of treasury consortium costs	20	20
23. Membership fees	227	190
24. Loss on amounts due from Deposit Protection Fund	-	-
25. SEC-new project and SEC management costs	8,946	9,961
26. Other costs	216	162
Total	39,651	38,148

SECTION 10 – Net allocations to provisions for risks and charges – Item 160

10.1 Net allocations to provisions for risks and charges: breakdown

	31/12/2006	31/12/2005
a) Provisions for civil disputes, revocatory bankruptcy action and other charges	995	755
Total	995	755

SECTION 11 – Net value adjustments /write-backs of property, plant and equipment – Item 170

11.1 Net value adjustments of property, plant and equipment: breakdown

Asset/Income component	Depreciation	Value adjustments for impairment	Write-backs	Net income
A. Property, plant and equipment				
A.1 Owned	(9,796)	-	-	(9,796)
- for functional use	(9,796)	-	-	(9,796)
- for investment	-	-	-	-
A.2 Purchased on a finance lease	(640)	-	-	(640)
- for functional use	(640)	-	-	(640)
- for investment	-	-	-	-
Total	(10,436)	-	-	(10,436)

SECTION 12 – Net value adjustments /write-backs of intangible assets – Item 180**12.1 Net value adjustments of intangible assets: breakdown**

Asset/Income component	Amortisation	Value adjustments for impairment	Write-backs	Net income
A. Intangible assets				
A.1 Owned	(571)	-	-	(571)
- generated internally	-	-	-	-
- other	(571)	-	-	(571)
A.2 Purchased on a finance lease	-	-	-	-
Total	(571)	-	-	(571)

SECTION 13 – Other operating income and costs – Item 190**13.1 Other operating costs: breakdown**

	31/12/2006	31/12/2005
1. Differences in cash, property, plant and equipment and operations	(344)	(162)
2. Other costs	(89)	(205)
Total	(433)	(367)

13.1 Other operating income: breakdown

	31/12/2006	31/12/2005
1. Rent income from property and car-parks	243	450
2. Income from finance leases	-	-
3. Income from redemption of finance lease contracts	-	-
4. Recovery of management costs	4,276	3,955
5. Charges to third parties for various recoveries	7,301	6,983
6. Revaluation of Staff Severance Indemnity	12	18
7. Other income	385	2,149
Total	12,217	13,555

SECTION 14 – Profit (Loss) on equity investments – Item 210**14.1 Profit (Loss) on equity investments: breakdown**

Income component/Amounts	31/12/2006	31/12/2005
A. Income	285	-
1. Revaluations	-	-
2. Profit from disposals	285	-
3. Write-backs	-	-
4. Other positive changes	-	-
B. Costs	-	-
1. Write-downs	-	-
2. Value adjustments for impairment	-	-
3. Loss on disposals	-	-
4. Other negative changes	-	-
Net income	285	-

SECTION 15 – Net income from measurement at fair value of property, plant and equipment and intangible assets – Item 220

This section has not been completed.

SECTION 16 – Value adjustments to goodwill – Item 230

This section has not been completed.

SECTION 17 – Profit (Loss) on disposal of investments – Item 240**17.1 Profit (Loss) on disposal of investments: breakdown**

Income component/Amounts	31/12/2006	31/12/2005
A. Property	-	-
- Profit from disposal	-	-
- Loss from disposal	-	-
B. Other assets	17	(62)
- Profit from disposal	56	5
- Loss from disposal	(39)	(67)
Net income	17	(62)

SECTION 18 –Income tax for the year on current operations– Item 260

18.1 Income tax for the year on current operations: breakdown

Income component/Amounts	IRES	IRAP	31/12/2006	31/12/2005
1. Current taxes (-)	(15,728)	(4,707)	(20,435)	(15,207)
2. Changes in current taxes compared to previous years (+/-)	(26)	(3)	(29)	-
3. Reduction in current taxes for the year (+)	-	-	-	-
4. Changes in deferred tax assets taxes (+/-)	(1,316)	14	(1,302)	(991)
5. Changes in deferred tax liabilities (+/-)	39	(61)	(22)	45
6. Taxes for the year (-) (-1+/-2+3+/-4+/-5)	(17,031)	(4,757)	(21,788)	(16,153)

18.2 Reconciliation between theoretical tax and tax recorded on the financial statements

	IRES	%
IRES tax with application of nominal rate	16,783	33.00%
Tax-free losses on equity investments	12	0.02%
Non-deductible costs	499	0.98%
Total tax on increases	511	1.00%
Dividends	(129)	-0.25%
Tax-free profit and revaluations of equity investments	(111)	-0.22%
Other decreases	(23)	-0.05%
Total tax on decreases	(263)	-0.52%
IRES tax charged to the income statement	17,031	33.48%

	IRAP	%
IRAP tax with application of nominal rate	2,161	4.25%
Personnel costs	2,278	4.48%
Net adjustments on receivables	320	0.63%
Other increases	151	0.30%
Total tax on increases	2,749	5.41%
Dividends	(17)	-0.03%
Valuation of financial instruments	(14)	-0.03%
Other decreases	(122)	-0.24%
Total tax on decreases	(153)	-0.30%
IRAP tax charged to the income statement	4,757	9.36%

SECTION 19 – Profit (Loss) of groups of assets being disposed of net of tax – Item 280

This section has not been completed.

SECTION 20 – Other information**Collection of receivables on behalf of third parties: credit and debit adjustments**

	31/12/2006	31/12/2005
a) “Debit” adjustments	417,376	372,445
1. Current accounts	89,908	88,649
2. Central portfolio	311,097	262,138
3. Cash	15,961	21,192
4. Other accounts	410	466
b) “Credit” adjustments	442,794	401,472
1. Current accounts	164,242	154,688
2. Assignment of bills and documents	277,784	246,035
3. Other accounts	768	749

SECTION 21 – Earnings per share

The information required in this section and envisaged by IAS 33 Earnings per share, is only compulsory for listed companies, a category to which the Bank does not belong, as its shares are not listed on a regulated market such as the Stock Exchange.

In any event, it should be noted that the base earnings per share, calculated by dividing net income by the weighted average of ordinary shares in circulation, is 0.92.

Without considering the impact of dilution, diluted EPS is also assumed to be an equal value.

PART D

SEGMENT REPORTING

As envisaged by the provisions of circular no. 262 dated 22 December 2005, the Bank has taken the option of not drawing up the report in question.

PART E

INFORMATION ON RISKS AND RELATIVE HEDGING POLICIES

SECTION 1 – CREDIT RISK

QUALITATIVE INFORMATION

1. General considerations

The Bank's credit business offers support in the growth and consolidation of small and medium enterprises and to assist in family financing needs, with the main aim of supporting the development of local economies in areas covered by the Bank.

The credit policy adopted during the year was, in keeping with the general principles illustrated previously, marked by responding to the demands of private customers and companies, with special focus on the risk-yield ratio and adequate hedging, including via mortgages, particularly in relation to medium-long term exposures.

With regard to private customers, development activity concentrated on mortgages and personal loans, business segments characterised by a strong market demand and a complete, wide-ranging supply offered by the Bank.

For small enterprises, on the other hand, demand focused mainly on short term commitments, characterised by a high degree of risk spreading, whilst for medium and large enterprises the Bank increased its medium-term lending, particularly with regard to secured loans. In all cases, special focus was targeted on the selection of economic sectors, preferring those considered less at risk. Support provided to companies by means of special finance transactions should also be mentioned.

2. Credit risk management policies

2.1 Organisational aspects

Credit risk is the risk of incurring losses due to default by the counterparty. This is one of the Bank's main risk factors, affecting all financial activities, in particular loans, securities and all committed facilities in relation to guarantees issued or to fund distribution commitments. Its analysis mainly involves quality profiles of the debtors and risk concentration. In general, this is the risk that a counterparty defaults on fulfilment of assumed obligations (particularly the commitment to repay loans).

Country risk is also normally included under credit risks, i.e. the risk that a public or private debtor in a given country is affected by the political, economic or financial situation in that country.

Special departments have been created under the heading of credit risk monitoring to guarantee performance of the various supervisory controls, as specified in the Supervisory Instructions (Part IV, Chapter 11, Section II). Each type of task is supported by appropriate reporting procedures. Essentially, the credit risk monitoring processes comprise:

- "line monitoring", credit limit excess and unpaid instalment verification performed by branches by means of special procedures and periodic progress report analysis;
- "special monitoring", performed by the Credit Control Service within the central financial services department, with the aim of preventing insolvency mainly by taking preventive action to resolve anomalies. The Service ensures monitoring of positions "under observation", "problem loan", "restructured" and/or "credit exceeded by more than 90-180 days", stimulating regular direct risk management to avoid classification of the position as a "bad debt";
- audits, performed by Area/Internal Auditing Staff as part of their direct and remote auditing duties, for the purpose of verifying credit quality and conscious decision-making by the relevant departments responsible for allocating and managing credit.

2.2 Management, measurement and monitoring systems

The first and most important stage in credit risk measurement and management is performed at the time of allocation, particularly during the preliminary process to assess the credit rating of the borrower.

In the Banca Popolare dell'Alto Adige the preliminary stages of the credit line process consist in the following:

- collection of assessment elements and all documentation necessary to allow analysis of the potential credit line;
- analysis of the material collected in order to reach a final credit rating decision, making use of external databases.

It should be specified that the verifications/analysis performed on the applicant are likewise performed on any guarantors and, in the event of joint signatory, on other signatories.

The preliminary process is supported by different IT systems/organisational structures depending on the type of customer.

For private and small business customers, all branches of the Banca Popolare dell'Alto Adige have an internal rating system, i.e. an IT tool to verify credit ratings during the allocation stage of new credit lines, making use of internal and external IT sources integrated with the computerised credit line file. The decision whether or not to allocate the credit line as requested to this type of customer is in any event the responsibility of the branch or area office unless the amount is excessively high. For large amounts, the decision lies with the Central Offices (Credit Management, General Management, Loans Committee, Board of Directors), in accordance with Bank regulations on credit.

The decision to allocate credit to companies/institutional customers instead falls to credit managers up to an agreed maximum, or to the central offices mentioned previously if the amounts involved are higher. Credit line proposals for such customers must be accompanied by the Credit Department technical opinion formulated by the Credit Laboratory, a section of the Credit Department providing preliminary procedures, analysis, assessment and the administrative management of credit line files to the network, including special lending and credit, and guaranteeing the observance of both internal and external regulations. In this 2006 this section was subjected to internal reorganisation so as to increase the efficiency level of credit line file processing, defining a file analysis level compatible with the underlying risk.

With regard to exposure and concentration limits, it should be emphasised that the absolute credit limit that can be agreed per business group, individual non-banking counterparty or member of the banking group is established as 10% of the Regulatory Capital. This limit can however be raised at the complete discretion of the Board of Directors. Notwithstanding the above, rulings established by the Bank of Italy on the maximum credit limit for individual or group positions obviously remain implicit.

Among the credit risk monitoring and management tasks, use of the Risk Management System (SGR) is particularly important in allowing credit managers to verify developments in customer credit ratings and quickly identify positions under their control that show a drop in the rating. The process logistics of this system will be illustrated in greater detail in the paragraph on "Impaired financial assets". From a technical point of view, the SGR system is based on scoring that classifies customers according to credit risk.

The data managed by the internal rating system was subject to analysis/verification by the Risk Management Department. Based on this analysis, which proved the rating system's capacity to predict trends, adequate statistical procedures were implemented as from 2005, with subsequent and constant reviews during 2006 as new data became available, to indicate the likelihood of default within one year by the Bank's credit customers (the probability that a position examined is classed as problem loan or as a bad debt within twelve months).

To increase efficiency of the credit risk monitoring tools, as from 2006 portfolio credit risk for each manager, branch and area office is quantified according to expected loss, in turn calculated in relation to the customer distribution per rating class. This measurement is currently being streamlined to provide increasingly realistic measurement of actual credit risk trends.

2.3 Credit risk mitigation techniques

The main collateral security obtained by the Bank involves:

- mortgages on property
- pledges in cash or a variety of securities (treasury securities, bonds, investment funds, assets under management, insurance policies, certificates of deposit, securities in foreign currency, etc.). Also included are pledges on equity shares, commodities and futures.

With regard to management methods, the above-mentioned guarantees are acquired by means of a standard pledge agreement and by notary deed (for mortgages), and included in the "Credit and

Guarantees" procedure to allow their computerised management, control and monitoring. Personal guarantees are mainly issued by:

- individuals in favour of companies in which they are shareholders and/or directors;
- individuals in favour of family members;
- credit syndicates in favour of their associate companies/firms (subsequent to agreements stipulated with the Bank).

To a more limited extent, there are also personal guarantees by companies in favour of subsidiaries/associated companies and by financial institutions primarily in favour of companies.

An analysis of guarantee characteristics shows no particular degree of concentration of the various hedging/guarantee formats as the guarantees obtained, except in special cases, are essentially considered as "specific" to each individual position. Furthermore, in general, there are no contractual restrictions that could undermine their legal validity.

To conclude, as verification of the legal and operational effectiveness of the guarantees, an IT/organisational/legal system is used (computerised credit line file) providing online texts and help on the various guarantees in accordance with Italian Bankers' Association (ABI) regulations, including:

- operating procedures governed by national law, pronouncing and establishing regulations on values attributable to guarantees obtained (appraisals, confirmation/verification/monitoring of events with mass land registry searches, real-time online assessment of listed securities, etc.)
- verification of signature authenticity on the various guarantees (from company documents, "signed in the presence of" bank officers, confirmation by notary deed, etc.).

2.4 Impaired financial assets

As already described in the section on organisational aspects, alongside the sales network anomalous credit not classed as a bad debt is also monitored by the Credit Control Service, whose mission is "insolvency prevention". This service reports to the central financial services department and is composed of technical staff based in central office.

The main tool used to identify "anomalous" credit is the aforementioned Risk Management System (SGR), based on the "progressive rating" assigned to each customer. This monthly procedure analyses all customers, both private and company, with an open credit line of at least 500 Euro (maximum difference between credit and usage), attributing a rating to each customer, i.e. classifying customers according to insolvency probability, except for positions already classed as problem loans or non-performing loans, on a scale of 12 increasing risk levels (AAA, AA, A, BBB, BB, B, CCC, CC, C, DDD, DD and D+). This classification is temporary and covers a 6-12 month timespan. Based on the attributed rating, the SGR system recommends that the credit manager classifies the position under one of the following three categories: "performing" (BO), "under observation" (OS) or "high risk" (AR). For all positions not automatically classed as "performing" by the system, after assessment of the real position of the customer, the manager may:

- agree with the proposed classification and then establish an appropriate improvement plan
- disagree with the proposed classification, as the manager is aware of elements that justify postponement of the system recommendation, and therefore not proceed to implement improvement action.

The main newly introduced feature is therefore that managers are required to take an approach that no longer justifies customer anomalies, but rather adopts a preventive approach in view of the predictive capacity of the progressive rating which minimises the need to enforce collection.

The position normally remains "under observation" or "at high risk" for a maximum 12 months, after which the position is either reassessed as performing or a more serious classification is applied (problem loan or bad debt).

For "problem loan" or "bad debt" classifications, there are no automatic SGR procedures but rather the standard monitoring logistics implemented by the Credit Control Service.

Management of the Bank's bad debt positions and credit collection is assigned to the Service for Non-performing loans, forming part of the Legal Section of the Planning and Control Department. This service is provided by in-house legal advisors and by officers responsible for bad debt administrative and accounting duties.

The “bad debt” classification of credit is based on criteria established in the supervisory regulations. The inclusion of exposures under this category regards bankrupt entities, even if not yet legally confirmed, or in an essentially equivalent position, as a result of which legal or other action is taken to replan or recover the exposure.

Bad debt management is handled by a qualified section of the Bank which, for accounting processes, makes use of a computerised procedure implemented by all members of the SEC-Servizi syndicate and, for legal matters, by specialist in-house personnel. Debt collection activity is proactive and aims to optimise legal proceedings and maximise the financial result. In particular, with regard to assessment of the initiatives to be taken, in-house legal advisors prefer out-of-court action, often with recourse to settlement agreements, which have a positive impact on collection times and the level of costs sustained. Where this solution cannot be considered, especially for more significant positions and positions in which a higher level of collection can be expected, external legal advisors are appointed to instigate legal action which always constitutes a valid and fundamental coercive means to the debtor and a tool to resolve litigation. Credit that is minimal, irrecoverable or difficult to collect is generally treated en masse and subjected to disposal transactions without recourse, given that legal action would be considered uneconomic in cost-benefit terms.

For financial statements purposes, non-performing loans are subject to analytical assessment to define provisions for expected losses. For each position, and for each relationship within the position, the extent of the expected loss is calculated on the basis of debtor solvency, the type and value of the guarantee and the current status of proceedings. The estimates are always calculated using maximum prudence criteria and now, following introduction of IAS 39, also time discounting criteria. This complex assessment is facilitated by dividing the overall portfolio into like categories and according to the year of origin, in all cases taking into account the actual realisation values deriving from the personal and/or company assets of the debtor and guarantors.

The correct implementation of bad debt management and assessment is also ensured by periodic audits performed both internally, by the Area/Internal Auditing Staff, and externally by, amongst others, the Board of Statutory Auditors.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

A.1 IMPAIRED AND PERFORMING EXPOSURES: BALANCES, VALUE ADJUSTMENTS, CHANGES, ECONOMIC AND GEOGRAPHIC DISTRIBUTION

A.1.1 Financial asset distribution by related portfolio and by credit quality (book values)

Portfolio/Quality	Non-performing loans	Problem loans	Restructured exposures	Exposures past due	Country risk	Other assets	Total
1. Financial assets held for trading	-	-	-	-	-	566,368	566,368
2. Available-for-sale financial assets	-	-	-	-	-	10,313	10,313
3. Financial assets held to maturity	-	-	-	-	-	-	-
4. Due from banks	-	-	-	-	-	66,389	66,389
5. Due from customers	42,997	73,011	-	43,378	-	3,483,687	3,643,073
6. Financial assets measured at fair value	-	-	-	-	-	-	-
7. Financial assets held for disposal	-	-	-	-	-	-	-
8. Hedges	-	-	-	-	-	-	-
Total as at 31/12/2006	42,997	73,011	-	43,378	-	4,126,757	4,286,143
Total as at 31/12/2005	30,162	98,796	3,703	24,223	-	3,655,037	3,811,921

A.1.2 Financial asset distribution by related portfolio and by credit quality (gross and net values)

Portfolio/Quality	Impaired assets				Other assets			Total net exposure
	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Financial assets held for trading	-	-	-	-	X	X	566,368	566,368
2. Available-for-sale financial assets	-	-	-	-	10,313	-	10,313	10,313
3. Financial assets held to maturity	-	-	-	-	-	-	-	-
4. Due from banks	-	-	-	-	66,389	-	66,389	66,389
5. Due from customers	195,963	36,237	340	159,386	3,506,162	22,475	3,483,687	3,643,073
6. Financial assets measured at fair value	-	-	-	-	X	X	-	-
7. Financial assets held for disposal	-	-	-	-	-	-	-	-
8. Hedges	-	-	-	-	X	X	-	-
Total as at 31/12/2006	195,963	36,237	340	159,386	4,149,232	22,475	4,126,757	4,286,143
Total as at 31/12/2005	196,724	39,668	172	156,884	3,674,158	19,121	3,655,037	3,811,921

A.1.3 Cash and off-balance sheet exposure for amounts due from banks: gross and net values

Exposure type/Values	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. CASH EXPOSURE				
a) Non-performing loans	-	-	-	-
b) Problem loans	-	-	-	-
c) Restructured exposures	-	-	-	-
d) Exposures past due	-	-	-	-
e) Country risk	-	-	-	-
f) Other assets	361,531	-	-	361,531
TOTAL A	361,531	-	-	361,531
B. OFF-BALANCE SHEET EXPOSURES				
a) Impaired	-	-	-	-
b) Other	11,578	-	-	11,578
TOTAL B	11,578	-	-	11,578

A.1.6 Cash and off-balance sheet exposure from amounts due from customers: gross and net values

Exposure type/Values	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. CASH EXPOSURE				
a) Non-performing loans	71,365	28,368	-	42,997
b) Problem loans	80,880	7,869	-	73,011
c) Restructured exposures	-	-	-	-
d) Exposures past due	43,718	-	340	43,378
e) Country risk	-	-	-	-
f) Other assets	3,784,779	-	22,475	3,762,304
TOTAL A	3,980,742	36,237	22,815	3,921,690
B. OFF-BALANCE SHEET EXPOSURES				
a) Impaired	13,393	-	-	13,393
b) Other	886,482	-	-	886,482
TOTAL B	899,875	-	-	899,875

A.1.7 Cash exposures from due from customers: changes in gross impaired exposures and exposures subject to “country risk”

Reasons/Categories	Non-performing loans	Problem loans	Restructured exposures	Exposures past due	Country risk
A. Gross opening exposure	56,868	110,441	5,020	24,395	-
<i>of which: exposures sold and not cancelled</i>	-	-	-	-	-
B. Increases	37,298	30,192	-	59,773	-
B.1 Transferred from performing loans	9,217	24,558	-	53,418	-
B.2 Transferred from other categories of impaired exposures	26,714	4,049	-	-	-
B.3 Other increases	1,367	1,585	-	6,355	-
C. Decreases	22,801	59,753	5,020	40,450	-
C.1 Transferred to performing loans	1,374	25,414	-	28,276	-
C.2 Cancellations	12,843	173	-	-	-
C.3 Collections	8,584	8,453	5,020	5,853	-
C.4 Sale proceeds	-	-	-	-	-
C.5 Transferred to other categories of impaired exposures	-	25,713	-	5,050	-
C.6 Other decreases	-	-	-	1,271	-
D. Gross closing exposure	71,365	80,880	-	43,718	-
<i>of which: exposures sold and not cancelled</i>	-	-	-	-	-

A.1.8 Cash exposures from due from customers: changes in overall value adjustments

Reasons/Categories	Non-performing loans	Problem loans	Restructured exposures	Exposures past due	Country risk
A. Overall opening adjustments	26,706	11,645	1,317	172	-
<i>of which: exposures sold and not cancelled</i>	-	-	-	-	-
B. Increases	16,383	2,641	-	168	-
B.1 Value adjustments	11,564	2,641	-	168	-
B.2 Transferred from other categories of impaired exposures	4,819	-	-	-	-
B.3 Other increases	-	-	-	-	-
C. Decreases	14,721	6,417	1,317	-	-
C.1 Write-back from valuation	4,115	999	817	-	-
C.2 Write-back from collection	2,478	599	500	-	-
C.3 Cancellations	8,128	-	-	-	-
C.4 Transferred to other categories of impaired exposures	-	4,819	-	-	-
C.5 Other decreases	-	-	-	-	-
D. Overall closing adjustments	28,368	7,869	-	340	-
<i>of which: exposures sold and not cancelled</i>	-	-	-	-	-

A.2 EXPOSURE CLASSIFICATION BASED ON INTERNAL AND EXTERNAL RATINGS

No supporting information is provided for this section in that the total of externally-rated exposures is minimal.

A.3 DISTRIBUTION OF GUARANTEED EXPOSURES BY GUARANTEE TYPE

A.3.1 Guaranteed cash exposures from amounts due from banks and from customers

	Exposure value	Real guarantees (1)			Personal guarantees (2)								Total (1)+(2)	
		Property	Securities	Other assets	Credit derivatives				Credit commitments					
					Governments	Other public authorities	Banks	Other entities	Governments	Other public authorities	Banks	Other entities		
1.														
<i>Guaranteed exposures from amounts due from banks:</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.1 fully guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 part guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.														
<i>Guaranteed exposures from amounts due from customers:</i>	2,313,851	1,494,895	25,700	30,930	-	-	-	-	-	1,150	2,103	692,546	2,247,324	
2.1 fully guaranteed	2,092,038	1,441,273	18,429	30,626	-	-	-	-	-	885	1,953	598,872	2,092,038	
2.2 part guaranteed	221,813	53,622	7,271	304	-	-	-	-	-	265	150	93,674	155,286	

A.3.2 Guaranteed off-balance sheet exposures from amounts due from banks and from customers

	Exposure value	Real guarantees (1)			Personal guarantees (2)								Total (1)+(2)	
		Property	Securities	Other assets	Credit derivatives				Credit commitments					
					Governments	Other public authorities	Banks	Other entities	Governments	Other public authorities	Banks	Other entities		
1.														
<i>Guaranteed exposures from amounts due from banks:</i>	3,088	-	-	-	-	-	-	-	-	3,088	-	-	-	3,088
1.1 fully guaranteed	3,088	-	-	-	-	-	-	-	-	3,088	-	-	-	3,088
1.2 part guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.														
<i>Guaranteed exposures from amounts due from customers:</i>	230,896	22,836	3,203	22	-	-	-	-	-	-	616	195,737	222,414	
2.1 fully guaranteed	213,200	21,557	2,774	22	-	-	-	-	-	-	616	188,231	213,200	
2.2 part guaranteed	17,696	1,279	429	-	-	-	-	-	-	-	-	7,506	9,214	

A.3.3 Guaranteed impaired cash exposures from amounts due from banks and from customers

	Exposure value	Total guaranteed	Guarantees (fair value)																	Total	Fair value surplus on guarantee			
			Real guarantees			Personal guarantees																		
			Property	Securities	Other assets	Credit derivatives						Credit commitments												
						Governments and central banks	Other public authorities	Banks	Finance companies	Insurance companies	Non-financial companies	Other entities	Governments and central banks	Other public authorities	Banks	Finance companies	Insurance companies	Non-financial companies	Other entities					
1. <i>Guaranteed exposures from amounts due from banks:</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
1.1 over 150%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 between 100% and 150%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.3 between 50% and 100%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.4 50% or less	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. <i>Guaranteed exposures from amounts due from customers:</i>	140,852	139,377	116,073	2,161	-	-	-	-	-	-	-	-	-	-	-	-	1,394	-	3,732	16,017	139,377	226,425		
2.1 over 150%	84,727	84,727	80,985	151	-	-	-	-	-	-	-	-	-	-	-	-	201	-	236	3,154	84,727	209,282		
2.2 between 100% and 150%	16,216	16,216	11,340	205	-	-	-	-	-	-	-	-	-	-	-	-	224	-	1,031	3,416	16,216	12,792		
2.3 between 50% and 100%	37,979	37,352	23,685	1,794	-	-	-	-	-	-	-	-	-	-	-	-	935	-	2,408	8,530	37,352	4,227		
2.4 50% or less	1,930	1,082	63	11	-	-	-	-	-	-	-	-	-	-	-	-	34	-	57	917	1,082	124		

A.3.4 Guaranteed impaired off-balance sheet exposures from amounts due from banks and from customers

	Exposure value	Total guaranteed	Guarantees (fair value)																	Total	Fair value surplus on guarantee				
			Real guarantees			Personal guarantees																			
			Property	Securities	Other assets	Credit derivatives							Credit commitments												
						Government and central banks	Other public authorities	Banks	Finance companies	Insurance companies	Non-financial companies	Other entities	Government and central banks	Other public authorities	Banks	Finance company	Insurance company	Non-financial companies	Other entities						
1. <i>Guaranteed exposures from amounts due from banks:</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
1.1 over 150%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 between 100% and 150%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.3 between 50% and 100%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.4 50% or less	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. <i>Guaranteed exposures from amounts due from customers:</i>	7,360	7,327	1,002	22	-	-	-	-	-	-	-	-	-	-	-	-	-	744	5,559	7,327	2,751				
2.1 over 150%	109	109	61	4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	44	109	2,746				
2.2 between 100% and 150%	32	32	-	9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	23	32	5				
2.3 between 50% and 100%	7,196	7,163	941	9	-	-	-	-	-	-	-	-	-	-	-	-	-	744	5,469	7,163	-				
2.4 50% or less	23	23	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	23	23	-				

B. DISTRIBUTION AND CONCENTRATION OF CREDIT

B.1 Segment distribution of cash and off-balance sheet exposure from amounts due from customers

Exposures/counterparties	Governments and central banks				Other public authorities				Finance companies				Insurance companies				Non-financial companies				Other entities			
	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. Cash exposures																								
A.1 Non-performing loans	-	-	-	-	-	-	-	-	280	(137)	-	143	-	-	-	-	50,090	(22,198)	-	27,892	20,995	(6,033)	-	14,962
A.2 Problem loans	-	-	-	-	-	-	-	-	1,878	-	-	1,878	1,276	-	-	1,276	58,490	(5,659)	-	52,831	19,236	(2,210)	-	17,026
A.3 Restructured exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(171)	-
A.4 Exposures past due	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	1	21,885	-	(169)	21,716	21,832	-	(5,650)	21,661
A.5 Other exposures	76,215	-	-	76,215	8,237	-	(18)	8,219	161,106	-	(227)	160,879	86,664	-	-	86,664	2,321,269	-	(16,581)	2,304,688	1,131,289	-	-	1,125,639
Total	76,215	-	-	76,215	8,237	-	(18)	8,219	163,264	(137)	(227)	162,900	87,941	-	-	87,941	2,451,734	(27,857)	(16,750)	2,407,127	1,193,352	(8,243)	(5,821)	1,179,288
B. Off-balance sheet exposures																								
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,263	-	-	1,263	6	-	-	6
B.2 Problem loans	-	-	-	-	-	-	-	-	11	-	-	11	6	-	-	6	8,849	-	-	8,849	1,248	-	-	1,248
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,188	-	-	2,188	370	-	-	370
B.5 Other exposures	-	-	-	-	4,583	-	-	4,583	7,054	-	-	7,054	125	-	-	125	583,824	-	-	583,824	290,348	-	-	290,348
Total	-	-	-	-	4,583	-	-	4,583	7,065	-	-	7,065	131	-	-	131	596,124	-	-	596,124	291,972	-	-	291,972
Total as at 31/12/2006	76,215	-	-	76,215	12,820	-	(18)	12,802	170,329	(137)	(227)	169,965	88,072	-	-	88,072	3,047,858	(27,857)	(16,750)	3,003,251	1,485,324	(8,243)	(5,821)	1,471,260
Total as at 31/12/2005	60,759	-	-	60,759	10,220	-	(14)	10,206	135,788	(109)	(181)	135,498	70,212	-	-	70,212	2,439,669	(30,708)	(14,303)	2,394,658	1,189,739	(8,852)	(4,795)	1,176,092

B.2 Distribution of loans to resident non-financial companies

		31/12/2006	31/12/2005
a) Business branch 1	- Other sales-related services	524,549	346,404
b) Business branch 2	- Building and public works	466,906	331,917
c) Business branch 3	- Wholesale & retail trade, salvage and repairs	445,316	330,469
d) Business branch 4	- Services and hotels	385,291	303,669
e) Business branch 5	- Agriculture, forestry and fishing	108,861	90,720
f) Other branches		432,415	382,619
Total		2,363,338	1,785,798

B.3 Geographic distribution of cash and off-balance sheet exposure from amounts due from customers

Exposures/Geographic areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. Cash exposures										
A.1 Non-performing loans	71,365	42,964	33	33	-	-	-	-	-	-
A.2 Problem loans	80,880	73,011	-	-	-	-	-	-	-	-
A.3 Restructured exposures	-	-	-	-	-	-	-	-	-	-
A.4 Exposures past due	43,630	43,291	88	88	-	-	-	-	-	-
A.5 Other exposures	3,653,714	3,631,560	116,050	115,765	9,308	9,304	-	-	5,674	5,674
TOTAL	3,849,589	3,790,826	116,171	115,886	9,308	9,304	-	-	5,674	5,674
B. Off-balance sheet exposures										
B.1 Non-performing loans	1,269	1,269	-	-	-	-	-	-	-	-
B.2 Problem loans	10,114	10,114	-	-	-	-	-	-	-	-
B.3 Other impaired assets	2,558	2,558	-	-	-	-	-	-	-	-
B.5 Other exposures	877,527	877,527	8,300	8,300	107	107	-	-	-	-
TOTAL	891,468	891,468	8,300	8,300	107	107	-	-	-	-
Total A + B as at 31/12/2006	4,741,057	4,682,294	124,471	124,186	9,415	9,411	-	-	5,674	5,674
Total as at 31/12/2005	3,787,754	3,729,087	105,482	105,190	8,189	8,186	-	-	4,962	4,962

B.4 Geographic distribution of cash and off-balance sheet exposure from amounts due from banks

Exposures/Geographic areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	U L O S S	Z E R O X	U L O S S	Z E R O X	U L O S S	Z E R O X	U L O S S	Z E R O X	U L O S S	Z E R O X
A. Cash exposures										
A.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
A.2 Problem loans	-	-	-	-	-	-	-	-	-	-
A.3 Restructured exposures	-	-	-	-	-	-	-	-	-	-
A.4 Exposures past due	-	-	-	-	-	-	-	-	-	-
A.5 Other exposures	257,912	257,912	63,411	63,411	20,821	20,821	159	159	19,227	19,227
TOTAL	257,912	257,912	63,411	63,411	20,821	20,821	159	159	19,227	19,227
B. Off-balance sheet exposures										
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
B.2 Problem loans	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.5 Other exposures	5,146	5,146	4,080	4,080	2,352	2,352	-	-	-	-
TOTAL	5,146	5,146	4,080	4,080	2,352	2,352	-	-	-	-
Total A + B as at 31/12/2006	263,058	263,058	67,491	67,491	23,173	23,173	159	159	19,227	19,227
Total as at 31/12/2005	260,091	260,091	68,995	68,995	24,424	24,424	155	155	18,758	18,758

B.5 Significant exposures

		31/12/2006	31/12/2005
a) total		168,109	193,748
b) number		3	4

As at 31/12/2006 there are 3 positions that constitute "significant exposures" for an overall total of 168,109 thousand Euro. One position of 52,050 thousand Euro relates to investments in asset management companies
As at 31/12/2005 there were 4 positions controlled by the Bank for a total of 193,748 thousand Euro.

C. SECURITISATION AND ASSET DISPOSAL TRANSACTIONS

C.1 SECURITISATION TRANSACTIONS

QUALITATIVE INFORMATION

The first securitisation transaction was completed in the final months of FY 2006 and involved the disposal without recourse of performing loans, comprising mortgages to individuals, to a newly formed SPV (Voba Finance s.r.l.). To finance loan purchases, Voba Finance s.r.l. collects funds on the capital market through the issue of negotiable securities.

The key objective is to obtain liquidity under favourable conditions. Securitisation achieves the opposite objectives to the issue of bonds. In the latter case, capital is traded for the entire duration of the loan as a substantial guarantee to subscribers, whereas in the former case the capital is freed up, turning the previously traded loans into cash.

For the securitisation transaction we undersigned a specific servicing agreement with the SPV Voba Finance S.r.l. to coordinate and supervise the management and administration of the securitised mortgages, along with credit collection in the event of default by the debtors. An ad hoc credit control system was arranged for the securitised loans to guarantee constant and timely monitoring.

The agreement calls for the payment of an annual fee for the servicing performed and compensation for every file subject to credit collection.

It should be specified that the role of servicer is provided from within the company structure, i.e. by the Credit Management Service, reporting to the central financial services department. Monthly and quarterly reports are prepared and issued to the counterparties indicated in the servicing agreement, and copied to central management.

With regard to credit risk management, however, reference should be made to the general Bank activities relating to credit management.

Acting not only as originator but also as servicer, we maintain relations with the customers transferred.

The portfolio subject to disposal had the following characteristics:

- SPV:	Voba Finance s.r.l.
- Bank interest in the SPV:	0%
- Loans disposal date:	30/09/2006
- Type of loans transferred:	Mortgages
- Status of loans transferred:	Performing
- Guarantees on the loans transferred:	First to sixth mortgages
- Geographic area of loans transferred:	Northern Italy
- Business of debtors transferred:	Individuals
- Number of loans transferred:	4,014
- Price of loans transferred:	378,249,095.23 Euro
- Par value of loans transferred:	378,249,095.23 Euro

The transaction arranger, appointed by the originator, was the Milan branch of Natixis S.A, Paris. The appointed rating agency for the transaction was Moody's Italia srl – Milan and Fitch Ratings of London. Cash manager and calculation agent tasks are performed by Deutsche Bank AG, London, whilst Deutsche Trustee Company Limited, London acts as representative of the noteholders.

The characteristics of the securities issued and listed on the Dublin stock exchange are as follows:

Tranche	Fitch/Moody's rating	Percentage	Total (in Euro)
Class A1	AAA/Aaa	17	64,300,000
Class A2	AAA/Aaa	78	295,050,000
Class B	A/A2	1.5	5,650,000
Class C	BBB/Baa2	1.5	5,650,000
Class D*	-	2	7,600,000
Total		100.00	378,250,000

* Class D subscribed by the Banca Popolare dell'Alto Adige

To guarantee a sufficient liquidity margin for the SPV, we stipulated a "subordinated loan agreement" with Voba Finance S.r.l. for a total of 30,000,000 Euro as cash reserve, with repayment at market rates.

QUANTITATIVE INFORMATION

C.1.1 Exposures from securitisation transactions according to the quality of the underlying assets

Underlying asset quality/Exposures	Cash exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. With underlying Bank assets:	-	-	-	-	7,600	7,600	-	-	-	-	-	-	-	-	-	-	-	-
a) Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	-	-	-	-	7,600	7,600	-	-	-	-	-	-	-	-	-	-	-	-
B. With underlying third party assets:	2,507	2,507	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
a) Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	2,507	2,507	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.1.2 Exposures from main Bank securitisation transactions according to securitised asset type and exposure type

Securitised asset type/Exposures	Cash exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Value adjustments/writes	Book value	Value adjustments/writes	Book value	Value adjustments/writes	Book value	Value adjustments/writes	Book value	Value adjustments/writes	Book value	Value adjustments/writes	Book value	Value adjustments/writes	Book value	Value adjustments/writes	Book value	Value adjustments/writes
A. Subject to full cancellation from the balance sheet	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Subject to part cancellation from the balance sheet	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Not cancelled from the balance sheet	-	-	-	-	7,600	-	-	-	-	-	-	-	-	-	-	-	-	-
C.1 VOBA Finance s.r.l.	-	-	-	-	7,600	-	-	-	-	-	-	-	-	-	-	-	-	-
- Mortgages	-	-	-	-	7,600	-	-	-	-	-	-	-	-	-	-	-	-	-

C.1.3 Exposures from main third party securitisation transactions according to securitised asset type and exposure type

Underlying asset type/Exposures	Cash exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Value adjustments/writes	Book value	Value adjustments/writes	Book value	Value adjustments/writes	Book value	Value adjustments/writes	Book value	Value adjustments/writes	Book value	Value adjustments/writes	Book value	Value adjustments/writes	Book value	Value adjustments/writes	Book value	Value adjustments/writes
A.1 CREDICO 10.12.09 TV - Securities	2,507	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.1.5 Overall total of securitised assets underlying Junior securities or other credit support formats

Assets/Values	Traditional securitisations	Synthetic securitisations
A. Underlying Bank assets:	7,600	-
A.1 Subject to full cancellation	-	-
1. Non-performing loans	-	X
2. Problem loans	-	X
3. Restructured exposures	-	X
4. Exposures past due	-	X
5. Other assets	-	X
A.2 Subject to part cancellation	-	X
1. Non-performing loans	-	X
2. Problem loans	-	X
3. Restructured exposures	-	X
4. Exposures past due	-	X
5. Other assets	-	X
A.3 Not cancelled	7,600	-
1. Non-performing loans	-	-
2. Problem loans	-	-
3. Restructured exposures	-	-
4. Exposures past due	-	-
5. Other assets	7,600	-
B. Underlying third party assets:	-	-
B.1 Non-performing loans	-	-
B.2 Problem loans	-	-
B.3 Restructured exposures	-	-
B.4 Exposures past due	-	-
B.5 Other assets	-	-

C.1.6 Interest in the SPV

Name	Registered office	% interest
VOBA Finance S.r.l.	Milan	0%

C.1.7 Servicer activities – collection of securitised loans and redemption of SPV-issued securities

SPV	Securitized assets (end of year figure)		Credit collections completed during the year		Percentage of securities redeemed (end of year figure)					
	Impaired	Performing	Impaired	Performing	Senior		Mezzanine		Junior	
					Impaired assets	Performing assets	Impaired assets	Performing assets	Impaired assets	Performing assets
VOBA Finance S.r.l.	-	366,730	-	11,520	-	-	-	-	-	-

Transactions with underlying third party assets

With regard to the Bank's management of its own portfolio, it should be mentioned that an investment in securities from third party securitisations was performed for a total par value as at 31 December 2006 of approximately 2.5 million Euro. The security concerned is represented by senior tranches with a triple-A rating.

C.2 ASSET DISPOSAL TRANSACTIONS

C.2.1 Financial assets sold and not cancelled

Technical/portfolio formats	Financial assets held for trading			Financial assets measured at fair value			Available-for-sale financial assets			Financial assets held to maturity			Due from banks			Due from customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31/12/06	31/12/05
A. Cash assets	133,048	-	-	-	-	-	-	-	-	-	-	-	-	-	-	367,427	-	-	500,475	-
1. Debt securities	133,048	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	133,048	-
2. Equity securities	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
3. UCI	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	367,427	-	-	367,427	-
5. Impaired assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Derivatives	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
Total as at 31/12/2006	133,048	-	-	-	-	-	-	-	-	-	-	-	-	-	-	367,427	-	-	500,475	-
Total as at 31/12/2005	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Key:

A = financial assets sold and recognised in full (book value)

B = financial assets sold and part recognised (book value)

C = financial assets sold and part recognised (full value)

C.2.2 Financial liabilities relating to financial assets sold but not cancelled

Liability/Asset portfolio	Financial assets held for trading	Financial assets measured at fair value	Available-for-sale financial assets	Financial assets held to maturity	Due from banks	Due from customers	Total
1. Due to customers	-	-	-	-	-	356,163	356,163
a) in relation to assets recognised in full	-	-	-	-	-	356,163	356,163
a) in relation to assets recognised in part	-	-	-	-	-	-	-
2. Due to banks	-	-	-	-	-	-	-
a) in relation to assets recognised in full	-	-	-	-	-	-	-
a) in relation to assets recognised in part	-	-	-	-	-	-	-
Total as at 31/12/2006	-	-	-	-	-	356,163	356,163
Total as at 31/12/2005	-	-	-	-	-	-	-

D. CREDIT RISK MEASUREMENT MODELS

SECTION 2 – MARKET RISK

2.1 INTEREST RATE RISK – TRADING PORTFOLIO ADEQUACY

QUALITATIVE INFORMATION

A. General considerations

Interest rate risk represents the risk relating to the possibility that the Bank suffers losses as a result of adverse market rate performance. For the measurement and monitoring of interest rate risk on the Bank's trading portfolio, all three types of interest rate risk as indicated below are identified and taken into consideration:

- position risk: linked to an absolute change in the forward structure of interest rates on the value of a portfolio position (parallel changes in the yield curve);
- yield curve and base risk. The first identifies risks relating to the value of the different components of a position or portfolio as a result of a related change in the interest rate structure, whilst the second derives from an imperfect match between position components;
- credit spread risk: deriving from changes in bond prices and credit derivatives linked to unexpected changes in the issuer's credit rating.

B. Interest rate risk management processes and measurement methods

Interest rate risk is managed by the Treasury Service responsible for the purchase and sale of bonds and the set-up of positions in derivatives (futures, IRS, swap options), primarily listed.

Their management aims to achieve absolute return objectives, within the annual and monthly Value-at-Risk and Stop-Loss limits established each year by the Finance Committee and resolved by the Board of Directors, as illustrated in greater detail in paragraph 2.3.B below.

QUANTITATIVE INFORMATION

1. Trading portfolio adequacy: distribution by residual life (re-pricing date) of financial cash assets and liabilities and financial derivatives

Currency 242 Euro

Type/Residual life	On demand	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Unlimited
1. Cash assets	11,735	246,949	89,043	34,992	1,213	3,922	94,301	-
1.1 Debt securities	11,735	246,949	89,043	34,992	1,022	3,922	4,042	-
- with early redemption option	468	175,929	41,668	23,143	97	3,916	2	-
- other	11,267	71,020	47,375	11,849	925	6	4,040	-
1.2 Other assets	-	-	-	-	191	-	90,259	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Third party liabilities	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	106	(10,257)	1,889	103	399	5,566	2,194	-
3.1 With underlying security	106	(10,257)	1,889	103	399	5,566	2,194	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	106	(10,257)	1,889	103	399	5,566	2,194	-
+ Long positions	106	5,515	1,889	103	399	5,566	2,194	-
+ Short positions	-	(15,772)	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

Currency 001 US Dollar

Type/Residual life	On demand	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Unlimited
1. Cash assets	-	8	-	-	9	4	-	-
1.1 Debt securities	-	8	-	-	9	4	-	-
- with early redemption option	-	-	-	-	3	4	-	-
- other	-	8	-	-	6	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Third party liabilities	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	110	(506)	-	225	57	12	-
3.1 With underlying security	-	(294)	-	-	225	57	12	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	(294)	-	-	225	57	12	-
+ Long positions	-	-	-	-	225	57	12	-
+ Short positions	-	(294)	-	-	-	-	-	-
3.2 Without underlying security	-	404	(506)	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	404	(506)	-	-	-	-	-
+ Long positions	-	14,305	576	-	-	-	-	-
+ Short positions	-	(13,901)	(1,082)	-	-	-	-	-

Currency 002 GB Pound

Type/Residual life	On demand	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Unlimited
1. Cash assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Third party liabilities	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	5	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	298	-	-	-	-	-	-
+ Short positions	-	(298)	-	-	-	-	-	-
3.2 Without underlying security	-	5	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	5	-	-	-	-	-	-
+ Long positions	-	302	-	-	-	-	-	-
+ Short positions	-	(297)	-	-	-	-	-	-

Currency 003 Swiss Franc

Type/Residual life	On demand	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Unlimited
1. Cash assets	-	-	-	6	-	-	-	-
1.1 Debt securities	-	-	-	6	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	6	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Third party liabilities	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	9,895	-	(9,919)	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	9,895	-	(9,919)	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	9,895	-	(9,919)	-	-	-	-
+ Long positions	-	47,107	-	-	-	-	-	-
+ Short positions	-	(37,212)	-	(9,919)	-	-	-	-

Currency 012 Canadian Dollar

Type/Residual life	On demand	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Unlimited
1. Cash assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Third party liabilities	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	18	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	18	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	18	-	-	-	-	-	-
+ Long positions	-	21	-	-	-	-	-	-
+ Short positions	-	(3)	-	-	-	-	-	-

Currency 071 Japanese Yen

Type/Residual life	On demand	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Unlimited
1. Cash assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Third party liabilities	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	67	-	2	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	67	-	2	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	67	-	2	-	-	-	-
+ Long positions	-	13,820	-	249	-	-	-	-
+ Short positions	-	(13,753)	-	(247)	-	-	-	-

Currency Other

Type/Residual life	On demand	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Unlimited
1. Cash assets	-	-	-	-	5	-	-	-
1.1 Debt securities	-	-	-	-	5	-	-	-
- with early redemption option	-	-	-	-	5	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Third party liabilities	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	(100)	-	41	65	-	-	-
3.1 With underlying security	-	(106)	-	41	65	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	(106)	-	41	65	-	-	-
+ Long positions	-	85	-	41	65	-	-	-
+ Short positions	-	(191)	-	-	-	-	-	-
3.2 Without underlying security	-	6	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	6	-	-	-	-	-	-
+ Long positions	-	4,166	-	-	-	-	-	-
+ Short positions	-	(4,160)	-	-	-	-	-	-

2.2 INTEREST RATE RISK – BANKING BOOK

QUALITATIVE INFORMATION

2.2 Interest rate risk – Banking book

A. General considerations, interest rate risk management processes and measurement methods

The Banking Book is the series of Bank trading operations in relation to the maturities conversion of all balance sheet, treasury and hedging assets and liabilities. Changes in market rate structure can have adverse effects on the Banking Book (interest margin and capital) and are therefore a source of risk.

The Bank's Banking Book management and investment strategies are in keeping with optimisation of the risk-yield ratio and are implemented according to expected interest rate performance. The Bank's investment policy is therefore focused on optimising interest rate margins and minimising their volatility, bearing in mind Asset & Liability Management needs.

The measurement of Banking Book sensitivity to changes in the interest rate structure indicates a liability-sensitive profile for the Bank, i.e. exposure to interest rate risk only if market rates reduce.

QUANTITATIVE INFORMATION

1. Banking Book: distribution by residual life (re-pricing date) of financial assets and liabilities

Currency 242 Euro

Type/Residual life	On demand	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Unlimited
1. Cash assets	99,133	335,737	168,003	149,832	627,417	308,177	281,143	1,306,808
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Due from banks	30,210	6,048	-	-	-	-	-	2,891
1.3 Due from customers	68,923	329,689	168,003	149,832	627,417	308,177	281,143	1,303,917
- current accounts	-	21,345	51,493	25,675	10,257	-	-	1,303,890
- other loans	68,923	308,344	116,510	124,157	617,160	308,177	281,143	27
- with early redemption option	12,216	80,137	81,693	87,158	482,901	308,177	281,143	-
- other	56,707	228,207	34,817	36,999	134,259	-	-	27
2. Cash liabilities	957,645	825,229	336,810	53,111	151,670	-	36,872	1,123,638
2.1 Due to customers	298,380	98,813	22,145	4,619	7,828	-	34,845	1,123,638
- current accounts	719	7,117	566	2,455	51	-	-	1,123,631
- other liabilities	297,661	91,696	21,579	2,164	7,777	-	34,845	7
- with early redemption option	-	-	-	-	-	-	-	-
- other	297,661	91,696	21,579	2,164	7,777	-	34,845	7
2.2 Due to banks	136,481	126,706	-	-	-	-	-	-
- current accounts	19,482	-	-	-	-	-	-	-
- other liabilities	116,999	126,706	-	-	-	-	-	-
2.3 Debt securities	522,784	599,710	314,665	48,492	143,842	-	2,027	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	522,784	599,710	314,665	48,492	143,842	-	2,027	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	(382,988)	40,400	16,500	41,100	282,188	-	2,800	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	(382,988)	40,400	16,500	41,100	282,188	-	2,800	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	(382,988)	40,400	16,500	41,100	282,188	-	2,800	-
+ Long positions	5,000	128,801	19,500	53,100	282,188	-	2,800	-
+ Short positions	(387,988)	(88,401)	(3,000)	(12,000)	-	-	-	-

Currency 001 US Dollar

Type/Residual life	On demand	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Unlimited
1. Cash assets	-	4,013	186	-	-	-	-	13,288
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Due from banks	-	-	-	-	-	-	-	13,273
1.3 Due from customers	-	4,013	186	-	-	-	-	15
- current accounts	-	-	-	-	-	-	-	15
- other loans	-	4,013	186	-	-	-	-	-
- with early redemption option	-	4,013	186	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Cash liabilities	4,716	7,617	-	-	-	-	-	5,377
2.1 Due to customers	4,716	-	-	-	-	-	-	5,377
- current accounts	-	-	-	-	-	-	-	5,377
- other liabilities	4,716	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	4,716	-	-	-	-	-	-	-
2.2 Due to banks	-	7,617	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other liabilities	-	7,617	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

Currency 002 GB Pound

Type/Residual life	On demand	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Unlimited
1. Cash assets	-	-	-	-	-	-	-	325
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Due from banks	-	-	-	-	-	-	-	325
1.3 Due from customers	-	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other loans	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Cash liabilities	306	-	-	-	-	-	-	84
2.1 Due to customers	240	-	-	-	-	-	-	84
- current accounts	-	-	-	-	-	-	-	84
- other liabilities	240	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	240	-	-	-	-	-	-	-
2.2 Due to banks	66	-	-	-	-	-	-	-
- current accounts	66	-	-	-	-	-	-	-
- other liabilities	-	-	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

Currency 003 Swiss Franc

Type/Residual life	On demand	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Unlimited
1. Cash assets	5,267	40,291	14,286	149	-	-	-	148
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Due from banks	4,998	-	-	-	-	-	-	137
1.3 Due from customers	269	40,291	14,286	149	-	-	-	11
- current accounts	-	-	-	-	-	-	-	11
- other loans	269	40,291	14,286	149	-	-	-	-
- with early redemption option	269	40,291	14,286	149	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Cash liabilities	994	58,899	-	-	-	-	-	651
2.1 Due to customers	994	-	-	-	-	-	-	651
- current accounts	-	-	-	-	-	-	-	651
- other liabilities	994	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	994	-	-	-	-	-	-	-
2.2 Due to banks	-	58,899	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other liabilities	-	58,899	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

Currency 012 Canadian Dollar

Type/Residual life	On demand	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Unlimited
1. Cash assets	-	144	-	-	-	-	-	57
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Due from banks	-	-	-	-	-	-	-	57
1.3 Due from customers	-	144	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other loans	-	144	-	-	-	-	-	-
- with early redemption option	-	144	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Cash liabilities	-	131	-	-	-	-	-	81
2.1 Due to customers	-	-	-	-	-	-	-	81
- current accounts	-	-	-	-	-	-	-	81
- other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	131	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other liabilities	-	131	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

Currency 071 Japanese Yen

Type/Residual life	On demand	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Unlimited
1. Cash assets	7,966	3,236	8,597	-	-	-	-	173
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Due from banks	7,966	-	-	-	-	-	-	173
1.3 Due from customers	-	3,236	8,597	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other loans	-	3,236	8,597	-	-	-	-	-
- with early redemption option	-	3,236	8,597	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Cash liabilities	-	14,340	-	-	-	-	-	5,744
2.1 Due to customers	-	-	-	-	-	-	-	5,744
- current accounts	-	-	-	-	-	-	-	5,744
- other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	14,340	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other liabilities	-	14,340	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

Currency Other

Type/Residual life	On demand	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Unlimited
1. Cash assets	-	9,125	2,654	-	-	-	-	311
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Due from banks	-	-	-	-	-	-	-	311
1.3 Due from customers	-	9,125	2,654	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other loans	-	9,125	2,654	-	-	-	-	-
- with early redemption option	-	9,125	2,654	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Cash liabilities	-	11,937	-	-	-	-	-	152
2.1 Due to customers	-	-	-	-	-	-	-	152
- current accounts	-	-	-	-	-	-	-	152
- other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	11,937	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other liabilities	-	11,937	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

2.3 PRICE RISK – TRADING PORTFOLIO ADEQUACY

QUALITATIVE INFORMATION

2.3 Price risk – Trading portfolio adequacy

A. General considerations

Price risk is the risk connected to changes in value of positions in the Bank-owned portfolio as a result of market price fluctuations. It can be broken down as follows:

- generic risk: price change in an equity security following fluctuations in the reference stock market;
- specific risk: market price change in a specific equity security as a result of a change in market expectations regarding the financial solidity or prospects of the issuer.

The trading portfolio is managed according to strategic instructions issued by the Board of Directors and tactics recommended by the Finance Committee. Consistent with this explanation, and given the favourable economic position forecast for the year, it was decided to make a modest increase stock market exposure, clearly within the limits of assigned powers and Finance Committee recommendations

B. Price risk management processes and measurement methods

With regard to the processes and methods of market risk monitoring and management, the indicators monitored and their related limits are provided below, together with first and second level internal audit processes on overall trading portfolio transactions. In general, the limits are classified according to the various types of market risk (interest rate, price and exchange), but are in any event managed within a single framework based on similar logics. It is for this reason that they are illustrated jointly in this report.

The authorisation structure for finance operations is based on four levels:

- Operating limits
- Position limits: credit risk and concentration
- Stop-Loss limits
- Value-at-Risk (VaR) limits.

The operating limits structure uses the following risk indicators:

- exchange risk: monetary exchange delta (cash equivalent position for spot, futures and exchange derivative portfolios)
- equity risk: delta equivalent (market value of shares and cash equivalent position for equity derivatives)
- interest rate risk: sensitivity (change in profit or loss as a result of a change of one percentage point in the reference curve, with parallel shift)
- maximum amount invested: countervalue of cash securities/funds at entry cost (gross of derivative deltas) to guarantee a balance between assets and liabilities within the assigned budget restrictions.

Position limits are structured on:

- credit risk assumption limits: overall limits are established on rating class exposures, particularly below the investment grade range;
- concentration limits on each issuer/issue, with an increasing degree of constraint as the issuer rating class deteriorates.

Stop-Loss limits are monitored on cumulative results achieved and not achieved (and on dividends for the share-based quota) since the start of the month, backed by cumulative monitoring at the start of the year, via reports to the relevant decision-making bodies.

Responsibility for daily monitoring of operating, position and Stop-Loss limits falls to the Risk Management Department.

With regard to VaR limits, the Value-at-Risk is an estimate of the maximum potential loss on a securities portfolio under adverse market conditions. Throughout 2006 the Bank has used a combined approach to calculate this indicator:

- parameter-based (variance-covariance) for the bond, equity and options quota (delta equivalent method);
- time series simulation for risk on OTC interest rate derivatives (IRS, Caps, Floors, etc.) and exchange risk (spots and exchange derivatives) via the VaR module of the Master Finance front office system.

The holding period is 10 days and the confidence range is 99%. With regard to the parameter component, reference is made to the standard Risk Metrics method: the volatility and matching estimate is based on 250 days (working year) with a 0.94 decay factor. For the time series simulation component, 250 scenarios are used (working year).

Responsibility for identifying the VaR lies with the Risk Management Department.

For 2006, separate interest rate, price and exchange limits were established depending on the operations concerned. The VaR are not matched within the 6 compartments described above, but rather considered as an additional VaR. Analysis is performed daily, also to confirm that the risk value remains within the parameters pre-established and defined by the Board of Directors. For components estimated using the parameter method only, the system also includes two stress scenarios, the methods and performance of which are described in the paragraph "stress test" below.

The VaR models are for management purposes and are not used to calculate asset requirements.

Illustrated below are the changes in VaR on the trading portfolio of Banca Popolare dell'Alto Adige.

Total portfolio VaR

During 2006, the 10-day 99% Value-at-Risk (VaR) of the Banca Popolare dell'Alto Adige was, on average, approximately 1.9 million Euro. As at 31 December 2006 the VaR was 1.6 million Euro.

Interest rate risk VaR

During 2006 the average VaR was approximately 172,000 Euro. As at 31 December 2006 the interest rate risk VaR was 92,000 Euro. It should be mentioned that the VaR limit for interest rate risk in 2006 was established as 620,000 Euro.

Share and insurance portfolio VaR (price risk)

The VaR on the Bank's Share Portfolio during 2006 recorded an average value of 1.7 million Euro. As at 31 December 2006 the share portfolio VaR was 1.5 million Euro.

Stress Test

The test described previously was the risk level response borne by the Bank with respect to macroeconomic scenarios defined in the VaR calculation model. Nevertheless the capacity of a bank to respond to particularly adverse events can be tested by simulating certain stress situations. For this reason, the monitoring system subjects the portfolio to strongly adverse assumptions to assess the capacity of the equity to cover certain events.

Two particular scenarios are considered:

- Upward parallel shift in the interest rate curve by 25 base points, at the same time as a 30% stock market drop: this tests the solidity of the Bank in the event of particularly problematic market developments. As at 31 December, using this scenario, losses of approximately 620,000 Euro would have been recorded;
- Upward parallel shift in the interest rate curve by 200 base points, at the same time as a 30% stock market drop: this tests the solidity of the Bank in the event of particularly problematic market developments. As at 31 December, using this scenario, losses of approximately 3.8 million Euro would have been recorded.

QUANTITATIVE INFORMATION

1. Trading portfolio adequacy: cash exposures in equity securities and UCI

Exposure type/Values	Book value	
	Listed	Unlisted
A. Equity securities	2	-
A.1 Shares	1	-
A.2 New equity instruments	-	-
A.3 Other equity securities	1	-
B. UCI	90,448	-

B.1 Italian	11,989	-
- open-end harmonised	-	-
- open-end not harmonised	-	-
- closed-end	190	-
- private	-	-
- speculative	11,799	-
B.2 Other EU countries	73,595	-
- harmonised	73,595	-
- open-end not harmonised	-	-
- closed-end not harmonised	-	-
B.3 Non-EU countries	4,864	-
- open-end	4,864	-
- closed-end	-	-
Total	90,450	-

2. Trading portfolio adequacy: distribution of exposures in equity securities and share indices for the main listing index countries

Transaction type/listing index	Listed	Unlisted
	Italy	
A. Equity securities	2	-
- long positions	2	-
- short positions	-	-
B. Trading not yet indexed to equity securities	-	-
- long positions	-	-
- short positions	-	-
C. Other derivatives on equity securities	-	-
- long positions	-	-
- short positions	-	-
D. Derivatives on share indices	-	-
- long positions	-	-
- short positions	-	-

2.4 PRICE RISK – BANKING BOOK

QUALITATIVE INFORMATION

A. General considerations, price risk management processes and measurement methods

Banking book price risk relates to changes in market prices of Bank investment positions only, grouped together in an AFS (available for sale) portfolio.

As such positions relate to securities classes as AFS, only position keeping action is taken, limiting monitoring to periodic value updates.

B. Price risk hedging

During 2006, no specific price risk hedges were performed on the banking book.

QUANTITATIVE INFORMATION

1. Banking Book: cash exposures in equity securities and UCI

Exposure type/Values	Book value	
	Listed	Unlisted
A. Equity securities	596	11,259
A.1 Shares	596	11,259
A.2 New equity instruments	-	-
A.3 Other equity securities	-	-
B. UCI	-	-
B.1 Italian	-	-
- open-end harmonised	-	-
- open-end not harmonised	-	-
- closed-end	-	-
- private	-	-
- speculative	-	-
B.2 Other EU countries	-	-
- harmonised	-	-
- open-end not harmonised	-	-
- closed-end not harmonised	-	-
B.3 Non-EU countries	-	-
- open-end	-	-
- closed-end	-	-
Total	596	11,259

2.5 EXCHANGE RISK

QUALITATIVE INFORMATION

A. General considerations, exchange risk management processes and measurement methods

Exchange risk represents the risk connected with a change in value of positions in foreign currency as a result of unexpected changes in currency cross rates.

Support for business activities in foreign currency and foreign securities trading are the Bank's main generating source of exchange risk.

Automatic network systems linked to a single position keeping system allow the Treasury Service to perform constant, real time monitoring of currency cash flows transmitted immediately to the Forex interbank market.

A proprietary monitoring system (Master Finance) then permits efficient flow management of spot, futures and options within a pre-established framework of operating limits, defined in strategic, tactical and operating terms by the Board of Directors and the Finance Committee.

All positions in currency are revalued on a daily basis to the reference exchange rates of the European Central Bank and constitute the economic contribution from exchange activities to general Bank profitability.

B. Exchange risk hedging

The exchange risk generated from loans and deposits is systematically hedged, with the hedge transaction and/or investment in the same currency.

QUANTITATIVE INFORMATION

1. Currency distribution of assets, liabilities and derivatives

A. General considerations, exchange risk management processes and measurement methods

B. Exchange risk hedging

Items	Currency					
	US dollars	GB pounds	Yen	Canadian dollars	Swiss francs	Other currencies
A. Financial assets	17,509	325	19,972	202	60,147	12,094
A.1 Debt securities	21	-	-	-	6	5
A.2 Equity securities	-	-	-	-	-	-
A.3 Due from banks	13,274	325	8,138	58	5,135	311
A.4 Due from customers	4,214	-	11,834	144	55,006	11,778
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	342	98	16	27	346	158
C. Financial liabilities	17,710	390	20,084	213	60,545	12,090
C.1 Due to banks	7,617	66	14,340	131	58,899	11,938
C.2 Due to customers	10,093	324	5,744	82	1,646	152
C.3 Outstanding securities	-	-	-	-	-	-
D. Other liabilities	1	-	-	-	-	-
E. Financial derivatives	(102)	5	69	18	(24)	7
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other derivatives	(102)	5	69	18	(24)	7
+ long positions	14,882	302	14,069	21	47,107	4,167
+ short positions	(14,984)	(297)	(14,000)	(3)	(47,131)	(4,160)
Total Assets	17,851	423	19,988	229	60,493	12,252
Total Liabilities	17,711	390	20,084	213	60,545	12,090

As seen from the table, since they show no significant imbalance, the exchange positions in the different currencies do not result in the generation of significant effects on either the Bank's earnings margin or on shareholders' equity.

2.6 DERIVATIVES

A. FINANCIAL DERIVATIVES

A.1 Trading portfolio adequacy: end of year and interim notional values

Transaction type/Underlying	Debt securities and interest rates		Equity securities and share indices		Exchange rates and gold		Other values		31/12/2006		31/12/2005	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
1. Forward rate agreement	-	-	-	-	-	-	-	-	-	-	-	-
2. Interest rate swap	-	-	-	-	-	-	-	-	-	-	-	-
3. Domestic currency swap	-	-	-	-	-	-	-	-	-	-	-	-
4. Currency interest rate swap	-	-	-	-	-	-	-	-	-	-	-	-
5. Basis swap	-	-	-	-	-	-	-	-	-	-	-	-
6. Share index swaps	-	-	-	-	-	-	-	-	-	-	-	-
7. Pure 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. Futures	-	16,773	-	-	43,412	117,898	-	-	43,412	134,671	-	87,395
- Purchases	-	4,486	-	-	2,065	78,479	-	-	2,065	82,965	-	44,813
- Sales	-	12,287	-	-	41,347	39,374	-	-	41,347	51,661	-	42,349
- Currency to currency	-	-	-	-	-	45	-	-	-	45	-	233
13. Other derivatives	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	16,773	-	-	43,412	117,898	-	-	43,412	134,671	-	87,395
Average values	-	42,871	-	-	105,878	43,567	-	-	105,878	43,319	-	179,198

A.2 Banking Book: end of year and interim notional values

A.2.2 Other derivatives

Transaction type/Underlying	Debt securities and interest rates		Equity securities and share indices		Exchange rates and gold		Other values		31/12/2006		31/12/2005	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
1. Forward rate agreement	-	-	-	-	-	-	-	-	-	-	-	-
2. Interest rate swap	-	382,988	-	-	-	-	-	-	-	382,988	-	323,117
3. Domestic currency swap	-	-	-	-	-	-	-	-	-	-	-	-
4. Currency interest rate swap	-	-	-	-	-	-	-	-	-	-	-	-
5. Basis swap	-	108,401	-	-	-	-	-	-	-	108,401	-	92,196
6. Share index swaps	-	-	-	-	-	-	-	-	-	-	-	-
7. Pure 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. Futures	-	-	-	-	-	-	-	-	-	-	-	-
- Purchases	-	-	-	-	-	-	-	-	-	-	-	-
- Sales	-	-	-	-	-	-	-	-	-	-	-	-
- Currency to currency	-	-	-	-	-	-	-	-	-	-	-	-
13. Other derivatives	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	491,389	-	-	-	-	-	-	-	491,389	-	415,313
Average values	-	470,351	-	-	-	-	-	-	-	470,351	-	422,411

A.3 Financial derivatives: underlying purchases and sales

Transaction type/Underlying	Debt securities and interest rates		Equity securities and share indices		Exchange rates and gold		Other values		31/12/2006		31/12/2005	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
A. Trading portfolio adequacy	-	16,773	-	-	43,412	45	-	-	43,412	16,818	-	56,293
1. Transaction involving exchange of principal	-	16,773	-	-	43,412	45	-	-	43,412	16,818	-	56,293
- purchases	-	4,486	-	-	2,065	-	-	-	2,065	4,486	-	14,976
- sales	-	12,287	-	-	41,347	-	-	-	41,347	12,287	-	41,084
- currency against currency	-	-	-	-	-	45	-	-	-	45	-	233
2. Transactions not involving exchange of principal	-	-	-	-	-	-	-	-	-	-	-	-
- purchases	-	-	-	-	-	-	-	-	-	-	-	-
- sales	-	-	-	-	-	-	-	-	-	-	-	-
- currency against currency	-	-	-	-	-	-	-	-	-	-	-	-
B. Banking Book	-	382,988	-	-	-	-	-	-	-	382,988	-	323,117
B.1 Hedges	-	-	-	-	-	-	-	-	-	-	-	-
1. Transactions involving exchange of principal	-	-	-	-	-	-	-	-	-	-	-	-
- purchases	-	-	-	-	-	-	-	-	-	-	-	-
- sales	-	-	-	-	-	-	-	-	-	-	-	-
- currency against currency	-	-	-	-	-	-	-	-	-	-	-	-
2. Transactions not involving exchange of principal	-	-	-	-	-	-	-	-	-	-	-	-
- purchases	-	-	-	-	-	-	-	-	-	-	-	-
- sales	-	-	-	-	-	-	-	-	-	-	-	-
- currency against currency	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Other derivatives	-	382,988	-	-	-	-	-	-	-	382,988	-	323,117
1. Transactions involving exchange of principal	-	-	-	-	-	-	-	-	-	-	-	-
- purchases	-	-	-	-	-	-	-	-	-	-	-	-
- sales	-	-	-	-	-	-	-	-	-	-	-	-
- currency against currency	-	-	-	-	-	-	-	-	-	-	-	-
2. Transactions not involving exchange of principal	-	382,988	-	-	-	-	-	-	-	382,988	-	323,117
- purchases	-	382,988	-	-	-	-	-	-	-	382,988	-	323,117
- sales	-	-	-	-	-	-	-	-	-	-	-	-
- currency against currency	-	-	-	-	-	-	-	-	-	-	-	-

A.4 Over the counter financial derivatives: positive fair value – counterparty risk

Counterparty/Underlying	Debt securities and interest rates			Equity securities and share indices			Exchange rates and gold			Other values			Other underlying	
A. Trading portfolio adequacy														
A.1 Governments and Central Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2 Public authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.3 Banks	-	-	-	-	-	-	161	-	351	-	-	-	-	-
A.4 Finance companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.5 Insurance companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.6 Non-financial companies	-	-	-	-	-	-	6	-	3	-	-	-	-	-
A.7 Other entities	-	-	-	-	-	-	19	-	7	-	-	-	-	-
Total as at 31/12/2006	-	-	-	-	-	-	186	-	361	-	-	-	-	-
Total as at 31/12/2005	-	-	-	-	-	-	494	-	86	-	-	-	-	-
B. Banking Book														
B.1 Governments and Central Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Public authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.3 Banks	2,538	-	-	-	-	-	-	-	-	-	-	-	-	-
B.4 Finance companies	102	-	-	-	-	-	-	-	-	-	-	-	-	-
B.5 Insurance companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.6 Non-financial companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.7 Other entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total as at 31/12/2006	2,640	-	-	-	-	-	-	-	-	-	-	-	-	-
Total as at 31/12/2005	6,386	-	1,705	-	-	-	-	-	-	-	-	-	-	-

A.5 Over the counter financial derivatives: negative fair value – financial risk

Counterparty/Underlying	Debt securities and interest rates			Equity securities and share indices			Exchange rates and gold			Other values			Other underlying	
	Gross not matched	Gross matched	Future exposure	Gross not matched	Gross matched	Future exposure	Gross not matched	Gross matched	Future exposure	Gross not matched	Gross matched	Future exposure	Matched	Future exposure
A. Trading portfolio adequacy														
A.1 Governments and Central Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2 Public authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.3 Banks	-	-	-	-	-	-	11	-	57	-	-	-	-	-
A.4 Finance companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.5 Insurance companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.6 Non-financial companies	-	-	-	-	-	-	16	-	7	-	-	-	-	-
A.7 Other entities	-	-	-	-	-	-	13	-	6	-	-	-	-	-
Total as at 31/12/2006	-	-	-	-	-	-	40	-	70	-	-	-	-	-
Total as at 31/12/2005	-	-	-	-	-	-	530	-	-	-	-	-	-	-
B. Banking Book														
B.1 Governments and Central Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Public authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.3 Banks	5,700	-	1,453	-	-	-	-	-	-	-	-	-	-	-
B.4 Finance companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.5 Insurance companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.6 Non-financial companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.7 Other entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total as at 31/12/2006	5,700	-	1,453	-	-	-	-	-	-	-	-	-	-	-
Total as at 31/12/2005	1,179	-	-	-	-	-	-	-	-	-	-	-	-	-

A.6 Residual life of over the counter financial derivatives: notional values

Underlying / Residual life	Up to 1 year	Over 1 year to 5 years	Over 5 years	31/12/2006
A. Trading portfolio adequacy	178,083	-	-	178,083
A.1 Financial derivatives on debt securities and interest rates	16,773	-	-	16,773
A.2 Financial derivatives on equity securities and share indices	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	161,310	-	-	161,310
A.4 Financial derivatives on other stocks	-	-	-	-
B. Banking Book	111,939	330,650	48,800	491,389
B.1 Financial derivatives on debt securities and interest rates	111,939	330,650	48,800	491,389
B.2 Financial derivatives on equity securities and share indices	-	-	-	-
B.3 Financial derivatives on exchange rates and gold	-	-	-	-
B.4 Financial derivatives on other stocks	-	-	-	-
Total as at 31/12/2006	290,022	330,650	48,800	669,472
Total as at 31/12/2005	71,176	350,089	38,800	460,065

SECTION 3 – LIQUIDITY RISK

QUALITATIVE INFORMATION

A. General considerations, liquidity risk management processes and measurement methods

Liquidity risk is the risk connected to the possibility that portfolio assets prove difficult to unfreeze or that this problem translates to a capital loss on the realised price. It can be broken down as follows:

- market risk: loss of position value deriving from the need to unfreeze the position on illiquid markets;
- delivery risk: risk relating to the possibility that on maturity and at the effective date of contracts, sufficient quantities of securities for delivery to the counterparty cannot be found.

The Bank manages this type of risk by observing the operating powers granted to the Finance Department. Specifically, it is expected that the portfolio will be invested mainly in listed financial instruments with a strong rating, based on precise, pre-established limits in quantity and quality terms. The listing and strong rating help to rapidly unfreeze the financial instruments.

QUANTITATIVE INFORMATION

1. Time distribution by residual contract duration of financial assets and liabilities

Currency: 242 Euro

Items / Timescales	On demand	Over 1 day to 7 days	Over 7 days to 15 days	Over 15 days to 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years
Cash assets	1,496,389	9,151	14,893	187,057	123,637	183,348	187,482	838,645	728,139
A.1 Treasury securities	-	-	57	311	1,213	354	1,208	70,847	2,225
A.2 Debt securities	-	-	35	-	29,747	15,310	36,151	138,347	86,560
A.3 Other debt securities	-	-	-	-	-	151	259	88,034	2,155
A.4 UCI quotas	90,448	-	-	-	-	-	-	-	-
A.5 Loans	1,405,941	9,151	14,801	186,746	92,677	167,533	149,864	541,417	637,199
- Banks	33,101	6,047	-	-	-	-	-	-	-
- Customers	1,372,840	3,104	14,801	186,746	92,677	167,533	149,864	541,417	637,199
Cash liabilities	1,552,383	38,391	33,027	34,505	167,618	47,899	137,097	1,154,610	306,441
B.1 Deposits	1,541,703	25,245	14,857	15,298	50,637	626	4,552	51	5,161
- Banks	132,330	25,000	14,000	15,000	50,038	-	-	-	-
- Customers	1,409,373	245	857	298	599	626	4,552	51	5,161
B.2 Debt securities	501	102	284	551	52,247	25,754	132,478	1,146,781	266,435
B.3 Other liabilities	10,179	13,044	17,886	18,656	64,734	21,519	67	7,778	34,845
Off-balance-sheet transactions	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-
C.2 Due from deposits and loans	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-
C.3 Irrevocable commitments to distribute funds	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-

Currency: 001 US Dollar

Items / Timescales	On demand	Over 1 day to 7 days	Over 7 days to 15 days	Over 15 days to 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years
Cash assets	13,288	132	142	97	3,650	186	-	9	4
A.1 Treasury securities	-	-	-	-	-	-	-	-	-
A.2 Debt securities	-	-	-	-	8	-	-	9	4
A.3 Other debt securities	-	-	-	-	-	-	-	-	-
A.4 UCI quotas	-	-	-	-	-	-	-	-	-
A.5 Loans	13,288	132	142	97	3,642	186	-	-	-
- Banks	13,273	-	-	-	-	-	-	-	-
- Customers	15	132	142	97	3,642	186	-	-	-
Cash liabilities	10,093	-	3,811	3,807	-	-	-	-	-
B.1 Deposits	10,093	-	3,811	3,807	-	-	-	-	-
- Banks	-	-	3,811	3,807	-	-	-	-	-
- Customers	10,093	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-
C.2 Due from deposits and loans	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-
C.3 Irrevocable commitments to distribute	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-

Currency: 002 GB Pound

Items / Timescales	On demand	Over 1 day to 7 days	Over 7 days to 15 days	Over 15 days to 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years
Cash assets	325	-	-	-	-	-	-	-	-
A.1 Treasury securities	-	-	-	-	-	-	-	-	-
A.2 Debt securities	-	-	-	-	-	-	-	-	-
A.3 Other debt securities	-	-	-	-	-	-	-	-	-
A.4 UCI quotas	-	-	-	-	-	-	-	-	-
A.5 Loans	325	-	-	-	-	-	-	-	-
- Banks	325	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-
Cash liabilities	390	-	-	-	-	-	-	-	-
B.1 Deposits	390	-	-	-	-	-	-	-	-
- Banks	66	-	-	-	-	-	-	-	-
- Customers	324	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-
C.2 Due from deposits and loans	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-
C.3 Irrevocable commitments to distribute	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-

Currency: 003 Swiss Franc

Items / Timescales	On demand	Over 1 day to 7 days	Over 7 days to 15 days	Over 15 days to 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years
Cash assets	5,415	2,600	8,751	13,093	15,848	14,286	155	-	-
A.1 Treasury securities	-	-	-	-	-	-	-	-	-
A.2 Debt securities	-	-	-	-	-	-	6	-	-
A.3 Other debt securities	-	-	-	-	-	-	-	-	-
A.4 UCI quotas	-	-	-	-	-	-	-	-	-
A.5 Loans	5,415	2,600	8,751	13,093	15,848	14,286	149	-	-
- Banks	5,135	-	-	-	-	-	-	-	-
- Customers	280	2,600	8,751	13,093	15,848	14,286	149	-	-
Cash liabilities	1,646	58,899	-	-	-	-	-	-	-
B.1 Deposits	1,646	58,899	-	-	-	-	-	-	-
- Banks	-	58,899	-	-	-	-	-	-	-
- Customers	1,646	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-
C.2 Due from deposits and loans	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-
C.3 Irrevocable commitments to distribute	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-

Currency: 012 Canadian Dollar

Items / Timescales	On demand	Over 1 day to 7 days	Over 7 days to 15 days	Over 15 days to 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years
Cash assets	57	-	-	19	126	-	-	-	-
A.1 Treasury securities	-	-	-	-	-	-	-	-	-
A.2 Debt securities	-	-	-	-	-	-	-	-	-
A.3 Other debt securities	-	-	-	-	-	-	-	-	-
A.4 UCI quotas	-	-	-	-	-	-	-	-	-
A.5 Loans	57	-	-	19	126	-	-	-	-
- Banks	57	-	-	-	-	-	-	-	-
- Customers	-	-	-	19	126	-	-	-	-
Cash liabilities	81	131	-	-	-	-	-	-	-
B.1 Deposits	81	131	-	-	-	-	-	-	-
- Banks	-	131	-	-	-	-	-	-	-
- Customers	81	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-
C.2 Due from deposits and loans	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-
C.3 Irrevocable commitments to distribute	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-

Currency: 071 Japanese Yen

Items / Timescales	On demand	Over 1 day to 7 days	Over 7 days to 15 days	Over 15 days to 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years
Cash assets	8,139	323	356	630	1,927	8,597	-	-	-
A.1 Treasury securities	-	-	-	-	-	-	-	-	-
A.2 Debt securities	-	-	-	-	-	-	-	-	-
A.3 Other debt securities	-	-	-	-	-	-	-	-	-
A.4 UCI quotas	-	-	-	-	-	-	-	-	-
A.5 Loans	8,139	323	356	630	1,927	8,597	-	-	-
- Banks	8,139	-	-	-	-	-	-	-	-
- Customers	-	323	356	630	1,927	8,597	-	-	-
Cash liabilities	5,744	14,340	-	-	-	-	-	-	-
B.1 Deposits	5,744	14,340	-	-	-	-	-	-	-
- Banks	-	14,340	-	-	-	-	-	-	-
- Customers	5,744	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-
C.2 Due from deposits and loans	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-
C.3 Irrevocable commitments to distribute	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-

Currency: Other

Items / Timescales	On demand	Over 1 day to 7 days	Over 7 days to 15 days	Over 15 days to 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years
Cash assets	311	-	444	-	8,681	2,654	-	5	-
A.1 Treasury securities	-	-	-	-	-	-	-	-	-
A.2 Debt securities	-	-	-	-	-	-	-	5	-
A.3 Other debt securities	-	-	-	-	-	-	-	-	-
A.4 UCI quotas	-	-	-	-	-	-	-	-	-
A.5 Loans	311	-	444	-	8,681	2,654	-	-	-
- Banks	311	-	-	-	-	-	-	-	-
- Customers	-	-	444	-	8,681	2,654	-	-	-
Cash liabilities	153	11,870	-	67	-	-	-	-	-
B.1 Deposits	153	11,870	-	67	-	-	-	-	-
- Banks	1	11,870	-	67	-	-	-	-	-
- Customers	152	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-
C.2 Due from deposits and loans	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-
C.3 Irrevocable commitments to distribute	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-

2. Segment distribution of financial liabilities

Exposures/counterparties	Governments and central banks	Other public authorities	Finance companies	Insurance companies	Non-financial companies	Other entities
1. Due to customers	204	67,590	6,853	1,383	435,027	1,097,251
2. Outstanding securities	-	-	-	-	102,426	965,408
3. Financial liabilities held for trading	-	-	-	-	16	13
4. Financial liabilities measured at fair value	-	-	5,537	-	-	478,342
TOTAL 31/12/2006	204	67,590	12,390	1,383	537,469	2,541,014
TOTAL 31/12/2005	335	20,511	90,339	779	404,299	2,451,642

3. Geographic distribution of financial liabilities

Exposures/counterparties	Italy	Other European countries	America	Asia	Rest of the world
1. Due to customers	1,932,876	30,577	737	23	258
2. Due to banks	244,510	111,669	-	-	-
3. Outstanding securities	1,067,833	70,219	-	-	-
4. Financial liabilities held for trading	1,607	4,257	-	-	-
5. Financial liabilities measured at fair value	481,852	5,229	-	-	-
TOTAL 31/12/2006	3,728,678	221,951	737	23	258
TOTAL 31/12/2005	3,170,265	318,191	2,223	1,960	107

SECTION 4 – OPERATING RISK

QUALITATIVE INFORMATION

A. General considerations, operating risk management processes and measurement methods

Operating risk management is guaranteed by the Bank by:

- line controls performed by the branches and internal services
- audits, performed by Audit/Internal Auditing as part of their direct audit and remote monitoring duties
- operating loss monitoring and analysis with periodic reports to the Management Committee and Board of Directors by the Risk Management Service.

Line controls

The line controls system, extended to all organisational units, has been operative since 2005. The system is governed by the line controls manual and involves the use of customised checklists for each organisational unit. In this context, Audit/Internal Auditing department obligations involve execution control, efficiency testing and onsite verification of all line controls, along with their constant updating as organisational or operating procedures change.

Audits

The audits aim to identify anomalous performance, violation of procedures and regulations, and assessment of the overall performance of the internal audit system. This activity was performed continuously during the year, either periodically or exceptionally, and by means of both onsite and remote audit tools, in accordance with Regulatory Instructions.

Monitoring of operating loss

With regard to operating risk monitoring activities, it should be mentioned that since it was incorporated in 2002 the Bank has been a member of the DIPO (the Italian operating loss database) interbank consortium promoted by the ABI (Italian Bankers' Association), and therefore collects data on operating losses on a regular basis.

All operating loss events with a gross value exceeding 50 Euro are entered on the in-house operating loss database. Internal reporting in 2006 showed 199 new reports of gross loss totalling approximately 996,147 Euro, 10.6% of which from cases of external or internal fraud (36.2% of the total), 28.6% from processing errors (only 10.2% of the total) and 24.6% from damage to tangible assets (6.5% of the total). The remaining 36.2% of reports (47.4% of the total value) relates to other events caused mainly by contingent legal action.

In 2006, collections on insurance or other sources totalled approximately 300,000 Euro, whilst approximately 125,000 Euro remains open.

Operating loss events are also divided into operating lines in accordance with the chart and definitions of the New Capital Accord (Basel II). The following values per operating line were recorded in 2006:

retail banking	84.5% of events and 65.5% of losses
retail brokerage	8.5% of events and 5.0% of losses
asset management	2.0% of events and 5.6% of losses
commercial banking	2.5% of events and 23.8% of losses
trading & sales	1.5% of events and 0.1% of losses

Information obtained from the in-house database, analyses and countermeasures taken are reported to the Management Committee and Board of Directors on a quarterly basis.

23 cases were reported to the DIPO in 2006 (reporting threshold 5,000 Euro) with a gross loss of approximately 753,000 Euro.

To complete the overview, it should be mentioned that at the start of 2006 a review of operating risk monitoring and reporting was undertaken to align the operating risk measurement, management and mitigation system with compliance requirements at least to those of the standard method contained in the New Capital Accord (Basel II). The aim of the project was not so much the achievement of

hypothetical benefits in terms of capital requirements, but rather to pursue an effective awareness, at all levels, of the potential risks intrinsic to the Bank's everyday activities and, for all business activities, take all precautions necessary to effectively mitigate and limit those risks.

PART F

INFORMATION ON CAPITAL

SECTION 1 – Business capital

The Bank's capital assets correspond to the total given by items 130 "Revaluation reserves", 140 "Redeemable shares", 150 "Equity instruments", 160 "Reserves", 170 "Share premium reserves", 180 "Capital", 190 "Treasury shares" and 200 "Profit (Loss) for the year" under Balance Sheet liabilities. The capital asset management methods are described in section 2.2 below.

SECTION 2 – Capital and the adequacy ratios

2.1 Regulatory capital

A. QUALITATIVE INFORMATION

	31/12/2006	31/12/2005
1. Tier 1 capital	340,546	319,908
2. Tier 2 capital	73,156	75,309
3. Deductible elements	-	(1,917)
4. Regulatory Capital	413,702	393,300

B. QUANTITATIVE INFORMATION

	31/12/2006	31/12/2005
A. Tier 1 capital before application of prudential filters	340,546	319,908
Tier 1 capital prudential filters		
- Positive IAS/IFRS prudential filters	-	-
- Negative IAS/IFRS prudential filters	-	-
B. Tier 1 capital after application of prudential filters	340,546	319,908
C. Tier 2 capital before application of prudential filters	73,370	75,390
Tier 2 capital prudential filters		
- Positive IAS/IFRS prudential filters	-	-
- Negative IAS/IFRS prudential filters	(214)	(81)
B. Tier 2 capital after application of prudential filters	73,156	75,309
E. Total Tier 1 and Tier 2 capital after application of filters	413,702	395,217
Elements deductible from the total Tier 1 and Tier 2 capital	-	(1,917)
F. Regulatory capital	413,702	393,300

2.2 Capital adequacy

A. QUALITATIVE INFORMATION

The Bank's policies on capital ensure consistency between the degree of risk assumed and the business development plan.

B. QUANTITATIVE INFORMATION

Category/Instruments	Unweighted amounts		Weighted/required amounts	
	31/12/2006	31/12/2005	31/12/2006	31/12/2005
A. RISK ASSETS				
A.1 CREDIT RISK STANDARD METHOD	3,942,145	3,850,686	3,635,244	3,449,938
CASH ASSETS				
1. Exposures (other than equity securities and other subordinated assets) to (or backed by):	3,168,881	2,994,660	3,019,465	2,821,802
1.1 Governments and Central Banks	88,427	72,814	-	37
1.2 Public authorities	9,574	9,759	1,915	1,952
1.3 Banks	27,732	63,212	5,546	12,642
1.4 Other (other than mortgages on residential and non-residential property)	3,043,148	2,848,875	3,012,004	2,807,171
2. Mortgages on residential property	240,850	384,332	120,425	192,166
3. Mortgages on non-residential property	-	-	-	-
4. Shares, equity investments and subordinated assets	11,855	13,357	11,907	14,142
5. Other cash assets	200,296	182,042	170,326	159,360
OFF-BALANCE SHEET ASSETS				
1. Guarantees and commitments to (or backed by):	318,284	267,577	312,697	260,657
1.1 Governments and Central Banks	2,547	4,408	-	-
1.2 Public authorities	2,493	2,101	499	420
1.3 Banks	1,291	1,022	258	204
1.4 Other	311,953	260,046	311,940	260,033
2. Derivatives to (or backed by):	1,979	8,718	424	1,811
2.1 Governments and Central Banks	-	-	-	-
2.1 Public authorities	-	-	-	-
2.3 Banks	1,979	8,718	424	1,811
2.4 Other	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 CREDIT RISK	-	-	254,467	241,496
B.2 MARKET RISK	-	-	8,717	7,119
1. STANDARD METHOD	X	X	8,717	7,119
of which:				
+ position risk on debt securities	X	X	6,524	5,833
+ position risk on equity securities	X	X	-	-
+ exchange risk	X	X	-	-
+ other risks	X	X	2,193	1,286
2. INTERNAL MODELS	X	X	-	-
of which:				
+ position risk on debt securities	X	X	-	-
+ position risk on equity securities	X	X	-	-
+ exchange risk	X	X	-	-
B.3 OTHER MINIMUM REQUIREMENTS	X	X	14,697	-
B.4 TOTAL MINIMUM REQUIREMENTS (B1+B2+B3)	X	X	277,881	248,615
C. RISK ASSETS AND ADEQUACY RATIOS	X	X		
C.1 Weighted risk assets	X	X	3,969,731	3,551,638
C.2 Tier 1 capital/Weighted risk assets (Tier 1 capital ratio)	X	X	8.58%	9.01%
C.3 Regulatory capital/Weighted risk assets (Total capital ratio)	X	X	10.42%	11.07%

PART G

BUSINESS COMBINATIONS

No supporting information is available for this section.

PART H

TRANSACTIONS WITH RELATED PARTIES

1. Information on directors' and managers' fees

	31/12/2006
Directors	533,789
Strategic managers	1,401,025
Total	1,934,814

The above table illustrates amounts paid to directors by the Bank as directors' and attendance fees. Sums indicated for strategic managers are paid salaries, matured employee severance indemnity, supplementary and welfare benefits, plus benefits in kind granted to general and central management members.

2. Information on transactions with related parties:

Related parties of the Banca Popolare dell'Alto Adige are its Directors, Statutory Auditors, members of General and Central Management, or the companies in which the Directors, Statutory Auditors and members of General and Central Management hold administrative, management or control office and/or hold significant voting power albeit not a controlling majority.

Indirectly related to the Banca Popolare dell'Alto Adige are the spouses and children dependent upon the persons indicated above, or the companies in which the family members specified here hold administrative, management or control office and/or hold significant voting power albeit not a controlling majority.

In addition, related parties include subsidiaries or associate companies of the Banca Popolare dell'Alto Adige, or over which the Bank has considerable influence, i.e. Berger S.p.A. (Bolzano), Immobiliare A & A S.r.l. (Bolzano) and Casa di Cura Villa S. Anna (Merano).

In accordance with and for the purposes of reporting rules on related parties of the Banca Popolare dell'Alto Adige, and with a prudential assessment of potential risk profiles indicated in the three-way report in terms of

- transaction type,
- dependency relationship with the counterparty and
- effect on income and/or equity as a result of exceeding the warning threshold,

as resolved by the Board of Directors, the following information is provided:

2.1 intercompany transactions within the Banca Popolare dell'Alto Adige banking group
FY 2006

none to report

2.2 transactions with subsidiaries or associated companies of the Banca Popolare dell'Alto Adige, or with companies over which the Bank has considerable influence

FY 2006

none to report

2.3 transactions with suppliers of the Banca Popolare dell'Alto Adige

	<u>2006 turnover</u>
SEC-Servizi, S.c.p.A., Padua	€ 10,920,886

2.4 transactions with Directors, Statutory Auditors, members of General and Central Management of the Banca Popolare dell'Alto Adige, or with companies in which the Directors, Statutory Auditors and members of General and Central Management hold administrative, management or control office and/or hold significant voting power albeit not a controlling majority

FY 2006

Transactions completed by BPAA with Directors, Statutory Auditors, General Managers, Central Managers and with other related counterparties are indicated in aggregate format when the amount per individual related party is equal to at least 0.05% of shareholders' equity as at 31/12/2005.

Board of Directors	Directors	Company
loans		
agreed	435,333	143,186,313
used	435,333	76,314,593

Board of Statutory Auditors	Statutory Auditors	Company
loans		
agreed	-	50,436,257
used	-	31,629,502

Strategic managers	General Managers Central Managers	Company
loans		
agreed	-	-
used	-	-

2.5 transactions with spouses and children dependent upon the persons indicated under point 2.4 above, or with the companies in which such family members hold administrative, management or control office and/or hold significant voting power albeit not a controlling majority.

FY 2006

none to report

The commitment to provide separate report in the Notes to the Accounts is valid for transactions with related parties of the Banca Popolare dell'Alto Adige when the amount is equal to at least

- 0.05% of shareholders' equity reported in the last financial statements approved as at the date of the atypical or unusual transaction performed between the Banca Popolare dell'Alto Adige and related counterparties within the Group (or with companies over which the Bank has considerable influence for the purposes of art. 93 of the Italian Consolidated Law on Finance and art. 2359, subsection 3 of the Italian Civil Code);
- 0.05% of shareholders' equity reported in the last financial statements approved as at the date of the transaction performed under standard conditions between the Banca Popolare dell'Alto Adige and directly related counterparties (or the Directors, Statutory Auditors and Strategic Managers of the Bank and companies in which such persons hold any administrative, management or control office, or have significant voting power);
- 0.05% of shareholders' equity reported in the last financial statements approved as at the date of the transaction performed under standard conditions between the Banca Popolare dell'Alto Adige and indirectly related counterparties (or the spouses and children dependent upon the Directors, Statutory Auditors and Strategic Managers of the Bank and companies in which such persons hold any administrative, management or control office, or have significant voting power);

- 1.00 % of shareholders' equity reported in the last financial statements approved as at the date of the transaction performed under standard conditions between the Banca Popolare dell'Alto Adige and related counterparties within the Group (or with companies over which the Bank has considerable influence for the purposes of art. 93 of the Italian Consolidated Law on Finance and art. 2359, subsection 3 of the Italian Civil Code);

All transactions defined as having "atypical or unusual elements" are those in which the purpose of the transaction or pricing method (including transactions not performed under standard conditions), or the time of transaction (close to the end of the financial year) could give rise to doubts as to the accuracy or completeness of information in the financial statements, or to a possible conflict of interest, or to the safeguarding of company assets.

Non-recurring capital transactions, mergers, alliances, equity investments in other banks and/or the takeover of bank offices do not in themselves constitute atypical transactions.

Standard transactions characterised by the absence of particular features, and therefore generally transactions performed as normal business in relation to services offered by the Banca Popolare dell'Alto Adige, under standard conditions and decided in accordance with authoritative powers established by the Bank's regulatory sources, are not reported in the Notes to the Accounts.

PART I

SHARE-BASED PAYMENT ARRANGEMENTS

No supporting information is available for this section.

ENCLOSURE TO THE NOTES TO THE FINANCIAL STATEMENTS

Transition to the IAS/IFRS

ADOPTION OF THE IAS/IFRS

REGULATORY FRAMEWORK

As known, the Regulation (EC) no. 1606/2002 requires that companies listed in EU regulated markets prepare – starting from 1 January 2005 – their consolidated financial statements applying the IFRS (*International Financial Reporting Standards* – formerly named IAS) issued by the IASB and approved by the European Commission. With the Legislative Decree no. 38 of 28 February 2005, the Italian State – exercising the power provided by art. 5 of the cited Regulation – significantly extended the area of applicability of the IAS/IFRS, mandating moreover that they be adopted by banks and financial institutions subject to supervision by the Bank of Italy. More specifically, these standards have been adopted starting from the 2005 financial statements, mandatorily for the consolidated financial statements of banking groups, and optionally for the annual financial statements of banks (starting from 2006 also banks that do not prepare consolidated financial statements are required to draft IFRS-compliant financial statements).

Consequently, within this context, Banca Popolare dell'Alto Adige prepared the annual financial statements as at 31 December 2006 in accordance with the IAS/IFRS, and in compliance with the provisions recently issued by the Bank of Italy within the limits of its regulatory powers with respect to the "technical formats" of the financial statements of banks and financial institutions. In this respect, it is pointed out that the Bank of Italy, at the end of December 2005, published the new Memorandum no. 262 concerning the frameworks and the rules to be applied for the preparation of banks' financial statements in compliance with the IAS, and also circulated the schedule of the Supervisory System's adjustments introduced during 2006.

ILLUSTRATION OF THE MAIN CHANGES INTRODUCED BY THE IAS/IFRS

The new international accounting standards introduced significant changes concerning the methods with which the income statement results and balance sheet data are reported in the financial statements, with significant effects on the accounting recognition methods for the operations reported in the financial statements, the classification of the balance sheet and income statement entries, and the valuation criteria.

The changes pertaining to the recognition of assets and liabilities are ascribable to the general principle of priority of economic substance over legal form; in this respect, it must be noted that while according to the national accounting standards the transfer of the legal title is a sufficient condition for the accounting recognition in the financial statements on the part of the buyer – and for the corresponding write-off from the financial statements on the part of the seller – of the asset being sold, the IAS/IFRS instead require the actual transfer of the risks and benefits associated with the asset sold, that is, the transfer of the right to receive the cash flows relevant to the same.

Another change concerns the initial recognition of the financial instruments, which must be entered at their fair value increased by the transaction costs directly imputable to the purchase or issuance of financial assets or liabilities. The transaction costs are the costs directly imputable to the purchase, issuance, or disposal of a financial asset or liability, and which would have not been incurred if the company had not purchased, issued, or disposed of the financial instrument. These proceeds and expenses contribute to the formation of the income statement results for the fiscal years over which duration of the transaction extend, according to the actual rate of return ("amortised cost" method). Changes in the accounting recognition methods concern also certain types of intangible fixed assets, to the extent that the international accounting standards forbid the capitalization of expenses concerning research, advertising, and training, and defined the characteristics necessary to fall within the definition of intangible assets (identifiability, control of the resource, and existence of future economic benefits).

With respect to the classification of assets and liabilities, changes of special relevance are those concerning financial instruments. The international accounting standards provide that the accounting of loans, securities, liabilities, and derivative contracts be performed according to the purposes for which the company holds them and no longer according to their type, as instead provided by the national accounting standards.

The new classification rules for financial instruments introduced by the IAS 39 entail, therefore, the elimination of the bipartition in the investment portfolio between "fixed" and "non-fixed", providing that the

financial assets be divided into the following categories: assets held for trading, assets measured at fair value, assets held until maturity, assets available for sale as well as loans and receivables. Two categories are provided for financial liabilities: liabilities measured at fair value and other financial liabilities. The classification of the financial instruments must take place at the time of their initial accounting recognition and may be subsequently modified only under very limited circumstances; the only reclassification allowed is actually the one from the category "assets available for sale" to the category "assets held until maturity", in the event that the reason to hold the financial instrument changed. Another significant amendment concerns equity investments. In contrast with what provided by the national rules, which allow to classify under the equity investment entry any investment in equity securities, the IAS/IFRS allow such classification only for investments in subsidiaries, affiliates, or companies subject to joint control. Other types of equity investments are to be classified either among the assets held for trading or among the assets available for sale. With respect to the valuation methods, the main changes introduced by the IAS/IFRS standards concerns financial instruments, tangible and intangible fixed assets. In reference to financial instruments, assets held until maturity, loans and receivables, and other financial liabilities are valued at the "amortised cost", while the assets held for trading, the assets and liabilities measured at fair value, and the assets available for sale must be measured at fair value. In specific reference to this latter category, the effects of the valuation do not appear in the income statement, but must be charged to a reserve in shareholders' equity up to the time when they are actually realized. For those financial instruments that are classified among the assets held for trading or among the assets and liabilities measured at fair value, the international accounting standards also require a systematic verification of the non-existence of accumulated impairment losses and, therefore, of the actual recoverability of the book value of the assets. An important change introduced by the international accounting standards with respect to the value adjustments on loans concerns then the assessment of the time needed for the encashment of the amounts deemed recoverable, which must therefore be subjected to time discounting. In reference to the derivative contracts used for hedging, IAS 39, which regulates the valuation methods for the financial instruments, radically changes the previously used fundamental standard for risk hedging, and turns upside down its structure, providing that the driving factor is the "hedging instrument" and no longer the "hedged instrument", which shall have to be valued in conformity with the "hedging instrument".

In this respect, the international accounting standards distinguish between three different types of hedging: the hedging of the fair value of a financial asset or liability, which entails charging to the income statement the changes in fair value of both the hedged instrument and the hedging derivative contract; the hedging of variable cash flows according to a certain risk, and the hedging of an investment in a foreign entity, expressed in the relevant foreign currency, which entails the accounting recognition in a reserve in shareholders' equity of the changes in fair value of only the hedging derivative contract (while the hedged asset or liability stays entered at cost or amortised cost). This method derives from the need to value at fair value all the derivative contracts (including those used for hedging). According to the national standards, instead, the derivative contracts used for hedging were normally valued at cost, consistently with the method applied for the hedged items. In order for a derivative instrument to be allowed to be classified as used for hedging in accordance with the IAS standards, it is necessary that the relationship between the hedging instrument and hedged item be officially documented and that the hedging be "highly effective". Hedging is considered highly effective if, both from its set-up and during its life, the change in the fair value or in the cash flows of the hedged item, ascribable to the hedged risk, is almost entirely offset by the changes in the fair value or in the cash flows of the hedging derivative. The IAS 39 also allows to apply the so-called fair value option (FVO), that is, the option to recognize financial assets and liabilities, or aggregates of financial assets and liabilities, at fair value with income statement entries, when this produces more significant data, reduces the complexity of the rules provided on the posting of hedging transactions and structured derivatives, or leads to a more reliable measurement. With respect to tangible and intangible fixed assets, the changes concern the option to choose as valuation method, as an alternative to the cost of purchase, the one using the fair value, charging the change in value to a reserve in shareholders' equity (exceptions include the real estate investments for which it is prescribed that changes in fair value be entered in the income statement). For intangible assets with indeterminate useful life, such as goodwill, the IAS/IFRS no longer prescribe the calculation of a periodic amortization but instead a periodic verification that the asset did not experience a lasting impairment if its value (the so-called "impairment test").

ADOPTION OF IAS/IFRS STANDARDS FOR BANCA POPOLARE DELL'ALTO ADIGE

In order to smoothen the process of transition from the rules previously in force to the new international accounting standards, the IASB issued the standard IFRS 1, dedicated to the management of the first adoption of the international accounting standards. This standard provides for the submission of at least one set of comparative financial statements at the time of preparation of the first financial statements for which the international standards were applied. For Banca Popolare dell'Alto Adige, whose first financial statements prepared in compliance with the new accounting standards are those of 2006, the "transition date", that is the transition to the IAS/IFRS, occurred at the start of the previous fiscal year, that is, on 1 January 2005.

Banca Popolare dell'Alto Adige consequently prepared an opening balance sheet in compliance with the IAS/IFRS on the "date of transition to the IAS/IFRS" (1/1/2005). The accounting standards used on the date 1 January 2005 are those issued by the IASB and approved by Regulation (EC) no. 1725/2003, as later amended and supplemented, moreover in conformity with the classification and valuation options provided by some of the aforementioned standards, and that are analytically reported in the following paragraph.

In reference to the first adoption of the international accounting standards, IFRS 1 requires:

- the preparation of an opening balance sheet, in compliance with IAS/IFRS rules, on the transition date (1 January 2005);
- the adoption of the IAS/IFRS standards for the first financial statements prepared in conformity with the new standards, in addition to all the other accounting positions used as comparison;
- the preparation of a report illustrating the effects on the balance sheet and income statement entries, or on the cash flows, deriving from the transition to the IAS/IFRS.

The opening balance sheet must be in conformity with the IAS/IFRS, and therefore must:

- recognize all the assets and liabilities for which the relevant entries are required by the international accounting standards;
- write off the assets and liabilities whose relevant entries are not allowed by the IAS/IFRS;
- reclassify the items recognized according to the new rules;
- value all the assets and liabilities thus entered in accordance with the IAS/IFRS.

The adoption of the international accounting standards entailed, at the time of the transition, the need to make certain strategic choices on which the Banca's Board of Directors issued resolutions on 23 February 2006 through the approval of the document summarizing the hypothesized accounting choices, and which is described in what follows with reference to:

- classification of the financial instruments into IAS/IFRS categories;
- valuation methods in the presence of possible alternative options.

Taking into account the significance of the effects on the financial statements of Banca Popolare dell'Alto Adige, in compliance with what required by the standard IFRS 1, in the following pages are reported the effects deriving from the first-time adoption of the IAS/IFRS.

FIRST-TIME ADOPTION OF THE IAS/IFRS BY BANCA POPOLARE DELL'ALTO ADIGE

It is hereinbelow reported the summary table concerning the reconciliation of the bank's shareholders' equity and income statement results with those determined in conformity with the IAS/IFRS standards, as required by paragraph 39, letter a) and b) of IFRS 1. In conformity with the provisions of paragraph 38 of the same standard are also illustrated and commented upon the effects on the Banca's shareholders' equity and income statement resulting from the first time adoption of the IAS/IFRS .

It is pointed out that the reported effects were determined on the basis of the IAS/IFRS issued by the IASB and approved by the Regulation (EC) no. 1725/2003, as subsequently amended and supplemented, analytically illustrated in the "explanatory notes" reported at the bottom of the table containing the data on these effects.

As already mentioned hereinabove, the effects on the Bank's financial position and income statement associated with the adoption of the IAS/IFRS were determined by assuming 1/1/2005 as the "date of transition to the IAS/IFRS" (the "transition date"). The values reported, when not otherwise indicated, are expressed in thousands of Euro.

Table of transition to IAS/IFRS

Changes in Shareholders' Equity as at 31/12/2005 (in Euro)	Shareholders' Equity 31/12/2004	Changes in Shareholders' Equity in 2005	Effects on AFS reserve	Effects on Income Statement in 2005	Shareholders' Equity 31/12/2005
Shareholders' equity/result from statutory financial statements, excluding the reserve for general banking risks	292,499,987	15,919,637		17,368,681	323,388,305
of which:					
issue of share capital		2,424,344			
share premium reserve		15,346,097			
revaluation reserve fixtures and fittings		6,331,897			
2004 dividends paid in 2005		-8,182,701			
		15,919,637			
Reserve for general banking risks	22,500,000			-2,400,000	24,900,000
Shareholders equity/result statutory financial statements, including reserve for general banking risks	314,999,987	15,919,637		14,968,681	348,288,305
Effects of transition to IAS/IFRS, gross of tax effect					
1. Present-value discounting of non-performing loans	-4,619,204			-445,995	-5,065,199
2. Present-value discounting of problem loans	-3,436,494			-1,065,922	-4,502,416
3. Aggregate write-down	-17,532,803			-1,760,727	-19,293,530
4. Reversal reserve for loan losses – entry 90	25,556,212			8,914,890	34,471,102
5. Revaluation real estate assets IAS 16	74,643,807			-1,239,587	73,404,220
6. Revaluation fixtures and fittings as deemed cost IAS 16	8,774,801	-7,195,337		-1,579,464	0
7. Leasing effect IAS 17	3,687,979			1,470,784	5,158,763
8. Effect of Staff Severance Indemnities IAS 19	-923,498			-6,892	-930,390
9. Valuation of derivatives at FV	9,129,818			-4,032,199	5,097,619
10. AFS Equity investments, securities at FV included in the assets side, issued bonds	-6,427,687		171,865	3,931,133	-2,324,689
11. Other effects: minor	4,782			0	4,782
12. 2005 Allocation to reserve for general banking risks	0			2,400,000	0
Total effects of transition to IAS/IFRS	88,857,713	-7,195,337	171,865	6,586,021	86,020,262
Tax effects on transition to IAS/IFRS					
1. Present-value discounting of non-performing loans - 33% rate	1,524,337			147,179	1,671,516
2. Present-value discounting of problem loans - 33% rate	1,134,043			351,754	1,485,797
3. Aggregate write-down - 33% rate	5,785,825			581,040	6,366,865
4. Reversal reserve for possible loan losses - entry 90 - 33% rate	-8,433,550			-829,185	-9,262,735
5. Revaluation real estate assets IAS 16 – 37.25% rate	-27,804,818			461,746	-27,343,072
6. Revaluation fixtures and fittings as deemed cost IAS 16 - 37.25% rate	-3,268,613	863,440		2,405,173	0
7. Leasing effect IAS 17 – 37.25% rate	-1,373,772			-547,867	-1,921,639
8. Effect of Staff Severance Indemnities IAS 19 – 33% rate	304,754			2,275	307,029
9. Valuation of derivatives at FV – 37.25% rate	-3,400,857			1,501,994	-1,898,863
10. AFS Equity investments (including the Participation exemption effect), securities included in the assets side, issued bonds – 37.25% rate	2,394,313		-9,074	-1,464,347	920,892
11. Other effects: minor	0			0	0
Total tax effects on transition to IAS/IFRS	-33,138,338	863,440	-9,074	2,609,762	-29,674,210
Total IAS/IFRS adjustments	55,719,375	-6,331,897	162,791	9,195,783	56,346,052
IAS/IFRS Shareholders' Equity	370,719,362	9,587,740	162,791	24,164,464	404,634,357

INTERNATIONAL ACCOUNTING STANDARDS ADOPTED AND VALUATION METHODS

Below are reported the accounting choices made and the methods of classification, recognition, and valuation used for the financial statements' entries most significant for the purposes of determining the effects resulting from the first-time adoption of IAS/IFRS.

Property, plant and equipment

At the moment of the first-time adoption (FTA) of IAS/IFRS on 1/1/2005, the fair value was adopted on that date as "deemed cost" with respect to the real estate investments for productive use, and part of the investments in movable productive assets (furniture purchased by the Bank during the 1998-2004 fiscal years), as it was considered representative of the initial "deemed cost" for IAS purposes. The fair value of the real estate assets on the "transition date" was determined on the basis of a specific expert report prepared by the RUF company ad hoc retained, while for the movable assets the expert report was prepared by a technical expert internal to the bank. For the real estates assets comprising the land and everything above it, for which the ownership share is greater than 50%, the value of the relevant land was excluded from the value of the real estate investment.

Subsequently to the FTA, the valuation was performed as follows:

- for the property, plant and equipment for productive use by employing the "cost method", in conformity with what provided by the IAS 16, paragraph 30; for such property, their residual useful life was also re-determined, recalculating the depreciations pertaining to 2005; the value of the land, when separated, was not considered in the depreciation;

The remaining property, plant and equipment were recognized at the moment of the FTA at their book value as at 31/12/2004, considered as representative of the "deemed cost" for IAS purposes, and subsequently valued using the "cost method."

The fixed assets under a financial leasing contract were recognized according to the method prescribed by the IAS 17, which provides for the accounting recognition of the relevant asset on the assets side, its progressive amortization, recognition of the interest expense, and entry of the residual debt toward the lessor.

The real estate assets obtained through leasing were not included in a specific expert estimate on the "transition date", as such contracts were entered into in recent fiscal years and for these types of assets the Bank assumed a significant stagnation of the market value.

Intangible assets

The valuation was performed as follows:

the intangible fixed assets that met the recognition requirements provided by IAS 38 were kept at their book value as at 31/12/2005, considered representative of the "deemed cost" for IAS purposes, and subsequently valued employing the "cost method".

Tax assets/Tax liabilities

The entries for the tax assets/liabilities were performed in conformity with the IAS 12.

The effects resulting from the first-time adoption of IAS/IFRS were determined by computing – when deemed appropriate and correct – the relevant tax effect, advanced and deferred, using as tax rate 33% for IRES (Corporate Income Tax) and 4.25% for IRAP (Regional Business Tax).

It is also believed appropriate to point out that with respect to the reserves and credit balances from revaluations under tax deferment, the allocation for the relevant deferred tax was not made, in conformity with the provision contained in the IAS 12, paragraph 52b, which subordinates the allocation for a deferred tax liability concerning the reserves under deferred taxation to the decision of their distribution; in this respect, it is pointed out that the bank did not assume, nor does it consider it likely to assume over the short-medium term, any conduct that would meet the requirements for the payment of the deferred tax.

Due to banks/Due to customers

The amounts due to banks and customers were entered at the "amortised cost," assuming as initial value for IAS purposes the one reported in the financial statements as at 31/12/2004. No effects are therefore identified as resulting from the first-time adoption of IAS/IFRS.

Staff severance indemnities and other personnel costs

In making the premise that, according to the IFRIC, staff severance indemnities are treatable as a "benefit subsequent to the employment relationship", and therefore falling within the scope of the IAS 19, it is pointed out that the valuation performed by an independent actuary using the method prescribed for the "defined-benefit plan" identified a difference relative to the amount calculated according to the national rules. Consequently, the value resulting from the actuarial expert report was entered.

Provisions for risks and charges

No effects are identified as resulting from the first-time adoption of IAS/IFRS with respect to the entry "other provisions for risks and charges".

Reimbursable shares

There are no shares reimbursable to shareholders at a preset price. No effects are therefore identified as resulting from the first-time adoption of IAS/IFRS.

Portfolio securities and issued securities

The allocation of the securities in the portfolio as at 1/1/2005 in the category prescribed by the IAS 39 was performed according to the classification choices made by the Board of Directors on the date 23 February 2006, as summarized below. The securities, being classified in the category "financial assets held for trading", were measured at fair value as at 1/1/2005, recognizing in shareholders' equity the difference relative to their book value as at 31/12/2004. The valuation at fair value of the portfolio securities was performed using the methods hereinbelow described. The issued securities were classified among the liabilities valued at the "amortised cost", with the exception of those subject to the fair value option. It was assumed as initial value for IAS purposes the book value as at 31/12/2004, as the effect referable to the "transaction costs" incurred prior to such date does not represent a significant result. The securities issued by the bank itself and present in the bank's portfolio have been written off from among both the liabilities and assets in the financial statements, recognizing in shareholders' equity the possible difference.

Liabilities subject to the fair value option

With respect to the fair value option, it is pointed out that it was applied in the valuation of financial liabilities linked among them, that is, hedged through derivative contracts for which the adoption of hedge accounting resulted especially complex and difficult.

Due from banks

The value of the amounts due from banks entered in the financial statements coincides with their expected realisable value. This value is obtained subtracting from the total amount paid the relevant expected losses. No effects were identified as resulting from the adoption of IAS/IFRS.

Due from customers

The amounts due from customers are entered at their "amortised cost", reduced by the expected losses estimated with respect to each receivable or homogeneous categories of them. In order to calculate the "amortised cost", it was assumed as initial value for IAS purposes the book value as at 31/12/2004, because the effect referable to the "transaction costs" incurred prior to this date is not a significant result.

For what instead concerns the expected losses, they were determined as follows:

- non-performing loans: were used the expected losses determined at the time of preparation of the financial statements as at 31/12/04, increased by the effect associated with the present-value discounting calculated according to the estimates of the average collection periods determined on a historical-statistical basis;
- problem loans: for problem loans were assumed the expected losses estimated at the time of preparation of the financial statements as at 31/12/04, increased by the effect resulting from the present-value discounting applied to the positions for which losses are expected, for which the likelihood to transition to non-performing is to be considered high, and calculated according to estimates of the average collection periods of non-performing determined on a historical-statistical basis;
- restructured loans: were assumed the expected losses estimated at the time of preparation of the financial statements as at 31/12/04, increased by the expected losses calculated according to estimates of average collection periods determined on a historical-statistical basis;
- performing loans: for performing loans was carried out an assessment of the aggregate impairment. This valuation was made by applying a simplified method, which provides for the use of the one-year default probability (PD), to be interpreted as the probability that within a year the client defaults. This probability is determined by calculating the ratio, for the most recent 5 years, between the value of the performing loans become non-performing as well as the performing loans become problem (the latter adjusted in lump-sum fashion by a historical percentage of reversal to performing status of the problem loans) and the average value of the performing loans for the previous fiscal year. It is also used the percentage of loss on non-performing loans (PMS) determined according to the average historical loss on non-performing loans closed over the last 5 years, as the ratio between realised losses and amount entered as non-performing. The percentage of aggregate write-down is equal to the product $PD \times PMS$. Lastly, in determining the realisable value, it was also taken into account the effect resulting from present-value discounting, calculated on the basis of estimates of the collection periods of non-performing loans.

No write-downs were applied to the loans represented by repo transactions, because not subject to credit risk, and to the amounts due by Group companies.

Derivative contracts

Derivative contracts, because they are mostly to be linked to bonds issued by the Bank itself, were measured at fair value according to the method provided by the "fair value option".

Foreign operations

The premiums deriving from the differential between the forward exchange on the life of the outright options and the relevant spot exchange were subjected to present-value discounting.

Reserve for general banking risks

As a result of the adoption of IAS/IFRS, the "Reserve for general banking risks", already one of the entries included in shareholders' equity in accordance with the Law Decree 87/92, will be reclassified within the other reserves included in shareholders' equity.

Reserve for possible loan losses

The reserve for possible loan losses entered in the financial statements of this fiscal year had been recognized against only possible risk of loan losses and was constituted by allocations made in compliance with art. 71, 3rd paragraph, and taxed (adjustments for principal amounts of loans), and by allocations made in compliance with art. 71, 6th paragraph (adjustments for interest on arrears deemed collectible).

Depending on the types of reserves, at the time of first-adoption, it was reclassified as a reserve included in shareholders' equity the component relevant to loan capital because, being a reserve for only possible risks, it does not meet the requirements provided by the IAS 37 to be kept on the liabilities side of the balance sheet, and as a direct deduction from the receivables for interest on arrears, the component relevant to the adjustments for interest payments deemed collectible, consistently with the new approach that the Bank decided to adopt, that is, by considering the collected amount from non-performing positions as deduction first from the capital and then from the interest income.

Equity investments

Equity investments in subsidiaries, jointly controlled companies, and companies subject to substantial influence were valued at cost, and from their valuation emerged IAS/IFRS effects.

The equity investments classified among the "financial assets available for trading", if listed securities, were measured at fair value according to the methods hereinbelow described. If not listed, they were kept at cost, because of both the difficulty in determining the value representing the fair value and the scarce level of significance.

At the time of the "transition date" and on the date 31 December 2006 there were no equity investments classified among "non-current assets and groups of assets held for disposal"; if there are to be any in future fiscal years, the valuation will be performed at the lesser between the book value and the fair value, net of the selling costs.

Methods for the determination of the fair value of financial instruments

The fair value of the securities as at 1/1/2005 and at 31/12/2005 was determined as follows:

• Securities listed in active markets

As fair value of the financial instruments traded in an "active market" the following price configurations were assumed:

- equity securities and debt securities listed on the Italian Stock Exchange: the official price on the last day of trading during the reporting period;
- equity securities and debt securities listed on foreign Stock Exchanges: the official price (or other equivalent price) on the last day of trading during the reporting period;
- UCI shares (mutual funds and SICAVs): the official price (or other equivalent price) of the share on the last day of the reporting period.

• Securities not listed in active markets

As fair value of the financial instruments not traded in an "active met" the following price configurations were assumed:

- when available and reliable, the price provided by other information sources such as Bloomberg, Reuters, or other market maker platforms;
- when the price from Bloomberg, Reuters, or other market maker platforms is not available, such valuation methods are used as

- for national debt securities: the present value of the expected cash flows of the securities object of the valuation, determined according to the current rates of return (in terms of spread against a risk-free investment) at maturity for securities with similar maturity dates, and specifically:

- according to the swap rates with similar maturity dates for fixed-rate securities;

- according to the EURIBOR rates with the same maturity date for variable-rate coupon securities.

In determining the fair value of national debt securities, it was taken into account the possible "issuer's risk", considering also the residual maturity of the security and/or the "liquidity risk"; to this end, the price of the

securities as resulting from the adoption of the aforementioned methodology was adjusted for the "credit spread" corresponding to the credit risk associated with the issuer;

- for foreign debt securities: the last ICMA price registered during the reporting period;
- for UCI shares (mutual funds and SICAVs): the most recent share value released by the managing company;
- for insurance capitalisation contracts: the value accrued according to the issue settlement date.

Equity securities not traded in an "active market" for which the fair value cannot be determined reliably according to the aforementioned rules are valued at cost, adjusted to take into account possible impairments of their value.

The fair value of derivative contracts as at 1/1/2005 and at 31/12/2005 was determined as follows:

- derivative contracts traded on regulated markets: was assumed as fair value the market price of the last trading day of the fiscal year;
- over-the-counter (OTC) derivative contracts: was assumed as fair value the "market value" on the reference date determined according the following methods, depending on the type of contract:
 - interest rate contracts: the "market value" was represented also by the so-called "replacement cost", determined through present value discounting of the differences, on the expected settlement dates, between the flows calculated at the contract rates and the expected flows calculated at the market rate, objectively determined, current at year-end for the same residual maturity;
 - option contracts on securities, currencies, and other titles: the market value was represented also by the so-called "theoretical value" on the reference date, determined using the "Black & Scholes" method or other equivalent methods.

For OTC contracts, the fair value was determined by adjusting the market value, when positive, for the "credit risk" associated with the issuer.

The fair value of investments in equity instruments classified among the "financial assets available for sale" held as at 1/1/2005 and at 31/12/2005 was determined as follows:

- for investments in companies traded in "active markets": was assumed as fair value the market price of the last trading day of the fiscal year;
- for investments in companies not traded in "active markets": if of significant amount, was assumed as fair value the value resulting from independent expert reports or recent transactions, if available, or in lack thereof, the value corresponding to the stake of shareholders' equity held, as resulting from the most recent approved financial statements of the company; equity investments not significant in amount are kept at cost value.

COMMENTS ON THE EFFECTS OF THE TRANSITION TO THE IAS/IFRS ON SHAREHOLDERS' EQUITY AND INCOME STATEMENT

Below are illustrated and commented upon the effects on shareholders' equity and income statement of the Bank as resulting from the adoption of IAS/IFRS.

Effects on shareholders' equity as at 1/1/2005

The effects on shareholders' equity as at 1/1/2005 resulting from the adoption of the international accounting standards are reported hereinbelow:

- valuation of non-performing, problem, and restructured loans: the negative gross impact of 8,056 thousand Euro is entirely attributable to the effect resulting from the present-value discounting of collectible loans, not recognized according to the previous accounting standards;
- aggregate valuation of performing loans: the gross negative impact of 17,533 thousand Euro is attributable to the effect resulting from the direct write-down of the loans entered among the assets, prescribed by the IAS/IFRS, previously valued within the entry "reserve for possible loan losses";
- reserve for possible loan losses: the gross negative impact of 25,556 thousand Euro is attributable to the effect resulting from the reclassification in shareholders' equity of the portion referring only to the principal amount, recognized as a liability entry according to the previously accounting standards and instead not prescribed by the IAS/IFRS;
- Portfolio securities and issued securities: the gross negative impact of 6,428 thousand Euro is mainly ascribable to the effect of valuing at fair value the portfolio securities entered in the categories "financial assets held for trading", and measuring according to the method of the fair value option the issued securities "hedged" by derivative contracts;
- valuation of derivative contracts linked to the fair value option: the gross positive impact of 9,130 thousand Euro is referable to the valuation at fair value of the contracts linked to bonds issued by the Bank itself, referred to in the previous point;
- property, plant and equipment: the gross positive effect is attributable for 74,644 thousand Euro to the use of fair value as "deemed cost" of the real estate assets owned on the date of transition to the IAS/IFRS, and for 8,775 thousand Euro to the use of the fair value as "deemed cost" for the movable assets owned on the "transition date";
- leasehold assets: the gross positive impact equal to 3,688 thousand Euro is attributable to the effects resulting on the transition date from the adoption of the financial method prescribed by the IAS 17 for leasing contracts;
- Staff Severance Indemnities: the gross negative effect equal to 923 thousand Euro is attributable to the measurement according to the method prescribed by the IAS 19;

- other minor effects: the gross positive effect equal to 5 thousand Euro is attributable to present value discounting of the valuation of forward contracts for foreign operations;
- tax effect: the impact of advance taxation and/or deferred taxation associated with the effects listed hereinabove is negative for 33,138 thousand Euro.

Overall, net of the tax effect, the impact on shareholders' equity as at 1/1/2005 resulting from the adoption of the IAS/IFRS is positive in the amount of 55,719 thousand Euro.

Effects on the income statement as at 31/12/2005

The effects on the income statement for the 2005 fiscal year resulting from the adoption of IAS/IFRS are reported below:

- value adjustments on loans: the gross negative impact of 3,273 thousand Euro is attributable to the more substantive value adjustments pertaining to the 2005 financial year resulting from present value discounting for non-performing and problem loans, and from the aggregate write-down for performing loans ;
- allocation to reserve for possible loan losses: the gross positive impact of 8,915 thousand Euro is attributable to the elimination of the allocation for the principal amount not allowed by the IAS/IFRS;
- change in reserve for general banking risks: the gross positive effect of 2,400 Euro results from the reversal of the allocation paid into the relevant reserve, performed during the 2005 fiscal year, which can no longer be recognized according to the IAS standards;
- leasing: the gross positive impact of 1,471 thousand Euro results from the depreciations of the leasehold assets, relative to the principal amount of the fees entered in the income statement according to the previous accounting standards;
- value adjustments on loans: the gross negative impact of 2,819 thousand Euro is attributable to greater depreciations pertaining to the 2005 fiscal year on real estate and movable assets as a result of the significant write-up at fair value on the transition date, which increased considerably the computational basis of the annual depreciation;
- valuation of portfolio securities, derivative contracts, and issued securities linked to the fair value option: the gross negative impact of 101 thousand Euro is mostly attributable to the effects resulting from the valuation of the impact pertaining to 2005 deriving from the valuation at fair value of the portfolio securities, being substantially irrelevant the overall impact on the economic result associated with debt securities linked to the fair value option and the relevant derivative contracts;
- staff severance indemnities: the gross negative effect equal to 7 thousand Euro is attributable to the measurement according to the method prescribed by the IAS 19;
- tax effect: the impact of advance taxation and/or deferred taxation associated with the effects listed hereinabove is negative in the amount of 2,610 thousand Euro.

Overall, net of the tax effect, the impact on the profit for the 2005 fiscal year resulting from the adoption of IAS/IFRS is positive in the amount of 9,196 thousand Euro.

Effects on shareholders' equity as at 31/12/2005

The effects on shareholders' equity as at 31/12/2005 resulting from the adoption of the international accounting standards are reported hereinbelow:

- valuation of non-performing, problem, and restructured loans: the gross negative impact is equal to 9,568 thousand Euro;
- aggregate valuation of performing loans: the gross negative impact is equal to 19,294 thousand Euro;
- reserve for possible loan losses: the gross positive impact of 34,471 thousand Euro is attributable to the effect resulting from the reclassification in shareholders' equity of the portion referring only to the principal amount;
- valuation of portfolio securities, issued securities "hedged" by derivatives linked to the fair value option, derivative contracts: the gross positive impact of 2,601 thousand Euro is mostly attributable to the effect of the valuation at fair value of portfolio securities entered in the category "financial assets held for trading", and the measurement according to the fair value option of issued securities "hedged" by derivative contracts and the relevant derivative contracts;
- valuation of equity investments "available for sale" (AFS): the gross positive impact of 172 thousand Euro is attributable almost entirely to an equity investment that was listed on the stock market during 2005 and for which was recognized as an increase in assets for 2005 the total difference between the market value as at 31/12/2005 and the purchase price; such measurement did not have any impact on the income statement, as provided by the IAS 39 for the valuation of the financial instrument classified in the category "available for sale" (AFS)
- property, plant and equipment: the gross positive effect is attributable for 73,404 thousand Euro to the use of fair value as "deemed cost" of the real estate assets owned on the "transition date", adjusted for the 2005 depreciation charge;
- leasehold assets: the gross positive impact equal to 5,159 thousand Euro is attributable to the effects as at 31/12/2005 resulting from the adoption of the financial method prescribed by the IAS 17 for leasing contracts on the transition date;
- staff severance indemnities: the gross negative effect equal to 930 thousand Euro is attributable to the measurement according to the method prescribed by the IAS 19;
- other minor effects: the gross positive effect equal to 5 thousand Euro is attributable to the present value discounting of the valuation of forward contracts for foreign operations;

- tax effect: the impact of advance taxation and/or deferred taxation associated with the hereinabove mentioned effects is negative in the measure of 29,674 thousand Euro;

Overall, net of the tax effect, the impact on shareholders' equity as at 31/12/2005 resulting from the adoption of the IAS/IFRS is positive in the amount of 56,346 thousand Euro.

FINANCIAL STATEMENTS OF SUBSIDIARY COMPANIES

BERGER S.p.A.

- Registered office: I-39100 – Bolzano, Via del Macello, 55
- Share capital of 600,000.00 Euro, entirely subscribed and paid-in
- Company subject to management and coordination by Banca Popolare dell’Alto Adige Soc. Coop. a r.l.
- Member of the Business Register of Bolzano, No. 00097580211
- Tax code and VAT number 00097580211

Part of the “Popolare dell’Alto Adige S.C. a r.l. Bolzano Banking Group”

- **ASSETS**
- **LIABILITIES**
- **GUARANTEES AND COMMITMENTS**
- **INCOME STATEMENT**

IMMOBILIARE A & A S.r.l. – Single member company

- Registered office: I-39100 – Bolzano, Via del Macello, 55
- Company subject to management and coordination by Banca Popolare dell’Alto Adige Soc. Coop. a r.l.
- Share capital of 30,000.00 Euro, entirely subscribed and paid-in
- Member of the Business Register of Bolzano, No. 03340170277
- Tax code and VAT number 03340170277

- **ASSETS**
- **LIABILITIES**
- **GUARANTEES AND COMMITMENTS**
- **INCOME STATEMENT**

FINANCIAL STATEMENTS AS AT 31/12/2006

ASSETS	31/12/2006	31/12/2005
10. Cash and balances	-	-
20. Due from credit institutions	-	-
a) on demand	-	-
b) other	-	-
30. Due from financial institutions	-	-
a) on demand	-	-
b) other	-	-
40. Due from customers	200,542	204,814
50. Bonds and other fixed-income securities	-	-
a) public entities	-	-
b) credit institutions	-	-
c) financial companies	-	-
of which:	-	-
- treasury shares	-	-
d) other issuers	-	-
60. Shares, quotas, and other variable-return securities	-	-
70. Equity investments	-	-
a) valued at costs	-	-
b) other	-	-
80. Equity investments in group companies	-	-
a) valued at net assets	-	-
b) other	-	-
90. Intangible assets:	-	-
- founding costs	-	-
- goodwill	-	-
- leased	-	-
- spot price of handover in financial leasing	-	-
100. Property, plant, and equipment:	11,497,537	13,021,191
- leased	10,023,911	12,460,191
110. Subscribed capital unpaid:	-	-
- called capital	-	-
120. Treasury shares and quotas:	-	-
- nominal value	-	-
130. Other assets	126,369	106,586
140. Accrued income and prepaid expenses	-	-
a) accrued income	-	-
b) prepaid expenses	-	-
TOTAL ASSETS	11,824,448	13,332,591

BERGER S.p.A.

LIABILITIES	31/12/2006	31/12/2005
10. Due from credit institutions	6,826,190	8,306,644
a) on demand	4,174,025	4,681,741
b) other	2,652,165	3,624,903
20. Due from financial institutions	-	-
a) on demand	-	-
b) other	-	-
30. Due from customers	-	-
a) on demand	-	-
b) other	-	-
40. Securities issued	-	-
a) bonds	-	-
b) other securities	-	-
50. Other liabilities	31,423	36,707
60. Accrued income and prepaid expenses	-	-
a) accrued income	-	-
b) prepaid expenses	-	-
70. Staff severance indemnities	-	-
80. Provisions for risks and charges	-	-
a) provisions for pensions or similar commitments	-	-
b) provisions for taxation	-	-
c) other provisions	-	-
90. Provisions for possible loan losses	-	-
100. Provisions for general financial risks	-	-
110. Subordinate liabilities	-	-
120. Capital	600,000	600,000
130. Issue premiums	-	-
140. Reserves	269,235	269,235
a) legal reserve	59,298	59,298
b) reserve for treasury shares and quotas	-	-
c) statutory reserve	-	-
d) other reserves	209,937	209,937
150. Revaluation reserves	4,127,713	4,127,713
160. Profits (Losses) carried forward	(7,708)	-
170. Profits (Losses) for the year	(22,405)	(7,708)
TOTAL LIABILITIES	11,824,448	13,332,591

BERGER S.p.A.

GUARANTEES AND COMMITMENTS	31/12/2006	31/12/2005
10. Guarantees given	-	-
20. Commitments	-	-
TOTAL GUARANTEES AND COMMITMENTS	-	-

BERGER S.p.A.

INCOME STATEMENT	31/12/2006	31/12/2005
COSTS		
10. Interest expense and similar charges	426,784	392,326
20. Commission expense	-	-
30. Losses from financial transactions	-	-
40. Administrative expenses	37,327	54,853
a) personnel costs of which:		
- wages and salaries	-	-
- social security contributions	-	-
- staff severance indemnities	-	-
- pensions and similar commitments	-	-
b) other administrative expenses	37,327	54,853
50. Adjustments to property, plant and equipment and intangible assets	2,436,280	2,024,631
of which:		
- amortisation on assets in financial leasing	2,436,280	2,024,631
60. Other operating costs	-	-
70. Provisions for risks and charges	-	-
80. Provisions to the reserves for possible loan losses	-	-
90. Adjustments to loans and provisions for guarantees and commitments	-	-
100. Adjustments to financial assets	-	-
110. Extraordinary charges	-	-
120. Increase in provisions for general financial risks	-	-
130. Income taxes for the year	-	-
140. Profit for the year	-	-
TOTAL COSTS	2,900,391	2,471,810

BERGER S.p.A.

INCOME STATEMENT	31/12/2006	31/12/2005
REVENUES		
10. Interest income and similar income	-	6,654
of which:		
- on fixed-income securities	-	-
20. Dividends and other income	-	-
a) shares, quotas, and other variable-return securities	-	-
b) equity investments	-	-
c) equity investments in group companies	-	-
30. Commission income	-	-
40. Profit from financial transactions	-	-
50. Adjustments to loans and provisions for guarantees and commitments	-	-
60. Adjustments to financial assets	-	-
70. Other operating income	2,877,986	2,457,448
of which:		
- financial leasing fees	2,875,169	2,322,521
- capital gains for divestment of assets leased	-	-
80. Extraordinary income	-	-
90. Decrease in provisions for general financial risks	-	-
100. Losses for the year	22,405	7,708
TOTAL REVENUES	2,900,391	2,471,810

FINANCIAL STATEMENTS AS AT 31/12/2006

ASSETS	31/12/2006	31/12/2005
ASSETS	3,022,175	861,495
- Intangible assets	-	505
a) Cost	2,528	2,528
b) Accumulated amortisation	(2,528)	(2,023)
- Property, plant, and equipment	1,066,112	610,990
a) Cost	1,130,408	649,305
b) Accumulated depreciation	(64,296)	(38,315)
- Financial assets	1,956,063	250,000
CURRENT ASSETS	4,843,025	1,568,056
Stocks	2,374,962	1,488,645
Receivables	2,463,188	75,238
Cash equivalents	4,875	4,173
ACCRUED INCOME AND PREPAID EXPENSES	948	3,216
TOTAL ASSETS	7,866,148	2,432,767

IMMOBILIARE A&A S.r.l.

LIABILITIES	31/12/2006	31/12/2005
SHAREHOLDERS' EQUITY	365,382	404,230
Share capital	30,000	30,000
Legal reserve	6,000	2,000
Other reserves	2,505	2,503
Profits (Losses) carried forward	365,727	151,688
Profits (Losses) for the year	(38,850)	218,039
PROVISIONS FOR RISKS AND CHARGES	99,984	133,312
PAYABLES	7,400,782	1,895,225
TOTAL LIABILITIES	7,866,148	2,432,767

IMMOBILIARE A&A S.r.l.

GUARANTEES AND COMMITMENTS	31/12/2006	31/12/2005
Personal guarantees received	1,925,863	1,121,117
- Surety bonds received from the parent company	1,925,863	1,121,117
Personal guarantees given	2,950,000	-
- Surety bonds in behalf of associated companies	2,950,000	-
TOTAL GUARANTEES AND COMMITMENTS	4,875,863	1,121,117

IMMOBILIARE A&A S.r.l.

INCOME STATEMENT	31/12/2006	31/12/2005
VALUE OF PRODUCTION	565,173	2,388,653
Revenue from sales and services	526,606	1,828,810
Other revenue and income	38,567	559,843
COST OF PRODUCTION	413,196	2,032,353
For raw and ancillary materials, consumable materials, and goods	1,130,484	1,111,015
For services	37,159	155,696
Personnel costs	92,781	30,924
- Wages and salaries	62,561	20,436
- Social security contributions	20,980	7,183
- Staff severance indemnities	6,674	2,087
- Other costs	2,566	1,218
Amortisation, depreciation and write-downs	26,486	19,985
- Amortisation of intangible assets	505	506
- Depreciation of property, plant, and equipment	25,981	19,479
Change in stock of raw and ancillary materials, consumables, and goods	(886,317)	680,137
Other operating costs	12,603	34,596
Difference between value and cost of production	151,977	356,300
FINANCIAL INCOME AND (CHARGES)	(191,595)	-
Interest and other financial charges	(191,595)	-
- due to parent companies	(191,595)	-
EXTRAORDINARY INCOME AND (CHARGES)	(1)	-
Income	(1)	-
- other	(1)	-
Profit (loss) before tax	(36,619)	356,300
Taxes paid for the year, current and deferred	(769)	138,261
Profit (Loss) for the year	(38,850)	218,039

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report
pursuant to Art. 2409-ter of the Italian Civil Code and
Art. 116 of Legislative Decree No. 58 of 24/2/1998

To the Shareholders 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. as at 31 December 2006, consisting of the balance sheet, the income statement, the statement of changes in shareholders' equity, the cash flow statement, and relative explanatory notes. The responsibility for the preparation of the financial statements belongs to the directors of Banca Popolare dell'Alto Adige S.c. a r. l. It is our responsibility to express our professional opinion about the financial statements, based on our audit. The abovementioned financial statements were prepared, for the first time, in conformity with the International Financial Reporting Standards adopted by the European Union.
2. Our inspection was conducted according to the principles and criteria for auditing recommended by CONSOB. In conformity with these principles and criteria, the audit was planned and conducted for the purpose of obtaining every item necessary for ascertaining if the financial statements are marred by significant errors and if they are overall reliable. The auditing procedure is based on the inspection of samples and consists of the examination of items of proof that support the balances and data contained in the financial statements, as well as an evaluation of the adequacy and accuracy of the accounting criteria utilized and the reasonableness of the estimates made by administrators. We believe that the work that has been done provides a reasonable basis for expressing our professional opinion.

The financial statements show corresponding data from the previous financial year, calculated in conformity with the same accounting principles, for purposes of comparison. Furthermore, the attachment to the supplementary note shows the effects of the transition to the International Financial Reporting Standards adopted by the European Union, and includes information relative to the prospects of reconciliation provided for by IFRS 1, previously approved by the Board of Directors and subjected to audit by us, for which reference is made to the auditing report issued by us on 25 May 2006.

3. In our opinion, the financial statements of the Banca Popolare dell'Alto Adige S.c. a r.l. as at 31 December 2006 have been prepared in conformity with the International Financial Reporting Standards adopted by the European Union; furthermore, the statements have been prepared clearly and provide a true and fair view of the balance sheet and financial position, of the economic result, of the changes in shareholders' equity, and of the cash flows of the Banca Popolare dell'Alto Adige S.c. a r.l. for the financial year ending on that date.

Milan, 2 April 2007

BDO Sala Scelsi Farina
Società di Revisione per Azioni
Public Limited Auditing Company

[signature]
Paolo Scelsi
(Director)