bancaIFIS

**CONSOLIDATED QUATERLY REPORT**
**AS AT DECEMBER 31, 2005**

Share Capital: Euro 28,685,440 fully paid-in
Bank License No.: 3205
Tax and Company Registration Number: 02505630109
VAT number: 02992620274

**REGISTERED OFFICE AND HEADQUARTERS**
Via Terraglio, 63 – 30174 Mestre – Venice
Internet Address: www.bancaifis.it

**BRANCHES**
Piazza del Plebiscito, 55 – 60121 Ancona
Via C. Rosalba, 47/z – 70124 Bari
Viale Bonaria, 62 – 09125 Cagliari
Via Lungarno Cellini, 25 – 50125 Florence
Via A. Costa, 62 – 40026 Imola (Bo)
Via Volta, 16 – 20093 Cologno Monzese Milan
Via G. Porzio, 4 – Centro Dir. Isola E7 – 80143 Naples
Via De Paoli, 28/D – 33170 Pordenone
Via B. Croce, 6 – 00142 Rome
Via G. L. Lagrange, 35 – 10123 Turin
Via Terraglio, 63 – 30174 Mestre, Venice

**REPRESENTATIVE OFFICES**
Boulevard Burebista, 3 – Bucharest (Romania)
Bajza U., 50 – Budapest (Hungary)

**BOARD OF DIRECTORS**

| | |
|---|---|
| ***President*** | Sebastien Egon Fürstenberg |
| ***Vice President*** | Alessandro Csillaghy |
| ***CEO*** | Giovanni Bossi [1] |
| ***Directors*** | Leopoldo Conti<br>Roberto Cravero<br>Andrea Martin<br>Riccardo Preve<br>Marina Salamon |

**MANAGING DIRECTOR** Alberto Staccione

**BOARD OF STATUTORY AUDITORS**

| | |
|---|---|
| ***President*** | Mauro Rovida |
| ***Standing Auditors*** | Erasmo Santesso<br>Dario Stevanato |
| ***Alternate Auditors*** | Luca Giacometti<br>Francesca Rapetti |

**INDEPENDENT AUDIT FIRM** KPMG S.p.A.

Member of Factors Chain International

(1) The CEO has powers for the ordinary administration of the company.

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**CONSOLIDATED QUARTERLY REPORT AS AT DECEMBER 31, 2005**

# FINANCIAL STATEMENTS

**CONSOLIDATED BALANCE SHEET**
***(in thousands of Euro)***

| ASSETS | PERIOD 31/12/2005* | PERIOD 30/09/2005 | CHANGE ABSOLUTE | CHANGE % | PERIOD 31/12/2004 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 9 | 7 | 2 | 28.6% | 8 |
| Available-for-sale financial assets | 5,994 | 785 | 5,209 | 663.6% | 777 |
| Receivables from banks | 130,061 | 45,098 | 84,963 | 188.4% | 13,858 |
| Receivables from customers | 710,681 | 558,730 | 151,951 | 27.2% | 468,181 |
| Tangible fixed assets | 22,827 | 20,192 | 2,635 | 13.0% | 18,175 |
| Intangible fixed assets | 797 | 753 | 44 | 5.8% | 627 |
| Tax assets | 9,137 | 7,207 | 1,930 | 26.8% | 8,716 |
| a) current | 5,092 | 3,189 | 1,903 | 59.7% | 4,774 |
| b) deferred | 4,045 | 4,018 | 27 | 0.7% | 3,942 |
| Other assets | 5,213 | 2,923 | 2,290 | 78.3% | 2,053 |
| **TOTAL ASSETS** | **884,719** | **635,695** | **249,024** | **39.2%** | **512,395** |

| LIABILITIES | PERIOD 31/12/2005* | PERIOD 30/09/2005 | CHANGE ABSOLUTE | CHANGE % | PERIOD 31/12/2004 |
|---|---|---|---|---|---|
| Payables to bank | 627,528 | 466,089 | 161,439 | 34.6% | 296,045 |
| Payables to customers | 94,349 | 51,638 | 42,711 | 82.7% | 103,419 |
| Outstanding securities/securities issued | 35,509 | 35,952 | (443) | (1.2)% | 41,363 |
| Tax liabilities | 8,778 | 5,012 | 3,766 | 75.1% | 4,766 |
| a) current | 7,350 | 4,323 | 3,027 | 70.0% | 4,083 |
| b) deferred | 1,428 | 689 | 739 | 107.3% | 683 |
| Other liabilities | 16,934 | 13,043 | 3,891 | 29.8% | 11,640 |
| Employee leaving indemnity provision | 1,307 | 1,186 | 121 | 10.2% | 924 |
| Valuation reserve | 2,575 | 35 | 2,540 | n.s. | 35 |
| Reserves | 20,352 | 16,648 | 3,704 | 22.2% | 10,568 |
| Share premium reserve | 34,235 | 13,450 | 20,785 | 154.5% | 13,450 |
| Share capital | 28,685 | 21,450 | 7,235 | 33.7% | 21,450 |
| Treasury shares | (481) | --- | (481) | (100.0)% | --- |
| Net profit | 14,948 | 11,192 | 3,756 | 33.6% | 8,735 |
| **TOTAL LIABILITIES** | **884,719** | **635,695** | **249,024** | **39.2%** | **512,395** |

(*) Preliminary results. The Board of Directors will meet to approve the Annual Accounts for 2005 on March 13, 2006.

**INCOME STATEMENT**
***(in thousands of Euro)***

| | FY 2005 | | FY 2004 | | CHANGE 4th Qtr. 05/ 4th Qtr. 04 | |
|---|---|---|---|---|---|---|
| | 4th Qtr. 05 | 31/12/05* | 4th Qtr. 04 | 31/12/04** | Absolute | % |
| Interest and similar income | 8,078 | 27,985 | 5,827 | 21,636 | 2,251 | 38.6% |
| Interest and similar expenses | (4,186) | (12,505) | (2,263) | (8,114) | (1,923) | 85.0% |
| **Interest margin** | **3,892** | **15,480** | **3,564** | **13,522** | **328** | **9.2%** |
| Commission income | 7,525 | 24,170 | 4,598 | 15,108 | 2,927 | 63.7% |
| Commission expense | (503) | (1,547) | (400) | (1,186) | (103) | 25.8% |
| **Net commission** | **7,022** | **22,623** | **4,198** | **13,922** | **2,824** | **67.3%** |
| Dividends and similar income | 4,010 | 6,912 | 2,725 | 2,731 | 1,285 | 47.2% |
| Net result of trading operations | (4,192) | (6,882) | (2,620) | (2,525) | (1,572) | 60.0% |
| Net result of hedging operations | --- | --- | --- | 660 | --- | --- |
| Profit (loss) from transfer or buyback of: | 270 | 48 | (354) | (354) | 624 | (176.3)% |
| a) receivables | 429 | 559 | --- | --- | 429 | 100.0% |
| d) financial liabilities | (159) | (511) | (354) | (354) | 195 | (55.1)% |
| **Earning margin** | **11,002** | **38,181** | **7,513** | **27,956** | **3,489** | **46.4%** |
| Net adjustments on: | (1,457) | (3,977) | (860) | (4,054) | (597) | 69.4% |
| a) loans | (1,457) | (3,977) | (860) | (4,054) | (597) | 69.4% |
| **Net result of financial operations** | **9,545** | **34,204** | **6,653** | **23,902** | **2,892** | **43.5%** |
| Administration expenses | (3,790) | (13,389) | (3,004) | (10,295) | (786) | 26.2% |
| a) personnel costs | (2,329) | (8,416) | (1,737) | (6,566) | (592) | 34.1% |
| b) other administrative costs | (1,461) | (4,973) | (1,267) | (3,729) | (194) | 15.3% |
| Net adjustment of value of tangible assets | (155) | (562) | (161) | (545) | 6 | (3.7)% |
| Net adjustment of value of intangible assets | (97) | (311) | (81) | (248) | (16) | 19.8% |
| Other operating costs | 237 | 572 | 260 | 566 | (23) | (8.8)% |
| **Operating costs** | **(3,805)** | **(13,690)** | **(2,986)** | **(10,522)** | **(819)** | **27.4%** |
| **Pre-tax profit from current operations** | **5,740** | **20,514** | **3,667** | **13,380** | **2,073** | **56.5%** |
| Income tax on current operations for the period | (1,984) | (5,566) | (424) | (4,645) | (1,560) | 367.9% |
| **Parent company net profit** | **3,756** | **14,948** | **3,243** | **8,735** | **513** | **15.8%** |

(*) Period 01/01/2005-31/12/2005. Preliminary results. The Board of Directors will meet to approve the Annual Accounts for 2005 on March 13, 2006.
(**) Period 01/01/2004-31/12/2004

# NOTES TO THE FINANCIAL STATEMENTS

## Criteria for the preparation of the Financial Statements

Banca IFIS group's quarterly report as at December 31, 2005 has been prepared in compliance with the provisions issued by Consob Regulation No. 11971 of May 14, 1999 and subsequent modifications.
Based on the contents of article 82 of this Consob Regulation, Banca IFIS has prepared this quarterly report according to the IAS/IFRS accounting standards required for all annual and consolidated accounts for the current year.

Article 82 also requires that the contents of the quarterly report can alternatively be aligned with the provisions of Appendix 3D of the Issuing Regulation or with the requirements of IAS 34 in relation to interim financial statements.
Banca IFIS has prepared this quarterly report in compliance with Appendix 3D.

For information related to the first application of the IAS/IFRS, see the appendix of the half-year report as at June 30, 2005.

The quarterly report was prepared according to the principle of separation of periods, according to which the interim period is considered as a distinct accounting period. In this way, the interim income statement reflects the income statement components for the period based on the accrual method of accounting.

The result for the period is reported net of income taxes, which reflect the presumed expense for the period based on current and deferred taxes. Current taxes are calculated taking into account current tax rates and any applicable exemptions or tax allowances.
The financial statements used as a basis for the consolidation are those prepared by group companies as at December 31, 2005.

The quarterly report was not audited.

## Consolidation scope

The structure of the group as at December 31, 2005 was unchanged compared to June 30, 2005, and is composed of the parent company Banca IFIS S. p.A. and the 100% held subsidiary Immobiliare Marocco S. p.A., consolidated with the line-by-line method.

## Comparison

As required by Consob Regulation No. 11971 of May 14, 1999 and subsequent modifications, the consolidated balance sheet at December 31, 2005 is compared with the balance sheet of September 30, 2005 and December 31, 2004; in addition, a comparison is made between the income statement results at December 31, 2005 and December 31, 2004, and between the relevant quarter and the same quarter of the previous year.

## Accounting Principles

### *Financial assets valued at fair value*

Financial assets valued at fair value, with a corresponding income statement entry, must meet one of the following conditions:
a) be held for trading;
b) be designated as such at the time of initial recognition.
The fair value is the amount at which a financial asset can be exchanged in an arm's length transaction between knowledgeable and willing parties.

### *Available-for-sale financial assets*

These are financial assets which are not classified as loans and receivables, held-to-maturity investments or financial assets recorded at fair value through the income statement. These assets are held for an infinite period of time. Available-for-sale financial assets can include money market securities, other debt instruments and stocks.
Financial investments available-for-sale are initially recognised at fair value, which corresponds to the cost of the transaction including expenses and commissions.
For interest bearing instruments, interest is recognised at amortised cost, using the effective interest method. These investments are valued at fair value at the balance sheet date. The profit and loss resulting from the fair value variations are booked to net equity until the financial asset is derecognised, at which time the accumulated profit and loss is booked to the income statement.
If there is evidence that the asset has undergone a permanent reduction in value, the accumulated loss which was booked directly to net equity is transferred to the income statement. The amount of the total loss transferred from net equity and booked to the income statement is equal to the difference between the book value (acquisition cost net of any losses for the reduction in value previously booked to the income statement) and the fair value.
If the fair value of a debt instrument increases in a subsequent period and the increase

can be objectively related to an event that occurs in the period after the one in which the loss was recognised in the income statement, the loss is recovered with an entry of a corresponding amount in the income statement.
Losses booked reducing the value of stocks are not later recovered with effect on the income statement, even if the reasons for such write-downs no longer exist.

***Loans and receivables***

Loans are composed of non-derivative financial assets due from clients and banks, and which are not traded in an active market. Loans are recorded at the date they are provided to the counterpart.
After the initial recognition at their fair value, including transaction costs which are directly attributable to the acquisition or payment of the financial assets (even if not yet settled), loans are valued at amortised cost using the effective interest method. They are calculated considering the specific solvency position of counterparts with payment problems and any difficulties in specific industries or countries, and also take into consideration any existing guarantees, market rates of other financial instruments used as a reference and any negative economic trends regarding similar loan categories.
The collective valuation relates to asset portfolios for which there were no single elements of losses.
Profit (or loss) on loans are recognised in the profit and loss account when the financial asset in question is eliminated, or when it incurs a reduction in value. Interest income on loans are classified under "Interest and similar income" and recognised on the accruals basis.
A receivable is considered deteriorated, when it is deemed that it will probably not be possible to recover the entire amount, based on the original contractual conditions, or an equivalent value.
The write-downs are made based on the discounting of the expected cash flows for capital and interest, after collection charges and any advances received. In order to calculate the current value of cash flows, the fundamental elements are represented by the identification of the estimated collections, the related due dates and the discount rate to apply.
All problematic receivables are periodically reviewed and analysed. Each subsequent change in the amount or due dates of expected cash flows, which produces a negative variation compared to the initial estimates, results in a write-down of the receivables in the income statement.
If the quality of a deteriorated receivable improves and there is reasonable certainty of a timely recovery of the capital and interest, in keeping with the original contractual terms of the receivable, a write-back is recognised in the income statement, up to the limit of the amortised cost which would have occurred in the absence of the previous write-downs.
The entire elimination of a receivable is made when it is considered unrecoverable or liquidated in its entirety. Cancellations are booked directly to write-downs and are recorded as a reduction of the principle amount of the receivable. Partial or complete recoveries of previously written down amounts are recorded as a reduction of the net write-downs on receivables.

*Factoring*

In accordance with law 52/91, credit from loans to clients assigning their receivables are recorded and stated in the balance sheet only for the amounts paid to the assignor as an advance of the payment for the assigned recourse portfolio.
Non-recourse acquired receivables are recorded at their nominal value, after ascertaining the inexistence of any contractual clauses which cancel the transfer effect of all the risks and rewards.

*Elimination of financial assets*

Financial assets assigned or securitised are eliminated when all the related risks and rewards of ownership have been transferred. If the risks and rewards are maintained, these financial assets continue to be recorded, even if the legal ownership has actually been transferred.
Where an assigned financial asset is maintained, a financial liability is recorded equal to the amount collected at assignment.
If some but not all the risks and rewards have been transferred, the financial assets are only eliminated if no type of control has been maintained. If, instead, control has been maintained, the financial assets are booked proportionally to their residual holding.

With reference to the revolving reassignment of performing receivables due from assigned debtors, recognised according to the previously adopted accounting standards, it is noted that, according to the IAS/IFRS accounting standards and based on the fact that the reassignment does not involve the transfer of all the risks and rewards, the reassignment is recognised as a mere financing operation.

***Holdings in subsidiaries***

Subsidiaries are considered companies in which:

1) more than half the voting rights of a company are held, either directly or indirectly, unless, in exceptional cases, it can be clearly demonstrated that this possession does not constitute control;
2) half, or a smaller share, of the votes which can be exercised in the shareholders' meeting are held, and:
   a. control of more than half of the voting rights based on an agreement with other investors;
   b. the power to determine the financial and operating policies of the entity based on a statutory clause or a contract;
   c. the power to nominate or to remove the majority of the board members or members of an equivalent company body, and the management of the company is assigned to such board or body;
   d. the power to exercise the majority of the voting rights in meetings of the board of directors or equivalent company body, and the management of the company is assigned to such board or body;

The existence and effect of potential voting rights which can actually be exercised or converted are taken into consideration when evaluating if a company has the power to govern the financial and managerial policies of another company.

The book value of the holdings in subsidiaries consolidated under the line-by-line method, held by the parent company or other group companies, is eliminated against the recording of the subsidiary's assets and liabilities, against the corresponding fraction of net equity belonging to the group.

Balance sheet asset and liability accounts, off-balance sheet transactions, revenues and charges and the profits and losses between the companies included in the consolidation area are eliminated.

For companies included for the first time in the consolidation scope, the fair value of the cost incurred for obtaining the control of the subsidiary is measured at the acquisition date.

The acquisition cost is calculated as the sum of:

- the fair values, at the acquisition date, of the assets sold, liabilities undertaken and equity instruments issued by the buyer, in exchange for control of the acquired company;
- any cost directly attributable to the acquisition.

The acquisition cost is allocated to the identifiable assets, liabilities and potential liabilities which have been acquired, modifying the value to adjust it to their fair value.

***Tangible fixed assets***

This item includes tangible assets which are for operational use and those held for investment purposes as well as leased assets.

*Property, plant and equipment*

This item includes:

• land
• buildings
• furniture and furnishings
• EDP
• various machines and equipment
• transport vehicles

These are tangible fixed assets held for use in production or in supplying goods and services, or for administrative purposes and which are estimated to be in use for more than one period.

This item also includes assets used as a lessee for finance leasing contracts.

Finance leasing contracts are those which substantially transfer all the risks and rewards deriving from ownership of an asset to the lessee. The ownership of the asset is not necessarily transferred to the lessee at the end of the contract.

Buildings include all buildings held (propriety or lessee by means of a finance leasing contract) for company use and which are expected to be used for more than one fiscal year.

Tangible fixed assets are initially recognised at cost, including all directly attributable costs.

Subsequently incurred expenses are added to the book value of the asset or recognised as separate assets if it is probable that they will have future useful economic lives exceeding those initially estimated, and the cost can be reliably measured; otherwise they are recognised in the income statement.

Land and buildings are treated separately for accounting purposes, even when they are acquired jointly. Land is not depreciated since it is normally characterised by an infinite useful life. Buildings, instead, have a finite useful life, and therefore are depreciated.

Subsequent to their initial recognition, tangible assets are recorded at cost net of accumulated depreciation and permanent impairment in value.

Tangible assets with a finite useful life are depreciated on a straight line basis over their useful life.

Tangible assets with an infinite useful life, the remaining value of which is equal or greater than the book value of the asset, are not depreciated.

The useful life of tangible assets are reviewed at the close of each period and, if the expectations are not in line with the previous estimates, the depreciation rate for the current period and subsequent periods is adjusted.
If there is evidence that an asset may have incurred a reduction in value, a comparison is made between the book value of the asset with its recoverable value, equal to the greater value between fair value, less costs to sell and the relative value of use, intended as the current value of the future cash flows that are expected to originate from the asset. Any value adjustments are recognised in the income statement.
If the value of a previously written down asset is recovered, the new book value may not exceed the net book value that would have been calculated if no loss had been recognised for a reduction in the value of the asset in the previous years.
A tangible asset is eliminated from the balance sheet when it is disposed of or when no future economic benefits are forecast from its use or its disposal.

*Investment property*

These include all buildings held (as propriety or lessee by means of a finance leasing contract) for the purposes of obtaining rent and/or an appreciation of the invested capital.
The criteria of initial recognition, valuation and elimination for investment assets are the same as those used for other buildings.

***Intangible fixed assets***

Intangible fixed assets are non-monetary assets, identifiable even without a physical existence, from which it is probable to obtain future economic benefits.
Intangible assets are mainly related to software; they are recognised in the balance sheet at cost, represented by acquisition price and direct costs incurred to prepare the asset for use, net of accumulated amortisation and losses in value.
Intangible assets with a finite useful life are amortised on a straight-line basis based on their estimated useful life.
If there is evidence that an asset may have incurred a reduction in value, a comparison is made between the book value of the asset with its recoverable value, equal to the greater between fair value, less costs to sell, and the relative value of use, intended as the current value of the future cash flows that are expected to originate from the asset. Any value adjustments are recognised in the income statement.
Intangible assets with an infinite useful life are not amortised. The book value is compared with the recoverable value on an annual basis. If the book value is greater than the recoverable value, a loss equal to the difference between the two values is recognised in the income statement.
If the value of an intangible asset is recovered, excluding goodwill, which has been previously written down, the increased net book value may not exceed the net book value that would have been calculated if no loss had been recognised for a reduction in the value of the asset in the previous years.
An intangible asset is eliminated from the balance sheet when it is disposed of, or when no future economic benefits are forecast from its use or its disposal.

***Permanent impairment in value***

If it is probable that an asset has incurred a permanent impairment in value, its recoverability is verified by carrying out an impairment test on the asset, comparing the book value with its recovery value, defined as the greater between the fair value of the asset, less costs to sell, and its value of use. Any negative difference is considered as a permanent impairment in value and is recognised in the income statement.
An impairment test is carried out when specific elements such as obsolescence, or change in the economic context and market, lead to an expected permanent impairment in value.
Regardless of the occurrence of the afore-mentioned indicators, for intangible assets with an infinite useful life, an impairment test is carried out at least on an annual basis.
The use value of an asset is composed of the current value of future cash flows from the asset, calculated gross of taxes, by applying a discount rate which reflects the current time value of money and the specific risks of the asset.
The negative difference between the recoverable value of an asset and its book value constitutes a loss in value which must be recognised in the income statement.
If it is not possible to estimate the recoverable value of each single asset, a circumstance which may occur when the asset is not able to generate autonomous cash flows, the generating unit of cash flows that the asset refers to is identified.

### *Current and deferred taxes*

Income taxes, calculated in compliance with national tax laws, are recognised as a cost and are accrued in the same period as the profits they originate from.
For all the deductible temporary differences, a deferred tax asset is recognised, if it is deemed probable that taxable income will be used against this asset. A deferred tax liability must be recognised for all the taxable timing differences.
Deferred tax assets and liabilities are calculated by using the tax rates which are expected to be used during the period in which the tax asset will be realised, or the tax liability will be paid based on the laws in force at the time they are recognised.
Deferred tax assets and liabilities are offset when they are due to the same tax authority and the right to offset them is permitted by law.
Current and deferred taxes are booked to the income statement with the exception of those related to profits or losses on available-for-sale financial assets, which are booked directly to net equity.
Current or deferred taxes are debited or credited directly to net equity if they refer to entries which are directly credited or debited to net equity.

### *Debts, issued securities and subordinate liabilities*

Debts, issued securities and subordinate liabilities are initially recognised at their fair value, which corresponds to the payment received, net of transaction costs directly attributable to the financial liability. After the initial recognition at fair value, these instruments are subsequently valued at amortised cost, using the effective interest method.
Composite debt instruments, connected to equity instruments, foreign currency, credit or index instruments, are considered structured instruments. The embedded derivative is separate from the host contract and represents a derivative in itself if the separation criteria are met. The embedded derivative is recognised at its fair value and is later valued. Any fair value variations are recognised in the income statement.
The value corresponding to the difference between the total collected amount and the fair value of the embedded derivative is attributed to the host contract and later the amortised cost is measured.
Instruments convertible into newly issued own shares are considered as structured instruments and require recognition, at the date of issue, of a financial liability and a component of net equity.
The resulting remaining value is attributed to the net equity, after having subtracted the value separately calculated for a financial liability without a conversion clause and with the same cash flows from the total value of the financial instrument.
The financial liability is recognised net of the directly attributable transaction costs and later measured at the amortised cost using the effective interest method.
Own bonds, acquired for the purposes of investing available liquid assets are treated in compliance with IAS/IFRS, as settlement of the debt, even if these instruments are intended for resale. Profits or losses resulting from recognition of the repurchase as settlement are recognised in the income statement if the bond repurchase price is greater or lower than its book value.
Subsequent sale of own bonds on the market are treated as the issue of a new debt.

### *Employee leaving indemnity*

Italian law requires that each employee receive an indemnity when their employment contract with a company is concluded. This indemnity is called Employee leaving indemnity and is equal to the total of the amounts of Employment leaving indemnity set aside for each year of service.

This indemnity must be stated in the balance sheet for an amount calculated using actuarial techniques. The indemnity is considered a post-employment plan, similar to a defined benefit plan, since at the time when the employee concludes the employee/employer relationships, he will receive an amount calculated based on the length of service, the remuneration he has earned, and the inflation index.
The value of a defined benefit obligation is equal to the current value of forecasted future payments, required to settle the obligation, resulting from the work activity carried out by the employee over the years.

### *Stock options*

As remuneration of employee performance, employees are given shares representing the parent company capital which consist of assigning rights to subscribe paid increases in capital (called stock options).
Based on the difficulty of reliably valuing the fair value of an employee's performance as a valuation of the instruments representing the parent company capital, reference is made

to the fair value of the instruments, measured on the date of their assignment.
The fair value of payments settled with the issue of shares is broken down into constant rates in the period they mature and recognised in the income statement against the recording of an equity reserve.

***Recognition of revenues***

*Interest income and expense*

Interest income and expense is recognized in the profit and loss account for all the instruments valued according to the amortised cost method, using the effective interest method.
Interest also includes:

- recovery of the effect of discounting future financial cash flows;
- recovery of the effect of timing differences in relation to the actuarial valuation of the provisions for retirement allowance/ severance pay.

*Commissions*

Commissions are recognised based on the accrual method of accounting.
Management and guarantee commissions related to receivables acquired for factoring activities are recognised based on the duration of the receivable.

# BOARD OF DIRECTORS' REPORT AND SIGNIFICANT EVENTS IN THE PERIOD

**Income Statement**

***Net result from financial operations***

Banca IFIS continues to pursue its strategy of increasing market share by further developing its customer base and reinforcing its relationship with existing clients by focusing on products with the highest added value.
The Group net results from financial operations reflect the excellent levels of growth achieved, increasing from Euro 6,653 thousand in the fourth quarter of 2004 to Euro 9,545 thousand in the fourth quarter of 2005 (+43.5%).

There was a significant increase in the **earning margin**, increasing from Euro 7,513 thousand in the fourth quarter of 2004 to Euro 11,002 thousand in the fourth quarter of 2005 (+46.4%).
This increase compared to the same period of the previous year is due to the increase in loans and traded volumes achieved and the ability of the Bank to provide a high quality service to customers.
In detail, the **interest margin**, which amounted to Euro 3,892 thousand in the fourth quarter of 2005, increased by 9.2% compared to Euro 3,564 thousand in the same period in the previous year.
**Net commissions**, equal to Euro 7,022 thousand, a 67.3% increase compared to Euro 4,198 thousand in the fourth quarter of 2004, illustrate the capacity of the factoring business to generate added value through management and service for credit; the charges connected to this activity are diluted, above all, among personnel expenses.
The interest margin and net commissions as a percentage of the earning margin were respectively 40.5% and 59.3%.

The **net adjustments on loans** amounted to Euro 1,457 thousand, an increase of 69.4% compared to Euro 860 thousand in the fourth quarter of 2004. The higher provision is not attributable to the deterioration in the quality of the receivables due from customers reported by the Bank, but related to the continually negative general economic conditions which prevail, requiring greater prudence in the valuation of the recovery of the receivables.

***Pre-tax profit from current operations***

Pre-tax profit from current operations in the fourth quarter of 2005 amounted to Euro 5,740 thousand, an increase of 56.5% compared to Euro 3,667 thousand in the fourth quarter of 2004.

The **operating costs** increased in line with forecasts, due to the expansion in business and the increase in high quality personnel. In this regard, the selection of personnel dedicated to the management, control and collection of credit continues to have a primary role.
Operating costs totalled Euro 3,805 thousand in the fourth quarter of 2005 compared to Euro 2,986 thousand in the fourth quarter of 2004 (+27.4 %).
The growth in revenue, however, exceeded that of operating costs, resulting in an improvement in the ratio between operating costs and earning margin (cost/income ratio), which decreased to 35.9% compared to 37.3% at December 31, 2004.
The increase in **personnel expenses** (which amounted to Euro 2,329 thousand (+34.1%) is due to organic growth and corresponds to forecasts, while also taking into account the increase in the number of employees.

The increase in **other administrative expenses** which amounted to Euro 1,461 thousand, (+15.3%) are related to the further development of the business: professional consultancy and assistance, office rent, maintenance and IT assistance, and lastly, support for improved selection and control of receivables.

The **net value adjustments on intangible assets** (+19.8% compared to the fourth quarter of 2004) are mainly due to the improvements of IT support, while **net value adjustments on tangible assets** decreased (-3.7% compared to the fourth quarter of 2004).

**Other operating income** amounted to Euro 237 thousand (compared to Euro 260 thousand in the fourth quarter of 2004) and mainly include the recovery of expenses from third parties.

***Net profit***

The **income taxes on current operations** for the period are estimated at Euro 1,984 thousand.

**Net profit** amounts to Euro 3,756 thousand. In the absence of minority interest holdings, the result refers entirely to the group.

**The principal Balance Sheet accounts**

The parent company is almost exclusively involved in the factoring industry and states its loans/advances on assigned receivables under receivables from clients. In addition to the typical deposits made with the banking system, or wholesale in terms of client companies, securitisation continued to play a more significant role, along with interbank deposits on the *e-MID* platform and on direct bilateral contractual bases.

***Client receivables***

Total receivables due from clients at December 31, 2005 amounted to Euro 711 million, an increase from Euro 557 million at September 30, 2005 (+27.5%) and Euro 467 million at December 31, 2004 (+52.2%).
Total net loans, excluding net bad debts of Euro 6 million, totalled Euro 705 million, compared to Euro 553 million at September 30, 2005 and Euro 460 million at December 31, 2004.

***Doubtful receivables***

Total bad loans due from clients were Euro 5,921 thousand, a decrease of 4.9% compared to September 30, 2005 (-10.3% compared to December 31, 2004). The percentage of net bad loans out of total receivables due from clients decreased from 1.1% at September 30, 2005 to 0.8% at December 31, 2005. The adjustment in value totalled 77.9% of gross bad debts, a slight increase compared to 77.5% at September 30, 2005.
The total of difficult loans at net book values was Euro 1,698 thousand, a decrease of 41% compared to September 30, 2005. The percentage of net difficult loans out of total receivables due from clients decreased from 0.5% at September 30, 2005 to 0.2% at December 31, 2005.
The net doubtful receivables from clients amounted to Euro 7,671 thousand at December 31, 2005, a reduction of 16.2% compared to September 30, 2005. The percentage of the net doubtful debts on the total receivables decreased from 2.3% at December 31, 2004 to 1.6% at September 30, 2005 and to 1.1% at December 31, 2005. The percentage of the net doubtful debts on the shareholders' equity decreased from 19.4% at December 31, 2004 to 14 6% at September 30, 2005 and to 7.6% at December 31, 2005.

***Deposits***

Banca IFIS obtains the resources necessary for the financing of its activities, in addition to own resources, from the interbank market, from the net cash flow from the revolving reassignment of performing receivables owed by assigned debtors (initiated in October 2003), from the issue of a convertible bond in July 2004, and lastly from its customers. The total deposits at December 31, 2005 amounted to Euro 757,386 thousand, with an increase of 36.8%, compared to September 30, 2005. The payables to banks are composed of interbank deposits of Euro 499,509 thousand, with an increase of 43.5% compared to September 2005, and by the net funding deriving from the ceding of the commercial receivables portfolio, of Euro 128,019 thousand with an increase of 8.5% compared to September 30, 2005.
Deposits from customers, equal to Euro 94,349 thousand (+82.7% compared to September 30, 2005) were remunerated at indexed conditions or revisable in the short term, and advantageous for customers compared with alternative investments, and for the bank compared to the average deposit cost.
The "Banca IFIS 2004-2009" convertible bond, issued in July 2004 for a nominal amount of Euro 50 million, totalled Euro 35,509 thousand at December 31, 2005 (-1.2% compared to September 30, 2005). The debt instrument is recognised as a liability net of the buyback of own bonds which are treated, in compliance with the IAS standards, as settlement of the debt, even though these instruments are intended for later resale.

No savings management activity was started, as it is not part of the group's industrial plan.

***Tangible and intangible assets***

Intangible fixed assets totalled Euro 797 thousand, an increase of 5.8% compared to September 30, 2005, mainly due to the improvement of IT systems.
Tangible fixed assets recorded a slight increase, from Euro 20,192 thousand to Euro 22,827 thousand (+13%), due to renovation costs of the important historic building ("Villa Marocco"); a renovation and expansion plan has been designed and approved by the Eastern Veneto Arts and Monuments Office. In December 2005 a part of the building in which the above-mentioned restructuring work was concluded became the new headquarters of Banca IFIS.
The building in which Banca IFIS had its headquarters until December 2005 is also recorded under tangible assets (restructured in 1999 and occupied since 2001 - as are the representative office at Bucharest, a building in Padua and other buildings of a residual value.

### *Equity*

In the absence of assets attributable to third parties, the net equity of the group at December 31, 2005 was Euro 100,314 thousand, against Euro 62,775 thousand at September 30, 2005, and Euro 54,238 thousand at December 31, 2004. In the fourth quarter, the share capital increased by a total amount of Euro 30,540 thousand, following the share capital increase completed on December 13, 2005, as commented upon previously. Equity increased as a result of the profit in the period and as a result of recording reserves in accordance with IAS/IFRS standards.

### *Activity*

Banca IFIS continued its business in a profitable manner; it is primarily engaged in financial and management assistance to Italian and international small and medium enterprises through factoring.
In combination with advanced credit risk assessment and monitoring instruments, factoring represents an optimal answer to the financial service needs of SMEs, primarily in light of the new rules for calculating capital absorption for Banks which will come into effect starting in 2007 (Basel Concordat 2).
Focus continued to be placed on the selection of credit and geographical and industrial diversification, aimed at spreading credit risk.
International development, considered a medium-long term strategic goal of Banca IFIS, also continued.

## Other Information

### *Trading on the STAR*

Banca IFIS's ordinary shares and convertible bonds have been traded in the high-standard mid-cap segment (STAR) since November 29, 2004. The transfer to the STAR segment occurred after a year of having been listed on the Equity Share Market (MTA) of the Italian Stock Exchange. Previously, and as from 1990, the shares were traded on the Restricted Market (IMR) of the Italian Stock Exchange.

### *The impact of Basel Concordat 2*

Banca IFIS has started an evaluation of the impact of the new rules for measuring Capital and Capital ratios (Basel 2) which will come into effect on January 1, 2007.
Taking into account its core business areas, Banca IFIS should benefit from a non-marginal reduction for equity requirements against credit risk; this is due both to the relatively lower risk in providing loans for factoring activities, which was recognised by the Basel Committee, and also to the average duration of transactions - normally less than a year and more often than not, 3-6 months.
The equity absorption connected to the operating risk should not greatly worsen the situation in terms of total equity absorption.
The first quality evaluations following the new Agreement on capital thus lead to an overall improved result.

### *Operations on treasury shares*

The Shareholders' Meeting of October 10, 2005 renewed the authorisation to purchase and sell treasury shares, in accordance with Article 2357 and thereafter of the Civil Code, and Article 132 of Legislative Decree No. 58/98, establishing a price for which the shares may be acquired as between a minimum of Euro 3 and a maximum of Euro 30, for a maximum amount of Euro 8 million. The Shareholders' Meeting also established the duration of the authorisation as 18 months from the date of the resolution.
At December 31, 2005 Banca IFIS held 48,254 own shares for a value of Euro 481 thousand and a nominal value of Euro 48,254. At September 30, 2005 Banca IFIS did not hold any own shares.
During the fourth quarter of 2005, Banca IFIS acquired, at the average price of Euro 10.21, 359,898 own shares at a counter value of Euro 3,676 thousand and a nominal value of Euro 359,898, and sold at an average price of Euro 10.25, 311,644 of its own shares for a counter value of Euro 3,195 thousand and a nominal value of Euro 311,644, realising net gains of Euro 5 thousand.

### *Transactions on own bonds*

In order to invest available liquid assets, Banca IFIS partly reacquired the convertible bonds that it previously issued. At December 31, 2005, the Bank held 1,141,722 own bonds entered for a total value of Euro 14,672 thousand and a nominal value of Euro 14,272 thousand. During the fourth quarter, Banca IFIS acquired 72,300 own bonds for a value of Euro 1,036 thousand. The balance at the beginning of the period equalled 1,069,422 bonds for a counter value of Euro 13,636 thousand.

## Outlook

The outlook for 2006 does not show tangible signs of im-

provement compared to previous years. The attitude of the banking system to financing SMEs will presumably continue to be modest, on the one hand generating stress on the financial situation of companies, but on the other, allowing a wide opening for factoring operators who wish to improve their market share in the small and medium enterprise sector.
The prospects for Banca IFIS continue to be positive and permit an optimistic outlook for the overall operating trend, despite the remaining uncertainties related to the macroeconomic situation for industrial SMEs, Banca IFIS's typical customer.

**Significant events after the end of the period**

***Appointment of new members to the Board of Directors***

The Shareholders' Meeting of October 10, 2005 integrated two new directors, the entrepreneurs Marina Salamon and Riccardo Preve, after re-determining the number of directors as eight. The new board members will remain until the term of the Board of Directors expires, i.e. when the financial statements for December 31, 2006 are approved.

***Increase in share capital***

The extraordinary Shareholders' Meeting at October 10, 2005 passed resolutions to:

a. increase scrip capital, by using the share premium reserve, for a maximum amount of Euro 2,545,000 by issuing a maximum of 2,545,000 shares with a nominal value of Euro 1, of which 2,145,000 shares assigned to shareholders in the amount of 1 new share for every 10 held, and 400,000 shares to be assigned to holders of the Banca IFIS 2004-2009 convertible bonds, subordinate to having exercised the conversion option. The conversion ratio of the bonds convertible into Banca IFIS shares was thus recalculated to 1 share for each bond held.
b. increase paid capital by a maximum of 10,180,000 new shares with a nominal value of Euro 1 and share premium of Euro 5 per share, for a total value of 61,080,000 for shareholders and convertible bond holders, by the issue of:
   - n. 5,090,000 shares cum warrant and
   - n. 5,090,000 shares backing the warrant which can circulate autonomously for a period from August 1, 2007 to July 31, 2008.

   The option ratio is of one new share for every 5 shares or convertible bonds held before the increase in scrip capital.

On December 13, 2005 the share capital increase together with the "Warrant Banca IFIS 2005-2008" was successfully completed, and therefore all of the 5,090,000 ordinary shares together with warrants were subscribed for a total value of Euro 30,540,000. At the end of the above-mentioned subscription, the share capital of Banca IFIS was Euro 28,685,440 represented by 28,685,440 ordinary shares.

**Significant event after December 31, 2005**

***Investment grade from Fitch for Banca IFIS***

On February 10, 2006, the international rating agency Fitch assigned to Banca IFIS the rating "*BBB-*", improving the valuation by one level.
This increase, the most important as it transforms the valuation of the Bank from "speculative" to "investment", opens new scenarios and new opportunities.
In particular, Fitch has improved the Long Term valuation that changes from "BB+" to "BBB-"; the Short-Term valuation to "F3" (from "B"), the Individual to "C" (from "C/D"); in addition the agency confirmed the Support Rating to "5". The outlook is stable.

***Agreement for the transfer of Fidis Faktoring Polska from FIDIS (Fiat Group) to Banca IFIS***

In relation to their respective strategies, a preliminary agreement was signed between Banca IFIS and FIDIS on February 3, 2006 for the transfer to Banca IFIS of Fidis Faktoring Polska, a Polish operator currently specialised in factoring which provides financial support in relation to the local production of the Fiat Group.
The value of the operation was approximately Euro 5.1 million.
The acquisition is fully in line with the strategic objectives of the Bank which wishes to create its own specialised international factoring network in Europe and in other potential areas of interest.
The acquisition is financed with Bank resources and does not result in any significant changes in the balance sheet structure or in the underlying financial indicators required by the Authorities of the "Istituto di Credito".
The agreement is expected to be completed in the second quarter of 2006 and is conditional on the Banca IFIS obtaining the necessary authorisation from the Supervisory Authorities.
No other significant events occurred after the closing date for

the period up to the approval of this report.

*Mestre, Venice, February 14, 2006*

For the Board of Directors
*The President*
Sebastien Egon Fürstenberg

*The CEO*
Giovanni Bossi

| BREAKDOWN OF CUSTOMERS BY GEOGRAPHIC AREA | LOANS | TURNOVER |
|---|---|---|
| North Italy | 34.2% | 46.0% |
| Central Italy | 37.4% | 26.3% |
| South Italy | 22.0% | 12.9% |
| Overseas | 6.4% | 14.8% |
| **Total** | **100%** | **100%** |

| | BREAKDOWN OF CUSTOMER BY PRODUCT CATEGORY | LOANS | TURNOVER |
|---|---|---|---|
| 051 | Agriculture, forestry and fish products | 0.1% | 0.2% |
| 052 | Energy products | 0.2% | 0.0% |
| 053 | Minerals and ferrous and non-ferrous metals | 0.7% | 0.8% |
| 054 | Minerals and mineral based products | 0.6% | 1.1% |
| 055 | Chemical products | 0.3% | 0.4% |
| 056 | Products in metal excluding machines and equipment | 6.9% | 7.6% |
| 057 | Agricultural and industrial machines | 1.7% | 2.7% |
| 058 | Machines for offices, data processing and precision machinery | 0.5% | 0.5% |
| 059 | Electrical material and supplies | 2.1% | 5.8% |
| 060 | Transportation vehicles | 3.5% | 5.6% |
| 061 | Food and beverage products | 0.5% | 0.7% |
| 062 | Textile, leather, shoe and clothing products | 3.0% | 2.9% |
| 063 | Paper, printing and publishing | 0.2% | 0.3% |
| 064 | Rubber and plastic products | 1.3% | 2.6% |
| 065 | Other industrial products | 1.3% | 0.8% |
| 066 | Construction and public works | 8.9% | 7.6% |
| 067 | Wholesale and retail trade. recoveries and repair | 7.4% | 9.0% |
| 068 | Hotel and public establishment services | 0.6% | 0.5% |
| 069 | Internal transportation services | 1.1% | 0.9% |
| 070 | Maritime and air transportation services | 0.6% | 0.5% |
| 071 | Transportation related services | 0.7% | 1.2% |
| 072 | Telecommunications services | 0.6% | 0.1% |
| 073 | Other services for sale | 15.5% | 33.4% |
| 000 | Non classifiable | 41.9% | 14.8% |
| | *of which non-resident subjects* | *6.4%* | *14.8%* |
| | *of which financial institutions* | *0.1%* | *0.0%* |
| | *of which others* (1) | *35.4%* | *0.0%* |
| | **Total** | **100%** | **100%** |

*(1)* The item in question includes Banca IFIS's investment in companies operating in the healthcare and auxiliary services sectors