# Banca Popolare di Sondrio

# ANNUAL REPORT 2004

# Banca Popolare di Sondrio

Founded 1871

# ORDINARY ANNUAL GENERAL MEETING OF THE SHAREHOLDERS HELD ON 5 MARCH 2005

Limited liability co-operative bank
Head office in Piazza Garibaldi 16, 23100 Sondrio, Italy
Tel. (0342) 528.111 – Fax (0342) 528.204
Website: http://www.popso.it – e-mail: popso@popso.it

Sondrio Companies Register no. 00053810149 – Official List of Banks no. 842
Parent Company of the Banca Popolare di Sondrio Group –
Official List of Banking Groups no. 5696.0 – Member of the Interbank Deposit Protection Fund
Fiscal code and VAT number: 00053810149
Share capital: € 660,317,109 – Reserves: € 406,617,469

## BOARD OF DIRECTORS

| | |
|---|---|
| *Chairman and Chief Executive Officer* | PIERO MELAZZINI* |
| *Deputy Chairman* | CARLO GRASSI** |
| *Directors* | ALDO BALGERA<br>CLAUDIO BENEDETTI<br>GIANLUIGI BONISOLO*<br>FEDERICO FALCK<br>GIUSEPPE FONTANA<br>MARIO GALBUSERA<br>NICOLÒ MELZI DI CUSANO<br>MILES EMILIO NEGRI*<br>ALDO ROSSI<br>RENATO SOZZANI*<br>LINO ENRICO STOPPANI<br>BRUNO VANOSSI<br>FRANCESCO VENOSTA* |

* Members of the Chairman's Committee
** Secretary to the Board of Directors and member of the Chairman's Committee

## BOARD OF STATUTORY AUDITORS

| | |
|---|---|
| *Chairman* | EGIDIO ALESSANDRI |
| *Acting Auditors* | PIO BERSANI<br>PIERGIUSEPPE FORNI |
| *Substitute Auditors* | MARCO ANTONIO DELL'ACQUA<br>MARIO VITALI |

## ADVISORY COMMITTEE

| | |
|---|---|
| *Advisors* | ALBERTO CRESPI<br>GIUSEPPE GUARINO<br>ANDREA MONORCHIO |
| *Substitute Advisors* | SUSANNA AGNELLI<br>ANTONIO LA TORRE |

## GENERAL MANAGEMENT

| | |
|---|---|
| *General Manager* | MARIO ALBERTO PEDRANZINI |
| *Deputy General Managers* | GIOVANNI RUFFINI<br>GIOVANNI CARLO MASSERA<br>GIUSEPPE FRANCO PAGANONI |

# B R A N C H  N E T W O R K

## MANAGEMENT AND HEAD OFFICE

SONDRIO, piazza Garibaldi 16

**BRANCH OFFICE**

• Organizzazione e Sistemi Informativi, Service Centre «F. Morani» - via Ranée 542 S. Pietro Berbenno (So) • INTERNATIONAL - lungo Mallero Cadorna 24 Sondrio • COMMERCIAL BANKING, PUBLIC ENTITIES AND TREASURIES, SUPPLY OFFICE, TECHNICAL OFFICE, SAFETY AND SECURITY - corso Vittorio Veneto 7 Sondrio

**PROVINCE OF SONDRIO**

*Head office:* SONDRIO, piazza Garibaldi 16

Sondrio: • Agenzia n. 1, via Bernina 1 • Agenzia n. 2, via Nani 32 • Agenzia n. 3, via Stelvio 25, ingresso Ospedale Civile • Agenzia n. 4, piazzale Bertacchi 57 angolo via Nazario Sauro • Agenzia n. 5, galleria Campello 2

• Albosaggia • Aprica • Ardenno • Bormio, via Roma 131 angolo via don Peccedi • Bormio, Agenzia n. 1, via Roma 64 • Campodolcino • Chiavenna • Chiesa in Valmalenco • Chiuro • Colorina • Delebio • Gordona • Grosio • Grosotto • Isolaccia Valdidentro • Lanzada • Livigno, via Sant'Antoni 135 • Livigno, Agenzia n. 1, via Saroch 160 • Madesimo • Madonna di Tirano • Mazzo di Valtellina • Montagna in Valtellina - località Al Piano • Morbegno, piazza Caduti per la Libertà 7 • Morbegno, Agenzia n. 1, via V Alpini 172 • Novate Mezzola • Nuova Olonio • Passo dello Stelvio • Piantedo • Ponte in Valtellina • Regoledo di Cosio • San Cassiano Valchiavenna • San Nicolò Valfurva • San Pietro Berbenno • Semogo • Sondalo • Talamona • Teglio • Tirano • Traona • Tresenda • Villa di Chiavenna • Villa di Tirano

**PROVINCE OF BERGAMO**

• BERGAMO, via Broseta 64/b angolo via Zendrini

Bergamo: • Agenzia n. 1, via Vittore Ghislandi 4

• Bonate Sotto • Carvico • Cisano Bergamasco • Gazzaniga • Grumello del Monte • Osio Sotto • Romano di Lombardia

**PROVINCE OF BOLZANO**

• BOLZANO, viale Amedeo Duca d'Aosta 88 - Duca d'Aosta Allee 88

• Merano

**PROVINCE OF BRESCIA**

• BRESCIA, via Benedetto Croce 22

Brescia: • Agenzia n. 1, via Crocifissa di Rosa 59 • Agenzia n. 2, via Solferino 61

• Berzo Demo • Bienno • Breno • Collebeato • Darfo Boario Terme • Desenzano del Garda • Edolo • Gardone Val Trompia • Lumezzane • Ospitaletto • Palazzolo sull'Oglio • Pisogne • Ponte di Legno • Sale Marasino • Salò • Toscolano Maderno

**PROVINCE OF COMO**

• COMO, viale Innocenzo XI 71 angolo via Benzi

Como: • Agenzia n. 1, via Giulini 12 • Agenzia n. 2, via Statale per Lecco 70 (fraz. Lora) • Agenzia n. 3, via Asiago 25 (fraz. Tavernola)

• Arosio • Bellagio • Bregnano • Campione d'Italia • Cantù • Carimate • Carlazzo • Domaso • Dongo • Gera Lario • Gravedona • Lurago d'Erba • Menaggio • Merone • Sala Comacina • San Fedele Intelvi • San Siro • Villa Guardia

**PROVINCE OF CREMONA**

• CREMONA, via Dante 149/a

• Crema • Pandino • Rivolta d'Adda

**PROVINCE OF LECCO**

• LECCO, corso Martiri della Liberazione 65

Lecco: • Agenzia n. 1, viale Filippo Turati 59 • Agenzia n. 2, piazza XX Settembre 11 • Agenzia n. 3, corso Emanuele Filiberto 104 (fraz. Maggianico) • Agenzia n. 4, viale Montegrappa 18

• Abbadia Lariana • Bosisio Parini • Casatenovo • Colico • Dervio • Lomagna • Mandello del Lario • Nibionno • Oggiono • Pescate • Primaluna • Valmadrera • Varenna

**PROVINCE OF LODI**

• LODI, via Gabba 5

**PROVINCE OF MANTUA**

• MANTUA, via Arrivabene 2

**PROVINCE OF MILAN**

*Head office:* MILAN, via Santa Maria Fulcorina 1

Milan: • Agenzia n. 1, via Porpora 104 • Agenzia n. 2, viale Faenza 22 • Agenzia n. 3, AEM, corso Porta Vittoria 4 • Agenzia n. 4, Ente Regione Lombardia, via Taramelli 20 • Agenzia n. 5, via degli Imbriani 54 angolo via Carnevali • Agenzia n. 6, via Marco d'Agrate 11 • Agenzia n. 7, via Principe Eugenio 1 • Agenzia n. 8, via Lessona angolo via Trilussa 2 • Agenzia n. 9, c/o ALER, viale Romagna 24 • Agenzia n. 10, via Solari 15 • Agenzia n. 11, Università Bocconi, via Ferdinando Bocconi 8 • Agenzia n. 12, via delle Forze Armate 260 • Agenzia n. 13, viale Monte Santo 8 angolo via Galilei • Agenzia n. 14, via privata Cesare Battisti 2 • Agenzia n. 15, via Gioacchino Murat 76 • Agenzia n. 16, Ortomercato, via Cesare Lombroso 54 • Agenzia n. 17, Uffici del Territorio, via Manin 29 • Agenzia n. 18, viale Belisario 1 angolo via Tiziano • Agenzia n. 19, via Giambellino 39 angolo via Vignoli • Agenzia n. 20, via Canova 39 angolo corso Sempione • Agenzia n. 21, Politecnico, via Edoardo Bonardi 4 • Agenzia n. 22, via Santa Sofia 12 • Agenzia n. 23, viale Certosa 62 • Agenzia n. 24, viale Piave 1 angolo via Pindemonte

• Albiate • Bernareggio • Carate Brianza • Cinisello Balsamo • Desio • Lissone • Monza, via Galileo Galilei 1 angolo via Michelangelo Buonarroti • Monza, Agenzia n. 1, via Manzoni 33/a • Pero • Segrate • Seregno, via Formenti 1 - Servizio Titoli e Borsa, via Formenti 5 • Sesto San Giovanni • Villasanta

**PROVINCE OF NOVARA**

• NOVARA, via Andrea Costa 7

**PROVINCE OF PAVIA**

• PAVIA, piazzale Ponte Coperto Ticino 11
Pavia: • Agenzia n. 1, corso Strada Nuova 75
• Vigevano • Voghera

**PROVINCE OF PIACENZA**

• PIACENZA, via Palmerio 11

**PROVINCE OF ROME**

*Head office:* ROME, viale Cesare Pavese 336
Rome: • Agenzia n. 1, viale Val Padana 2 • Agenzia n. 2, via Silvestro Gherardi 45 • Agenzia n. 3, via Trionfale 22 • Agenzia n. 4, piazza Biagio Pace 1 • Agenzia n. 5, piazza Santa Maria Consolatrice 16/b • Agenzia n. 6, via Cesare Baronio 12 • Agenzia n. 7, viale di Valle Aurelia 59 • Agenzia n. 8, viale Somalia 255 • Agenzia n. 9, località Casal Palocco, piazzale Filippo il Macedone 75 • Agenzia n. 10, via Laurentina 617/619 • Agenzia n. 11, via Carlo Alberto 6/a • Agenzia n. 12, circonvallazione Cornelia 295 • Agenzia n. 13, via Foligno 51/a • Agenzia n. 14, largo delle Sette Chiese 6 angolo via della Villa di Lucina • Agenzia n. 15, via della Farnesina 154 • Agenzia n. 16, via Nomentana 925/a angolo via Trissino • Agenzia n. 17, piazza dei Sanniti 10/11 • Agenzia n. 18, località Infernetto, via Wolf Ferrari 348 angolo via Franchetti • Agenzia n. 19, piazza Filattiera 24 • Agenzia n. 20, via Caio Canuleio 29 • Agenzia n. 21, via Famiano Nardini 25 • Agenzia n. 22, via Cesare Giulio Viola 31, presso World Food Programme

**PROVINCE OF VARESE**

• VARESE, viale Belforte 151
Varese: • Agenzia n. 1, piazza Monte Grappa 6
• Bisuschio • Busto Arsizio • Carnago • Castellanza • Gallarate • Lavena Ponte Tresa • Luino • Malpensa 2000 • Marchirolo • Solbiate Olona

**PROVINCE OF VERBANO-CUSIO-OSSOLA**

• Gravellona Toce

**TEMPORARY BRANCH**

• Milan Trade Fair, piazzale Italia angolo viale dell'Industria, pavilion 26

**REPRESENTATIVE OFFICES**

• GENEVA, rue du Cendrier 12/14 (representative office)
• Hong Kong (with other banking partners)
• Montreal • New York • Mexico City • Montevideo • Saõ Paulo • Prague • Budapest • Warsaw • Moscow • Cairo • Beijing • Mumbai • Tokyo • Lima (with PROMOS - Special agency of the Milan Chamber of Commerce for international activities)

**MOBILE BRANCH** Autobanca

**FOREIGN SUBSIDIARY**

BANCA POPOLARE DI SONDRIO (SUISSE) SA

Switzerland

*Head office:* LUGANO, via Maggio 1
• Basilea, Greifengasse 18 • Bellinzona, viale Stazione 26 • Castasegna, località Farzett • Celerina, via Maistra 104 • Chiasso, corso San Gottardo 30 • Coira, Bahnhofstrasse 9 • Locarno, piazza Muraccio • Lugano - Cassarate, piazza E. Bossi 2 • Poschiavo, strada San Bartolomeo • San Gallo, Teufenerstrasse 3 • St. Moritz, via Dal Bagn 9 • Zurigo, Uraniastrasse 14

Principality of Monaco

• Monaco, 3 rue Princesse Florestine

**FIDUCIARY CONSULTANTS**

• Unione Fiduciaria spa (Milan) • Sofipo Fiduciaire SA (CH Lugano)

**TREASURY OFFICES**

• Albano S. Alessandro (Bg) • Albiolo (Co) • Almé (Bg) • Appiano Gentile (Co) • Azienda Ospedaliera S. Paolo (Mi) • Bariano (Bg) • Barzago (Lc) • Bellano (Lc) • Bianzone (So) • Binago (Co) • Bovisio Masciago (Mi) • Brembate (Bg) • Briosco (Mi) • Brusimpiano (Va) • Buglio in Monte (So) • Bulgarograsso (Co) • Canzo (Co) • Carate Urio (Co) • Carugo (Co) • Casnate con Bernate (Co) • Cassago Brianza (Lc) • Castellanza-2 (Va) • Castelmarte (Co) • Cedrasco (So) • Cevo (Bs) • Cilavegna (Pv) • Coccaglio (Bs) • Colle Brianza (Lc) • Como A.C.S.M. • Cortefranca (Bs) • Cortenedolo (Bs) • Cosio Valtellino (So) • Cugliate Fabiasco (Va) • Erbusco (Bs) • Fino Mornasco (Co) • Garzeno (Co) • Gianico (Bs) • Guanzate (Co) • Lanzo d'Intelvi (Co) • Lonate Pozzolo (Va) • Lonato (Bs) • Macherio (Mi) • Malgrate (Lc) • Marmirolo (Mn) • Marone (Bs) • Maslianico (Co) • Milano ASP Golgi Redaelli • Milano IULM • Montagna in Valtellina (So) • Monte Isola (Bs) • Monticello (Lc) • Montorfano (Co) • Mortara (Pv) • Mozzanica (Bg) • Ospedale Romano di Lombardia (Bg) • Ospedale San Giovanni Bianco (Bg) • Ospedale Treviglio (Bg) • Ospedali Riuniti di Bergamo (Bg) • Ossuccio (Co) • Piacenza • Pian Camuno (Bs) • Pianello del Lario (Co) • Policlinico S. Matteo (Pv) • Ponte di Legno - Passo del Tonale (Bs) • Porlezza (Co) • Prestine (Bs) • Rivanazzano (Pv) • Samolaco (So) • San Nazzaro Val Cavargna (Co) • Sarezzo (Bs) • Schignano (Co) • Segrate (Mi) • Seregno - Sportello A.E.B. (Mi) • Seveso (Mi) • Somma Lombardo (Va) • Suello (Lc) • Toscolano Maderno (Bs) • Turate (Co) • Valdisotto (So) • Valsolda (Co) • Vercana (Co) • Verceia (So) • Verdellino (Bg) • Vezza d'Oglio (Bs) • Viggiù (Va) • Vilminore di Scalve (Bg) • Zone (Bs)

Updated to 18 February 2005

# Banca Popolare di Sondrio

*Branches:*

48 in the province of di SONDRIO
9 in the province of di BERGAMO
2 in the province of BOLZANO
19 in the province of BRESCIA
22 in the province of COMO
4 in the province of CREMONA
18 in the province of LECCO
1 in the province of LODI
1 in the province of MANTUA
25 in MILAN
13 in the province of MILAN
1 in the province of NOVARA
4 in the province of PAVIA
1 in the province of PIACENZA
23 in ROME
12 in the province of VARESE
1 in the province of VERBANO CUSIO OSSOLA

87 Treasury offices

*Representative offices:*

GENEVA

HONG KONG *(with other banking partners)*

MONTREAL - NEW YORK
MEXICO CITY - MONTEVIDEO
SAO PAULO - PRAGUE
BUDAPEST - WARSAW
MOSCOW - CAIRO - BEIJING
MUMBAY - TOKYO - LIMA
*(with PROMOS - Special agency of the Milan Chamber of Commerce for international activities)*

Updated to 18 February 2005

*Key:*

BANCA POPOLARE DI SONDRIO

- Branches
- Treasury offices
- Representative offices

BANCA POPOLARE DI SONDRIO (SUISSE)

- Branches

# Banca Popolare di Sondrio (SUISSE)

*Branches:*

LUGANO
BASEL
BELLINZONA
CASTASEGNA
CELERINA
CHIASSO
CHUR
LOCARNO
LUGANO CASSARATE
POSCHIAVO
ST. GALLEN
ST. MORITZ
ZURICH

Principality of Monaco
MONACO

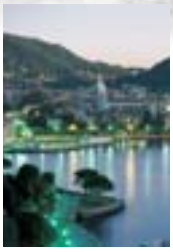
THE BANKING GROUP IN THE HEART OF THE ALPS

SONDRIO

BERGAMO

BOLZANO

BRESCIA


COMO

CREMONA

LECCO

LODI

MANTUA

MILAN

NOVARA

PAVIA

PIACENZA

ROME

VARESE

VERBANO-CUSIO-OSSOLA

MILAN
1 Head office
24 Branches
Zurich
St. Gallen
Chur
St. Moritz
Celerina
Castasegna
Bolzano
Bellinzona
Locarno
Sondrio
Lugano
Verbania
Chiasso
Lecco
Varese
Como
Bergamo
Brescia
Milan
Novara
Lodi
ROME
1 Head office
22 Branches
Pavia
Cremona
Mantua
Piacenza

# SUMMARY OF THE BANK'S GROWTH
(1994/2004)

| (in millions of euro) | 1994 | 1999 | 2004 |
|---|---|---|---|
| Customer deposits: | | | |
| direct | 2,217 | 4,074 | 9,323 |
| indirect | 2,578 | 10,460 | 13,709 |
| Shareholders' equity (excluding net profit for the year) | 258 | 558 | 1,031 |
| Customer loans: | | | |
| cash loans | 1,701 | 3,725 | 8,078 |
| overdraft facilities | 465 | 1,055 | 1,783 |
| Own securities | 852 | 1,295 | 2,104 |
| Income from banking activities | 135 | 228 | 374 |
| Operating profit | 54 | 94 | 180 |
| Net profit for the year | 17 | 31 | 73 |
| Number of branches | 87 | 139 | 203 |
| Personnel | 1,057 | 1,607 | 2,074 |

# NOTICE OF CALLING TO THE SHAREHOLDERS' MEETING

The shareholders of Banca Popolare di Sondrio are called to the ordinary annual general meeting at the head office in Piazza Garibaldi 16, Sondrio, at 10.00 a.m. on Friday, 4 March 2005 and, if necessary, on second calling in Bormio (So) at the Centro Polifunzionale Pentagono, via Alessandro Manzoni 22, at 10.30 a.m. on Saturday, 5 March 2005 to discuss the following

AGENDA

1) Presentation of the financial statements as of 31 December 2004: report of the Board of Directors and proposed allocation of net profit; report of the Board of Statutory Auditors; related resolutions;
2) Determination of directors' emoluments;
3) Appointment of independent auditors, in accordance with Art. 159 of Decree 58 dated 24 February 1998, to audit the statutory financial statements, the consolidated financial statements and the interim financial statements for the three-year period 2005-2007.
4) Appointment of directors.
   The meeting can be attended by:
   – Shareholders who lodge their shares at the head office or at branches of the bank at least five days before the date of the meeting;
   – Shareholders who hold the appropriate certification issued by brokers who are members of the Monte Titoli spa centralized management system pursuant to article 85 of Legislative Decree 58 of 24 February 1998.

Shareholders have the right to vote at the meeting if they have been recorded in the shareholders' register for at least three months.
Each shareholder has the right to only one vote, however many shares they hold.
Shareholders with the right to vote may be represented at the meeting by another shareholder, by means of a proxy ballot prepared in compliance with Italian law.
No shareholder can be a proxy for more than one other shareholder.
Shareholders who are minors can be represented by whoever is their legal representative.

*Sondrio, 28 January 2005*

FOR THE BOARD OF DIRECTORS
The Chairman
(Piero Melazzini)

This notice of calling was published as required by law in the Official Gazette of the Republic of Italy – part IIa, insert no. 32 of 9 February 2005, page 2, notice no. S-958.

***Note.*** *The figures in this report are in euro, and all changes expressed as percentages refer to comparable data from the end of 2003 unless otherwise specified. Because most of the figures in the text and tables are rounded to the nearest million or thousand euro, the percentages may differ marginally from those that would result from a comparison of amounts expressed in different units.*

# DIRECTORS' REPORT ON OPERATIONS

## SUMMARY OF RESULTS

Shareholders,

The world economy saw considerable growth in 2004, despite widespread pessimism about the prospects for peace. War and guerrilla activities are by now endemic phenomena in many areas of the planet. To this has to be added the huge tragedy that hit South-East Asia in the last few days of the year.

The long-awaited recovery in the Euro-zone has maybe come and gone already, though few noticed and even fewer benefited. Italy also had a



### RESULTS IN BRIEF

| (millions of euro) | 2004 | 2003 | Change % |
|---|---|---|---|
| **Balance sheet** | | | |
| Customer loans | 8,078 | 7,117 | 13.51 |
| Loans to other banks | 1,252 | 809 | 54.71 |
| Own securities | 2,104 | 1,888 | 11.42 |
| Equity investments | 137 | 131 | 5.20 |
| Total assets | 12,131 | 10,502 | 15.51 |
| Direct customer deposits | 9,323 | 8,184 | 13.92 |
| Indirect customer deposits | 13,709 | 12,690 | 8.03 |
| Insurance premiums | 397 | 372 | 6.73 |
| Customer assets under administration | 23,429 | 21,246 | 10.27 |
| Other direct and indirect funding | 3,148 | 2,852 | 10.38 |
| Shareholders' equity (excluding net profit for the year) | 1,031 | 774 | 33.26 |
| **Income statement** | | | |
| Net interest income | 236 | 223 | 5.56 |
| Income from banking activities | 374 | 341 | 9.63 |
| Operating profit | 180 | 157 | 14.81 |
| Net profit | 73.21 | 60.12 | 21.78 |
| **Key ratios (%)** | | | |
| Net interest income/Total assets | 1.94 | 2.13 | |
| Operating profit/Total assets | 1.49 | 1.50 | |
| Margin on services + financial profits/Income from banking activities | 37.03 | 34.60 | |
| Administrative expenses/Income from banking activities | 59.47 | 60.78 | |
| Net profit/Total assets | 0.60 | 0.57 | |
| Net profit/Average shareholders' equity (excluding net profit) | 7.82 | 7.88 | |
| Non-performing loans/Customer loans | 0.83 | 0.99 | |
| **Capital ratios (%)** | | | |
| Tier 1 capital/Risk-weighted assets | 10.88% | 8.91% | |
| Total capital/Risk-weighted assets | 10.73% | 8.81% | |
| Available margin | 362 | 161 | |
| **Other information** | | | |
| Number of employees | 2,074 | 1,993 | |
| Number of branches | 203 | 191 | |
| Number of treasury offices | 81 | 80 | |

# Banca Popolare di Sondrio

## Banca Popolare di Sondrio

Founded in 1871

**I - 23100 Sondrio SO**
**Piazza Garibaldi 16**

Tel. 0342 528111
Fax 0342 528204

www.popso.it
popso@popso.it

*Branches in the provinces of:*
SONDRIO
BERGAMO
BOLZANO
BRESCIA
COMO
CREMONA
LECCO
LODI
MANTUA
MILAN
NOVARA
PAVIA
PIACENZA
ROME
VARESE
VERBANO-CUSIO-OSSOLA

*Representative offices in*
GENEVA, HONG KONG*

* With other banking partners

*Representative offices with PROMOS:*
MONTREAL
NEW YORK
MEXICO CITY
MONTEVIDEO
SAO PAULO
PRAGUE
BUDAPEST
WARSAW
MOSCOW
CAIRO
BEIJING
MUMBAY
TOKYO
LIMA

## Banca Popolare di Sondrio (SUISSE) SA

**CH - 6901 Lugano 1**
**Via Maggio 1**

Tel. 0041 91 9733600
Fax 0041 91 9733636

www.popso.ch
contact@popso.ch

LUGANO
BASEL
BELLINZONA
CASTASEGNA
CELERINA
CHIASSO
CHUR
LOCARNO
LUGANO CASSARATE
POSCHIAVO
ST. GALLEN
ST. MORITZ
ZURICH

*Principality of Monaco*
MONACO

## PIROVANO
SKI UNIVERSITY

**I - 23100 Sondrio SO**
**Corso Vittorio Veneto 7**

Tel. 0342 210040 - 515450
Fax 0342 514685

www.pirovano.it
pirovano@popso.it

SUMMER SKIING
SNOWBOARD
CROSS-COUNTRY SKIING
FITNESS CENTRE
ALTITUDE 3000 MEETING
THE TERRACE OF THE PIROVANO
PUNTO TOURING

THE BANKING GROUP IN THE HEART OF THE ALPS

year of uncertainty, moving forward so slowly that it felt like a slowdown. The fall in inflation, which is positive in itself, was viewed with suspicion by some, as a symptom that demand was weakening yet again. But that's normal: when confidence is low, the glass always looks half empty.

But let's say that, even though we are small, we are part of the dynamic side of the Italian economy. All of our efforts are to expand the business, improve quality and raise profitability. As shareholders, you expressed your confidence through massive acceptance of the increase in capital, contributing 220 million euro of fresh resources.

This has benefited the Bank's equity which has risen to more than 1,000 million. It will also facilitate our plan for the Bank's development as an independent entity, which will now be able to go ahead as intended. Profitability is looking good. It has been rising steadily and is an eloquent indicator of the Bank's expansion in terms of size and operations, making it possible to remunerate the resources invested to an adequate extent. Let's move on to the figures shown in the following table. These are the figures that count as they give an immediate perception of the work performed during the year.

Total assets have increased from 10,502 to 12,131 million, +15.51%, while net profit has gone from 60.1 to 73.2 million, an increase of all of 21.78 percentage points.

This rise in profitability rewards our operational equilibrium, helped by careful monitoring of all expense items, in the conviction that it is often possible to do more with less.

Direct funding continued the positive trend seen in previous years. Worth emphasising is the growth in the more stable components, partly in connection with the need to ensure an adequate correlation between funding and lending operations.

The trend in loans has been strong, proof of the important function performed by the Bank in support of households and businesses in the areas that we serve. At the same time, we are making more and more effort to protect the quality of credit; the specialist staff who monitor the various risk profiles make this effort even more effective.

The contribution made by traditional banking activities rose, but less so than volumes as margins fell slightly. As far as we can recall, businesses and households have never been able to borrow money at such favourable conditions. Services have been making more and more of a contribution, thanks above all to collection and payment fees. It is important for us to develop this type of income as it refers to activities that are relatively risk-free compared with lending.

Close collaboration with our affiliates is widening our area of intervention, guaranteeing qualified assistance for customers and important revenue flows for us. Banca Popolare di Sondrio (SUISSE) SA has extended its branch network and coverage of Switzerland, often known as the «country of banks». Worth mentioning is the launch of the important Zurich branch, while the results of the Swiss operations in general continue to grow. This is the overall picture, which we can summarise by saying that the significant increase in earnings allow us to propose a dividend of 0.17 euro per share, which is 18.26% up on last year, bearing in mind the increase in capital. On top of this, there has been a capital gain of 11.53%. Satisfactory results for a body of shareholders in constant expansion, with 2,074 employees at your service.

## TERRITORIAL EXPANSION

BPS is a cooperative bank that lives for and grows along with its territory. A few, simple words that express in full the link between the Bank and the areas that it serves. It is a rapport that has

year of uncertainty, moving forward so slowly that it felt like a slowdown. The fall in inflation, which is positive in itself, was viewed with suspicion by some, as a symptom that demand was weakening yet again. But that's normal: when confidence is low, the glass always looks half empty.

But let's say that, even though we are small, we are part of the dynamic side of the Italian economy. All of our efforts are to expand the business, improve quality and raise profitability. As shareholders, you expressed your confidence through massive acceptance of the increase in capital, contributing 220 million euro of fresh resources.

This has benefited the Bank's equity which has risen to more than 1,000 million. It will also facilitate our plan for the Bank's development as an independent entity, which will now be able to go ahead as intended. Profitability is looking good. It has been rising steadily and is an eloquent indicator of the Bank's expansion in terms of size and operations, making it possible to remunerate the resources invested to an adequate extent. Let's move on to the figures shown in the following table. These are the figures that count as they give an immediate perception of the work performed during the year.

Total assets have increased from 10,502 to 12,131 million, +15.51%, while net profit has gone from 60.1 to 73.2 million, an increase of all of 21.78 percentage points.

This rise in profitability rewards our operational equilibrium, helped by careful monitoring of all expense items, in the conviction that it is often possible to do more with less.

Direct funding continued the positive trend seen in previous years. Worth emphasising is the growth in the more stable components, partly in connection with the need to ensure an adequate correlation between funding and lending operations.

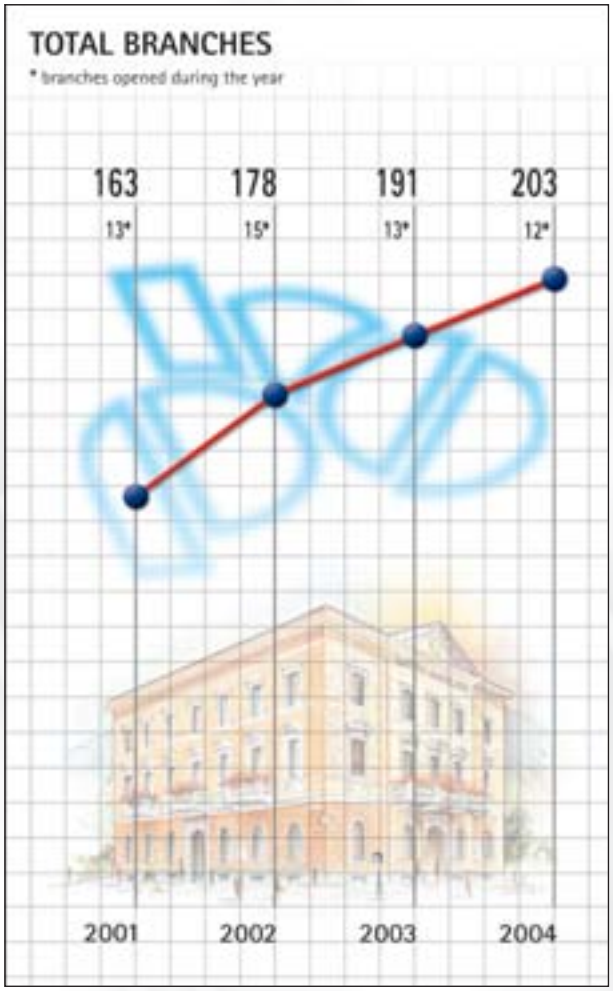
The trend in loans has been strong, proof of the important function performed by the Bank in support of households and businesses in the areas that we serve. At the same time, we are making more and more effort to protect the quality of credit; the specialist staff who monitor the various risk profiles make this effort even more effective.

The contribution made by traditional banking activities rose, but less so than volumes as margins fell slightly. As far as we can recall, businesses and households have never been able to borrow money at such favourable conditions. Services have been making more and more of a contribution, thanks above all to collection and payment fees. It is important for us to develop this type of income as it refers to activities that are relatively risk-free compared with lending.

Close collaboration with our affiliates is widening our area of intervention, guaranteeing qualified assistance for customers and important revenue flows for us. Banca Popolare di Sondrio (SUISSE) SA has extended its branch network and coverage of Switzerland, often known as the «country of banks». Worth mentioning is the launch of the important Zurich branch, while the results of the Swiss operations in general continue to grow. This is the overall picture, which we can summarise by saying that the significant increase in earnings allow us to propose a dividend of 0.17 euro per share, which is 18.26% up on last year, bearing in mind the increase in capital. On top of this, there has been a capital gain of 11.53%. Satisfactory results for a body of shareholders in constant expansion, with 2,074 employees at your service.

## TERRITORIAL EXPANSION

BPS is a cooperative bank that lives for and grows along with its territory. A few, simple words that express in full the link between the Bank and the areas that it serves. It is a rapport that has




grown and strengthened over the years, becoming more intense and efficacious. This has brought benefits both to the Bank, which through its growth has taken on a regional dimension, and to the new areas where we have opened branches, as they have been able to take advantage of our support for the local economy. It is the fruit of an expansion policy carried out with determination, decision and equilibrium, designed to enhance as much as possible both the internal resources that the Bank has available and those provided by the territory.

As regards the first aspect, the tiller is wedged firmly on the route that we plotted several years ago: physiological growth in complete autonomy, all the while safeguarding our identity as a cooperative bank. As for the second, preference has always been given to growth in intensity rather than in extension. The roots that we have managed to put down in this way have acted as a foundation on which to create mutually beneficial relationships with firms, even very small ones, and with private individuals, who from time may be interested in quality products, efficient services or helpful, targeted financial advice. Proof that this has been a effective strategy comes from the steady rise in our market shares, both in the various provinces of Lombardy, and in Rome. In certain cases, these are still only fractions of a point, but we are committed to gaining new spaces over the coming years. We have the people, the will and the tools; results will not fail to come.

The recently opened branches have again contributed considerably towards the expansion in volumes handled, a vital element if we are to sustain profitability despite the sluggish trend in interest rates and the slight dip in spreads. This is the first and most important corroboration of the strategy being pursued: the investments made to widen our radius have not been at the expense of profitability, which instead has grown, thereby closing the circle of how we operate.

Twelve new branches were opened during the year; we are convinced that they will also be making a positive contribution in the near future.

Let us say above all that we have now passed the threshold of 200 branches – there were 203 operating at the end of the year – an important achievement for a bank like BPS which, we will never tire of repeating, wants to be a local bank that is always trying to serve its territory more and better. With the faithful contribution of the shareholders, who also constitute our strongest and most stable nucleus of customers, and with our traditional skill in communicating with households and SMEs, further goals look to be

within our reach. The first branch to be opened in 2004 was Milan agency no. 24, located in Via Piave, which combines the vivacity of a major urban thoroughfare with an original personality, a reflection of the fact that it is a refined residential area with a reserved sort of beauty. With ample areas of greenery, it separates the central area of the metropolis, the district next to Corso Venezia, from the area of Città Studi. The network effect is a reality for us in the Lombardy capital.

In the province of Milan, there are three marketplaces that we have entered, confirming our interest in a territory that deserves priority attention. In February we opened in Desio, a town with more than 35,000 inhabitants. Desio is located on the ancient route that joined Milan to hard-working Brianza, expressing in the distinctive traits of its people the values on which Pio XI (born Desio 1857, died Rome 1939) based his fertile Pontificate. It is a very lively place, which after a difficult period of deindustrialisation managed to find verve and vitality again thanks to the development of numerous small and medium sized firms and a distinct reinforcement of the service sector.

Then it was the turn of Pero, an industrious suburb of Milan where various interesting projects are taking place; the most important is the new Milan Trade Fair, due to be inaugurated soon, which will constitute one of the largest and most modern exhibition areas in the world. Our presence there reaffirms our links with the Fair, as we always have a branch operating at the numerous trade fairs that take place at its historical location.

The Sesto San Giovanni branch serves a city of almost 90,000 inhabitants. Its name reflects its location as Sesto comes from the Latin expression «Ad Sextum lapidem ...» – at the sixth milestone, in other words six miles from the centre of Milan; to this was added «San Giovanni» to show that this area once belonged to Monza Cathedral, which is dedicated to Saint John the Baptist. Having been one of the country's best known industrial centres, today it presents a completely different face. The historical production sites have been drastically reduced and in many cases the vast areas that they occupied have been converted to other uses. Smoky chimneys have been replaced by modern plants whose strength is technological innovation; numerous small and medium sized enterprises have been founded, many in the service sector; new residential districts have been built which have restored the demographics that were in decline when local industrial activity was reduced.

In the province of Lecco we decided to stop at Varenna and Lomagna. The former, one of the pearls of the Lario, lies on the slopes of a picturesque promontory overlooking Lake Como. Varenna is an ancient fishing village with a long tradition of local arts and crafts. Today, it is a popular holiday resort, also known for its study and conference centre at Villa Monastero. The new branch provides continuity for our presence along the east bank of the lake, where we already operate in Lecco, Abbadia Lariana, Mandello del Lario, Dervio and Colico. This is a significant network, which together with the agency at Bellagio and the numerous branches on the west bank, make BPS the cooperative bank of choice for the whole of Lake Como.

Lomagna is a town of more than 4,000 inhabitants located in the southern part of the province of Lecco, where it meets the Montevecchia Regional Park and the Curone Valley. The town is residential in nature and many of its inhabitants work in the nearby towns of the Milanese hinterland. There is still a good number of artisan firms and industries of a certain size in the area.

On Lake Garda, after Salò and Toscolano Maderno, we have opened at Desenzano, a city of almost 25,000 inhabitants situated in the south-west part of the lake at the centre of an ample bay. It is the main stopping point for the lake ferries

DESIO (MI)

VARENNA (LC)

DESENZANO DEL GARDA (BS)

BONATE SOTTO (BG)

LOMAGNA (LC)

PERO (MI)

SESTO SAN GIOVANNI (MI)

VIGEVANO (PV)

# TERRITORIAL EXPANSION

BOLZANO

COLLEBEATO (BS)

SOLBIATE OLONA (VA)

MILAN, BR. 24

*Twelve new branches were opened during the year, bringing the total number of active branches at the end of the year to 203.*
*Milan branch no. 24 located in Viale Piave confirms that the network effect is a reality for us in the Lombardy capital. We have entered three new marketplaces in the Province of Milan.*
*Desio, in hard-working Brianza; Pero, an industrious suburb of Milan where the new Exhibition Centre of the Milan Trade Fair will soon be inaugurated; Sesto San Giovanni, which having been one of the country's best known industrial centres, now presents a completely different face. In the province of Lecco we decided to stop at Varenna and Lomagna. The first, an ancient fishing village with a long tradition of local arts and crafts, is now a popular holiday resort. Lomagna is located in the southern part of the province of Lecco and is residential in nature, with many of its inhabitants working in the nearby towns of the Milanese hinterland. In the Brescia area, after Salò and Toscolano Maderno, we opened at Desenzano, the capital of Lake Garda, a famous holiday resort, also known and appreciated abroad, and at Collebeato, situated just north of Brescia, at the beginning of the Three Valleys state road, in the lower part of the Val Trompia. The ninth branch in the province of Bergamo is at Bonate Sotto in the south-west area known as the "Isola Bergamasca".*
*In the province of Pavia, the choice fell on Vigevano, the historical queen of shoe-making located in the green countryside of the northern Lomellina; in the Varese area, we chose Solbiate Olona which is located in an area with dynamic entrepreneurs who are particularly open to innovation.*
*With the Christmas holidays just around the corner, we opened a second branch in Trentino Alto Adige, in Bolzano, capital of its own autonomous province.*

and the capital of the Garda area in general. It is also a famous holiday resort, well-known and much-loved abroad, especially among German tourists. Alongside the numerous activities directly linked to tourism and the lively real estate sector, Desenzano also has a certain amount of local industry, mainly in foodstuffs and mechanical engineering.



Bonate Sotto is located in the south-west part of the province of Bergamo in that area known as the «Isola Bergamasca « which lies between the rivers Adda and Brembo, through which the Lesina and Dordo streams run. It is the ninth branch to be opened in that province and the marketplace that we have chosen has seen a considerable rise in its population in recent years. Agriculture, once very much the main occupation, has been relegated to a marginal role, while the area now has various small artisan businesses.

In the province of Pavia, the choice fell on Vigevano, a city of around 60,000 inhabitants located in the green countryside of the northern Lomellina, more or less equidistant from Pavia and Milan, and not far from Novara. The beautiful historical centre fills the visitor's gaze with its mediaeval and renaissance monuments. The city's centrepiece is Piazza Ducale, a magnificent example of early renaissance Lombard architecture. The fortified complex, a city within the city, is unique in the whole of Europe. Vigevano has long been a market leader in the production of shoes, though recently it has had to defend its title against the assaults of increasingly aggressive competitors from abroad, lowering quantities and specialising in innovative, high-quality products. In the last few decades it has also grown in the field of mechanical engineering, specialising in the construction of shoe-making machines and dies.

Solbiate Olona is a town of around 5,500 inhabitants which thanks to the fact that it is close to Busto Arsizio, Gallarate and Castellanza – important centres where we already have branches – is located in a highly developed area with dynamic entrepreneurs who are particularly open to innovation.

Collebeato is a town of around 4,600 situated just north of Brescia, at the beginning of the Three Valleys state road, in the lower part of the Val Trompia. The local economy, traditionally involved in the widespread cultivation of fruit trees, peaches in particular, and vineyards, has in recent decades seen considerable development with the arrival of numerous small and medium-sized firms operating particularly in the field of mechanical engineering. Being in an attractive area close to the provincial capital has also helped the construction industry, which has built a number of medium-to-high quality residential quarters.

With the Christmas holidays just around the corner, we opened a second branch in Trentino Alto Adige, in Bolzano, to be precise, a city of almost 100,000 inhabitants and capital of its own autonomous province. A year after the opening of the Merano branch, we have now strengthened our presence in an area that has a very distinct cultural and linguistic identity, which in some ways is also very similar to the Valtellina – to which it is linked by the Stelvio Pass – if for no other reason for its developed mountain economy and the particular attention it pays to tourism. In Bolzano, hints of the Mediterranean mix with the welcoming Tirolese atmosphere that one breathes under the mediaeval porticos. We offer the city – an important crossroads for cultural and commercial exchanges immersed in the famous vineyards that frame it – qualified, professional services in the conviction that we can make a positive contribution to its economic development.

The Bank's presence is enriched by the presence throughout the Bolzano area of 304 Bancomat ATMs, a total that increased by 20 during the year. They are operative at all of the local branches and are also available to the general

public in many of the places where people go to shop.

The treasury offices (+1 during the year) operate on behalf of the entities and institutions that use our services of this kind.

Banca Popolare di Sondrio (SUISSE) SA has consolidated and extended its territorial presence. We will say more about the new Zurich office in the part of this report devoted to the subsidiary. Here we would emphasise that creating wider and wider coverage of the territory allows the BPS Banking Group to be perceived as an entity that is determined to contribute in a positive way to the economic and social growth of the areas that it serves. This is the mission that being a cooperative bank assigns us.

## FUNDING

This is the way that the Bank takes in deposits from third parties.

The saying «You reap what you sow» applies here. The trend in direct deposits has been very satisfactory – rising by all of 13.92% to 9,323 million – which rewards the hard work performed by our staff and the ability to respond rapidly – and well – to the needs of our customers, providing a complete and diversified range of valid products in line with the market.

All of this in a year characterised by an ongoing situation of widespread uncertainty, with the result that investors generally, private and corporate, had a strong preference for low-risk financial instruments.

The recent disappointing years on the stock exchange and the even more negative events regarding the corporate bond market have yet again fostered growth in overall bank deposits. This is an expansion that has been going on for some time, reflecting small investors' preference for staying liquid; a liquidity that is a bit stagnant, one might say, but at least it's been left in good hands.

Trust is the most precious thing of all as far as we are concerned. Its «face value» is in fact inestimable, not only because it is hard to quantify, but above all because it is absolutely indispensable in our business, based as it is on the ability to create long-term fiduciary relationships with customers. Trust is therefore a subjective and decisive element at the same time.

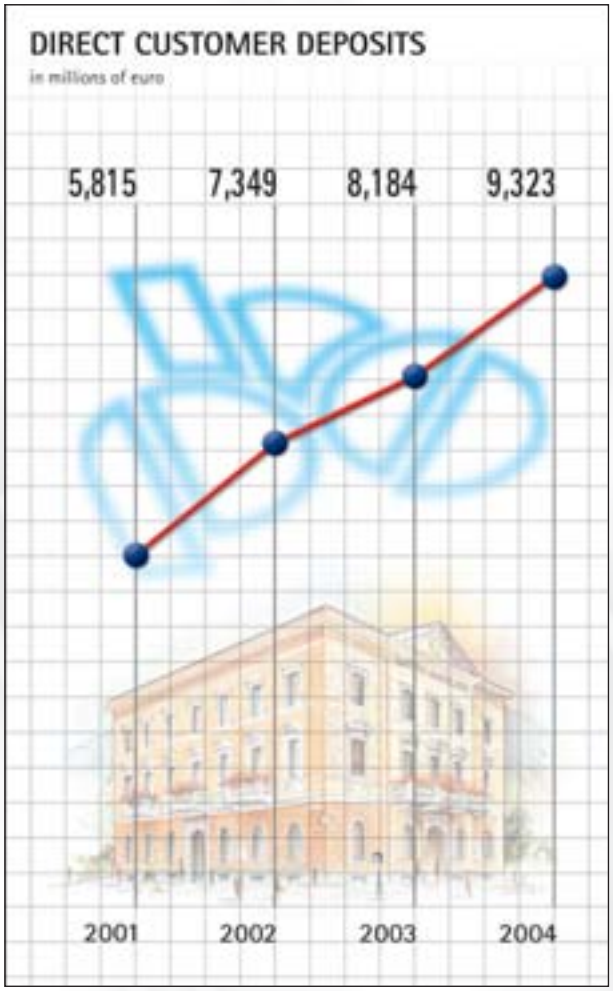
It was from this point of view that we immediately offered our support to the Patti Chiari project promoted by ABI, the Italian Banking Association, having always been well aware that clarity and openness are essential in working relationships that are meant to last over time.

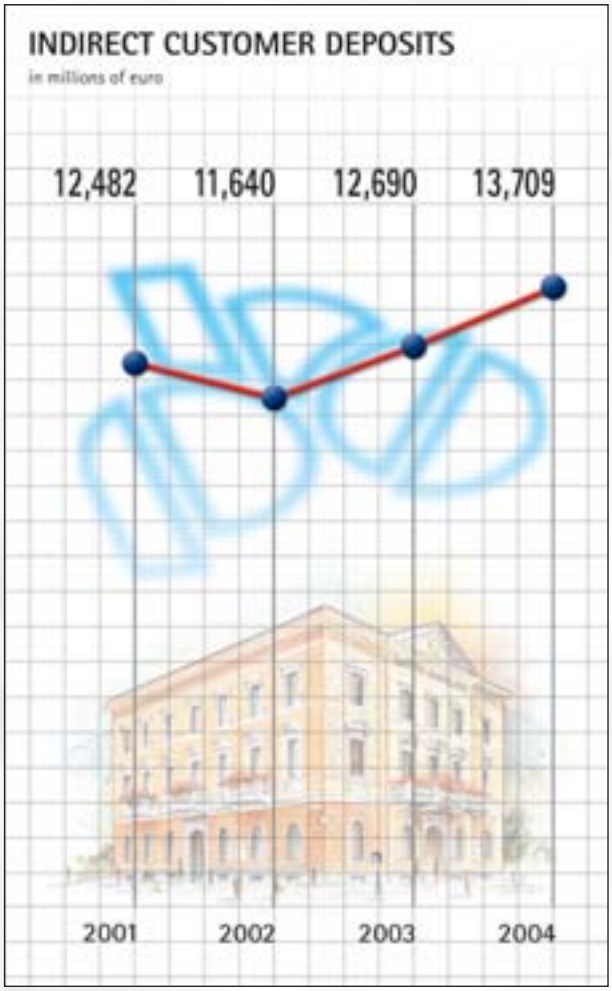
On the other hand, we always have in the back of our mind the authoritative reminder from the Bank of Italy, according to which:

«the ability to respond to customers' needs in the best way possible is the basis of all intermediaries' reputations and is indispensable to maintain and develop beneficial relationships with households and businesses».

This is why we seek out and develop in our people those professional and moral aptitudes which are vital to safeguard our customers' financial assets in the best way possible, given that savings are also protected by the Constitution. It is a commitment that we have adopted vis-à-vis any counterparty, large or small. Savings, which come from renouncing some immediate consumption, deserve to be sustained and encouraged, but above all there has to be respect for the person who has accumulated them.

Let's now return to the events of the past year to underline how the growth that we achieved also fulfils the basic requirement to ensure equilibrium in the Bank's development. To start with, because as everyone knows, deposits are the raw material of banking: before we give we have to receive. Moreover, because it is essential




to guarantee an adequate correlation in the timing of funding and lending activities. For this reason we have to pay suitable attention to longer-term instruments to sustain lending operations with similar durations, especially as these have been expanding rapidly in recent years.

The increase in issues of BPS bonds is therefore mainly in response to the increase in medium-term lending, including those granted to buy houses.

Another weapon that we have available is undoubtedly the ability to pay adequate attention to the differing needs of each customer. This ensures personalised assistance, which our clientele has been able to evaluate and appreciate on all sorts of occasions. It is a distinctive and qualifying element of our way of operating, a reflection of the Bank's tradition of working among the people and for the people, with a corporate culture that has always been customer-oriented. We firmly intend to maintain and enhance these characteristics also in the new territories that we are gradually moving into, coming closer to the respective communities with a view to being of service to them.

The work performed during the year is reflected in the figures reported and commented on below. The trends in the various items have

obviously been affected by the general conditions of the market in which we operate.

We now come to the results for the year. At 31 December 2004, total funding amounted to 26,577 million euro, an increase of 10.29% from the previous year's figure of 24,098 million.

As mentioned previously, direct customer deposits came to 9,323 million, a rise of 13.92%, even faster growth than in 2003 when there was already a strong upward trend. Bear in mind in this connection that there was also the outflow of the financial resources that customers used to subscribe to the increase in capital carried out during the first half of the year. Indirect customer deposits came to 13,709 million, +8.03%, while insurance premiums rose to 397 million, +6.73%.

As for interbank movements, deposits have risen by 1,176 million, +23.01%, while securities under administration came to 1,972 million, +4.01%.

A brief analysis of the movements in the various items making up direct deposits has to start from current accounts, by far the most



## DIRECT CUSTOMER DEPOSITS

| (thousands of euro) | **2004** | of total % | **2003** | of total % | change % |
|---|---|---|---|---|---|
| Savings deposits | 535,252 | 5.74 | 494,679 | 6.04 | 8.20 |
| Certificates of deposit | 43,204 | 0.46 | 46,735 | 0.57 | -7.56 |
| Bonds | 838,029 | 8.99 | 805,933 | 9.85 | 3.98 |
| Repo transactions | 1,248,980 | 13.40 | 1,224,913 | 14.97 | 1.96 |
| Bank drafts and similar | 89,819 | 0.96 | 76,502 | 0.93 | 17.41 |
| Current accounts | 6,214,755 | 66.67 | 5,164,718 | 63.12 | 20.33 |
| Current accounts in foreign currency | 352,540 | 3.78 | 370,051 | 4.52 | -4.73 |
| **Total** | **9,322,579** | **100.00** | **8,183,531** | **100.00** | **13.92** |

## TOTAL FUNDING

| (thousands of euro) | **2004** | of total % | **2003** | of total % | change % |
|---|---|---|---|---|---|
| Total direct customer deposits | 9,322,579 | 35.08 | 8,183,531 | 33.96 | 13.92 |
| Total indirect customer deposits | 13,709,121 | 51.58 | 12,690,306 | 52.66 | 8.03 |
| Total insurance premiums | 397,481 | 1.50 | 372,413 | 1.54 | 6.73 |
| **Total** | **23,429,181** | **88.16** | **21,246,250** | **88.16** | **10.27** |
| Due to other banks | 1,175,893 | 4.42 | 955,959 | 3.97 | 23.01 |
| Indirect funding from banks | 1,971,705 | 7.42 | 1,895,639 | 7.87 | 4.01 |
| Third-party funds under administration | 10 | – | 14 | – | -28.57 |
| **Grand total** | **26,576,789** | **100.00** | **24,097,862** | **100.00** | **10.29** |

important instrument for our Bank. Once again, current accounts' strong growth, +18.66% to 6,567 million, equal to 70.45% of total deposits, reflects the investing public's strong preference for this type of instrument, which not only remunerates deposits, but also offers an increasingly wide and versatile range of services. Their growth has certainly been helped by the minimal difference between their yield and that of alternative investments.



Repo transactions are more or less stable at 1,249 million, +1.96%, while certificates of deposit have almost disappeared altogether: 43 million, -7.56%.

The growth in savings deposits continues: 535 million, +8.20%, indeed savings deposits are always appreciated, especially by certain types of customers, because they are extremely simple to operate.

Bonds saw a number of issues, also to cover maturities of previous bond issues. As a result, this item has gone up by 838 million, +3.98%.

Bank drafts and others have gone up to 90 million, +17.41%.

The significant increase in the number of accounts, approximately 233,000, is the best demonstration of the Bank's ability to attract new customers. The merit goes partly to the branches opened most recently, thanks to the fact that they have rapidly become part of the local scene, and partly to the other branches which have managed to keep up the marketing momentum while consolidating their existing positions. Further proof that having initially set up a correct rapport with customers, the relationship then becomes durable and a generator of positive developments.

Indirect customer deposits managed to benefit from the performance of financial and stock markets, rising by 8.03% to 13,709 million. This is an aggregate of considerable importance as it generates an equally important revenue flow in the form of commission income.

As for asset management, which has also turned in reasonable progress, we would refer you to the chapter on treasury and trading activities.

## LENDING

We have always said it, and we say it because it's true: a bank is a bank because it makes loans, making profitable use of the funds received from investors. In compliance with this rule, during the year just past we renewed and extended our commitment in favour of the economies in the areas that we serve.

It is a way of operating that fully complies with our nature as a cooperative bank. Indeed, in accordance with the principles of the art of banking and those mutualistic concepts that guide our work, this approach makes available to the territory important financial resources for development, selecting the projects that are most worthy of support. Transactions with debtors are just as important for banks as those with creditors; indeed, customers that are good credit risks are just as desirable as those with good deposits. In 2004, loans went up by 13.51% to 8,078 million, following on the equally hefty growth in previous years.

This is considerable growth, thanks to which we have been able to satisfy the borrowing requirements of businesses and households, as well as of public-sector entities and companies.

The increase in the overall demand for credit has certainly been boosted by the more or less flat trend in interest rates. On the other hand, we have had to pedal hard, as though we were going uphill, to ensure a much deserved, but less than proportional, increase in revenues, mainly thanks to the rise in volumes. This is our contribution to the competitiveness of the production system. The attention that we have traditionally reserved for SMEs was matched by

their dynamism. A general tendency, which has been underway for some time, confirms that so-called «small» entrepreneurs continue to be one of the driving forces of the Italian economy. It is also true, with due respect for their size, that there are also great companies among the medium-sized ones.

For us who are the natural counterparty for such firms, this is the time to reinforce our links and to expand our work quotas, also with a view to fragmenting and therefore lowering the risk. In this sense, help came from the newer branches which also ensure diversification in the business sectors that we finance, with particular reference to agriculture. This is a return to our origins, given that BPS was founded in 1871, and the main purpose now is to help the primary sector grow.

In turn, the companies we serve have found in us an interlocutor that is active in their area, close to their needs, a good listener, and with a propensity to support business initiatives that have the right fundamentals: earning capacity with good prospects, but also entrepreneurial vision. Without the first, normally there won't be any credit; without the second, there won't be any development. Providing these firms with advice and assistance and accompanying them in the growth process is part of our business, because while small may be beautiful, recent years have shown that firms have to evolve and be part of a system to cope with competitors that are increasingly fierce both in terms of price and in terms of product quality and technological innovation.

Hence our efforts to make available to entrepreneurs new instruments and highly professional services. This is a reference to our offices involved in corporate finance for medium-sized customers and in the important task of handling medium- and long-term loans. We do this by acting in close collaboration with our numerous affiliates – some of which are market leaders in their respective areas – as well as with prestigious national and international institutions. As regards the duration of our loans, it has to be said that the recomposition of loans in favour of longer maturities has continued throughout the banking system, thereby allowing companies to stabilise their sources of finance and benefit from conditions that on average are more advantageous. For us it has also been a chance to consolidate work relations and to help evaluate and develop corporate strategies, naturally bearing in mind our respective roles.

Households have also generated a considerable demand for credit, partly for real estate purchases, above all the home in which they live, as well as for consumer durables for which instalment payments are becoming more and more common.

Italy is gradually getting closer to the European average in this specific area; a target that we could maybe have done without. Our feeling is that this recourse to debt is not a free choice, but rather a necessity imposed by a difficult stage in the economic cycle, with a growing number of families unable to save any money. It's as though the Italians, frugal by nature, are becoming spendthrift out of necessity.

The further tightening of interest rate spreads that we mentioned earlier ensured, on the one hand, that customers had extremely competitive conditions, while, on the other, it forced the Bank to make constant improvements in efficiency. This meant closely monitoring all internal spending and, above all, keeping a close eye on asset quality. The latter is a very topical subject which we devote a lot of time to. The ongoing aspiration of any banker to find just the right balance in all management decisions so as to raise the bottom line – an aspiration that becomes a vital condition as money is paradoxically a poor raw material – is based not only on the banker's ability and professional skills, but also on the identification and measurement of the risks involved, in this case the credit risk.

Nowadays, we have to quantify as accurately as possible something that in the past was assessed on the basis of experience and intuition. We give an ample explanation of the process in a specific chapter of this report, which is devoted to the various risk profiles that the bank is exposed to.

The quality of our leans is reflected in the figures reported below. Net non-performing loans, i.e. after deducting writedowns, amount to 67 million euro, which is 0.83% of total customer loans, compared with 0.99% at 31 December 2003. This is well below the national average and the trend is showing a considerable improvement over time. The writedowns made to cover estimated losses on existing non-performing loans increased from 86 to 109 million, +27.66%. This figure is based on rigidly prudent criteria so as to give a fair, accurate and timely assessment of each loan position.

Writebacks to loans and provisions for guarantees and commitments amount to 25 million, +6.19%. Their amount confirms that an extremely cautious approach was also taken in previous years.

Watchlist loans, in other words, loans to borrowers in temporary financial difficulty that is expected to be resolved, amount to 96 million euro, +87.41%, equal to 1.19% of total loans to customers compared with 0.72% last year. The related writedowns amount to 14 million, +81.71%; the increase is largely attributable to the reclassification of loans already classed as restructured. As we said at the beginning, loans have seen an increase of 13.51%, to 8,078 million. The various types of loans have all contributed to this growth as most of them have risen considerably.

Investors' ongoing preference for bricks and mortar turned into another increase – after years of constant and significant growth – in mortgage loans. These have increased by 22.59% to 2,256 million, which is 27.93% of total loans granted.

## CUSTOMER LOANS

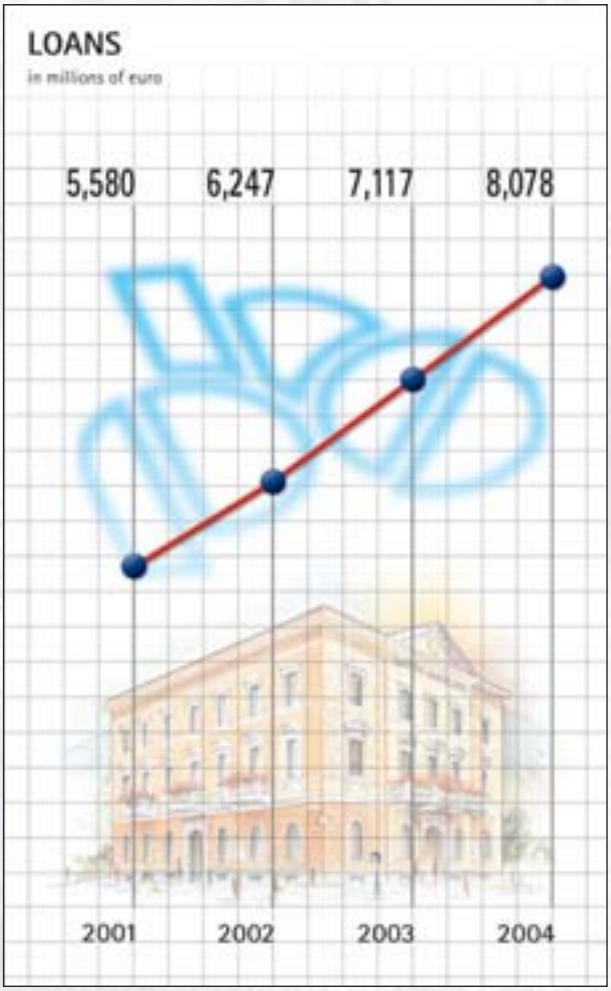
| (thousands of euro) | **2004** | of total % | **2003** | of total % | change % |
|---|---|---|---|---|---|
| Current account overdrafts | 2,911,931 | 36.05 | 2,611,126 | 36.69 | 11.52 |
| Foreign currency loans | 961,750 | 11.91 | 873,207 | 12.27 | 10.14 |
| Advances | 258,373 | 3.20 | 238,475 | 3.35 | 8.34 |
| Advances subject to collection | 140,920 | 1.74 | 108,975 | 1.53 | 29.31 |
| Discounted portfolio | 8,716 | 0.11 | 7,460 | 0.10 | 16.84 |
| Artisan loans | 33,819 | 0.42 | 37,450 | 0.53 | -9.70 |
| Agricultural loans | 18,530 | 0.23 | 11,738 | 0.16 | 57.86 |
| Personal loans | 66,916 | 0.83 | 64,387 | 0.90 | 3.93 |
| Other unsecured loans | 1,353,385 | 16.75 | 1,252,639 | 17.60 | 8.04 |
| Mortgage loans | 2,256,434 | 27.93 | 1,840,612 | 25.87 | 22.59 |
| Net non-performing loans | 67,354 | 0.83 | 70,767 | 0.99 | -4.82 |
| Items in suspense | 296 | – | 375 | 0.01 | -21.07 |
| **Total** | **8,078,424** | **100.00** | **7,117,211** | **100.00** | **13.51** |

The sense of solidity when investing in real estate continues to hold a privileged position in private individuals' investment decisions, helped by interest rates at historical lows. In this way we have helped raise the already high number of Italian families who own the house in which they live. The mortgage loans that we can offer are supplemented and enriched by those of Barclays Bank (which now includes Banca Woolwich), a specialist in this segment of the market. We have been working well with them for many years. There has also been growth in loans granted to particular customer segments, including professionals. In passing, we would like to mention once again the inadequacy of the institutions operating in the medium to long term. Our willingness to help set up a bank offering medium-term loans has not yet found any following among our fellow cooperative banks. Fortunately, there is Centrobanca, which does business in a satisfactory way; we have been using it more and more frequently. We like the way that it is run. So far, floating-rate loans have been the best choice. This does not mean that we may not take a closer look at fixed-rate loans in view of a possible shift in the interest rate curve.

The trend in current accounts looks satisfactory: an increase of 11.52% reflects an absolute growth of all of 301 million, which raises this item to a total of 2,912 million, the equivalent of 36.05% of total loans. Foreign currency loans are also worthy of note: 962 million, +10.14%.

There has been a slight increase in our personal loans, 67 million +3.93%, having opted for indirect assistance in this area from our affiliate Linea spa. Other unsecured loans have also progressed to 1,353 million, +8.04%.

The greater attention that we have been paying to the agricultural sector, also in connection with the opening of a number of branches in the Po Valley, is beginning to show some positive results. Guarantees given have continued to expand, being up 5.51% to 1,783 million.




At the time of the earthquake that hit the provinces of Brescia, Bergamo and Cremona on 24 November 2004 – fortunately without causing any deaths – the Bank promptly set aside 50 million euro to grant loans at special rates to the populations and firms that suffered damages. In particular, it will be possible to use these loans to restore damaged buildings and to repair or buy new furniture, plant and equipment.

We have already mentioned our specialist offices that operate on behalf of corporate customers.

Here we would like to add that they have the support of our numerous affiliates, thanks to

which we can expand and qualify our interventions in the field of so-called «indirect financing». We talk about it amply in the chapter dedicated to them in this report. Lastly, we have continued to collaborate with the Loan Guarantee Cooperatives and Consortiums. They are a privileged way of entering into contact with firms, even very small ones, that in this way can gain access to interest-assisted credit with streamlined procedures. They act as a point of reference for us also in the areas that we have just entered.



Lastly, two words about Basel 2, which is much talked about these days.

In essence, keeping it simple, loan applicants cannot and must not complain about being subjected to a stiff preliminary investigation. Also because our preliminary investigations have always been that way. In quite a few cases, our detailed enquiries have led to the conclusion that it would be better for the applicant not to be granted credit facilities, to avoid getting into risky initiatives that could prejudice their existing activity.

## TREASURY AND TRADING OPERATIONS

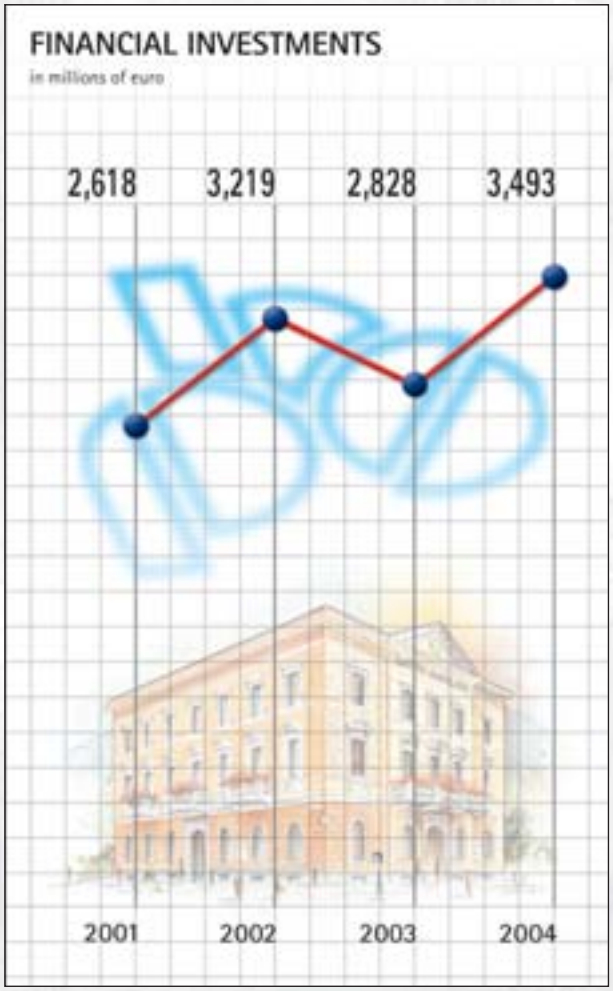
*Stock markets*

This last year has confirmed – as if we needed it – that forecasting how financial markets are going to move is one of the most difficult things in the world. Talking of which, it may be worth remembering the Greek historian who said that one of the most awful punishments that a human being can suffer is to foresee all sorts of things and not be able to do anything about them. A maxim that applies to financial markets. Despite the many motives for uncertainty and tension, almost all of the world equity indices turned positive, some even making substantial gains. In light of the most recent events, it is impossible to say whether this is the consolidation of an underlying trend or rather navigating by sight, trying to avoid the larger icebergs.

We go along with those who believe that stockmarkets are able to anticipate changes in the real economy; that should mean that we are in for a general improvement – and a significant one at that. As for bond markets, Europe's were affected by the common monetary policy and turned in a strong, though unexpected, rally, especially in the second half. A fundamental role was played by the ongoing low cost of money and by macroeconomic signals that imply relative stability in the inflationary picture, on the one hand, and a still embryonic economic recovery that is struggling to take off, on the other. The situation in the United States is different: there the interest rate hikes decided by the Federal Reserve have caused a weakening in bond prices, the only exception being longer maturities.

The long-awaited reform to provide small investors with better protection still has to be passed by the Italian Parliament. As a result, investors have been finding themselves travelling down roads without any protection or road signs, even though these have often been promised. It is worth remembering that it is in everyone's interest to reinstate that feeling of trust that is the essential basis for any market.

Our commitment, gratified by the constant consideration of investors, is to continue operating according to the concepts of fairness and openness which are a distinctive part of our corporate culture. Every counterparty is guaranteed adequate, professional assistance, so that they can make decisions based on full information and a complete awareness of the situation, in line with their propensity for risk and their personal declared objectives. Observation of our securities department merely reiterates and consolidates our conviction that its approach is much appreciated because it is uniformly sensitive and well-informed.




Another chapter talks about the main stock exchanges around the world, so all we want to say here is to mention that the Italian market turned in the best result in the whole of the European Union, with the Mibtel index going up by 18.13%. This raised total market capitalisation to 43.1% of GDP, from 37.6% in 2003, while the number of listed companies fell to 278: there were 10 new quotations, more than offset by 11 delistings.

During the year, the total amount raised on the market through placements and rights issues was 15.3 billion compared with 12.6 billion in 2003. Analysing this figure shows that there is still a concentration of a few large borrowers and, on the other side, a distinct prevalence of institutional investors. In detail, there were 23 increases in capital which raised a total of 3.3 billion, while 12 billion came from 18 placements, where the one that stands out is the 7.6 billion public offering by ENEL.

It was a modest year for Public Purchase Offerings, which are operations that return funds to the market. There were 19 for a total of 0.5 billion, compared with 32 worth a total of 16.9 billion in 2003. In this context, which also featured a continuously high level of liquidity, our finance function operated successfully through the treasury department, taking advantage of any opportunity to turn a profit from the exchange of interbank deposits and management of the Bank's own funds. This is reflected in the fact that our trading volumes on the MID (the Interbank Deposit Market) rose sharply, exceeding the symbolic level of 100 billion for the first time – 103.3 billion to be precise, +6.43% – for a total of 6,182 transactions.

***Own securities***

Our own security portfolio increased from 1,888 to 2,104 million, +11.42%. As regards the mix, there is still a distinct prevalence of floating-rate government securities, mainly Treasury Credit Certificates (CCTs). Fixed-rate securities, on the other hand, consist almost entirely of Long-Term Treasury Bonds (BPTs) with short maturities. The portfolio also contains a limited number, but still worthy of mention, of Euribor-linked bonds issued by banks and securities deriving from securitisations of various kinds; these are also index-linked to the Euribor with spreads that on average are higher. Trading has not been encouraged by fears that interest rates are about to be raised. Low quantities of fixed-rate securities are held as a result, even though these are better suited to trading. Despite this, total trading volumes during 2004 came to 19.03 billion, so the decrease compared with the previous year was only 6.91%. Profit-taking on the fixed-rate

# ASSET MANAGEMENT

*In the asset management sector, the banking system in general saw mutual funds end the year with a negative balance between subscriptions and redemptions; this decline affected all types of funds, monetary funds in particular, with the sole exception of flexible funds.*
*Capital and reserves grew by a modest 1.3%. As far as we are concerned, the placement of Arca funds saw a positive net inflow, not huge but appreciable all the same. The company, professional and dynamic as always, supplemented its range of products with Arca Corporate Breve Termine, an international bond fund.*
*Also on the rise were inflows to our investment fund – Popso (Suisse) Investment Fund –, which introduced two new lines, Short Maturity Euro Bond and Global Opportunity Equity, for a total of ten; the Sistema Valori Responsabili ethical funds, which are handled by our affiliate Etica SGR spa, also made a name for themselves.*

Etica SGR S.p.A.
SISTEMA VALORI RESPONSABILI

ArcaCinqueStelle
MULTI STYLE
MULTI ASSET
MULTI MANAGER

ArcaMultiFondo
ARCA MULTI FONDO
FUND OF FUNDS

ARCA Società di Gestione del Risparmio

## Arca Funds

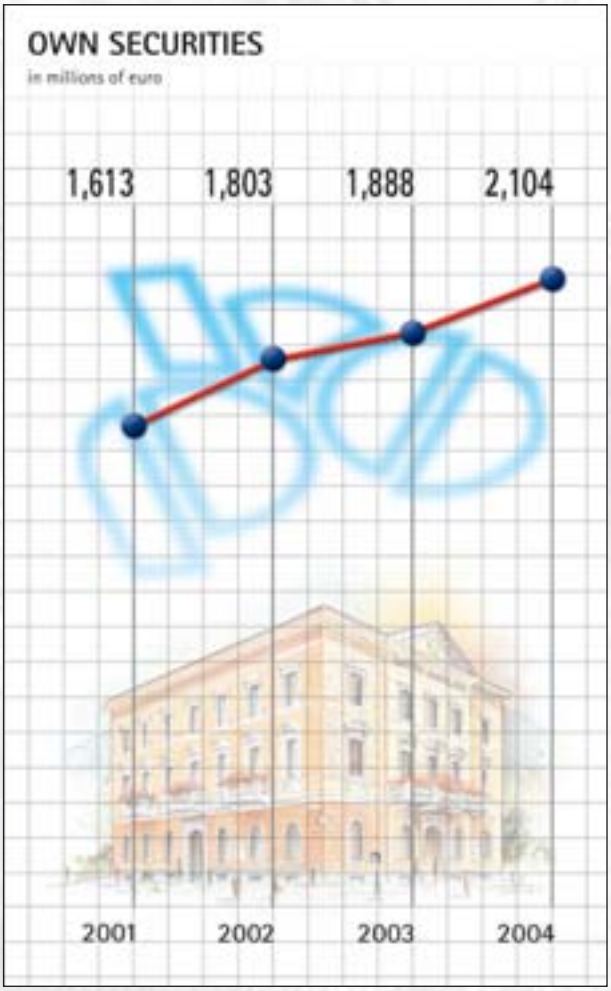
- Arca BT
- Arca BT Tesoreria
- Arca MM
- Arca Corporate Breve Termine
- Arca RR
- Arca Bond
- Arca Bond Corporate
- Arca Obbligazioni Europa
- Arca TE
- Arca BB
- Arca 27 Azioni Estere
- Arca Bond Dollari
- Arca Bond Paesi Emergenti
- Arca Azioni Italia
- Arca Azioni Europa
- Arca Azioni America
- Arca Azioni Far East
- Arca Azioni Alta Crescita
- Arca Azioni Paesi Emergenti

portion of the portfolio and the partial disposal of equities with substantial capital gains led to a distinct increase in trading profits to 13.3 million, +22.95%. The portfolio of own securities at the end of the year contained unrealised capital gains of 3.86 million, mostly on equities, and unrealised capital losses of 1.76 million. Writebacks of securities written down in previous years – mainly funds and equities – amounted to 3.78 million. Trading in repos on the MTS/PCT with institutional counterparties was particularly intense. The high level of liquidity meant that investment transactions had the upper hand over funding transactions. Trades came to a total of more than 52,000 million, +4%.

After a slight decline during the first half when investors were looking for higher yields, the customer repo market picked up again towards the end of the year in the wake of expectations of an increase in official interest rates, backed by the decisions of the Federal Reserve. The closing balance comes to 1,249 million, an increase of 1.96%.

Investor prudence regarding equities is reflected in the number of orders taken, with no real increase in daily volumes. We make available an online trading system for DIY investors. It has a growing number of admirers, helped by the introduction of a more advanced version. The positive tone of the bond market allowed for progress in trading volumes on behalf of customers. The lion's share was for government securities, while there was a good increase in highly rated corporate bonds.

The placement activity benefited from the recovery in Public Sale Offerings – especially that of ENEL shares – as well as from the distribution of mutual and investment funds. Further information on these is provided in the section on asset management.




***Performance of the BPS stock***

Talking of our shares, let's remember above all the fantastic response by the shareholders who subscribed to the increase in capital successfully completed in the first half of 2004. We talk about it in greater detail in the chapter on capital and reserves. Here we would like to point out that the confidence that our stock enjoys is also shown by its positive performance on the Expandi market, where the price rose during the year by 11.53%, compared with +7.16% by the reference index, the Imex, and +18.13% by the Mibtel. This is a good performance which looks even better considering that the stock also went up in previous years, even when stock exchange indices were falling. Limiting our comparisons to 2001, 2002 and 2003, the results are as follows: BPS stock +5.09%, +1.43%, +13.99%;

# PORTFOLIO MANAGEMENT

*Our portfolio management office had a year of hard-earned satisfaction. Assets under management rose by 11.3% to 1,532 million, accompanied by a significant increase in new accounts.*
*Interest on the part of the clientele, which included important institutional investors, was mainly for monetary and bond funds, with a visible return of interest for balanced funds, a tendency that the office reacted to with professionalism and equilibrium.*

Imex index -12.18%, -6.06%, +14.63%; Mibtel index -24.63%, -23.50%, +13.94%.

The BPS stock therefore confirms its particular personality, the fact that it is traditionally extraneous to tensions and movements of a speculative nature, but able even in the stock exchange's darkest hours to safeguard the value of the investment. After all, it is the expression of a company that works, earns and grows at a rate that is strong, but never excessive, counting on its own efforts with the support of its shareholders; they, for the most part customers, provide the Bank with the necessary financial resources, as well as a considerable amount of business.

It is a virtuous process that has been going on for many years and which in 2004 again demonstrated its effects with an increase in the shareholder base of 9,673 to reach a year-end total of 126,842. A particularly enlarged family of which we are very proud, being well aware of the effort that it takes to maintain its vigour and potential for further growth.

Pertinent authorising bodies at the Bank review the admission applications of aspiring shareholders in accordance with the principles laid down by law and the articles of association, in other words the interest of the company, the by-laws and the spirit of the cooperative movement.

There were no own shares in the Bank's portfolio at the end of the year, so the reserve of 23 million euro was completely unutilised. The following table summarises trading during the year.

We close this review of the finance department with the important asset management sector. The banking system in general saw mutual funds end the year with a negative balance between subscriptions and redemptions of 10.5 billion; this decline affected all types of funds, monetary funds in particular, with the sole exception of flexible funds, which ended the year more than 5 billion euro up. Overall assets under management grew by just over 1% to 515 billion thanks to the increase in prices. New prospects will open up on implementation of the pension reform, supplementary pensions in particular, which we discuss in the chapter on the Bank's products. As far as we are concerned, the placement of Arca funds saw positive net inflows of more than 37 million, not a huge amount but appreciable all the same, which together with the increase in value of the underlying capital raised total fund assets to 1,423 million, +6.8% on 1,332 million at the end of 2003. The company, professional and dynamic as always, supplemented its range of products with Arca Corporate Breve Termine, an international bond fund.

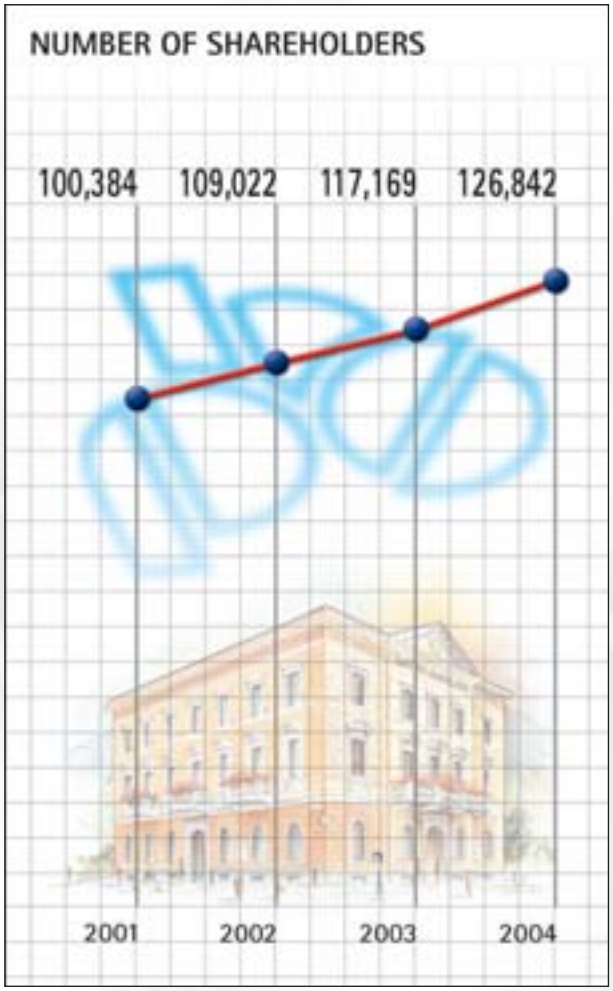
Also on the rise were inflows to our investment fund Popso (Suisse) Investment Fund, which introduced two new lines, Short Maturity Euro Bond and Global Opportunity Equity, for a total of ten; the Sistema Valori Responsabili ethical funds, which are handled by our affiliate Etica SGR spa, also made a name for themselves.

***Portfolio management***

Last but not least, our portfolio management office had a year of hard-earned satisfaction. Assets



| | No. of shares | Par value | % of share capital | Amount of trade |
|---|---|---|---|---|
| Balance at 31/12/2003 | 0 | 0 | 0 | 0 |
| Purchases | 9,354 | 28,062 | 0.007 | 89,095.51 |
| Sales | 9,354 | 28,062 | 0.007 | 89,041.42 |
| Trading result | | | | -54.09 |
| Balance at 31/12/2004 | 0 | 0 | 0 | 0 |




under management rose by 11.36% to 1,476 million, accompanied by a significant increase in new accounts. Interest on the part of the clientele, which included important institutional investors, was mainly for monetary and bond funds, with a visible return of interest for balanced funds, a tendency that the office reacted to with professionalism and equilibrium. By the end of 2004, the various forms of asset management came to a total of 2,880 million, with an increase of 10.77%; quite a respectable result which reflects a correct strategy and, of course, the considerable efforts of our distribution network.

## EQUITY INVESTMENTS

Equity investments are a very significant item in the balance sheet. For the most part, they are companies that are directly involved in the Bank's operations. This means that they have the function, even more so than that of a stable financial investment, of being suppliers of so-called near-banking products and services, which by now are an integral part of our catalogue. In a word, they provide strong support, while allowing us to concentrate on our core business and maintain a slimline, pro-active structure.

As founding or, in any case, long-standing shareholders of many of these affiliates, we are in a position to acknowledge their top quality professionalism and potential, which in part derives from their independence. From this comes our whole-hearted, loyal and concrete support. Generally speaking, these companies have their origins in the world of cooperative banks, though in recent years we have on various occasions lamented the fact that some of our fellow banks have pulled out of their commitment. The fact remains that certain affiliates have suffered as a result, and are still suffering now, both economically and in terms of market share. One of their main reasons for existing is the fact that they ought to be able to achieve a critical mass.

In accordance with our policy, we have therefore willingly accepted the opportunity to establish, together with other cooperative banks, corporate governance and commercial agreement for certain important affiliates. Following the agreement at the end of 2003 which concerned Banca per il Leasing – Italease spa, in 2004 we signed shareholder agreements concerning Arca SGR spa. We would like to express our satisfaction with this initiative and we are ready to give our support to others of this kind.

Equity investments at 31 December 2004 had risen by 6.8 million to 137.3 million, of which 32.9 million refers to Banca Popolare di Sondrio

(SUISSE) SA, our largest equity interest. The change during the year of 6.733 million derives from targeted increases in the ownership interests held, participation in the increases in capital of certain companies and a writeback of 0.517 million to the value of the investment in Arca Assicurazioni spa. There was also a decrease of 0.154 million caused by the sale of the investments in Finlombarda spa – on the request of the Lombardy Region – and Banca Intesa spa, which derived from our investment in the former Mediocredito Lombardo; as well as writedowns of the investments held by Pirovano Stelvio spa in InArCheck spa and Centrosim spa for a total of 0.315 million.

The following comments are on the Bank's main investments, split into subsidiary and associated companies, trade and non-trade.

*Subsidiaries:*

**Banca Popolare di Sondrio (SUISSE) SA** (100%). A Swiss bank with head office in Lugano, founded on 3 May 1995, BPS (SUISSE) is a dynamic member of the Swiss banking system and is about to celebrate its tenth birthday with great confidence. Its distinctive features are a strong balance sheet, comforted right from the start by good profits; the ability to invest in strong, targeted territorial and operational expansion; a more than satisfactory penetration of the areas covered and constant expansion in their local economies.

The first recognition goes to the staff, who with enthusiasm and devotion work with the primary purpose of making the structure strong and competitive. It has a staff of 217 people, 24 more than last year, all highly professional and dynamic in the best Swiss tradition.

One of the main events of the year was the inauguration of our 14th Swiss unit in Zurich, where on 12 July we opened the local branch to replace the representative office that was opened on 11 February 2002. Zurich needs no introduction, being one of the most important financial centres in the world. Worth mentioning is the branch's felicitous address in downtown Uraniastrasse, a district where many of our compatriots live. Together with the Montecarlo in the Principality of Monaco, which has been operating since February 2003, making good progress, Zurich will help spotlight our Group's willingness to provide international banking services.



Our subsidiary's branch network is now the largest of any Swiss bank founded by foreigners. The coming months will see completion of the refurbishing work on the building owned by the bank in Via Luvini, in the centre of Lugano, where the bank's head office is to be located.

As regards the bank's operations, securities and foreign exchange trading is still significant, while there has been an increase in business relations with residents and persons domiciled in Switzerland, which is reflected in the balance sheet aggregates. Its online banking services, which are offered under the *Go Banking* label with the support of an efficient call center, now handle more instructions than the traditional channels.

Positive results also came from Popso (Suisse) Investment Fund Sicav and Sofipo Fiduciaire SA, both of which provide services for our Banking Group.

Despite the poor economic scenario, the hard work performed by the subsidiary is reflected in a net profit that, after charging considerable depreciation and other provisions, rose by 10.61% to CHF 7,669,533. Capital and reserves, including all of the net profit for the year, now come to CHF 102,724,688, of which 50,000,000 is share capital.

**Pirovano Stelvio spa** (100%). Pirovano is the owner of hotel facilities which it runs at the Stelvio Pass, an area that is well-known above all for summer skiing.

It has to be said that the tourist facilities at the Stelvio have been progressively enriched in

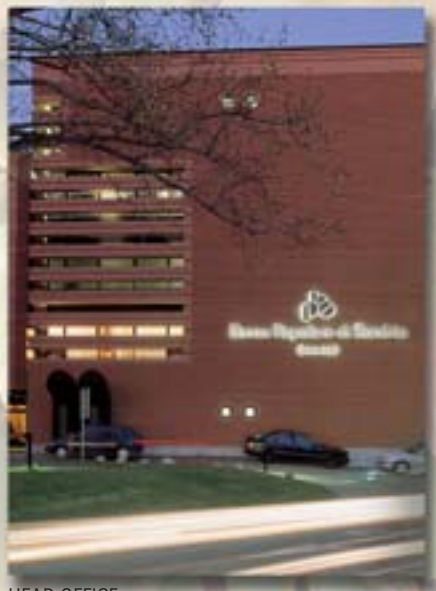
# SUISSE

Banca Popolare di Sondrio
(SUISSE)

ZURICH, Uraniastrasse 14

*BPS (Suisse) is a dynamic member of the Swiss banking system and is about to celebrate its tenth birthday with great confidence.*
*Its distinctive features are a strong balance sheet, comforted right from the start by good profits; the ability to invest in strong, targeted territorial and operational expansion; a more than satisfactory penetration of the areas covered and constant expansion in their local economies.*
*One of the main events of the year was the inauguration of our 14th Swiss unit in Zurich, where on 12 July we opened the local branch to replace the representative office that was opened on 11 February 2002. Our subsidiary's branch network is now the largest of any Swiss bank founded by foreigners. The coming months will see completion of the refurbishing work on the building owned by the bank in Via Luvini, in the centre of Lugano, where the bank's head office is to be located.*

LUGANO, via Maggio 1
BASEL, Greifengasse 18
BELLINZONA, viale Stazione 26
CASTASEGNA, località Farzett
CELERINA, via Maistra 104
CHIASSO, corso San Gottardo 30
CHUR, Bahnhofstrasse 9
LOCARNO, piazza Muraccio
LUGANO CASSARATE, piazza E. Bossi 2
POSCHIAVO, strada San Bartolomeo
ST. GALLEN, Teufenerstrasse 3
ST. MORITZ, via Dal Bagn 9
ZURICH, Uraniastrasse 14
PRINCIPALITY OF MONACO
MONACO - 3, Princesse Florestine



HEAD OFFICE

LUGANO

# PIROVANO

*The tourist facilities at the Stelvio have been progressively enriched in recent years, introducing various other activities to combine with skiing. If, on the one hand, the golden years of the Sixties and Seventies are past and gone, on the other, the area's unbeatable scenery offers new opportunities both for sports – cross-country skiing, cycling, hill-walking, altitude training for other sports – and for environmental, scientific, educational, historical and cultural activities. In this way, Pirovano contributes to the fortunes of the Stelvio.*

*The objective is to create alongside the "Skiing University" a "Mountain University", in the hope that the other players involved, both public and private, make a real contribution towards the revival of the Stelvio area in the wider interest of the whole provincial economy.*

*Promotional activities led to an interesting contact with the Far East, generating a large group of Japanese tourists and the visit by a delegation from China in preparation for future holidays.*

recent years, introducing various other activities to combine with skiing. If, on the one hand, the golden years of the Sixties and Seventies are past and gone, on the other, the area's unbeatable scenery offers new opportunities both for sports – cross-country skiing, cycling, hill-walking, altitude training for other sports – and for environmental, scientific, educational, historical and cultural activities.

In this way, Pirovano contributes to the fortunes of the Stelvio. The objective is to create alongside the «Skiing University» a «Mountain University», in the hope that the other players involved, both public and private, make a real contribution towards the revival of the Stelvio area in the wider interest of the whole provincial economy.

During the year, Pirovano made every effort to close the season in the best way possible. Promotional activities led to an interesting contact with the Far East, generating a large group of Japanese tourists and the visit by a delegation from China in preparation for future holidays.

The by now traditional «Snowfestival» closed the season with an appointment to meet again next 21 May 2005, when the next day the Giro d'Italia will brave the Pass during the stage from Egna to Livigno. For the reasons mentioned above and aggravated by the crisis in the tourism industry, despite careful management, the company's results are not positive, even if they have improved considerably. It is comforting to know that the BPS Group undoubtedly gets promotional benefits because of the unique nature of the facilities that Pirovano provides. Let's hope that holding the Alpine Ski World Cup at Bormio and Santa Caterina Valfurva will have a beneficial effect on all tourist activities in the Valley.

**Sinergia Seconda srl** (100%). This is a real estate company which owns properties in Milan and Rome that are not instrumental to the banking business.

Refurbishment and, in certain cases, restoration of the buildings has now been completed and almost all of the units have been rented. This should make them even more attractive from a commercial point of view, so selling them at current market prices, the real purpose of the entire project, now looks more likely.

This is also the objective of its subsidiaries Immobiliare San Paolo srl and Immobiliare Borgo Palazzo srl, which own properties at Azzano San Paolo (Bg) and Bergamo respectively, though to date the kind of building has so far not attracted particular expressions of interest from buyers.

It goes without saying that Sinergia Seconda will continue to operate, together with its subsidiaries, to improve the state and profitability of the buildings that it owns, hence their commercial interest. The company closed the year with a profit.

*Associated companies:*

**Ripoval spa** (50%). Ripoval is a tax collection agency which is jointly owned together with Credito Valtellinese.

During the year it continued to operate competently and effectively, demonstrating in full the reliability that this delicate function requires.

There has been talk of a radical reform of this sector for some time, but to date there seems to be very little agreement. In fact, the 2005 Budget Law extended the expiry date of the current concessions to 31 December 2006. As for the fee income that is meant to remunerate the collection service, the amount allocated to Ripoval spa for 2004 is considerably lower than the amount paid for 2003, as expected given the reduction in the overall amount available for fees. But despite this, efficient management made it possible to turn in a profit.

Given the situation explained above, it goes without saying that the future of the tax collection agents is unfortunately full of uncertainties, and important ones at that.

**Arca Vita spa** (32.528%). This is an insurance company which operates in the field of life insurance. It controls Arca Assicurazioni spa, as well as other smaller insurance-related companies, and is associated with B. & A. Broker spa, both of which we have an interest in, as explained below.

The company was founded and has since developed on the assumption that bancassurance would become an integral part of banking, as indeed has happened.

In line with the general trend of the insurance sector, where there are hints of a slowdown after years of healthy growth, Arca Vita's premium income did not manage to repeat that of the previous year, which saw a significant increase.

New premiums were mainly for so-called traditional policies, which guarantee not only the capital invested, but also returns based on the performance of the underlying financial instruments, with a guaranteed minimum. Good results continue to be obtained by Multifase, a unit-linked policy designed for gradual, prudent investment in financial markets, while on the providential side Arca Vita's Linea Pensione ought to benefit from the reform of supplementary pensions. Having a long-standing, well-managed insurance company like Arca Vita that is quick to respond to market needs is a guarantee for the partner banks, which are also distributors of its products, along with others. The intelligent approach of the people who work there ensure that the product is competitive and flexible to meet customers' requirements.

The financial statements show positive economic results.

**Servizi Internazionali e Strutture Integrate 2000 srl** (33.333%). This is a service company which has a representative office in Hong Kong and another office in Milan that specialises in country risk analysis and in the analysis of banking systems and banks in general. It is jointly owned together with two other cooperative banks.

The vivacity of the Chinese economy means that the Hong Kong office is extremely useful as an observatory, offering related advisory and assistance services. Benefits accrue to the partner banks, their respective customers and the banking and financial institutions that use the company's services. The headlong growth in Asia and consequent interest on the part of numerous entrepreneurs ought to provide plenty more business opportunities, as will the development of new initiatives to expand the company's portfolio.

As for the risk analysis office, it is worth pointing out that a market assessment of the various operators in this area made it possible to establish the professionalism and competitiveness of the services provided. The income statement is still showing a loss, though there has been a comforting improvement.

**B. & A. Broker spa** (28.571%). This company operates in the field of insurance consulting and brokerage. The affiliate integrates the catalogue of insurance products and services offered by the bank, especially in non-life coverage. In fact, while Arca Assicurazioni puts together policies designed to be sold over the counter, B. & A. Broker has qualified resources who can raise the effectiveness of all or part of the insurance policies held by private individuals, SMEs and institutions.

After a period of study to identify the customer's specific needs, the company then carries out market research to find the best combinations of coverage and price. This is an activity of undoubted professional prestige which is gaining ground more and more. This can be seen from the affiliate's mandate portfolio, which shows a steady growth trend, helped by the determination of those involved in business development. The income statement shows a positive result.

**CBE – Service sprl** (23.30%). This is a Belgian company based in Brussels which markets the services provided by CBE-GEIE, the Coopération Bancaire pour l'Europe-Groupement Européen d'Intérêt Economique, an association of which we are members. The reason why CBE-GEIE was founded – to foster economic integration within the European Community – determines the type of services that the company offers. These services are well received and are becoming more and more widespread. ImpresaEuropa provides information, assistance and advice on the financing policies and programmes promoted by the European Union offering, among other things, an efficient database, special bulletins and personalised analyses (ImpresaEuropa check-up); GarEuropa issues real time, targeted reports on contract tenders at both a national and international level, giving related assistance on how bids are to be submitted (analysing tenders, doing translations, acquiring documents and looking for local partners).

This is an activity of proven professional worth, which offers concrete support to businesses and public entities in sectors that are hard to access. It is explained in an interesting monograph entitled «EU Enlargement Special», devoted to the ten new EU member nations, which is published on CBE-GEIE's website.

The company made a profit during the year.

*Trade investments:*

**Centrobanca spa** (1.60%). This is controlled by Banche Popolari Unite, a fellow cooperative, which acts as a «Business Bank». This means that, among other things, it grants medium/long-term loans, particularly for development investments and to readjust a company's financial position; it designs, structures and creates products; it gives advice on corporate finance, especially in connection with changes in shareholder structures and it operates in the field of private equity.

These areas are handled by the individual departments of the company, which have specialist staff, as well as by its subsidiaries such as Centrobanca Sviluppo Impresa SGR spa, which operates in closed-end mutual funds, and Centrobanca Studio Finanziario spa, which carries out investigations and evaluations of investment programmes with a view to obtaining government grants or low-cost finance. The collaboration provided by this affiliate is valid and constructive. Its income statement is positive.

**Unione Fiduciaria spa** (4.378%). This is a service company for cooperative banks, historically active in the field of fiduciary registrations, where it is one of the best established players, though it has now extended its activities to other areas as well.

The prolonged success of Unione Fiduciaria lies in the professional qualities of its managers, who also make use of a number of qualified external consultants. This leads to services that are efficient and competitive, two qualities that have been consolidated over time to become a tradition. It goes without saying, though it is always worth repeating, that the strength of Unione Fiduciaria also lies in the complete independence of its management, an advantage that derives from its ownership structure as a consortium. Its ample and delicate operating environment satisfies all kinds of domestic and international needs. To summarise, through the fiduciary administration of securities and other assets, where confidentiality is supported by adequate procedures; special project financing, a branch of corporate finance; tax and corporate planning; consulting for banks and financial intermediaries; information technology, which is used by various leading asset management companies. The list is completed by a series of services offered to third parties, such as corporate secretariat, personnel administration, and book-keeping.

Lastly, particular attention is paid to cross-border aspects, for which the company uses the

# EQUITY INVESTMENTS

## Subsidiaries

- BANCA POPOLARE DI SONDRIO (SUISSE) SA
- PIROVANO STELVIO SPA
- SINERGIA SECONDA SRL

## Trade investments

- CENTROBANCA SPA
- UNIONE FIDUCIARIA SPA
- POLIS - FONDI IMMOBILIARI DI BANCHE POPOLARI SGR.p.A.
- BANCA PER IL LEASING-ITALEASE SPA
- FACTORIT SPA
- CENTROSIM SPA
- ARCA BIM SPA
- ARCA SGR SPA
- ARCA ASSICURAZIONI SPA
- ARCA MERCHANT SPA
- CIM Italia SPA
- BANCA POPOLARE ETICA SCARL
- ETICA SGR SPA
- CONSORZIO CASSAMERCATO

## Associated Companies

- RIPOVAL SPA
- ARCA VITA SPA
- SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 SRL
- B. & A. BROKER SPA
- CBE - SERVICE SPRL

## Non-trade investments

- AEM SPA
- INARCHECK SPA

services, amongst others, of the affiliate Sofipo Fiduciaire SA of Lugano (Switzerland), in which Banca Popolare di Sondrio (SUISSE) SA also has a sizeable interest.

Its results, as always, are positive.

**Polis Fondi Immobiliari di Banche Popolari S.G.R.p.A.** (7%). The affiliate runs the closed-end real estate mutual fund of the same name and is ready to evaluate other initiatives that would allow it to intensify its penetration of this particular market.

In the meantime, the Polis Fund has continued to rotate its portfolio, as it did the previous year. The book value of the fund's assets has benefited from significant capital gains. The result is an average annual yield, calculated from when the company's fund management activity began, that is on the rise and considerably higher than returns on the money market. To the extent that some earnings were distributed in advance, namely € 80 per unit (4% of the amount invested) in March last year, on top of the € 60 of the previous year. This is reflected in the Stock Exchange value of the fund's units, which is rising gradually despite there being limited trades because of the intrinsic, medium/long-term nature of the investment. The emphasis on new or recently restructured buildings whose official use makes them relatively easy to sell, located in areas of primary interest and rented out to high quality tenants, are the principles which protect the subscribers because they give the fund a low risk profile.

The financial statements show positive results.

**Banca per il Leasing – Italease spa** (5.807%, formerly 6.434%). This is a bank set up by the cooperative banking movement which specialises in finance leases for moveable property and real estate. It heads up the group of the same name.

The company was founded in 1968 and this year celebrates the 10th anniversary of its conversion into a bank. Renewed support on the part of its shareholders, both in terms of strategy and in terms of business development, in harmony with the skill and enthusiasm of the team, is reflected in the solidity of its balance sheet and the company's operating dynamism which lie behind its positive economic results.

Italease, with the help of the cooperative banks, has always constituted a point of reference for the thousands of businesses that it has allowed, and still allows, to implement investment plans, now also in the medium/long term.

Traditionally dynamic, during the year the company launched important new initiatives which will lay the foundations for further growth. Particularly worthy of mention is the acquisition of 100% of Mercantile Leasing spa, which operates in the leasing of moveable property and real estate and in full leasing, with a particular emphasis on the marine sector. This subsidiary reinforces the structure of the Italease Group, having also bought 75% of Unico Leasing spa, which specialises in working with pharmacists.

The affiliate's efforts are reflected in the increase in new contracts and therefore in volumes, consolidating its no. 2 ranking nationwide, a trend that we have helped thanks to a substantial increase in business that we have passed on to them.

On the sales and marketing side, an agreement that stands out is the one with Poste Italiane spa to offer finance leasing to customers of BancopostaImpresa.

An attestation of this positive trend is the rating given by Moody's Investors Service, quite a flattering A3 for the long term and Prime-2 for the short term.

In the latter part of the year, the company's Board of Directors launched a project to look into the possibility of applying for a Stock

Exchange listing. This is a suitable step given the current size of the Group: it may well be opportune for it to open up the capital to private and institutional investors who, together with the operating shareholders, can guarantee another period of fair and balanced growth. Our interest in the company was reduced proportionately on the entry of a new shareholder, Reale Mutua Assicurazioni, a leading mutual insurance company, which acquired the shares deriving from the increase in capital launched in 2003.

The net profit is well up on the previous year.

**Factorit spa** (2.415%). This affiliate, which operates in the management and collection of trade receivables, as well as their liquidation and insurance, has for many years been one of Italy's top factoring companies. Factorit is one of the cooperative movement's oldest specialist companies, traditionally sharing its culture by acting as a factory of products and services.

Its ample catalogue includes the classic forms of management, advance financing and guaranteeing of receivables, factoring with and without recourse, the latter with or without notification, import and export. One product that has been received particularly well is DDay, which provides for the crediting of factored invoices on a specific date. There is also a Maturity Factoring version, which transfers the risk of delayed payment to the factor.

Other specialist products are targeted at the motor vehicle market, public entities, mass distribution and tourism. Thanks to the WebFactoring® service, dealing with customers and the banks is now possible online. Operational and technological efficiency has enabled Factorit to increase its market share at a time when the sector has been more or less stable. This is an excellent result which rewards the efforts of those who work for the company on a day-to-day basis, and with the banks that act as intermediaries, explaining the particular characteristics of the product to business customers. The economic results are positive.

**Centrosim spa** (3.176%, formerly 3.173%). This is a securities house which is involved in trading mainly for third parties. This is generally considered a «poor» business; this means that, given the low profit margins, it is important to have a high workload. And while willingness is indispensable, it is often not enough. Very briefly: the rally in equity indices has not boosted trading volumes sufficiently, while fixed costs remain high, even if under tight control.

These are elements that, after a decade of successes, have marked the company's progress, penalised also by the loss of important work flows when certain fellow cooperative banks decided to go it alone.

It's a pity to have to say these things about Centrosim, as the company undoubtedly has strong professional skills and efficient technological support backing up its operations which have always been regular and fair, even at times when the workload has been particularly heavy. Unfortunately, our conclusions are common to various securities houses: namely, further losses which are going to require more structural interventions.

We are certain that the convinced support of the company's shareholders, together with further targeted initiatives that are currently being implemented to bring the operating structure back into balance, will enable Centrosim to overcome its current difficulties.

We will continue to do our part, while we trust that the sector's rules and regulations will allow securities trading houses a sustainable future.

The marginal increase in our shareholding is the result of an increase in capital in which we participated.

**Arca Banca di Investimento Mobiliare spa** (12.841%). Usually abbreviated to Arca BIM or Arca Banca, this affiliate operates in four specific sectors: securities brokerage and trading; asset management; corporate finance; related advisory services, also to its subsidiary Arca Impresa Gestioni SGR spa and to the underlying closed-end mutual funds. This is a modern and diversified activity, which the affiliate has always carried on with an eye to quality. Of course, after years of experience, Arca has laid the bases to increase its work volumes and the number of counterparties with whom to do business.

In the specific field of corporate finance, Arca BIM works successfully alongside the shareholder banks to foster the growth of their medium-sized corporate customers, at the same time offering personalised asset management services to those with resources that need investing.

The economic results are positive.

**Arca SGR spa** (5.872%, formerly 5.17%). This is a mutual and pension fund management company.

In a year when the asset management industry not only struggled to find reasons for satisfaction, but also had a number of worries, this affiliate continued on its way.

With the strength that comes from more than 20 years' experience, it has obtained not only the appreciation of investors, but also important recognition.

We are delighted with the «AM2 asset manager» rating given by Fitch, a leading European agency, an assessment which reflects a solid presence throughout the country, a robust technology platform and a consolidated risk management culture. The certification of compliance with the Global Investor Performance Standards (GIPS) also bears witness to the high quality of its investment processes, including the communication of the results of the portfolios under management.

The ample catalogue was enriched by Arca Corporate Breve Termine, an international bond fund which invests in high quality corporate issues, giving investors even more of a chance to diversity.

On the supplementary pension front, Arca SGR has moved rapidly and effectively, introducing alongside its existing open-ended pension fund «Arca Previdenza», the new «Arca Previdenza Firms», which is structured to welcome collective participation by companies at competitive conditions.

Together with us, other shareholders and distributors have confirmed – and acted accordingly – our appreciation and support of the company, while some have not yet followed up their declarations of intent. We can only hope for a tangible effect, in a higher interest.

A change in the mix of the quotas held by the main shareholders led to an increase in our holding. Good management again led to a profit in 2004.

**Arca Assicurazioni spa** (9.90%). This company is an integral part of the Arca Vita insurance group, operating in non-life lines with particular regard to the banking industry.

Having reached breakeven in 2003, the company has been successfully adjusting its portfolio mix, which has too much motor insurance. Motor insurance allowed the company to achieve considerable volumes of work in a short period of time, but now customers have to be carefully selected so as to improve the ratio between premiums received and claims paid.

On the other hand, the so-called elementary lines – house, family and health – have seen satisfactory growth, bearing out the integration between banking and insurance services. The non-life catalogue has been enriched by a new health insurance policy called *Benesserepiù*: it is split into four parts – prevention, diagnosis, care and after-care – and is both flexible and effective. Having been

written down in according with the statutory rules, our investment was revalued in 2004 by € 0.517 million because of the positive results achieved in 2003, which were then repeated during the year under review.

**Arca Merchant spa** (12.841%). The company – founded in 1987, so it turns 18 this year – invests in the risk capital of medium-sized unquoted companies, with a solid market positioning and a valid long-term development plan, with a view to enhancing their value.

It is a delicate business, which in the recent past made a name for itself, above all among specialist asset management companies, under the name of private equity.

This is the way that Arca Merchant operates, guaranteeing on a fiduciary basis the independence of the entrepreneur with whom the objectives and terms of the investment, as well as the main lines of strategy, are agreed up front. The criteria by which the company operates are closely monitored on a day-to-day basis, comparing notes with the individual entrepreneurs, observing the situation at each of the companies and bearing in mind the general state of the market. It is a business that requires intuition and skill.

Unfortunately, enterprise risk forms part of the business and at times energy has to be spent coping with critical moments. This is what the professionals at Arca Merchant have done during the year, ending the year more or less at breakeven. A necessary pause for reflection before restarting with new investments and cultivating deals with satisfactory prospects. Our traditional support for Arca Merchant combines with the support that we give to firms operating in the areas where we operate because of our nature as a cooperative bank.

**CIM Italia spa** (formerly Cilme-Multitel spa) (5.062%). It specialises in providing electronic banking services and automated retail payments for banks.

The new company name – CIM is an acronym for Centrale Interbancaria Monetica – marks the definitive integration of the two originating entities, Cilme spa and Multitel spa. So even though this affiliate is young, it can boast the long experience of its founders, ensuring high levels of satisfaction to banks and their customers. Not for nothing, CIM Italia is system leader for POS installations, with a market share of nearly 25%, the equivalent of around 200,000 terminals in operation.

The key to its success lies in constant upgrading of technology, also in an internet environment, modular and personalised services, and the ability to resolve any problems relating to the functioning of the equipment, with assistance that can even be accessed through a call center.

The more than positive results confirm the validity of the decisions made in the past, leaving room for further developments.

**Banca Popolare Etica scarl** (0.149%, formerly 0.161%). As one of the bank's original shareholders, we distribute its financial products through our branches. Namely, certificates of deposit and bonds.

Even though this is a minor shareholding, it reflects – together with our current collaboration – the fact that we share the ethical principles that inspire this Padoa-based bank, which in turn impact the way the company is run. Operations that are based on civil solidarity, sustainable development, and social and environmental responsibility on the part of companies. The bank is supported by the contributions and active involvement of the shareholders – around 25,000 of them – who are the bank's real wealth, an indispensable basis for it to consolidate its reputation.

The positive balance sheet and income statement results are a comfort to the bank's efforts and give a glimpse of further developments.

The percentage reduction in our interest reflects an increase in share capital, issuing shares that were mainly subscribed by new shareholders.

**Etica SGR spa** (11.10%, formerly 11.364%). This is an ethical asset management company which creates and promotes mutual funds, called «Valori Responsabili», which we distribute. The affiliate collaborates with Ethibel, a Belgian association of proven professionalism and independence, which selects the corporate and government issues in which to invest according to set ethical rules. The company's ethical committee autonomously completes the delicate process of choosing the securities, while Ethibel, after the necessary checks, assigns the European mark of ethical quality to the funds that deserve it.

This innovative approach allowed the affiliate to gain investors' confidence right from the start, achieving volumes in line with its growth forecasts. Devolution of 0.1% of the capital invested and of the commission income received by the company to a guarantee fund linked to microcredit projects increases Etica SGR's spirit of solidarity.

The marginal change in our interest reflects an increase in capital in which we participated and which permitted the entry of a new shareholder.

The income statement for the affiliate's second year of operations is still negative, but shows a distinct improvement.

**Consorzio Cassamercato** (6.286%). This initiative was promoted more than five years ago by SO.GE.MI, the company that runs Milan's wholesale food markets, with a view to mechanising the payment of goods. Our participation in this consortium derives from the fact that we have had a branch inside the Milan fruit and vegetable market since June 1996.

After an initial and rather laborious start-up phase, the project is now functioning, though only at the fish market. We naturally hope that it will be extended to the fruit and vegetable market as well.

The result for the year was a loss.

*Non-trade investments:*

**AEM spa** (0.525%, formerly 0.333%). The space that we reserve for AEM – the only one of those mentioned here that is quoted on the Stock Exchange – is not meant to compete with the considerations made about the company by financial analysts. We leave it to them to comment on AEM's financial statements, traditionally very solid. It is a multi-utility company whose activity has expanded over the years to become one of the leading players in the energy sector. We like to recall the link, now almost a century old, between the Azienda Energetica Municipale di Milano and our province, which has always meant jobs and important engineering works. As regards us in particular, these dealings led to the opening of a branch at the company's head office in Milan on 11 August 1980.

An important project worth mentioning is the «Nuovo Canale Viola» in Alta Valtellina – 19 kilometres long with a diameter of 3 metres, completely underground – as part of the upgrading and modernisation of AEM's imposing structures for the production of hydroelectric energy.

The canal was inaugurated on 18 July 2004 in the presence of the Minister of Productive Activities Antonio Marzano and the Mayor of Milan Gabriele Albertini, as well as numerous dignitaries and members of the company's top management. It replaces an old open-air canal and will make it possible to boost output at the Premadio power station, which has in turn been upgraded. The above is the reason why for us AEM is not just a straightforward financial

## INVESTMENTS HELD BY THE DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGER

| Name | Company | No. shares held at 31/12/2003 | | Changes in 2004 No. of shares purchased, assigned or subscribed | | Changes in 2004 No. of shares sold | | No. shares held at 31/12/2004 | |
|---|---|---|---|---|---|---|---|---|---|
| Directors | | Direct | Indirect | Direct | Indirect | Direct | Indirect | Direct | Indirect |
| PIERO MELAZZINI | Banca Popolare di Sondrio scarl | 105,000 | 24,616 | 63,000 | 14,772 | – | – | 168,000 | 39,388 |
| CARLO GRASSI | Banca Popolare di Sondrio scarl | 400 | 81,200 | 33,600 | 16,300 | – | – | 34,000 | 97,500 |
| ALDO BALGERA | Banca Popolare di Sondrio scarl | 122,504 | 12,631 | 78,503 | 7,581 | – | – | 201,007 | 20,212 |
| CLAUDIO BENEDETTI (*) | Banca Popolare di Sondrio scarl | 200 | 200 | 1,800 | 1,300 | – | – | 2,000 | 1,500 |
| GIANLUIGI BONISOLO | Banca Popolare di Sondrio scarl | 2,360 | 74 | 472 | 1,047 | – | – | 2,832 | 1,121 |
| FEDERICO FALCK | Banca Popolare di Sondrio scarl | 500 | 0 | 500 | – | – | – | 1,000 | 0 |
| GIUSEPPE FONTANA | Banca Popolare di Sondrio scarl | 200,000 | 0 | 120,000 | – | – | – | 320,000 | 0 |
| MARIO GALBUSERA | Banca Popolare di Sondrio scarl | 2,400 | 5,000 | 1,440 | 3,000 | – | – | 3,840 | 8,000 |
| NICOLÒ MELZI | Banca Popolare di Sondrio scarl | 35,000 | 900 | 31,200 | 540 | 2,200 | – | 64,000 | 1,440 |
| MILES EMILIO NEGRI | Banca Popolare di Sondrio scarl | 40,000 | 40,000 | 17,000 | 17,000 | – | – | 57,000 | 57,000 |
| ALDO ROSSI | Banca Popolare di Sondrio scarl | 25,000 | 30,000 | 15,000 | 20,000 | – | 9,000 | 40,000 | 41,000 |
| RENATO SOZZANI | Banca Popolare di Sondrio scarl | 15,060 | 15,060 | 6,314 | 6,314 | – | – | 21,374 | 21,374 |
| LINO ENRICO STOPPANI | Banca Popolare di Sondrio scarl | 18,000 | 18,000 | 14,000 | 14,000 | – | – | 32,000 | 32,000 |
| BRUNO VANOSSI | Banca Popolare di Sondrio scarl | 25,070 | 29,474 | 16,942 | 17,685 | 1,900 | – | 40,112 | 47,159 |
| FRANCESCO VENOSTA | Banca Popolare di Sondrio scarl | 12,688 | 1,265 | 7,614 | 809 | – | – | 20,302 | 2,074 |
| Board of Statutory Auditors | | | | | | | | | |
| EGIDIO ALESSANDRI | Banca Popolare di Sondrio scarl | 909 | 681 | 546 | 411 | – | – | 1,455 | 1,092 |
| PIO BERSANI | Banca Popolare di Sondrio scarl | 500 | 0 | 300 | – | – | – | 800 | 0 |
| PIERGIUSEPPE FORNI | Banca Popolare di Sondrio scarl | 6,441 | 14,860 | 3,867 | 8,556 | 3,500 | – | 6,808 | (**)22,816 |
| MARCO ANTONIO DELL'ACQUA (***) | Banca Popolare di Sondrio scarl | 300 | 154 | 1,700 | 106 | – | – | 2,000 | 260 |
| MARIO VITALI | Banca Popolare di Sondrio scarl | 17,000 | 3,000 | 10,200 | 1,800 | – | – | 27,200 | 4,800 |
| General Manager | | | | | | | | | |
| MARIO ALBERTO PEDRANZINI | Banca Popolare di Sondrio scarl | 10,000 | 0 | 10,000 | – | – | – | 20,000 | 0 |

(*) from 02/02/2004
(**) the change also reflects the coming of age of a minor child
(***) from 06/03/2004

investment, even if it does have excellent fundamentals. It is rather a just appreciation of a solid company that for decades has been a protagonist of our local economy. From this point of view we made targeted purchases on the market during the year, increasing our interest to the extent shown at the beginning of this section.

**InArCheck spa** (15.385%). This is a service company which specialises in control and certification activities in the field of civil and plant engineering and architecture. This investment derives from our collaboration with the Cassa Nazionale di Previdenza ed Assistenza per gli Ingegneri ed Architetti Liberi Professionisti (Pension and Welfare Fund for Engineers and Architects), which promoted the project, and with the Cassa Italiana di Previdenza ed Assistenza dei Geometri Liberi Professionisti (Pension and Welfare Fund for Surveyors), both shareholders in the company and to which we have been providing treasury services.

The economic important of the construction sector – one of the main generators of GDP – guarantees the company plenty room for growth. Of the various control and certification services, which are designed to verify the quality of the works, it is worth mentioning with reference to the specific Framework Law, the support provided for the validation of public works projects.

The income statement is still negative as the company has just been set up, but there has been a substantial improvement. The professionalism on which the affiliate can count and the support of the shareholders should ensure that breakeven will be reached.

Because of the losses made in 2002 and 2003, the book value of the investment was first increased by € 64,400 and then written down by the same amount.

The required information on intercompany transactions can be found in the notes. These transactions have always been carried out in the interest of the companies concerned and at arm's-length conditions. The table entitled «Intercompany assets and liabilities with Group companies» shows assets of 127 million and liabilities of 144 million. Relations with other subsidiary and associated companies, also in the interest of the parties and at arm's-length conditions, amount to: direct deposits 99 million, indirect deposits 150 million, customer loans 16 million, financial investments 10 million. Related party transactions as identified in accordance with CONSOB Communication no. DEM/2064231 of 30 September 2002, form part of the bank's ordinary operations and are regulated at market conditions or, in the absence of suitable parameters, on the basis of the costs incurred. The transactions with these related parties came to 1.36% of total loans and, respectively, 0.34% and 0.56% of direct and indirect deposits.

Part D of the notes, «Other Information», gives details of the fees paid to the Directors, Statutory Auditors and the General Manager, as well as any loans and guarantees given, in compliance with art. 136 of Legislative Decree no. 385 of 1 September 1993.

During 2004, as well as during the current year, there have been no atypical or unusual transactions that might have a significant effect on the bank's economic or financial standing.

In accordance with Art. 79 of CONSOB Resolution no. 11971 of 14 May 1999, as amended, we have prepared a separate table reporting the shares of the bank and its subsidiaries held by Directors, Statutory Auditors and the General Manager (or by their spouses unless legally separated and their minor children), whether directly or through subsidiaries, fiduciary companies or third parties.

## INTERNATIONAL UNIT

When one thinks of our International Unit, it is normal to think of cross-border relationships, of the ability to provide customers, companies in particular, qualified assistance outside Italy, interventions on the currency market, in other words, all of the operations carried out by the Bank beyond the national confines.

It is with legitimate pride that we affirm their professionalism, initiative and tenacity, and the successes that they have achieved. This department contributes a great deal in spreading the Bank's popularity and prestige abroad and in the various continents.

In fact, our people carry on these tasks, and numerous others besides, with great skill; and with a eye on wider scenarios they study new markets and more sophisticated instruments, they identify opportunities and more efficient services, they even evaluate the possible trade routes that are being opened up by globalisation. All of this, while being careful to offer customers what they really need.

This is a rule of healthy realism which we willingly hold to, well aware that nowadays – even if there are new names to indicate things that are more or less well-known – there is very little left to be invented, though there's a great deal left to be done to respond properly to the needs of those who come to us for advice.

If then the excellence of the services provided and the consideration we have deserved lead to new business and prestigious and remunerative appointments – this last an aspect that is always of considerable importance – also from supranational entities and institutions, then so much the better. It means that we have worked hard and well, because no one gives anything for free, especially abroad, where the competition has always been fierce and of high quality.

We are in an expanding market where customs barriers, political differences and geographical distances are gradually being reduced to leave room for demand and supply to meet freely on a global scale. This does not mean that we are not interested in other markets; quite the opposite. An example is the agreement with Promos, of which more later.

We can assume that whatever does not exist today, will tomorrow. This way of operating is a constant in our style of management.

Until such time that meeting with other countries means just that and does not turn into a battle to our disadvantage (considering the size and the strength of the competitors against which Italy has to measure itself), we have to live globalisation in the awareness that if on the one hand it brings us goods at almost unbeatable prices, on the other it reveals interesting opportunities for those willing to make a move.

This is why it forms part of our mission to offer businesses effective and timely services to allow them to evaluate new initiatives, whether it is worth their while to enter wider markets or whether it is opportune for them to sign agreements with potential partners: in other words, making new business deals.

The agreement that we have reached with Promos is a good reflection of our operating philosophy. Promos belongs to the Milan Chamber of Commerce and specialises in the promotion of international activities. It has 14 representative offices in key marketplaces throughout the world and through it we have accompanied entrepreneurs in a genuine world tour: trade missions in Bulgaria, Egypt, Mexico, Poland, Malaysia, Singapore, Uruguay, Japan, Korea and Argentina; days of preparation in Sondrio and Milan, learning about markets in America, Egypt, Eastern Europe and the ACCA area (Andes, Caribbean & Central America); specific industry meetings with Korean and European firms.

Servizi Internazionali e Strutture Integrate 2000 srl and CBE Service sprl also act on behalf of companies. We talk about them in the chapter devoted to our affiliates, not forgetting that our overseas presence is also enriched by the offices in Hong Kong, strategically placed at the heart of the Chinese economy, and in Brussels. Development of our correspondent bank relationships has seen us active in the dynamic land of Spain, where a collaboration agreement has been signed with Caixa of Barcelona, the third largest Spanish banking group.

Of considerable importance is the agreement with AD – the Asian Development Bank of Manila – to facilitate our own operations and those of our customers in Asia and the Pacific by reducing the related risk.

So it's a good idea to keep an eye on international relations, but without forgetting work opportunities here at home. Suffice to think of the remittances sent by Italians abroad and those sent home by foreigners working in Italy. This is a catchment area of considerable importance and great potential – around 2.5 million people – for whom we have already in the past launched specific initiatives. During 2004, we came to an agreement with Banque de l'Habitat du Sénégal to channel remittances from Senegalese working in Italy.

We also opened two multiethnic windows: one at agency 11 in Rome, the other at agency 2 in Brescia. These units are able to provide services developed specifically for foreigners, such as changing foreign currency, handling emigrants' remittances, making commercial bank transfers, selling prepaid telephone and charge cards, all with the support of a WORK *in* ITALY account. This type of account is reserved for those who have a permit to stay and who want an economic and straightforward banking service.

Our long-standing collaboration with foreign post offices has had a prestigious recognition: our inclusion – as the only Italian bank – in Eurogiro, the company that handles the settlement of financial flows, which is owned and used by the principal post offices all over the world. We were then the winners of the tender launched by Poste Italiane spa to act as the «Banking agent for the payment and collection of cross-border transfers», which will generate high volumes of work.

The World Food Programme, a United Nations agency set up in 1963 to combat hunger in the world, appointed us to provide banking services at its head office in Rome, where more than a thousand people work. This is undoubtedly a prestigious appointment, but also a considerable challenge, as it will allow us to establish a reputation among international institutions, interacting with people of all sorts of nationalities.

As part of the activity for the coverage of atmospheric risk, which began recently, we have concluded a second deal on the Italian market with one of the most important national operators in the distribution and sale of natural gas.

In passing, given the type of operation just mentioned, we would like to recall the pre-eminence of the human element in banking, with all of the related skills.

Punctual as ever, our much-appreciated publication «Cambi & Tassi» provided statistics for the year.

We have received further assignments in the strategic sector of international pension payments, which bears witness to our ability to acquire bigger shares of the market. In the meantime, we have confirmed our domestic lead in the sector of foreign pension payments in Italy.

All in all, 2004 was a year of intense activity and of great satisfaction, both corporate and personal. Strong commercial effort was accompanied by constant improvement of the organisational machine, with implementations and refinements in all sorts of sectors. These interventions were needed to raise the efficiency and potential of our day-to-day work.

# INTERNATIONAL UNIT

*When one thinks of our International Unit, it is normal to think of cross-border relationships, of the ability to provide customers qualified assistance outside Italy, interventions on the currency market, in other words, all of the operations carried out by the Bank beyond the national confines. It is with legitimate pride that we affirm their professionalism, initiative and tenacity, and the successes that they have achieved. Our people carry on these tasks, and numerous others besides, with great skill; and with a eye on wider scenarios they study new markets and more sophisticated instruments, they identify opportunities and more efficient services, they even evaluate the possible trade routes that are being opened up by globalisation.*

*All of this, while being careful to offer customers what they really need.*

*This is a rule of healthy realism which we willingly hold to, well aware that nowadays there is very little left to be invented, though there's a great deal left to be done to respond properly to the needs of those who come to us for advice. If then the excellence of the services provided and the consideration we have deserved lead to new business and prestigious and remunerative appointments - this last an aspect that is always of considerable importance - also from supranational entities and institutions, then so much the better. It means that we have worked hard and well, because no one gives anything for free, especially abroad, where the competition has always been fierce and of high quality.*

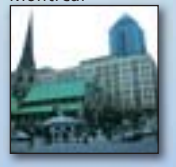
Brescia

Rome

# PROMOS

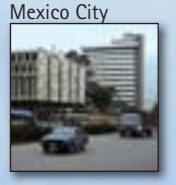
AZIENDA SPECIALE DELLA CAMERA DI COMMERCIO DI MILANO PER LE ATTIVITÀ INTERNAZIONALI

Montreal

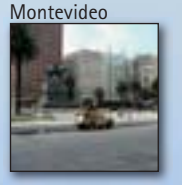


New York

Mexico City



Montevideo

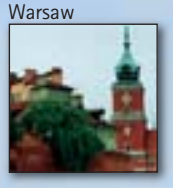


Sao Paulo

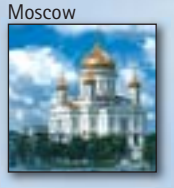
Prague

Budapest

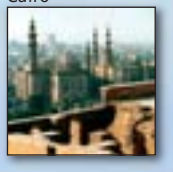
Warsaw



Moscow

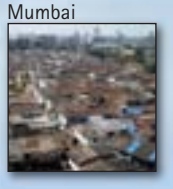


Cairo

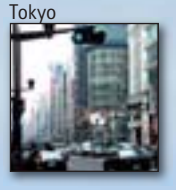


Beijing

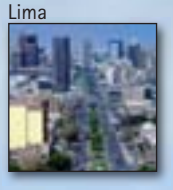
Mumbai



Tokyo



Lima



Design and provision of domiciled and non-domiciled payment services, from abroad to Italy and pension payment from abroad to Italy, from Italy abroad and between two foreign countries.
Design and Provision of Correspondent Banking services: cheque collections (cash letter) and non documentary collections via bank receipts (RIBA) and directs debits (RID).
Design and provision of foreign cheque collection service on behalf of Italian institutional customers.
Handling of documentary credits and documentary collections.

Let's now take a look at the figures that sum up everything that we have done during the past year. The number of customers grew significantly to exceed the 15,500 mark, compared with 14,000 in 2003, confirming the validity of what we offer. Adequate coverage of world markets is guaranteed by our network of more than 1,500 correspondent banks located in 113 countries; they are qualified operators with whom we have tried-and-tested work relations.

The number of messages handled by the Swift system grew by more than 32%, coming close to 1.1 million.

As regards foreign currency trading, while current items (goods and services) showed an improvement of almost 17%, capital movements had more modest growth at 1.7%, though this did consolidate the previous year's exceptional increase of more than 70%. Exchange rate trading, after years of stagnation, partly because of the introduction of the euro, started rising again quite substantially, +20%. Trading in exchange/interest rate and commodities derivatives was satisfactory, all positions being closed and therefore only subject to credit risk with the counterparties. Precious metal trading is up, gold in particular. Let's now move on to the balance sheet aggregates to show how customer deposits in foreign currency and euro have come to a total of 448 million, +3.77%, following the previous year's huge rise of around 72%. Foreign currency deposits from other banks have risen to 870 million, +18%, while foreign currency loans to customers amount to 962 million, an increase of 10%. These are figures that reflect a constant rise in our business volumes and the acquisition of new activities and counterparties, offering reasonably good prospects for the future. As regards this last aspect, it has to be said that the best guarantee is given by our staff. They are always trying to improve their professional skills and knowledge, helped by the emphasis that the Bank has always put on training, through a combination of classroom courses and on-the-job experience.

Investing in human resources has always been a winning strategy. And looking forward to a market that is in constant evolution and increasingly competitive, we are convinced that this will continue to be the case. Various aspects work in our favour: the profound knowledge that we have of the territory and the customers that live and work there, our ability to interact with them, and our willingness to put ourselves at their service. We have an untiring commitment to do more and to do it better. This means we are constantly on the move creating new relationships, proposing something new or maybe something old but at more advantageous conditions, aware of the fact that the world is changing and only those who adapt quickly have a chance to progress and succeed. Which means being more and more citizens of the world.

## SERVICES, PROJECTS AND STRUCTURE

### Sales and Marketing

A long-distance race – that could be the definition of the intense activity that the Bank's sales and marketing department has been involved in for years, the objective being to maintain a high level of quality in products and services, attract new customers and achieve a fair return. Like in any competition requiring stamina, alongside the fundamental talents, it helps to have balance and initiative. In other words, not passively following the market's many siren-calls, but the ability to make rational choices that suit our particular situation and above all our customers' needs.

The results are comforting, a sign that the fundamentals are good, helped by the support provided by our affiliates. Let's now relate what

was done during the year, starting with the financial sector.

*Popso (Suisse) Investment Fund Sicav*

Our Group's investment fund – Popso (Suisse) Investment Fund Sicav – («sicav» being the acronym for an investment fund in Italian) obtained important recognition from Lipper, a fund evaluation and analysis company. All of three sub-funds were awarded «Leader» status with a rating of 1, the highest possible, for returns over time and the level of risk supported. The sicav also introduced two new sub-funds, for a total of ten: Short Maturity Euro Bond and Global Opportunity Equity.

*Arca Corporate Breve Termine*

Arca SGR spa set up Arca Corporate Breve Termine, a bond fund that specialises in corporate bond issues in euros, dollars and sterling, with built-in hedges against exchange and interest rate risk.

*InvestiDOC Index Linked Unica V,I,P, InvestiTIME*

With its usual dynamism, Arca Vita launched a number of policies with guaranteed capital: InvestiDOC 1st Special Issue 2004 and Special Issue September 2004, with a guaranteed minimum coupon;

Index Linked 21 and 23, with yields linked to equity indices; Unica V.I.P., with an unlimited duration and a guaranteed minimum coupon, which can be redeemed after only one year without any penalty; InvestiTIME, in two versions – recurring premiums and single premium – with a guaranteed minimum yield. A proposal that combines portfolio diversification with insurance benefits.

*Benesserepiù*

Benessere*più* is the new modular health insurance policy issued by Arca Assicurazioni. Together with Arca's long-standing policies In AUTO, In CASA, In FAMIGLIA, In SALUTE and Solouna!, it consolidates the success of the non-life lines in the field of bancassurance.

*Arca Previdenza Aziende*

We are ready to respond to requests concerning supplementary pensions, regulated by Law 243 of 23 August 2004, but subject to implementation decrees that still have to be issued. The existing products, Arca Previdenza and Progressive Pension Plan, were joined by Arca Previdenza Aziende, an open-end fund for collective applications in companies with at least twenty employees.

*SCRIGNObps*

The functions of *SCRIGNO InternetBanking* continued to be enriched. Our online information and instruction channel has been completely revamped from a graphic point of view in order to make it faster and even more user-friendly. We are pleased with the consensus obtained by SCRIGNO*facile*, a version designed for the motor disabled and sensory impaired. Then there is SCRIGNO*TradingOnLine*, which thanks to add-ons and updates, responds extremely well to the higher volume of transactions; the new *Statement of Account (pdf)*, function, which allows current account holders to visualise and print out bank statements; activation of the *RAV payment* service (RAV stands for riscossione mediante avviso, i.e. collection by means of advice), which makes it possible to pay taxes and registration fees with a printed receipt that is valid for tax purposes.

*ConTO WORK WORK*in*ITALY*

These are packages to make it easier for «weak» counterparties to access banking services: ConTO WORK, is for youngsters looking for a job, and WORK*in*ITALY is a current account aimed at non-EU immigrants. We have prepared special areas at our Rome no. 11 and Brescia no. 2 branches to facilitate non-Italian customers. These initiatives are also meant to be a concrete contribution towards equal rights and opportunities in favour of those with lower contractual power, in accordance with the principles of the United Nations' «Global Compact», to which we adhere.

*Conto compilation*

Let's go back to youngsters, to talk about the new «conto compilation», which is also available in the form of a savings deposit book. This is an innovative product invented together with

# BANCASSURANCE

ARCA VITA

Arca Vita Unit Linked Z5
Arca Vita Unit Linked Z1.2
Arca Vita Unit Linked GT5
Arca Vita Unit Linked GT1.2
Arca Vita Unit Linked JUNIOR
Arca Vita Unit Linked MULTIFASE

InvestiDOC
InvestiTIME
InvestiTIME Piano di Risparmio
UNICA VIP

INDEX LINKED

LINEA PENSIONE

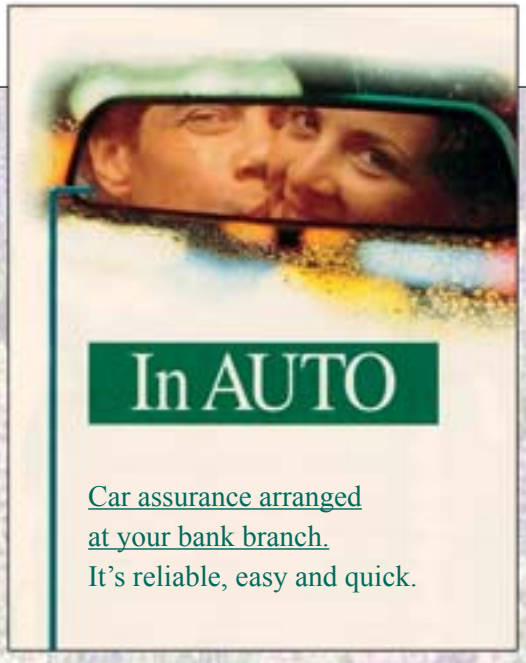
PER LORO
PROTEZIONE AZIENDA

ARCA VITA international

UNIT TEAM

*With its usual dynamism, Arca Vita launched a number of policies with guaranteed capital: InvestiDOC 1st Special Issue 2004 and Special Issue September 2004, with a guaranteed minimum coupon; Index Linked 21 and 23, with yields linked to equity indices; Unica V.I.P., with an unlimited duration and a guaranteed minimum coupon, which can be redeemed after only one year without any penalty; InvestiTIME, in two versions – recurring premiums and single premium – with a guaranteed minimum yield.*
*A proposal that combines portfolio diversification with insurance benefits.*
*Benesserepiù is the new modular health insurance policy issued by Arca Assicurazioni.*
*Together with Arca's long-standing policies In AUTO, In CASA, In FAMIGLIA, In SALUTE and Solouna!, it consolidates the success of the non-life lines in the field of bancassurance.*

GRUPPO ASSICURATIVO ARCA

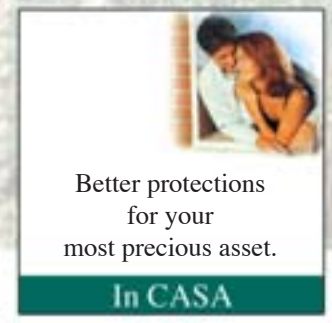



B. & A. Broker S.p.a.

Società di consulenza e brokeraggio assicurativo per Banche & Aziende

ARCA ASSICURAZIONI

Benessere più



# SUPPLEMENTARY PENSIONS

*We are ready to respond to requests concerning supplementary pensions, regulated by Law 243 of 23 August 2004, but subject to implementation decrees that still have to be issued. The existing products, Arca Previdenza and Progressive Pension Plan, were joined by Arca Previdenza Aziende, an open-end fund for collective applications in companies with at least twenty employees.*

Co.Ba.Po. (Consorzio Banche Popolari), of which the Bank is a member. «Conto compilation» has various technological features and a «musical» theme, a lot more attractive than others for the age bands that it targets.

***BancoTIM TIM Automatica***

To expand the range of retail charge cards that we can offer, we started distributing American Express credit cards issued by Iconcard spa, which are targeted at medium-high level private and corporate customers. The new BancoTIM and TIM Automatica services, which can be accessed through our ATMs, have been added to the other services already available through the – QuiMultibanca Bancomat Network».

The Bank's recent entry into prevalently agricultural areas – particularly the provinces of Cremona, Lodi, Mantua, Pavia and Piacenza, but also the Novarese and Alto Adige – triggered off new efforts in the primary sector.

***Banca della Nuova Terra spa***

So it was specifically to expand and enhance our ability to serve the farming and agro-food sectors, to which we have always been close, we acquired an interest in the recently incorporated Banca della Nuova Terra spa. This new bank, which will be run together with other fellow cooperative banks, fills a gap left when the special credit institutions were eliminated. It puts itself at the service of the entire agricultural production chain. Our financial operations, also medium-to-long term, are completed by a series of products and services, including insurance, specifically designed to satisfy the needs of businesses of all kinds and sizes, with particular emphasis on any opportunities to obtain government grants, low interest rates or other special facilities.

## Central offices

The following notes complete our comments on the departments that make up the Bank's central structure. These departments provide the distribution network with effective, professional support, so they play a key role in the success of our sales and marketing efforts.

***SOSI***

As usual, we start with *SOSI* – Servizio Organizzazione e Sistemi Informativi, which is responsible for the Bank's information systems and procedures. Their work is hard, but the results are positive, helped by the fact that they are highly skilled and always have the willpower to overcome obstacles. They have made a myriad interventions of various kinds which remain invisible from the outside because they implement or update procedures that are already in use; new procedures on the other hand, such as *internet banking*, are much more visible, earning widespread appreciation together with our institutional website. Further information on these matters is provided in other parts of this report, but we would like to emphasise that the Innovative Systems sector ensures that we have the necessary competitiveness in being able to offer products and services on a remote basis. Limiting ourselves to the more important topics, we would like to recall that the new broadband communications network was introduced without a hitch, providing immediate benefits in terms of efficiency and effectiveness, mainly thanks to the speed of data transmission; this has made it possible to upgrade important applications, especially our corporate intranet.

As regards our disaster recovery plan to ensure business continuity in the event of an emergency, reference should be made to the chapter on risk management.

***Public entities and treasury offices***

This department provides a service that is in growing demand, which means that it helps get the Bank better known throughout the country, thanks to a series of prestigious appointments, especially from professional pension funds, universities, health units, hospitals, etc. Together with the considerable amount of direct and indirect work that they provide, these appointments help us understand

better the needs of institutional counterparties, stimulating the search for new technological aids. A good example of this is the new application to handle online payment and collection instructions. This procedure – part of the updated SCRIGNO*GesTes* telematic service – guarantees a high level of security: data flows are encrypted, while digital signing ensures data integrity.



We would add with satisfaction that colleagues of ours formed part of the taskforce, under the aegis of ABI, that drafted the «Protocol on rules and standards for the issuance of IT documents by public entities relating to the management of treasury and cashier services», a protocol agreed upon by the Bank of Italy and approved by the National Centre for Informatics in the Public Administration. We are the first to have adopted the new «national standard». More in general, the validity of this service – whose work processes have obtained quality certification – is reflected in the volume of mandates that it has been given: in 2004 they rose by 27, to a total of 486. It is a peculiarity that derives from being «popular», in other words a bank that is sensitive to the needs of local communities. Of the treasury and cashier service mandates that we have received recently, some stand out in particular: the Cassa Italiana di Previdenza ed Assistenza dei Geometri Liberi Professionisti (Surveyors' Pension and Welfare Fund) – the fifteenth organisation of this kind to come to us – and the following hospitals: Treviglio-Caravaggio, San Paolo of Milan, Policlinico San Matteo of Pavia, and the Ospedali Riuniti of Bergamo. At the end of the year, there were 81 treasury offices in total, an increase of one.

***Virtual unit***

The workload of our *virtual unit* increased during the year. With the support of an efficient *call center*, it proposes innovative solutions aimed at particular customer segments that use advanced instruments to access our payment, investment and financing services. For us, quite an effort in terms of planning and investment in technology, though it has also allowed us to create interesting new business relationships throughout Italy. Future developments look promising.

***Corporate finance***

The work of the *Corporate Finance Department* has intensified, enhancing the Bank's reputation. The department's tasks include the study of complex structures loans, the valuation of companies' economic capital, the drafting of business plans, and analysing the need for a different ownership structure for reasons of succession or industrial revival.

It has collaborated extremely well with the Bank's branches in proposing PIAs (Pacchetti Integrati Agevolativi – integrated benefit packages) which the Lombardy Region is using to support SMEs. The allocation of loans funded by the European Investment Bank made it possible to use all of a second tranche of 75 million euro. As regards project financing, we have continued to certify economic and financial plans in accordance with the Merloni-ter Law.

The professionalism of our experts has made it possible to promote at the branches a greater awareness in the granting of credit, appreciating factors such as trends in the particular sector and companies's competitive positioning.

***Planning and Control Department***

The *Planning and Control Department* is responsible for measuring profitability and company risks, providing the information that is needed to manage these variables.

Performing this task does not require just drawing up plans, making forecasts and analysing variances; above all, it involves preparing suitable instruments and mechanisms to channel the daily conduct of individuals towards the results that the Bank wishes to achieve. From this point of view, measuring profitability has been extended to new situations, while monitoring techniques have benefited from additional fine-tuning. Another project that has just been launched is designed to allocate staff and IT costs to individual

# THE VIRTUAL BANK

## SCRIGNO bps

**PRODUCTS**

- SCRIGNO*Internet Banking*
- SCRIGNO*Trading on Line*
- SCRIGNO*VispoPay*
- SCRIGNO*firma*
- SCRIGNO*GesTes*
- SCRIGNO*multibanca*
- SCRIGNO*gruppi*
- SCRIGNO*vetrina*
- SCRIGNO*Pago Facile*
- SCRIGNO*card*

**SERVICES**

- Current accounts (Italy, Abroad)
- Custody of securities
- Bank giro
- Bank transfers (Italy, Abroad)
- Payment of utilities, MAV and RAV
- TV licence payment
- Mobile phone top-ups
- Pre-pay phone cards
- Statement of account (pdf)
- Bank statements and CartaSi movements
- Events
- Loans
- Shopping

*The functions of SCRIGNO-Internet Banking continued to be enriched.*
*Our online information and instruction channel has been completely revamped from a graphic point of view in order to make it faster and even more user-friendly. We are pleased with the consensus obtained by SCRIGNO-facile, a version designed for the motor disabled and sensory impaired.*
*Then there is SCRIGNOTrading on Line, which thanks to add-ons and updates, responds extremely well to the higher volume of transactions; the new Statement of Account (pdf), function, which allows current account holders to visualise and print out bank statements; activation of the RAV payment service (RAV stands for riscossione mediante avviso, i.e. collection by means of advice) which makes it possible to pay taxes and registration fees with a printed receipt that is valid for tax purposes.*

# PAYMENT CARDS

## For the payment of special taxes

CARTA LIRA available in 3 versions: current account, rechargeable and disposable

## To pay and withdraw cash in Italy

PREPAID RECHARGEABLE

PREPAID

BANCOMAT PAGOBANCOMAT

## To pay and withdraw cash all over the world, including Italy

INTERNATIONAL, PREPAID AND RECHARGEABLE

CARTASI MASTERCARD

"CARTA CHIARA" RICARICABILE PREPAGATA INTERNAZIONALE VISA ELECTRON

BANCOMAT/VISA ELECTRON (CARTASI PIÙ)

"COMPILATION POWER CARD" RICARICABILE PREPAGATA INTERNAZIONALE VISA ELECTRON

ICONCARD PLATINO

BANCOMAT PAGOBANCOMAT CIRRUS/MAESTRO

ICONCARD ORO

CARTASI VISA

*To expand the range of retail charge cards that we can offer, we started distributing American Express credit cards issued by Iconcard spa, which are targeted at medium-high level private and corporate customers. The new BancoTIM and TIM Automatica services, which can be accessed through our ATMs, have been added to the other services already available through the "Qui-Multibanca Bancomat Network".*

products and services, which will help understand the efficiency of the units involved in preparing and distributing them.

The whole chapter of this report is devoted to the question of risk management. Here we will just add that the Planning and Control Department is also involved, along with other offices, in implementing Basel 2, the latest agreement on capital ratios, as well as the new International Financial Reporting Standards (IAS/IFRS). These are changes that are destined, in the near future, to have a profound effect on banking operations; and even though Basel 2 and IFRS appear at first sight to be completely different matters, they are in fact related, being geared to create greater openness between banks (or other companies) and the market.

***Technical, Prevention and Safety Office***

The *Technical, Prevention and Safety Office* designs and creates working environments that are congenial for customers and those who work there. Its efforts on behalf of the branches is there for all to see, though it has also been involved in designing and maintaining all of the Bank's central facilities. This has been an intense activity where the main priority – protection of safety and health in the workplace – combines with cost control thanks to the functionality of its structures and maintenance of a sober and balanced style. Speed of execution helps to raise the quality of its services. The year-end results reflect the hard work done during the period: fitted out 22 new units, including branches and treasury offices ether set up for the first time or transferred to more suitable premises, as well as 4 extensions; initiated 12 building sites; completed the plans for 13 new works, for which the building applications and tenders are currently doing the rounds; initiated 7 new projects.

The Bank's properties now cover a surface area of 114,643 sq.m, for an overall volume of 343,705 cu.m. We also have 79,189 sq.m. of land. Net of depreciation, the book value of buildings comes to 62.42 million, after additions during 2004 of 3.30 million of purchases and the capitalisation of works carried out in-house, and 9.05 million due to so-called «defiscalisation», as well as decreases due to depreciation of 2.96 million. The market value of our buildings shows substantial capital gains. The bank owns 40 buildings and 35 units in condominiums. Banking operations are carried on in 52 properties owned by the Bank and 234 locations that are being rented, including 16 in leasing. «Furniture and fittings», a sub-category of tangible fixed assets, comes to 12.48 million. The increase of 0.51 million reflects the difference between new investments, depreciation and disposals during the year.



***Security Department***

The *Security Department*, together with other functions that are involved for various reasons, supervises governance of the processes relating to physical, logical and IT security.

The branch protection plan saw the introduction, at offices located in areas of particular risk, of biometric monitoring equipment, within the limits laid down by current regulations. In the same way, we kept a close watch to prevent fraud involving electronic payment instruments (charge and credit cards). Great attention was paid to questions related to business continuity, evaluating ways of reducing risks and overcoming emergency situations as quickly as possible.

***Supply Office***

The *Supply Office* plays an important part in the Bank's logistics and its activity has expanded in line with that of the Bank. This has led to the need to accentuate process mechanisation in order to ensure supplies of an adequate quantity and quality, while at the same time containing costs as much as possible.

On-line auctions have proved a valid tool in this area, with the result that they are being used more and more. Collaboration with other banks has made it possible to expand the number of providers also in the insurance sector, creating more competition among them.

The design and implementation of IT applications concerned, among other things, the filing of invoices in digital format and the management of rent contracts, in and out. However, these new applications do not relieve us of the heavy burden of maintaining paper documentation. Another 1,200 sq.m. of the complex that we own in San Pietro Berbenno (So) is to be used for archiving purposes, while the documents of the Rome branches are to be archived centrally by a specialist company. Updating art. 2220 of the Italian Civil Code to the computerised reality of today still has to be resolved. As things stand, companies are forced to keep tons of documents for all of ten years with consequences that can easily be imagined. It is a question of bureaucracy, which is the first infrastructure that needs resolving.

Lastly, the hefty workload of the Supply Office, whose procurement management system has been quality certified ISO 9001:2000, can be summarised by saying that it handled 24,000 invoices.

***Legal Department***

The *Legal Department* has operated with its usual professionalism and intensity, coping with matters that by their very nature are delicate and complex. From the recovery of non-performing loans, in or out of court, to giving legal advice to the various offices of the Bank, from replying to requests for bank confirmations sent by various authorities, to looking into anomalous transactions and handling any complaints, they have always acted effectively and on a timely basis. As for the procedural aspects that affect us more closely – namely those concerning the forced protection of creditors' rights – there does not appear to be anything new on the horizon: court action to recover loans takes such a long time that most of the benefits disappear in the meantime – the same could be said for bankruptcy procedures – while high legal costs and taxes merely aggravate the situation. Having recourse to out-of-court settlements, when possible and worthwhile, does not necessarily improve the situation very much. The real hope, ours and that of the entire banking system, is that the reform of this sector, which at present only involves bankruptcy law, should be revised with a view to restoring to the specific procedures the task that they lost some time ago.

***Internal Audit Department***

We opened this chapter with the function responsible for providing vital energy to the whole of our organisation: the SOSI; we close with the one that has to check that all of this energy is used correctly, the *Internal Audit Department*. Their's is a delicate and onerous task – they have to cover the entire branch network as well as the central offices – which envisages above all verifying compliance with legislative rules and regulations and with the ethical and professional rules of conduct that are essential for our type of work.

During the year they carried out 470 audit visits, of which 98 by the Board of Statutory Auditors together with the Internal Audit Department; in 2003, the equivalent numbers were 429 and 95. The increase is as a result of more remote checks using IT tools. These rose from 3 to 65, alongside the usual on-site visits, making it possible to carry out at least two audits during the year at almost all of the branches.

As for the central offices, it is worth mentioning the introduction of checks to ensure correct implementation of the procedures required by ISO 9000 quality certification. Various important audit initiatives were undertaken during the year: among others, a detailed analysis of key processes, such as, but not only, usury, collections and payments, treasury services, as part of a wider project to map them out in order to identify any weaknesses, as well as a positive contribution in the delicate area of IT security.

Lastly, the Internal Audit Department carried out checks at Group level in accordance with current regulations.

Connecting...

# www.popso.it

Our History
BPS Suisse
Branch Network
Products and Services
SCRIGNO*bps*
Pirovano: summer skiing
Trekking
Bothies and bivouacs
Mountain biking
Webcam
PopsoARTE
Pareto Fund
Donegani Museum
Conferences and seminars
Il Notiziario
Publishing
Database
of Bankruptcy Sales
Access
Shopping
Bank and Company

VIRTUAL ART GALLERY

*"The Art Gallery", a virtual exhibition accessible via our website, represents the first significant step taken by PopsoARTE. We have made the art owned by the Bank available for viewing, supporting the images with detailed texts designed to be "read" by the visually challenged, who use special software for this purpose.*
*First fine, but not alone. For this reason we have drawn the attention of the banking system to this original and instructive creation, since other banks own art of great value.*

*The Bank has received flattering recognition following participation at the "Il Cerchio d'Oro dell'Innovazione Finanziaria 2004" awards organised by* AziendaBanca, *the magazine of AIFIn, the Italian Association for Financial Innovation.*

*In assessing 29 projects presented by 23 financial institutions, including numerous leading, nationwide banks, we were awarded the first prize overall in the "Application of technology" category, with our "Accessible e-Bank" project; joint first prize in the special category of "Innovative financial institution of the year" and third prize in the "Organisational project" category.*

Our real physiognomy as a bank lies in the saying «accurate as a bank». A proverb worthy of Tacitus that means that, whether in its organisation, day-to-day operations, or the manners of its staff, a bank cannot leave room for inaccuracies or behaviour that could be criticised.



## RISK MANAGEMENT

Risk is a normal part of banking activities, but our objective has always been to control it and therefore reduce it to a minimum.

These days, new professional skills and more sophisticated tools are needed in order to identify and measure the various forms of risk. To this end, we have been working to implement effective specialist measures for quite some time now. We shall continue boldly along this road, fully aware however that the daily commitment made by each and every one of us represents the first and most important defence. Accordingly, we are working to ensure that our risk culture is not restricted within defined boundaries, but spreads out into all areas of operations. The following key information about our approach to risk management is, as usual, presented by type of risk and area of activity.

The interest rate, exchange rate and equity risks inherent in financial markets are measured on a daily basis using the well-known VAR (Value At Risk) methodology, applied using a time horizon of one day and a confidence interval of 99%.

This year's information is set out in the following table.

### RISK FACTORS

| (in thousands of euro) | 31/12/04 | Average | Minimum | Maximum |
|---|---|---|---|---|
| Interest rate | 161 | 350 | 130 | 690 |
| Equity | 738 | 1,111 | 738 | 1,628 |
| Exchange rate | 14 | 14 | 7 | 46 |
| **Total** | **751** | **1,120** | **750** | **1,774** |

Total average VAR (1.120 million) has decreased with respect to last year (1.284 million), due to the further contraction in interest rate risk (from 0.461 to 0.350 million) and equity risk (from 1.353 to 1.111 million), while exchange rate risk remains marginal and stable (up from 0.010 to 0.014 million), relating solely to securities denominated in foreign currencies.

There has been a reduction in the maximum value of total VAR (from 1.804 to 1.774 million), with a more pronounced decline in the year-end value (from 0.975 to 0.751 million) and a rise in the minimum level (from 0.575 to 0.750 million).

Consistent with last year, these statistics exclude two aspects which, nevertheless, were measured during 2004. Firstly, the analysis of exchange risk has been extended beyond foreign currency securities to include interbank deposits and the net currency exposure associated with all other on or off-balance sheet assets and liabilities, excluding equity investments and derivatives. In turn, the calculation of the interest rate risk on interbank deposits has been extended beyond those arranged by the treasury to include those of the international department. Taking account of these extensions, the above data changes slightly, as shown below. These risks are subject to specific limits, expressed in VAR terms, that were authorised by General Management and which did not change during the year.

| (in thousands of euro) | 31/12/04 | Average | Minimum | Maximum | Limit |
|---|---|---|---|---|---|
| Interest rate | 156 | 348 | 127 | 665 | 650 |
| Equity | 738 | 1,111 | 738 | 1,628 | 1,950 |
| Exchange rate | 31 | 34 | 10 | 184 | 100 |
| **Total** | **762** | **1,128** | **759** | **1,765** | **2,700** |

Together with the VAR, the level of capital absorption is also calculated by converting the daily VAR into a term VAR, which takes account of the

Our real physiognomy as a bank lies in the saying «accurate as a bank». A proverb worthy of Tacitus that means that, whether in its organisation, day-to-day operations, or the manners of its staff, a bank cannot leave room for inaccuracies or behaviour that could be criticised.



## RISK MANAGEMENT

Risk is a normal part of banking activities, but our objective has always been to control it and therefore reduce it to a minimum.

These days, new professional skills and more sophisticated tools are needed in order to identify and measure the various forms of risk. To this end, we have been working to implement effective specialist measures for quite some time now. We shall continue boldly along this road, fully aware however that the daily commitment made by each and every one of us represents the first and most important defence. Accordingly, we are working to ensure that our risk culture is not restricted within defined boundaries, but spreads out into all areas of operations. The following key information about our approach to risk management is, as usual, presented by type of risk and area of activity.

The interest rate, exchange rate and equity risks inherent in financial markets are measured on a daily basis using the well-known VAR (Value At Risk) methodology, applied using a time horizon of one day and a confidence interval of 99%.

This year's information is set out in the following table.

### RISK FACTORS

| (in thousands of euro) | 31/12/04 | Average | Minimum | Maximum |
|---|---|---|---|---|
| Interest rate | 161 | 350 | 130 | 690 |
| Equity | 738 | 1,111 | 738 | 1,628 |
| Exchange rate | 14 | 14 | 7 | 46 |
| **Total** | **751** | **1,120** | **750** | **1,774** |

Total average VAR (1.120 million) has decreased with respect to last year (1.284 million), due to the further contraction in interest rate risk (from 0.461 to 0.350 million) and equity risk (from 1.353 to 1.111 million), while exchange rate risk remains marginal and stable (up from 0.010 to 0.014 million), relating solely to securities denominated in foreign currencies.

There has been a reduction in the maximum value of total VAR (from 1.804 to 1.774 million), with a more pronounced decline in the year-end value (from 0.975 to 0.751 million) and a rise in the minimum level (from 0.575 to 0.750 million).

Consistent with last year, these statistics exclude two aspects which, nevertheless, were measured during 2004. Firstly, the analysis of exchange risk has been extended beyond foreign currency securities to include interbank deposits and the net currency exposure associated with all other on or off-balance sheet assets and liabilities, excluding equity investments and derivatives. In turn, the calculation of the interest rate risk on interbank deposits has been extended beyond those arranged by the treasury to include those of the international department. Taking account of these extensions, the above data changes slightly, as shown below. These risks are subject to specific limits, expressed in VAR terms, that were authorised by General Management and which did not change during the year.

| (in thousands of euro) | 31/12/04 | Average | Minimum | Maximum | Limit |
|---|---|---|---|---|---|
| Interest rate | 156 | 348 | 127 | 665 | 650 |
| Equity | 738 | 1,111 | 738 | 1,628 | 1,950 |
| Exchange rate | 31 | 34 | 10 | 184 | 100 |
| **Total** | **762** | **1,128** | **759** | **1,765** | **2,700** |

Together with the VAR, the level of capital absorption is also calculated by converting the daily VAR into a term VAR, which takes account of the

number of working days until the end of the year, and adding to this the absolute value of net losses and any net capital losses incurred on securities since the start of the year. This capital absorption peaked on 10 May 2004 at 18.148 million, which was considerably lower than the limit of 50 million (maximum acceptable loss) specifically set by the Board of Directors. As for the lending risks (counterparty and issuer risks) inherent in financial activity, various measurements are carried out on a daily basis: capital absorption and maximum capital absorption determined by weighting, respectively, actual lending and total lines of credit using coefficients tied to the credit class of each counterparty/issuer. The following are also identified: the maximum credit, weighted as a above, granted to individual counterparties/issuers or groups of counterparties/issuers (individual counterparty risk); the total weighted lines of credit granted to the top ten individual counterparties/ issuers or groups of counterparties/issuers (concentration risk); the total lines of credit granted to counterparties/issuers from the same nation (excluding Italy), weighted by the macro-category to which that nation belongs (country risk).This information is set out in the following table.

| (in thousands of euro) | 31/12/04 | Average | Minimum | Maximum | Limit |
|---|---|---|---|---|---|
| Capital absorption | 50,243 | 49,508 | 31,020 | 76,491 | 55,000* |
| Maximum capital absorption | 249,516 | 249,138 | 245,182 | 251,317 | 250,000 |
| Individual c/party risk | 9,105 | 9,075 | 8,655 | 9,105 | 25,000 |
| Concentration risk | 57,372 | 57,857 | 57,372 | 59,706 | 75,000 |
| Country risk | 18,156 | 18,156 | 18,156 | 18,156 | 25,000 |

* Not a limit, but rather a threshold of attention.

Turning now to the Bank's financial (interest rate) risk, this is monitored by the ALM (Asset & Liability Management) procedure, which applies a dual methodology.

The analysis of the average financial duration provides a measure of the immediate change in the net value of assets and liabilities if there is a 1% increase in interest rates: the monthly analyses for 2004 averaged –8.606 million; while the amount resulting from the latest analysis as of 31 December was –10.657 million. The analysis of mismatches measures the potential change in net interest income for the year if there is a 1% increase in interest rates: the monthly analyses for 2004 averaged 17.735 million; while the amount resulting from the latest analysis as of 31 December was 16.252 million.

In this context, the study of the «stickiness» of demand deposits, especially savings deposits, has continued; the treatment of «zero coupon» transactions has been examined further; and, above all, we have begun a shift from management accounting data towards the analysis of financial accounting information, especially that subject to supervisory control, given that these values are both certified and cover all aspects of operations.

With regard to lending risk – lending being still at the heart of our banking activities –, the internal rating system for SMEs and micro enterprises has been released to the branches, which are required to confirm the proposed rating, or depart from it within certain limits, when granting or reviewing lines of credit. The rating has also played a fundamental role in the launch of an automatic review procedure for low-risk lending, so that operators can focus on larger accounts exposed to greater lending risk. In the meantime, the comprehensive series of analysis schedules distributed to branches, area managers and central departments has been further refined.

The average risk of the loan book was essentially stable throughout the year, with a probability of insolvency at December of 1.10%.

Periodic comparison between expected risk and actual experience confirms the soundness of the forecasting model and its ability to predict insolvency losses.

In addition to this rating and the simple probability of insolvency, a methodology has been devised to estimate (for all customers, this time) the other two elements in the calculation of expected loss: the exposure at the time of insolvency and the percentage loss in the event of insolvency. These elements are useful not only for management purposes, but also in view of the new supervisory regulations established by the Basel Committee and the requirements of the new international accounting standards (IAS/IFRS). The IAS and the «Basel 2» agreement come into force between 2005 and 2007. Taken together, the new accounting rules for the allocation of credit should considerably improve the efficiency and stability of banking activities.

Work to control and mitigate operating risks has benefited considerably from the outsourcing of the Bank's basic IT facilities to EDS Italia spa. The hand over was successfully completed between 10 and 12 April 2004, during the Easter break. This decision means that the facility manager is now responsible for dealing with any disaster situations. The transfer, considered both appropriate and cost effective, also provides assurance of business continuity in all areas of the Bank's operations. All aspects of the IT systems operated by EDS Italia spa at Pomezia (Rome) were successfully tested during June and July. This centre is equipped to handle events preventing the provision of IT services by the main centre at Inverno (Pavia), almost 500 km away. Instructions issued last July by the Supervisory Authorities state that detailed and complex measures must be put in place to guarantee the continuity of operations. Consistent with this, we are preparing a disaster recovery plan and implementation procedures, which will be completed by 30 June 2005. This plan sets down principles, establishes objectives and describes procedures for guaranteeing the continuity of vital operations and a return to normality, within a reasonable time, following events that compromise routine activities.

The internal audit department is currently responsible for identifying and checking on the other operating risks, while the central planning and control department is responsible for measuring such risks – which is just as important, since you cannot check something if it cannot be measured – for both internal and, in future, supervisory purposes. In the meantime, the development of an integrated quali-quantitative approach has continued, in order to combine the subjective assessment of risk with the statistical treatment of objective data. At present, in quantitative terms, the electronic file of operating losses contains around 500 events and is useful for dealing with a limited number of risks that arise with a certain frequency, but does not help in numerous other cases which cannot be neglected, even though they are rare. The qualitative analysis of business processes is therefore fundamental. After identifying the various phases, sub-phases and activities, the analysis then associates each of these with all the various risk factors, assesses the controls in place with respect to ideal conditions, summarises the residual risk using a scoring system which takes account of likely developments and, lastly, obtains the opinions of process experts regarding the frequency and impact of events.

In order to identify the capital needed to cover operating risks, we have carried out some applied research, with help from Prof. Paolo Giudici at the University of Pavia, intended to establish a series of statistical models capable of determining the VAR. The work performed was described at the international conference held in Bormio between 12 – 14 January last.

We are aware that «Basel 2» calls for business efficiency and this means greater recourse to forecasting methodology for the quantification of risk and greater effectiveness in the management of risk. Just as adoption of IAS/IFRS will improve the quality and transparency of reported information.

## HUMAN RESOURCES

The success of a business depends on many factors, some of which are of equal importance to all firms – for example, an appropriate financial structure and capitalisation – but others may be more important in specific sectors.

By its nature, banking is based on a relationship of trust with customers; accordingly, there can be no doubt that our staff represent a key, indeed even the principal, success factor.

Consequently, the quantity and, more important, the quality of the human resources available must be sufficient to achieve the corporate mission which, in our case, is to be a local bank in an area of steady growth. We are thus a dynamic bank, taking care to manage a process of expansion which involves all areas of operations, the product range and, with the advent of new technology, the very nature of our distribution channels.

So we need to recruit and develop good, willing and technically skilled staff, who are dynamic and open to the world – certainly with a good knowledge of foreign languages but, above all, displaying the essential stability, maturity and moral integrity required to perform complex and often delicate tasks. Staff who stand out, above all, for their education, presence and good manners. The essential value of our staff is its unity within a school of life that strives to achieve what others forsake, thus inducing customers to seek us out.

Our more experienced staff make a fundamental contribution by introducing the BPS culture to new recruits. This goes beyond the simple wearing of a jacket and tie – nonetheless important since substance still requires presentation – to encompass that cultural and professional approach which derives from a consolidated tradition of rigour and propriety. This enables us to face change with confidence, placing the interests of the Bank and our customers at the centre of attention.

In implementing these principles, employment rose by 81 during the past year to 2,074 persons, up 4.06%. 73% of our employees work at branch level. The average age of our staff is now 34 years and 9 months with an average seniority of 10 years and 5 months, both up 6 months. Once again in 2004 we made use of various forms of flexibility, such as fixed-term and temporary employment, freelance and project workers, training and work experience contracts and «starter» contracts.

The quantitative and qualitative growth of employment is supported by our Personnel Department, which sources the various skills required and seeks the most practical solutions. In this light, relations with secondary schools and universities have been intensified in order to organise apprenticeships and work experience schemes for young people. These are intended to prepare them to make informed decisions about training and professional careers in banking. If proper recruitment is fundamental, the training, management and motivation of staff is vital. In this regard, we remain committed to developing an approach to personnel management based on both direct knowledge and the application of IT systems and procedures. This enables us to manage two fundamental processes effectively: the implementation of internal mobility, to support progression towards roles of growing professional importance; the planning of training that meets the various needs for the

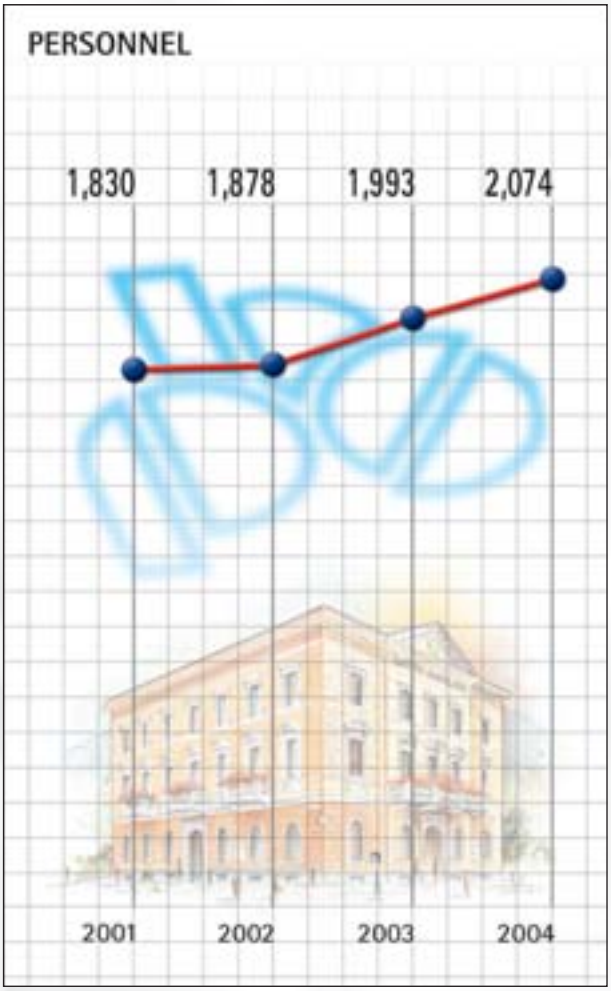
development of skills required by each area of our business.

Accordingly, it is clear that we dedicate considerable attention to school leavers and university graduates. Their recruitment, generally at branch level, is primarily intended to give them essential skills. On-the-job training alongside skilled staff involves the rotation of recruits so that they perform a variety of tasks.



The objective is to seek and ensure the quality of our services and, in addition, to enhance and refine the skills of individuals, including the acceptance of responsibility. Accordingly, action encompasses three distinct areas comprising, in short, knowledge (to know), ability (to know how to do) and behaviour (to know how to be).

Classroom work is important, as supplemented by multimedia courses that make training materials available to a wide range of users on a flexible basis. In addition to the modules for new recruits, the topics covered include courses to develop personal strengths and make participants aware of their unfulfilled potential. Considerable attention is also dedicated to the credit sector, with a view to supplying the skills needed to assess risk correctly; to the commercial sector, so that knowledge of our products remains high; to the finance and international departments; and to the public bodies and treasury management business. Lastly, but certainly not least, the sectors of the Bank affected by the delicate anti-money laundering rules benefit from constant support to ensure that the regulations are applied on a proper basis. This not inconsiderable effort is summarised by the statistics: classroom training during the year involved 1,559 persons in a total of 7,268 man/days of tuition, on top of that delivered on a multimedia basis. Cooperation with secondary schools and universities resulted in the activation of 223 internships.




A number of important changes to employment and the job market were introduced by Decree 276 dated 10 September 2003 (the so-called Biagi law), in order to improve the flexibility and competitiveness of this market, which underpins the economic system.

Among the effects that involve us, «starter» contracts with a maximum duration of 18 months have been introduced for young people between the ages of 18 and 29. These «replace» the previous «training and work experience» contracts. Firms no longer benefit from rebates on social security contributions, which affects us directly, while the

other advantages envisaged still need to be evaluated.

With regard to training requirements – the new starter contract envisages at least 16 hours dedicated to safety and the organisation of work – we have decided to retain the broader and well-tested approach already adopted.

The Bank has benefited from the contribution of «mature» employees for some years now, persons whose extensive professional and life experience combines with joyful commitment to their work. In thanking them, we reiterate our conviction that those who have learned valuable lessons during a successful career are well able to pass on this knowledge to others who follow in their footsteps. Relations with the trade unions have remained on a basis of mutual respect, while negotiations continue for the renewal of the national payroll contract.

## PROMOTIONAL AND CULTURAL ACTIVITIES

For us, promoting our image means building on our way of being a cooperative bank.

Accordingly, we pay attention to our territory and the populations resident there, seeking to contribute to their social and cultural development. Our objective is to promote awareness of the Bank, stimulating at the same time intellectual curiosity about the multitude of topics – economic, social, historical, artistic, naturalistic and even sporting – brought to our attention by the reality that surrounds us.

Alongside these strictly cultural activities we also promote our range of products. We do this without beating the costly and fleeting advertising drum, but rather by highlighting the substantive reasons for using our products and services. This is our business approach, founded partly on image but principally upon substance. Let's look at the facts.

On 24 May 2004 we were honoured to welcome to Sondrio the Defence Minister, Prof. Antonio Martino, who spoke with great lucidity on the subject of «European Defence», regrettably always a current issue. Strong applause was heard from the large gathering present.

On 25 September 2004, at the request of ABI (the Italian Bankers' Association), we organised a conference entitled «Banking, ethics and economic development», held in our «Besta» Room, with a presentation of the works of Prof. Tommaso Fanfani «This history of Banking – Ethics and economic development » and «The history of Banking – Merchant bankers and economic development». The list of speakers was exceptional: in addition to the author, professor of economic history at the University of Pisa, there was Pierluigi Ciocca, deputy general manager of the Bank of Italy, and Maurizio Sella, chairman of ABI.

With regard to our publications, we presented «Mountain Skills», a collection of twenty photographs in mini-poster format illustrating ten ancient crafts carried on in our Valleys. This work, donated to shareholders attending the meeting held on 6 March 2004, is prefaced by an excellent monograph written by the well-known journalist and author, Giorgio Torelli.

We were also please to collaborate in preparing the volume entitled «K2, an Italian Conquest. History and memories», in which Achille Compagnoni, a famous local climber, recalls his leading role on the fiftieth anniversary of this epic event. Containing contributions from Igor Man, writer and journalist, and the author's gracious wife, Mariarosa Carreri, this work was presented on 31 July 2004 at our Bormio branch, in the presence of the author and a crowd of enthusiasts.

other advantages envisaged still need to be evaluated.

With regard to training requirements – the new starter contract envisages at least 16 hours dedicated to safety and the organisation of work – we have decided to retain the broader and well-tested approach already adopted.

The Bank has benefited from the contribution of «mature» employees for some years now, persons whose extensive professional and life experience combines with joyful commitment to their work. In thanking them, we reiterate our conviction that those who have learned valuable lessons during a successful career are well able to pass on this knowledge to others who follow in their footsteps. Relations with the trade unions have remained on a basis of mutual respect, while negotiations continue for the renewal of the national payroll contract.

## PROMOTIONAL AND CULTURAL ACTIVITIES

For us, promoting our image means building on our way of being a cooperative bank.

Accordingly, we pay attention to our territory and the populations resident there, seeking to contribute to their social and cultural development. Our objective is to promote awareness of the Bank, stimulating at the same time intellectual curiosity about the multitude of topics – economic, social, historical, artistic, naturalistic and even sporting – brought to our attention by the reality that surrounds us.

Alongside these strictly cultural activities we also promote our range of products. We do this without beating the costly and fleeting advertising drum, but rather by highlighting the substantive reasons for using our products and services. This is our business approach, founded partly on image but principally upon substance. Let's look at the facts.

On 24 May 2004 we were honoured to welcome to Sondrio the Defence Minister, Prof. Antonio Martino, who spoke with great lucidity on the subject of «European Defence», regrettably always a current issue. Strong applause was heard from the large gathering present.

On 25 September 2004, at the request of ABI (the Italian Bankers' Association), we organised a conference entitled «Banking, ethics and economic development», held in our «Besta» Room, with a presentation of the works of Prof. Tommaso Fanfani «This history of Banking – Ethics and economic development » and «The history of Banking – Merchant bankers and economic development». The list of speakers was exceptional: in addition to the author, professor of economic history at the University of Pisa, there was Pierluigi Ciocca, deputy general manager of the Bank of Italy, and Maurizio Sella, chairman of ABI.

With regard to our publications, we presented «Mountain Skills», a collection of twenty photographs in mini-poster format illustrating ten ancient crafts carried on in our Valleys. This work, donated to shareholders attending the meeting held on 6 March 2004, is prefaced by an excellent monograph written by the well-known journalist and author, Giorgio Torelli.

We were also please to collaborate in preparing the volume entitled «K2, an Italian Conquest. History and memories», in which Achille Compagnoni, a famous local climber, recalls his leading role on the fiftieth anniversary of this epic event. Containing contributions from Igor Man, writer and journalist, and the author's gracious wife, Mariarosa Carreri, this work was presented on 31 July 2004 at our Bormio branch, in the presence of the author and a crowd of enthusiasts.

Our publications also include the diary-book by Gigliola Magrini, whose eighth edition is entitled «2005 – Life of a year: lands». From glaciers to rolling fields, and from volcanoes to natural parks, each month is delightfully dedicated to our terrestrial environment.

As always, we also published three issues of «Notiziario», our bulletin which benefits from writings by prestigious names. Together with the commitment of our editorial staff and the beautiful photography, these contributions ensure the success of our magazine which circulates beyond our nation's boundaries. The most recent issue is presented together with a monograph on the 2005 World Alpine Ski Championships which will be held from today until 13 February at Bormio and at Santa Caterina Valfurva, in the upper Valtellina. Many thanks to the organisers for all their efforts, sincerest best wishes to the athletes and a warm welcome to the numerous tourists present.

Once again, the annual report of our Swiss subsidiary dedicates a cultural insert to a personality who lived and worked in both Italy and Switzerland. This past year was the turn of Giovanni Segantini, an important painter and intriguing personality, whose art reflects the poetry of landscapes and the lyrical and suggestive interpretation of mountains. Prompted by the Bank, the April issue of «Ulisse», Alitalia's in-flight magazine, contained more than 120 pages about the province of Sondrio, ahead of the World Ski Championships. Distributed for a month on all aircraft operated by Alitalia and its associated companies, more than 250,000 copies of this magazine were printed with an estimated readership of 2 million. We were proud to promote our home territory to the world and are grateful to our nation's flag carrier.

Work is well advanced on cataloguing and reorganising the volumes and documents – these relating to the Vilfredo Pareto Fund – held in the Bank's library. Two new donations have been received: the first, from the brothers Massimo and Marco Antonicelli, comprises about 1,700 books in the Marilena Conti and Vittorio Baldassarini Collection; the second, from Lino Alessandrini, comprises a complete collection of «Quattrosoldi» magazines. We trust that local institutions will help us find suitable premises – in terms of size and location – for this library (initially about 15,000 items), so that it can function effectively, not least as a service to the community.

«The Art Gallery», a virtual exhibition accessible via our website, represents the first significant step taken by PopsoArte. We have made the art owned by the Bank available for viewing, supporting the images with detailed texts designed to be «read» by the visually challenged, who use special software for this purpose. First fine, but not alone. For this reason we have drawn the attention of the banking system to this original and instructive creation, since other banks own art of great value.

Two initiatives for the 80th World Savings Day: the launch of the «compilation account», mentioned earlier, and the organisation of a meeting between the province of Sondrio's final-year high school students and Antonio Rossi, world and Olympic canoeing champion and European ambassador for sport, tolerance and fair play, accompanied by Gino Bacci, the well-known sports journalist. This was a lesson in style and a chance to think about the importance of such qualities as commitment, determination, continuity and spirit of sacrifice, which are indispensable both for those who aspire to Olympic laurels and for those who, by saving and foregoing immediate consumption, intend to create something useful and positive for themselves and their community. Activity at the Stelvio Pass, where Pirovano (a subsidiary) operates, has been intense. The «Carlo Donegani» historical museum obtained new objects from the «Great War» uncovered by the

# CONFERENCES

24 May 2004
ANTONIO MARTINO

25 September 2004 - TOMMASO FANFANI, PIERLUIGI CIOCCA, MAURIZIO SELLA

*On 24 May 2004 we were honoured to welcome to Sondrio the Defence Minister, Prof. Antonio Martino, who spoke with great lucidity on the subject of "European Defence", regrettably always a current issue. Loud applause was heard from the large gathering present.*
*On 25 September 2004, at the request of ABI (the Italian Bankers' Association), we organised a conference entitled "Banking, ethics and economic development", held in our "Besta" Room, with a presentation of the works of Prof. Tommaso Fanfani* The history of Banking – Ethics and economic development *and* The history of Banking – Merchant bankers and economic development.
*The list of speakers was exceptional: in addition to the author, professor of economic history at the University of Pisa, there was Pierluigi Ciocca, deputy general manager of the Bank of Italy, and Maurizio Sella, chairman of ABI.*

Banca Popolare di Sondrio
Banca Popolare di Sondrio
BORMIO 2005
CAMPIONATI DEL MONDO
SCI ALPINO
Dove sei stato
mio bell'alpino

# PUBLICATIONS

*As always, we also published three issues of* Notiziario, *our bulletin which benefits from writings by prestigious names. Together with the commitment of our editorial staff and the beautiful photography, these contributions ensure the success of our magazine which circulates beyond our nation's boundaries.*

*The most recent issue is presented together with a monograph on the 2005 World Alpine Ski Championships held from 28 January 2005 to 13 February at Bormio and at Santa Caterina Valfurva, in the upper Valtellina.*

Valtellina Mondiale *(World-class Valtellina) is a free gift offered to the shareholders who attend the AGM.*

*With this publication, the Bank would like to immortalise the 29th edition of the World Alpine Ski Championships. The volume is a collection of historical, naturalistic and economic articles that aim to spread knowledge not only of the riches, but also the potential of our area, as well as an ample report on the individual competitions and other happenings that took place during this important international event.*

*The book ends with a memorial of the 1986 World Championships, which were also hosted in the Valtellina, this Magnificent Land.*

# PUBLICATIONS

*The eighth edition of Gigliola Magrini's diary-book entitled* 2005 – Life of a year: lands. *From glaciers to rolling fields, and from volcanos to natural parks, each month is delightfully dedicated to our terrestrial environment.*

*We were also please to collaborate in preparing the volume entitled* K2, an Italian Conquest. History and memories, *in which Achille Compagnoni, a famous local climber, recalls his leading role on the fiftieth anniversary of this epic event.*

*This work was presented on 31 July 2004 at our Bormio branch, in the presence of the author and a crowd of enthusiasts.*

*Prompted by the Bank, the April issue of* Ulisse, *Alitalia's in-flight magazine, contained more than 120 pages about the province of Sondrio, ahead of the World Ski Championships.*

*Distributed for a month on all aircraft operated by Alitalia and its associated companies, more than 250,000 copies of this magazine were printed with an estimated readership of 2 million. We were proud to promote our home territory to the world and are grateful to our nation's flag carrier.*

CALENDARIO duemilacinque
GIUGNO
2005
DALLO SPLUGA ALLO STELVIO
AGOSTO

# CARLO DONEGANI MUSEUM

*Activity at the Stelvio Pass, where Pirovano (a subsidiary) operates, has been intense.*
*The "Carlo Donegani" historical museum obtained new objects from the "Great War" uncovered by the retreat of the glacier.*
*This place is a natural point of reference for gathering precious evidence, as well as a staging post along the Via Alpina, which runs all the way from the Principality of Monaco to Trieste. A project is currently underway for the conservation of the trenches and gun emplacement at Rese Basse dello Scorluzzo. This initiative takes on particular meaning as it was made possible by the intelligent hard work of the members of the Valtellina branch of the Associazione Nazionale Alpini.*

# ETHICS AND SOLIDARITY

**MONEY TRANSFER**
For immigrants who need to transfer money to their families in their countries of origin.

**SCRIGNO FACILE**
Accessibility to the website for the motor disabled and sensory impaired.

**SCRIGNOVispoPay**
For online donations.

**STATEMENT OF ACCOUNT IN BRAILLE**

**"VALORI RESPONSABILI" THE MUTUAL FUNDS RUN BY ETICA SGR**

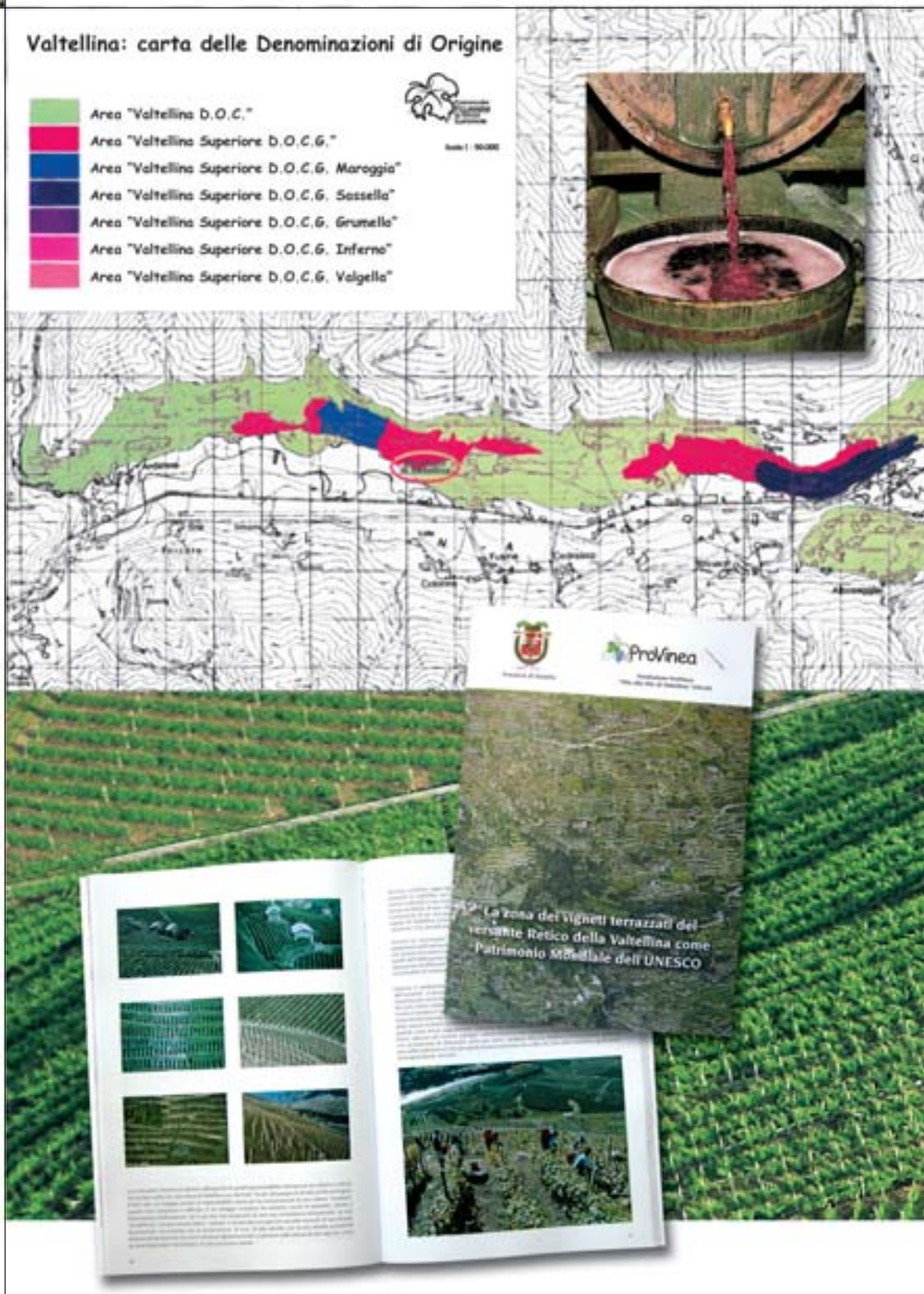
**CERTIFICATES OF DEPOSIT AND BOND LOANS FROM BANCA ETICA**

**ConTO WORK**
Reserved for youngsters looking for a job.

**WORKinITALY**
Devoted to non-EU immigrants.

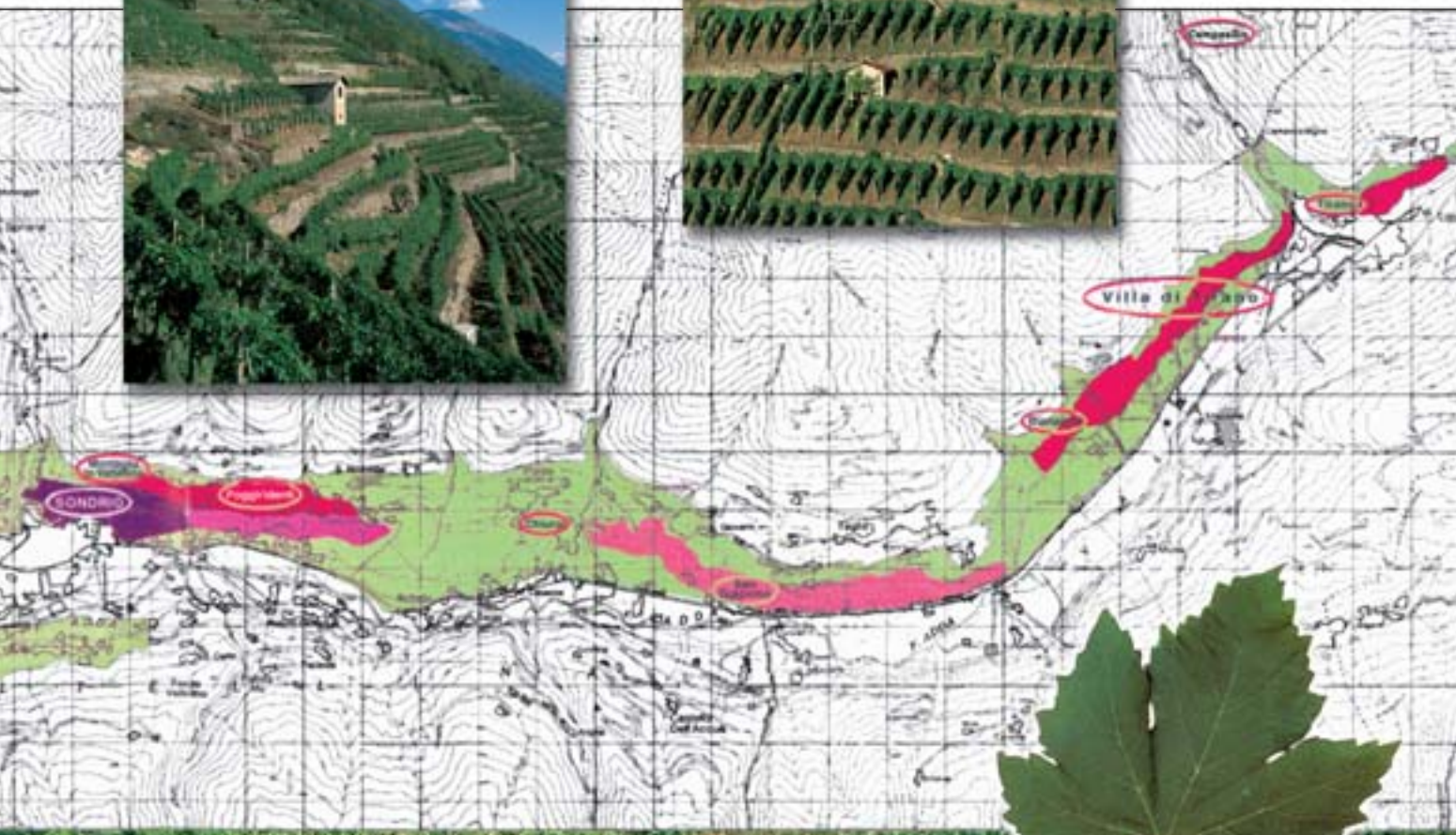
*These are packages to make it easier for "weak" counterparties to access banking services: ConTO WORK, is for youngsters looking for a job, and WORKinITALY is a current account aimed at non-EU immigrants.*
*We have prepared special areas at our Rome no. 11 and Brescia no. 2 branches to facilitate non-Italian customers.*
*These initiatives are also meant to be a concrete contribution towards equal rights and opportunities in favour of those with lower contractual power, in accordance with the principles of the United Nations' "Global Compact", to which we adhere.*
*We would also mention the fund-raising on behalf of the Bambino Gesù Foundation in Rome and – together with* Il Giornale, *a Milan newspaper, and an initial contribution from us of 30,000 euro – for the populations of south-east Asia tragically hit by the tsunami at the end of 2004.*

# VALTELLINA: "AN AREA AND A VOCATION THAT DESERVE TO BE BETTER KNOWN"




*Promotion also includes the efforts we have made to obtain UNESCO (United Nations Educational Scientific and Cultural Organization) recognition of the vine terraces in Valtellina as a World Heritage site.*

*Our work has been actively supported by the Foundation ProVinea "Vita alla Vite di Valtellina" ONLUS, established by the Valtellina Wines Consortium and the Provincial Government of Sondrio. We have guaranteed financial support for the processing of the application, prepared and coordinated by Prof. Marco Vitale, an economist of high moral standing, professionalism and drive, with support from a group of academics, including local personalities. The application was filed on 21 January 2005 with the competent offices at the Ministry for Cultural Affairs and Assets, namely the Interministerial Working Party for UNESCO World Heritage. It was then presented to the general public on 29 January at a conference held in the Province of Sondrio's board room. Our commitment reflects a desire to promote the Bank's home territory and, at the same time, the grape-growing industry as part of the primary sector.*


SONDRIO

retreat of the glacier. This place is a natural point of reference for gathering precious evidence, as well as a staging post along the Via Alpina, which runs all the way from the Principality of Monaco to Slovenia. In this light, we are also helping with the conservation of the trenches and the small fort at Rese dello Scorluzzo.

Following postponement of the races due to take place on the Stelvio due to bad weather, the 10th Interbank Triangular Meeting and the 3rd Interbank Pirovano Meeting were held at Bormio with representatives from 14 banks taking part. The Stelvio season closed with the Snowfestival, which combined enjoyment with solidarity: thanks to the wine auction offered by the Valtellina Wines Consortium, a significant collection was made for the benefit of Cancro Primo Aiuto Onlus, which will be used to build a ward for terminal cancer patients at Morbegno Hospital (Sondrio).

Class Editori, specialist publishers in the financial and economic sector, awarded our bank the «Guido Carli prize for the best banks of 2003» in the medium-size segment. The reason given was meaningful: «best mix between return on equity and return on assets, combining efficiency and timeliness in the provision of information for investors». The prize was delivered during the IVth edition of the *Milano Finanza Global Awards* held in Milan on 8 March 2004.

Among the solidarity initiatives, funds were gathered for the Bambino Gesù Foundation in Rome and – together with Il Giornale, a Milan newspaper, and an initial contribution from us of 30,000 euro – for the populations of south-east Asia tragically hit by the tsunami at the end of 2004.

Lastly, our Circolo Aziendale was particularly active during the year.

All this is what our Bank means by promotion. This also includes the efforts we have made to obtain UNESCO (United Nations Educational Scientific and Cultural Organization) recognition as a World Heritage site of the vine terraces in Valtellina.

Our work, mentioned frequently in recent annual reports and taken up at the 2003 and 2004 shareholders' meetings, has been actively supported by the Foundation ProVinea «Vita alla Vite di Valtellina» ONLUS, established by the Valtellina Wines Consortium and the Provincial Government of Sondrio. We have guaranteed financial support for the processing of the application, prepared and coordinated by Prof. Marco Vitale, an economist of high moral standing, professionalism and drive, with support from a group of academics, including local personalities.

The application was filed on 21 January 2005 with the competent offices at the Ministry for Cultural Affairs and Assets, being the Interministerial Working party for UNESCO World Heritage. It will be presented to the public tomorrow, 29 January, at a conference to be held in the Province of Sondrio's board room. Our commitment reflects a desire to promote the Bank's home territory and, at the same time, the wine industry as part of the primary sector.

We are in fact convinced that the vine terraces of Valtellina possess – given their natural, historical and scenic characteristics – such extraordinary, universal value that their protection should not be the exclusive concern of an individual nation, but rather of the whole of humanity. We believe that the locations offer special cultural value, as well as a spiritual presence that derives from man's work close to the earth. One of the reasons for which Banca Popolare di Sondrio was founded in 1871 was to sustain such work. The protection of UNESCO would bring this heritage into the universal limelight, for the whole of humanity to see, and significantly increase the flow of tourists as well.

Completion of the UNESCO project is certainly of economic interest, but also of moral importance since the world's heritage comprises art treasures, and the efforts made by wine growers over the centuries, to transform an uncultivated and hostile natural environment into a landscape of extraordinary beauty, are an example of art in its purest form.

## UPDATE OF THE SECURITY PLANNING DOCUMENT

We have updated the security planning document required by attachment B) to Decree 196 dated 30 June 2003 «Code for the protection of personal data». This is consistent with art. 6 of Decree 266 dated 9 November 2004, which deferred the application of certain requirements until 30 June 2005.

Currently, we are working on the analysis and implementation of further changes associated with the full application of this legislation.

In this regard, significant work completed or commenced in 2004 included:

- the start-up and full operation of the EDP facility management system. This is discussed in the section of this reporting that deals with risk management;
- the completed upgrade of the data transmission network, which benefits from broadband technology;
- the start of work to obtain BS7799 certification of the SCRIGNO*Internet Banking* service. This certification will provide assurance that the systems and procedures comply with the highest security standards. The updated security planning document, including attachments, is kept at SOSI – Servizio Organizzazione e Sistemi Informativi by the Manager for the processing of personal data.

## SHAREHOLDERS' EQUITY

Successful completion of the increase in capital towards the end of the first half of 2004 was the highlight of the year in this area. The universal plebiscite behind this move was particularly striking, even before considering the scale of the increase. This was a transaction with clear objectives and a simple and transparent mechanism. With the shareholders's backing, the outcome was entirely successful.

The support from our shareholders for a business strategy founded on independent growth and the enhancement of our human resources strengthens management's drive to push forward and, consistent with our traditions, excel as a cooperative bank. Accordingly, we dedicate great attention to the shareholder/customer binomial; the progressive consolidation of our role as the local bank in a steadily expanding territory; the intensification of relations with our preferred customers, namely households and small and medium-sized businesses.

The fresh resources contributed provide essential backing for our business development programme, which is based on the guidelines described above.

The size of our shareholders' funds, now in excess of 1,000 million, correlates with the scale of our other key financial aggregates. There is little need to discuss the importance of shareholders' equity in terms of the guarantee it provides. Indeed, its size provides a firm basis for monitoring the various forms of risk, under a policy guided by the precepts of healthy and prudent management. Safeguarding against risk is an extremely delicate matter, to which we dedicate great effort and considerable resources, as discussed in more depth elsewhere in this report. Here we would just like to confirm that the recent increase in equity directly strengthens the guarantees offered by our Bank

Completion of the UNESCO project is certainly of economic interest, but also of moral importance since the world's heritage comprises art treasures, and the efforts made by wine growers over the centuries, to transform an uncultivated and hostile natural environment into a landscape of extraordinary beauty, are an example of art in its purest form.

## UPDATE OF THE SECURITY PLANNING DOCUMENT

We have updated the security planning document required by attachment B) to Decree 196 dated 30 June 2003 «Code for the protection of personal data». This is consistent with art. 6 of Decree 266 dated 9 November 2004, which deferred the application of certain requirements until 30 June 2005.

Currently, we are working on the analysis and implementation of further changes associated with the full application of this legislation.

In this regard, significant work completed or commenced in 2004 included:

- the start-up and full operation of the EDP facility management system. This is discussed in the section of this reporting that deals with risk management;
- the completed upgrade of the data transmission network, which benefits from broadband technology;
- the start of work to obtain BS7799 certification of the SCRIGNO*Internet Banking* service. This certification will provide assurance that the systems and procedures comply with the highest security standards. The updated security planning document, including attachments, is kept at SOSI – Servizio Organizzazione e Sistemi Informativi by the Manager for the processing of personal data.

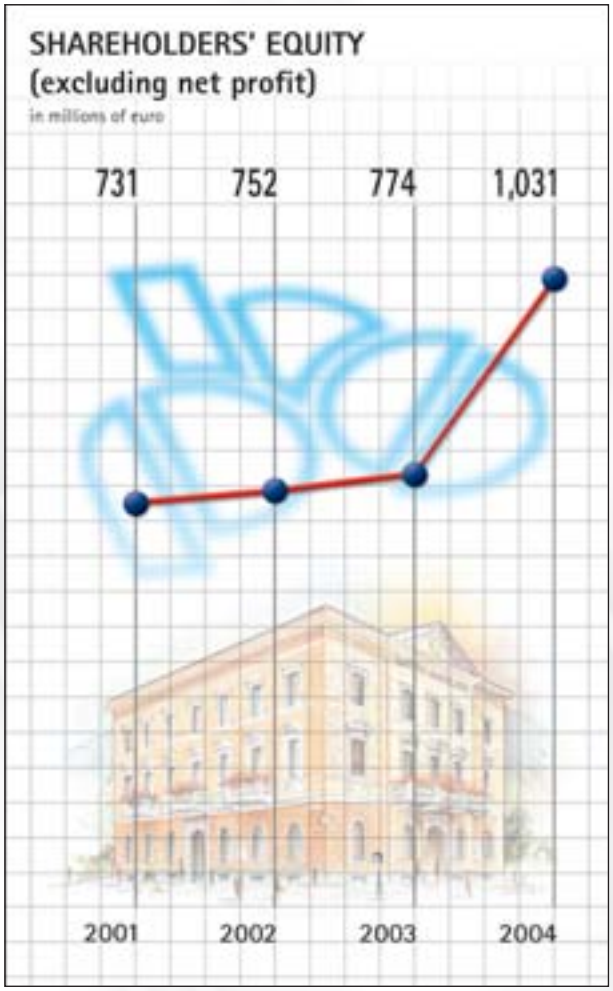
## SHAREHOLDERS' EQUITY

Successful completion of the increase in capital towards the end of the first half of 2004 was the highlight of the year in this area. The universal plebiscite behind this move was particularly striking, even before considering the scale of the increase. This was a transaction with clear objectives and a simple and transparent mechanism. With the shareholders's backing, the outcome was entirely successful.

The support from our shareholders for a business strategy founded on independent growth and the enhancement of our human resources strengthens management's drive to push forward and, consistent with our traditions, excel as a cooperative bank. Accordingly, we dedicate great attention to the shareholder/customer binomial; the progressive consolidation of our role as the local bank in a steadily expanding territory; the intensification of relations with our preferred customers, namely households and small and medium-sized businesses.

The fresh resources contributed provide essential backing for our business development programme, which is based on the guidelines described above.

The size of our shareholders' funds, now in excess of 1,000 million, correlates with the scale of our other key financial aggregates. There is little need to discuss the importance of shareholders' equity in terms of the guarantee it provides. Indeed, its size provides a firm basis for monitoring the various forms of risk, under a policy guided by the precepts of healthy and prudent management. Safeguarding against risk is an extremely delicate matter, to which we dedicate great effort and considerable resources, as discussed in more depth elsewhere in this report. Here we would just like to confirm that the recent increase in equity directly strengthens the guarantees offered by our Bank



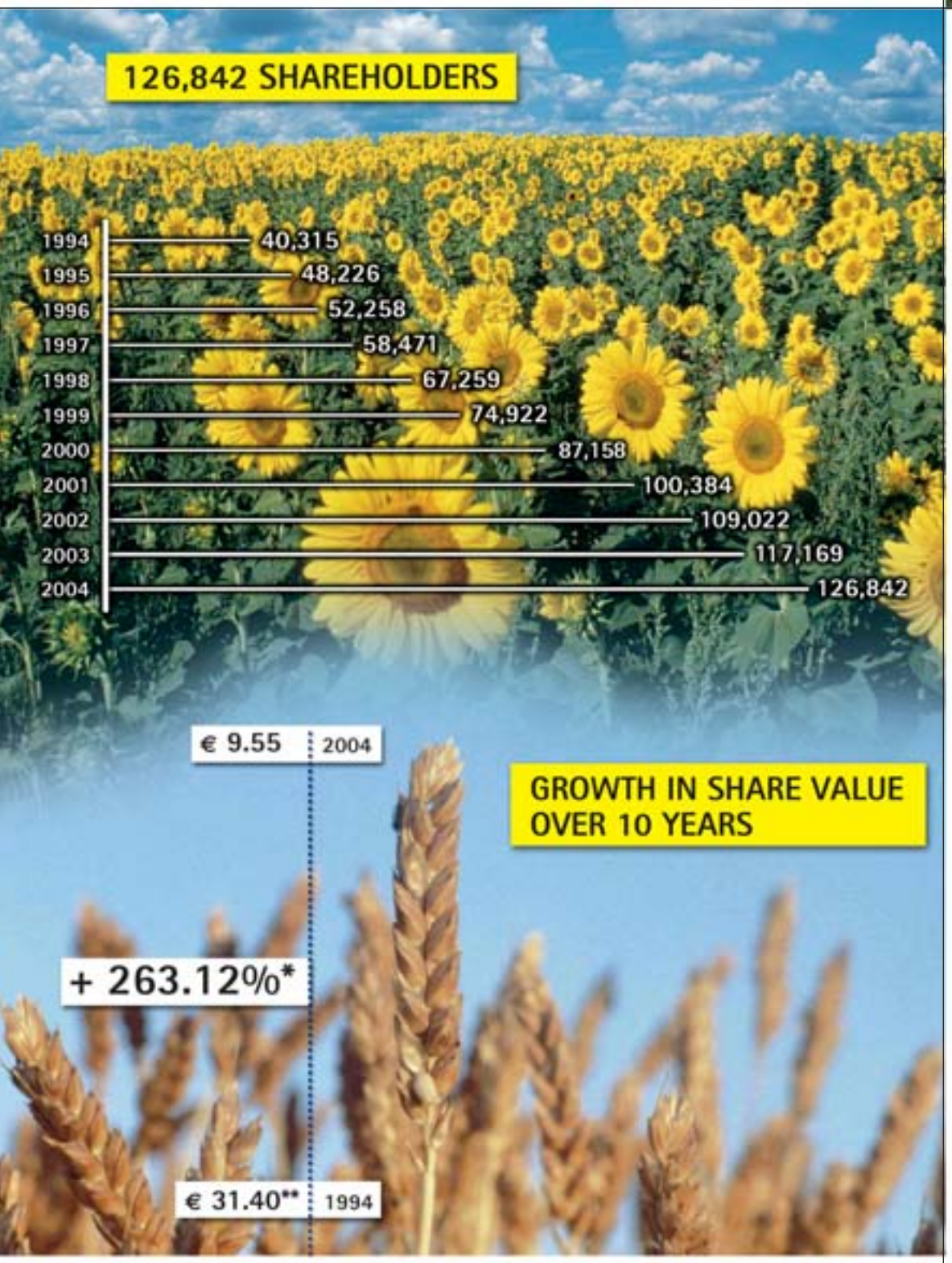

to customers and the system as a whole. It also provides appropriate support for investment in the methodologies and tools needed to measure and manage risk, in line with advanced practice and national and international regulations («Basel 2»).

The new control systems are designed to monitor with reasonable accuracy the level of current and future risk to which our various business activities are exposed. Accordingly, it is possible to evaluate new operational initiatives in the light of the related capital absorption and, as a consequence, the adequacy of pricing with respect to the risks accepted. In this way, we can develop new areas of business with confidence and increase the scale of consolidated activities, drawing full benefit from the guarantees and impetus provided by our shareholders' equity. Abundant equity ensures the continuity of business development, which entails investing to expand the branch network, providing funds for the local economy, strengthening the organisational structure, enhancing relations with affiliated companies, entering international markets, and expanding and improving the specialist services offered to customers and institutional counterparts.

The Bank intends to make an increasing commitment in these main sectors, confirming the approach to date which has balanced prudent management with the adequate and growing remuneration of resources. In other words, we intend to maintain the correlation between risk and yield that our shareholders – who, as customers, benefit from efficient services and products at competitive prices – have shown they prefer over theoretical profitability ratios. These indicators are certainly important, but they must be assessed and weighed up together with all other qualitative and quantitative aspects of our operations. This analysis is confirmed by the positive attitude of the market towards our shares. Seen as a sound investment, Banca Popolare di Sondrio shares have both sheltered savers during the deepest of stockmarket crises and performed strongly in other years. The performance of our shares was not penalised in any way by the capital increase in 2004, which – as already stated – was well received and stimulated a price rise over the year of 11.53%. At the time of writing, we continue to consolidate the credibility and status of our shares in the market. Backed by our shareholders, we are sure that our established objectives can be achieved.

The relationship between shareholders' equity and the principal financial parameters is

# SHARES AND SHAREHOLDERS




(*) FROM 31 DECEMBER 1994 TO 31 DECEMBER 2004: + 263.12%. NB: THERE IS NO GUARANTEE THAT A SIMILAR PERFORMANCE WILL BE ACHIEVED IN THE FUTURE.
(**) the price as of 31 December 1994, euro 31.40, has been adjusted to euro 2.63 to reflect the effect of subsequent capital increases. Accordingly, the increase in value as of 31 December 2004 was + 263.12%.

*The BPS stock confirms its particular personality, the fact that it is traditionally extraneous to tensions and movements of a speculative nature, but able even in the stock exchange's darkest hours to safeguard the value of the investment.*
*After all, it is the expression of a company that works, earns and grows at a rate that is strong, but never excessive, counting on its own efforts with the support of its shareholders; they, for the most part customers, provide the Bank with the necessary financial resources, as well as a considerable amount of business.*
*It is a virtuous process that has been going on for many years and which in 2004 again demonstrated its effects with an increase in the shareholder base of 9,673 to reach a year-end total of 126,842.*
*A particularly enlarged family of which we are very proud, being well aware of the effort that it takes to maintain its vigour and potential for further growth. The performance of our shares was not penalised in any way by the capital increase in 2004, which was well received and stimulated a price rise over the year of 11.53%. Backed by our shareholders, we are sure that our established objectives can be achieved.*

summarised below. The changes reflect clear improvements following the injection of additional capital:

- *shareholders' equity/direct customer deposits*
  11.06% compared with 9.46%
- *shareholders' equity/customer loans*
  12.77% compared with 10.87%
- *shareholders' equity/loans and investments*
  29.53% compared with 27.37%
- *shareholders' equity/total assets*
  8.50% compared with 7.37%

Risk-weighted assets total 9,684 million. The Bank's individual solvency ratio (ratio of shareholders' equity for supervisory purposes to risk-weighted assets) is 10.73%, compared with the minimum of 7% required under current regulations for banks that belong to banking groups. At the end of this section, we re-affirm the conviction that our Bank's ability to perform in the marketplace and face competition will depend increasingly on the level of our shareholders' funds, and on the speed with which funds are sourced.

## INCOME STATEMENT

The results for the year reflect the usual, steady growth in earnings. In particular, the net profit of 73.2 million was 21.78% higher than in 2003.

This was achieved despite uncertain economic conditions nationally, with insecurity and obstacles again hindering the ever-present forces of progress and development.

As we stated at the start of this report and repeat now, we have played our part: a modest contribution to the whole, but significant nonetheless for us. The substantial resources contributed by the capital increase have strengthened the Bank ahead of further territorial growth, consistent with all the technical coefficients, including, of course, «Basel 2», that seek to establish a sounder relationship between capital and banking risks.

***Net interest income***

Our discussion of the income statement, set out in a separate table, commences with net interest income of 235.6 million, up 5.56%. This increase derives from a much larger rise in the volume of banking business, which was offset by a further contraction in the spread of rates between funding and lending transactions. The pressure placed on margins by strong competition was countered by improved operational efficiency.

Net commission income and profits from financial transactions benefited from the positive performance of the world's financial and stock markets. The latter caption was partly influenced by valuation adjustments regarding certain derivatives and securities. We have considered it appropriate to state securities at «market value», rather than at the «lower of cost or market», ahead of the forthcoming introduction of IAS/IFRS. The overall beneficial effect of 3.8 million comprises 0.5 million classified in this caption, since it relates to the year, and 3.3 million that has been classified as extraordinary income.

***Income from banking activities***

Income from banking activities has increased by 9.63% to 374.1 million. In particular, the contribution made by net commission income and profits from financial transactions has risen to 37.03%, while the remaining 62.97% comprises net interest income.

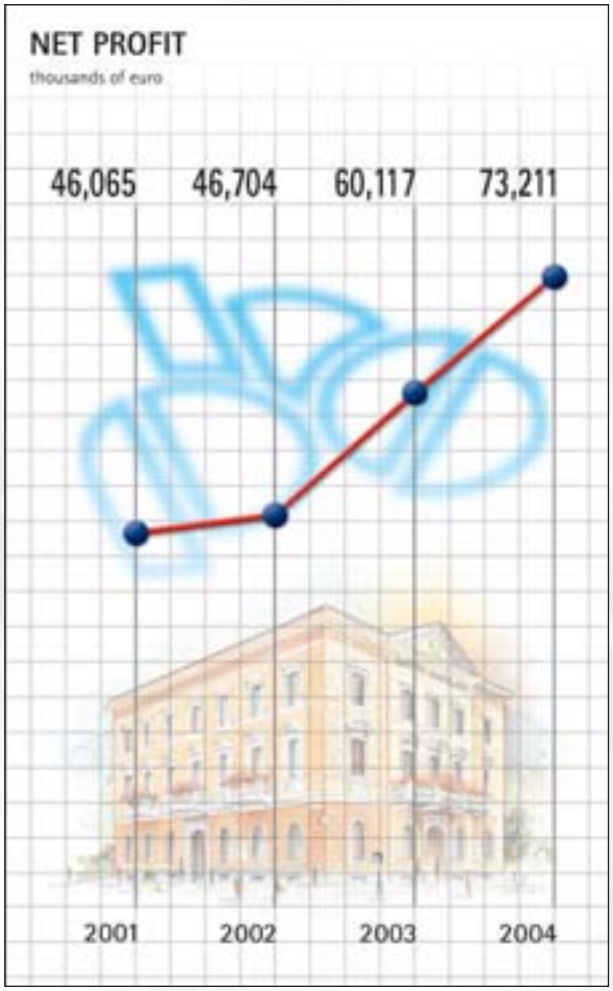
Other operating income, 32.8 million, has improved by 20.29%.

Administrative expenses rose to 222.5 million, up 7.27% over the year. This growth, similar to that experienced in 2003, almost entirely relates to personnel expenses. To a great extent

# RECLASSIFIED INCOME STATEMENT

| (in thousands of euro) | 2004 | 2003 | Change % |
|---|---|---|---|
| Interest income and similar revenues | 389,073 | 381,250 | 2.05 |
| Interest expense and similar charges | (157,835) | (162,906) | -3.11 |
| Dividends and other revenues | 4,369 | 4,857 | -10.05 |
| **NET INTEREST INCOME** | **235,607** | **223,201** | **5.56** |
| Net commission income | 109,734 | 95,372 | 15.06 |
| Profits from financial transactions | 28,798 | 22,704 | 26.84 |
| – profit from trading securities and derivatives on securities | 13,296 | 10,814 | 22.95 |
| – profit from trading currency and derivatives on currency | 10,161 | 8,511 | 19.39 |
| – profit from trading other derivatives | 2,800 | 704 | 297.73 |
| – gain (loss) on valuing securities | 2,541 | 2,675 | -5.01 |
| **INCOME FROM BANKING ACTIVITIES** | **374,139** | **341,277** | **9.63** |
| Other operating income | 32,822 | 27,286 | 20.29 |
| Administrative expenses | (222,498) | (207,418) | 7.27 |
| – personnel expenses | (121,034) | (107,459) | 12.63 |
| – other administrative expenses | (84,468) | (81,573) | 3.55 |
| – indirect taxes and duties | (16,996) | (18,386) | -7.56 |
| Other operating expenses | (4,170) | (4,104) | 1.61 |
| **OPERATING PROFIT** | **180,293** | **157,041** | **14.81** |
| Adjustments to intangible and tangible fixed assets | (16,354) | (17,796) | -8.10 |
| Loan write-downs and provisions for guarantees and commitments | | | |
| – loan write-downs | (70,608) | (54,917) | 28.57 |
| – provisions for guarantees and commitments | – | (1,500) | – |
| Write-backs to loans and provisions for guarantees and commitments | 24,871 | 23,421 | 6.19 |
| Provisions for risks and charges | – | (2,778) | – |
| Adjustments to long-term financial assets | (315) | (665) | -52.63 |
| Write-backs to long-term financial assets | 517 | – | – |
| **PROFIT FROM ORDINARY OPERATIONS** | **118,404** | **102,806** | **15.17** |
| Extraordinary income | 13,674 | 663 | 1,962.44 |
| Extraordinary charges | (867) | (786) | 10.31 |
| **PROFIT BEFORE TAX** | **131,211** | **102,683** | **27.78** |
| Change in the reserve for general banking risks | (9,000) | (1,266) | 610.90 |
| Income taxes | (49,000) | (41,300) | 18.64 |
| **NET PROFIT FOR THE YEAR** | **73,211** | **60,117** | **21.78** |

The 2003 figures have been adjusted for consistency with those reported for the current year.




this reflects our increased size, which requires a larger number of employees, as well as the provision made for period costs deriving from the future renewal of the national payroll agreement, and the additional pension provisions required following an actuarial adjustment to the related fund. Other administrative expenses were only slightly higher than in the prior year, partly due to the outsourcing of certain functions and, in general, careful cost control.

As a consequence, the ratio of administrative expenses to income from banking activities (the so-called cost/income ratio) has improved from 60.78% in 2003 to 59.47%.

***Operating profit***

Operating profit amounted to 180.3 million, +14.81%, before the following prudent adjustments:

- adjustments to fixed assets – depreciation and amortisation, of 16.3 million, down 8.10% following a change in legislation to exclude charges for accelerated depreciation;
- the write-down of loans by 70.6 million, up 28.57%, including the effect of discounting – using the original rate applying to each non-performing loan or, otherwise, the average rate for the year in which the loans concerned were classified as non-performing – likely future recoveries, determined on a prudent basis. The change in this caption is also partly a reflection of the continuing economic stagnation;
- write-backs to loans and provisions for guarantees and commitments rose 6.19% to 24.8 million, confirming the prudent approach we have always adopted;
- adjustments to long-term financial assets amounted to 0.3 million, down 52.63% following an improvement in the level of losses reported by Pirovano Stelvio spa, a subsidiary;
- write-backs to long-term financial assets of 0.5 million follow from the write-down in 2002 of the investment in Arca Assicurazioni spa;
- extraordinary income of 13.7 million, including 9.05 million from «defiscalisation» relating to accelerated depreciation on property, together with a further 0.53 million relating to the provision for interest charged on overdue balances, and the capital gains of 3.3 million mentioned above, which reflect the prior-year effect of changing the method of valuing securities. With regard to the above, it will be recalled that the reform of company law introduced by Decree 6 of 17 January 2003 abrogated the provisions that allowed adjustments and provisions to be

recorded solely for fiscal purposes. Accordingly, consistent with the requirements of the Italian Accounting Standards Authority and instructions from the Bank of Italy, the provisions previously recorded solely for fiscal purposes have been eliminated from the financial statements, resulting in recognition of the extraordinary income described above;

– lastly, extraordinary charges of 0.8 million.

*Net profit for the year*

After the above, profit before tax amounted to 131.2 million, up 27.78%.

Income taxes totalled 49 million, +18.64%, while the provision for general banking risks rose from 1.3 to 9 million, thus neutralising the effect on the results for the year of the extraordinary gains deriving from «defiscalisation» and the revaluation of securities, net of tax effect.

Considering the above, it seems that almost all captions have seen increases, which demonstrates the expansion of our business activities. Despite certain substantial adjustments, largely associated with the non-performing section of the accounts, the profits from ordinary activities have progressed well. The net profit for the year therefore amounted to 73.2 million, +21.78%. This increase has no need for adjectives, deriving from prudent management and the application of extreme caution in the valuation of account balances.

*Dividend*

Management therefore proposes a dividend of 0.17 euro per share, representing a rise – having regard for the capital increase – of 18.26%. This is a sign, perhaps the most important sign for our shareholders, of the progress made once again in the year under review. Our share price also reflects this, with a steady rise (capital gain) throughout the year. With prudent valuations and careful allocations to the reserves, our Bank continues to defend savings and make loans, working together with those businesses and individuals who by producing work and resources justify our respect and trust.

## PREPARING FOR THE NEW IFRS



Our 2003 report discussed the issues associated with applying the international accounting standards (IAS) published by the International Accounting Standards Board, which are now known as IFRS – International Financial Reporting Standards. These accounting standards were approved by EU regulation 1752 dated 29 September 2003 and integrated into Italian legislation by Community law 306 dated 31 October 2003, which envisaged the publication within one year of enabling regulations to align the accounting policies laid down in the Italian Civil Code and modify certain tax rules. Draft enabling legislation, still awaiting approval, was published at the end of November 2004. Against this uncertain legislative background, we have carried out a detailed analysis – with support from senior experts – of the various problems posed by each of the new accounting standards. In particular, the following topics were examined in detail during the year: assessment of «performing» and «non-performing» loans; calculation of the «amortised cost of loans and credit granted»; classification and valuation of the securities portfolio; recording of derivatives; financial reporting. This work involved making changes to the information systems in order to obtain the required documentation. Where possible, we have decided to adopt early certain practices that will be required in the 2005 report prepared under the new accounting standards. Accordingly, the policy adopted for the

valuation of securities held has been changed from the «lower of cost or market» to «market value»; the valuation of non-performing loans reflects the discounted present value of the amounts deemed to be recoverable; the effects of fiscal interference have been eliminated through the process of «defiscalisation».

Since the regulatory framework is not yet completed and settled, the resulting uncertainties mean that we cannot reliably quantify the full impact on next year deriving from application of the new accounting standards. We trust that the missing measures will be ready in the near future.

## SIGNIFICANT SUBSEQUENT EVENTS

The following information on significant events that have taken place subsequent to year end is provided in accordance with regulatory requirements. The tragic events in south-east Asia have rocked the world and. following the initial shock at the scale of the disaster, resources have been mobilised to assist the stricken populations. We too have made a contribution and, together with Il Giornale, a Milan daily newspaper, have started a collection that has received considerable support.

Turning closer to home, following the opening of 12 branches during 2004, we began the new year with further expansion by inaugurating our twenty-third branch in Rome on 18 January, at the headquarters of the World Food Programme – the UN agency for the relief of famine in the world.

Treasury branches have also been opened at the municipalities of Cevo and Prestine, in the province of Brescia, and at Mortara, in the province of Pavia. In addition, we have activated treasury services at the Policlinico San Matteo in Pavia and the Ospedali Riuniti in Bergamo, both hospitals. The Board of Directors of Banca Popolare di Sondrio (SUISSE) SA, a subsidiary, has just approved that bank's results for 2004 which reflect further growth in its balance sheet aggregates – a sure sign that the «Sondrio» name is increasingly well regarded in Switzerland too. Net profit there exceeded CHF 7.6 million, up 10.61%.

The Bank has received flattering recognition following participation at the «Il Cerchio d'Oro dell'Innovazione Finanziaria 2004» awards organised by AziendaBanca, the magazine of AIFIn, the Italian Association for Financial Innovation. In assessing 29 projects presented by 23 financial institutions, including numerous leading, nation-wide banks, we were awarded the first prize overall in the «Application of technology» category, with our «Accessible e-Bank» project; joint first prize in the special category of «Innovative financial institution of the year» and third prize in the «Organisational project» category.

## OUTLOOK FOR OPERATIONS

Despite understandable hope, the economic situation faced by our nation and the Euro area to which we belong does not leave much room for optimism. The most likely forecast is therefore that slow growth is persist over the next few months. Much however will depend on external factors that are hard to assess. To cite just a few: the price of oil, the performance of the dollar, the policies of the Federal Reserve, and the ability to keep the raw materials markets in balance despite increasing demand from the Chinese giant, not to mention the war and guerrilla conflict in Iraq. With regard to the Bank, we expect a further

increase in lending and funding volumes, partly due to our increased presence in Lombardy and in Rome. Following sound growth in 2004, profits should remain satisfactory despite the increase in overheads associated with the expansion of our business.

The growth in net interest income will probably be small, given the low level of interest rates.

Net income from services should improve further, while it is hard to imagine that profits from financial activities could repeat the excellent performance reported in 2004.

The structural problems afflicting the system remain of some concern: the tax burden, the changes to the bankruptcy law and measures to help firms gain access to loan finance.

* * *

Shareholders,

***Audit of the financial statements***

The 2004 financial statements, comprising the balance sheet, the income statement and the attachments forming an integral part of these documents, are presented for your examination and approval. The financial statements, which report net profit for the year of € 73,210,556, has been audited by Deloitte & Touche spa, whose report is attached further below.

## ALLOCATION OF NET PROFIT FOR THE YEAR

Consistent with legal requirements and the articles of association, we propose the following allocation of net profit for the year:

| | | |
|---|---|---|
| – 10% to the legal reserve | € | 7,321,055.60 |
| – 30% to the statutory reserve | € | 21,963,166.80 |
| – dividend to shareholders of € 0.17 per share | € | 37,417,969.51 |
| – to the reserve for own shares | € | 6,000,000.00 |
| – to the reserve for donations | € | 250,000.00 |
| – the balance, to the legal reserve | € | 258,364.09 |
| **Total** | **€** | **73,210,556.00** |

## SHAREHOLDERS' EQUITY

If you concur with our proposals, shareholders' equity will be analysed as follows:

| | | |
|---|---|---|
| – Reserve for general banking risks | € | 49,000,000 |
| – Share capital – 220,105,703 shares, par value € 3 each | € | 660,317,109 |
| – Share premium reserve | € | 108,373,020 |
| – Other reserves: | | |
| a) Legal reserve | € | 61,730,414 |
| b) Reserve for own shares | € | – |
| c) Statutory reserve | € | 151,915,891 |
| d) Other reserves | € | 35,598,144 |
| **Total** | **€** | **1,066,934,578** |

## BALANCE SHEET

| | | | | |
|---|---|---|---|---|
| Total assets | | | € | 12,130,599,067 |
| Liabilities | € | 11,025,996,520 | | |
| Reserve for general banking risks | € | 49,000,000 | | |
| Share capital | € | 660,317,109 | | |
| Share premium reserve | € | 108,373,020 | | |
| Other reserves | € | 213,701,862 | € | 12,057,388,511 |
| Net profit for the year | | | € | 73,210,556 |
| Guarantees given | | | € | 1,782,576,928 |
| Commitments | | | € | 211,675,907 |

Shareholders,

Having set out these good results, our thoughts turn to those whose trust and business have helped us to achieve them. Firstly, we thank our shareholders and customers for their business and constancy, prompting us to work well and helping us to grow. We much appreciate the ongoing, intensive and delicate work performed by the Board of Statutory Auditors, worthily chaired by Egidio Alessandri. The same applies to our Board of Advisors, always ready to fulfil their role, and to the members of the Supervisory and Discount Committees for their contribution to branch activities, with special mention for the Milan committee.

We are grateful to the boards and employees of our group companies, with particular reference to those at Banca Popolare di Sondrio (SUISSE) SA; to the Italian Banking Association, to the National Association of Cooperative Banks, to our Italian and foreign correspondents, and to our fellow cooperative banks including, in particular, BP di Fondi, with which we have collaborated successfully for many years.

We express our respect and profound gratitude to the staff of the Bank of Italy, from the Governor – who governs knowledgeably – to the Members of the Directorate, to the Chief of Supervision and his staff, to the general officers and the directors of the main offices and branches located in the provinces where we are present. Special mentions go out to Salvatore Messina, director of the Bank of Italy's Milan branch; Cesare Monti, director of the Rome branch, and Massimiliano Marzano, director of the Sondrio branch who took over during the year from Giovanni Alfieri, whose professional kindness is well remembered. We would also like to recognise here the kindness and wise advice received from Bruno Bianchi. Similar thoughts are harboured for Vincenzo Catapano.

The Supervisory Authorities honoured us with a visit from a efficient and united inspection team lead well by Rolando Montinaro. We are once again very grateful to him and his team, Ario Casaccino, Carmine Iannaccone, Maurizio Losavio, Antonio Sica, Roberto Belotti, Franco Boselli and Francesca Provini, for their approach, teachings and advice.

Many thanks for the constant collaboration of the directors, managers and staff of the Italian Exchange Office, Consob and Borsa Italiana, which also manages the Expandi Market, formerly the Restricted Market, where our shares are traded.

Our respect and recognition go to the Federal Commission of the Berne Banks for their supervision of our Swiss subsidiary, and to the Bank of France, which supervises the French banking system and, accordingly, the branch of «SUISSE» located in the Principality of Monaco.

The results achieved are also and above all due to our exceptional staff, who deserve our most cordial thanks. Our best wishes for a long, healthy and serene retirement go out to Vincenzo Corlatti, Adriano Gatti, Giancarlo Penati, Arnaldo Picceni, Luciano Re and Antonio Zaini.

We received many letters of praise during the year and even a number of criticisms. We have replied to everyone. Once again our thanks, including to those whose criticism has helped us to improve.

Our apologies if, inadvertently, we have neglected anyone who has assisted us with advice, information or other matters: they too receive our grateful thanks.

Shareholders,

In presenting the 2004 financial statements for your approval, the directors invite the Shareholders' Meeting – having read the report of the Board of Statutory Auditors – to adopt the following resolution:

«The ordinary meeting of the shareholders of Banca Popolare di Sondrio, meeting today, having heard the directors' report on operations during 2004 and the proposed allocation of net

profit for the year, which includes the payment of a dividend to the shareholders of € 0.17 per share; having noted the report of the Board of Statutory Auditors and that of the Independent Auditors; having taken as read the balance sheet, the income statement, the explanatory notes and, in addition, the financial statements of the subsidiary and associated companies,

approves:

- the directors' report on operations;
- the financial statements as of 31 December 2004, comprising the balance sheet, the income statement and the related explanatory notes; financial statements which report a net profit for the year of € 73,210,556. The Shareholders' Meeting therefore specifically approves the allocation of net profit for the year of € 73,210,556 as proposed by the Board of Directors in accordance with current legislation and the articles of association and, in particular, resolves:

  a) to allocate:
  - 10% to the legal reserve € 7,321,055.60
  - 30% to the statutory reserve € 21,963,166.80

  b) to pay a dividend of € 0.17 to each of the 220,105,703 shares in circulation as of 31/12/2004 with enjoyment rights from 1/1/2004, with the transfer to the statutory reserve of the dividend payable on any own shares held on the day prior to going ex-dividend, for a total of € 37,417,969.51

  c) to allocate to the reserve for own shares € 6,000,000.00

  d) to allocate the residual net profit:
  - to the reserve for charitable donations € 250,000.00
  - to the legal reserve, a further € 258,364.09

Lastly, the Shareholders' Meeting sets at € 29,000,000 – recorded in the balance sheet among «Other reserves» – the amount available to the Board of Directors, pursuant to art. 21 of the articles of association, for the purchase and sale of own shares at market prices, up to a maximum of this amount including the part that becomes available from the subsequent sale of the shares acquired; all as part of normal trading intended to facilitate the market in the shares».



Many times during this report we have dwelled on the Bank's specific role in favour of the local area and the populations that we serve. This is an element common to all cooperative banks active in Italy, together with which we form a significant part of the domestic banking system. The numbers, and indeed other factors as we shall see, demonstrate the extent of the support provided to the Italian economy and, in particular, to that fundamental and dynamic component of the economy represented by small and medium-sized enterprises.

But aside from the numbers, there is a strong drive to be the locomotive for economic development in the areas served, as well as for social, civic and cultural growth, especially in our home territory. These aspects go hand-in-hand together and receive our full attention and resources.

The many initiatives promoted and actively supported by the Bank during the year included:

- support for Pirovano Stelvio spa, our subsidiary, and consequently the entire Stelvio area, which is an important part of the provincial tourist industry;
- our commitment to obtaining recognition from UNESCO of the grapevine terraces in the Valtellina valley as a World Heritage site;
- financial support for the organisers of the World Alpine Ski Championships currently being held at Bormio and Santa Caterina Valfurva;

– creation of a virtual art gallery that enables Internet surfers, including the visually handicapped, to admire the works of art owned by the Bank and learn the history of the artists;
– action taken to establish a new library in Sondrio, accessible not only by the Bank but also by the public at large;
– the organisation of numerous cultural activities, such as meetings, conferences and publications.

In addition, we have also made grants to support the activities of bodies and associations covering a broad range of areas, from cultural and sporting events to voluntary work and social solidarity.

This way of working sets us apart within the banking system and reflects our nature as a cooperative bank.

This includes as a priority our drive to promote saving, which is a virtue written into the Bank's constitution. We do this at the time of World Savings Day – as mentioned in the section dedicated to promotional and cultural activities –, but above all we do it every day, by making a complete and effective range of investment instruments and products available to savers, in a completely clear and transparent manner. In this way, our customers are adequately safeguarded and put in a position to make investment decisions in full awareness of the facts.

We conclude these brief notes about cooperative banks – often discussed by the national press in terms loaded with sensationalism – with this simple observation. We monitor with reasonable trepidation and justified hope the plans for reform currently before Parliament, certain that the maxim about leaving well alone will also be applied in relation to cooperative banks. This is a prudent and wise rule that should be applied in the interests of the nation's economy.

**Point 2) on the agenda**: Fixing the remuneration of the directors.

Shareholders,

the Shareholders' Meeting is responsible for fixing the remuneration of the directors. The directors will propose the amounts concerned.

**Point 3) on the agenda:** Appointment – pursuant to art. 159 of Decree 58 of 24 February 1998 – of independent auditors to audit the statutory and consolidated financial statements and the half-year reports for the three-year period 2005-2007.

Shareholders,

Art. 159.1 of Decree 58 dated 24 February 1998 specifies that «at the time of approving the financial statements or at the annual meeting required by para. 2 of art. 2364-bis of the Italian Civil Code, the Meeting, having heard the opinion of the Board of Statutory Auditors, will appoint a firm of auditors from among those listed on the special register maintained pursuant to art. 161 to audit the statutory and consolidated financial statements. The Meeting determines the remuneration of the independent auditing firm». Since the mandate granted at the Shareholders' Meeting held on 2 March 2002 to Arthur Andersen spa, Milan – now part of Deloitte & Touche spa – for the three-year period 2002-2004 has expired, it is necessary to make an appointment for the three-year period 2005-2007.

Considering that Deloitte & Touche spa, listed in the special register of independent auditors referred to in art. 161 of Decree 58/98, performed the engagement previously entrusted to them by the Bank with professional care and rigour, the Board of Directors proposes that the

Shareholders' Meeting should appoint Deloitte & Touche spa, Milan, to audit the financial statements of the Bank and the consolidated financial statements of the Group, and perform limited examinations of the half-year reports, for the three-year period 2005/2007. The offer presented by this firm requests remuneration of € 200,000 for the first year and € 175,000 for each of the two following years, subject to annual adjustment to take account of changes in the ISTAT cost-of-living index. The remuneration for the first year is higher than in the subsequent years since adoption of the new accounting standards in 2005 will involve additional work. In addition to this remuneration, the Bank would also pay: the actual expenses incurred in performing the work and miscellaneous expenses, determined as a flat 5% of the agreed fee; the supervision fee due to Consob; VAT.

**Point 4) on the agenda**: Appointment of directors.

Shareholders,

In accordance with the articles of association, the Shareholders' Meeting is called upon to renew the appointment of directors. The mandates of the following directors have expired: Aldo Balgera, Gianluigi Bonisolo, Miles Emilio Negri, Piero Melazzini and Lino Enrico Stoppani.

*Sondrio, 28 January 2005*

THE BOARD OF DIRECTORS

# REPORT OF THE BOARD OF STATUTORY AUDITORS

in accordance with Art. 153 of Legislative Decree 58/98 and Art. 2429.3 of the Italian Civil Code

Shareholders,

As usual, we would like to start with the key figures taken from the draft financial statements for 2004, the Bank's 134th year of operations, which are submitted for your approval:

Also worth recalling with satisfaction is the positive outcome of the increase in capital, which was extremely well received by investors who paid in fresh resources for a total of 220 million, considerably boosting the Bank's equity, which has risen to more than 1,000 million.

## BALANCE SHEET

| | | | | |
|---|---|---|---|---|
| Total assets | | | € | 12,130,599,067 |
| Liabilities | € | 11,025,996,520 | | |
| Reserve for general banking risks | € | 49,000,000 | | |
| Capital | € | 660,317,109 | | |
| Share premium reserve | € | 108,373,020 | | |
| Reserves | € | 213,701,862 | € | 12,057,388,511 |
| Net profit for the year | | | € | 73,210,556 |
| Guarantees given | | | € | 1,782,576,928 |
| Commitments | | | € | 211,675,907 |

Compared with the previous year, total assets increased from 10,502 to 12,131 million (+15.51%).

This net profit, which has increased by 21.78%, is proof of the progress made by the Bank, the fruit of hard work and careful management, with the support of the shareholders, most of whom took part in the increase in capital.

This result derives in part from the increased size of the business in terms of operating volumes and territorial coverage, but above all it expresses the effect of prudent and attentive guidance on the part of the Board of Directors, who have managed to raise yields and contain costs within acceptable limits.

Worth mentioning is the positive trend in direct deposits, which have risen to 9,323 million (+13.92%). Total deposits have gone up to 26,577 million, an increase of 10.29%. Similarly, loans have increased to 8,078 million (+13.51%), partly due to the higher volume of medium/long-term transactions.

There has also been a huge increase in the number of shareholders, rising during the year by 9,673 to reach a total at 31 December 2004 of 126,842.

Another fact worthy of mention is that, after eight years, the Bank was visited by eight inspectors from the Bank of Italy who carried out an ordinary inspection by the Supervisory Authority during the period September 2004 - January 2005. We are still waiting for their final comments.

At the end of the year, the Board of Directors has, with their usual diligence, prepared the financial statements and the directors' report on operations in accordance with the law and the articles of association (art. 57).

The document, which consists of the balance sheet, income statement and notes to the financial statements, was approved by the Board at the meeting held on 28 January with the consent of the Board of Statutory Auditors.

The Board has provided extensive and detailed information which explain the main

events and transactions that took place during a year of economic and financial activity still dominated by a general level of uncertainty, in some cases suffering slowdowns.

The notes explain the accounting entries that require illustration, some of which are preparatory to the application of new legal requirements that will take effect from future financial statements, such as the introduction of International Financial Reporting Standards (IFRS, based on IAS), with particular regard to the valuation of assets and the treatment of fiscal items.

All items in the financial statements, which have been taken from the accounting records, have been subjected to rigorous control by the independent auditors, who have issued the attached declaration, without any exceptions or reservations.

We have always followed and agreed upon the audit work carried out by Deloitte & Touche spa with their usual competence, professionalism and diligence.

In accordance with art. 150.3 of Decree 58/98, we have exchanged data and information with the auditors to facilitate our respective tasks. These exchanges have led to reciprocal consensus.

It is also for this reason that we are in favour of Deloitte & Touche spa being reappointed for the next three years (2005-2007). We have examined the fee estimate made by Deloitte & Touche spa and consider it to be technically valid and reasonable for the work to be performed.

Note that the auditors were not asked to carry out any special work during 2004, nor did they perform any additional services.

As regards the Bank's accounting system, which is entirely computerised, we carried out checks to verify the adequacy, accuracy and correct treatment of the numerous entries. We can confirm that the Bank has complied with the rules that require the Bank's own securities to be managed separately from those in safe custody for third parties.

We have checked that all writedowns are reasonable by reviewing positions at risk, paying particular attention to innovations regarding the measurement and accounting treatment of derivatives.

We have performed our institutional functions, as laid down in Decree 58/98, assiduously and diligently. We took part in the 7 meetings of the Board of Directors required by the articles of association, as well as 94 biweekly meetings of the Chairman's Committee.

The Board of Directors issued a series of measures during 2004 to reorganise the structure of the Bank to enable it to cope with further growth.

We took note of these measures with a certain satisfaction, because each of them was based on prudent and healthy management criteria with a view to improving the Bank's operating capacity and efficiency in accordance with art. 2392 of the Italian Civil Code, which talks about directors' duties and responsible conduct.

As regards the regularity with which the Directors have carried on their activity, we can ensure you that they are well aware of the provisions contained in art. 2391 of the Civil Code and in art. 136 of the Banking Law concerning conflict of interest on the part of directors.

We maintained an active role in our supervision of the Bank during the year, in the sense that we have always expressed our opinion, whenever necessary, even if it meant criticising the matters being discussed, or when pointing out any weaknesses or disfunctions that we had found.

We can also confirm that the Bank has not carried out any transactions that are manifestly imprudent or risky, such as to compromise its financial solidity. No omissions or reprehensible situations arose during our audit work.

Nor were there any atypical or unusual transactions with related parties, other Group

companies or third parties; all transactions with Group companies formed part of normal business administration and were carried out at market conditions in the mutual interest of the companies concerned, generally involving quite small amounts: total debits of 127 million and total credits of 144 million.

Similarly, transactions with other subsidiary and associated companies, always in their mutual interest and at market conditions, came to a total of 99 million of direct deposits, 150 million of indirect deposits, 16 million of customer loans and 10 million of financial investments. Also to be considered are related party transactions involving professional or other services. These were all carried out for reasons of convenience for the Bank and certainly not out of preferential treatment for the counterparties, while the total amount involved was insignificant for the Bank's overall activities.

The Board provides information on related party transactions in their report and in the notes. We can confirm that such transactions form part of the Bank's day-to-day operations, excluding any form of favouritism.

In this context, it is also worth saying that the Board of Directors is well aware of the new regulations concerning related parties as laid down in Decree 310 of 28 December 2004.

We should also mention the performance of the Bank's subsidiary, Banca Popolare di Sondrio (SUISSE) SA, which made further progress in 2004, expanding its branch network, reinforcing its structure and intensifying operational volumes and returns. Our audit work, which is designed to check that operational situations and behaviours comply with internal rules and regulations, was carried out by means of numerous visits on our part (98 in all) to the branches and the central offices, always timed to coincide with internal audits; the latter are much more frequent, involving almost all of the operating units.

This made it possible to check compliance in the performance of duties and functions in each area under review, or to identify weaknesses or irregularities. It was comforting to note that the overall picture that emerged from a process that evaluated the various units, produced generally positive opinions. This goes to the merit of the staff, but also of the Bank's top management who have taken the right steps to improve the organisation and its efficiency.



Certainly, some problems did emerge and these are currently being resolved. They were generally caused by the Bank's rapid expansion, especially that of the network, which meant taking on numerous services.

However, these cases of malfunctioning, negligence or weakness were understandable and within normal limits, and certainly did not affect the Bank's overall operating efficiency.

All corrective measures and improvements were under the constant attention of the Board of Directors.

Moreover, as mentioned previously, the Board of Directors issued various instructions to regulate activities and functions (starting with top management) to protect the Bank better from risks in the various operating sectors (loans, international, finance) and to upgrade technological procedures so as to ensure that Banca Popolare di Sondrio can be increasingly efficient and productive.

Confirmation of the validity of the Bank's system of risk management comes from the figures given by the Directors on the loan losses incurred and written down. The amounts are a good deal lower than for the Italian banking system in general.

On the question of controls, we could insist on certain aspects and on new schemes that have been introduced or fine-tuned, but we prefer to wait and see the much more authoritative results of the checks carried out by the Bank of Italy's inspectors.

In any case, we feel able to say that the Bank has internal control systems that we consider to be a very reliable. They are attributed to the central offices, which carry out important and essential tasks with the help of state-of-the-art instrumentation. For details, and to avoid being repetitive, we would refer you to the pertinent sections of the Director's report entitled «Risk management» and «Central Offices».



We would add that the various internal control activities, which are well-known to us as they provide support for our work as statutory auditors, are of great comfort; they also offer a sense of security regarding the Bank's operations which we are certain that the shareholders appreciate as well. During the year, we did not receive any petitions under art. 2408 of the Civil Code concerning any situations that might be considered reprehensible. On the other hand, we received several complaints (89 in total) mainly about investments in the well-known bonds that then defaulted (Parmalat, Cirio, Argentina).

In this regard, we can safely say that no conflicts of interest are involved, nor are the complaints a reflection of procedural weaknesses or unorthodox behaviour on the part of the staff.

As regards the Bank's adherence to the Code of Conduct for the Corporate Governance of Listed Companies, after due consideration of the matter, especially the fact that BPS is a cooperative bank, the Board of Directors decided not to adopt it, at least for the time being.

A copy of the resolution, unanimously approved by the Board of Directors and with the consent of the Board of Statutory Auditors, has been sent to Borsa Italiana spa.

As regards the provisions of Decree 231 of 8 June 2001 on companies' criminal liability, we would just like to confirm that the Board of Directors is aware of the fact that they have to evaluate suitable initiatives, taking account of the system of internal controls that exists already.

Shareholders,

We would like to close our report with a quotation: «The winner is the one who with method, professionalism and vision manages to count for more than the others; the winner is the one who knows how to form part of a system both at home and abroad, the one who knows how to exploit synergies to the full.» We think that these affirmations suit the Bank very well, the fine people who lead it, the employees – more than 2,000 of them – who give it their enthusiasm and devotion, and the 126,000-plus shareholders, like yourselves, who give it your support. So we have no hesitation in asking you to approve the financial statements as submitted to you, including the allocation of net profit as required by the articles of association.

*Sondrio, 15 February 2005*

THE STATUTORY AUDITORS
*Egidio Alessandri, Chairman*
*Pio Bersani, Acting Auditor*
*Piergiuseppe Forni, Acting Auditor*

# FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004

# BALANCE SHEET

(in euro)



| ASSETS | | | 31-12-2004 | | 31-12-2003 |
|---|---|---|---|---|---|
| 10. | CASH ON HAND AT CENTRAL BANKS AND POST OFFICES | | **56,710,041** | | **60,177,718** |
| 20. | TREASURY AND SIMILAR BILLS ELIGIBLE FOR REFINANCING AT CENTRAL BANKS | | **358,861,821** | | **348,225,889** |
| 30. | DUE FROM OTHER BANKS: | | **1,251,837,665** | | **809,156,823** |
| | *a)* sight | 526,212,506 | | 435,310,613 | |
| | *b)* others | 725,625,159 | | 373,846,210 | |
| 40. | CUSTOMER LOANS | | **8,078,424,234** | | **7,117,211,453** |
| | of which: | | | | |
| | – from third-party funds under administration | 9,804 | | 14,707 | |
| 50. | BONDS AND OTHER FIXED-YIELD SECURITIES: | | **1,603,766,297** | | **1,418,502,374** |
| | *a)* from public issuers | 1,229,541,969 | | 1,193,170,336 | |
| | *b)* from banks | 94,525,391 | | 9,758,706 | |
| | of which: | | | | |
| | – own securities | 2,215,171 | | 1,447,560 | |
| | *c)* from financial institutions | 252,879,016 | | 195,428,124 | |
| | *d)* from other issuers | 26,819,921 | | 20,145,208 | |
| 60. | SHARES, QUOTAS AND OTHER VARIABLE-YIELD SECURITIES | | **140,929,314** | | **121,157,877** |
| 70. | EQUITY INVESTMENTS | | **104,406,713** | | **97,613,486** |
| 80. | EQUITY INVESTMENTS IN GROUP COMPANIES | | **32,928,414** | | **32,928,414** |
| 90. | INTANGIBLE ASSETS | | **13,181,525** | | **14,121,009** |
| 100. | FIXED ASSETS | | **74,898,307** | | **65,003,491** |
| 130. | OTHER ASSETS | | **361,857,439** | | **370,759,323** |
| 140. | ACCRUED INCOME AND PREPAYMENTS: | | **52,797,297** | | **46,989,319** |
| | *a)* accrued income | 51,309,388 | | 45,525,670 | |
| | *b)* prepayments | 1,487,909 | | 1,463,649 | |
| | **TOTAL ASSETS** | | **12,130,599,067** | | **10,501,847,176** |

THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER
Piero Melazzini

THE STATUTORY AUDITORS
Egidio Alessandri, Chairman
Pio Bersani - Piergiuseppe Forni

| LIABILITIES | | | 31-12-2004 | | 31-12-2003 |
|---|---|---|---|---|---|
| 10. | DUE TO OTHER BANKS: | | **1,175,892,562** | | **955,958,828** |
| | *a)* sight | 222,611,666 | | 143,792,174 | |
| | *b)* time or with notice | 953,280,896 | | 812,166,654 | |
| 20. | CUSTOMER DEPOSITS: | | **8,351,526,581** | | **7,254,360,625** |
| | *a)* sight | 6,857,359,713 | | 5,799,497,716 | |
| | *b)* time or with notice | 1,494,166,868 | | 1,454,862,909 | |
| 30. | SECURITIES ISSUED: | | **971,052,543** | | **929,170,096** |
| | *a)* bonds | 838,028,975 | | 805,932,622 | |
| | *b)* certificates of deposit | 43,204,544 | | 46,734,987 | |
| | *c)* other securities | 89,819,024 | | 76,502,487 | |
| 40. | THIRD-PARTY FUNDS UNDER ADMINISTRATION | | **9,517** | | **14,108** |
| 50. | OTHER LIABILITIES | | **328,371,198** | | **337,867,965** |
| 60. | ACCRUED LIABILITIES AND DEFERRED INCOME: | | **22,053,038** | | **23,253,133** |
| | *a)* accrued liabilities | 16,074,665 | | 19,012,533 | |
| | *b)* deferred income | 5,978,373 | | 4,240,600 | |
| 70. | RESERVE FOR SEVERANCE INDEMNITIES | | **41,080,752** | | **37,594,134** |
| 80. | RESERVES FOR RISKS AND CHARGES: | | **136,010,329** | | **122,351,543** |
| | *a)* staff pension fund | 57,035,781 | | 51,241,144 | |
| | *b)* taxation reserve | 54,013,031 | | 48,585,630 | |
| | *c)* other reserves | 24,961,517 | | 22,524,769 | |
| 90. | RESERVES FOR POSSIBLE LOAN LOSSES | | **0** | | **7,201,986** |
| 100. | RESERVE FOR GENERAL BANKING RISKS | | **49,000,000** | | **40,000,000** |
| 120. | SHARE CAPITAL | | **660,317,109** | | **412,698,192** |
| 130. | SHARE PREMIUM RESERVE | | **108,373,020** | | **135,886,233** |
| 140. | RESERVES: | | **213,701,862** | | **185,373,214** |
| | *a)* legal reserve | 54,150,994 | | 47,996,390 | |
| | *c)* statutory reserves | 129,952,724 | | 111,815,864 | |
| | *d)* other reserves | 29,598,144 | | 25,560,960 | |
| 170. | NET PROFIT FOR THE YEAR | | **73,210,556** | | **60,117,119** |
| | **TOTAL LIABILITIES** | | **12,130,599,067** | | **10,501,847,176** |

THE GENERAL MANAGER
Mario Alberto Pedranzini

THE CHIEF ACCOUNTANT
Maurizio Bertoletti

## GUARANTEES AND COMMITMENTS

| | | | 31-12-2004 | | 31-12-2003 |
|---|---|---|---|---|---|
| 10. | GUARANTEES GRANTED | | **1,782,576,928** | | **1,689,518,142** |
| | of which: | | | | |
| | – acceptances | 3,344,000 | | 3,146,114 | |
| | – other guarantees | 1,779,232,928 | | 1,686,372,028 | |
| 20. | COMMITMENTS | | **211,675,907** | | **258,050,765** |

# INCOME STATEMENT

(in euro)

| | | | 2004 | | 2003 |
|---|---|---|---|---|---|
| 10. | INTEREST INCOME AND SIMILAR REVENUES | | **389,072,555** | | **381,250,419** |
| | of which: | | | | |
| | – on customer loans | 321,883,636 | | 307,650,093 | |
| | – on fixed-yield securities | 45,184,925 | | 47,581,183 | |
| 20. | INTEREST EXPENSE AND SIMILAR CHARGES | | **(157,834,785)** | | **(162,906,354)** |
| | of which: | | | | |
| | – on customer deposits | (118,830,020) | | (124,786,392) | |
| | – on securities issued | (24,610,807) | | (23,929,799) | |
| 30. | DIVIDENDS AND OTHER INCOME: | | **4,368,721** | | **4,857,330** |
| | *a)* from shares, quotas and other variable-yield securities | 1,918,815 | | 1,565,866 | |
| | *b)* from equity investments | 2,449,906 | | 3,291,464 | |
| 40. | COMMISSION INCOME | | **119,007,360** | | **103,025,611** |
| 50. | COMMISSION EXPENSE | | **(9,272,645)** | | **(7,518,099)** |
| 60. | PROFITS FROM FINANCIAL TRANSACTIONS | | **28,797,849** | | **22,704,471** |
| 70. | OTHER OPERATING INCOME | | **32,822,472** | | **27,286,389** |
| 80. | ADMINISTRATIVE EXPENSES: | | **(222,498,411)** | | **(208,029,489)** |
| | *a)* personnel expenses | (121,034,693) | | (107,183,765) | |
| | of which: | | | | |
| | – wages and salaries | (76,576,937) | | (71,951,829) | |
| | – social security contributions | (22,403,731) | | (20,323,198) | |
| | – severance indemnities | (5,955,775) | | (5,606,989) | |
| | – pensions | (8,540,095) | | (4,223,094) | |
| | *b)* other administrative expenses | (101,463,718) | | (100,845,724) | |
| 90. | ADJUSTMENTS TO INTANGIBLE AND FIXED ASSETS | | **(16,354,036)** | | **(17,795,660)** |
| 110. | OTHER OPERATING EXPENSES | | **(4,170,134)** | | **(3,629,030)** |
| 120. | ADJUSTMENTS TO LOANS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS | | **(70,608,236)** | | **(56,417,566)** |
| 130. | WRITE-BACKS TO LOANS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS | | **24,871,262** | | **23,420,970** |
| 140. | PROVISIONS TO RESERVES FOR POSSIBLE LOAN LOSSES | | **0** | | **(2,778,292)** |
| 150. | ADJUSTMENT TO THE VALUE OF LONG-TERM FINANCIAL ASSETS | | **(315,262)** | | **(664,667)** |
| 160. | WRITE-BACKS TO LONG-TERM FINANCIAL ASSETS | | **516,754** | | **0** |
| 170. | PROFIT FROM ORDINARY OPERATIONS | | **118,403,464** | | **102,806,033** |
| 180. | EXTRAORDINARY INCOME | | **13,674,293** | | **663,154** |
| 190. | EXTRAORDINARY CHARGES | | **(867,201)** | | **(786,336)** |
| 200. | NET EXTRAORDINARY ITEMS | | **12,807,092** | | **(123,182)** |
| 210. | CHANGE IN THE RESERVE FOR GENERAL BANKING RISKS | | **(9,000,000)** | | **(1,265,732)** |
| 220. | INCOME TAXES FOR THE YEAR | | **(49,000,000)** | | **(41,300,000)** |
| 230. | **NET PROFIT FOR THE YEAR** | | **73,210,556** | | **60,117,119** |

# NOTES TO THE FINANCIAL STATEMENTS



## FORM AND CONTENT OF THE FINANCIAL STATEMENTS

The financial statements consist of the balance sheet, income statement and these notes, and are accompanied by the report of the Board of Directors, in accordance with Legislative Decree 87/92, which regulates the annual and consolidated financial statements of banks, implementing EEC Directives 86/635 and 89/117.

The notes comment on the data in the financial statements, and contain the information required by Legislative Decree 87/92, Bank of Italy Instruction of 30 July 2002. They also provide all additional information deemed necessary for a true and fair presentation, even if not specifically required by law. The following appendices are therefore attached to these notes:

- statement of changes in financial position;
- statement of changes in shareholders' equity;
- statement of changes in the staff pension fund;
- listed of revalued assets still owned by the bank (article 10, Law 72/1983);
- financial statements of the subsidiaries Banca Popolare di Sondrio (SUISSE) SA, Pirovano Stelvio SpA and Sinergia Seconda Srl, and of the associated companies Ripoval SpA and Arca Vita SpA (companies subject to significant influence).

All figures contained in the notes are expressed in thousands of euro, rounded up or down to the nearest thousand. This may result in minor discrepancies with respect to the detailed figures in the corresponding balance sheet and income statement items.

## OTHER INFORMATION

The financial statements are audited by Deloitte & Touche SpA in accordance with the resolution of 2 March 2002 appointing them as external auditors for the 3-year period 2002 - 2003 - 2004.

### *Requirements resulting from regulatory changes and changes in accounting policies*

The regulations introduced by Legislative Decrees 5 and 6 dated 17 January 2003, which reformed company law, came into force on 1° January 2004. Legislative Decree 37, which amended banking law, was issued on 6 February 2004. In detail, article 7.1b repealed article 15.3 of Legislative Decree 87 dated 27/1/1992, which had allowed bank financial statements to include adjustments and provisions exclusively for tax purposes. The current financial statements comply with the new provisions. Accordingly, given the general accounting policies affected by the reform and the recommendations of the Italian Accountancy Board and the Bank of Italy, adjustments and provisions charged to the income statement in prior years under article 2426.2 of the Italian Civil Code have now been eliminated in a procedure known as «defiscalisation». The income statement items involved are accelerated depreciation booked until 2001 and provisions for overdue interest. The method of accounting for overdue interest adopted up until 2003 has now been changed since the new International Financial Reporting Standards require that such income be recorded only when collected. Accordingly, overdue interest of € 4.632 million earned in 2004 has not been recorded, except for € 0.268 million that was collected during the year. The cumulative provision of € 5.002 million has been deducted from customer loans after carefully reviewing existing positions, and € 0.536 million has been charged to the income statement. Bearing in mind the requirements of accounting standard 29, this «defiscalisation» exercise has meant that the parent bank's financial statements report extraordinary income of € 9.046 million in respect of accelerated depreciation and

€ 0.536 million for overdue interest. The effects of «defiscalisation» on the 2004 and 2003 financial statements are set out below:

| (in millions of euro) | 2004 net profit for the year | 2003 net profit for the year | 2003 capital and reserves as of 31/12/2003 |
|---|---|---|---|
| Amounts before defiscalisation | 67.287 | 60.117 | 773.958 |
| Items booked solely for tax purposes, gross of deferred taxes: | | | |
| a) accelerated depreciation | 9.046 | ——— | 9.046 |
| b) overdue interest | 0.536 | 2.778 | 7.202 |
| Total items booked solely for tax purposes, gross | 9.582 | 2.778 | 16.248 |
| Related deferred taxes | 3.658 | 1.039 | 6.076 |
| Total items booked solely for tax purposes, net of deferred taxes | 5.924 | 1.739 | 10.172 |
| Amounts after defiscalisation | 73.211 | 61.856 | 784.130 |



The booking of extraordinary income due to «defiscalisation» has involved recording € 3.658 million in associated deferred tax. Since prudent estimates against charges for outstanding litigation had given rise to a surplus on the taxation reserve, these deferred taxes have been absorbed by releasing a corresponding credit from the taxation reserve, as detailed in Part B, Section 7.

Securities not held as fixed assets, listed on regulated markets, previously valued at the lower of cost and market value, are now being marked to market. The effect of this change, totalling € 3.336 million, has been charged to extraordinary income. The related post-tax effect on net profit for the year amounted to € 3.078 million. In order to comply with International Financial Reporting Standards, the valuation of interest rate and foreign currency derivatives has also been changed. The full result of the transaction is now being discounted instead of booking its net result over the life of the contract. The cumulative effect of this change is not significant.

The net positive effect of «defiscalisation» and changes in accounting policies on net profit for the year is € 9 million, which has been largely offset by a provision of € 9 million to the reserve for general banking risks.

# Part A *Accounting policies*

## Section 1 *Description of accounting policies*

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

**Due from other banks and customer loans**

The amount of the loans shown in the financial statements reflects their estimated realisable value. This value is obtained by subtracting from the total amount disbursed the estimated losses in terms of principal and interest, calculated on the basis of specific analyses of non-performing loans, watchlist loans, loans being restructured and consolidated. In the case of the main non-performing loans recoverable beyond one year, account has also been taken of the financial effect of not investing the corresponding liquidity calculated on the basis of either the loan's original rate or the average rate applying in the year when the loan was classified as non-performing. The generic risk of losses that could occur on other loans in the future has been calculated on an overall basis and attributed

proportionately to individual positions. Write-downs and write-ups are calculated by comparing the prior year value of each position with the current year value. The original value of a loan is duly restored in subsequent years if the reasons for the write-down no longer exist.

Loans are classified as non-performing when the borrowers are in a state of insolvency or similar, regardless of any estimated losses.

Watchlist loans are loans to borrowers in temporary difficulties, that are likely to be overcome.

Restructured loans are those where deferred payment has been granted at lower than market rates, while consolidated loans are included amongst those in the course of being restructured.

Loans exposed to country risk relate to borrowers residing in foreign countries considered exposed to risk in accordance with the Bank of Italy regulations on the subject.

Overdue interest earned during the year is booked to the income statement only when collected.



**Other receivables**

Other receivables are shown at face value, which is equivalent to the estimated realisable value.

**Guarantees and commitments**

Guarantees granted are booked at the total value of the commitment taken on. Losses connected with these transactions are covered by specific provisions.

Securities and foreign currency to be received are expressed at the forward price as established by contract with the counterparty.

Commitments to disburse funds to counterparties are booked at the amount to be paid.

## 2. *Securities and off-balance sheet transactions (other than those in foreign currency)*

### 2.2 Trading securities

Securities reported in the financial statements are marked to market as follows:

- for securities listed on regulated Italian or foreign markets, using prices reported on the last day of the year;
- for unlisted securities, using estimated realisable value that, with regard to bonds and other fixed-yield securities, is obtained by discounting future financial flows at a suitable market rate calculated on the basis of objective information.

Units in mutual funds are valued on the basis of the period-end value of the securities or the latest available valuation of the units.

Commitments for the purchase and sale of futures are valued at the corresponding market values.

For repo transactions in securities, with a simultaneous forward commitment, the amounts received and paid are shown as payables and receivables. The cost of borrowing and the return on the investment, consisting of the interest coupons earned on the securities and the difference between their spot and forward prices, are booked to interest in the income statement on an accruals basis.

## 3. *Equity investments*

Investments in unlisted companies are valued at cost, as determined on the basis of the purchase or subscription price, or else at the value indicated in the latest approved financial statements.

The cost is reduced for permanent losses in value, when sufficient profits to absorb these losses are not immediately foreseeable for the affiliate that incurred them. Equity investments in listed companies are valued at the lower of purchase or subscription price and market value, defined as the average quoted price in the second half of the year.

The original value is restored in subsequent years if the reasons for the write-down no longer exist.

Dividends are accounted for in the year they are collected in cash.



### 4. *Assets and liabilities in foreign currency (including off-balance sheet transactions)*

Assets, liabilities and off-balance sheet spot transactions in foreign currency are converted into euro at year-end exchange rates; forward transactions are converted at the forward exchange rate ruling at the year end for maturities corresponding to those being valued; the effect of this valuation is charged to the income statement.

Long-term investments expressed in foreign currency are converted at the exchange rate ruling at the time of purchase.

Foreign currency expenses and revenues are recorded at the exchange rate in force at the time they are accounted for.

### 5. *Fixed assets*

These are recorded at purchase cost, inclusive of any ancillary charges, and adjusted in certain cases in accordance with specific revaluation laws; the amount recorded in the financial statements is obtained by subtracting depreciation charged from the book value calculated in this way.

Assets are systematically depreciated in each financial year on a straight-line basis at rates that reflect the residual useful life of the assets.

Maintenance costs that add value are attributed to the assets to which they relate and depreciated on the same basis.

### 6. *Intangible assets*

These are booked at the cost incurred, inclusive of ancillary charges, and are amortised systematically over their estimated useful life, which may be no more than five years. They consist of costs for setting-up and refurbishing branches in rented buildings and costs for the purchase of software utilization rights.

### *7. Others*

**Payables**

These are reported at their nominal value, excluding payables represented by zero-coupon securities, which are booked net of unaccrued interest.

**Accruals and deferrals**

These are booked to record cost or income items that are common to two or more financial years, in line with the matching principle.

**Reserve for severance indemnities**

The reserve for severance indemnities is provided in order to cover the entire amount accruing to employees, in accordance with current legislation, collective labour contracts and supplementary company agreements. This liability is subject to revaluation on the basis of pre-established indices.

In compliance with Law 335/95, employees hired since 28 April 1993 may allocate part of their severance indemnities to a complementary pension fund, as dictated by current company agreements.

**Reserves for risks and charges**

The staff pension fund is the amount accruing as of the date of the financial statements to working and retired employees in terms of supplementary pensions.

The taxation reserve provides for income tax on the basis of a reasonable forecast of current and deferred tax charges in accordance with current fiscal laws, taking into consideration any exemptions and tax credits due. The prudence principle dictates that deferred tax assets should only be recognized if it is reasonably certain they will be recovered. Accordingly, account has been taken of only those timing differences between the statutory and fiscal results giving rise to deferred tax assets, that are certain to reverse; accordingly no such timing differences have been recognized on provisions with an unspecified date of reversal. Deferred taxes are recognized using the balance sheet liability method. In any case, there are no deferred tax liabilities on events or transactions that have not been recorded in the income statement.

Deferred tax assets and liabilities booked in prior years are valued in the light of any changes to the legislation or tax rates.

The other reserves are provided in order to cover losses in value on guarantees granted and on other commitments taken on, and on the certain or probable liabilities whose amount or date of occurrence is not known at the end of the financial year or by the date of the financial statements. The reserves created against these liabilities reflect the best possible estimate on the basis of the information available.

**Reserve for general banking risks**

This reserve covers general business risks, and is therefore considered an equity reserve.

**Derivative contracts**

Derivatives involving currencies, securities, interest rates, indices and other assets are valued individually. The related differentials accruing on these contracts are debited or credited to the income statement in the following manner:

- hedging contracts: the asset and liability elements and related contracts are valued separately. In the case of specific hedges, differentials are booked as interest income or expense on an accruals basis that mirrors that of the costs and revenues generated by the items being hedged; in the case of general hedges, such differentials are recognized over the length of the contract;
- trading contracts: income/costs include the effect of marking to market outstanding contracts at year end and are recorded under profits/losses from financial transactions.

## Section 2 *Tax adjustments and provisions*

### 2.1 Adjustments made exclusively for tax purposes

There were no adjustments made exclusively for tax purposes.

As already discussed, accelerated depreciation on buildings made until 2001 has been eliminated under the new regulations.

### 2.2 Provisions made exclusively for tax purposes



There were no provisions made exclusively for tax purposes.

Those outstanding at 31/12/2003, consisting of overdue interest, have been reclassified to adjust «Customer loans» and partly released to income depending on whether it was possible to classify them as write-downs or not.

# Part B *Information on the balance sheet*

## Section 1 *Receivables*

### 1.1 Breakdown of item 30 «Due from other banks»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* deposits with central banks | 158,049 | 83,322 |
| *b)* assets eligible for refinancing at central banks | – | – |
| *c)* repo transactions | 121,643 | – |
| *d)* securities lent | – | – |

This item amounts to € 1,251.838 million, an increase of € 442.681 million (+54.71%).

This sharp increase is a reflection of the high level of liquidity that existed for most of the year, creating a further rise in trading volumes.

Deposits with central banks consist of the compulsory reserve at the Bank of Italy for € 158.049 million. The average rate of return on this reserve during the year was 2.02%, with a maximum of 2.07% and a minimum of 2.00%.

### 1.5 Breakdown of item 40 «Customer loans»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* assets eligible for refinancing at central banks | 10,354 | 8,075 |
| *b)* repo transactions | – | – |
| *c)* securities lent | – | – |

This item comes to € 8,078.424 million, an increase of € 961.213 million (+13.51%).

The total amount of loans granted is shown at their estimated realisable value.

Customer loans are booked net of write-downs totalling € 169.891 million, of which: € 126.187 million related to non-performing loans, watchlist loans, and loans being restructured and consolidated resulting from a detailed analysis of potential losses, taking country risk into account; € 43.704 million,

for the physiological risk inherent in performing loans, based on an historical, statistical analysis to estimate the losses likely to occur in the future as part of normal banking activities. The provisions have been booked analytically to each individual item.

The considerable increase in watchlist loans is due to the temporary difficulties of certain accounts, though significant losses are not foreseen on these positions.

The high increase in write-downs on non-performing loans is due to the reclassification of watchlist loans and restructured loans, for which losses have been already estimated, as well as the allocation of part of the reserve for possible loan losses to write-downs.

Information on the quality of credit risk and on commercial strategies and policies, as well as on internal management, control and evaluation systems has been widely discussed and presented in the report on performance.



### 1.6 Secured customer loans

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* **by mortgages** | **2,963,697** | **2,440,688** |
| *b)* **by liens on:** | **206,032** | **187,914** |
| 1. cash deposits | 1,139 | 1,154 |
| 2. securities | 188,871 | 173,917 |
| 3. other assets | 16,022 | 12,843 |
| *c)* **by guarantees from:** | **1,708,861** | **1,581,284** |
| 1. governments | – | – |
| 2. other public entities | 3,761 | 495 |
| 3. banks | 9,621 | 7,265 |
| 4. other operators | 1,695,479 | 1,573,524 |
| **Total** | **4,878,590** | **4,209,886** |

The table above illustrates customer loans secured in full or in part by guarantees, with figures referring to the guaranteed portion only.

### 1.7 Customer loans

| | | | 31/12/2004 | | | 31/12/2003 |
|---|---|---|---|---|---|---|
| Categories | Gross exposure | Total writedowns | Net exposure | Gross exposure | Total writedowns | Net exposure |
| A. **Doubtful loans** | **302,154** | **126,187** | **175,967** | **242,770** | **101,041** | **141,729** |
| A.1. Non-performing | 176,612 | 109,258 | 67,354 | 156,349 | 85,582 | 70,767 |
| A.2. Watchlist | 110,299 | 13,826 | 96,473 | 59,086 | 7,609 | 51,477 |
| A.3. Loans being restructured | – | – | – | – | – | – |
| A.4. Restructured loans | 11,995 | 2,128 | 9,867 | 25,309 | 7,242 | 18,067 |
| A.5. Unsecured loans exposed to country risk | 3,248 | 975 | 2,273 | 2,026 | 608 | 1,418 |
| B. **Performing loans** | **7,946,161** | **43,704** | **7,902,457** | **7,014,059** | **38,577** | **6,975,482** |
| **Total** | **8,248,315** | **169,891** | **8,078,424** | **7,256,829** | **139,618** | **7,117,211** |

## 1.8 Movements in doubtful customer loans

| Categories | Non-performing loans | Watchlist loans | Loans being restructured | Restructured loans | Unsecured loans exposed to country risk |
|---|---|---|---|---|---|
| | | | | | 31/12/2004 |
| A. **Gross exposure as of 31/12/2003** | **156,349** | **59,086** | **0** | **25,309** | **2,026** |
| A.1. of which: overdue interest | 17,462 | – | – | – | – |
| B. **Increases** | **74,492** | **76,747** | **0** | **2,076** | **2,228** |
| B.1. transfers from performing loans | 41,900 | 67,713 | – | 2,045 | 1,773 |
| B.2. overdue interest | 4,632 | – | – | – | – |
| B.3. transfers from other categories of doubtful loan | 17,292 | 434 | – | – | – |
| B.4. other increases | 10,668 | 8,600 | – | 31 | 455 |
| C. **Decreases** | **54,229** | **25,534** | **0** | **15,390** | **1,006** |
| C.1. transfers to performing loans | – | 5,670 | – | – | 163 |
| C.2. write-offs | 33,222 | – | – | – | – |
| C.3. collections | 21,007 | 9,692 | – | 7,848 | 831 |
| C.4. proceeds from factored loans | – | – | – | – | – |
| C.5. transfers to other categories of doubtful loan | – | 10,172 | – | 7,542 | 12 |
| C.6. other decreases | – | – | – | – | – |
| D. **Gross exposure as of 31/12/2004** | **176,612** | **110,299** | **0** | **11,995** | **3,248** |
| D.1. of which: overdue interest | 18,881 | – | – | – | – |

| Categories | Non-performing loans | Watchlist loans | Loans being restructured | Restructured loans | Unsecured loans exposed to country risk |
|---|---|---|---|---|---|
| | | | | | 31/12/2003 |
| A. **Gross exposure as of 31/12/2003** | **124,789** | **70,790** | **0** | **44,080** | **766** |
| A.1. of which: overdue interest | 15,544 | – | – | – | – |
| B. **Increases** | **61,928** | **24,760** | **0** | **823** | **1,409** |
| B.1. transfers from performing loans | 32,707 | 21,075 | – | – | – |
| B.2. overdue interest | 4,524 | – | – | – | – |
| B.3. transfers from other categories of doubtful loan | 20,602 | – | – | – | – |
| B.4. other increases | 4,095 | 3,685 | – | 823 | 1,409 |
| C. **Decreases** | **30,368** | **36,464** | **0** | **19,594** | **149** |
| C.1. transfers to performing loans | – | 1,983 | – | 6,426 | – |
| C.2. write-offs | 14,535 | – | – | – | – |
| C.3. collections | 15,833 | 13,921 | – | 13,168 | 107 |
| C.4. proceeds from factored loans | – | – | – | – | – |
| C.5. transfers to other categories of doubtful loan | – | 20,560 | – | – | 42 |
| C.6. other decreases | – | – | – | – | – |
| D. **Gross exposure as of 31/12/2003** | **156,349** | **59,086** | **0** | **25,309** | **2,026** |
| D.1. of which: overdue interest | 17,462 | – | – | – | – |

## 1.9 Movements in total adjustments

| Categories | Non-performing loans | Watchlist loans | Loans being restructured | Restructured loans | Unsecured loans exposed to country risk | Performing loans |
|---|---|---|---|---|---|---|
| | | | | | | 31/12/2004 |
| A. **Total opening adjustments at 31/12/2003** | **85,582** | **7,609** | **0** | **7,242** | **608** | **38,577** |
| A.1. of which: overdue interest | 10,260 | – | – | – | – | – |
| B. **Increases** | **62,785** | **9,588** | **0** | **553** | **669** | **14,611** |
| B.1. adjustments | 56,167 | 9,094 | – | 542 | 658 | 14,585 |
| B.1.1. of which: overdue interest | 9,359 | – | – | – | – | – |
| B.2. use of the reserve for possible loan losses | – | – | – | – | – | – |
| B.3. transfers from other categories of loan | 6,618 | 494 | – | 11 | 11 | 26 |
| B.4. other increases | – | – | – | – | – | – |
| C. **Decreases** | **39,109** | **3,371** | **0** | **5,667** | **302** | **9,484** |
| C.1. write-backs on valuation | 1,516 | 125 | – | 358 | 42 | 2 |
| C.1.1. of which: overdue interest | – | – | – | – | – | – |
| C.2. write-backs due to collections | 4,371 | 943 | – | 1,158 | 259 | 8,777 |
| C.2.1. of which: overdue interest | 501 | – | – | – | – | – |
| C.3. write-offs | 33,222 | – | – | – | – | – |
| C.4. transfers to other categories of loan | – | 2,303 | – | 4,151 | 1 | 705 |
| C.5. other decreases | – | – | – | – | – | – |
| D. **Total closing adjustments at 31/12/2004** | **109,258** | **13,826** | **0** | **2,128** | **975** | **43,704** |
| D.1. of which: overdue interest | 18,345 | – | – | – | – | – |

| Categories | Non-performing loans | Watchlist loans | Loans being restructured | Restructured loans | Unsecured loans exposed to country risk | Performing loans |
|---|---|---|---|---|---|---|
| | | | | | | 31/12/2003 |
| A. **Total opening adjustments at 31/12/2002** | **48,294** | **10,625** | **0** | **8,907** | **230** | **33,594** |
| A.1. of which: overdue interest | 3,160 | – | – | – | – | – |
| B. **Increases** | **55,066** | **2,860** | **0** | **1,649** | **423** | **13,163** |
| B.1. adjustments | 51,255 | 2,787 | – | 1,649 | 423 | 13,117 |
| B.1.1. of which: overdue interest | 7,526 | – | – | – | – | – |
| B.2. use of the reserve for possible loan losses | – | – | – | – | – | – |
| B.3. transfers from other categories of loan | 3,811 | 73 | – | – | – | 46 |
| B.4. other increases | – | – | – | – | – | – |
| C. **Decreases** | **17,778** | **5,876** | **0** | **3,314** | **45** | **8,180** |
| C.1. write-backs on valuation | 473 | 170 | – | 675 | – | 45 |
| C.1.1. of which: overdue interest | – | – | – | – | – | – |
| C.2. write-backs due to collections | 2,770 | 2,098 | – | 2,602 | 31 | 7,864 |
| C.2.1. of which: overdue interest | 247 | – | – | – | – | – |
| C.3. write-offs | 14,535 | – | – | – | – | – |
| C.4. transfers to other categories of loan | – | 3,608 | – | 37 | 14 | 271 |
| C.5. other decreases | – | – | – | – | – | – |
| D. **Total closing adjustments at 31/12/2003** | **85,582** | **7,609** | **0** | **7,242** | **608** | **38,577** |
| D.1. of which: overdue interest | 10,260 | – | – | – | – | – |

**Doubtful loans (including overdue interest)**

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| Doubtful loans (including overdue interest) | 67,354 | 70,767 |

Non-performing loans, expressed at their estimated realisable value, have decreased by € 3.413 million, -4.82% compared with the end of last year.

They also include any residual principal that is still to fall due.



**Receivables for overdue interest**

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* doubtful loans | 536 | 7,202 |
| *b)* other loans | – | – |

Receivables for overdue interest are stated at their estimated realisable value, in other words net of write-downs for € 18.345 million. These receivables have decreased by € 6.666 million, -92.56% compared with the end of last year, following the allocation of the reserve for possible loan losses for overdue interest, in accordance with the change in accounting treatment.

## *Section 2* ***Securities***

Securities owned by the bank, which are held for trading purposes, amount to € 2,103.557 million and have increased by € 215.671 million (+11.42%). They are classified in the financial statements under item 20, «Treasury and similar bills eligible for refinancing with central banks» for € 358.862 million, under item 50, «Bonds and other fixed-yield securities» for € 1,603.766 million, and under item 60, «Shares, quotas and other variable-yield securities» for € 140.929 million. The items take into account write-downs for € 1.765 million, write-backs for € 3.780 million and revaluations for € 3.862 million to both listed and unlisted securities, charged in full to the income statement.

Item 60 includes € 53.116 million of securities held as investments of the staff pension fund.

**2.3 Trading securities**

| | | 31/12/2004 | | 31/12/2003 |
|---|---|---|---|---|
| | Book value | Market value | Book value | Market value |
| 1. **Fixed-yield securities** | **1,962,628** | **1,962,628** | **1,766,728** | **1,767,447** |
| 1.1 Government securities | 1,588,404 | 1,588,404 | 1,541,396 | 1,541,809 |
| – listed | 1,588,404 | 1,588,404 | 1,541,396 | 1,541,809 |
| – unlisted | – | – | – | – |
| 1.2 Other securities | 374,224 | 374,224 | 225,332 | 225,638 |
| – listed | 323,738 | 323,738 | 201,196 | 201,502 |
| – unlisted | 50,486 | 50,486 | 24,136 | 24,136 |
| 2. **Variable-yield securities** | **140,929** | **140,929** | **121,158** | **123,775** |
| – listed | 63,178 | 63,178 | 64,970 | 67,582 |
| – unlisted | 77,751 | 77,751 | 56,188 | 56,193 |
| **Total** | **2,103,557** | **2,103,557** | **1,887,886** | **1,891,222** |

### 2.4 Change for the year in trading securities

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| A. **Opening balance** | **1,887,886** | **1,802,821** |
| B. **Increases** | **9,623,879** | **10,265,398** |
| B1. Purchases | 9,600,348 | 10,246,883 |
| – Fixed-yield securities | 9,402,212 | 10,175,801 |
| government securities | 7,198,341 | 7,584,033 |
| other securities | 2,203,871 | 2,591,768 |
| – Variable-yield securities | 198,136 | 71,082 |
| B2. Write-backs and revaluations | 9,664 | 5,814 |
| B3. Transfers from investment portfolio | – | – |
| B4. Other changes | 13,867 | 12,701 |
| C. **Decreases** | **9,408,208** | **10,180,333** |
| C1. Sales and reimbursements | 9,405,954 | 10,176,910 |
| – Fixed-yield securities | 9,215,069 | 10,118,082 |
| government securities | 7,155,080 | 7,517,473 |
| other securities | 2,059,989 | 2,600,609 |
| – Variable-yield securities | 190,885 | 58,828 |
| C2. Write-downs | 1,795 | 1,873 |
| C3. Transfers to investment portfolio | – | – |
| C5. Other changes | 459 | 1,550 |
| D. **Closing balance** | **2,103,557** | **1,887,886** |

Write-backs and revaluations (sub-item B2) amount to € 2.022 million and relate to securities held by the pension fund.

Other increases (sub-item B4) consist of € 13.046 million of income from trading in securities, € 0.242 million of discounts, € 0.439 million of increase in the value of capitalisation certificates and € 0.140 million of gains on securities held by the pension fund.

Write-downs (sub-item C2) for € 0.030 million relate to securities held by the pension fund.

Other decreases (sub-item C5) relate to trading losses on securities held by the pension fund for € 0.272 million and the negative trend in share prices.

## *Section 3* ***Equity investments***

Items 70 and 80 report balances of € 104.407 million and € 32.928 million respectively, an overall increase of € 6.794 million, +5.20% with respect to 31 December 2003.

### 3.1 Main equity investments

| | Location | Shareholders' equity | Profit/ loss | % held | Book value |
|---|---|---|---|---|---|
| A. **Subsidiaries** | | | | | |
| 1. Banca Popolare di Sondrio (SUISSE) SA | Lugano | 66,579 | 4,971 | 100 | 32,928 |
| 2. Pirovano Stelvio spa | Tirano | 2,099 | –163 | 100 | 4,238 |
| 3. Sinergia Seconda srl | Milan | 10,645 | 289 | 100 | 10,329 |
| B. **Associated companies (subject to significant influence)** | | | | | |
| 1. Ripoval spa | Sondrio | 3,311 | 397 | 50 | 1,291 |
| 2. Arca Vita spa | Verona | 94,322 | 6,506 | 32.528 | 36,853 |

With regard to the difference between the book value and the bank's share of net equity in the subsidiary Pirovano Stelvio SpA, which operates in the tourist hotel sector, the book value at year end is € 1.224 million higher than the value calculated using the net equity method. This difference is due to the depreciation of the higher value of the subsidiary's assets paid upon acquisition. However, in the group consolidated financial statements, this investment has been valued using the net equity method.

The book value of Arca Vita SpA is € 6.172 million higher than it was under the equity method at 31/12/2003 due to the purchase of shares during the last two years, reflecting the company's good performance. However, in the Group consolidated financial statements, this investment has been valued using the net equity method.

### 3.2 Assets and liabilities due to and from Group companies

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* **Assets** | **126,715** | **101,397** |
| 1. due from other banks | 126,715 | 101,397 |
| of which: – subordinated | – | – |
| 2. due from financial institutions | – | – |
| of which: – subordinated | – | – |
| 3. customer loans | – | – |
| of which: – subordinated | – | – |
| 4. bonds and other fixed-yield securities | – | – |
| of which: – subordinated | – | – |
| *b)* **Liabilities** | **143,825** | **106,316** |
| 1. due to other banks | 143,825 | 106,316 |
| 2. due to financial institutions | – | – |
| 3. customer deposits | – | – |
| 4. securities issued | – | – |
| 5. subordinated liabilities | – | – |
| *c)* **Guarantees and commitments** | **0** | **0** |
| 1. guarantees granted | – | – |
| 2. commitments | – | – |

### 3.3 Assets and liabilities due to and from affiliated companies (excluding Group companies)

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* **Assets** | **256,815** | **175,508** |
| 1. due from other banks | 61,203 | 21,570 |
| of which: – subordinated | – | – |
| 2. due from financial institutions | 122,966 | 88,321 |
| of which: – subordinated | 140 | 140 |
| 3. customer loans | 54,531 | 55,892 |
| of which: – subordinated | – | – |
| 4. bonds and other fixed-yield securities | 18,115 | 9,725 |
| of which: – subordinated | 7,953 | 2 |
| *b)* **Liabilities** | **143,289** | **303,274** |
| 1. due to other banks | 32,805 | 32,636 |
| 2. due to financial institutions | 101,268 | 154,356 |
| 3. customer deposits | 9,216 | 116,282 |
| 4. securities issued | – | – |
| 5. subordinated liabilities | – | – |
| *c)* **Guarantees and commitments** | **181,487** | **171,495** |
| 1. guarantees granted | 179,699 | 161,677 |
| 2. commitments | 1,788 | 9,818 |

### 3.4 Breakdown of item 70 «Equity investments»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* **in banks** | **22,802** | **22,893** |
| 1. listed | 303 | 394 |
| 2. unlisted | 22,499 | 22,499 |
| *b)* **in financial institutions** | **16,424** | **15,662** |
| 1. listed | – | – |
| 2. unlisted | 16,424 | 15,662 |
| *c)* **others** | **65,181** | **59,058** |
| 1. listed | 10,944 | 5,175 |
| 2. unlisted | 54,237 | 53,883 |
| **Totale** | **104,407** | **97,613** |

### 3.5 Breakdown of item 80 «Equity investments in Group companies»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* **in banks** | **32,928** | **32,928** |
| 1. listed | – | – |
| 2. unlisted | 32,928 | 32,928 |
| *b)* **in financial institutions** | **–** | **–** |
| 1. listed | – | – |
| 2. unlisted | – | – |
| *c)* **others** | **–** | **–** |
| 1. listed | – | – |
| 2. unlisted | – | – |
| **Totale** | **32,928** | **32,928** |

### 3.6 Changes for the year in equity investments

#### 3.6.1 Equity investments in Group companies

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| A. **Opening balance** | **32,928** | **32,928** |
| B. **Increases** | **–** | **–** |
| B1. Purchases | – | – |
| B2. Write-backs | – | – |
| B3. Revaluations | – | – |
| B4. Other changes | – | – |
| C. **Decreases** | **–** | **–** |
| C1. Sales | – | – |
| C2. Write-downs | – | – |
| of which: – permanent write-downs | – | – |
| C3. Other changes | – | – |
| D. **Closing balance** | **32,928** | **32,928** |
| E. **Total revaluations** | **–** | **–** |
| F. **Total write-downs** | **–** | **–** |

#### 3.6.2 Other equity investments

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| A. **Opening balance** | **97,613** | **79,252** |
| B. **Increases** | **7,263** | **19,796** |
| B1. Purchases | 6,733 | 19,796 |
| B2. Write-backs | 517 | – |
| B3. Revaluations | – | – |
| B4. Other changes | 13 | – |
| C. **Decreases** | **469** | **1,435** |
| C1. Sales | 154 | – |
| C2. Write-downs | 315 | 665 |
| of which: – permanent write-downs | 315 | 665 |
| C3. Other changes | – | 770 |
| D. **Closing balance** | **104,407** | **97,613** |
| E. **Total revaluations** | **–** | **–** |
| F. **Total write-downs** | **5,547** | **5,749** |

Increases during the year relate to the investments in AEM SpA for € 5.769 million, Arca SGR SpA for € 0.451 million, Centrosim SpA for € 0.255 million, Etica SGR SpA for € 0.194 million, InArCheck SpA for € 0.064 million and Banca Intesa SpA for € 0.013 million and to a partial write-back of the adjustments made in 2002 to Arca Assicurazioni SpA for € 0.517 million.

The decreases relate to the sale of investments in Banca Intesa SpA for € 0.104 million and Finlombarda SpA for € 0.050 million and to the write-down of the investments in Pirovano Stelvio SpA for € 0.163 million, Centrosim SpA for € 0.088 million and InArCheck SpA for € 0.064 million.

**List of securities that meet the requirements of art. 87 of Decree 917 of 22/12/1986, for which any capital gains on disposal do not form part of the Bank's taxable income:**

| **Equity investments** (in euro) | No. of shares or quotas | Nominal value | Book value | % held by the Bank |
|---|---|---|---|---|
| SAN PAOLO - IMI SPA | 627,000 | 1,755,600.00 | 303,276.90 | 0.045 |
| CENTROBANCA SPA | 5,376,000 | 5,376,000.00 | 6,326,983.53 | 1.600 |
| BANCA POPOLARE DI SONDRIO (SUISSE) SA | 500,000 | 32,406,507.23 | 32,928,414.26 | 100.000 |
| BANCA PER IL LEASING - ITALEASE SPA | 3,039,352 | 15,683,056.32 | 13,566,506.48 | 5.807 |
| I.C.B.P,I. SPA | 125,400 | 376,200.00 | 32,880.18 | 1.135 |
| BANCA POPOLARE ETICA S.C. a R.L. | 500 | 25,820.00 | 25,822.84 | 0.149 |
| ARCA BANCA DI INVESTIMENTO MOBILIARE SPA | 2,696,553 | 2,696,553.00 | 2,546,616.82 | 12.841 |
| CENTROSIM SPA | 10,588 | 635,280.00 | 624,233.33 | 3.176 |
| RIPOVAL SPA | 2,500 | 1,291,150.00 | 1,291,142.25 | 50.000 |
| ARCA SGR SPA | 2,936,000 | 2,936,000.00 | 1,324,161.13 | 5.872 |
| POLIS FONDI IMMOBILIARI DI BANCHE POPOLARI SGR.p.A. | 36,400 | 364,000.00 | 361,519.70 | 7.000 |
| SWIFT S.C. | 32 | 4,000.00 | 13,856.33 | 0.037 |
| ARCA MERCHANT SPA | 17,398,375 | 9,047,155.00 | 11,410,487.84 | 12.841 |
| UNIONE FIDUCIARIA SPA | 47,281 | 260,045.50 | 241,319.92 | 4.378 |
| FACTORIT SPA | 905,691 | 905,691.00 | 712,964.04 | 2.415 |
| ETICA SGR SPA | 44,400 | 444,000.00 | 444,000.00 | 11.100 |
| AEM SPA | 9,450,000 | 4,914,000.00 | 10,944,114.09 | 0.525 |
| PIROVANO STELVIO SPA | 400,000 | 2,064,000.00 | 4,238,061.60 | 100.000 |
| CIM ITALIA SPA | 111,363 | 334,089.00 | 52,408.36 | 5.062 |
| ARCA ASSICURAZIONI SPA | 720,226 | 1,800,565.00 | 2,320,375.87 | 9.900 |
| ARCA VITA SPA | 2,410,309 | 12,437,194.44 | 36,853,250.23 | 32.528 |
| B. & A. BROKER SPA | 40,000 | 206,400.00 | 223,861.38 | 28.571 |
| SINERGIA SECONDA SRL | 10,200,000 | 10,200,000.00 | 10,329,137.98 | 100.000 |
| CBE-SERVICE SPRL | 233 | 5,776.07 | 5,777.95 | 23.300 |
| SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 SRL | 25,000 | 25,000.00 | 86,974.75 | 33.333 |
| CONSORZIO CASSAMERCATO | 132 | 6,816.48 | 6,979.66 | 6.286 |
| INARCHECK SPA | 1,200 | 120,000.00 | 120,000.00 | 15.385 |
| | **57,104,535** | **106,320,899.04** | **137,335,127.42** | |

| **Other securities** (in euro) | No. of shares | Nominal value | Book value |
|---|---|---|---|
| S.I.A. ORD | 5,753 | 2,991.56 | 3,520.84 |
| AVIOVALTELLINA SPA | 300 | 132,000.00 | 154,937.07 |
| INTESA LEASING SPA | 16,000 | 8,320.00 | 8,263.31 |
| LINEA S.P.A. | 42,474 | 424,740.00 | 1,391,110.63 |
| SKIAREA VALCHIAVENNA | 42,857 | 110,571.06 | 221,337.93 |
| S.S.B. SPA | 17,259 | 2,243.67 | 1,069.62 |
| SITEBA S.P.A. | 9,032 | 4,696.64 | 4,664.64 |
| MPS MERCHANT SPA | 11,913 | 3,097.38 | 4,568.16 |
| SPOLETO CRED. SERVIZI | 6,448 | 167,648.00 | 181,844.47 |
| BORSA ITALIANA S,P,A | 35,000 | 18,200.00 | 114,990.42 |
| SOCIETÀ SVILUP. LOC. | 200 | 20,000.00 | 20,658.28 |
| SIMEST SPA | 551,250 | 286,650.00 | 363,681.00 |
| M.T.S. S.P.A. | 202 | 105.04 | 13,717.09 |
| E-MID S.P.A. | 1,200 | 60,000.00 | 60,468.00 |
| TELERISCALDAMENTO | 20,000 | 100,000.00 | 106,675.69 |
| A,S,M. SONDRIO SPA | 227,500 | 227,500.00 | 843,982.25 |
| ELETTRICA MORBEGNO | 9 | 13.50 | 150.13 |
| VALTELLINA GOLF CLUB | 53 | 27,348.00 | 31,508.00 |
| BANCA NUOVA TERRA | 1,350,000 | 1,350,000.00 | 2,254,500.00 |
| **TOTAL SHARES** | **2,337,450** | **2,946,124.85** | **5,781,647.53** |

## Section 4 *Fixed and intangible assets*

### 4.1 Changes for the year in fixed assets

| | | | | | 31/12/2004 |
|---|---|---|---|---|---|
| | Buildings | Furniture and fittings | Machines and equipment | Other | Total |
| A. **Opening balance** | **53,031** | **4,603** | **3,298** | **4,071** | **65,003** |
| B. **Increases** | **12,345** | **1,351** | **1,861** | **3,057** | **18,614** |
| B1. Purchases | 3,299 | 1,351 | 1,861 | 3,057 | 9,568 |
| B2. Write-backs | – | – | – | – | – |
| B3. Revaluations | – | – | – | – | – |
| B4. Other changes | 9,046 | – | – | – | 9,046 |
| C. **Decreases** | **2,961** | **1,393** | **2,280** | **2,085** | **8,719** |
| C1. Sales | – | – | – | – | – |
| C2. Write-downs: | 2,961 | 1,393 | 2,280 | 2,066 | 8,700 |
| *a)* depreciation | 2,961 | 1,393 | 2,280 | 2,066 | 8,700 |
| *b)* permanent write-downs | – | – | – | – | – |
| C3. Other changes | – | – | – | 19 | 19 |
| D. **Closing balance** | **62,415** | **4,561** | **2,879** | **5,043** | **74,898** |
| E. **Total revaluations** | **42,374** | **–** | **–** | **–** | **42,374** |
| F. **Total write-downs:** | **48,499** | **16,899** | **26,219** | **26,772** | **118,389** |
| *a)* depreciation | 48,499 | 16,899 | 26,219 | 26,772 | 118,389 |
| *b)* permanent write-downs | – | – | – | – | – |

| | | | | | 31/12/2003 |
|---|---|---|---|---|---|
| | Buildings | Furniture and fittings | Machines and equipment | Other | Total |
| A. **Opening balance** | **54,636** | **4,387** | **3,827** | **4,684** | **67,534** |
| B. **Increases** | **1,329** | **1,889** | **2,355** | **2,379** | **7,952** |
| B1. Purchases | 1,329 | 1,889 | 2,355 | 2,379 | 7,952 |
| B2. Write-backs | – | – | – | – | – |
| B3. Revaluations | – | – | – | – | – |
| B4. Other changes | – | – | – | – | – |
| C. **Decreases** | **2,934** | **1,673** | **2,884** | **2,992** | **10,483** |
| C1. Sales | 8 | – | – | – | 8 |
| C2. Write-downs: | 2,926 | 1,673 | 2,884 | 2,992 | 10,475 |
| *a)* depreciation | 2,926 | 1,673 | 2,884 | 2,992 | 10,475 |
| *b)* permanent write-downs | – | – | – | – | – |
| C3. Other changes | – | – | – | – | – |
| D. **Closing balance** | **53,031** | **4,603** | **3,298** | **4,071** | **65,003** |
| E. **Total revaluations** | **42,374** | **–** | **–** | **–** | **42,374** |
| F. **Total write-downs:** | **54,585** | **15,506** | **24,354** | **24,938** | **119,383** |
| *a)* depreciation | 54,585 | 15,506 | 24,354 | 24,938 | 119,383 |
| *b)* permanent write-downs | – | – | – | – | – |

This item comes to € 74.898 million, an increase of € 9.895 million (+15.22%).

The main changes for the year concerned:

– for buildings:

€ 9.046 million of accelerated depreciation charged on buildings up until 2001 that have been eliminated under the new regulations involving «defiscalisation»;

the purchase of premises in Casalpalocco (Rome) and Ardenno (used as branches), the latter following expiration of the lease contract;

the purchase of property in Bergamo next to premises already owned and used as the local branch;

work in progress on the building in Milan, via Porpora and expenses relating to the buildings in Sondrio, via V. Veneto, in Livigno via Prestefan and S. Pietro Berbenno;

– for furniture, machines and installations:
  increases for head office and branch IT equipment, furniture and fittings and miscellaneous equipment for the newly opened branches.

Depreciation has been calculated on the basis of rates deemed to represent the residual useful life of the assets.

In accordance with article 10 of Law 72 of 19 March 1983, an appendix to this report provides information on the buildings still owned by the bank for which monetary revaluations were carried out in the past.

Buildings used for business purposes are worth € 50.613 million.



### 4.2 Changes for the year in intangible assets

| | | | 31/12/2004 |
|---|---|---|---|
| | Software purchases | Leasehold improvements | Total |
| A. **Opening balance** | **3,092** | **11,029** | **14,121** |
| B. **Increases** | **3,146** | **3,569** | **6,715** |
| B1. Purchases | 3,146 | 3,569 | 6,715 |
| B2. Write-backs | – | – | – |
| B3. Revaluations | – | – | – |
| B4. Other changes | – | – | – |
| C. **Decreases** | **3,050** | **4,604** | **7,654** |
| C1. Sales | – | – | – |
| C2. Write-downs: | 3,050 | 4,604 | 7,654 |
| *a)* amortisation | 3,050 | 4,604 | 7,654 |
| *b)* permanent write-downs | – | – | – |
| C3. Other changes | – | – | – |
| D. **Closing balance** | **3,188** | **9,994** | **13,182** |
| E. **Total revaluations** | **–** | **–** | **–** |
| F. **Total write-downs:** | **17,577** | **33,454** | **51,031** |
| *a)* amortisation | 17,577 | 33,454 | 51,031 |
| *b)* permanent write-downs | – | – | – |

| | | | 31/12/2003 |
|---|---|---|---|
| | Software purchases | Leasehold improvements | Total |
| A. **Opening balance** | **2,556** | **10,447** | **13,003** |
| B. **Increases** | **3,238** | **5,263** | **8,501** |
| B1. Purchases | 3,238 | 5,263 | 8,501 |
| B2. Write-backs | – | – | – |
| B3. Revaluations | – | – | – |
| B4. Other changes | – | – | – |
| C. **Decreases** | **2,702** | **4,681** | **7,383** |
| C1. Sales | – | – | – |
| C2. Write-downs: | 2,702 | 4,619 | 7,321 |
| *a)* amortisation | 2,702 | 4,619 | 7,321 |
| *b)* permanent write-downs | – | – | – |
| C3. Other changes | – | 62 | 62 |
| D. **Closing balance** | **3,092** | **11,029** | **14,121** |
| E. **Total revaluations** | **–** | **–** | **–** |
| F. **Total write-downs:** | **16,638** | **28,850** | **45,488** |
| *a)* amortisation | 16,638 | 28,850 | 45,488 |
| *b)* permanent write-downs | – | – | – |

Intangible assets affecting various years amount to € 13.182 million, a decrease of € 0.939 million (-6.65%).

Costs for the purchase of software are amortised at 84.65%.

Costs for leasehold improvements are amortised at 77.00%.

## *Section 5* ***Other asset items***

### 5.1 Breakdown of item 130 «Other assets»



| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| Deferred tax assets | 7,926 | 8,527 |
| Taxes withheld | 283 | 230 |
| Tax credits on dividends | 4 | 1,608 |
| Advances paid to tax authorities | 47,642 | 35,496 |
| Withholdings on interest due to customers | 86 | 108 |
| Tax credits and related interest | 4,547 | 3,910 |
| Outstanding cheques and bills | 1,486 | 1,754 |
| Current account cheques drawn on third parties | 37,777 | 60,210 |
| Current account cheques drawn on the bank | 20,419 | 28,212 |
| Securities transactions | 497 | 3,592 |
| Contra-item for valuation of off-balance sheet transactions | 81,359 | 75,379 |
| Costs pertaining to the subsequent year | 636 | 624 |
| Advances to suppliers | 8,758 | 6,006 |
| Advances to customers on loans | 42,584 | 71,645 |
| Value date differentials on portfolio transactions | 584 | 518 |
| Inventories | 1,432 | 1,378 |
| Miscellaneous debits in transit | 6,872 | 13,219 |
| Premiums for exchange and securities options and derivatives purchased | 15,913 | 14,250 |
| Guarantee deposits | 114 | 113 |
| Items in transit with branches | 163 | 361 |
| Liquid assets belonging to the staff pension fund | 4,053 | 746 |
| Receivables for hedging transactions | 1,183 | 3,462 |
| Advance payment as per Decree 341 of 10/12/2004 | 66,377 | 28,532 |
| Residual items | 11,162 | 10,879 |
| **Total** | **361,857** | **370,759** |

This item decreased by € 8.902 million (-2.40%).

Significant changes relate to:

- advances on customer receivables, – € 29.061 million (-40.56%);
- advance payments to tax authorities + € 12.146 million (+34.22%);
- current account cheques drawn on third parties – € 22.433 million, (-37.26%);
- current account cheques drawn on the Bank – € 7.793 million (-27.62%);
- contra-item for valuation of off-balance sheet transactions + € 5.980 million (+7.93%).

The advance of € 66.377 million (+37.845 million, +132.64%), made in accordance with the above Decree, is an advance on the amounts that taxpayers will pay through the Bank in 2005.

These receivables are all considered collectable and do not therefore need to be written down.

### 5.2 Breakdown of item 140 «Accrued income and prepayments»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* **Accrued income** | **51,309** | **45,525** |
| Interest receivable on securities | 11,111 | 11,283 |
| Interest on euro and foreign currency deposits with and loans to customers | 4,656 | 3,912 |
| Interest on euro and foreign currency deposits with and loans to other banks | 818 | 541 |
| Interest on customer mortgages and loans | 18,252 | 15,650 |
| Commission | 10,242 | 8,947 |
| Other | 6,230 | 5,192 |
| *b)* **Prepayments** | **1,488** | **1,464** |
| Invoices received not pertaining to this financial year | 1,380 | 1,464 |
| Other | 108 | – |
| **Total** | **52,797** | **46,989** |

This item has increased by € 5.808 million, +12.36% with respect to the prior year.

No adjustments have been made directly to the relevant balance sheet items for accrued income and prepayments.

### 5.4 Distribution of subordinated assets

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* due from other banks | – | – |
| *b)* customer loans | 140 | 140 |
| *c)* bonds and other fixed-yield securities | 60,573 | 2,851 |

## *Section 6* ***Payables***

### 6.1 Breakdown of the item «Due to other banks»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* repo transactions | – | – |
| *b)* securities lent | – | – |

This item amounts to € 1,175.893 million, an increase of € 219.934 million (+23.01%).

### 6.2 Breakdown of the item «Customer deposits»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* repo transactions | 1,248,980 | 1,224,913 |
| *b)* securities lent | – | – |

Item 20 totals € 8,351.527 million, with an increase of € 1,097.166 million (+15.12%).

Item 30 «securities issued» has increased by € 41.882 million (+4.51%), rising from € 929.170 million to € 971.052 million. This is due to an increase of € 32.096 million in «bonds» (+3.98%) and of € 13.317 million in «other securities» (+17.41%) and a decrease of € 3.531 million in «certificates of deposits» (-7.56%).

The sub-item «bonds» includes the securities listed below:

| | Book value |
|---|---|
| Floating-rate bond issues | 108,002 |
| Fixed-rate bond issues | 571,136 |
| Zero-coupon bond issues | 158,891 |
| **Total** | **838,029** |

Floating-rate bond issues also include structured bonds with a nominal value of € 10 million.

The sub-item «certificates of deposit» totals € 43.204 million and consists of € 40 million in short-term fixed-rate certificates, € 1.156 million in medium-term fixed-rate certificates and € 2.048 million in medium-term floating-rate certificates.

Item 40 «Third party funds under administration» consists of public funds to be used for assisted loans. This item reports a balance of € 10,000, a decrease of € 4,000 (-28.57%).

## *Section 7* ***Reserves***



### 7.1 Breakdown of item 90 «Reserves for possible loan losses»

These reserves amounted to € 7.202 million at the end of the prior year; they have been eliminated in 2004 as part of the «defiscalisation» process.

### 7.2 Changes for the year in the reserves for possible loan losses

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| A. **Opening balance** | **7,202** | **18,384** |
| B. **Increases** | **0** | **2,778** |
| B1. Provisions | – | 2,778 |
| B2. Other changes | – | – |
| C. **Decreases** | **7,202** | **13,960** |
| C1. Utilizations | 375 | 6,100 |
| C2. Other changes | 6,827 | 7,860 |
| D. **Closing balance** | **0** | **7,202** |

The decreases reported under «C1. Utilizations» include € 0.375 million in write-offs for overdue interest; «C2. Other changes» include € 1.289 million in overdue interest collected, € 5.002 million in overdue interest reclassified against customer loans and € 0.536 million in overdue interest released to extraordinary income.

### 7.3 Breakdown of sub-item 80 c) «Reserves for risks and charges: others»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| a Charity fund | 242 | 305 |
| b Reserve for guarantees granted | 5,000 | 5,000 |
| c Reserve for personnel expenses | 5,720 | 3,220 |
| d Reserve for litigation costs | 14,000 | 14,000 |
| **Total** | **24,962** | **22,525** |

This sub-item reports an increase of € 2.437 million (+10.82%).

The charity fund shows a balance of € 0.242 million, the result of an increase of € 0.250 million through the allocation of the 2003 net profit and a decrease of € 0.313 million for donations made during the year.

The reserve for guarantees granted amounts to € 5 million, the same as last year.

The reserve for personnel expenses shows a balance of € 5.720 million, an increase of € 2.500 million with respect to the prior year. This represents the Bank's liability to personnel for holidays not taken and a provision for additional costs likely to result from the new collective labour contract.

The reserve for litigation costs amounts to € 14 million, with no change from the prior year.

**Taxation reserve**

This reserve amounts to € 54.013 million, an increase of € 5.427 million (+11.17%) and includes the amounts due for corporate income tax (IRES) and the regional tax on business activities (IRAP) for the year, gross of advance payments and withholding tax. When calculating deferred taxation, a rate of

33% has been used for IRES (corporate income tax) and 5.25% for IRAP (regional tax on business activities). The recalculation using the new rates has determined a positive difference, involving a lower provision, as explained in the note to item 220 of the income statement.

The «defiscalisation» exercise carried out during the year has involved calculating deferred taxes on the items concerned. Based on the latest estimates of charges associated with outstanding tax disputes, this reserve reported a surplus in provisions booked in the past. As a result, part of this surplus was released to income to offset the impact of providing € 3.658 million in deferred tax in connection with defiscalisation.

Tables 7.4 and 7.5 provide details of the deferred tax liabilities.



### 7.4 Change in deferred tax assets

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| 1. **Opening balance** | **8,527** | **7,079** |
| 2. **Increases** | **1,621** | **4,120** |
| 2.1. Deferred tax assets arising during the year | 1,621 | 3,918 |
| 2.2. Other increases | – | 202 |
| 3. **Decreases** | **2,222** | **2,672** |
| 3.1. Deferred tax assets reversing during the year | 2,157 | 2,672 |
| 3.2. Other decreases | 65 | – |
| 4. **Closing balance** | **7,926** | **8,527** |

Timing differences involving deferred tax assets relate mainly to loan write-downs, entertainment expenses, directors' emoluments and write-downs of equity investments.

The changes shown under points 2.1 and 3.1 are set out below:

| | Arising during the year | Reversing during the year |
|---|---|---|
| Loan write-downs | – | 595 |
| Directors' emoluments | 295 | 244 |
| Other administrative expenses | 1,326 | 1,144 |
| Write-downs of equity investments | – | 174 |
| | **1,621** | **2,157** |

Other decreases of € 0.065 million relate to the use of a different rate for IRAP compared with the previous year when calculating deferred tax assets.

Deferred tax assets have not been calculated on those liabilities for which it is not possible to establish a date of reversal. Such liabilities amount to € 5 million and refer to the reserve for guarantees.

### 7.5 Change in deferred tax liabilities

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| 1. **Opening balance** | **50** | **33** |
| 2. **Increases** | **7,422** | **31** |
| 2.1. Deferred tax liabilities arising during the year | 3,757 | 30 |
| 2.2. Other increases | 3,665 | 1 |
| 3. **Decreases** | **30** | **14** |
| 3.1. Deferred tax liabilities reversing during the year | 23 | 14 |
| 3.2. Other decreases | 7 | – |
| 4. **Closing balance** | **7,442** | **50** |

The changes shown under points 2.1, 3.1, 2.2 and 3.2 are set out below:

| | Arising during the year | Reversing during the year |
|---|---|---|
| Realised gains | 5 | 17 |
| Amortisation and depreciation | 575 | 6 |
| Loan write-downs | 3,177 | – |
| | **3,757** | **23** |

| | Other increases | Other decreases |
|---|---|---|
| Realised gains | – | 7 |
| Amortisation and depreciation | 3,460 | – |
| Provision of overdue interest | 205 | – |
| | **3,665** | **7** |

No deferred taxes have been booked on the reserves in suspense for tax purposes as they are unlikely to be used.

With reference to the bank's tax situation, it should be noted that fiscal years 1979 to 1987 (as well as from 2000 onwards) have not yet been agreed with the tax authorities; the bank has received assessment notices for these earlier years and has appealed to the appropriate authorities. The dispute regards the calculation of taxable income and withholdings on foreign deposits.



The outcome of litigation has so far been favourable, as all of the bank's appeals for the years 1979-1987 have been accepted in their entirety in both first and second degree.

**Breakdown of item 70 and sub-item 80a)**

The following paragraphs describe the reserves included under items 70 and 80 for which no tables have been prepared.

**Reserve for severance indemnities**

This reserve totals € 41.081 million, having risen by € 3.487 million (+9.28%); this increase consists of € 5.956 million in provisions for the year less utilizations that included € 1.156 million of payments during the year, € 1.205 million transferred to Arca Previdenza F.P.A. and € 108 thousand for taxes on the revaluation for the year.

**Staff pension fund**

This fund is supplementary to the state pension scheme and does not have separate legal status. It was set up with an endowment fund in accordance with article 2117 of the Civil Code as envisaged by Legislative Decree 47 of 18 February 2000.

Actuarial checks of the fund's adequacy are made every three years, as required by law. The most recent one was carried out this year with an adjustment of € 3.413 million, bearing in mind that it is for a closed group of beneficiaries as of 28 April 1993, which now consists of 713 employees and 144 pensioners. Pursuant to current internal agreements, employees hired after that date have been given the choice to enrol in a supplementary pension fund, Arca Previdenza F.P.A. A total of 868 employees have opted to enrol.

## *Section 8* ***Share capital, reserves, reserve for general banking risks, and subordinated liabilities***

The following table shows the breakdown and respective amounts of items comprising the bank's shareholders' equity.

| Liability items | 31/12/2004 | 31/12/2003 |
|---|---|---|
| A. **Reserve for general banking risks** | **49,000** | **40,000** |
| B. **Share capital** | **660,317** | **412,698** |
| C. **Share premium reserve** | **108,373** | **135,886** |
| D. **Reserves:** | **213,702** | **185,373** |
| D1. Legal reserve | 54,151 | 47,996 |
| D2. Reserve for own shares | – | – |
| D3. Statutory reserves | 129,953 | 111,816 |
| D4. Others | 29,598 | 25,561 |
| E. **Net profit for the year** | **73,211** | **60,117** |
| **Total** | **1,104,603** | **834,074** |

**Shareholders' equity**

Movements in the items making up shareholders' equity are provided in an appendix.

The following is mentioned with regard to individual items:

– *Reserve for general banking risks:* amounts to € 49 million, an increase of € 9 million for provisions made during the year;

– *Share Capital:* fully subscribed and paid in, consisting of 220,105,703 ordinary shares with a par value of € 3 each, for a total value of € 660.317 million, an increase of € 247.619 million following the increase in capital resolved by the Extraordinary Shareholders' Meeting held on 6 March 2004 and carried out between 26 April and 28 May 2004;

– *Share premium reserve:* decreased by € 27.513 million (-20.25%) due to the following movements during the increase in capital:

  – € 82.539 million due to the bonus issue of shares resolved by the above mentioned shareholders' meeting;

  – € 55.026 million for payments made by shareholders;

– *Legal reserve:* up by € 6.155 million (+12.82%) as a result of the allocation of 2003 profits;

– *Statutory reserves:* increased by € 18.137 million (+16.22%) due to the allocation of 2003 profits of € 18.035 million, € 99 thousand for share rights not taken up at the time of the increase in capital and € 3 thousand in dividends that have fallen into prescription;

– *Others:* shows a balance of € 29.598 million, with an increase of € 4.037 million (+15.79%) and consists of the following: € 6.456 million for the reserve as per article 11.2 of the Valtellina Law – created in 1990 under Law 102 of 2 May 1990 and increased in 1991 – made up of profits; € 23 million for the unrestricted portion of the reserve for the purchase of own shares, which has increased by € 4 million due to allocation of the net profit for 2003; € 142 thousand for the reserve as per Legislative Decree 124/93, increased by € 37 thousand due to allocation of the net profit for 2003.

There are no reserves that on distribution would form part of the Bank's taxable income, as per art. 109 of Decree 917 dated 22/12/1986.

**8.1 Capital ratios: solvency ratio as of 31 December 2004**

| Categories | 31/12/2004 | 31/12/2003 |
|---|---|---|
| A. **Capital for supervisory purposes** | | |
| A.1 Basic capital (tier 1) | 1,053,753 | 788,064 |
| A.2 Supplementary capital (tier 2) | 794 | 7,475 |
| A.3 Amounts to be subtracted | 15,692 | 15,498 |
| A.4 Capital for supervisory purposes | 1,038,855 | 780,041 |
| B. **Precautionary requirements for supervisory purposes** | | |
| B.1 Credit risks | 645,824 | 586,006 |
| B.2 Market risks | 31,335 | 28,355 |
| of which: | | |
| – risks to the trading securities portfolio | 30,980 | 28,355 |
| – exchange risks | – | – |
| B.3 Third level subordinated loans | – | – |
| B.4 Other precautionary requirements | – | 4,482 |
| B.5 Total precautionary requirements | 677,179 | 618,843 |
| C. **Risk assets and capital ratios** | | |
| C.1 Risk-weighted assets | 9,683,660 | 8,849,455 |
| C.2 Tier 1 capital / Risk-weighted assets | 10.88% | 8.91% |
| C.3 Capital for supervisory purposes / Risk-weighted assets | 10.73% | 8.81% |

This is the minimum capital ratio requirement which banks and banking groups must constantly meet to cover counterparty solvency risk. The minimum prescribed level for the solvency ratio (total capital for supervisory purposes to risk-weighted assets) for banks belonging to banking groups is 7%.

Compared with the above minimum prescribed level, our bank's ratio was 10.73% as of 31 December 2004, compared with 8.81% at the beginning of the year.

## Section 9 *Other liability items*

### 9.1 Breakdown of item 50 «Other liabilities»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| Amounts at the disposal of third parties | 25,154 | 36,636 |
| Taxes to be paid on behalf of third parties | 15,554 | 16,125 |
| Taxes to be paid | 1,082 | 1,263 |
| Employee salaries and contributions | 12,668 | 11,240 |
| Trade payables | 4,012 | 6,687 |
| Transit accounts for sundry entities | 5,324 | 2,931 |
| Invoices receivable | 3,489 | 3,043 |
| Securities transactions | 1,186 | 1,360 |
| Value date differentials on portfolio transactions | 84,967 | 80,039 |
| Directors' and statutory auditors' emoluments | 1,011 | 948 |
| Loans disbursed to customers to be finalised | 15,487 | 8,864 |
| Miscellaneous credit items being settled | 52,825 | 70,988 |
| Premiums for exchange and securities options and derivatives sold | 16,444 | 14,771 |
| Contra-item for valuation of off-balance sheet transactions | 78,757 | 73,028 |
| Items in transit with branches | 106 | 220 |
| Residual items | 10,305 | 9,725 |
| **Total** | **328,371** | **337,868** |

This item has decreased by € 9.497 million (-2.81%).

Significant changes relate to:

- credit items being settled – € 18.163 million (-25.59%);
- amounts at the disposal of third parties – € 11.482 million (-31.34%);
- loans to be granted + € 6.623 million (+74.72%);
- contra-item for valuation of off-balance sheet transactions +5.729 million (+7.84%):
- differentials on portfolio transactions + € 4.928 million (+6.16%).

The sub-item «Miscellaneous credit items being settled» refers to transactions which were settled at the beginning of the year.

### 9.2 Breakdown of item 60 «Accrued liabilities and deferred income»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* **Accrued liabilities** | **16,075** | **19,012** |
| Interest on bonds | 3,910 | 8,096 |
| Interest on certificates of deposit | 269 | 352 |
| Interest on customer deposits in euro and foreign currency | 79 | 62 |
| Interest on deposits from other banks in euro and foreign currency | 2,793 | 3,069 |
| Repo transactions | 2,841 | 2,228 |
| Other | 6,183 | 5,205 |
| *b)* **Deferred income** | **5,978** | **4,241** |
| Interest on portfolio, mortgages and loans | 476 | 365 |
| Commission on sureties | 3,897 | 2,788 |
| Altri | 1,605 | 1,088 |
| **Total** | **22,053** | **23,253** |

This item has decreased by € 1.200 million (-5.16%), mainly due to a decrease of € 2.937 million in accrued liabilities and a rise of € 1.737 million in deferred income.

No adjustments have been made directly to the relevant balance sheet items for accrued liabilities and deferred income.

## *Section 10* ***Guarantees and commitments***



### 10.1 Breakdown of item 10 «Guarantees granted»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* commercial endorsement credits | 1,005,689 | 884,052 |
| *b)* financial endorsement credits | 768,888 | 797,461 |
| *c)* assets given in guarantee | 8,000 | 8,005 |
| **Total** | **1,782,577** | **1,689,518** |

### 10.2 Breakdown of item 20 «Commitments»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* commitments to disburse funds (certain to be called on) | 58,420 | 123,503 |
| *b)* commitments to disburse funds (not certain to be called on) | 153,256 | 134,548 |
| **Total** | **211,676** | **258,051** |

The risk related to guarantees granted and to commitments to disburse funds is valued in the same way as for loans and is adjusted indirectly, for the part deemed to be of doubtful collection, by booking an appropriate reserve for risks and charges under liabilities.

Estimated losses are covered by an amount of € 5 million booked to the reserve for guarantees granted under sub-item 80c) «Other reserves».

### 10.3 Collateral given for own payables

The collateral provided by the bank against its own liabilities consists of government securities: € 1,228.315 million relates to securities given to customers for repo transactions, € 16.428 million is for the deposit paid against the issuing of banker's cheques.

### 10.4 Margins usable on credit lines

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* central banks | 158,049 | 83,322 |
| *b)* other banks | 2,458 | 2,439 |

## 10.5 Forward transactions

| | | | 31/12/2004 | | | 31/12/2003 |
|---|---|---|---|---|---|---|
| Type of transaction | For hedging | For trading | Other transactions | For hedging | For trading | Other transactions |
| 1. **Buying and selling:** | | | | | | |
| 1.1 Securities | | | | | | |
| – purchases | – | 29,439 | – | – | 39,438 | – |
| – sales | – | 21,895 | – | – | 28,618 | – |
| 1.2 Valute | | | | | | |
| – currency against currency | – | 40,517 | – | – | 9,226 | – |
| – purchases against euro | – | 1,418,019 | – | – | 1,358,880 | – |
| – sales against euro | – | 1,447,587 | – | – | 1,379,579 | – |
| 2. **Deposits and loans** | | | | | | |
| – to be disbursed | – | – | 28,429 | – | – | 63,978 |
| – to be received | – | – | 5,185 | – | – | 38,420 |
| 3. **Derivative contracts** | | | | | | |
| 3.1 With exchange of capital | | | | | | |
| a) securities | | | | | | |
| – purchases | – | – | – | – | – | – |
| – sales | – | – | – | – | – | – |
| b) foreign currency | | | | | | |
| – currency against currency | – | 48,762 | – | – | 39,936 | – |
| – purchases against euro | – | 167,252 | – | – | 269,254 | – |
| – sales against euro | – | 167,252 | – | – | 269,226 | – |
| c) other instruments | | | | | | |
| – purchases | – | – | – | – | 95,985 | – |
| – sales | – | – | – | – | 95,985 | – |
| 3.2 Without exchange of capital | | | | | | |
| a) foreign currency | | | | | | |
| – currency against currency | – | – | – | – | – | – |
| – purchases against euro | – | – | – | – | – | – |
| – sales against euro | – | – | – | – | – | – |
| b) other instruments | | | | | | |
| – purchases | 107,000 | 673,999 | – | 229,841 | 654,731 | – |
| – sales | – | 674,131 | 10,000 | – | 654,731 | 73,494 |

The transactions for buying and selling securities, foreign currency and derivative contracts with exchange of capital (or other assets) are recorded at the amount to be disbursed or to be received.

Off-balance sheet transactions without exchange of capital are recorded at their nominal value.

The derivative contracts shown in point 3.2 refer to swaps designed to hedge the interest rate risk on bond issues.

### Quantitative information on derivative contracts

The following table gives information on derivative contracts in compliance with the regulations formulated by the Basel Committee on Banking Supervision and the International Organization of Securities Commissions (IOSCO).

**Breakdown of reference capital by type of contract**

| | Interest rates | Exchange rates | Share prices and indices | Other | Total |
|---|---|---|---|---|---|
| **Trading contracts** (unquoted) | | | | | |
| Futures purchased | – | – | – | 26,348 | **26,348** |
| Futures sold | – | – | – | 26,348 | **26,348** |
| Swaps purchased | 548,009 | – | – | – | **548,009** |
| Swaps sold | 548,009 | – | – | – | **548,009** |
| Options purchased | 16,187 | 191,633 | 22,000 | 61,455 | **291,275** |
| Options sold | 16,187 | 191,633 | 22,000 | 61,587 | **291,407** |
| **Total** | **1,128,392** | **383,266** | **44,000** | **175,738** | **1,731,396** |
| **Non-trading contracts** (unquoted) | | | | | |
| Options purchased | – | – | 10,000 | – | **10,000** |
| Options sold | – | – | 10,000 | – | **10,000** |
| Swaps purchased | 97,000 | – | – | – | **97,000** |
| **Total** | **97,000** | – | **20,000** | – | **117,000** |
| **Grand total** | **1,225,392** | **383,266** | **64,000** | **175,738** | **1,848,396** |



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

### 11.1 Significant risk accounts

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* amount | 491,613 | 820,373 |
| *b)* number | 4 | 8 |

### 11.2 Breakdown of customer loans by main borrower categories

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* governments | – | – |
| *b)* other public entities | 97,822 | 21,248 |
| *c)* non-financial businesses | 4,950,413 | 4,409,663 |
| *d)* financial businesses | 413,060 | 470,929 |
| *e)* family businesses | 901,056 | 694,717 |
| *f)* other businesses | 1,716,073 | 1,520,654 |
| **Total** | **8,078,424** | **7,117,211** |

### 11.3 Breakdown of loans to resident non-financial companies and family businesses

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* other services for sale | 1,864,043 | 1,458,964 |
| *b)* wholesale and retail services, recoveries and repairs | 882,704 | 781,066 |
| *c)* construction and public works | 729,068 | 603,375 |
| *d)* metal products excluding cars and transportation | 273,611 | 247,448 |
| *e)* services by hotels, restaurants, bars, etc. | 218,812 | 197,972 |
| *f)* other sectors | 1,825,222 | 1,740,822 |
| **Total** | **5,793,460** | **5,029,647** |

### 11.4 Distribution of guarantees granted by main categories of counterparty

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* governments | – | – |
| *b)* other public entities | 53,658 | 36,676 |
| *c)* banks | 135,674 | 122,538 |
| *d)* non-financial businesses | 1,290,738 | 1,245,350 |
| *e)* financial businesses | 49,766 | 46,709 |
| *f)* family businesses | 30,774 | 33,012 |
| *g)* other businesses | 221,967 | 205,233 |
| **Total** | **1,782,577** | **1,689,518** |

### 11.5 Geographical breakdown of assets and liabilities

| | 31/12/2004 | | | 31/12/2003 | | |
|---|---|---|---|---|---|---|
| Item | Italy | Other EU countries | Other countries | Italy | Other EU countries | Other countries |
| 1. **Assets** | **10,781,855** | **399,904** | **252,060** | **9,414,364** | **201,508** | **198,382** |
| 1.1 Due from other banks | 835,655 | 243,474 | 172,709 | 565,096 | 89,941 | 154,120 |
| 1.2 Customer loans | 7,928,859 | 109,141 | 40,424 | 6,999,566 | 75,252 | 42,393 |
| 1.3 Securities | 2,017,341 | 47,289 | 38,927 | 1,849,702 | 36,315 | 1,869 |
| 2. **Liabilities** | **9,445,566** | **567,274** | **485,642** | **8,286,148** | **446,544** | **406,812** |
| 2.1 Due to other banks | 246,219 | 516,223 | 413,451 | 204,041 | 429,024 | 322,894 |
| 2.2 Customer deposits | 8,228,285 | 51,051 | 72,191 | 7,152,923 | 17,520 | 83,918 |
| 2.3 Securities issued | 971,052 | – | – | 929,170 | – | – |
| 2.4 Others | 10 | – | – | 14 | – | – |
| 3. **Guarantees and commitments** | **1,920,172** | **68,538** | **5,543** | **1,879,351** | **42,939** | **25,279** |

The sub-item «Others» under liabilities consists of item 40 «Third party funds under administration».

### 11.6 Breakdown of assets and liabilities by maturity

| | | | | | | | | 31/12/2004 |
|---|---|---|---|---|---|---|---|---|
| | | | Fixed duration | | | | | Unspecified duration |
| | Sight | Up to 3 months | 3 to 12 months | 1 to 5 years | | Over 5 years | | |
| | | | | Fixed rate | Floating rate | Fixed rate | Floating rate | |
| 1. **Assets** | **3,509,669** | **2,271,985** | **1,035,483** | **1,045,026** | **2,148,496** | **231,485** | **2,099,678** | **271,239** |
| 1.1 Re-financeable treasury bills | – | 361 | 1,982 | 45,867 | 102,863 | 162 | 207,627 | – |
| 1.2 Due from other banks | 526,213 | 525,442 | 40,131 | 2,003 | – | – | – | 158,049 |
| 1.3 Customer loans | 2,978,271 | 1,358,793 | 675,928 | 411,015 | 1,159,124 | 185,081 | 1,197,022 | 113,190 |
| 1.4 Bonds and other fixed-yield securities | – | 367 | 15,744 | 12,167 | 880,658 | 1 | 694,829 | – |
| 1.5 Off-balance sheet items | 5,185 | 387,022 | 301,698 | 573,974 | 5,851 | 46,241 | 200 | – |
| 2. **Liabilities** | **7,247,323** | **2,675,611** | **558,084** | **901,645** | **241,274** | **112,436** | **82,270** | **–** |
| 2.1 Due to other banks | 222,692 | 830,117 | 34,995 | 1,217 | 40,089 | – | 46,783 | – |
| 2.2 Customer deposits | 6,910,793 | 1,369,458 | 71,210 | 66 | – | – | – | – |
| 2.3 Securities issued | 90,409 | 85,825 | 82,285 | 409,575 | 195,323 | 72,396 | 35,239 | – |
| – bonds | – | 63,196 | 65,295 | 408,170 | 193,732 | 72,396 | 35,239 | – |
| – certificates of deposit | 590 | 22,629 | 16,990 | 1,405 | 1,591 | – | – | – |
| – other securities | 89,819 | – | – | – | – | – | – | – |
| 2.4 Subordinated liabilities | – | – | – | – | – | – | – | – |
| 2.5 Off-balance sheet items | 23,429 | 390,211 | 369,594 | 490,787 | 5,862 | 40,040 | 248 | – |

The breakdown by maturity is based on the residual life of assets and liabilities as the difference between the balance sheet date and the maturity dates of each transaction. In the event of repayment plans, the maturity of each payment has been considered.

The compulsory reserve deposited with the Bank of Italy is shown under amounts due from banks with unspecified duration.

Non-performing and other past due loans to customers are shown with unspecified duration.

Moreover, the Bank has mortgage loans with interest rate options in favour of customers, shown under assets, totalling € 9.831 million.

| | | | | | | | | 31/12/2003 |
|---|---|---|---|---|---|---|---|---|
| | Fixed duration | | | | | | | Unspecified duration |
| | Sight | Up to 3 months | 3 to 12 months | 1 to 5 years | | Over 5 years | | |
| | | | | Fixed rate | Floating rate | Fixed rate | Floating rate | |
| 1. **Assets** | **3,281,672** | **1,666,508** | **1,355,007** | **966,251** | **1,722,295** | **273,892** | **1,801,967** | **174,895** |
| 1.1 Re-financeable treasury bills | – | 893 | 2,730 | 59,927 | 123,524 | 640 | 160,512 | – |
| 1.2 Due from other banks | 435,311 | 247,335 | 41,187 | 2,002 | – | – | – | 83,322 |
| 1.3 Customer loans | 2,777,941 | 1,070,355 | 739,585 | 327,301 | 923,862 | 230,813 | 955,781 | 91,573 |
| 1.4 Bonds and other fixed-yield securities | – | 211 | 758 | 67,979 | 672,985 | 1,103 | 675,466 | – |
| 1.5 Off-balance sheet items | 68,420 | 347,714 | 570,747 | 509,042 | 1,924 | 41,336 | 10,208 | – |
| 2. **Liabilities** | **6,055,219** | **2,408,521** | **1,136,369** | **673,360** | **230,976** | **95,387** | **89,049** | **–** |
| 2.1 Due to other banks | 143,837 | 503,422 | 232,776 | 4,476 | 27,501 | – | 43,947 | – |
| 2.2 Customer deposits | 5,800,452 | 1,392,310 | 61,599 | – | – | – | – | – |
| 2.3 Securities issued | 76,952 | 88,242 | 215,664 | 259,081 | 200,571 | 54,041 | 34,619 | – |
| – bonds | 260 | 62,921 | 196,357 | 257,632 | 200,103 | 54,041 | 34,619 | – |
| – certificates of deposit | 190 | 25,321 | 19,307 | 1,449 | 468 | – | – | – |
| – other securities | 76,502 | – | – | – | – | – | – | – |
| 2.4 Subordinated liabilities | – | – | – | – | – | – | – | – |
| 2.5 Off-balance sheet items | 33,978 | 424,547 | 626,330 | 409,803 | 2,904 | 41,346 | 10,483 | – |

## 11.7 Foreign currency assets and liabilities

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* **assets** | **1,285,060** | **1,160,690** |
| 1. due from other banks | 277,767 | 238,106 |
| 2. customer loans | 960,216 | 873,207 |
| 3. securities | 8,863 | 8,679 |
| 4. equity investments | 32,928 | 32,928 |
| 5. others | 5,286 | 7,770 |
| *b)* **liabilities** | **1,222,294** | **1,105,936** |
| 1. due to other banks | 869,753 | 735,885 |
| 2. customer deposits | 352,541 | 370,051 |
| 3. securities issued | – | – |
| 4. others | – | – |

The above amounts are shown at face value.

The major foreign currencies involved in these balances are, for assets, U.S. dollars (45.24%), Swiss francs (44.25%), Japanese yen (7.65%), Pounds sterling (1.29%), Polish zloty (0.58%) and others (0.99%); for liabilities they are U.S. dollars (46.89%), Swiss francs (40.26%), Japanese yen (10.67%), Pounds sterling (1%), Polish zloty (0.65%) and others (0.53%).

### 11.8 Securitization transactions

The bank holds the following securities deriving from third-party securitization transactions:

| Description | Nominal value | Book value | Type | Rating |
|---|---|---|---|---|
| Credifarma | 10,000 | 10,023 | Senior | AAA |
| Scip | 54,893 | 54,915 | Senior | AA |
| Scip | 45,767 | 45,804 | Senior | AAA |
| Scip | 29,570 | 29,603 | Mezzanine | AA |
| CPG-AEM | 23,945 | 23,946 | Senior | – |
| Scic | 29,381 | 29,404 | Senior | AAA |
| Italease | 10,000 | 10,000 | Senior | AAA |
| Sintonia | 5,000 | 3,417 | Senior | AAA |
| **Total** | **208,556** | **207,112** | | |

S.C.I.P. Società Cartolarizzazione Immobili Pubblici Srl is a vehicle company set up for the privatization of public sector properties.

## *Section 12* ***Management and intermediation for third parties***

### 12.2 Portfolio management

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| 1. securities issued by the reporting bank | 4,775 | 5,592 |
| 2. other securities | 1,435,114 | 1,295,722 |

The total amount of cash held in relation to portfolio management contracts is € 36.481 million.

### 12.3 Securities custody and administration

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* third-party securities on deposit | 10,684,758 | 10,420,788 |
| 1. securities issued by the reporting bank | 1,451,380 | 1,218,694 |
| 2. other securities | 9,233,378 | 9,202,094 |
| *b)* third-party securities on deposit with third parties | 9,171,362 | 9,102,637 |
| *c)* own securities on deposit with third parties | 2,065,326 | 1,842,784 |

«Third-party securities on deposit» include € 1,701.019 million in funds, for which the bank provides custody services.

### 12.4 Collection orders for third parties: debit and credit adjustments

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* **debit adjustments** | **1,868,812** | **1,651,362** |
| 1. current accounts | 2,939 | 825 |
| 2. central portfolio | 1,483,503 | 1,266,248 |
| 3. cash | 2 | 35 |
| 4. others | 382,368 | 384,254 |
| *b)* **credit adjustments** | **1,868,812** | **1,651,362** |
| 1. current accounts | 666 | 1,930 |
| 2. transferors of bills and documents | 1,868,146 | 1,649,432 |
| 3. others | – | – |

Following these adjustments, the accounts involved in the collection of loans on behalf of third parties show a residual balance of € 84.967 million. This amount is shown under item 50 «Other liabilities» in «Value date differentials on portfolio transactions».

# Part C *Information on the income statement*

## Section 1 *Interest*

### 1.1 Breakdown of item 10 «Interest income and similar revenues»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* on amounts due from other banks | 20,223 | 25,167 |
| of which: | | |
| – on amounts due from central banks | 2,853 | 2,941 |
| *b)* on customer loans | 321,884 | 307,650 |
| of which: | | |
| – on third-party funds under administration | – | – |
| *c)* on fixed-yield securities | 45,185 | 47,581 |
| *d)* other interest income | – | 2 |
| *e)* positive balance of spreads on hedging transactions | 1,781 | 850 |
| **Total** | **389,073** | **381,250** |

This item has gone up by € 7.823 million (+2.05%), compared with a decrease in the prior year, mainly because of the increase in funds under management, even if spreads have been constantly eroded.

Interest on customer loans includes overdue interest of € 0.268 million.

### 1.2 Breakdown of item 20 «Interest expense and similar charges»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* on amounts due to other banks | 14,394 | 14,190 |
| *b)* on customer deposits | 118,830 | 124,786 |
| *c)* on securities issued | 24,611 | 23,930 |
| of which: | | |
| – certificates of deposit | 781 | 1,168 |
| *d)* on third-party funds under administration | – | – |
| *e)* on subordinated liabilities | – | – |
| *f)* negative balance of spreads on hedging transactions | – | – |
| **Total** | **157,835** | **162,906** |

This item has decreased by € 5.071 million (-3.11%), due to the declining trend in interest rates, versus an increase in funds under management.

Interest income and expense relating to balances with subsidiary and associated companies amount to € 2.434 million and € 2.337 million, respectively.

### 1.3 Detail of item 10 «Interest income and similar revenues»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* on assets in foreign currency | 20,452 | 18,022 |

This item has increased by € 2.430 million (+13.48%) due to the increase in interest rates on foreign currency loans and higher contract volumes.

### 1.4 Detail of item 20 «Interest expense and similar charges»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* on liabilities in foreign currency | 11,208 | 9,869 |

This item has increased by € 1.339 million (+13.56%) due to the increase in loans and higher recourse to the interbank market.

## Section 2 *Commissions*

### 2.1 Breakdown of item 40 «Commission income»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* guarantees granted | 7,792 | 6,651 |
| *b)* credit derivatives | – | – |
| *c)* management, intermediation and consultancy services: | 43,158 | 39,278 |
| 1. securities trading | – | – |
| 2. foreign currency trading | 4,146 | 4,023 |
| 3. portfolio management | 5,900 | 5,123 |
| 3.1 individual | 5,900 | 5,123 |
| 3.2 collective | – | – |
| 4. securities custody and administration | 1,732 | 1,525 |
| 5. custodian bank | 2,079 | 2,180 |
| 6. securities placement | 16,113 | 14,217 |
| 7. acceptance of orders | 6,848 | 6,031 |
| 8. consultancy | 42 | 39 |
| 9. distribution of third party services | 6,298 | 6,140 |
| 9.1 portfolio management | – | – |
| 9.1.1 individual | – | – |
| 9.1.2 collective | – | – |
| 9.2 insurance products | 3,809 | 3,483 |
| 9.3 other products | 2,489 | 2,657 |
| *d)* collection and payment services | 35,990 | 32,046 |
| *e)* servicing for securitization transactions | – | – |
| *f)* tax collection services | – | – |
| *g)* other services | 32,067 | 25,051 |
| **Total** | **119,007** | **103,026** |

The 2003 figures have been adjusted for comparison purposes.

This item has increased by € 15.981 million (+15.51%) thanks to a higher level of commissions earned on securities brokerage, the positive trend in fees earned by collection and payment systems, and the change in «other services», above all loan commissions and international transaction fees.

### 2.2 Breakdown of item 40 «Commission income» – distribution channels for products and services

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* bank branches | 28,311 | 25,480 |
| 1. portfolio management | 5,900 | 5,123 |
| 2. securities placement | 16,113 | 14,217 |
| 3. third-party products and services | 6,298 | 6,140 |
| *b)* door-to-door sales | – | – |
| 1. portfolio management | – | – |
| 2. securities placement | – | – |
| 3. third-party products and services | – | – |
| **Total** | **28,311** | **25,480** |

### 2.3 Breakdown of item 50 «Commission expense»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* guarantees received | 100 | 67 |
| *b)* credit derivatives | – | – |
| *c)* management and intermediation services: | 1,456 | 1,204 |
| 1. securities trading | – | – |
| 2. foreign currency trading | – | – |
| 3. portfolio management | – | – |
| 3.1 own portfolio | – | – |
| 3.2 third-party portfolio | – | – |
| 4. securities custody and administration | 1,456 | 1,204 |
| 5. securities placement | – | – |
| 6. door-to-door sales of securities, products and services | – | – |
| *d)* collection and payment services | 6,787 | 5,561 |
| *e)* other services | 930 | 822 |
| **Total** | **9,273** | **7,654** |

This item has increased by € 1.619 million (+21.15%) on the adjusted figure for the previous year.



## *Section 3* ***Profits and losses from financial transactions***

### 3.1 Breakdown of item 60 «Profits/losses from financial transactions»

| | 31/12/2004 | | | 31/12/2003 | | |
|---|---|---|---|---|---|---|
| Item | Securities transactions | Foreign currency transactions | Other transactions | Securities transactions | Foreign currency transactions | Other transactions |
| A.1 Revaluations | 4,306 | 10 | 877 | 4,311 | – | – |
| A.2 Write-downs | 1,765 | – | – | 1,636 | – | – |
| B. Other profits | 13,295 | 10,152 | 1,923 | 10,814 | 8,511 | 704 |
| **Total** | **15,836** | **10,162** | **2,800** | **13,489** | **8,511** | **704** |
| 1. Government securities | 3,191 | | | 4,435 | | |
| 2. Other fixed-yield securities | 4,211 | | | 4,596 | | |
| 3. Variable-yield securities | 8,259 | | | 4,332 | | |
| 4. Derivative contracts on securities | 175 | | | 126 | | |

This item comes to € 28.798 million, an increase of € 6.094 million (+26.84%).

## *Section 4* ***Administrative expenses***

This item shows a balance of € 222.498 million, an increase of € 15.080 million (+7.27%) over the 2003 figure of € 207.418 million.

The sub-item «personnel expenses» amounts to € 121.034 million, an increase of € 13.575 million (+12.63%), reflecting the higher number of employees and higher provisions to the staff pension fund following the actuarial valuation and to the reserve for personnel expenses. The breakdown of this cost is as follows:

| | |
|---|---|
| Wages and salaries | € 76.577 |
| Social security contributions | € 22.404 |
| Severance indemnities | € 5.956 |
| Pensions | € 8.540 |
| Other expenses | € 7.557 |

The sub-item «other administrative expenses» has increased by € 1.505 million (+1.51%). It consists of the following:

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| telephone, post and data transmission | 11,759 | 9,426 |
| maintenance of fixed assets | 5,181 | 5,084 |
| rent paid on buildings | 12,186 | 11,405 |
| surveillance | 4,148 | 3,775 |
| transportation | 1,817 | 1,721 |
| professional fees | 5,489 | 6,214 |
| office materials | 2,372 | 2,373 |
| electricity, heating and water | 2,660 | 2,697 |
| advertising and entertainment | 2,908 | 2,764 |
| legal expenses | 3,429 | 2,612 |
| insurance | 2,264 | 2,284 |
| corporate survey and information | 2,467 | 2,331 |
| indirect taxes and dues | 16,996 | 18,386 |
| hardware rental and maintenance | 1,214 | 1,083 |
| software rental and maintenance | 2,041 | 2,122 |
| data registration with third parties | 714 | 736 |
| cleaning | 3,215 | 2,895 |
| membership fees | 1,235 | 1,162 |
| services received from third parties | 2,159 | 2,111 |
| outsourced activities | 7,962 | 9,080 |
| directors' and statutory auditors' emoluments | 1,592 | 1,546 |
| temporary and freelance staff | 2,909 | 3,630 |
| others | 4,747 | 4,522 |
| **Total** | **101,464** | **99,959** |

The 2003 figures have been adjusted for comparison purposes.

### 4.1 Average number of employees by category

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* managers | 18 | 17 |
| *b)* executives | 162 | 150 |
| *c)* other personnel | 1,854 | 1,769 |
| **Total** | **2,034** | **1,936** |

The number of employees by category is a simple average of the figures at the end of 2003 and 2004.

There were 2,074 employees at the end of the year.

During the year the Bank used temporary and freelance staff in accordance with current regulations. On average, there were 84 of such workers and their costs are shown in the table above.

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

### 5.1 Breakdown of item 120 «Adjustments to loans and provisions for guarantees and commitments»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* adjustments to loans | 70,608 | 54,917 |
| of which: | | |
| – general write-downs for country risk | 367 | 378 |
| – other general write-downs | 5,127 | 4,984 |
| *b)* provisions for guarantees and commitments | – | 1,500 |
| of which: | | |
| – general provisions for country risk | – | – |
| – other general provisions | – | – |
| **Total** | **70,608** | **56,417** |

This item has increased by € 14.191 million (+25.15%), due to uncertainties and a general slowdown in the economic cycle.

### 5.2 Adjustments to intangible and fixed assets (item 90)

This item shows a balance of € 16.354 million (-8.10%) on the 2003 figure of € 17.796 million. The decrease is due to the change in regulations regarding accelerated depreciation and the related changes in rates. The detail of this item is shown in Part B Section 4.

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

This amounts to € 24.871 million and increases by € 1.450 million (+6.19%). Write-backs are thanks to the recovery of € 6.728 million in loans written off in previous years, the collection of € 2.172 million in overdue interest, write-backs to loans of € 8.024 million on valuation, and € 7.947 million in extraordinary income on loans outstanding at the end of the prior year.

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

These amount to € 0.315 million and decrease by € 0.350 million (-52.63%) following the writedown of equity investments explained in Part B, Section 3 «Equity investments».

### 5.6 Write-backs to financial assets (item 160)

This item, which did not exist in 2003, amounts to € 0.517 million and relates to the investment in Arca Assicurazioni spa, which was written down in previous years.

## Section 6 *Other items in the income statement*

### 6.1 Breakdown of item 70 «Other operating income»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| Recovery of charges on deposits and overdrafts | 8,641 | 6,876 |
| Rent received for buildings | 726 | 784 |
| Recovery of customer insurance | 694 | 622 |
| Recovery of taxes | 15,308 | 13,742 |
| Financial income on the staff pension fund | 1,870 | 1,176 |
| Repayment of pension contributions | 1,200 | – |
| Other | 4,383 | 4,086 |
| **Total** | **32,822** | **27,286** |

This item has increased by € 5.536 million (+20.29%).

The sub-item «Other» includes financial recoveries from other banks in connection with the monetary settlement of bank transfers and trade collections and the tax credit for higher employment in accordance with current regulations (art. 7 of Law 388/2000).

The repayment of pension contributions concerns charges already paid on the basis of Ministerial Decree no. 158 of 28/4/2000 which provided for the creation of a Solidarity Fund for Banking Personnel. These contributions have been reimbursed in accordance with art. 5 c. 1a) of the said Decree for the training courses held by the Bank.

### 6.2 Breakdown of item 110 «Other operating expenses»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| Leasing and ancillary costs | 2,449 | 2,416 |
| Other | 1,721 | 1,688 |
| **Total** | **4,170** | **4,104** |

This item has increased by € 0.066 million (+1.61%) compared with the adjusted figure for 2003.

The information required by article 2427.22 of the Italian Civil Code in respect of leased assets is set out below.

| Building | Carrying value | Outstanding debt |
|---|---|---|
| PESCATE | 345 | 220 |
| DARFO BOARIO TERME | 794 | 407 |
| SONDRIO - PIAZZALE BERTACCHI 57 | 2,066 | 1,148 |
| VARESE | 4,020 | 3,889 |
| VERDELLINO | 271 | 142 |
| VILLASANTA | 780 | 661 |
| MORBEGNO | 604 | 495 |
| ALBIATE | 541 | 481 |
| GRUMELLO MONTE | 1,593 | 1,384 |
| COMO - VIALE INNOCENZO XI. 71 - ANG. VIA BENZI | 4,019 | 3,759 |
| MILAN - VIA CANOVA | 1,479 | 1,351 |
| ABBADIA LARIANA | 728 | 592 |
| LECCO | 936 | 903 |
| GRAVELLONA TOCE | 1,442 | 1,437 |
| BONATE SOTTO | 732 | 724 |
| COMO - VIA GIULINI | 1,330 | 1,318 |
| PONTE DI LEGNO | 3,675 | 3,642 |
| LANZADA | 618 | 612 |
| COLICO | 5,468 | 5,458 |
| | **31,441** | **28,623** |

At the end of the year there were 19 lease contracts on buildings used for business purposes. The total contract value amounts to € 34.424 million.

The total charges for the year amount to € 1.919 million in principal, € 0.471 in interest expense and € 0.059 million in ancillary charges.

«Other» mostly refers to financial charges due to banks in relation to bank transfers and collections.

### 6.3 Breakdown of item 180 «Extraordinary income»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* Miscellaneous gains | 13,333 | 536 |
| *b)* Overprovisions | 29 | 28 |
| *c)* Gains on disposals: | 312 | 99 |
| of fixed assets | 16 | 99 |
| of long-term investments | 296 | – |
| **Total** | **13,674** | **663** |

This item has increased by € 13.011 million. For € 12.918 this increase refers to «defiscalisation»: accelerated depreciation for € 9.046 million, overdue interest for € 0.536 million and the change in the method of valuing securities for € 3.336 million.

### 6.4 Breakdown of item 190 «Extraordinary charges»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* Miscellaneous losses | 417 | 301 |
| *b)* Underprovisions | 446 | 485 |
| *c)* Losses on disposals: | 4 | – |
| of fixed assets | 4 | – |
| of long-term investments | – | – |
| **Total** | **867** | **786** |

This item has increased by € 0.081 million (+10.31%).

### 6.5 Breakdown of item 220 «Income taxes for the year»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| 1. Current taxes | 44,666 | 42,731 |
| 2. Change in deferred tax assets | 600 | –1,448 |
| 3. Change in deferred tax liabilities | 3,734 | 17 |
| 4. Income taxes for the year | 49,000 | 41,300 |

Changes in deferred tax assets and liabilities are detailed in Part B, Section 7 of these notes and relate mainly to timing differences with a certain reversal date. € 0.065 million of the charge refers to the change in the rate of IRAP, as required by Bank of Italy instructions. The effective tax rate for IRES is not significantly different from the standard rate.

## *Section 7* ***Other information on the income statement***

### 7.1 Geographical breakdown of income

The total income of € 574.069 million relates to business activities mainly in Lombardy, with a significant presence in Milan, as well as in Rome. These are areas without major differences from a banking point of view.

# Part D *Other information*

## Section 1 *Directors and statutory auditors*

### 1.1 Emoluments

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* directors | 1,364 | 1,328 |
| *b)* statutory auditors | 228 | 218 |

The 2003 figures have been adjusted for comparison purposes.



**Emoluments paid to Directors, Statutory Auditors and the General Manager**
(pursuant to article 78 of Consob Resolution 11971 of 14 May 1999)

| Name and surname | Company | Office | Term of office | Emoluments for the office | Other emoluments |
|---|---|---|---|---|---|
| PIERO MELAZZINI | Banca Popolare Sondrio | Chairman - Chief Executive Officer | 1/1/2004-31/12/2004 | 677 | |
| | Banca Popolare Sondrio (SUISSE) SA | Chairman | | 65 | |
| CARLO GRASSI | Banca Popolare Sondrio | Deputy Chairman | 1/1/2004-31/12/2004 | 174 | |
| ALDO BALGERA | Banca Popolare Sondrio | Director | 1/1/2004-31/12/2004 | 32 | |
| CLAUDIO BENEDETTI | Banca Popolare Sondrio | Director | 2/2/2004-31/12/2004 | 32 | |
| GIANLUIGI BONISOLO | Banca Popolare Sondrio | Director | 1/1/2004-31/12/2004 | 54 | |
| FEDERICO FALCK | Banca Popolare Sondrio | Director | 1/1/2004-31/12/2004 | 32 | |
| GIUSEPPE FONTANA | Banca Popolare Sondrio | Director | 1/1/2004-31/12/2004 | 32 | |
| MARIO GALBUSERA | Banca Popolare Sondrio | Director | 1/1/2004-31/12/2004 | 32 | |
| NICOLÒ MELZI DI CUSANO | Banca Popolare Sondrio | Director | 1/1/2004-31/12/2004 | 32 | |
| MILES EMILIO NEGRI | Banca Popolare Sondrio | Director | 1/1/2004-31/12/2004 | 47 | |
| ALDO ROSSI | Banca Popolare Sondrio | Director | 1/1/2004-31/12/2004 | 33 | |
| RENATO SOZZANI | Banca Popolare Sondrio | Director | 1/1/2004-31/12/2004 | 60 | |
| | Pirovano Stelvio spa | Chairman | | 3 | |
| LINO ENRICO STOPPANI | Banca Popolare Sondrio | Director | 1/1/2004-31/12/2004 | 33 | |
| BRUNO VANOSSI | Banca Popolare Sondrio | Director | 1/1/2004-31/12/2004 | 33 | |
| FRANCESCO VENOSTA | Banca Popolare Sondrio | Director | 1/1/2004-31/12/2004 | 43 | 52 |
| EGIDIO ALESSANDRI | Banca Popolare Sondrio | Chairman of the Board of Statutory Auditors | 1/1/2004-31/12/2004 | 112 | |
| | Sinergia Seconda srl | Auditor | | 2 | |
| | Pirovano Stelvio spa | Auditor | | 3 | |
| | InArCheck spa | Auditor | | 7 | |
| PIO BERSANI | Banca Popolare Sondrio | Auditor | 1/1/2004-31/12/2004 | 57 | |
| PIERGIUSEPPE FORNI | Banca Popolare Sondrio | Auditor | 1/1/2004-31/12/2004 | 56 | |
| | Sinergia Seconda srl | Auditor | | 2 | |
| | Pirovano Stelvio spa | Auditor | | 2 | |
| MARIO VITALI | Sinergia Seconda srl | Auditor | 1/1/2004-31/12/2004 | 2 | |
| MARIO ALBERTO PEDRANZINI | Banca Popolare Sondrio | General Manager | 1/1/2004-31/12/2004 | 439 | |

### 1.2 Loans and guarantees granted

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* directors | 3,336 | 2,513 |
| *b)* statutory auditors | 371 | 272 |

Loans have been granted in accordance with article 136, Legislative Decree 385 of 1 September 1993.

## *Section 2* ***Parent company or EEC controlling bank***



### 2.1 Name

Banca Popolare di Sondrio società cooperativa a r.l.

Banca Popolare di Sondrio, listed in the Bank Register at no. 842 and in the Banking Group Register at no. 5696.0, is the parent company of the «Banca Popolare di Sondrio Banking Group».

### 2.2 Head office

Piazza Garibaldi 16, Sondrio, Italy.

# APPENDICES

The appendices listed below contain additional information to the notes of which they form an integral part:

- statement of changes in financial position;
- statement of changes in shareholders' equity for the years ended 31 December 2002, 31 December 2003 and 31 December 2004;
- statement of changes in the staff pension fund;
- list of significant equity investments;
- list of revalued assets still owned by the bank (article 10, Law 72/1983);
- financial statements of the subsidiaries Banca Popolare di Sondrio (SUISSE) SA, Pirovano Stelvio SpA and Sinergia Seconda Srl, and of the associated companies (subject to significant influence) Ripoval SpA and Arca Vita SpA.

## STATEMENT OF CHANGES IN FINANCIAL POSITION
(in thousands of euro)

| | | 31-12-2004 | | 31-12-2003 |
|---|---|---|---|---|
| **SOURCES OF FUNDS** | | | | |
| Funds generated by operations: | | | | |
| – Net profit for the year | 73,211 | | 60,117 | |
| – Adjustments: | | | | |
| - loan write-downs and write-backs and provisions for guarantees and commitments | 45,737 | | 32,997 | |
| - losses on securities and equity investments | 1,765 | | 2,301 | |
| - write-downs and write-backs to equity investments | (202) | | | |
| - amortisation and depreciation | 16,354 | | 17,796 | |
| – Provisions: | | | | |
| - staff pension fund | 8,266 | | 4,052 | |
| - reserve for severance indemnities | 5,956 | | 5,607 | |
| - risks and charges | – | | – | |
| - possible loan losses | – | | 2,778 | |
| - general banking risks | 9,000 | | 1,266 | |
| - personnel charges | 2,500 | 162,587 | 34 | 126,948 |
| Increase in shareholders' equity: | | | | |
| – subscription of own shares | 220,105 | | | |
| – dividends in prescription and on own shares and unexercised rights | 102 | 220,207 | 6 | 6 |
| Increase in funding: | | | | |
| – customer deposits | 1,097,166 | | 745,228 | |
| – deposits from other banks | 219,934 | | (321,151) | |
| – securities issued | 41,882 | 1,358,982 | 89,004 | 513,081 |
| Change in other liability items: | | | | |
| – third-party funds under administration | (4) | | (51) | |
| – other liabilities | (9,497) | | 45,619 | |
| – accrued liabilities and deferred income | (1,200) | | 347 | |
| – taxation reserve | 5,427 | (5,274) | 4,928 | 50,843 |
| | **1,736,502** | | **690,878** | |
| **APPLICATION OF FUNDS** | | | | |
| Use of funds generated by operations: | | | | |
| – staff pension fund | 2,471 | | 2,347 | |
| – reserve for severance indemnities | 2,469 | | 3,250 | |
| – reserves for possible loan losses | 7,202 | | 13,960 | |
| – reserve for risks and charges | – | | – | |
| – personnel charges | | 12,142 | 124 | 19,681 |
| Decrease in shareholders' equity: | | | | |
| – dividends | 31,640 | | 26,139 | |
| – charity fund | 313 | 31,953 | 307 | 26,446 |
| Increase in application of funds: | | | | |
| – customer loans | 1,006,950 | | 901,973 | |
| – cash on hand | (3,467) | | (1,477) | |
| – due from other banks | 442,681 | | (494,025) | |
| – trading securities | 217,436 | 1,663,600 | 86,700 | 493,171 |
| Change in other asset items: | | | | |
| – other assets | (8,902) | | 117,952 | |
| – accrued income and prepayments | 5,808 | | (1,176) | |
| – equity investments and own shares | 6,591 | | 18,421 | |
| – intangible assets | 6,715 | | 8,439 | |
| – fixed assets | 18,595 | 28,807 | 7,944 | 151,580 |
| | **1,736,502** | | **690,878** | |

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDING 31 DECEMBER 2002, 2003 AND 2004

(in thousands of euro)



| | Share capital | Reserve for general banking risks | Share premium reserve |
|---|---|---|---|
| BALANCE AS OF 31 DECEMBER 2001 | 412,698 | 38,734 | 135,886 |
| ALLOCATION OF PROFITS, as resolved by the AGM of 2 March 2002: | | | |
| Legal reserve | | | |
| Statutory reserves | | | |
| Dividend of € 0.18 per share | | | |
| Charity fund | | | |
| DIVIDEND ON OWN SHARES | | | |
| RESERVE FOR GENERAL BANKING RISKS | | | |
| RESERVE FOR OWN SHARES | | | |
| RESERVE AS PER ART. 13 OF LEGISLATIVE DECREE 124/93 | | | |
| NET PROFIT FOR 2002 | | | |
| BALANCE AS OF 31 DECEMBER 2002 | 412,698 | 38,734 | 135,886 |
| ALLOCATION OF PROFITS, as resolved by the AGM of 1° March 2003: | | | |
| Legal reserve | | | |
| Statutory reserves | | | |
| Dividend of € 0.19 per share | | | |
| Charity fund | | | |
| DIVIDEND ON OWN SHARES | | | |
| RESERVE FOR GENERAL BANKING RISKS | | 1,266 | |
| RESERVE FOR OWN SHARES | | | |
| RESERVE AS PER ART. 13 OF LEGISLATIVE DECREE 124/93 | | | |
| NET PROFIT FOR 2003 | | | |
| BALANCE AS OF 31 DECEMBER 2003 | 412,698 | 40,000 | 135,886 |
| ALLOCATION OF PROFITS, as resolved by the AGM of 6 March 2004: | | | |
| Legal reserve | | | |
| Statutory reserves | | | |
| Dividend of € 0.23 per share | | | |
| Charity fund | | | |
| SHARE CAPITAL INCREASE, as resolved by the ordinary and extraordinary AGM of 6 March 2004 and unexercised rights | 247,619 | | (27,513) |
| DIVIDEND ON OWN SHARES | | | |
| RESERVE FOR GENERAL BANKING RISKS | | 9,000 | |
| RESERVE FOR OWN SHARES | | | |
| RESERVE AS PER ART. 13 OF LEGISLATIVE DECREE 124/93 | | | |
| NET PROFIT FOR 2004 | | | |
| BALANCE AS OF 31 DECEMBER 2004 | 660,317 | 49,000 | 108,373 |

| Legal reserve | Restricted reserve for own shares | Statutory reserves | Other reserves | Net profit for the year | Total shareholders' equity |
|---|---|---|---|---|---|
| 38,542 | 874 | 83,967 | 20,603 | 46,065 | 777,369 |
| | | | | | |
| 4,681 | | | | (4,681) | 0 |
| | | 13,819 | | (13,819) | 0 |
| | | | | (24,762) | (24,762) |
| | | | | (250) | (250) |
| | | 13 | | | 13 |
| | | | | | 0 |
| | (268) | | 2,791 | (2,523) | 0 |
| | | | 30 | (30) | 0 |
| | | | | 46,704 | 46,704 |
| 43,223 | 606 | 97,799 | 23,424 | 46,704 | 799,074 |
| | | | | | |
| 4,773 | | | | (4,773) | 0 |
| | | 14,011 | | (14,011) | 0 |
| | | | | (26,139) | (26,139) |
| | | | | (250) | (250) |
| | | 6 | | | 6 |
| | | | | | 1,266 |
| | (606) | | 2,106 | (1,500) | 0 |
| | | | 31 | (31) | 0 |
| | | | | 60,117 | 60,117 |
| 47,996 | 0 | 111,816 | 25,561 | 60,117 | 834,074 |
| | | | | | |
| 6,155 | | | | (6,155) | 0 |
| | | 18,035 | | (18,035) | 0 |
| | | | | (31,640) | (31,640) |
| | | | | (250) | (250) |
| | | | | | |
| | | 99 | | | 220,205 |
| | | 3 | | | 3 |
| | | | | | 9,000 |
| | | | 4,000 | (4,000) | 0 |
| | | | 37 | (37) | 0 |
| | | | | 73,211 | 73,211 |
| 54,151 | 0 | 129,953 | 29,598 | 73,211 | 1,104,603 |

## STATEMENT OF CHANGES IN THE STAFF PENSION FUND

(in thousands of euro)

The pension fund was created pursuant to art. 2117 of the Civil Code and following the introduction of Legislative Decree 47 of 18 February 2000 on the «Reform of the tax regulations governing supplementary pensions», which among other things changed the tax regime of pension funds existing at the time that Law 421 of 23 October 1992 came into force. Movements in the fund are provided below.

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| Liquid assets | 3,920 | 746 |
| Units of Italian mutual funds | 26,610 | 20,930 |
| Units of foreign mutual funds | 26,506 | 29,565 |
| **Total** | **57,036** | **51,241** |



| | | | | |
|---|---|---|---|---|
| **Opening balance** | | **51,241** | | **49,536** |
| a) Balance of pension management | | 4,059 | | 612 |
| Contributions paid by the bank | 6,066 | | 2,550 | |
| Contributions paid by employees | 330 | | 326 | |
| Pensions paid during the year | -2,334 | | -2,238 | |
| Reimbursements to outgoing staff | -3 | | -26 | |
| b) Balance of financial management | | 1,870 | | 1,176 |
| c) Substitute tax to be paid | | -134 | | -83 |
| **Closing balance** | | **57,036** | | **51,241** |

## LIST OF SIGNIFICANT EQUITY INVESTMENTS AS OF 31/12/2004

List of significant equity investments directly or indirectly held in unlisted companies
by Banca Popolare di Sondrio s.c.a.r.l., in accordance with article 120 of Legislative Decree 58 dated 24 February 1998
and Consob regulation 11971 dated 14 May 1999 and subsequent amendments.

| Company name | country | % held | Notes |
|---|---|---|---|
| – Acquedotto dello Stelvio srl | (I) | 27% | held indirectly through Pirovano Stelvio spa |
| – AMC Automotive Casting spa | (I) | 30% | pledge |
| – Arca BIM spa | (I) | 12.841% | |
| – Arca Merchant spa | (I) | 12.841% | |
| – Arca Vita spa | (I) | 32.528% | |
| – B&A Broker spa | (I) | 28.571% | |
| – Banca Popolare di Sondrio (Suisse) SA | (CH) | 100% | |
| – Cagi srl | (I) | 100% | pledge |
| – C.B.E. Service sprl | (B) | 23.300% | |
| – Etica Sgr spa | (I) | 11.100% | |
| – Immobiliare Borgo Palazzo srl | (I) | 100% | held indirectly through Sinergia Seconda srl |
| – Immobiliare S. Paolo srl | (I) | 100% | held indirectly through Sinergia Seconda srl |
| – Inarcheck spa | (I) | 15.385% | |
| – Pirovano Stelvio spa | (I) | 100% | |
| – Razza Lomellina srl | (I) | 100% | pledge |
| – Ripoval spa | (I) | 50% | |
| – Sifas spa | (I) | 21.614% | held indirectly through Pirovano Stelvio spa |
| – Sinergia Seconda srl | (I) | 100% | |
| – Servizi Internazionali e Strutture Integrate 2000 srl | (I) | 33.333% | |
| – Sofipo Fiduciaire SA | (CH) | 30% | held indirectly through Banca Popolare di Sondrio (SUISSE) SA |

## LIST OF REVALUED ASSETS STILL OWNED BY THE BANK

(art. 10 of Law 72 dated 19/3/1983)
(in euro)



| PROPERTY | Investment | Amount of revaluation Law 576 of 2/12/75 | Amount of revaluation Law 72 of 19/3/83 | Amount of revaluation Law 413 of 30/12/91 | Gross book value | Accumulated depreciation as of 31/12/2004 | Net book value as of 31/12/2004 |
|---|---|---|---|---|---|---|---|
| APRICA - Corso Roma, 140 | 77,468 | 0 | 356,355 | 146,929 | 580,752 | 335,265 | 245,487 |
| ARDENNO - Via Libertà | 169,310 | 0 | 0 | 0 | 169,310 | 2,540 | 166,770 |
| BERBENNO DI VALTELLINA - Via Raneé, 542 | 12,288,013 | 0 | 0 | 99,417 | 12,387,430 | 3,720,965 | 8,666,465 |
| BERGAMO - Via Broseta, 64/B | 584,144 | 0 | 0 | 0 | 584,144 | 31,876 | 552,268 |
| BORMIO - Via Roma, 64 | 439,238 | 46,481 | 573,267 | 136,524 | 1,195,510 | 378,376 | 817,134 |
| BORMIO - Via Roma, angolo Via Don Peccedi | 2,966,334 | 0 | 361,520 | 301,774 | 3,629,628 | 1,308,749 | 2,320,879 |
| BRENO - Piazza Ronchi, 4 | 666,687 | 0 | 0 | 87,467 | 754,154 | 362,758 | 391,396 |
| CHIAVENNA - Via Dolzino, 67 | 1,061,378 | 46,481 | 1,149,057 | 1,066,173 | 3,323,089 | 2,039,751 | 1,283,338 |
| CHIESA IN VALMALENCO - Via Roma, 138 | 35,519 | 17,560 | 664,795 | 133,250 | 851,124 | 334,108 | 517,016 |
| COLICO - Piazza Cavour, 11 | 177,749 | 0 | 0 | 96,488 | 274,237 | 160,277 | 113,960 |
| DELEBIO - Piazza S. Carpoforo, 7/9 | 844,205 | 23,241 | 645,773 | 688,773 | 2,201,992 | 1,445,672 | 756,320 |
| DERVIO - Via Don Invernizzi, 2 | 1,270,219 | 0 | 0 | 329,276 | 1,599,495 | 585,027 | 1,014,468 |
| DOMASO - Via Statale Regina, 71 | 111,037 | 0 | 0 | 53,817 | 164,854 | 84,730 | 80,124 |
| DONGO - Piazza V. Matteri, 14 | 1,567,930 | 0 | 0 | 415,551 | 1,983,481 | 876,634 | 1,106,847 |
| EDOLO - Piazza Martiri della Libertà, 16 | 1,058,736 | 0 | 0 | 509,161 | 1,567,897 | 767,308 | 800,589 |
| GERA LARIO - Via Statale Regina, 14 | 292,667 | 0 | 131,677 | 227,733 | 652,077 | 368,883 | 283,194 |
| GRAVEDONA - Piazza Garibaldi, 10/12 | 903,799 | 0 | 0 | 223,957 | 1,127,756 | 445,314 | 682,442 |
| GROSIO - Via Roma, 67 | 26,372 | 7,230 | 229,791 | 51,484 | 314,877 | 132,822 | 182,055 |
| GROSIO - Via Vanoni, 5 | 106,041 | 0 | 0 | 11,595 | 117,636 | 57,012 | 60,624 |
| GROSOTTO - Via Statale, 73 | 15,538 | 12,911 | 147,146 | 42,099 | 217,694 | 102,748 | 114,946 |
| ISOLACCIA DI VALDIDENTRO - Via Nazionale, 31 | 403,788 | 0 | 290,229 | 272,602 | 966,619 | 623,613 | 343,006 |
| LECCO - Corso Martiri della Liberazione, 63/65 | 9,574,331 | 0 | 351,191 | 2,124,557 | 12,050,079 | 4,624,067 | 7,426,012 |
| LECCO - Via Galandra, 28 | 168,623 | 0 | 0 | 41,959 | 210,582 | 0 | 210,582 |
| LIVIGNO - Via Prestefan | 2,348,627 | 0 | 0 | 0 | 2,348,627 | 300,865 | 2,047,762 |
| LIVIGNO - Via S. Antoni, 33 | 470,515 | 0 | 345,487 | 358,828 | 1,174,830 | 917,220 | 257,610 |
| MADESIMO - Via Carducci, 3 | 493,541 | 0 | 0 | 203,733 | 697,274 | 332,429 | 364,845 |
| MARCHIROLO - Via Cav. Emilio Busetti, 7/A | 1,089,019 | 0 | 0 | 0 | 1,089,019 | 353,509 | 735,510 |
| MAZZO DI VALTELLINA - Via S. Stefano, 18 | 11,529 | 16,010 | 163,550 | 48,833 | 239,922 | 123,940 | 115,982 |
| MILAN - Piazza Borromeo, 1 | 38,217 | 0 | 0 | 213,722 | 251,939 | 99,403 | 152,536 |
| MILAN - Via Compagnoni, 9 | 51,141 | 0 | 0 | 6,842 | 57,983 | 0 | 57,983 |
| MILAN - Via Lippi, 25 | 53,970 | 0 | 0 | 1,635 | 55,605 | 0 | 55,605 |
| MILAN - Via Morigi, 2/A | 73,590 | 0 | 0 | 123,930 | 197,520 | 0 | 197,520 |
| MILAN - Via Porpora, 104 | 4,162,633 | 0 | 0 | 165,381 | 4,328,014 | 1,171,259 | 3,156,755 |
| MILAN - Via S. Maria Fulcorina, 1 | 10,881,110 | 159,818 | 3,047,096 | 2,461,826 | 16,549,850 | 8,103,273 | 8,446,577 |
| MILAN - Via S. Maria Fulcorina, 11 | 493,165 | 0 | 0 | 0 | 493,165 | 0 | 493,165 |
| MILAN - Via Sangallo, 16 | 4,752 | 0 | 0 | 11,915 | 16,667 | 0 | 16,667 |
| MILAN - Via Solari, 15 | 422,156 | 0 | 0 | 0 | 422,156 | 25,329 | 396,827 |

| PROPERTY | Investment | Amount of revaluation Law 576 of 2/12/75 | Amount of revaluation Law 72 of 19/3/83 | Amount of revaluation Law 413 of 30/12/91 | Gross book value | Accumulated depreciation as of 31/12/2004 | Net book value as of 31/12/2004 |
|---|---|---|---|---|---|---|---|
| MONTAGNA IN VALTELLINA - Via Stelvio, 30 | 472,050 | 0 | 328,458 | 398,008 | 1,198,516 | 869,124 | 329,392 |
| MORBEGNO - Piazza Caduti della Libertà, 6 | 1,892,539 | 0 | 1,088,606 | 704,283 | 3,685,428 | 1,930,794 | 1,754,634 |
| MORBEGNO - Via Garibaldi, 81 | 589,318 | 25,823 | 0 | 56,050 | 671,191 | 297,219 | 373,972 |
| MORBEGNO - Via Nani, 13 | 54,709 | 0 | 0 | 17,739 | 72,448 | 0 | 72,448 |
| MOZZO - Via Gabriele D'Annunzio, 4 | 26,424 | 0 | 0 | 14,259 | 40,683 | 0 | 40,683 |
| NOVATE MEZZOLA - Via Roma, 13 | 45,681 | 0 | 251,282 | 89,219 | 386,182 | 219,324 | 166,858 |
| PASSO DELLO STELVIO | 630,416 | 0 | 0 | 296,176 | 926,592 | 517,277 | 409,315 |
| PONTE IN VALTELLINA - Piazza della Vittoria, 1 | 18,207 | 12,911 | 258,098 | 86,540 | 375,756 | 208,420 | 167,336 |
| REGOLEDO DI COSIO VALTELLINO - Via Roma, 7 | 134,617 | 0 | 0 | 78,405 | 213,022 | 79,155 | 133,867 |
| ROME - Piazzale Filippo il Macedone, 75 | 2,400,000 | 0 | 0 | 0 | 2,400,000 | 36,000 | 2,364,000 |
| ROME - Via Di Propaganda, 27 | 155,626 | 0 | 350,503 | 88,926 | 595,055 | 457,432 | 137,623 |
| S. CASSIANO DI PRATA CAMPORTACCIO - Via Spluga, 108 | 397,671 | 0 | 0 | 103,093 | 500,764 | 178,316 | 322,448 |
| S. SIRO - Via Statale Regina | 467,692 | 0 | 0 | 0 | 467,692 | 136,834 | 330,858 |
| S. PIETRO DI BERBENNO - Via Nazionale Ovest, 110 | 67,941 | 22,208 | 328,181 | 122,795 | 541,125 | 296,586 | 244,539 |
| SEREGNO - Via Wagner, 137/A | 123,950 | 0 | 0 | 13,282 | 137,232 | 0 | 137,232 |
| SONDALO - Via Zubiani, 2/4/6/8/10 | 21,756 | 25,823 | 312,456 | 158,005 | 518,040 | 189,445 | 328,595 |
| SONDRIO - Corso Vittorio Veneto, 7 | 323,957 | 0 | 0 | 1,190,813 | 1,514,770 | 451,831 | 1,062,939 |
| SONDRIO - Largo Pedrini, 8 | 200,617 | 0 | 0 | 22,527 | 223,144 | 117,119 | 106,025 |
| SONDRIO - Piazza Garibaldi, 16 - Via Ragazzi del '99, 6 | 1,077,432 | 351,191 | 7,810,125 | 3,142,651 | 12,381,399 | 7,490,177 | 4,891,222 |
| SONDRIO - Via Bernina, 1 | 224,721 | 0 | 82,385 | 45,795 | 352,901 | 144,145 | 208,756 |
| SONDRIO - Via Caimi, 29 | 357,915 | 0 | 0 | 46,342 | 404,257 | 265,035 | 139,222 |
| SONDRIO - Via Cesura, 4 | 156,991 | 0 | 0 | 64,149 | 221,140 | 0 | 221,140 |
| SONDRIO - Via delle Prese - Piazzale Toccalli | 348,609 | 0 | 0 | 0 | 348,609 | 151,645 | 196,964 |
| SONDRIO - Via Lungomallero Cadorna, 24 | 1,002,455 | 0 | 196,254 | 451,249 | 1,649,958 | 852,365 | 797,593 |
| SONDRIO - Via Lusardi, 53 | 247,506 | 0 | 0 | 0 | 247,506 | 0 | 247,506 |
| SONDRIO - Via Pio Rajna, 1 | 16,195 | 0 | 0 | 40,221 | 56,416 | 0 | 56,416 |
| SONDRIO - Via Tonale, 6 | 56,297 | 0 | 243,248 | 54,643 | 354,188 | 257,855 | 96,333 |
| TALAMONA - Via Cusini, 29 | 223,476 | 0 | 313,640 | 203,691 | 740,807 | 514,243 | 226,564 |
| TEGLIO - Piazza S, Eufemia, 2 | 40,150 | 13,944 | 546,700 | 148,165 | 748,959 | 366,116 | 382,843 |
| TIRANO - Località Valchiosa | 139,352 | 0 | 0 | 0 | 139,352 | 0 | 139,352 |
| TIRANO - Piazza Cavour, 20 | 392,572 | 0 | 1,736,322 | 718,576 | 2,847,470 | 1,757,752 | 1,089,718 |
| TRESENDA DI TEGLIO - Via Nazionale, 57 | 192,524 | 0 | 193,671 | 67,596 | 453,791 | 224,600 | 229,191 |
| VILLA DI CHIAVENNA - Via Roma, 39 | 197,713 | 0 | 0 | 7,639 | 205,352 | 159,255 | 46,097 |
| VILLA DI TIRANO - Traversa Foppa, 25 | 440,816 | 0 | 0 | 7,651 | 448,467 | 115,799 | 332,668 |
| | **68,540,986** | **781,632** | **22,496,863** | **19,095,719** | **110,915,200** | **48,499,585** | **62,415,615** |

Revaluations have been depreciated as follows: entirely for the 1975 revaluation, by € 14.068 million for that of 1983 and by € 7.071 million for the one made in accordance with Law 413 of 30/12/1991.

# FINANCIAL STATEMENTS OF SUBSIDIARY AND ASSOCIATED COMPANIES:

BANCA POPOLARE DI SONDRIO (SUISSE) SA
PIROVANO STELVIO SPA
SINERGIA SECONDA SRL
RIPOVAL SPA
ARCA VITA SPA

# BANCA POPOLARE DI SONDRIO (SUISSE) SA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004

(in Swiss francs)



| ASSETS | 2004 | 2003 |
|---|---|---|
| Liquid assets | **20 318 699** | 16 537 397 |
| Due from other banks | **243 125 046** | 151 341 723 |
| Customer loans | **291 521 772** | 341 384 780 |
| Mortgage loans | **457 860 887** | 326 022 899 |
| Trading securities and precious metals | **–** | 129 259 |
| Investment securities | **44 217 621** | 41 972 993 |
| Equity investments | **350 000** | 350 000 |
| Fixed assets | **24 762 250** | 18 982 491 |
| Accrued income and prepayments | **8 833 358** | 9 033 965 |
| Other assets | **16 635 140** | 48 598 949 |
| **Total assets** | **1 107 624 773** | 954 354 456 |
| Total amounts due from Group companies and holders of qualifying equity investments | **84 587 504** | 49 230 289 |

| LIABILITIES | 2004 | 2003 |
|---|---|---|
| Money market securities | **201 000** | 12 607 |
| Deposits with other banks | **232 394 047** | 164 721 019 |
| Customer deposits - savings and investments | **253 192 435** | 209 864 546 |
| Other customer deposits | **389 263 900** | 347 368 825 |
| Treasury liabilities | **63 111 000** | 46 863 000 |
| Accrued liabilities and deferred income | **12 742 479** | 6 918 982 |
| Other liabilities | **22 037 610** | 53 916 508 |
| Adjustments and provisions | **31 957 614** | 29 633 814 |
| Share capital | **50 000 000** | 50 000 000 |
| General legal reserve | **45 055 155** | 38 121 105 |
| Net profit for the year | **7 669 533** | 6 934 050 |
| **Total liabilities** | **1 107 624 773** | 954 354 456 |
| Total amounts due to Group companies and holders of qualifying equity investments | **195 373 534** | 157 753 583 |

| OFF-BALANCE SHEET TRANSACTIONS | 2004 | 2003 |
|---|---|---|
| Contingent liabilities | **76 301 821** | 31 193 791 |
| Additional payment commitments | **300 000** | 300 000 |
| Derivative products | **1 198 616 245** | 1 275 021 079 |
| Gross positive replacement value | **9 820 223** | 41 894 970 |
| Gross negative replacement value | **14 207 766** | 45 212 627 |
| Fiduciary transactions | **504 900 899** | 476 837 090 |

# INCOME STATEMENT
# AS OF 31 DECEMBER 2004
(in Swiss francs)



| INCOME STATEMENT | 2004 | 2003 |
|---|---|---|
| Interest income and discounts | **28 370 666** | 24 848 832 |
| Interest income and dividends from trading securities | **684** | 12 691 |
| Interest income and dividends from investment securities | **499 219** | 760 036 |
| Interest expense | **(13 257 699)** | (11 799 220) |
| **Net interest income** | **15 612 870** | 13 822 339 |
| Commissions on lending transactions | **595 826** | 513 087 |
| Commissions on securities trading and investments | **39 566 049** | 35 892 167 |
| Commissions on services | **3 571 133** | 3 154 055 |
| Commission expense | **(4 386 110)** | (2 992 485) |
| **Net commission income and income from services** | **39 346 898** | 36 566 824 |
| **Profits from financial transactions** | **4 716 337** | 4 537 258 |
| Profit (loss) on disposal of financial investments | **102 695** | 166 185 |
| Income from equity investments | **4 000** | – |
| Net proceeds from properties | **49 257** | – |
| Other ordinary income | **563 509** | 629 704 |
| Other ordinary charges | **(191 429)** | (515 625) |
| **Total other ordinary income** | **528 032** | 280 264 |
| **Net income from ordinary banking operations** | **60 204 137** | 55 206 685 |
| Personnel costs | **(24 193 532)** | (21 694 216) |
| Other operating expenses | **(14 636 072)** | (13 765 419) |
| **Operating expenses** | **(38 829 604)** | (35 459 635) |
| **Gross profit** | **21 374 533** | 19 747 050 |

| INCOME STATEMENT | 2004 | 2003 |
|---|---|---|
| Depreciation and amortisation | **(8 500 000)** | (6 600 000) |
| Adjustments, provisions and losses | **(2 500 000)** | (3 800 000) |
| Extraordinary income | **–** | – |
| Extraordinary charges | **–** | – |
| Income taxes | **(2 705 000)** | (2 413 000) |
| **Net profit for the year** | **7 669 533** | 6 934 050 |
| ALLOCATION OF NET PROFIT | | |
| Net profit for the year | **7 669 533** | 6 934 050 |
| Retained earnings | **–** | – |
| **Earnings available for allocation** | **7 669 533** | 6 934 050 |
| Proposal of the Board of Directors for the allocation of 2004 net profit of CHF 7,669,533 to general legal reserve | **7 669 533** | 6 934 050 |
| **Balance carried forward** | **–** | – |

# PIROVANO STELVIO SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004 (in euro)

## BALANCE SHEET



| ASSETS | | | 31-12-2004 | 31-12-2003 |
|---|---|---|---|---|
| B | **NON-CURRENT ASSETS** | | | |
| | I | INTANGIBLE ASSETS | | |
| | 02 | Costs for research, development and advertising | | |
| | 03 | Industrial patent rights and use of original works | 2,837 | 4,885 |
| | 07 | OTHER INTANGIBLE ASSETS | 11,805 | 12,803 |
| | | TOTAL I | 14,642 | 17,688 |
| | II | FIXED ASSETS | | |
| | 01 | Land and buildings | 2,776,062 | 2,838,860 |
| | 02 | Equipment and machinery | 112,002 | 148,713 |
| | 03 | Industrial and commercial equipment | 52,583 | 66,146 |
| | 04 | Other fixed assets | 22,127 | 30,721 |
| | 05 | Assets under construction and advances | 234,140 | 0 |
| | | TOTAL II | 3,196,914 | 3,084,440 |
| | III | FINANCIAL ASSETS | | |
| | 01 | Equity investments | | |
| | b | in associated companies | 925,890 | 925,890 |
| | d | in other companies | 300 | 300 |
| | | TOTAL 01 | 926,190 | 926,190 |
| | 02 | Loans | | |
| | d | to others due beyond 12 months | 12,015 | 12,010 |
| | | TOTAL 02 | 12,015 | 12,010 |
| | | TOTAL III | 938,205 | 938,200 |
| | TOTAL NON-CURRENT ASSETS | | **4,149,761** | **4,040,328** |
| C | **CURRENT ASSETS** | | | |
| | I | INVENTORIES | | |
| | 04 | Finished products and merchandise | 26,790 | 26,936 |
| | | TOTAL I | 26,790 | 26,936 |
| | II | RECEIVABLES | | |
| | 01 | Due from customers | | |
| | a | due within 12 months | 40,403 | 70,401 |
| | | TOTAL 01 | 40,403 | 70,401 |
| | 04 | Due from parent company | | |
| | a | due within 12 months | 57,560 | 0 |
| | | TOTAL 04 | 57,560 | 0 |
| | 04 bis | Due from tax authorities | | |
| | a | due within 12 months | 55,092 | 50,655 |
| | | TOTAL 04 | 55,092 | 50,655 |
| | 05 | Due from others | | |
| | a | due within 12 months | 5,585 | 1,492 |
| | | TOTAL 05 | 5,585 | 1,492 |
| | | TOTAL II | 158,640 | 122,548 |
| | IV | CASH AND BANKS | | |
| | 03 | Cash and cash equivalents on hand | 334 | 256 |
| | | TOTAL IV | 334 | 256 |
| | TOTAL CURRENT ASSETS | | **185,764** | **149,740** |
| D | **ACCRUED INCOME AND PREPAYMENTS** | | | |
| | 02 | Other accrued income and prepayments | 6,280 | 17,798 |
| | TOTAL ACCRUED INCOME AND PREPAYMENTS | | **6,280** | **17,798** |
| | **TOTAL ASSETS** | | **4,341,805** | **4,207,866** |

| LIABILITIES | | | 31-12-2004 | 31-12-2003 |
|---|---|---|---|---|
| A | **SHAREHOLDERS' EQUITY** | | | |
| | I | SHARE CAPITAL | 2,064,000 | 2,064,000 |
| | III | REVALUATION RESERVES | 192,104 | 192,104 |
| | IV | LEGAL RESERVE | 5,959 | 5,959 |
| | VII | OTHER RESERVES | | |
| | 12 | Translation reserve | 7 | |
| | | TOTAL VII | 7 | |
| | IX | PROFIT (LOSS) FOR THE YEAR | (162,970) | (110,202) |
| | TOTAL SHAREHOLDERS' EQUITY | | **2,099,100** | **2,151,861** |
| C | **RESERVE FOR SEVERANCE INDEMNITIES** | | 51,934 | 44,427 |
| | TOTAL RESERVE FOR SEVERANCE INDEMNITIES | | **51,934** | **44,427** |
| D | **PAYABLES** | | | |
| | 03 | DUE TO BANKS | | |
| | a | due within 12 months | 33,850 | 31,248 |
| | b | due beyond 12 months | 36,668 | 70,518 |
| | | TOTAL 03 | 70,518 | 101,766 |
| | 05 | ADVANCE PAYMENTS | | |
| | a | due within 12 months | | |
| | | TOTAL 05 | | |
| | 07 | DUE TO SUPPLIERS | | |
| | a | due within 12 months | 217,218 | 171,873 |
| | | TOTAL 07 | 217,218 | 171,873 |
| | 10 | DUE TO PARENT COMPANY | | |
| | a | due within 12 months | 1,845,983 | 1,706,632 |
| | | TOTAL 10 | 1,845,983 | 1,706,632 |
| | 11 | TAXES PAYABLE | | |
| | a | due within 12 months | 31,421 | 4,794 |
| | | TOTAL 11 | 31,421 | 4,794 |
| | 12 | DUE TO SOCIAL SECURITY INSTITUTIONS | | |
| | a | due within 12 monthsi | 5,705 | 5,027 |
| | | TOTAL 12 | 5,705 | 5,027 |
| | 13 | OTHER PAYABLES | | |
| | a | due within 12 months | 14,304 | 5,783 |
| | | TOTAL 13 | 14,304 | 5,783 |
| | TOTAL PAYABLES | | **2,185,149** | **1,995,875** |
| E | **ACCRUED LIABILITIES AND DEFERRED INCOME** | | | |
| | 02 | Other accrued liabilities and deferred income | 5,622 | 15,703 |
| | TOTAL ACCRUED LIABILITIES AND DEFERRED INCOME | | **5,622** | **15,703** |
| | **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **4,341,805** | **4,207,866** |

| MEMORANDUM ACCOUNTS | 31-12-2004 | 31-12-2003 |
|---|---|---|
| 01 PERSONAL GUARANTEES RECEIVED | | |
| d Sureties received from third parties | 103,726 | 131,457 |
| TOTAL 01 | **103,726** | **131,457** |
| **TOTAL MEMORANDUM ACCOUNTS** | **103,726** | **131,457** |

## INCOME STATEMENT

| | | | 31-12-2004 | 31-12-2003 |
|---|---|---|---|---|
| A | **PRODUCTION VALUE** | | | |
| | 01 | REVENUES FROM SALES AND SERVICES | 1,679,200 | 60,392 |
| | 05 | OTHER REVENUES AND INCOME | | |
| | a | Other revenues and income | 86,352 | 4,976 |
| | | TOTAL 05 | 86,352 | 4,976 |
| | TOTAL PRODUCTION VALUE | | **1,765,552** | **65,368** |
| B | **PRODUCTION COSTS** | | | |
| | 06 | FOR RAW MATERIALS, CONSUMABLES AND GOODS | (272,228) | (8,436) |
| | 07 | FOR SERVICES | (769,842) | (42,203) |
| | 09 | FOR PERSONNEL | | |
| | a | Wages and salaries | (495,137) | (43,562) |
| | b | Social contributions | (163,223) | (15,406) |
| | c | Severance indemnities | (28,015) | (3,884) |
| | e | Other costs | (3,589) | |
| | | TOTAL 09 | (689,964) | (62,852) |
| | 10 | DEPRECIATION, AMORTISATION AND WRITE-DOWNS | | |
| | a | Amortisation of intangible assets | (6,180) | (1,026) |
| | b | Depreciation of fixed assets | (124,475) | (21,236) |
| | | TOTAL 10 | (130,655) | (22,262) |
| | 11 | CHANGE IN INVENTORIES OF RAW MATERIALS, CONSUMABLES AND GOODS | (146) | (19,405) |
| | 14 | SUNDRY OPERATING COSTS | (50,418) | (13,664) |
| | TOTAL PRODUCTION COSTS | | **(1,913,253)** | **(168,822)** |
| | DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS. (A-B) | | (147,701) | (103,454) |
| C | **FINANCIAL INCOME AND CHARGES** | | | |
| | 16 | OTHER FINANCIAL INCOME | | |
| | a | From loans recorded among non-current assets | | |
| | a4 | From third parties | 119 | 0 |
| | | TOTAL a | 119 | 0 |
| | d | Income other than above | | |
| | d4 | From third parties | 11,246 | 1,524 |
| | | TOTAL d | 11,246 | 1,524 |
| | | TOTAL 16 | 11,365 | 1,524 |
| | 17 | INTEREST AND OTHER FINANCIAL CHARGES | | |
| | c | To parent company | (31,216) | (6,260) |
| | d | To third parties | (7,895) | (1,593) |
| | | TOTAL 17 | (39,111) | (7,853) |
| | TOTAL FINANCIAL INCOME AND CHARGES | | **(27,746)** | **(6,329)** |
| E | **EXTRAORDINARY ITEMS** | | | |
| | 20 | INCOME | | |
| | b | Other extraordinary income | | |
| | | TOTAL 20 | | |
| | 21 | CHARGES | | |
| | b | Taxes relating to prior years | | |
| | c | Other extraordinary charges | (21,261) | (419) |
| | | TOTAL 21 | (21,261) | (419) |
| | TOTAL EXTRAORDINARY ITEMS | | **(21,261)** | **(419)** |
| | PRE-TAX PROFIT (LOSS) (A-B+-C+-D+-E) | | (196,708) | (110,202) |
| | 22 | INCOME TAXES FOR THE YEAR | 33,738 | 0 |
| | 26 | LOSS FOR THE YEAR | **(162,970)** | **(110,202)** |

# SINERGIA SECONDA SRL

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004 (in euro)

## BALANCE SHEET

| ASSETS | 31-12-2004 | 31-12-2003 |
|---|---|---|
| **A) AMOUNTS RECEIVABLE FROM SHAREHOLDERS** | 0 | 0 |
| **B) NON-CURRENT ASSETS** | | |
| I - Intangible assets | | |
| 1) set-up and expansion costs | 0 | 0 |
| 7) other | 10,329 | 16,557 |
| *Total intangible assets* | 10,329 | 16,557 |
| II - Fixed assets | 0 | 0 |
| III - Financial assets | | |
| 1) equity investments in | | |
| a) subsidiary companies | 20,000 | 20,000 |
| *Total financial assets* | 20,000 | 20,000 |
| **TOTAL NON-CURRENT ASSETS** | **30,329** | **36,557** |
| **C) CURRENT ASSETS** | | |
| I - Inventories | | |
| 4) finished products and merchandise | 10,589,130 | 10,560,789 |
| *Total inventories* | 10,589,130 | 10,560,789 |
| II - Receivables | | |
| 1) due from customers | | |
| a - due within 12 months | 36,410 | 55,002 |
| 2) due from subsidiary companies | | |
| a - due within 12 months | 13,088,107 | 13,938,107 |
| 5) due from others | | |
| a - due within 12 months | 38,920 | 6,093 |
| *Total receivables* | 13,163,437 | 13,999,202 |
| III - Financial assets not held as non-current assets | 0 | 0 |
| IV - Cash and banks | | |
| 1) bank and postal deposits | 0 | 0 |
| 3) cash and cash equivalents on hand | 22 | 22 |
| *Total cash and banks* | 22 | 22 |
| **TOTAL CURRENT ASSETS** | **23,752,589** | **24,560,013** |
| **D) ACCRUED INCOME AND PREPAYMENTS** | | |
| 1) accrued income and prepayments | 3,915 | 3,390 |
| **TOTAL ACCRUED INCOME AND PREPAYMENTS** | **3,915** | **3,390** |
| **TOTAL ASSETS** | **23,786,833** | **24,599,960** |

| LIABILITIES | 31-12-2004 | 31-12-2003 |
|---|---|---|
| **A) SHAREHOLDERS' EQUITY** | | |
| I - Share capital | 10,200,000 | 10,200,000 |
| II - Share premium reserve | 0 | 0 |
| III - Revaluation reserves | 0 | 0 |
| IV - Legal reserve | 155,636 | 141,993 |
| V - Reserve for own shares | 0 | 0 |
| VI - Statutory reserves | 0 | 0 |
| VII - Other reserves | | |
| d) rounding difference of par value in euro | -1 | 2 |
| VIII - Profit (loss) carried forward | 0 | -128,724 |
| IX - Net profit for the year | 288,959 | 142,367 |
| **TOTAL SHAREHOLDERS' EQUITY** | **10,644,594** | **10,355,638** |
| **B) RESERVES FOR RISKS AND CHARGES** | | |
| 2) for taxation | 1,487 | 1,487 |
| **TOTAL RESERVES FOR RISKS AND CHARGES** | **1,487** | **1,487** |
| **C) RESERVE FOR SEVERANCE INDEMNITIES** | 0 | 0 |
| **D) PAYABLES** | | |
| 3) due to banks | | |
| a - due within 12 months | 12,921,871 | 14,042,066 |
| 6) due to suppliers | | |
| a - due within 12 months | 46,913 | 76,075 |
| 11) taxes payable | | |
| a - due within 12 months | 109,646 | 106,277 |
| 13) other payables | | |
| a - due within 12 months | 15,711 | 15,375 |
| **TOTAL PAYABLES** | **13,094,141** | **14,239,793** |
| **E) ACCRUED LIABILITIES AND DEFERRED INCOME** | | |
| 1) accrued liabilities and deferred income | 46,611 | 3,042 |
| **TOTAL ACCRUED LIABILITIES AND DEFERRED INCOME** | **46,611** | **3,042** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **23,786,833** | **24,599,960** |

| MEMORANDUM ACCOUNTS | 31-12-2004 | 31-12-2003 |
|---|---|---|
| b) Tenant guarantees | 10,329 | 55,196 |
| **TOTAL MEMORANDUM ACCOUNTS** | **10,329** | **55,196** |

## INCOME STATEMENT

| | 31-12-2004 | 31-12-2003 |
|---|---|---|
| **A) PRODUCTION VALUE** | | |
| 1) revenues from sales and services | 1,096,871 | 1,096,375 |
| 5) other revenues and income | | |
| c) other income | 14,184 | 0 |
| **TOTAL PRODUCTION VALUE** | **1,111,055** | **1,096,375** |
| **B) PRODUCTION COSTS** | | |
| 7) for services | 319,333 | 384,994 |
| 10) depreciation, amortisation and write-downs | | |
| a) amortisation of intangible assets | 6,228 | 27,352 |
| 11) change in raw materials, consumables and goods | -28,341 | -80,606 |
| 14) sundry operating costs | | |
| a) other operating costs and charges | 893 | 954 |
| b) non-deductible charges | 36,579 | 36,279 |
| **TOTAL PRODUCTION COSTS** | **334,692** | **368,973** |
| **DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS** | 776,363 | 727,402 |
| **C) FINANCIAL INCOME AND CHARGES** | | |
| 16) other financial income | | |
| d) other financial income | | |
| 3) from third parties | 0 | 0 |
| 17) interest and other financial charges | | |
| c) payable to third parties | -277,472 | -350,071 |
| **TOTAL FINANCIAL INCOME AND CHARGES** | **-277,472** | **-350,071** |
| **D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS** | | |
| **TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS** | **0** | **0** |
| **E) EXTRAORDINARY ITEMS** | | |
| 20) income | | |
| b) other extraordinary income | 0 | 3,570 |
| 21) charges | | |
| b) other extraordinary charges | 0 | -106,648 |
| d) rounding difference of par value in euro | 0 | -1 |
| **TOTAL EXTRAORDINARY ITEMS** | **0** | **-103,079** |
| **PRE-TAX PROFIT (LOSS)** | 498,891 | 274,252 |
| 22) income taxes for the year | | |
| b) IRES (corporate income tax) | 176,705 | 100,699 |
| c) IRAP (regional business tax) | 33,227 | 31,186 |
| 26) Net profit (loss) for the year | 288,959 | 142,367 |

# RIPOVAL SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2003 (in euro)

## BALANCE SHEET

| Assets | | | 31-12-2003 | 31-12-2002 |
|---|---|---|---|---|
| 10. | CASH AND BANKS | | 1,720,981 | 82,927 |
| 20. | DUE FROM BANKS | | 26,979 | 77,491 |
| | a) Sight | 26,979 | | |
| 40. | DUE FROM CUSTOMERS | | 19,283,496 | 21,717,095 |
| | a) From taxpayers | 0 | | |
| | b) From entities for ordinary tax rolls | 734,926 | | |
| | of which: | | | |
| | for instalments paid in advance to tax authorities | 667,357 | | |
| | c) From other entities for tax collection | 18,548,570 | | |
| 50. | BONDS AND OTHER FIXED-INTEREST SECURITIES | | 0 | 0 |
| | a) public issuers | 0 | | |
| 90. | INTANGIBLE ASSETS | | 10,431 | 26,087 |
| | of which: | | | |
| | software | 7,274 | | |
| | leasehold improvements | 3,157 | | |
| 100. | FIXED ASSETS | | 1,340,578 | 1,460,744 |
| | a) Land and buildings | 1,230,172 | | |
| | b) Equipment and machinery | 75,153 | | |
| | c) Furniture and office machines | 35,253 | | |
| | d) Other assets | 0 | | |
| 130. | OTHER ASSETS | | 220,705 | 362,030 |
| 140. | ACCRUED INCOME AND PREPAYMENTS | | 13,218 | 9,679 |
| | a) Prepayments | 13,218 | | |
| **Total assets** | | | **22,616,388** | **23,736,053** |

| Liabilities | | | 31-12-2003 | 31-12-2002 |
|---|---|---|---|---|
| 10. | DUE TO BANKS | | 5,771,811 | 16,298,795 |
| | a) Sight | 5,771,811 | | |
| 30. | DUE TO CUSTOMERS | | 12,652,445 | 3,662,907 |
| | a) Due to entities for ordinary tax rolls | 315,301 | | |
| | b) Other amounts due to entities | 12,286,706 | | |
| | c) Due to taxpayers | 50,438 | | |
| 50. | OTHER LIABILITIES | | 341,033 | 375,448 |
| | a) Trade payables | 76,817 | | |
| | b) Taxes payable | 51,645 | | |
| | c) Other payables | 212,571 | | |
| 80. | RESERVE FOR RISKS AND CHARGES | | 540,055 | 335,117 |
| | b) Taxation reserve | 427,770 | | |
| | c) Other reserves | 112,285 | | |
| 120. | SHARE CAPITAL | | 2,582,300 | 2,582,300 |
| 140. | RESERVES | | 331,486 | 311,097 |
| | a) legal reserve | 98,384 | | |
| | b) Other reserves | 221,233 | | |
| | c) Retained earnings | 11,869 | | |
| 170. | NET PROFIT (LOSS) FOR THE YEAR | | 397,258 | 170,389 |
| **Total liabilities** | | | **22,616,388** | **23,736,053** |

| Guarantees and commitments | | 31-12-2003 | 31-12-2002 |
|---|---|---|---|
| 20. | COMMITMENTS | **0** | **574,711** |

## INCOME STATEMENT

| Costs | | | 2003 | 2002 |
|---|---|---|---|---|
| 10. | INTEREST EXPENSE AND SIMILAR CHARGES | | 203,367 | 62,201 |
| | of which: | | | |
| | Interest on bank loans | 203,367 | | |
| 20. | COMMISSIONS AND FEES FOR COLLECTION SERVICES | | 349,643 | 407,110 |
| | a) For collection services | 199,044 | | |
| | b) For other services | 150,599 | | |
| 40. | ADMINISTRATIVE EXPENSES | | 2,222,341 | 2,118,753 |
| | a) Personnel expenses | 1,454,176 | | |
| | of which: | | | |
| | Wages and salaries | 948,324 | | |
| | Social security contributions | 340,889 | | |
| | Contribution for capital | 69,771 | | |
| | Company bonus | 62,000 | | |
| | b) Expenses for professional services | 312,356 | | |
| | c) Consumables and miscellaneous office costs | 208,154 | | |
| | d) Expenses for non-professional services | 120,344 | | |
| | e) Expenses for the use of third-party assets | 20,670 | | |
| | f) Indirect taxes and duties | 106,641 | | |
| 50. | ADJUSTMENTS TO INTANGIBLE AND FIXED ASSETS | | 141,537 | 164,137 |
| | a) Amortisation of intangible assets | 16,782 | | |
| | b) Depreciation of fixed assets | 124,755 | | |
| 60. | ADJUSTMENTS TO EMOLUMENTS | | 3,861 | 6,500 |
| 70. | PROVISIONS FOR RISKS AND CHARGES | | 40,000 | 69,000 |
| 110. | EXTRAORDINARY CHARGES | | 45,654 | 6,517 |
| 130. | INCOME TAXES FOR THE YEAR | | 392,000 | 167,000 |
| 140. | NET PROFIT FOR THE YEAR | | 397,258 | 170,389 |
| **Total** | | | **3,795,661** | **3,171,607** |

| Income | | | 2003 | 2002 |
|---|---|---|---|---|
| 10. | INTEREST INCOME AND SIMILAR REVENUES | | 98,589 | 124,854 |
| | a) From amounts due from customers | 991 | | |
| | b) Other interest income | 97,598 | | |
| 30. | INCOME FROM TAX COLLECTION | | 3,635,198 | 2,901,080 |
| | a) Primary income from rolls | 638,844 | | |
| | b) Supplementary income from rolls | 172,756 | | |
| | c) Income from direct payments | 767,180 | | |
| | d) Other income from tax collection | 443,976 | | |
| | e) Sector incentive grants | 1,612,442 | | |
| 40. | PROFITS FROM FINANCIAL TRANSACTIONS | | 4,164 | 1,381 |
| 70. | OTHER OPERATING INCOME | | 24,599 | 10,414 |
| | a) Income from capital | 24,599 | | |
| 80. | EXTRAORDINARY INCOME | | 33,111 | 133,878 |
| **Total** | | | **3,795,661** | **3,171,607** |

# ARCA VITA SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2003 (in euro)

## BALANCE SHEET

### ASSETS

**B. INTANGIBLE ASSETS**
1. Acquisition commission to be amortised
   a) life business
   b) accident business
3. Start-up and expansion costs
4. Goodwill
5. Other deferred charges

**C. INVESTMENTS**
I Land and buildings
   1. buildings for business purposes
   2. buildings leased to third parties
II Investments in Group companies and other equity investments
   1. Shares and quotas
      b) subsidiaries
      d) associated companies
      e) other
III Other financial investments
   1. Shares and quotas
      a) listed shares
   2. Units in mutual funds
   3. Bonds and other fixed-yield securities
      a) listed
      b) unlisted
      c) convertible bonds
   4. Loans
      b) loans on insurance policies
   7. Other financial investments

**D. INVESTMENTS BENEFITING LIFE ASSURANCE POLICYHOLDERS BEARING RISKS AND THOSE DERIVING FROM THE MANAGEMENT OF PENSION FUNDS**
I. Investments relating to services linked to investment funds and stockmarket indices

**D Bis. TECHNICAL RESERVES CARRIED BY REINSURERS**
II LIFE BUSINESS
   1. Actuarial reserves
   2. Premium reserves for supplementary insurance
   3. Reserve for claims to be settled
   6. Technical reserves for investments benefiting life assurance policyholders bearing risks and reserves deriving from the management of pension funds

**E. RECEIVABLES**
I Receivables deriving from direct insurance transactions with:
   1. Policyholders
      a) for premiums for the year
      b) for premiums of previous years
   2. Insurance brokers
   3. Insurance company current accounts
II Receivables deriving from reinsurance transactions:
   1. Insurance and reinsurance companies
III Other receivables

**F. OTHER ASSETS**
I Fixed assets and inventories
   1. Furniture, office machines and internal transport vehicles
   2. Publicly-registered assets
   3. Plant and equipment
II Liquidity
   1. Bank and post office deposits
   2. Cheques and cash
IV Other assets
   2. Sundry assets

**G. ACCRUED INCOME AND PREPAYMENTS**
1. Interest
2. Leasing instalments
3. Other

**TOTAL ASSETS**

| 31-12-2003 | | | | 31-12-2002 | | | |
|---|---|---|---|---|---|---|---|
| 1,524,677 | | | | 424,146 | | | |
| | 1,524,677 | | | | 424,146 | | |
| | – | | | | 9,322 | | |
| | 454,872 | | | | 909,743 | | |
| | 4,111,170 | | 6,090,719 | | 4,862,142 | | 6,205,353 |
| | 4,140,393 | | | | 4,207,136 | | |
| | 2,216,347 | 6,356,740 | | | 2,303,347 | 6,510,483 | |
| 22,918,206 | | | | 25,353,977 | | | |
| 289,423 | | | | | | | |
| | 23,207,629 | 23,207,629 | | 106,531 | 25,460,508 | 25,460,508 | |
| 8,322,200 | 8,322,200 | | | 5,203,132 | 5,203,132 | | |
| | 121,042,839 | | | | 52,055,030 | | |
| 1,043,089,123 | | | | 848,292,059 | | | |
| 19,219,752 | | | | 15,318,165 | | | |
| 8,828,166 | 1,071,137,041 | | | 8,715,679 | 872,325,903 | | |
| 150,167 | 150,167 | | | 139,405 | 139,405 | | |
| | 1,144,383 | 1,201,796,630 | 1,231,360,999 | | 268,545 | 929,992,015 | 961,963,006 |
| | | 1,963,720,677 | 1,963,720,677 | | | 1,880,509,075 | 1,880,509,075 |
| | 11,920,111 | | | | 12,805,926 | | |
| | 116,919 | | | | 122,801 | | |
| | 382,838 | | | | 644,127 | | |
| | 1,071,284 | 13,491,152 | 13,491,152 | | | 13,572,854 | 13,572,854 |
| 407,158 | | | | 204,539 | | | |
| 428 | 407,586 | | | 4,832 | 209,371 | | |
| | 886,869 | | | | 3,768,689 | | |
| | 1,032,324 | 2,326,779 | | | 1,017,505 | 4,995,565 | |
| | 10,045,188 | 10,045,188 | | | 8,533,662 | 8,533,662 | |
| | | 33,501,625 | 45,873,592 | | | 26,860,791 | 40,390,018 |
| | 1,557,122 | | | | 2,013,283 | | |
| | 16,100 | | | | 13,713 | | |
| | 180,163 | 1,753,385 | | | 33,146 | 2,060,142 | |
| | 43,008,620 | | | | 80,440,059 | | |
| | 3,056 | 43,011,676 | | | 5,278 | 80,445,337 | |
| | – | – | 44,765,061 | | – | – | 82,505,479 |
| | | 18,013,656 | | | | 15,350,417 | |
| | | 662 | | | | 20,400 | |
| | | 156,956 | 18,171,274 | | | 22,028 | 15,392,845 |
| | | | **3,323,473,474** | | | | **3,000,538,630** |

## LIABILITIES AND SHAREHOLDERS' EQUITY

**A. SHAREHOLDERS' EQUITY**

I Share capital

II Share premium reserve

III Revaluation reserves

IV Legal reserve

VII Other reserves

VIII Retained earnings (accumulated losses)

IX Net profit (loss) for the year

**C. TECHNICAL RESERVES**

II LIFE BUSINESS

1. Actuarial reserves
2. Premium reserves for supplementary insurance
3. Reserve for claims to be settled
5. Other technical reserves

**D. INVESTMENTS BENEFITING LIFE ASSURANCE POLICYHOLDERS BEARING RISKS AND THOSE DERIVING FROM THE MANAGEMENT OF PENSION FUNDS**

1. Investments relating to services linked to investment funds and stockmarket indices

**E. PROVISIONS FOR RISKS AND CHARGES**

3. Other provisions

**F. DEPOSITS RECEIVED FROM REINSURERS**

**G. PAYABLES AND OTHER LIABILITIES**

I Payables, deriving from direct insurance transactions, with:

1. Insurance brokers
2. Insurance company current accounts

II Payables, deriving from reinsurance transactions, with:

1. Insurance and reinsurance companies

IV Due to banks

VII Reserve for severance indemnities

VIII Other payables

1. Taxes rechargeable to policyholders
2. Miscellaneous tax liabilities
3. Due to social and welfare institutions
4. Miscellaneous payables

IX Other liabilities

2. Commission on premiums being collected
3. Miscellaneous liabilities

**H. ACCRUED LIABILITIES AND DEFERRED INCOME**

3. Other

**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY**

| 31-12-2003 | | | 31-12-2002 | | |
|---|---|---|---|---|---|
| | 38,235,600 | | | 38,235,600 | |
| | 9,399,516 | | | 9,399,516 | |
| | 34,916 | | | 34,916 | |
| | 5,413,257 | | | 5,097,112 | |
| | 34,648,038 | | | 33,248,038 | |
| | 84,682 | | | 121,376 | |
| | 6,505,646 | 94,321,655 | | 3,161,452 | 89,298,010 |
| 1,177,412,746 | | | 941,724,622 | | |
| 497,531 | | | 442,989 | | |
| 27,986,938 | | | 28,781,782 | | |
| 14,850,125 | 1,220,747,340 | 1,220,747,340 | 12,990,511 | 983,939,904 | 983,939,904 |
| | 1,963,720,677 | 1,963,720,677 | | 1,880,492,021 | 1,880,492,021 |
| | 2,550,705 | 2,550,705 | | 923,436 | 923,436 |
| | | 9,128,778 | | | 8,120,835 |
| 8,080,839 | | | 6,184,613 | | |
| – | 8,080,839 | | – | 6,184,613 | |
| 4,008,652 | 4,008,652 | | 10,760,679 | 10,760,679 | |
| | 251,249 | | | 8,810 | |
| | 738,951 | | | 736,557 | |
| 466,117 | | | 531,162 | | |
| 13,152,791 | | | 12,298,576 | | |
| 182,895 | | | 143,211 | | |
| 6,112,764 | 19,914,567 | | 7,094,708 | 20,067,657 | |
| 8,453 | | | 6,108 | | |
| – | 8,453 | 33,002,711 | – | 6,108 | 37,764,424 |
| | 1,608 | 1,608 | | | |
| | | **3,323,473,474** | | | **3,000,538,630** |

## MEMORANDUM ACCOUNTS

II Guarantees received

1. Sureties

III Guarantees granted by third parties in the company's interest

IV Commitments

VII Securities with third parties

| 31-12-2003 | 31-12-2002 |
|---:|---:|
| 4,090,000 | 4,090,000 |
| 20,020,000 | 10,000,000 |
| 46,251,202 | 27,755,665 |
| 3,098,490,157 | 2,751,454,858 |

## II TECHNICAL STATEMENT - LIFE BUSINESS

1. PREMIUMS FOR THE YEAR, NET OF AMOUNTS TRANSFERRED TO REINSURERS:
   a) Gross premiums calculated
   b) (-) premiums transferred to reinsurers

**2. INVESTMENT INCOME:**
   a) Income from shares and quotas
   b) Income from other investments:
      aa) land and buildings
      bb) other investments
         (of which from Group companies)
   c) Writebacks of investments
   d) Proceeds on the sale of investments

**3. INCOME AND UNREALIZED GAINS RELATING TO INVESTMENTS BENEFITING POLICYHOLDERS BEARING RISK AND TO INVESTMENTS DERIVING FROM THE MANAGEMENT OF PENSION FUNDS**

**4. OTHER TECHNICAL INCOME, NET OF AMOUNTS TRANSFERRED TO REINSURERS**

**5. ACCIDENT RELATED EXPENSE, NET OF AMOUNTS TRANSFERRED TO REINSURERS:**
   a) Claims settled
      aa) Gross amounts
      bb) (-) amounts transferred to reinsurers
   b) Change in reserve for claims to be settled
      aa) Gross amounts
      bb) (-) amounts transferred to reinsurers

**6. CHANGES IN ACTUARIAL AND OTHER TECHNICAL RESERVES, NET OF AMOUNTS TRANSFERRED TO REINSURERS**
   a) Actuarial reserves:
      aa) Gross amounts
      bb) (-) amounts transferred to reinsurers
   b) Premium reserves for supplementary insurance:
      aa) Gross amounts
      bb) (-) amounts transferred to reinsurers
   c) Other technical reserves
      aa) Gross amounts
      bb) (-) amounts transferred to reinsurers
   d) Technical reserves of life assurance business where investment risk is borne by the policyholder and reserves deriving from the management of pension funds
      aa) Gross amounts
      bb) (-) amounts transferred to reinsurers

**8. OPERATING EXPENSES:**
   a) Acquisition commission
   b) Other acquisition expenses
   c) Change in commission and other acquisition expenses to be amortised
   d) Collection commission
   e) Other administrative expenses
   f) (-) Commission and profit-sharing received from reinsurers

**9. INVESTMENT EXPENSE AND OTHER FINANCIAL CHARGES:**
   a) Investment operating expense and interest expense
   b) Value adjustments to investments
   c) Losses on the sale of investments

**10. INVESTMENT EXPENSE AND OTHER FINANCIAL CHARGES AND UNREALIZED LOSSES RELATING TO INVESTMENTS BENEFITING POLICYHOLDERS BEARING RISK AND TO INVESTMENTS DERIVING FROM THE MANAGEMENT OF PENSION FUNDS**

**11. OTHER TECHNICAL CHARGES, NET OF AMOUNTS TRANSFERRED TO REINSURERS**

**12. (-) PORTION OF INVESTMENT INCOME TRANSFERRED FROM THE LIFE BUSINESS TECHNICAL STATEMENT (caption III. 4)**

**13. LIFE ASSURANCE BUSINESS - TECHNICAL STATEMENT RESULTS (caption III. 2)**

| 31-12-2003 | | | 31-12-2002 | | |
|---|---|---|---|---|---|
| | 486,961,875 | | | 393,463,421 | |
| | - 3,455,455 | 483,506,420 | | - 2,942,679 | 390,520,742 |
| | 228,463 | | | 219,552 | |
| 118,500 | | | 99,790 | | |
| 48,127,649 | 48,246,149 | | 42,171,683 | 42,271,473 | |
| | 81,000 | | | 50,276 | |
| | 5,413,193 | | | 1,184,955 | |
| | 10,556,574 | 64,444,379 | | 12,574,265 | 56,250,245 |
| | | 139,206,879 | | | 102,892,487 |
| | | 5,756,096 | | | 1,788,202 |
| 290,033,447 | | | 240,151,586 | | |
| - 1,365,803 | 288,667,644 | | - 8,331,727 | 231,819,859 | |
| - 794,845 | | | - 4,299,469 | | |
| - 822,859 | - 1,617,704 | 287,049,940 | - 200,537 | - 4,098,932 | 227,720,927 |
| 235,726,920 | | | 73,576,313 | | |
| - 885,815 | 236,612,735 | | - 4,746,681 | 78,322,994 | |
| 54,542 | | | 234,449 | | |
| - 5,881 | 60,423 | | 43,446 | 191,003 | |
| 1,859,614 | | | 579,262 | | |
| | 1,859,614 | | | 579,262 | |
| 83,228,656 | | | - 44,423,113 | | |
| 1,071,283 | 82,157,373 | 320,690,145 | | - 44,423,113 | 34,670,146 |
| | 8,288,648 | | | 5,518,180 | |
| | 17,263,868 | | | 18,538,903 | |
| | - 1,106,718 | | | 293,310 | |
| | 1,527,396 | | | 1,648,706 | |
| | 7,376,974 | | | 8,044,986 | |
| | - 2,816,187 | 30,533,981 | | - 281,050 | 33,763,035 |
| | 1,351,103 | | | 2,588,706 | |
| | 8,624,556 | | | 9,828,804 | |
| | 3,574,639 | 13,550,298 | | 5,374,975 | 17,792,485 |
| | | 20,734,569 | | | 224,529,298 |
| | | 5,379,617 | | | 3,942,535 |
| | | 3,955,932 | | | 3,374,382 |
| | | 11,019,292 | | | 5,658,868 |

| III NON-TECHNICAL STATEMENT |
|---|
| 2. LIFE ASSURANCE BUSINESS - TECHNICAL STATEMENT RESULTS (caption II. 13) |
| 4. (+) PORTION OF INVESTMENT INCOME TRANSFERRED FROM THE LIFE BUSINESS TECHNICAL STATEMENT (caption II. 12) |
| 7. OTHER INCOME |
| 8. OTHER CHARGES |
| 9. RESULT FROM ORDINARY ACTIVITY |
| 10. EXTRAORDINARY INCOME |
| 11. EXTRAORDINARY EXPENSE |
| 12. RESULT FROM EXTRAORDINARY ACTIVITY |
| 13. RESULT BEFORE TAXES |
| 14. INCOME TAXES FOR THE YEAR |
| 15. NET PROFIT (LOSS) FOR THE YEAR |

| 31-12-2003 | 31-12-2002 |
|---|---|
| | |
| 11,019,292 | 5,658,868 |
| 3,955,932 | 3,374,382 |
| 2,800,231 | 3,084,786 |
| 6,562,684 | 5,541,224 |
| 11,212,771 | 6,576,812 |
| 473,549 | 442,011 |
| 156,873 | 695,345 |
| 316,676 | - 253,334 |
| 11,529,447 | 6,323,478 |
| 5,023,801 | 3,162,026 |
| 6,505,646 | 3,161,452 |

# REPORT OF THE INDEPENDENT AUDITORS ON THE FINANCIAL STATEMENTS

IN ACCORDANCE WITH ART. 156 OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998
*(Translation from the original issued in Italian)*

To the Shareholders of
BANCA POPOLARE DI SONDRIO
Società Cooperativa a Responsabilità Limitata

1. We have audited the financial statements of Banca Popolare di Sondrio S.c.a.r.l. for the year ended 31 December 2004. Preparation of the financial statements is the responsibility of the Banca Popolare di Sondrio's Board of Directors. We are responsible for expressing a professional opinion on the financial statements, which we have formed on the basis of our audit.

2. Our examination was conducted on the basis of the auditing standards recommended by CONSOB. Accordingly, the audit was planned and carried out so as to acquire all information necessary for determining whether the financial statements contain significant errors and whether they are, on the whole, reliable. The audit procedures include random checks on the elements supporting the balances and other information in the financial statements, as well as a verification that the accounting policies are appropriate and the estimates made by the directors are reasonable. We believe that the procedures carried out provide a fair basis on which to express our professional opinion. For our opinion on the prior year's financial statements, whose figures are presented for comparison purposes as required by law, please see our report dated 18 February 2004.

3. In our opinion, the financial statements of Banca Popolare di Sondrio S.c.a.r.l. as of 31 December 2004 comply with all pertinent regulations. They have therefore been prepared clearly and provide a true and fair view of the assets and liabilities, financial position and results for the year of the bank.

4. Please note that, in accordance with Italy's new company law, the bank has eliminated from its 2004 financial statements any adjustments and provisions made exclusively for tax purposes in prior years. Moreover, the bank has changed its accounting policies relative to the prior year for overdue interest, quoted securities not held as long-term financial assets and interest rate and foreign currency derivative contracts. The reasons for and effects of eliminating the tax-related items and changing these accounting policies are detailed in the notes to the financial statements and in the directors' report on operations. The overall impact on the results for the year are largely offset by the provision to the reserve for general banking risks.

*Milan, 16 February 2005*

DELOITTE & TOUCHE S.p.A.

Riccardo Azzali
(Partner)

# CONSOLIDATED FINANCIAL STATEMENTS OF THE BANCA POPOLARE DI SONDRIO BANKING GROUP

# Banca Popolare di Sondrio

# Banca Popolare di Sondrio (SUISSE) SA

# REPORT ON OPERATIONS

Shareholders,

As parent company of the Banca Popolare di Sondrio Banking Group, registration no. 5696.0, we are obliged to present consolidated financial statements.

## COMPOSITION OF THE BANKING GROUP

The Banca Popolare di Sondrio Banking Group is made up as follows:

*Parent bank*:
Banca Popolare di Sondrio s.c.a r.l. – Sondrio, Italy;

*Group companies:*
Banca Popolare di Sondrio (SUISSE) SA – Lugano, Switzerland.

The parent bank owns the entire share capital of Banca Popolare di Sondrio (SUISSE) S.A. of SwF 50,000,000 which is fully paid in.

The scope of consolidation and the consolidation methods are specified in the notes to these consolidated financial statements.

## GENERAL ECONOMIC CONTEXT

The report on operations accompanying the parent bank's financial statements contains information on the international and Italian economic situation during the year. We would, however, like to add a few comments regarding economic trends in Switzerland, even if based on indices and information which are not yet final and official. Switzerland, being geographically at the centre of the euro-zone but outside the European Union, inevitably suffered the consequences of the sluggishness of the European economy and particularly its principal export market of Germany. Even trade with the United States suffered because of the depressed greenback.

Despite everything, gross domestic product should have grown by 1.8%, after retreating the previous year. This is mostly thanks to capital investment, while consumption has suffered from the slight rise in unemployment to nearly 4%.

Inflation continued to be low at around 1.3%, although somewhat higher than in 2003. This is also the likely reason why the Swiss National Bank adjusted the fluctuation band for 3-month Libor to between 0.25% and 1.25% in two separate rises of 25 bp in June and September.

The Zurich Stock Exchange reported gains of 3.74%.

Conditions in the cantons where Banca Popolare di Sondrio (SUISSE) S.A. is active were much like in the rest of the country.

## TERRITORIAL EXPANSION

Expansion of the local network was once again one of our banking group's major focal points in the past year. The plan is to intensify control of the traditional areas of business, while expanding into new areas deemed of interest. This is a strategy designed to make the most of the professional skills and resources that the Group is steadily developing and to strengthen its ties with local communities for the purposes of serving them. The number of the parent bank's branches broke through the two hundred barrier during the year. It strengthened its status as a regional bank, consolidating its presence in all eleven provinces of Lombardy and making the

existing network more homogeneous. A new branch was opened in Bolzano, one year after inaugurating the one in Merano, the Group's first in the Alto Adige region. Banca Popolare di Sondrio (SUISSE) SA continued the process of expanding its network and operations in Switzerland. The opening of the branch in Zurich, a major international financial and business centre, made an important contribution in this sense. Zurich has over 360,000 inhabitants, while its Canton – the most populous in Switzerland – has a population of around 1,250,000. The city and its industrial outskirts are home to a large, active Italian community.

At the end of 2004, the Group had a total of 217 branches and one representative office.



# GROUP PERFORMANCE

## Funding

The Group did well in the primary funding sector, where it consolidated and extended

### DIRECT CUSTOMER DEPOSITS

| (in thousands of euro) | 2004 | % of total | 2003 | % of total | % change |
|---|---|---|---|---|---|
| Savings deposits | 699,354 | 7.09 | 629,389 | 7.28 | 11.12 |
| Certificates of deposit | 43,204 | 0.44 | 46,735 | 0.54 | -7.56 |
| Bonds | 878,933 | 8.91 | 836,014 | 9.67 | 5.13 |
| Repo transactions | 1,248,980 | 12.65 | 1,224,913 | 14.17 | 1.96 |
| Bank drafts and similar | 89,949 | 0.91 | 76,510 | 0.88 | 17.57 |
| Current accounts | 6,394,176 | 64.78 | 5,317,594 | 61.50 | 20.25 |
| Current accounts in foreign currency | 515,381 | 5.22 | 515,392 | 5.96 | – |
| **Total** | **9,869,977** | **100.00** | **8,646,547** | **100.00** | **14.15** |

### TOTAL FUNDING

| (in thousands of euro) | 2004 | % of total | 2003 | % of total | % change |
|---|---|---|---|---|---|
| Total direct customer deposits | 9,869,977 | 34.29 | 8,646,548 | 33.23 | 14.15 |
| Total indirect customer deposits | 15,487,177 | 53.81 | 14,250,010 | 54.77 | 8.68 |
| Total insurance-related deposits | 397,481 | 1.38 | 372,413 | 1.43 | 6.73 |
| **Total** | **25,754,635** | **89.48** | **23,268,971** | **89.43** | **10.68** |
| Due to other banks | 1,056,062 | 3.67 | 853,950 | 3.28 | 23.67 |
| Indirect deposits from banks | 1,971,705 | 6.85 | 1,895,639 | 7.28 | 4.01 |
| Third-party funds under administration | 10 | – | 14 | 0.01 | -28.57 |
| **Grand total** | **28,782,412** | **100.00** | **26,018,574** | **100.00** | **10.62** |

its fiduciary relationships with customers. The growth in volumes also benefited from contributions by the recently-opened branches, which made it possible to enter promising new markets.

Direct customer deposits went up 14.15% to 9,870 million.

Deposits received from other banks climbed by 23.67% to 1,056 million.

Indirect customer deposits increased by 8.68% to 15,487 million, while insurance-related deposits went up by 6.73% to 397 million. Indirect deposits from banks were 4.01% higher at 1,972 million.

As a net result, total consolidated funding increased by 10.62% to 28,782 million. Analysing the components of direct deposits, current accounts increased by 18.46% to 6,910 million, representing 70% of the total. Bonds also made good progress, climbing 5.13% to 879 million, as were the ever popular savings deposits, up 11.12% to 699 million. Among the other components, repo transactions edged up 1.96% to 1,249 million. The positive performance of world financial and equity markets benefited the asset management sector. The Group reported considerable growth in this important and delicate sector. In fact, assets under management rose by 13.02% to 3,673 million.



## Loans

Despite the far from brilliant economic situation, the Group increased its loans by a healthy 13.50% to 8,558 million. This increase particularly reflected the strong financial support given to businesses in the areas served, which benefited from the historically low level of interest rates.

There continued to be strong demand for mortgages loans, which increased to 2,256

### CUSTOMER LOANS

| (in thousands of euro) | 2004 | % of total | 2003 | % of total | % change |
|---|---|---|---|---|---|
| Current account overdrafts | 2,916,945 | 34.08 | 2,617,318 | 34.71 | 11.45 |
| Foreign currency loans | 1,357,266 | 15.86 | 1,213,666 | 16.10 | 11.83 |
| Advances | 335,961 | 3.93 | 314,327 | 4.17 | 6.88 |
| Advances subject to collection | 140,920 | 1.65 | 108,975 | 1.45 | 29.31 |
| Discounted portfolio | 8,716 | 0.10 | 7,460 | 0.10 | 16.84 |
| Tradesmen loans | 33,819 | 0.40 | 37,450 | 0.50 | -9.70 |
| Artisan loans | 18,530 | 0.22 | 11,738 | 0.16 | 57.86 |
| Personal loans | 66,916 | 0.78 | 64,387 | 0.85 | 3.93 |
| Other unsecured loans | 1,353,385 | 15.81 | 1,252,639 | 16.61 | 8.04 |
| Mortgage loans | 2,256,434 | 26.37 | 1,840,612 | 24.41 | 22.59 |
| Net non-performing loans | 68,540 | 0.80 | 70,767 | 0.94 | -3.15 |
| Items to be settled | 296 | – | 375 | – | -21.07 |
| **Total** | **8,557,728** | **100.00** | **7,539,714** | **100.00** | **13.50** |

million, representing 26.37% of the total. Current account overdrafts also forged ahead, rising by 11.45% to 2,917 million, while other unsecured loans were 8.04% higher at 1,353 million. Non-performing loans, net of write-downs, amounted to 0.80% of total customer loans compared with 0.94% the year before. This reduction bears witness to the continued high quality of the loan portfolio, confirming the Group's vigilant approach to monitoring lending risk.

### Securities portfolio

The securities portfolio amounted to 2,132 million at year end, having risen by 11.34% over the period. Movements in the portfolio are detailed in table 2.4 of the notes to the consolidated financial statements. Given the overall importance of the parent bank's portfolio relative to the total, the reader is referred to the report on operations accompanying its financial statements for information on investment policies.

The value of Banca Popolare di Sondrio's stock rose by 11.53% over the year. This highly satisfactory performance is all the more so in light of the stock's unbroken positive record even when the general stock index has turned down. As of 31 December 2004 the parent bank owned none of its own shares, against a reserve for the purchase of own shares of 23 million.

In 2004, own shares underwent the following movements:

These transactions were undertaken as part of normal trading activities in order to benefit the stock's circulation. Banca Popolare di Sondrio (SUISSE) S.A. did not carry out any transactions in its own shares or in those of the parent bank.

The other consolidated companies did not carry out any transactions in their own or the parent bank's shares either.

There are no cross-holdings among the companies included within the scope of consolidation.

## EQUITY INVESTMENTS

Equity investments amounted to 97 million as of 31 December 2004, having increased by 8.395 million over the year.

The report on operations accompanying the parent bank's financial statements contains information on the equity investments held by the parent bank.

The table below sets out the balances with non-consolidated subsidiaries and associated companies. Interest income of 0.981 million and interest expense of 0.143 million has been debited or credited to these companies.

Intercompany transactions are always conducted in the interest of the individual companies concerned and at arm's length conditions.

| | No. of shares | Total par value | % of share capital | Amount of trade |
|---|---|---|---|---|
| Balance as of 31/12/2003 | 0 | 0 | 0 | 0 |
| Purchases | 9,354 | 28,062 | 0.007 | 89,095.51 |
| Sales | 9,354 | 28,062 | 0.007 | 89,041.42 |
| Profit from trading | | | | -54.09 |
| Balance as of 31/12/2004 | 0 | 0 | 0 | 0 |

**BALANCES WITH NON-CONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES**

Situation as of 31 December 2004 (in thousands of euro)

| | Subsidiaries of the parent bank | | Subsidiaries of other subsidiaries | | Associated companies of the parent bank | | Associated companies of subsidiaries | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| **ASSETS** | | | | | | | | |
| Due from other banks | – | – | – | – | – | – | – | – |
| Customer loans | 14,768 | 15,749 | 3 | 2 | 1,409 | 2,136 | 16 | 24 |
| Securities | – | – | – | – | 10,162 | 9,723 | – | – |
| **LIABILITIES** | | | | | | | | |
| Due to other banks | – | – | – | – | – | – | – | – |
| Customer deposits | – | – | 235 | 1,159 | 5,157 | 6,359 | 852 | 456 |
| Securities issued | – | – | – | – | 92,695 | – | – | – |
| **GUARANTEES AND COMMITMENTS** | | | | | | | | |
| Guarantees granted | 120 | 146 | 1,277 | 1,277 | 6,528 | 6,528 | 118 | 189 |
| Commitments | – | – | – | – | – | – | – | – |



Related party transactions, as defined in CONSOB communiqué no. DEM/2064231 of 30 September 2002, form part of the Group's ordinary operations and are regulated at arm's-length conditions or, if no suitable parameters exist, at cost. No atypical or unusual transactions that could have a significant impact on the Group's results, assets or finances were carried out either during 2004 or the current year.

## HUMAN RESOURCES

As of 31 December 2004, the Group's headcount came to 2,291, up 4.8% on the figure of 2,186 reported at the end of 2003. The increase in personnel has helped enhance and enlarge the local branch network, as well as strengthening head office functions.

A breakdown of personal by individual category is contained in the notes.

## CAPITAL AND RESERVES

Consolidated shareholder's equity came to 1,073 million at 31 December 2004, 34.66% higher than a year earlier. The major increase is largely due to the parent bank's capital increase in the first half of the year for 220 million. The remainder of the increase is explained by allocations out of the net profit for 2003, along with the provisions to the reserve for general banking risks.

The ratios between capital and the main balance sheet items reflect the significant increase in equity as follows:

– *capital/direct customer deposits*
  10.87% v. 9.21%;
– *capital/customer loans*
  12.54% v. 10.57%;
– *capital/financial investments*
  31.03% v. 28.68%;
– *capital/total assets*
  8.50% v. 7.28%.

## RECONCILIATION BETWEEN THE PARENT BANK'S AND THE CONSOLIDATED FINANCIAL STATEMENTS

Because of the difference in size between the parent bank and the other companies being consolidated, the individual contributions of the latter are not very significant, although certainly not negligible either. The following table reconciles the items «net profit for the year» and «shareholders' equity» as shown in the parent bank's and in the consolidated financial statements.



**RECONCILIATION BETWEEN SHAREHOLDERS' EQUITY AND NET PROFIT FOR THE YEAR AS SHOWN IN THE PARENT BANK'S AND THE CONSOLIDATED FINANCIAL STATEMENTS**

(in thousands of euro)

| | Shareholders' equity | of which: net profit for the year |
|---|---|---|
| Shareholders' equity of the parent bank as of 31/12/2004 | 1,104,603 | 73,211 |
| Difference with respect to carrying values of equity investments in: | | |
| – companies consolidated on a line-by-line basis | 47,970 | 4,971 |
| – companies valued at net equity | (1,672) | (30) |
| **Balance as of 31/12/2004, as shown in the consolidated financial statements** | **1,150,901** | **78,152** |

* * *

## INCOME STATEMENT

The context in which the Group had to operate during 2004 was generally not very dynamic. Overall growth was lower than expected and the short-term outlook is not particularly positive either.

In view of these circumstances, our Group results are all the more impressive: net profit came to 78.152 million, an increase of 22.36% on the prior year. The trends in the various components of the income statement largely reflect those seen in the parent bank's own financial statements.

At 242.637 million, net interest income was 4.82% higher, chiefly due to the major increase in volumes. Income from customer loans rose by 2.90% to 406.007 million, while the cost of funding decreased by 0.42% to 166.874 million. Net commission income climbed by 13.70% to 135.106 million, mostly thanks to revenue from payment and collection services.

Profits from financial transactions improved 24.00% to 31.478 million, while gains on securities were 22.71% higher at 13.401 million.

Write-downs to securities totalled 1.889 million, a decrease of 3.96%, while revaluations and write-backs came to 8.007 million, of which 4.671 million (compared with 4.715 million in the prior year) was booked as profits from financial transactions, while 3.336 million was classified as extraordinary income. Profits from currency trading were 9.38% higher at 12.495 million. These movements were reflected in income from banking activities, which rose 8.93% to 409.221 million.

Other operating income climbed 20.36% to 32.867 million.

Administrative expenses rose 7.58% to 247.639 million.

Personnel expenses were 12.50% higher at 136.233 million. The increase was due to the new

## RECLASSIFIED CONSOLIDATED INCOME STATEMENT

| (in thousands of euro) | 2004 | 2003 | Change % |
|---|---|---|---|
| Interest income and similar revenues | 406,007 | 394,571 | 2.90 |
| Interest expense and similar charges | (166,874) | (167,576) | -0.42 |
| Dividends and other revenues | 3,504 | 4,480 | -21.79 |
| **NET INTEREST INCOME** | **242,637** | **231,475** | **4.82** |
| Net commission income | 135,106 | 118,825 | 13.70 |
| Profits from financial transactions | 31,478 | 25,385 | 24.00 |
| – profit from trading securities and securities derivatives | 13,401 | 10,921 | 22.71 |
| – profit from trading currency and currency derivatives | 12,495 | 11,423 | 9.38 |
| – profit from trading other derivatives | 2,800 | 293 | 855.63 |
| – gain (loss) on valuing securities | 2,782 | 2,748 | 1.24 |
| **INCOME FROM BANKING ACTIVITIES** | **409,221** | **375,685** | **8.93** |
| Other operating income | 32,867 | 27,308 | 20.36 |
| Administrative expenses | (247,639) | (230,184) | 7.58 |
| – personnel expenses | (136,233) | (121,100) | 12.50 |
| – other administrative expenses | (93,569) | (90,140) | 3.80 |
| – indirect taxes and duties | (17,837) | (18,944) | -5.84 |
| Other operating expenses | (4,203) | (4,118) | 2.06 |
| **OPERATING PROFIT** | **190,246** | **168,691** | **12.78** |
| Adjustments to intangible and fixed assets | (23,491) | (22,830) | 2.90 |
| Loan write-downs and provisions for guarantees and commitments | | | |
| – loan write-downs | (71,159) | (56,170) | 26.69 |
| – provisions for guarantees and commitments | – | (1,500) | – |
| Write-backs to loans and provisions for guarantees and commitments | 24,871 | 23,421 | 6.19 |
| Provisions to reserves for possible loan losses | – | (3,965) | – |
| Adjustments to the value of long-term financial assets | (315) | (665) | -52.63 |
| Write-backs to long-term financial assets | 517 | – | – |
| Gains/(losses) on investments valued at net equity | 2,502 | 511 | 389.63 |
| **PROFIT FROM ORDINARY OPERATIONS** | **123,171** | **107,493** | **14.59** |
| Extraordinary income | 29,959 | 1,281 | 2,238.72 |
| Extraordinary charges | (906) | (786) | 15.27 |
| **PROFIT BEFORE TAX** | **152,224** | **107,988** | **40.96** |
| Change in reserve for general banking risks | (23,319) | (1,266) | 1,741.94 |
| Income taxes | (50,753) | (42,849) | 18.45 |
| **NET PROFIT FOR THE YEAR** | **78,152** | **63,873** | **22.36** |

The 2003 figures have been adjusted for comparison purposes.

recruits consequent upon enlarging the branch network, provisions to the employee pension fund following an actuarial review and estimated charges for the new employment agreement which is in the process of being renewed. As a proportion of total administrative expenses, personnel costs rose from 52.61% to 55.01%.

Other administrative expenses came to 111.406 million, increasing by 2.13% which was considerably lower than their prior year rate. Total administrative expenses accounted for 60.51% of income from banking activities, compared with last year's figure of 61.27%.

Other operating expenses increased by 2.06% to 4.203 million. As a result, operating profit came to 190.246 million, 12.78% up on last year's figure of 168.691 million.

The following items have been deducted from operating profit to arrive at the profit before tax:

- adjustments to intangible and fixed assets of 23.491 million (+2.90%);
- loan write-downs and provisions for guarantees and commitments of 71.159 million (+26.69%). The write-downs are based on a reasonable forecast of the possible write-offs arising from any loans classified as non-performing, watchlist and restructured, in addition to definitive loan losses that have already been written off. The write-downs also include a general provision against the risk that performing loans might turn bad;
- write-backs to loans and provisions for guarantees and commitments of 24.871 million (+6.19%);
- adjustments to the value of long-term financial assets of 0.315 million (-52.63%); write-backs to long-term financial assets of 0.517 million; gains on investments valued at net equity of 2.502 million (+389.63%);
- extraordinary income of 29.959 million and extraordinary charges of 0.906 million. The big increase in extraordinary income is largely associated with the change in the law that no longer allows statutory financial statements to contain adjustments and provisions made solely for tax purposes and requires companies to «remove» those made in the past from their financial statements. It also includes the effect relating to previous years of changing accounting policy for valuing the securities portfolio. For the sake of consistency, the regulations relating to «defiscalisation» have also been applied to the consolidated financial statements. This has also involved reclassifying items of a purely fiscal nature, mostly in the balance sheet, contained in the financial statements of the subsidiary Banca Popolare di Sondrio (SUISSE) SA, which have been booked to the income statement and provided to the reserve for general banking risks. More detailed information on this subject is provided in the notes to the consolidated financial statements. As a result, profit before tax came in at 152.224 million (+40.96%).

Then, after deducting 23.319 million in provisions to the reserve for general banking risks, and 50.753 million (+18.45%) in income and business taxes, the net profit for the year came to 78.152 million (+22.36%).

## SUBSEQUENT EVENTS AND BUSINESS PROSPECTS

The reader is referred to the report accompanying the parent bank's financial statements for information on events taking place after 31 December 2004. As regards Switzerland, there is nothing to report that may significantly change the context in which Banca Popolare di Sondrio (SUISSE) S.A. operates. In terms of the business prospects for 2005, we expect volumes to carry on increasing. The management of services is also expected to improve and hence benefit the Group's profitability.

*Sondrio, 28 January 2005*

THE BOARD OF DIRECTORS

# REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE 2004 CONSOLIDATED FINANCIAL STATEMENTS

Shareholders,

the consolidated financial statements for 2004, which the Board of Directors has provided us within the prescribed deadline and made available to yourselves, close with a net profit of 78.152 million; total assets of 12,623 million; consolidated shareholders' equity of 1,151 million.

Compared with the previous year, there has been a significant improvement in the results, reflecting the considerable diligence of the parent bank and its subsidiary and other companies. We can confirm that the consolidated financial statements have been prepared in accordance with the provisions of Legislative Decree 87 dated 27 January 1992 and the principles required by the Bank of Italy (instructions dated 30 July 2002). They consist of the following compulsory documents: balance sheet, income statement, explanatory notes and directors' report on the Group's performance.

Our examination of the various documents has not given rise to any observations. The consolidated financial statements were audited by Deloitte & Touche Spa, who issued the attached audit report. We confirm that the consolidation has been carried out on the basis of company accounts approved by their respective Boards of Directors and checked by their respective supervisory bodies. The financial statements of the parent company and those of its subsidiary Banca Popolare di Sondrio (SUISSE) SA – the only group company – have been consolidated on a line-by-line basis. The book value of the equity investment in this company has been offset against its shareholders' equity; there are no cross holdings between companies included in the consolidation and all transactions and balances between them have been eliminated.

When preparing the consolidated financial statements – as indeed the financial statements of the Swiss subsidiary – account has been taken of the requirements resulting from the regulatory changes contained in Legislative Decrees 5 and 6 dated 17 January 2003, which reformed company law and introduced, amongst others, the need for «defiscalisation».

Detailed information on this matter is reported in the notes, which also describe the accounting policies used for the different elements of the financial statements and with which we are in agreement.

The consolidation area has remained the same relative to last year.

The consolidated report on operations discloses intercompany transactions and balances with subsidiary and associated companies that are not included in the line-by-line consolidation. The companies concerned have been consolidated using the net equity method, except for CBE-Service Sprl, Services Internazionali e Strutture Integrate 2000 Srl and B & A Broker Spa which have been valued at cost in view of their immateriality. We can confirm that intercompany transactions have always been carried out in the interests of the individual companies concerned and at market conditions. Similarly, any related party transactions have always formed part of the Bank's normal activities and exclude any atypical or unusual transactions.

*Sondrio, 15 February 2005*

THE STATUTORY AUDITORS
*Egidio Alessandri, Chairman*
*Pio Bersani, Acting Auditor*
*Piergiuseppe Forni, Acting Auditor*

# CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004

# CONSOLIDATED BALANCE SHEET
(in thousands of euro)



| ASSETS | | | 31-12-2004 | | 31-12-2003 |
|---|---|---|---|---|---|
| 10. | CASH ON HAND AT CENTRAL BANKS AND POST OFFICES | | **69,879** | | **70,794** |
| 20. | TREASURY AND SIMILAR BILLS ELIGIBLE FOR REFINANCING AT CENTRAL BANKS | | **358,862** | | **348,226** |
| 30. | DUE FROM OTHER BANKS: | | **1,227,875** | | **773,792** |
| | *a)* sight | 540,631 | | 445,766 | |
| | *b)* others | 687,244 | | 328,026 | |
| 40. | CUSTOMER LOANS | | **8,557,728** | | **7,539,714** |
| | of which: | | | | |
| | – from third-party funds under administration | 10 | | 15 | |
| 50. | BONDS AND OTHER FIXED-YIELD SECURITIES: | | **1,627,053** | | **1,442,380** |
| | *a)* from public issuers | 1,241,420 | | 1,204,648 | |
| | *b)* from banks | 104,731 | | 19,890 | |
| | of which: | | | | |
| | – own securities | 2,215 | | 1,448 | |
| | *c)* from financial institutions | 252,879 | | 196,529 | |
| | *d)* from other issuers | 28,023 | | 21,313 | |
| 60. | SHARES, QUOTAS AND OTHER VARIABLE-YIELD SECURITIES | | **146,074** | | **124,304** |
| 70. | EQUITY INVESTMENTS: | | **97,249** | | **88,854** |
| | *a)* valued at net equity | 45,521 | | 44,083 | |
| | *b)* others | 51,728 | | 44,771 | |
| 100. | POSITIVE DIFFERENCE ARISING ON THE APPLICATION OF THE EQUITY METHOD | | **5,714** | | **7,342** |
| 110. | INTANGIBLE ASSETS | | **16,261** | | **18,101** |
| 120. | FIXED ASSETS | | **88,095** | | **73,208** |
| 150. | OTHER ASSETS | | **370,898** | | **399,140** |
| 160. | ACCRUED INCOME AND PREPAYMENTS: | | **57,004** | | **51,707** |
| | *a)* accrued income | 54,575 | | 48,103 | |
| | *b)* prepayments | 2,429 | | 3,604 | |
| | **TOTAL ASSETS** | | **12,622,692** | | **10,937,562** |

THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER
Piero Melazzini

THE STATUTORY AUDITORS
Egidio Alessandri, Chairman
Pio Bersani - Piergiuseppe Forni

| LIABILITIES | | | 31-12-2004 | | 31-12-2003 |
|---|---|---|---|---|---|
| 10. | DUE TO OTHER BANKS: | | **1,056,062** | | **853,950** |
| | *a)* sight | 94,225 | | 50,207 | |
| | *b)* time or with notice | 961,837 | | 803,743 | |
| 20. | CUSTOMER DEPOSITS: | | **8,857,890** | | **7,687,290** |
| | *a)* sight | 7,144,686 | | 6,060,561 | |
| | *b)* time or with notice | 1,713,204 | | 1,626,729 | |
| 30. | SECURITIES ISSUED: | | **1,012,087** | | **959,259** |
| | *a)* bonds | 878,933 | | 836,013 | |
| | *b)* certificates of deposit | 43,205 | | 46,735 | |
| | *c)* other securities | 89,949 | | 76,511 | |
| 40. | THIRD-PARTY FUNDS UNDER ADMINISTRATION | | **10** | | **14** |
| 50. | OTHER LIABILITIES | | **339,861** | | **369,658** |
| 60. | ACCRUED LIABILITIES AND DEFERRED INCOME: | | **27,303** | | **25,765** |
| | *a)* accrued liabilities | 21,325 | | 21,524 | |
| | *b)* deferred income | 5,978 | | 4,241 | |
| 70. | RESERVE FOR SEVERANCE INDEMNITIES | | **41,081** | | **37,594** |
| 80. | RESERVES FOR RISKS AND CHARGES: | | **137,498** | | **127,040** |
| | *a)* staff pension fund | 57,036 | | 51,241 | |
| | *b)* taxation reserve | 55,500 | | 49,423 | |
| | *d)* other reserves | 24,962 | | 26,376 | |
| 90. | RESERVES FOR POSSIBLE LOAN LOSSES | | **0** | | **16,473** |
| 100. | RESERVE FOR GENERAL BANKING RISKS | | **63,319** | | **40,000** |
| 130. | NEGATIVE DIFFERENCES ARISING ON APPLICATION OF THE EQUITY METHOD | | **123** | | **123** |
| 150. | SHARE CAPITAL | | **660,317** | | **412,698** |
| 160. | SHARE PREMIUM RESERVE | | **108,373** | | **135,886** |
| 170. | RESERVES: | | **240,616** | | **207,939** |
| | *a)* legal reserve | 83,352 | | 72,466 | |
| | *c)* statutory reserves | 129,953 | | 111,816 | |
| | *d)* other reserves | 27,311 | | 23,657 | |
| 200. | NET PROFIT FOR THE YEAR | | **78,152** | | **63,873** |
| | **TOTAL LIABILITIES** | | **12,622,692** | | **10,937,562** |

THE GENERAL MANAGER
Mario Alberto Pedranzini

THE CHIEF ACCOUNTANT
Maurizio Bertoletti

## GUARANTEES AND COMMITMENTS

| | | | 31-12-2004 | | 31-12-2003 |
|---|---|---|---|---|---|
| 10. | GUARANTEES GRANTED | | **1,832,030** | | **1,707,524** |
| | of which: | | | | |
| | – acceptances | 3,344 | | 3,146 | |
| | – other guarantees | 1,828,686 | | 1,704,378 | |
| 20. | COMMITMENTS | | **305,120** | | **340,780** |

# CONSOLIDATED INCOME STATEMENT
(in thousands of euro)

| | | | 2004 | | 2003 |
|---|---|---|---|---|---|
| 10. | INTEREST INCOME AND SIMILAR REVENUES | | **406,007** | | **394,571** |
| | of which: | | | | |
| | – on customer loans | 337,393 | | 320,566 | |
| | – on fixed-yield securities | 45,473 | | 48,046 | |
| 20. | INTEREST EXPENSE AND SIMILAR CHARGES | | **(166,874)** | | **(167,576)** |
| | of which: | | | | |
| | – on customer deposits | (123,787) | | (129,444) | |
| | – on securities issued | (25,456) | | (24,627) | |
| 30. | DIVIDENDS AND OTHER INCOME: | | **3,504** | | **4,480** |
| | *a)* from shares, quotas and other variable-yield securities | 1,955 | | 1,597 | |
| | *b)* from equity investments | 1,549 | | 2,883 | |
| 40. | COMMISSION INCOME | | **146,627** | | **128,164** |
| 50. | COMMISSION EXPENSE | | **(11,521)** | | **(9,203)** |
| 60. | PROFITS FROM FINANCIAL TRANSACTIONS | | **31,478** | | **25,385** |
| 70. | OTHER OPERATING INCOME | | **32,867** | | **27,308** |
| 80. | ADMINISTRATIVE EXPENSES: | | **(247,639)** | | **(230,795)** |
| | *a)* personnel expenses | (136,233) | | (120,824) | |
| | of which: | | | | |
| | – wages and salaries | (89,302) | | (83,436) | |
| | – social security contributions | (24,713) | | (22,408) | |
| | – severance indemnities | (5,956) | | (5,607) | |
| | – pensions | (8,540) | | (4,223) | |
| | *b)* other administrative expenses | (111,406) | | (109,971) | |
| 90. | ADJUSTMENTS TO INTANGIBLE AND FIXED ASSETS | | **(23,491)** | | **(22,830)** |
| 110. | OTHER OPERATING EXPENSES | | **(4,203)** | | **(3,643)** |
| 120. | ADJUSTMENTS TO LOANS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS | | **(71,159)** | | **(57,670)** |
| 130. | WRITE-BACKS TO LOANS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS | | **24,871** | | **23,421** |
| 140. | PROVISIONS TO RESERVES FOR POSSIBLE LOAN LOSSES | | **0** | | **(3,965)** |
| 150. | ADJUSTMENT TO THE VALUE OF LONG-TERM FINANCIAL ASSETS | | **(315)** | | **(665)** |
| 160. | WRITE-BACKS TO LONG-TERM FINANCIAL ASSETS | | **517** | | **0** |
| 170. | INCOME (LOSS) ON INVESTMENTS VALUED AT NET EQUITY | | **2,502** | | **511** |
| 180. | PROFIT FROM ORDINARY OPERATIONS | | **123,171** | | **107,493** |
| 190. | EXTRAORDINARY INCOME | | **29,959** | | **1,281** |
| 200. | EXTRAORDINARY CHARGES | | **(906)** | | **(786)** |
| 210. | NET EXTRAORDINARY ITEMS | | **29,053** | | **495** |
| 230. | CHANGE IN THE RESERVE FOR GENERAL BANKING RISKS | | **(23,319)** | | **(1,266)** |
| 240. | INCOME TAXES FOR THE YEAR | | **(50,753)** | | **(42,849)** |
| 260. | **NET PROFIT FOR THE YEAR** | | **78,152** | | **63,873** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements consist of the balance sheet, income statement and these notes, and are accompanied by the report of the Board of Directors, in accordance with Legislative Decree 87/92, which regulates the annual and consolidated financial statements of banks, implementing EEC Directives 86/635 and 89/117. In preparing the above, account has been taken of the Bank of Italy's Instructions of 30 July 2002.

The notes comment on the data in the financial statements, and contain the information required by current legislation.

All figures contained in the notes are in thousands of euro. The consolidated financial statements, as well as the bank's statutory financial statements, have been audited by Deloitte & Touche Spa.



## CONSOLIDATION AREA

The consolidated financial statements include the data of the Banca Popolare di Sondrio S.c.a.r.l. and of the Banca Popolare di Sondrio (SUISSE) SA, the latter operating in the area of credit and loans. Banca Popolare di Sondrio holds 100% of its share capital.

The consolidation is made on the basis of the annual accounts as of 31 December 2004 as approved by the respective Boards of Directors.

The subsidiary Sinergia Seconda Srl, a real estate company headquartered in Milan and wholly-owned by the bank, has been excluded from full consolidation as it does not meet the requirements of article 28 of Legislative Decree 87/92. It has been valued under the net equity method on the basis of its financial statements as at 31 December 2004. The company owns 100% of Immobiliare San Paolo Srl and Immobiliare Borgo Palazzo Srl, both carried at equity.

The associated company Ripoval Spa, a company over which the bank exercises considerable influence because of its 50% ownership, has been valued under the net equity method on the basis of its latest approved financial statements, which are those for the year ended on 31 December 2003.

The subsidiary Pirovano Stelvio Spa has been excluded from full consolidation as it does not meet the requirements of article 28 of Legislative Decree 87/92, not being a credit or financial institution; nor is its business instrumental to the activity of the banking group. It has therefore also been valued under the net equity method on the basis of its financial statements for the year ended 31 December 2004. The associated company Arca Vita Spa, a company over which the bank exercises considerable influence because of its 32.528% ownership, has been valued under the net equity method on the basis of its latest approved financial statements, which are those for the year ended on 31 December 2003.

Sofipo Fiduciaire SA, an indirectly held associated company of Banca Popolare di Sondrio (SUISSE) SA, which owns 30% of the share capital, has also been valued under the net equity method on the basis of its latest approved financial statements, which are those for the year ended on 31 December 2004.

CBE-Service Sprl, Servizi Internazionali e Strutture Integrate 2000 Srl and B&A Broker Spa, the associated companies in which the bank holds interests of 23.30%, 33.33% and 28.57% respectively, have been valued at cost, in accordance with article 36.4 of Legislative Decree 87/92, as they are not considered significant.

## CONSOLIDATION POLICIES

The book value of the investments in Banca Popolare Sondrio (SUISSE) SA is eliminated against its net equity.

Intercompany balances and transactions are eliminated.

Insignificant income and charges pertaining to transactions carried out at normal market conditions have not been eliminated.

## OTHER CONSOLIDATION OPERATIONS



The valuation in euro of the figures in the financial statements of Banca Popolare di Sondrio (SUISSE) SA has been made applying the official exchange rate ruling at the year end. Its financial statements have been duly reclassified and adjusted, where necessary, to bring them into line with the accounting principles of the Group. The same format is used as for the financial statements of Banca Popolare di Sondrio S.c. a.r.l.

### *Requirements resulting from regulatory changes and changes in accounting policies*

The regulations introduced by Legislative Decrees 5 and 6 dated 17 January 2003, which reformed company law, came into force on 1 January 2004. Legislative Decree 37, which amended banking law, was issued on 6 February 2004. In detail, article 7.1b repealed article 15.3 of Legislative Decree 87 dated 27/1/1992, which had allowed bank financial statements to include adjustments and provisions exclusively for tax purposes. The current consolidated financial statements comply with the new provisions. Accordingly, given the general accounting policies affected by the reform and the recommendations of the Italian Accountancy Board and the Bank of Italy, adjustments and provisions charged to the income statement in prior years under article 2426.2 of the Italian Civil Code have now been eliminated in a procedure known as «defiscalisation». The income statement items involved are accelerated depreciation booked until 2001 and provisions for overdue interest. The method of accounting for overdue interest adopted up until 2003 has now been changed since the new International Financial Reporting Standards require that such income be recorded only when collected. Accordingly, overdue interest of € 4.632 million earned in 2004 has not been recorded, except for € 0.268 million that was collected during the year. The cumulative provision of € 5.002 million has been deducted from customer loans after carefully reviewing existing positions, and € 0.536 million has been charged to the income statement. Bearing in mind the requirements of accounting standard 29, this «defiscalisation» exercise has meant that the parent bank's financial statements report extraordinary income of € 9.046 million in respect of accelerated depreciation and € 0.536 million for overdue interest. For the sake of consistency, the «defiscalisation» requirements have also been applied to the financial statements of Banca Popolare di Sondrio (SUISSE) SA. This affected the reserve for fluctuation in securities value by € 3.889 million and the reserve for possible loan losses by € 10.430 million. Since these cumulative tax provisions were mostly recorded in the balance sheet, it was decided to credit the relevant adjustments to extraordinary income, while debiting the corresponding amount to the reserve for general banking risks, meaning that the overall effect was revenue neutral. The sum involved was € 14.319 million.

The effects of «defiscalisation» on the 2004 and 2003 financial statements are set out below.

| (in millions of euro) | 2004 net profit for the year | 2003 net profit for the year | 2003 capital and reserves as of 31/12/2003 |
|---|---|---|---|
| Amounts before defiscalisation | 72.228 | 63.873 | 796.646 |
| Items booked solely for tax purposes, gross of deferred taxes: | | | |
| a) accelerated depreciation | 9.046 | ——— | 9.046 |
| b) overdue interest | 0.536 | 2.778 | 7.202 |
| Elimination of subsidiary company's tax-related items: | | | |
| a) securities fluctuation reserve | 3.889 | | 3.851 |
| b) reserve for possible loan losses | 10.430 | 1.187 | 9.271 |
| Total items booked solely for tax purposes, gross | 23.901 | 3.965 | 29.370 |
| Related deferred taxes | 3.658 | 1.039 | 6.076 |
| Total items booked solely for tax purposes, net of deferred taxes | 20.243 | 2.926 | 23.294 |
| Amounts after defiscalisation | 92.471 | 66.799 | 819.940 |
| Provision to the reserve for general banking risks for reclassification of subsidiary's reserves | 14.319 | | |
| Adjusted amounts | 78.152 | 66.799 | 819.940 |



The booking of extraordinary income due to «defiscalisation» has involved recording € 3.658 million in associated deferred tax. Since prudent estimates against charges for outstanding litigation had given rise to a surplus on the taxation reserve, these deferred taxes have been absorbed by releasing a corresponding credit from the taxation reserve, as detailed in Part B, Section 7. No deferred taxes have been booked upon elimination of the subsidiary's provisions, because they refer solely to the balance sheet and do not involve any timing differences. The elimination of the subsidiary's tax-related balances has been offset by a provision in the consolidated financial statements to the reserve for general banking risks in order to be consistent with the parent bank's financial statements.

Securities not held as fixed assets, listed on regulated markets, previously valued at the lower of cost and market value, are now being marked to market. The effect of this change, totalling € 3.336 million, has been charged to extraordinary income. The related post-tax effect on net profit for the year amounted to € 3.078 million. In order to comply with International Financial Reporting Standards, the valuation of interest rate and foreign currency derivatives has also been changed. The full result of the transaction is now being discounted instead of booking its net result over the life of the contract.

The cumulative effect of this change is not significant. The net positive effect of «defiscalisation» and changes in accounting policies on net profit for the year is € 23 million, which has been largely offset by a provision of € 23.319 million to the reserve for general banking risks.

# Part A *Accounting policies*

## *Section 1* *Description of accounting policies*

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

**Due from other banks and customer loans**

The amount of the loans shown in the financial statements reflects their estimated realizable value. This value is obtained by subtracting from the total amount disbursed the estimated losses in terms of principal and interest, calculated on the basis of specific analyses of non-performing loans,

watchlist loans, loans being restructured and consolidated. In the case of the main non-performing loans recoverable beyond one year, account has also been taken of the financial effect of not investing the corresponding liquidity calculated on the basis of either the loan's original rate or the average rate applying in the year when the loan was classified as non-performing. The generic risk of losses that could occur on other loans in the future has been calculated on an overall basis and attributed proportionately to individual positions. Write-downs and write-ups are calculated by comparing the prior year value of each position with the current year value. The original value of a loan is duly restored in subsequent years if the reasons for the write-down no longer exist. Loans are classified as non-performing when the borrowers are in a state of insolvency or similar, regardless of any estimated losses. Watchlist loans are loans to borrowers in temporary difficulties, that are likely to be overcome.

Restructured loans are those where deferred payment has been granted at lower than market rates, while consolidated loans are included amongst those in the course of being restructured. Loans exposed to country risk relate to borrowers residing in foreign countries considered exposed to risk in accordance with the Bank of Italy regulations on the subject.

Overdue interest earned during the year is booked to the income statement only when collected.

**Other receivables**

Other receivables are shown at face value, which is equivalent to the estimated realizable value.

**Guarantees and commitments**

Guarantees granted are booked at the total value of the commitment taken on. Losses connected with these transactions are covered by specific provisions.

Securities and foreign currency to be received are expressed at the forward price as established by contract with the counterparty.

Commitments to disburse funds to counterparties are booked at the amount to be paid.

## 2. *Securities and off-balance sheet transactions (other than those in foreign currency)*

### 2.2 Trading securities

Securities reported in the financial statements are marked to market as follows:

- for securities listed on regulated Italian or foreign markets, using prices reported on the last day of the year;
- for unlisted securities, using estimated realizable value that, with regard to bonds and other fixed-yield securities, is obtained by discounting future financial flows at a suitable market rate calculated on the basis of objective information.
  Certain specific investments of Banca Popolare di Sondrio (SUISSE) SA are, however, valued at the lower of cost and market value, in accordance with local regulations.

Units in mutual funds are valued on the basis of the period-end value of the securities or the latest available valuation of the units. Commitments for the purchase and sale of futures are valued at the corresponding market values. For repo transactions in securities, with a simultaneous forward commitment, the amounts received and paid are shown as payables and receivables. The cost of borrowing and the return on the investment, consisting of the interest coupons earned on the securities and the difference between their spot and forward prices, are booked to interest in the income statement on an accruals basis.

### 3. *Equity investments*

Item 70 includes:

under sub-item a) equity investments valued under the net equity method, namely Pirovano Stelvio Spa, Ripoval Spa, Sinergia Seconda Srl, Immobiliare San Paolo Srl, Immobiliare Borgo Palazzo Srl, Arca Vita Spa and Sofipo Fiduciaire SA, to which the value attributed is determined according to article 19 of Legislative Decree 87/92;

under sub-item b) others; the remaining equity investments are valued using the methods indicated below:

investments in unlisted companies are valued at cost, as determined on the basis of the purchase or subscription price, or else at the value indicated in the latest approved financial statements. The cost is reduced for permanent losses in value, when sufficient profits to absorb these losses are not immediately foreseeable for the affiliate that incurred them. Equity investments in listed companies are valued at the lower of purchase or subscription price and market value, defined as the average quoted price in the second half of the year. The original value is restored in subsequent years if the reasons for the write-down no longer exist.

Dividends are accounted for in the year they are collected in cash.



### 4. *Assets and liabilities in foreign currency (including off-balance sheet transactions)*

Assets, liabilities and off-balance sheet spot transactions in foreign currency are converted into euro at year-end exchange rates; forward transactions are converted at the forward exchange rate ruling at the year end for maturities corresponding to those being valued; the effect of this valuation is charged to the income statement.

Long-term investments expressed in foreign currency are converted at the exchange rate ruling at the time of purchase.

Foreign currency expenses and revenues are recorded at the exchange rate in force at the time they are accounted for.

### 5. *Fixed assets*

These are recorded at purchase cost, inclusive of any ancillary charges, and adjusted in certain cases in accordance with specific revaluation laws; the amount recorded in the financial statements is obtained by subtracting depreciation charged from the book value calculated in this way. Assets are systematically depreciated in each financial year on a straight-line basis at rates that reflect the residual useful life of the assets. Maintenance costs that add value are attributed to the assets to which they relate and depreciated on the same basis.

### 6. *Intangible assets*

These are booked at the cost incurred, inclusive of ancillary charges, and are amortised systematically over their estimated useful life, which may be no more than five years. They consist of costs for setting-up and refurbishing branches in rented buildings and costs for the purchase of software utilization rights.

### 7. *Others*

**Payables**

These are reported at their nominal value, excluding payables represented by zero-coupon securities, which are booked net of unaccrued interest.

**Accruals and deferrals**

These are booked to record cost or income items that are common to two or more financial years, in line with the matching principle.

**Reserve for severance indemnities**

The reserve for severance indemnities is provided in order to cover the entire amount accruing to employees, in accordance with current legislation, collective labour contracts and supplementary company agreements. This liability is subject to revaluation on the basis of pre-established indices.

In compliance with Law 335/95, employees hired since 28 April 1993 may allocate part of their severance indemnities to a complementary pension fund, as dictated by current company agreements.

**Reserves for risks and charges**

The staff pension fund is the amount accruing as of the date of the financial statements to working and retired employees in terms of supplementary pensions. The taxation reserve provides for income tax on the basis of a reasonable forecast of current and deferred tax charges in accordance with current fiscal laws, taking into consideration any exemptions and tax credits due. The prudence principle dictates that deferred tax assets should only be recognized if it is reasonably certain they will be recovered. Accordingly, account has been taken of only those timing differences between the statutory and fiscal results giving rise to deferred tax assets, that are certain to reverse; accordingly no such timing differences have been recognized on provisions with an unspecified date of reversal. Deferred taxes are recognized using the balance sheet liability method. In any case, there are no deferred tax liabilities on events or transactions that have not been recorded in the income statement. Deferred tax assets and liabilities booked in prior years are valued in the light of any changes to the legislation or tax rates. The other reserves are provided in order to cover losses in value on guarantees granted and on other commitments taken on, and on the certain or probable liabilities whose amount or date of occurrence is not known at the end of the financial year or by the date of the financial statements. The reserves created against these liabilities reflect the best possible estimate on the basis of the information available.

**Reserve for general banking risks**

This reserve covers general business risks, and is therefore considered an equity reserve.

**Derivative contracts**

Derivatives involving currencies, securities, interest rates, indices and other assets are valued individually. The related differentials accruing on these contracts are debited or credited to the income statement in the following manner:

- hedging contracts: the asset and liability elements and related contracts are valued separately. In the case of specific hedges, differentials are booked as interest income or expense on an accruals basis that mirrors that of the costs and revenues generated by the items being hedged; in the case of general hedges, such differentials are recognized over the length of the contract;
- trading contracts: income/costs include the effect of marking to market outstanding contracts at year end and are recorded under profits/losses from financial transactions.

## Section 2 *Tax adjustments and provisions*

### 2.1 Adjustments made exclusively for tax purposes

There were no adjustments made exclusively for tax purposes. As already discussed, accelerated depreciation on buildings made until 2001 has been eliminated under the new regulations.

### 2.2 Provisions made exclusively for tax purposes

There were no provisions made exclusively for tax purposes. Those outstanding at 31/12/2003, consisting of provisions to other reserves and to the reserve for possible loan losses, have been released to income as far as other reserves were concerned, while the provisions to the reserve for possible loan losses were partly reclassified to adjust «Customer loans» and partly released to income depending on whether it was possible to classify them as write-downs or not.



# Part B *Information on the consolidated balance sheet*

## Section 1 *Receivables*

### 1.1 Breakdown of item 30 «Due from other banks»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* deposits with central banks | 158,049 | 83,322 |
| *b)* assets eligible for refinancing at central banks | – | – |
| *c)* receivables from leasing contracts | – | – |
| *d)* repo transactions | 121,643 | – |
| *e)* securities lent | – | – |

Deposits with central banks consist of the compulsory reserve at the Bank of Italy made by the parent bank.

### 1.5 Breakdown of item 40 «Customer loans»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* assets eligible for refinancing at central banks | 10,354 | 8,075 |
| *b)* receivables from leasing contracts | – | – |
| *c)* repo transactions | – | – |
| *d)* securities lent | – | – |

### 1.6 Secured customer loans

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* **by mortgages** | **3,280,973** | **2,673,306** |
| *b)* **by liens on:** | **304,037** | **300,008** |
| 1. cash deposits | 1,139 | 1,154 |
| 2. securities | 286,876 | 286,011 |
| 3. other assets | 16,022 | 12,843 |
| *c)* **by guarantees from:** | **1,741,529** | **1,618,649** |
| 1. governments | – | – |
| 2. other public entities | 3,761 | 495 |
| 3. banks | 42,289 | 44,630 |
| 4. other operators | 1,695,479 | 1,573,524 |
| **Total** | **5,326,539** | **4,591,963** |

## 1.7 Customer loans

| | | | 31/12/2004 | | | 31/12/2003 |
|---|---|---|---|---|---|---|
| Categories | Gross exposure | Total writedowns | Net exposure | Gross exposure | Total writedowns | Net exposure |
| A. **Doubtful loans** | **306,856** | **129,703** | **177,153** | **242,818** | **101,089** | **141,729** |
| A.1. Non-performing | 181,314 | 112,774 | 68,540 | 156,349 | 85,582 | 70,767 |
| A.2. Watchlist | 110,299 | 13,826 | 96,473 | 59,134 | 7,657 | 51,477 |
| A.3. Loans being restructured | – | – | – | – | – | – |
| A.4. Restructured loans | 11,995 | 2,128 | 9,867 | 25,309 | 7,242 | 18,067 |
| A.5. Unsecured loans exposed to country risk | 3,248 | 975 | 2,273 | 2,026 | 608 | 1,418 |
| B. **Performing loans** | **8,427,156** | **46,581** | **8,380,575** | **7,442,413** | **44,428** | **7,397,985** |
| **Total** | **8,734,012** | **176,284** | **8,557,728** | **7,685,231** | **145,517** | **7,539,714** |

## 1.8 Movements in doubtful customer loans

| | | | | | 31/12/2004 |
|---|---|---|---|---|---|
| Categories | Non-performing loans | Watchlist loans | Loans being restructured | Restructured loans | Unsecured loans exposed to country risk |
| A. **Gross exposure as of 31/12/2003** | **156,349** | **59,134** | **0** | **25,309** | **2,026** |
| A.1. of which: overdue interest | 17,462 | 1 | – | – | – |
| B. **Increases** | **79,194** | **76,748** | **0** | **2,076** | **2,228** |
| B.1. transfers from performing loans | 46,602 | 67,713 | – | 2,045 | 1,773 |
| B.2. overdue interest | 4,632 | – | – | – | – |
| B.3. transfers from other categories of doubtful loan | 17,292 | 434 | – | – | – |
| B.4. other increases | 10,668 | 8,601 | – | 31 | 455 |
| C. **Decreases** | **54,229** | **25,583** | **0** | **15,390** | **1,006** |
| C.1. transfers to performing loans | – | 5,670 | – | – | 163 |
| C.2. write-offs | 33,222 | 49 | – | – | – |
| C.3. collections | 21,007 | 9,692 | – | 7,848 | 831 |
| C.4. proceeds from factored loans | – | – | – | – | – |
| C.5. transfers to other categories of doubtful loan | – | 10,172 | – | 7,542 | 12 |
| C.6. other decreases | – | – | – | – | – |
| D. **Gross exposure as of 31/12/2004** | **181,314** | **110,299** | **0** | **11,995** | **3,248** |
| D.1. of which: overdue interest | 18,881 | – | – | – | – |

| Categories | Non-performing loans | Watchlist loans | Loans being restructured | Restructured loans | Unsecured loans exposed to country risk |
|---|---|---|---|---|---|
| | | | | | 31/12/2003 |
| A. **Gross exposure as of 31/12/2002** | **124,789** | **70,842** | **0** | **44,080** | **766** |
| A.1. of which: overdue interest | 15,544 | 1 | – | – | – |
| B. **Increases** | **61,928** | **24,760** | **0** | **823** | **1,409** |
| B.1. transfers from performing loans | 32,707 | 21,075 | – | – | – |
| B.2. overdue interest | 4,524 | – | – | – | – |
| B.3. transfers from other categories of doubtful loan | 20,602 | – | – | – | – |
| B.4. other increases | 4,095 | 3,685 | – | 823 | 1,409 |
| C. **Decreases** | **30,368** | **36,468** | **0** | **19,594** | **149** |
| C.1. transfers to performing loans | – | 1,983 | – | 6,426 | – |
| C.2. write-offs | 14,535 | – | – | – | – |
| C.3. collections | 15,833 | 13,921 | – | 13,168 | 107 |
| C.4. proceeds from factored loans | – | – | – | – | – |
| C.5. transfers to other categories of doubtful loan | – | 20,560 | – | – | 42 |
| C.6. other decreases | – | 4 | – | – | – |
| D. **Gross exposure as of 31/12/2003** | **156,349** | **59,134** | **0** | **25,309** | **2,026** |
| D.1. of which: overdue interest | 17,462 | 1 | – | – | – |



## 1.9 Movements in total adjustments

| Categories | Non-performing loans | Watchlist loans | Loans being restructured | Restructured loans | Unsecured loans exposed to country risk | Performing loans |
|---|---|---|---|---|---|---|
| | | | | | | 31/12/2004 |
| A. **Total opening adjustments at 31/12/2003** | **85,582** | **7,657** | **0** | **7,242** | **608** | **44,428** |
| A.1. of which: overdue interest | 10,260 | 1 | – | – | – | – |
| B. **Increases** | **66,301** | **9,589** | **0** | **553** | **669** | **15,218** |
| B.1. adjustments | 56,167 | 9,094 | – | 542 | 658 | 14,585 |
| B.1.1. of which: overdue interest | 9,359 | – | – | – | – | – |
| B.2. use of the reserve for possible loan losses | – | – | – | – | – | – |
| B.3. transfers from other categories of loan | 6,618 | 494 | – | 11 | 11 | 26 |
| B.4. other increases | 3,516 | 1 | – | – | – | 607 |
| C. **Decreases** | **39,109** | **3,420** | **0** | **5,667** | **302** | **13,065** |
| C.1. write-backs on valuation | 1,516 | 125 | – | 358 | 42 | 2 |
| C.1.1. of which: overdue interest | – | – | – | – | – | – |
| C.2. write-backs due to collections | 4,371 | 943 | – | 1,158 | 259 | 8,777 |
| C.2.1. of which: overdue interest | 501 | – | – | – | – | – |
| C.3. write-offs | 33,222 | 49 | – | – | – | 65 |
| C.4. transfers to other categories of loan | – | 2,303 | – | 4,151 | 1 | 4,221 |
| C.5. other decreases | – | – | – | – | – | – |
| D. **Total closing adjustments at 31/12/2004** | **112,774** | **13,826** | **0** | **2,128** | **975** | **46,581** |
| D.1. of which: overdue interest | 18,345 | – | – | – | – | – |

| Categories | Non-performing loans | Watchlist loans | Loans being restructured | Restructured loans | Unsecured loans exposed to country risk | Performing loans |
|---|---|---|---|---|---|---|
| | | | | | | 31/12/2003 |
| A. **Total opening adjustments at 31/12/2002** | **48,294** | **10,677** | **0** | **8,907** | **230** | **38,618** |
| A.1. of which: overdue interest | 3,160 | 1 | – | – | – | – |
| B. **Increases** | **55,066** | **2,860** | **0** | **1,649** | **423** | **14,416** |
| B.1. adjustments | 51,255 | 2,787 | – | 1,649 | 423 | 13,117 |
| B.1.1. of which: overdue interest | 7,526 | – | – | – | – | – |
| B.2. use of the reserve for possible loan losses | – | – | – | – | – | – |
| B.3. transfers from other categories of loan | 3,811 | 73 | – | – | – | 46 |
| B.4. other increases | – | – | – | – | – | 1,253 |
| C. **Decreases** | **17,778** | **5,880** | **0** | **3,314** | **45** | **8,606** |
| C.1. write-backs on valuation | 473 | 170 | – | 675 | – | 45 |
| C.1.1. of which: overdue interest | – | – | – | – | – | – |
| C.2. write-backs due to collections | 2,770 | 2,098 | – | 2,602 | 31 | 7,864 |
| C.2.1. of which: overdue interest | 247 | – | – | – | – | – |
| C.3. write-offs | 14,535 | – | – | – | – | 85 |
| C.4. transfers to other categories of loan | – | 3,608 | – | 37 | 14 | 271 |
| C.5. other decreases | – | 4 | – | – | – | 341 |
| D. **Total closing adjustments at 31/12/2003** | **85,582** | **7,657** | **0** | **7,242** | **608** | **44,428** |
| D.1. of which: overdue interest | 10,260 | 1 | – | – | – | – |

**Doubtful loans (including overdue interest)**

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| Doubtful loans (including overdue interest) | 68,540 | 70,767 |

**Receivables for overdue interest**

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* doubtful loans | 536 | 7,202 |
| *b)* other loans | – | – |

## *Section 2* ***Securities***

### 2.3 Trading securities

| | 31/12/2004 | | 31/12/2003 | |
|---|---|---|---|---|
| | Book value | Market value | Book value | Market value |
| 1. **Fixed-yield securities** | **1,985,915** | **1,986,076** | **1,790,606** | **1,791,468** |
| 1.1 Government securities | 1,599,632 | 1,599,707 | 1,552,231 | 1,552,715 |
| – listed | 1,599,632 | 1,599,707 | 1,552,231 | 1,552,715 |
| – unlisted | – | – | – | – |
| 1.2 Other securities | 386,283 | 386,369 | 238,375 | 238,753 |
| – listed | 335,797 | 335,883 | 214,239 | 214,617 |
| – unlisted | 50,486 | 50,486 | 24,136 | 24,136 |
| 2. **Variable-yield securities** | **146,074** | **146,175** | **124,304** | **127,011** |
| – listed | 68,323 | 68,424 | 68,116 | 70,818 |
| – unlisted | 77,751 | 77,751 | 56,188 | 56,193 |
| **Total** | **2,131,989** | **2,132,251** | **1,914,910** | **1,918,479** |

The difference between book and market value relates to certain investments of Banca Popolare di Sondrio (SUISSE) SA, valued at the lower of cost and market value in accordance with local regulations.

### 2.4 Change for the year in trading securities

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| A. **Opening balance** | **1,914,910** | **1,829,845** |
| B. **Increases** | **9,628,228** | **10,281,596** |
| B1. Purchases | 9,604,068 | 10,262,323 |
| – Fixed-yield securities | 9,403,687 | 10,190,982 |
| government securities | 7,199,816 | 7,591,762 |
| other securities | 2,203,871 | 2,599,220 |
| – Variable-yield securities | 200,381 | 71,341 |
| B2. Write-backs and revaluations | 10,029 | 6,218 |
| B3. Transfers from investment portfolio | – | – |
| B4. Other changes | 14,131 | 13,055 |
| C. **Decreases** | **9,411,149** | **10,196,531** |
| C1. Sales and reimbursements | 9,408,641 | 10,190,946 |
| – Fixed-yield securities | 9,217,374 | 10,130,898 |
| government securities | 7,156,274 | 7,519,748 |
| other securities | 2,061,100 | 2,611,150 |
| – Variable-yield securities | 191,267 | 60,048 |
| C2. Write-downs | 1,919 | 2,204 |
| C3. Transfers to investment portfolio | – | – |
| C5. Other changes | 589 | 3,381 |
| D. **Closing balance** | **2,131,989** | **1,914,910** |



## *Section 3* ***Equity investments***

### 3.1 Main equity investments

| | Location | Type of relationship (1) | Shareholders' equity | Profit/ Loss | Type of investment: Parent company | Type of investment: % held | % of votes at the AGM | Book value |
|---|---|---|---|---|---|---|---|---|
| A. **Companies included in the consolidation area** A1. **Full consolidation method** | | | | | | | | |
| 1. Banca Popolare di Sondrio (SUISSE) SA | Lugano | 1 | 66,579 | 4,971 | Banca Popolare di Sondrio | 100 | 100 | – |
| B. **Net equity method** | | | | | | | | |
| 1. Pirovano Stelvio spa | Tirano | 1 | 2,099 | -163 | Banca Popolare di Sondrio | 100 | 100 | 3,014 |
| 2. Ripoval spa | Sondrio | 8 | 3,311 | 397 | Banca Popolare di Sondrio | 50 | 50 | 1,475 |
| 3. Sinergia Seconda srl | Milan | 1 | 10,645 | 289 | Banca Popolare di Sondrio | 100 | 100 | 10,853 |
| 4. Arca Vita spa | Verona | 8 | 94,322 | 6,506 | Banca Popolare di Sondrio | 32.528 | 32.528 | 29,958 |
| 5. Sofipo Fiduciarie SA | Lugano | 8 | 737 | 43 | Banca Popolare di Sondrio (SUISSE) SA | 30 | 30 | 221 |

(1) 1 - Control as per article 2359.1.1 of the Italian Civil Code (majority of voting rights at the AGM)
8 - Associated company

The valuation at equity of Arca Vita Spa showed a difference between book value and net equity at 31 December 2003, adjusted for dividends distributed during the year, of € 6.895 million (€ 8.140 million at 31/12/2002). This amount has been included in asset item 100 «Positive differences arising on application of the equity method» and is being amortised over five years starting from 2003 in accordance with the rules governing goodwill dictated by article 16.2 of Decree Law 87 of 27/1/1992. The charge for the year is € 1.628 million.

### 3.3 Assets and liabilities due to and from affiliated companies (excluding Group companies)

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* **Assets** | **256,815** | **175,508** |
| 1. due from other banks | 61,203 | 21,570 |
| of which: – subordinated | | |
| 2. due from financial institutions | 122,966 | 88,321 |
| of which: – subordinated | 140 | 140 |
| 3. customer loans | 54,531 | 55,892 |
| of which: – subordinated | – | – |
| 4. bonds and other fixed-yield securities | 18,115 | 9,725 |
| of which: – subordinated | 7,953 | 2 |
| *b)* **Liabilities** | **143,975** | **303,730** |
| 1. due to other banks | 32,805 | 32,636 |
| 2. due to financial institutions | 101,954 | 154,812 |
| 3. customer deposits | 9,216 | 116,282 |
| 4. securities issued | – | – |
| 5. subordinated liabilities | – | – |
| *c)* **Guarantees and commitments** | **181,497** | **171,505** |
| 1. guarantees granted | 179,709 | 161,687 |
| 2. commitments | 1,788 | 9,818 |

### 3.4 Breakdown of item 70 «Equity investments»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* **in banks** | **22,802** | **22,893** |
| 1. listed | 303 | 394 |
| 2. unlisted | 22,499 | 22,499 |
| *b)* **in financial institutions** | **16,861** | **16,066** |
| 1. listed | – | – |
| 2. unlisted | 16,861 | 16,066 |
| *c)* **others** | **57,586** | **49,895** |
| 1. listed | 10,944 | 5,175 |
| 2. unlisted | 46,642 | 44,720 |
| **Total** | **97,249** | **88,854** |

### 3.5 Breakdown of item 80 «Equity investments in Group companies»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* **in banks** | **–** | **–** |
| 1. listed | – | – |
| 2. unlisted | – | – |
| *b)* **in financial institutions** | **–** | **–** |
| 1. listed | – | – |
| 2. unlisted | – | – |
| *c)* **others** | **–** | **–** |
| 1. listed | – | – |
| 2. unlisted | – | – |
| **Total** | **–** | **–** |

## 3.6 Changes for the year in equity investments

### 3.6.1 Equity investments in Group companies

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| A. **Opening balance** | **0** | **0** |
| B. **Increases** | **0** | **0** |
| B1. Purchases | – | – |
| B2. Write-backs | – | – |
| B3. Revaluations | – | – |
| B4. Other changes | – | – |
| C. **Decreases** | **0** | **0** |
| C1. Sales | – | – |
| C2. Write-downs | – | – |
| of which:<br>– permanent write-downs | – | – |
| C3. Other changes | – | – |
| D. **Closing balance** | **0** | **0** |
| E. **Total revaluations** | **–** | **–** |
| F. **Total write-downs** | **–** | **–** |

### 3.6.2 Other equity investments

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| A. **Opening balance** | **88,854** | **74,556** |
| B. **Increases** | **8,925** | **19,960** |
| B1. Purchases | 6,733 | 19,796 |
| B2. Write-backs | 517 | – |
| B3. Revaluations | – | – |
| B4. Other changes | 1,675 | 164 |
| C. **Decreases** | **530** | **5,662** |
| C1. Sales | 154 | – |
| C2. Write-downs | 315 | 665 |
| of which:<br>– permanent write-downs | –<br>315 | –<br>665 |
| C3. Other changes | 61 | 4,997 |
| D. **Closing balance** | **97,249** | **88,854** |
| E. **Total revaluations** | **–** | **–** |
| F. **Total write-downs** | **5,741** | **5,956** |

## Section 4 *Fixed and intangible assets*

### 4.1 Changes for the year in fixed assets

| | | | | | 31/12/2004 |
|---|---|---|---|---|---|
| | Buildings | Furniture and fittings | Machines and equipment | Others | Total |
| A. **Opening balance** | **58,995** | **5,112** | **4,005** | **5,096** | **73,208** |
| B. **Increases** | **17,467** | **1,730** | **3,201** | **4,020** | **26,418** |
| B1. Purchases | 7,028 | 1,725 | 3,194 | 4,011 | 15,958 |
| B2. Write-backs | – | – | – | – | – |
| B3. Revaluations | – | – | – | – | – |
| B4. Other changes | 10,439 | 5 | 7 | 9 | 10,460 |
| C. **Decreases** | **4,303** | **1,577** | **3,176** | **2,475** | **11,531** |
| C1. Sales | – | – | – | – | – |
| C2. Write-downs: | 4,303 | 1,576 | 3,175 | 2,455 | 11,509 |
| *a)* depreciation | 4,303 | 1,576 | 3,175 | 2,455 | 11,509 |
| *b)* permanent write-downs | – | – | – | – | – |
| C3. Other changes | – | 1 | 1 | 20 | 22 |
| D. **Closing balance** | **72,159** | **5,265** | **4,030** | **6,641** | **88,095** |
| E. **Total revaluations** | **42,374** | **–** | **–** | **–** | **42,374** |
| F. **Total write-downs:** | **51,266** | **18,720** | **30,645** | **29,072** | **129,703** |
| *a)* depreciation | 51,266 | 18,720 | 30,645 | 29,072 | 129,703 |
| *b)* permanent write-downs | – | – | – | – | – |

| | | | | | 31/12/2003 |
|---|---|---|---|---|---|
| | Buildings | Furniture and fittings | Machines and equipment | Others | Total |
| A. **Opening balance** | **61,212** | **4,934** | **4,733** | **5,692** | **76,571** |
| B. **Increases** | **1,329** | **1,971** | **2,986** | **2,639** | **8,925** |
| B1. Purchases | 1,329 | 1,971 | 2,986 | 2,639 | 8,925 |
| B2. Write-backs | – | – | – | – | – |
| B3. Revaluations | – | – | – | – | – |
| B4. Other changes | – | – | – | – | – |
| C. **Decreases** | **3,546** | **1,793** | **3,714** | **3,235** | **12,288** |
| C1. Sales | 8 | – | – | – | 8 |
| C2. Write-downs: | 3,092 | 1,756 | 3,652 | 3,167 | 11,667 |
| *a)* depreciation | 3,092 | 1,756 | 3,652 | 3,167 | 11,667 |
| *b)* permanent write-downs | – | – | – | – | – |
| C3. Other changes | 446 | 37 | 62 | 68 | 613 |
| D. **Closing balance** | **58,995** | **5,112** | **4,005** | **5,096** | **73,208** |
| E. **Total revaluations** | **42,374** | **–** | **–** | **–** | **42,374** |
| F. **Total write-downs:** | **55,429** | **17,138** | **27,880** | **26,832** | **127,279** |
| *a)* depreciation | 55,429 | 17,138 | 27,880 | 26,832 | 127,279 |
| *b)* permanent write-downs | – | – | – | – | – |

## 4.2 Changes for the year in intangible assets

| | | | | 31/12/2004 |
|---|---|---|---|---|
| | Software purchases | Leasehold improvements | Set-up costs | Total |
| A. **Opening balance** | **4,871** | **13,230** | **0** | **18,101** |
| B. **Increases** | **4,423** | **5,445** | **0** | **9,868** |
| B1. Purchases | 4,407 | 5,423 | – | 9,830 |
| B2. Write-backs | – | – | – | – |
| B3. Revaluations | – | – | – | – |
| B4. Other changes | 16 | 22 | – | 38 |
| C. **Decreases** | **4,704** | **7,004** | **0** | **11,708** |
| C1. Sales | – | – | – | – |
| C2. Write-downs: | 4,698 | 5,656 | – | 10,354 |
| *a)* amortisation | 4,698 | 5,656 | – | 10,354 |
| *b)* permanent write-downs | – | – | – | – |
| C3. Other changes | 6 | 1,348 | – | 1,354 |
| D. **Closing balance** | **4,590** | **11,671** | **0** | **16,261** |
| E. **Total revaluations** | **–** | **–** | **–** | **–** |
| F. **Total write-downs:** | **27,243** | **42,251** | **0** | **69,494** |
| *a)* amortisation | 27,243 | 42,251 | 0 | 69,494 |
| *b)* permanent write-downs | – | – | – | – |

| | | | | 31/12/2003 |
|---|---|---|---|---|
| | Software purchases | Leasehold improvements | Set-up costs | Total |
| A. **Opening balance** | **5,018** | **12,789** | **0** | **17,807** |
| B. **Increases** | **4,664** | **6,382** | **0** | **11,046** |
| B1. Purchases | 4,664 | 6,382 | – | 11,046 |
| B2. Write-backs | – | – | – | – |
| B3. Revaluations | – | – | – | – |
| B4. Other changes | – | – | – | – |
| C. **Decreases** | **4,811** | **5,941** | **0** | **10,752** |
| C1. Sales | – | – | – | – |
| C2. Write-downs: | 4,645 | 5,720 | – | 10,365 |
| *a)* amortisation | 4,645 | 5,720 | – | 10,365 |
| *b)* permanent write-downs | – | – | – | – |
| C3. Other changes | 166 | 221 | – | 387 |
| D. **Closing balance** | **4,871** | **13,230** | **0** | **18,101** |
| E. **Total revaluations** | **–** | **–** | **–** | **–** |
| F. **Total write-downs:** | **24,613** | **37,155** | **561** | **62,329** |
| *a)* amortisation | 24,613 | 37,155 | 561 | 62,329 |
| *b)* permanent write-downs | – | – | – | – |

## Section 5 *Other asset items*

### 5.1 Breakdown of item 150 «Other assets»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| Deferred tax assets | 7,926 | 8,527 |
| Taxes withheld | 283 | 230 |
| Tax credits on dividends | 4 | 1,608 |
| Advances paid to tax authorities | 47,723 | 35,564 |
| Withholdings on interest due to customers | 86 | 108 |
| Tax credits and related interest | 5,414 | 4,173 |
| Outstanding cheques and bills | 1,486 | 1,754 |
| Current account cheques drawn on third parties | 37,777 | 60,210 |
| Current account cheques drawn on Group banks | 20,419 | 28,212 |
| Securities transactions | 548 | 3,592 |
| Items in transit with branches | 579 | 1,498 |
| Inventories | 1,432 | 1,378 |
| Contra-item for valuation of off-balance sheet transactions | 85,055 | 102,253 |
| Costs pertaining to the subsequent year | 636 | 624 |
| Advances to suppliers | 8,758 | 6,006 |
| Advances to customers on loans | 42,584 | 71,645 |
| Value date differentials on portfolio transactions | 584 | 518 |
| Miscellaneous debits in transit | 6,872 | 13,219 |
| Premiums for exchange and securities options and derivatives purchased | 15,913 | 14,250 |
| Guarantee deposits | 199 | 148 |
| Liquid assets belonging to the staff pension fund | 4,053 | 746 |
| Receivables for hedging transactions | 1,183 | 3,462 |
| Advance payment as per Decree 341 of 10/12/2003 | 66,377 | 28,532 |
| Differences on elimination | 3,845 | 4 |
| Residual items | 11,162 | 10,879 |
| **Total** | **370,898** | **399,140** |

### 5.2 Breakdown of item 160 «Accrued income and prepayments»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* **Accrued income** | **54,575** | **48,103** |
| Interest receivable on securities | 12,071 | 11,390 |
| Interest on euro and foreign currency deposits with and loans to customers | 6,807 | 6,371 |
| Interest on euro and foreign currency deposits with and loans to other banks | 1,393 | 674 |
| Interest on customer mortgages and loans | 18,252 | 15,650 |
| Commissions receivable | 10,102 | 8,947 |
| Forward currency transactions | – | 361 |
| Other accrued income | 5,950 | 4,710 |
| *b)* **Prepayments** | **2,429** | **3,604** |
| Invoices received not pertaining to this financial year | 1,380 | 1,460 |
| Other prepaid expenses | 1,049 | 2,144 |
| **Total** | **57,004** | **51,707** |

No adjustments have been made directly to the relevant balance sheet items for accrued income and prepayments.

### 5.4 Distribution of subordinated assets

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* due from other banks | – | – |
| *b)* customer loans | 140 | 140 |
| *c)* bonds and other fixed-yield securities | 60,573 | 2,851 |

## Section 6 *Payables*

### 6.1 Breakdown of the item «Due to other banks»



| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* repo transactions | – | – |
| *b)* securities lent | – | – |

### 6.2 Breakdown of the item «Customer deposits»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* repo transactions | 1,248,980 | 1,224,913 |
| *b)* securities lent | – | – |

Item 20 totals € 8,857.890 million.

Item 30 «securities issued» amounts to € 1,012.087 million. It is made up of «bonds, «certificates of deposit» and «other securities».

The sub-item «bonds» includes the securities listed below:

| | Book value |
|---|---|
| *Issued by Banca Popolare di Sondrio:* | |
| Floating-rate bond issues | 108,002 |
| Fixed-rate bond issues | 571,136 |
| Zero-coupon bond issues | 158,891 |
| **Total** | **838,029** |
| *Issued by Banca Popolare di Sondrio (SUISSE) SA:* | |
| Floating-rate bond issues | 40,904 |
| **Total** | **878,933** |

Floating-rate bond issues also include structured bonds with a nominal value of € 10 million.

The sub-item «certificates of deposit» totals € 43.204 million and consists of € 40 million in short-term fixed-rate certificates, € 1.156 million in medium-term fixed-rate certificates and € 2.048 million in medium-term floating-rate certificates.

The sub-item «other securities» totals € 89.949 million and is made up of banker's drafts and others.

Item 40 «Third party funds under administration» consists of public funds to be used for assisted loans. This item reports a balance of € 10,000, a decrease of € 4,000 (-28.57%).

## Section 7 *Reserves*

### 7.1 Breakdown of item 90 «Reserves for possible loan losses»

These reserves amounted to € 16.473 million at the end of the prior year, of which € 7.202 million in reserves against the portion of overdue interest deemed recoverable; this has been eliminated in 2004 in accordance with the so-called «defiscalisation» process.

### 7.2 Changes for the year in the reserves for possible loan losses

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| A. **Opening balance** | **16,473** | **27,056** |
| B. **Increases** | **90** | **3,965** |
| B1. Provisions | – | 3,965 |
| B2. Other changes | 90 | – |
| C. **Decreases** | **16,563** | **14,548** |
| C1. Utilizations | 375 | 6,100 |
| C2. Other changes | 16,188 | 8,448 |
| D. **Closing balance** | **0** | **16,473** |

The decreases reported under «C1. Utilizations» include € 0.375 million in write-offs for overdue interest; «C2. Other changes» include € 1.289 million in overdue interest collected, € 5.002 million in overdue interest reclassified against customer loans, € 0.536 million in overdue interest released to extraordinary income and € 9.361 million in overdue interest released to income and then provided to the reserve for general banking risks.

### 7.3 Breakdown of sub-item 80d) «Reserves for risks and charges: others»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| a Charity fund | 242 | 305 |
| b Reserve for guarantees granted | 5,000 | 5,000 |
| c Reserve for personnel expenses | 5,720 | 3,220 |
| d Reserve for litigation costs | 14,000 | 14,000 |
| e Reserve for fluctuation in securities value | – | 3,851 |
| **Total** | **24,962** | **26,376** |

The reserve for fluctuation in securities value has been released to «Extraordinary income» and then provided to the reserve for general banking risks as part of «defiscalisation».

**Taxation reserve**

This totals € 55.5 million. The «defiscalisation» exercise carried out during the year has involved calculating deferred taxes on the related items. Based on the latest estimates of charges associated with outstanding tax disputes, this reserve reported a surplus in provisions booked in the past. As a result, part of this surplus was released to income to offset the impact of providing € 3.658 million in deferred tax in connection with defiscalisation.

### 7.4 Change in deferred tax assets

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| 1. **Opening balance** | **8,527** | **7,079** |
| 2. **Increases** | **1,621** | **4,120** |
| 2.1. Deferred tax assets arising during the year | 1,621 | 3,918 |
| 2.2. Other increases | – | 202 |
| 3. **Decreases** | **2,222** | **2,672** |
| 3.1. Deferred tax assets reversing during the year | 2,157 | 2,672 |
| 3.2. Other decreases | 65 | – |
| 4. **Closing balance** | **7,926** | **8,527** |

Timing differences involving deferred tax assets relate mainly to loan write-downs, entertainment expenses, directors' emoluments and write-downs of equity investments.

The changes shown under points 2.1 and 3.1 are set out below:

| | Arising during the year | Reversing during the year |
|---|---|---|
| Loan write-downs | – | 595 |
| Directors' emoluments | 295 | 244 |
| Other administrative expenses | 1,326 | 1,144 |
| Write-downs of equity investments | – | 174 |
| | **1,621** | **2,157** |



Other decreases of € 0.065 million relate to the use of a different rate for IRAP compared with the previous year when calculating deferred tax assets.

Deferred tax assets have not been calculated on those liabilities for which it is not possible to establish a date of reversal. Such liabilities amount to € 5 million and refer to the reserve for guarantees.

### 7.5 Change in deferred tax liabilities

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| 1. **Opening balance** | **50** | **33** |
| 2. **Increases** | **7,422** | **31** |
| 2.1. Deferred tax liabilities arising during the year | 3,757 | 30 |
| 2.2. Other increases | 3,665 | 1 |
| 3. **Decreases** | **30** | **14** |
| 3.1. Deferred tax liabilities reversing during the year | 23 | 14 |
| 3.2. Other decreases | 7 | – |
| 4. **Closing balance** | **7,442** | **50** |

The changes shown under points 2.1, 3.1, 2.2 and 3.2 are set out below:

| | Arising during the year | Reversing during the year |
|---|---|---|
| Realized gains | 5 | 17 |
| Amortisation and depreciation | 575 | 6 |
| Loan write-downs | 3,177 | – |
| | **3,757** | **23** |

| | Other increases | Other decreases |
|---|---|---|
| Realized gains | – | 7 |
| Amortisation and depreciation | 3,460 | – |
| Provision of overdue interest | 205 | – |
| | **3,665** | **7** |

The «defiscalisation» exercise carried out during the year has involved calculating deferred taxes on the related items. Based on the latest estimates of charges associated with outstanding tax disputes, this reserve reported a surplus in provisions booked in the past. As a result, no new provision was made in connection with defiscalisation but instead part of this surplus amounting to € 3.658 million was reclassified to deferred tax liabilities to cover the related liability.

## *Section 8* ***Share capital, reserves, reserve for general banking risks, and subordinated liabilities***

The following table gives a breakdown of the items making up Group shareholders' equity.

| Liability items | | 31/12/2004 | 31/12/2003 |
|---|---|---|---|
| Item 100 | **Reserve for general banking risks** | **63,319** | **40,000** |
| Item 130 | **Negative differences arising on application of the equity method** | **123** | **123** |
| Item 150 | **Share capital** | **660,317** | **412,698** |
| | Made up of 220,105,703 ordinary shares with a par value of € 3 each, issued by the parent bank | | |
| Item 160 | **Share premium reserve** | **108,373** | **135,886** |
| Item 170 | **Reserves** | **240,617** | **207,939** |
| | a) legal | 83,353 | 72,466 |
| | b) for own shares | – | – |
| | c) statutory | 129,953 | 111,816 |
| | d) others | 27,311 | 23,657 |
| Item 190 | **Retained earnings** | – | – |
| Item 200 | **Net profit for the year** | **78,152** | **63,873** |
| **Total shareholders' equity** | | **1,150,901** | **860,519** |

### 8.1 Capital ratios: solvency ratio as of 31 December 2004

| Categories | 31/12/2004 | 31/12/2003 |
|---|---|---|
| A. **Capital for supervisory purposes** | | |
| A.1 Basic capital (tier 1) | 1,091,258 | 803,186 |
| A.2 Supplementary capital (tier 2) | 794 | 16,588 |
| A.3 Amounts to be subtracted | 16,098 | 15,870 |
| A.4 Capital for supervisory purposes | 1,075,954 | 803,904 |
| B. **Precautionary requirements for supervisory purposes** | | |
| B.1 Credit risks | 765,942 | 694,402 |
| B.2 Market risks | 33,579 | 30,771 |
| of which: | | |
| – risks to the trading securities portfolio | 33,224 | 30,771 |
| – exchange risks | – | – |
| B.3 Third level subordinated loans | – | – |
| B.4 Other precautionary requirements | – | 3,612 |
| B.5 Total precautionary requirements | 799,521 | 728,785 |
| C. **Risk assets and capital ratios** | | |
| C.1 Risk-weighted assets | 9,994,013 | 9,109,812 |
| C.2 Tier 1 capital / Risk-weighted assets | 10.92% | 8.82% |
| C.3 Capital for supervisory purposes / Risk-weighted assets | 10.77% | 8.82% |

This is the minimum consolidated capital ratio requirement which banking groups must constantly meet to cover counterparty solvency risk. The minimum prescribed level for the solvency ratio (total capital for supervisory purposes to risk-weighted assets) is 8% for banking groups.

## Section 9 *Other liability items*

### 9.1 Breakdown of item 50 «Other liabilities»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| Amounts at the disposal of third parties | 25,154 | 36,636 |
| Taxes to be paid on behalf of third parties | 17,947 | 18,206 |
| Taxes to be paid | 1,082 | 1,263 |
| Employee salaries and contributions | 12,668 | 11,240 |
| Trade payables | 4,012 | 6,687 |
| Transit accounts for sundry entities | 5,324 | 2,931 |
| Invoices receivable | 3,489 | 3,043 |
| Securities transactions | 1,186 | 1,360 |
| Value date differentials on portfolio transactions | 84,967 | 80,039 |
| Directors' and statutory auditors' emoluments | 1,011 | 948 |
| Loans disbursed to customers to be finalized | 15,487 | 8,864 |
| Miscellaneous credit items being settled | 52,825 | 70,988 |
| Premiums for exchange and securities options and derivatives sold | 16,444 | 14,771 |
| Contra-item for valuation of off-balance sheet transactions | 85,298 | 99,231 |
| Items in transit with branches | 106 | 220 |
| Residual items | 12,861 | 13,231 |
| **Total** | **339,861** | **369,658** |



### 9.2 Breakdown of item 60 «Accrued liabilities and deferred income»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* **Accrued liabilities** | **21,325** | **21,524** |
| Interest on bonds | 4,758 | 8,096 |
| Interest on certificates of deposit | 269 | 352 |
| Interest on customer deposits in euro and foreign currency | 612 | 1,423 |
| Interest on deposits from other banks in euro and foreign currency | 2,641 | 2,623 |
| Repo transactions | 2,841 | 2,228 |
| Commission | – | 153 |
| Other accrued liabilities | 10,204 | 6,649 |
| *b)* **Deferred income** | **5,978** | **4,241** |
| Interest on portfolio, mortgages and loans | 476 | 365 |
| Commission on sureties | 3,897 | 2,788 |
| Other deferred income | 1,605 | 1,088 |
| **Total** | **27,303** | **25,765** |

No adjustments have been made directly to the relevant balance sheet items for accrued liabilities and deferred income.

## Section 10 *Guarantees and commitments*

### 10.1 Breakdown of item 10 «Guarantees granted»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* commercial endorsement credits | 1,048,988 | 897,221 |
| *b)* financial endorsement credits | 775,042 | 802,298 |
| *c)* assets given in guarantee | 8,000 | 8,005 |
| **Total** | **1,832,030** | **1,707,524** |

### 10.2 Breakdown of item 20 «Commitments»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* commitments to disburse funds (certain to be called on) | 151,864 | 206,232 |
| *b)* commitments to disburse funds (not certain to be called on) | 153,256 | 134,548 |
| **Total** | **305,120** | **340,780** |

### 10.3 Collateral given for own payables

The collateral provided by the Group against its own liabilities mostly consists of government securities as follows: € 1,228.315 million in securities given to customers for repo transactions, € 16.428 million for the deposit paid against the issuing of banker's drafts and € 5.785 million relating to sundry services.

### 10.4 Margins usable on credit lines

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* central banks | 158,049 | 83,322 |
| *b)* other banks | 2,458 | 2,439 |

### 10.5 Forward transactions

| | | | 31/12/2004 | | | 31/12/2003 |
|---|---|---|---|---|---|---|
| Type of transaction | For hedging | For trading | Other transactions | For hedging | For trading | Other transactions |
| 1. **Buying and selling:** | | | | | | |
| 1.1 Securities | | | | | | |
| – purchases | – | 29,439 | – | – | 39,438 | – |
| – sales | – | 21,895 | – | – | 28,618 | – |
| 1.2 Foreign currency | | | | | | |
| – currency against currency | – | 191,322 | – | – | 157,299 | – |
| – purchases against euro | – | 1,480,146 | – | – | 1,420,363 | – |
| – sales against euro | – | 1,516,969 | – | – | 1,446,598 | – |
| 2. **Deposits and loans** | | | | | | |
| – to be disbursed | – | – | 28,429 | – | – | 63,978 |
| – to be received | – | – | 5,185 | – | – | 38,420 |
| 3. **Derivative contracts** | | | | | | |
| 3.1 With exchange of capital | | | | | | |
| a) securities | | | | | | |
| – purchases | – | 3,161 | – | – | 2,617 | – |
| – sales | – | 3,161 | – | – | 2,617 | – |
| b) foreign currency | | | | | | |
| – currency against currency | – | 48,762 | – | – | 39,936 | – |
| – purchases against euro | – | 167,252 | – | – | 269,254 | – |
| – sales against euro | – | 167,252 | – | – | 269,226 | – |
| c) other instruments | | | | | | |
| – purchases | – | – | – | – | 95,985 | – |
| – sales | – | – | – | – | 95,985 | – |
| 3.2 Without exchange of capital | | | | | | |
| a) foreign currency | | | | | | |
| – currency against currency | – | 105,070 | – | – | 9,748 | – |
| – purchases against euro | – | 3,138 | – | – | 234,040 | – |
| – sales against euro | – | 3,138 | – | – | 234,040 | – |
| b) other instruments | | | | | | |
| – purchases | 107,000 | 505,860 | – | 229,841 | 528,008 | – |
| – sales | 168,139 | 505,992 | 10,000 | 126,723 | 528,008 | 73,494 |

**Quantitative information on derivative contracts**

The following table gives information on derivative contracts in compliance with the regulations formulated by the Basel Committee on Banking Supervision and the International Organization of Securities Commissions (IOSCO).

**Breakdown of reference capital by type of contract**

| | Interest rates | Exchange rates | Share prices and indices | Other | Total |
|---|---|---|---|---|---|
| **Trading contracts** (unquoted) | | | | | |
| Futures purchased | – | – | – | 26,348 | **26,348** |
| Futures sold | – | – | – | 26,348 | **26,348** |
| Swaps purchased | 379,870 | – | – | – | **379,870** |
| Swaps sold | 379,870 | – | – | – | **379,870** |
| Options purchased | 16,187 | 247,306 | 22,000 | 61,455 | **346,948** |
| Options sold | 16,187 | 247,306 | 22,000 | 61,587 | **347,080** |
| **Trading contracts** (quoted) | | | | | |
| Options purchased | – | – | 3,161 | – | **3,161** |
| Options sold | – | – | 3,161 | – | **3,161** |
| **Total** | **792,114** | **494,612** | **50,322** | **175,738** | **1,512,786** |
| **Non-trading contracts** (unquoted) | | | | | |
| Options purchased | – | – | 10,000 | – | **10,000** |
| Options sold | – | – | 10,000 | – | **10,000** |
| Swaps purchased | 97,000 | – | – | – | **97,000** |
| Swaps sold | 168,139 | | | | **168,139** |
| **Total** | **265,139** | – | **20,000** | – | **285,139** |
| **Grand total** | **1,057,253** | **494,612** | **70,322** | **175,738** | **1,797,925** |

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

### 11.1 Significant risk accounts

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* amount | 491,613 | 820,373 |
| *b)* number | 4 | 8 |

### 11.2 Breakdown of customer loans by main borrower categories

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* governments | 229 | – |
| *b)* other public entities | 110,128 | 36,895 |
| *c)* non-financial businesses | 5,041,068 | 4,533,995 |
| *d)* financial businesses | 476,112 | 474,010 |
| *e)* family businesses | 901,056 | 694,717 |
| *f)* other businesses | 2,029,135 | 1,800,097 |
| **Total** | **8,557,728** | **7,539,714** |

### 11.3 Breakdown of loans to resident non-financial companies and family businesses

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* other services for sale | 1,867,989 | 1,460,908 |
| *b)* wholesale and retail services, recoveries and repairs | 885,426 | 783,762 |
| *c)* construction and public works | 795,516 | 653,324 |
| *d)* metal products excluding cars and transportation | 273,611 | 247,448 |
| *e)* services by hotels, restaurants, bars, etc. | 218,812 | 197,972 |
| *f)* other sectors | 1,825,222 | 1,740,822 |
| **Total** | **5,866,576** | **5,084,236** |

### 11.4 Distribution of guarantees granted by main categories of counterparty

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* governments | – | – |
| *b)* other public entities | 53,658 | 36,676 |
| *c)* banks | 139,782 | 125,422 |
| *d)* non-financial businesses | 1,323,197 | 1,251,298 |
| *e)* financial businesses | 51,732 | 48,662 |
| *f)* family businesses | 30,774 | 33,012 |
| *g)* other businesses | 232,887 | 212,454 |
| **Total** | **1,832,030** | **1,707,524** |

### 11.5 Geographical breakdown of assets and liabilities

| | | | 31/12/2004 | | | 31/12/2003 |
|---|---|---|---|---|---|---|
| Item | Italy | Other EU countries | Other countries | Italy | Other EU countries | Other countries |
| 1. **Assets** | **10,845,974** | **492,221** | **579,397** | **9,504,169** | **290,632** | **433,615** |
| 1.1 Due from other banks | 835,976 | 258,255 | 133,644 | 565,658 | 102,784 | 105,350 |
| 1.2 Customer loans | 7,982,647 | 176,764 | 398,317 | 7,078,850 | 143,976 | 316,888 |
| 1.3 Securities | 2,027,351 | 57,202 | 47,436 | 1,859,661 | 43,872 | 11,377 |
| 2. **Liabilities** | **9,581,277** | **653,486** | **691,285** | **8,409,490** | **520,809** | **570,214** |
| 2.1 Due to other banks | 246,219 | 522,056 | 287,787 | 203,876 | 429,024 | 221,050 |
| 2.2 Customer deposits | 8,363,996 | 131,430 | 362,464 | 7,276,430 | 91,785 | 319,075 |
| 2.3 Securities issued | 971,052 | – | 41,034 | 929,170 | – | 30,089 |
| 2.4 Others | 10 | – | – | 14 | – | – |
| 3. **Guarantees and commitments** | **1,934,335** | **92,620** | **110,195** | **1,891,861** | **61,073** | **95,370** |

## 11.6 Breakdown of assets and liabilities by maturity

31/12/2004

| | Sight | Fixed duration: Up to 3 months | Fixed duration: 3 to 12 months | Fixed duration: 1 to 5 years, Fixed rate | Fixed duration: 1 to 5 years, Floating rate | Fixed duration: Over 5 years, Fixed rate | Fixed duration: Over 5 years, Floating rate | Unspecified duration |
|---|---|---|---|---|---|---|---|---|
| 1. **Assets** | **3,574,647** | **2,327,767** | **1,094,598** | **1,123,911** | **2,151,086** | **231,490** | **2,100,313** | **319,738** |
| 1.1 Re-financeable treasury bills | – | 361 | 1,982 | 45,867 | 102,863 | 162 | 207,627 | – |
| 1.2 Due from other banks | 540,632 | 487,393 | 39,798 | 2,003 | – | – | – | 158,049 |
| 1.3 Customer loans | 3,028,830 | 1,456,514 | 741,032 | 618,947 | 1,159,124 | 193,935 | 1,197,657 | 161,689 |
| 1.4 Bonds and other fixed-yield securities | – | 2,310 | 23,699 | 21,769 | 883,248 | 1,198 | 694,829 | – |
| 1.5 Off-balance sheet items | 5,185 | 381,189 | 288,087 | 435,325 | 5,851 | 36,195 | 200 | – |
| 2. **Liabilities** | **7,576,769** | **2,670,515** | **463,699** | **929,309** | **241,275** | **114,234** | **82,270** | **–** |
| 2.1 Due to other banks | 94,305 | 843,116 | 30,552 | 1,217 | 40,089 | – | 46,783 | – |
| 2.2 Customer deposits | 7,368,496 | 1,408,928 | 80,141 | 325 | – | – | – | – |
| 2.3 Securities issued | 90,539 | 89,670 | 90,141 | 436,980 | 195,324 | 74,194 | 35,239 | – |
| – bonds | – | 67,041 | 73,151 | 435,575 | 193,733 | 74,194 | 35,239 | – |
| – certificates of deposit | 590 | 22,629 | 16,990 | 1,405 | 1,591 | – | – | – |
| – other securities | 89,949 | – | – | – | – | – | – | – |
| 2.4 Subordinated liabilities | – | – | – | – | – | – | – | – |
| 2.5 Off-balance sheet items | 23,429 | 328,801 | 262,865 | 490,787 | 5,862 | 40,040 | 248 | – |

31/12/2003

| | Sight | Fixed duration: Up to 3 months | Fixed duration: 3 to 12 months | Fixed duration: 1 to 5 years, Fixed rate | Fixed duration: 1 to 5 years, Floating rate | Fixed duration: Over 5 years, Fixed rate | Fixed duration: Over 5 years, Floating rate | Unspecified duration |
|---|---|---|---|---|---|---|---|---|
| 1. **Assets** | **3,340,244** | **1,734,344** | **1,403,782** | **1,026,523** | **1,734,009** | **270,592** | **1,802,660** | **214,627** |
| 1.1 Re-financeable treasury bills | – | 893 | 2,730 | 59,927 | 123,524 | 640 | 160,512 | – |
| 1.2 Due from other banks | 445,766 | 201,515 | 41,187 | 2,002 | – | – | – | 83,322 |
| 1.3 Customer loans | 2,826,058 | 1,182,910 | 804,509 | 473,996 | 923,862 | 240,600 | 956,474 | 131,305 |
| 1.4 Bonds and other fixed-yield securities | – | 1,312 | 1,940 | 75,542 | 684,699 | 3,421 | 675,466 | – |
| 1.5 Off-balance sheet items | 68,420 | 347,714 | 553,416 | 415,056 | 1,924 | 25,931 | 10,208 | – |
| 2. **Liabilities** | **6,361,074** | **2,381,566** | **1,067,362** | **694,983** | **232,902** | **96,232** | **89,049** | **–** |
| 2.1 Due to other banks | 50,958 | 494,292 | 232,776 | 4,476 | 27,501 | – | 43,947 | – |
| 2.2 Customer deposits | 6,199,177 | 1,422,077 | 64,110 | – | 1,926 | – | – | – |
| 2.3 Securities issued | 76,961 | 89,594 | 221,924 | 280,704 | 200,571 | 54,886 | 34,619 | – |
| – bonds | 260 | 64,273 | 202,617 | 279,255 | 200,103 | 54,886 | 34,619 | – |
| – certificates of deposit | 190 | 25,321 | 19,307 | 1,449 | 468 | – | – | – |
| – other securities | 76,511 | – | – | – | – | – | – | – |
| 2.4 Subordinated liabilities | – | – | – | – | – | – | – | – |
| 2.5 Off-balance sheet items | 33,978 | 375,603 | 548,552 | 409,803 | 2,904 | 41,346 | 10,483 | – |

### 11.7 Foreign currency assets and liabilities

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* **assets** | **1,680,720** | **1,513,617** |
| 1. due from other banks | 282,954 | 259,941 |
| 2. customer loans | 1,356,918 | 1,213,666 |
| 3. securities | 27,770 | 27,454 |
| 4. equity investments | 227 | 224 |
| 5. others | 12,851 | 12,332 |
| *b)* **liabilities** | **1,572,970** | **1,395,703** |
| 1. due to other banks | 879,537 | 735,730 |
| 2. customer deposits | 652,399 | 629,884 |
| 3. securities issued | 41,034 | 30,089 |
| 4. others | – | – |

### 11.8 Securitization transactions

The bank holds the following securities deriving from third-party securitization transactions:

| | Nominal value | Book value | Type | Rating |
|---|---|---|---|---|
| Credifarma | 10,000 | 10,023 | Senior | AAA |
| Scip | 54,893 | 54,915 | Senior | AA |
| Scip | 45,767 | 45,804 | Senior | AAA |
| Scip | 29,570 | 29,603 | Mezzanine | AA |
| CPG-AEM | 23,945 | 23,946 | Senior | - |
| Scic | 29,381 | 29,404 | Senior | AAA |
| Italease | 10,000 | 10,000 | Senior | AAA |
| Sintonia | 5,000 | 3,417 | Senior | AAA |
| **Total** | **208,556** | **207,112** | | |

S.C.I.P. Società Cartolarizzazione Immobili Pubblici Srl is a vehicle company set up for the privatization of public sector properties.

## *Section 12* ***Management and intermediation for third parties***

### 12.1 Securities trading

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* **Purchases** | **5,473,509** | **4,537,816** |
| 1. regulated | 4,526,365 | 3,550,305 |
| 2. not regulated | 947,144 | 987,511 |
| *b)* **Sales** | **4,557,196** | **3,701,690** |
| 1. regulated | 3,728,614 | 2,871,957 |
| 2. not regulated | 828,582 | 829,733 |

### 12.2 Portfolio management

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| 1. securities issued by the reporting bank | 4,775 | 5,592 |
| 2. other securities | 2,041,153 | 1,780,226 |

The total amount of cash held in relation to portfolio management contracts is € 64.881 million.

### 12.3 Securities custody and administration

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* third-party securities on deposit | 12,097,289 | 11,642,614 |
| *b)* third-party securities on deposit with third parties | 10,544,192 | 10,292,135 |
| *c)* own securities on deposit with third parties | 2,088,615 | 1,866,644 |

### 12.4 Collection orders for third parties: debit and credit adjustments

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* **debit adjustments** | **1,868,812** | **1,651,362** |
| 1. current accounts | 2,939 | 825 |
| 2. central portfolio | 1,483,503 | 1,266,248 |
| 3. cash | 2 | 35 |
| 4. others | 382,368 | 384,254 |
| *b)* **credit adjustments** | **1,868,812** | **1,651,362** |
| 1. current accounts | 666 | 1,930 |
| 2. transferors of bills and documents | 1,868,146 | 1,649,432 |
| 3. others | – | – |



# PART C *Information on the income statement*

## *Section 1* *Interest*

### 1.1 Breakdown of item 10 «Interest income and similar revenues»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* on amounts due from other banks | 21,360 | 25,108 |
| of which: | | |
| – on amounts due from central banks | 2,853 | 2,941 |
| *b)* on customer loans | 337,393 | 320,566 |
| of which: | | |
| – on third-party funds under administration | – | – |
| *c)* on fixed-yield securities | 45,473 | 48,045 |
| *d)* other interest income | – | 2 |
| *e)* positive balance of spreads on hedging transactions | 1,781 | 850 |
| **Total** | **406,007** | **394,571** |

### 1.2 Breakdown of item 20 «Interest expense and similar charges»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* on amounts due to other banks | 17,631 | 13,506 |
| *b)* on customer deposits | 123,787 | 129,443 |
| *c)* on securities issued | 25,456 | 24,627 |
| of which: | | |
| – certificates of deposit | 781 | 1,168 |
| *d)* on third-party funds under administration | – | – |
| *e)* on subordinated liabilities | – | – |
| *f)* negative balance of spreads on hedging transactions | – | – |
| **Total** | **166,874** | **167,576** |

### 1.3 Detail of item 10 «Interest income and similar revenues»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* on assets in foreign currency | 38,687 | 34,010 |

### 1.4 Detail of item 20 «Interest expense and similar charges»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* on liabilities in foreign currency | 21,598 | 17,361 |



## *Section 2* ***Commissions***

### 2.1 Breakdown of item 40 «Commission income»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* guarantees granted | 7,892 | 6,736 |
| *b)* credit derivatives | – | – |
| *c)* management, intermediation and consultancy services: | 66,843 | 60,750 |
| 1. securities trading | 14,485 | 13,609 |
| 2. foreign currency trading | 4,146 | 4,023 |
| 3. portfolio management | 9,516 | 8,059 |
| 3.1 individual | 9,516 | 8,059 |
| 3.2 collective | – | – |
| 4. securities custody and administration | 4,402 | 3,707 |
| 5. custodian bank | 2,079 | 2,180 |
| 6. securities placement | 15,401 | 13,993 |
| 7. acceptance of orders | 6,848 | 6,031 |
| 8. consultancy | 42 | 39 |
| 9. distribution of third party services | 9,924 | 9,109 |
| 9.1 portfolio management | – | – |
| 9.1.1 individual | – | – |
| 9.1.2 collective | – | – |
| 9.2 insurance products | 4,021 | 3,636 |
| 9.3 other products | 5,903 | 5,473 |
| *d)* collection and payment services | 36,635 | 32,627 |
| *e)* servicing for securitization transactions | – | – |
| *f)* tax collection services | – | – |
| *g)* other services | 35,257 | 28,051 |
| **Total** | **146,627** | **128,164** |

The 2003 figures have been adjusted for comparison purposes.

### 2.2 Breakdown of item 40 «Commission income» - distribution channels for products and services

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* bank branches | 34,841 | 31,161 |
| 1. portfolio management | 9,516 | 8,059 |
| 2. securities placement | 15,401 | 13,993 |
| 3. third-party products and services | 9,924 | 9,109 |
| *b)* door-to-door sales | – | – |
| 1. portfolio management | – | – |
| 2. securities placement | – | – |
| 3. third-party products and services | – | – |
| **Total** | **34,841** | **31,161** |

### 2.3 Breakdown of item 50 «Commission expense»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* guarantees received | 100 | 67 |
| *b)* credit derivatives | – | – |
| *c)* management and intermediation services: | 3,532 | 2,665 |
| 1. securities trading | 977 | 767 |
| 2. foreign currency trading | – | – |
| 3. portfolio management | – | – |
| 3.1 own portfolio | – | – |
| 3.2 third-party portfolio | – | – |
| 4. securities custody and administration | 2,555 | 1,898 |
| 5. securities placement | – | – |
| 6. door-to-door sales of securities, products and services | – | – |
| *d)* collection and payment services | 6,959 | 5,688 |
| *e)* other services | 930 | 919 |
| **Total** | **11,521** | **9,339** |

The 2003 figures have been adjusted for comparison purposes.



## *Section 3* ***Profits and losses from financial transactions***

### 3.1 Breakdown of item 60 «Profits/losses from financial transactions»

| | 31/12/2004 | | | 31/12/2003 | | |
|---|---|---|---|---|---|---|
| Item | Securities transactions | Foreign currency transactions | Other transactions | Securities transactions | Foreign currency transactions | Other transactions |
| A.1 Revaluations | 4,671 | 10 | 877 | 4,715 | – | – |
| A.2 Write-downs | 1,889 | – | – | 1,967 | – | – |
| B. Other profits | 13,400 | 13,209 | 1,200 | 10,921 | 11,423 | 293 |
| **Total** | **16,182** | **13,219** | **2,077** | **13,669** | **11,423** | **293** |
| 1. Government securities | 3,191 | | | 4,435 | | |
| 2. Other fixed-yield securities | 4,557 | | | 4,776 | | |
| 3. Variable-yield securities | 8,259 | | | 4,332 | | |
| 4. Derivative contracts on securities | 175 | | | 126 | | |

## *Section 4* ***Administrative expenses***

This item shows a balance of € 247.639 million.

The sub-item «personnel expenses» amounts € 136.233 million. The breakdown of this cost is given in the income statement.

The provisions for severance indemnities and pensions refer solely to the parent bank.

The sub-item «other administrative expenses» consists of the following:

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| telephone, post and data transmission | 12,630 | 10,292 |
| maintenance of fixed assets | 5,483 | 5,278 |
| rent paid on buildings | 14,133 | 13,241 |
| surveillance | 4,348 | 3,956 |
| transportation | 2,028 | 1,916 |
| professional fees | 5,805 | 6,533 |
| office materials | 2,719 | 2,644 |
| electricity, heating and water | 2,911 | 2,925 |
| advertising and entertainment | 3,665 | 3,658 |
| legal expenses | 3,429 | 2,612 |
| insurance | 2,411 | 2,474 |
| corporate survey and information | 2,968 | 2,832 |
| indirect taxes and dues | 17,837 | 18,944 |
| hardware rental and maintenance | 1,333 | 1,177 |
| software rental and maintenance | 2,923 | 2,984 |
| data registration with third parties | 714 | 736 |
| cleaning | 3,481 | 3,164 |
| membership fees | 1,280 | 1,207 |
| services received from third parties | 2,159 | 2,111 |
| outsourced activities | 7,962 | 9,080 |
| directors' and statutory auditors' emoluments | 1,799 | 1,732 |
| temporary and freelance staff | 2,909 | 3,630 |
| other | 6,479 | 5,957 |
| **Total** | **111,406** | **109,083** |

The 2003 figures have been adjusted for comparison purposes.

### 4.1 Average number of employees by category

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* managers | 19 | 18 |
| *b)* executives | 235 | 217 |
| *c)* other personnel | 1,985 | 1,890 |
| **Total** | **2,239** | **2,125** |

The number of employees by category is a simple average of the figures at the end of 2003 and 2004.

At the end of the year there were 2,074 employees with the parent bank and 217 with Banca Popolare di Sondrio (SUISSE) SA.

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

### 5.1 Breakdown of item 120 «Adjustments to loans and provisions for guarantees and commitments»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* adjustments to loans | 71,159 | 56,170 |
| of which: | | |
| – general write-downs for country risk | 367 | 377 |
| – other general write-downs | 5,678 | 6,237 |
| *b)* provisions for guarantees and commitments | – | 1,500 |
| of which: | | |
| – general provisions for country risk | – | – |
| – other general provisions | – | – |
| **Total** | **71,159** | **57,670** |



### 5.2 Adjustments to intangible and fixed assets (item 90)

In addition to the adjustments to intangible and fixed assets, this item also includes € 1.628 million in amortisation of the positive difference arising on application of the equity method when valuing Arca Vita Spa.

## Section 6 *Other items in the income statement*

### 6.1 Breakdown of item 70 «Other operating income»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| Recovery of charges on deposits and overdrafts | 8,641 | 6,876 |
| Rent received for buildings | 758 | 797 |
| Recovery of customer insurance | 694 | 622 |
| Recovery of taxes | 15,308 | 13,742 |
| Financial income on the staff pension fund | 1,870 | 1,176 |
| Repayment of pension contributions | 1,200 | – |
| Other | 4,396 | 4,095 |
| **Total** | **32,867** | **27,308** |

### 6.2 Breakdown of item 110 «Other operating expenses»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| Leasing and ancillary costs | 2,449 | 2,416 |
| Other | 1,754 | 1,702 |
| **Total** | **4,203** | **4,118** |

The 2003 figures have been adjusted for comparison purposes.

The information required by article 2427.22 of the Italian Civil Code in respect of leased assets is set out below.

| Building | Carrying value | Outstanding debt |
|---|---|---|
| PESCATE | 345 | 220 |
| DARFO BOARIO TERME | 794 | 407 |
| SONDRIO - PIAZZALE BERTACCHI 57 | 2,066 | 1,148 |
| VARESE | 4,020 | 3,889 |
| VERDELLINO | 271 | 142 |
| VILLASANTA | 780 | 661 |
| MORBEGNO | 604 | 495 |
| ALBIATE | 541 | 481 |
| GRUMELLO MONTE | 1,593 | 1,384 |
| COMO - VIALE INNOCENZO XI. 71 - ANG. VIA BENZI | 4,019 | 3,759 |
| MILAN - VIA CANOVA | 1,479 | 1,351 |
| ABBADIA LARIANA | 728 | 592 |
| LECCO | 936 | 903 |
| GRAVELLONA TOCE | 1,442 | 1,437 |
| BONATE SOTTO | 732 | 724 |
| COMO - VIA GIULINI | 1,330 | 1,318 |
| PONTE DI LEGNO | 3,675 | 3,642 |
| LANZADA | 618 | 612 |
| COLICO | 5,468 | 5,458 |
| | **31,441** | **28,623** |

At the end of the year there were 19 lease contracts on buildings used for business purposes. The total contract value amounts to € 34.424 million.

The total charges for the year amount to € 1.919 million in principal, € 0.471 in interest expense and € 0.059 million in ancillary charges.

«Other» mostly refers to financial charges due to banks in relation to bank transfers and collections.

### 6.3 Breakdown of item 190 «Extraordinary income»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* Miscellaneous gains | 26,589 | 564 |
| *b)* Overprovisions | 29 | 28 |
| *c)* Gains on disposals: | 312 | 99 |
| of fixed assets | 16 | 99 |
| of long-term investments | 296 | – |
| *d)* Consolidation differences | 3,029 | 590 |
| **Total** | **29,959** | **1,281** |

### 6.4 Breakdown of item 200 «Extraordinary charges

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* Miscellaneous losses | 417 | 301 |
| *b)* Underprovisions | 446 | 485 |
| *c)* Losses on disposals: | 43 | – |
| of fixed assets | 43 | – |
| of long-term investments | – | – |
| *d)* Consolidation differences | – | – |
| **Total** | **906** | **786** |

### 6.5 Breakdown of item 240 «Income taxes for the year»

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| 1. Current taxes | 46,419 | 44,280 |
| 2. Change in deferred tax assets | 600 | -1,448 |
| 3. Change in deferred tax liabilities | 3,734 | 17 |
| 4. Income taxes for the year | **50,753** | **42,849** |

## Section 7 *Other information on the income statement*



### 7.1 Geographical breakdown of income

| | 31/12/2004 | | | 31/12/2003 | | |
|---|---|---|---|---|---|---|
| Item/Countries | Italy | EU countries | Other countries (non-EU) | Italy | EU countries | Other countries (non-EU) |
| Interest income and similar revenues | 388,082 | – | 17,925 | 378,854 | – | 15,717 |
| Dividends and other income | 3,466 | – | 38 | 4,449 | – | 31 |
| Commission income | 118,295 | – | 28,332 | 102,802 | – | 25,362 |
| Profits from financial transactions | 28,075 | – | 3,403 | 22,292 | – | 3,093 |
| Other operating income | 32,822 | – | 45 | 27,286 | – | 22 |
| **Total** | **570,740** | **0** | **49,743** | **535,683** | **0** | **44,225** |

The total income of € 620.483 million relates to the business activities carried out by the parent bank mainly in Lombardy, with a significant presence in Milan, as well as in Rome, and to business carried out in Switzerland by the subsidiary Banca Popolare di Sondrio (SUISSE) S.A. Banca Popolare di Sondrio (SUISSE) S.A accounted for 4.96% of net interest income, 19.32% of commission income and 10.81% of profits from financial transactions.

# Part D *Other information*

## Section 1 *Directors and statutory auditors*

### 1.1 Emoluments

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* directors | 1,571 | 1,514 |
| *b)* statutory auditors | 228 | 218 |

The 2003 figures have been adjusted for comparison purposes.

### 1.2 Loans and guarantees granted

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| *a)* directors | 3,336 | 2,513 |
| *b)* statutory auditors | 371 | 272 |

# REPORT OF THE INDEPENDENT AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS

IN ACCORDANCE WITH ART. 156 OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998
*(Translation from the original issued in Italian)*

To the Shareholders of
BANCA POPOLARE DI SONDRIO
Società Cooperativa a Responsabilità Limitata

1. We have audited the consolidated financial statements of Banca Popolare di Sondrio S.c.a.r.l. and its subsidiaries for the year ended 31 December 2004. Preparation of the financial statements is the responsibility of the Banca Popolare di Sondrio's Board of Directors. We are responsible for expressing a professional opinion on the financial statements, which we have formed on the basis of our audit.

2. Our examination was conducted on the basis of the auditing standards recommended by CONSOB. Accordingly, the audit was planned and carried out so as to acquire all information necessary for determining whether the consolidated financial statements contain significant errors and whether they are, on the whole, reliable. The audit procedures include random checks on the elements supporting the balances and other information in the financial statements, as well as a verification that the accounting policies are appropriate and the estimates made by the directors are reasonable. We believe that the procedures carried out provide a fair basis on which to express our professional opinion. For our opinion on the prior year's financial statements, whose figures are presented for comparison purposes as required by law, please see our report dated 18 February 2004.

3. In our opinion, the financial statements of Banca Popolare di Sondrio S.c.a.r.l. and its subsidiaries as of 31 December 2004 comply with all pertinent regulations. They have therefore been prepared clearly and provide a true and fair view of the assets and liabilities, financial position and results for the year of the bank and its subsidiaries.

4. Please note that, in accordance with Italy's new company law, the bank has eliminated from its 2004 financial statements any adjustments and provisions made exclusively for tax purposes in prior years. Moreover, the bank has changed its accounting policies relative to the prior year for overdue interest, quoted securities not held as long-term financial assets and interest rate and foreign currency derivative contracts. The reasons for and effects of eliminating the tax-related items and changing these accounting policies are detailed in the notes to the consolidated financial statements and in the directors' report on operations. The overall impact on the results for the year are largely offset by the provision to the reserve for general banking risks.

*Milan, 16 February 2005*

DELOITTE & TOUCHE S,p,A,

Riccardo Azzali
(Partner)

## STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION
(in thousands of euro)

| | | 31-12-2004 | | 31-12-2003 |
|---|---|---|---|---|
| **SOURCES OF FUNDS** | | | | |
| Funds generated by operations: | | | | |
| – Net profit for the year | 78,152 | | 63,873 | |
| – Adjustments: | | | | |
| - loan write-downs and write-backs and provisions for guarantees and commitments | 46,288 | | 34,249 | |
| - losses on securities and equity investments | 1,889 | | 2,632 | |
| - write-downs and write-backs to equity investments | (202) | | | |
| - amortization and depreciation | 23,491 | | 22,830 | |
| - amortization and differences in value of investments stated at net equity | (2,502) | | (511) | |
| – Provisions: | | | | |
| - staff pension fund | 8,266 | | 4,052 | |
| - reserve for severance indemnities | 5,956 | | 5,607 | |
| - risks and charges | 0 | | | |
| - possible loan losses | 0 | | 3,965 | |
| - general banking risks | 23,319 | | 1,266 | |
| - personnel charges | 2,500 | 187,157 | 34 | 137,997 |
| Increase in shareholders' equity: | | | | |
| – underwriting of own shares | 220,105 | | | |
| – dividends in prescription and on own shares and unexercised rights | 102 | | 6 | |
| – exchange differences on conversion of subsidiaries' financial statements | 593 | | (4,108) | |
| – other changes | | 220,800 | | (4,102) |
| Increase in funding: | | | | |
| – customer deposits | 1,170,600 | | 832,504 | |
| – deposits from other banks | 202,112 | | (268,309) | |
| – securities issued | 52,828 | 1,425,540 | 88,689 | 652,884 |
| Change in other liability items: | | | | |
| – third-party funds under administration | (4) | | (51) | |
| – other liabilities | (29,797) | | 64,640 | |
| – accrued liabilities and deferred income | 1,538 | | (2,079) | |
| – taxation reserve | 6,078 | (22,185) | 5,666 | 68,176 |
| | | **1,811,312** | | **854,955** |
| **APPLICATION OF FUNDS** | | | | |
| Use of funds generated by operations: | | | | |
| – staff pension fund | 2,471 | | 2,347 | |
| – reserve for severance indemnities | 2,469 | | 3,250 | |
| – reserves for possible loan losses | 16,473 | | 14,548 | |
| – reserve for risks and charges | 3,852 | | 280 | |
| – personnel charges | | 25,265 | 124 | 20,549 |
| Decrease in shareholders' equity: | | | | |
| – dividends | 31,640 | | 26,139 | |
| – charity fund | 313 | 31,953 | 307 | 26,446 |
| Increase in application of funds: | | | | |
| – customer loans | 1,064,302 | | 1,006,060 | |
| – cash on hand | (915) | | (1,846) | |
| – due from other banks | 454,083 | | (456,756) | |
| – trading securities | 218,968 | 1,736,438 | 87,032 | 634,490 |
| Change in other asset items: | | | | |
| – other assets | (28,242) | | 133,964 | |
| – accrued income and prepayments | 5,297 | | 2,546 | |
| – equity investments and own shares | 5,691 | | 13,846 | |
| – positive differences arising on application of the equity method | 0 | | 4,150 | |
| – intangible assets | 8,515 | | 10,660 | |
| – fixed assets | 26,395 | 17,656 | 8,304 | 173,470 |
| | | **1,811,312** | | **854,955** |

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDING 31 DECEMBER 2002, 2003 AND 2004

(in thousands of euro)



| | Share capital | Reserve for general banking risks | Share premium reserve |
|---|---|---|---|
| BALANCE AS OF 31 DECEMBER 2001 | 412,698 | 38,734 | 135,886 |
| ALLOCATION OF PROFITS, as resolved by the AGM of 2 March 2002: | | | |
| Legal reserve | | | |
| Statutory reserves | | | |
| Dividend of € 0.18 per share | | | |
| Charity fund | | | |
| Exchange difference on conversion of balance sheets denominated in foreign currency | | | |
| Change in net equity of companies included in the consolidation area | | | |
| DIVIDEND ON OWN SHARES | | | |
| RESERVE FOR GENERAL BANKING RISKS | | | |
| RESERVE FOR OWN SHARES | | | |
| RESERVE AS PER ART. 13 OF LEGISLATIVE DECREE 124/93 | | | |
| OTHER CHANGES | | | |
| NET PROFIT FOR 2002 | | | |
| BALANCE AS OF 31 DECEMBER 2002 | 412,698 | 38,734 | 135,886 |
| ALLOCATION OF PROFITS, as resolved by the AGM of 1° March 2003: | | | |
| Legal reserve | | | |
| Statutory reserves | | | |
| Dividend of € 0.19 per share | | | |
| Charity fund | | | |
| Exchange difference on conversion of balance sheets denominated in foreign currency | | | |
| Change in net equity of companies included in the consolidation area | | | |
| DIVIDEND ON OWN SHARES | | | |
| RESERVE FOR GENERAL BANKING RISKS | | 1,266 | |
| RESERVE FOR OWN SHARES | | | |
| RESERVE AS PER ART. 13 OF LEGISLATIVE DECREE 124/93 | | | |
| NET PROFIT FOR 2003 | | | |
| BALANCE AS OF 31 DECEMBER 2003 | 412,698 | 40,000 | 135,886 |
| ALLOCATION OF PROFITS, as resolved by the AGM of 6 March 2004: | | | |
| Legal reserve | | | |
| Statutory reserves | | | |
| Dividend of € 0.23 per share | | | |
| Charity fund | | | |
| SHARE CAPITAL INCREASE, as resolved by the ordinary and extraordinary AGM of 6 March 2004 and unexercised rights | 247,619 | | (27,513) |
| Exchange difference on conversion of balance sheets denominated in foreign currency | | | |
| Change in net equity of companies included in the consolidation area | | | |
| DIVIDEND ON OWN SHARES | | | |
| RESERVE FOR GENERAL BANKING RISKS | | 23,319 | |
| RESERVE FOR OWN SHARES | | | |
| RESERVE AS PER ART. 13 OF LEGISLATIVE DECREE 124/93 | | | |
| NET PROFIT FOR 2004 | | | |
| BALANCE AS OF 31 DECEMBER 2004 | 660,317 | 63,319 | 108,373 |

| Legal reserve | Restricted reserve for own shares | Statutory reserves | Other reserves | Retained earnings | Negative differences arising on application of net equity method | Net profit for the year | Total shareholders' equity |
|---|---|---|---|---|---|---|---|
| 53,759 | 874 | 83,967 | 22,077 | 398 | 123 | 51,506 | 800,022 |
| | | | | | | | |
| 10,771 | | | | | | (10,771) | 0 |
| | | 13,819 | | | | (13,819) | 0 |
| | | | | | | (24,762) | (24,762) |
| | | | | | | (250) | (250) |
| | | | | | | | |
| 447 | | | 717 | | | | 1,164 |
| | | | | | | | |
| | | | (256) | (398) | | 649 | (5) |
| | | 13 | | | | | 13 |
| | | | | | | | 0 |
| | (268) | | 2,791 | | | (2,523) | 0 |
| | | | 30 | | | (30) | 0 |
| (23) | | | (1) | | | | (24) |
| | | | | | | 49,713 | 49,713 |
| 64,954 | 606 | 97,799 | 25,358 | 0 | 123 | 49,713 | 825,871 |
| | | | | | | | |
| 9,289 | | | | | | (9,289) | 0 |
| | | 14,011 | | | | (14,011) | 0 |
| | | | | | | (26,139) | (26,139) |
| | | | | | | (250) | (250) |
| | | | | | | | |
| (1,777) | | | (2,331) | | | | (4,108) |
| | | | | | | | |
| | | | (1,507) | | | 1,507 | 0 |
| | | 6 | | | | | 6 |
| | | | | | | | 1,266 |
| | (606) | | 2,106 | | | (1,500) | 0 |
| | | | 31 | | | (31) | 0 |
| | | | | | | 63,873 | 63,873 |
| 72,466 | 0 | 111,816 | 23,657 | 0 | 123 | 63,873 | 860,519 |
| | | | | | | | |
| 10,606 | | | | | | (10,606) | 0 |
| | | 18,035 | | | | (18,035) | 0 |
| | | | | | | (31,640) | (31,640) |
| | | | | | | (250) | (250) |
| | | | | | | | |
| | | 101 | | | | | 220,207 |
| | | | | | | | |
| 281 | | | 312 | | | | 593 |
| | | | | | | | |
| | | | (695) | | | 695 | 0 |
| | | 1 | | | | | 1 |
| | | | | | | | 23,319 |
| | 0 | | 4,000 | | | (4,000) | 0 |
| | | | 37 | | | (37) | 0 |
| | | | | | | 78,152 | 78,152 |
| 83,353 | 0 | 129,953 | 27,311 | 0 | 123 | 78,152 | 1,150,901 |

# RESOLUTIONS OF THE ORDINARY ANNUAL GENERAL MEETING OF THE SHAREHOLDERS

held on 5 March 2005 (at second calling)

# AGENDA

1) Presentation of the financial statements as of 31 December 2004: report of the Board of Directors and proposed allocation of net profit; report of the Board of Statutory Auditors; related resolutions;
2) Determination of directors' emoluments;
3) Appointment of independent auditors, in accordance with Art. 159 of Decree 58 dated 24 February 1998, to audit the statutory financial statements, the consolidated financial statements and the interim financial statements for the three-year period 2005-2007.
4) Appointment of directors.

The shareholders' meeting, legally convened, was chaired by Piero Melazzini, Chairman of the Bank's Board of Directors.
After appointing Francesco Surace, notary public, as secretary, and the scrutineers, the Chairman began to deal with the items on the agenda.

The shareholders' meeting, having heard the report of the Board of Directors on the 2004 results and the proposed allocation of net profit for the year; having taken note of the report of the Board of Statutory Auditors and that of the Independent Auditors; having taken as read the balance sheet and income statement, explanatory notes and the financial statements of the subsidiary and associated companies

approved:

1) the directors' report on operations;
2) the financial statements as of 31 December 2004 with the results shown in the balance sheet and income statement and related explanatory notes, which show a net profit for the year of € 73,210,556. The shareholders therefore specifically approve the allocation of the net profit of € 73,210,556 as proposed by the Board of Directors in accordance with the requirements of law and the bank's articles of association, and more precisely resolved:
   a) to allocate:

| | | |
|---|---|---|
| – 10% to the legal reserve | € | 7,321,055.60 |
| – 30% to the statutory reserve | € | 21,963,166.80 |

   b) to pay a dividend of € 0.17 to each of the 220,105,703 shares in circulation at 31/12/2004 with dividend rights as from 1/1/2004, transferring to the statutory reserve the amount of the

| | | |
|---|---|---|
| dividends due to the own shares that the bank may be holding on the day prior to the day that the shares go ex-coupon, for a total amount of | € | 37,417,969.51 |
| c) to allocate to the reserve for own shares | € | 6,000,000.00 |
| d) to allocate the residual net profit: | | |
| – to the reserve for donations | € | 250,000.00 |
| – to the legal reserve, a further | € | 258,364.09 |

The shareholders also set aside € 29,000,000 - booked to «Other reserves»- as the amount to be made available to the Board of Directors to buy and sell treasury shares at arm's length conditions, pursuant to art. 21 of the articles of association, within the limit of the aforesaid amount and such part of it as is made available by subsequent sales of the shares acquired; all within the scope of a normal activity of intermediation designed to favour circulation of the shares;

3) the determination of the directors' emoluments;

4) the appointment of Deloitte & Touche spa, Milan, to audit the financial statements of the Bank and the consolidated financial statements of the Group, and perform limited examinations of the half-year reports, for the three-year period 2005/2007, establishing their audit fee;

5) the appointment of Aldo Balgera, Gianluigi Bonisolo, Piero Melazzini, Miles Emilio Negri and Lino Enrico Stoppani as members of the Board of Directors for the three-year period 2005-2007.

# THE BANK'S GROWTH SINCE ITS FOUNDATION
# KEY FINANCIAL DATA

| Year | Financial investments euro | Customer loans euro | Fiduciary funds euro | Shareholders' equity (capital & reserves) euro | Net profit for the year euro | Dividend euro |
|---|---|---|---|---|---|---|
| 1871 | 26 | 93 | 37 | 47 | 1 | 0,001 |
| 1875 | 109 | 675 | 569 | 181 | 21 | 0,002 |
| 1880 | 46 | 1,024 | 777 | 360 | 33 | 0,002 |
| 1885 | 213 | 1,431 | 1,161 | 410 | 42 | 0,002 |
| 1890 | 459 | 1,805 | 1,646 | 457 | 49 | 0,002 |
| 1895 | 840 | 1,380 | 1,631 | 453 | 36 | 0,002 |
| 1900 | 860 | 1,627 | 1,987 | 465 | 43 | 0,002 |
| 1905 | 940 | 2,330 | 2,834 | 504 | 53 | 0,002 |
| 1910 | 1,460 | 3,717 | 4,738 | 563 | 68 | 0,003 |
| 1915 | 2,425 | 3,399 | 5,178 | 658 | 59 | 0,002 |
| 1920 | 7,906 | 9,100 | 22,320 | 1,232 | 186 | 0,005 |
| 1925 | 9,114 | 35,692 | 39,924 | 2,303 | 523 | 0,006 |
| 1930 | 12,899 | 43,587 | 54,759 | 3,230 | 561 | 0,006 |
| 1935 | 21,402 | 30,912 | 53,190 | 3,543 | 339 | 0,004 |
| 1940 | 24,397 | 32,808 | 57,064 | 3,091 | 312 | 0,002 |
| 1945 | 112,239 | 101,840 | 191,619 | 6,491 | 817 | 0,002 |
| 1950 | 608,460 | 892,440 | 1,359,864 | 50,496 | 10,834 | 0,041 |
| 1955 | 1,413,363 | 2,372,139 | 3,573,499 | 262,122 | 25,998 | 0,124 |
| 1960 | 3,474,898 | 5,864,314 | 9,124,181 | 495,960 | 45,997 | 0,150 |
| 1965 | 6,564,058 | 9,861,955 | 18,238,851 | 670,265 | 60,044 | 0,170 |
| 1970 | 11,228,709 | 21,140,462 | 34,440,002 | 1,577,469 | 86,800 | 0,196 |
| 1975 | 49,247,998 | 46,458,454 | 103,136,018 | 4,940,413 | 336,351 | 0,284 |
| 1980 | 248,877,713 | 135,350,391 | 386,128,259 | 44,618,760 | 2,298,768 | 0,620 |
| 1981 | 303,227,605 | 149,856,755 | 435,958,220 | 70,294,839 | 3,543,126 | 0,878 |
| 1982 | 434,505,499 | 168,991,589 | 564,440,308 | 93,988,765 | 5,876,973 | 0,930 |
| 1983 | 551,731,767 | 201,889,280 | 722,876,267 | 105,498,725 | 9,795,722 | 1,394 |
| 1984 | 657,323,707 | 244,311,938 | 885,640,690 | 117,286,747 | 11,754,271 | 1,911 |
| 1985 | 669,773,787 | 327,572,423 | 985,454,131 | 123,347,208 | 13,332,058 | 2,582 |
| 1986 | 854,978,708 | 381,346,894 | 1,108,118,326 | 129,106,270 | 13,582,958 | 2,169 |
| 1987 | 954,429,924 | 407,643,937 | 1,205,007,005 | 134,486,897 | 13,588,657 | 2,169 |
| 1988 | 950,465,324 | 510,164,638 | 1,285,408,512 | 139,730,318 | 13,665,548 | 2,272 |
| 1989 | 958,277,398 | 634,760,956 | 1,431,120,712 | 145,100,954 | 13,984,014 | 2,324 |
| 1990 | 919,261,388 | 819,877,375 | 1,567,539,101 | 170,006,961 | 14,919,668 | 1,653 |
| 1991 | 886,480,827 | 1,014,385,379 | 1,708,284,250 | 192,743,654 | 16,018,859 | 1,653 |
| 1992 | 1,162,262,510 | 1,202,265,949 | 2,151,786,340 | 198,979,714 | 16,304,997 | 1,704 |
| 1993 | 1,675,065,908 | 1,441,158,530 | 2,862,510,529 | 250,913,662 | 17,860,906 | 1,136 |
| 1994 | 1,438,251,891 | 1,701,208,296 | 2,922,731,483 | 258,100,923 | 16,976,601 | 1,136 |
| 1995 | 1,828,374,994 | 1,903,530,111 | 3,401,567,857 | 335,480,368 | 18,688,353 | 0,413 |
| 1996 | 1,817,497,737 | 2,120,842,006 | 3,590,238,215 | 345,127,951 | 20,685,619 | 0,439 |
| 1997 | 1,730,940,393 | 2,485,706,688 | 3,844,781,082 | 353,507,281 | 20,796,084 | 0,439 |
| 1998 | 2,005,202,039 | 2,990,333,100 | 4,343,203,973 | 535,162,454 | 24,784,724 | 0,196 |
| 1999 | 1,993,529,114 | 3,724,763,745 | 5,058,960,710 | 557,555,696 | 30,555,532 | 0,232 |
| 2000 | 2,043,141,602 | 4,443,945,484 | 5,829,901,035 | 576,036,331 | 38,428,768 | 0,300 |
| 2001 | 2,618,137,267 | 5,579,546,805 | 7,374,954,358 | 731,304,438 | 46,064,525 | 0,180 |
| 2002 | 3,218,789,508 | 6,246,734,925 | 8,626,473,276 | 752,369,741 | 46,703,800 | 0,190 |
| 2003 | 2,827,584,863 | 7,117,211,453 | 9,139,503,657 | 773,957,639 | 60,117,119 | 0,230 |
| 2004 | 3,492,730,224 | 8,078,424,234 | 10,498,481,204 | 1,031,391,991 | 73,210,556 | 0,170 |

The figures for the years prior to 1993 have not been adjusted to make them comparable with those of subsequent years which have been classified differently in accordance with Legislative Decree 87/92.

# INDEX


5 *Company boards*

6 *Branch network*

11 *Summary of the bank's growth (1994/2004)*

13 *Notice of calling to the shareholders' meeting*

15 *Directors' report on operations*
15 Summary of results
17 Territorial expansion
23 Funding
26 Lending
30 Treasury and trading operations
36 Equity investments
52 International unit
56 Services, projects and structure
68 Risk management
71 Human resources
73 Promotional and cultural activities
85 Update of the security planning document
85 Shareholders' equity
88 Income statement
91 Preparing for the new IFRS
92 Significant subsequent events
92 Outlook for operations
93 Allocation of net profit for the year
93 Shareholders' equity

99 *Report of the Board of Statutory Auditors*

103 *Financial statements as of 31 December 2004*
104 Balance sheet
107 Income statement

109 *Notes to the financial statements*
110 Accounting policies
114 Information on the balance sheet
139 Information on the income statement
146 Other information

149 *Appendices*
151 Statement of changes in financial position
152 Statement of changes in shareholders' equity
154 Statement of changes in the staff pension fund
155 List of significant equity investments as of 31/12/2004
156 List of revalued assets still owned by the bank

159 *Financial statements of subsidiary and associated companies*
160 Banca Popolare di Sondrio (SUISSE) SA
164 Pirovano Stelvio spa
168 Sinergia Seconda srl
172 Ripoval spa
176 Arca Vita spa

187 *Report of the independent auditors on the financial statements*

189 *Consolidated financial statements of the Banca Popolare di Sondrio Group*
193 Report on operations
201 Report of the Board of Statutory Auditors on the 2004 consolidated financial statements
203 Consolidated financial statements as of 31 December 2004
204 Consolidated balance sheet
207 Consolidated income statement
209 Notes to the consolidated financial statements
243 Report of the independent auditors on the consolidated financial statements
245 Statement of changes in consolidated financial position
246 Consolidated statement of changes in shareholders' equity
249 Resolutions of the ordinary annual general meeting of the shareholders

253 *The Bank's growth since its foundation, key financial data*

**Photographers:**
MARINO AMONINI
ARCHIVIO PIROVANO
GIOVANNI BONVINI
ANDREA COLTURI
STEFANO DALLA VALLE
FOTOLAB BORMIO
FOTO SGUALDINO
MAURO LANFRANCHI
OLYCOM
EUGENIO PIFFARI
ROBY TRABUCCHI

**Impagination:**
GRAFICA MARCASSOLI s.r.l., Nembro (Bg)

**Printing:**
CASTELLI BOLIS POLIGRAFICHE SpA

THE BANKING GROUP IN THE HEART OF THE ALPS

Banca Popolare di Sondrio • Banca Popolare di Sondrio (SUISSE) SA • Pirovano Stelvio