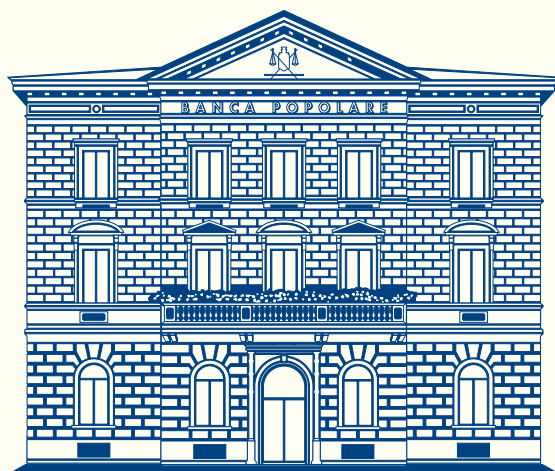




Banca Popolare di Sondrio



ANNUAL REPORT 2005

THE CHARM OF AN ANTIQUE REALITY

For many people, old maps are only antiques, useful only to historians doing research and particularly indicated for hanging in the halls, corridors and stairs of old buildings. Personally, I find them fascinating and have to confess that when I was young I committed what book lovers consider a mortal sin: I ruined a small atlas from the beginning of the 19th Century by cutting out and framing a map of the Russian Empire. I liked the way that the coasts and mountains were represented, the sign of the burin – an engraving tool – on the handmade paper, the minor errors in coloured maps where the paintbrush has gone over the line, the long captions and the dedications with which the cartographer and the printer tried to ingratiate themselves with some prince or other. I like the fact that placenames are in Latin and that certain details are represented without particular accuracy. In an English map from the second half of the 17th Century, Oxfordshire is called Oxonium Comitatus and Wiltshire is Wiltonia. In a map of Russia, printed in the same period, the Black Sea is called Pontus Euxonius and the Crimea peninsula is a sort of wart stuck onto the south coast of Russia. Certainly, no one would think of using them to check the distance between A and B or to verify the course of a river or to plan a journey. In the best of cases, even if they date back to the 19th century and are the result of detailed surveys, these maps still show a situation that is antique, long gone under major infrastructure works (roads, bridges, dams, railway lines, tunnels, ports and airports) that have profoundly modified our natural environment in the last hundred years or so.

But even so, to me these ancient maps dating back to the 17th or 18th Century have a huge attraction. They are not “political” maps. They do not show nation states as they were formed and consolidated during the 19th Century. They are not a jigsaw puzzle made up of large and small pieces, all rigorously separated by a border and the colour that the cartographer has given each one of them.

In these antique geographical maps, the colours are blue for the sea, dark grey for the lakes, brown and green for the mountains; not the green of Italy, the brown of Germany, the purple of France and the pink of Spain.

So thanks to these antique maps, the body of Europe reappears in its original, natural state. Borders stop breaking up the Continent's unity and the map lets you see a European world that is much more varied and subtle than it does when looking at a modern atlas.

It is a world in which the only real borders are the mountains and rivers; in other words, the places that have never stopped Europeans from getting to know each other, to trade and to exchange goods and ideas.

Sergio Romano





**Banca Popolare
di Sondrio**

A N N U A L
REPORT 2005
135TH YEAR

**EUROPA recens descripta
à Guilielmo Blaeuw.**

Work attributed to Willem
Blaeuw (1571-1638).

The illustration
dates back to c. 1617.
(Property of Banca
Popolare di Sondrio).





EVROPA
recens descripta
à
Guiljelmo Blaeuw.



Banca Popolare di Sondrio

Founded 1871

ORDINARY AND EXTRAORDINARY ANNUAL GENERAL MEETING OF THE SHAREHOLDERS 8 APRIL 2006

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
Official List of Cooperatives no. A160536
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: € 502,291,324

BOARD OF DIRECTORS

Chairman and Chief Executive Officer	PIERO MELAZZINI*
Deputy Chairman	CARLO GRASSI**
Directors	ALDO BALGERA CLAUDIO BENEDETTI GIANLUIGI BONISOLO* FEDERICO FALCK ATTILIO PIERO FERRARI GIUSEPPE FONTANA MARIO GALBUSERA NICOLÒ MELZI DI CUSANO MILES EMILIO NEGRI* RENATO SOZZANI* LINO ENRICO STOPPANI BRUNO VANOSSI 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 PIERGIUSEPPE FORNI
Substitute Auditors	MARCO ANTONIO DELL'ACQUA MARIO VITALI

ADVISORY COMMITTEE

Advisors	ALBERTO CRESPI GIUSEPPE GUARINO ANDREA MONORCHIO
Substitute Advisors	SUSANNA AGNELLI ANTONIO LA TORRE

GENERAL MANAGEMENT

General Manager	MARIO ALBERTO PEDRANZINI
Deputy General Manager	GIOVANNI RUFFINI MARIO ERBA MILO GUSMEROLI GIOVANNI CARLO MASSERA GIUSEPPE FRANCO PAGANONI

BANKING GROUP NETWORK

Banca Popolare di Sondrio

BANCA POPOLARE DI SONDRIO

Società cooperativa a responsabilità limitata - Founded in 1871

MANAGEMENT AND HEAD OFFICE

Sondrio, piazza Garibaldi 16
Tel. +39 (0)342 528111 - Fax +39 (0)342 528204
www.popso.it - popso@popso.it

DECENTRALISED SERVICES

■ Organisation and IT Systems, "F. Morani" Service Centre - via Ranée 511/1 - frazione S. Pietro, Berbenno di Valtellina (So) ■ International Division - lungo Mallero Cadorna 24, Sondrio ■ Commercial Banking, Public Entities and Treasury Offices, Supply Office, Technical Office, Safety and Security - corso Vittorio Veneto 7, Sondrio

BRANCH OFFICES

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 ■ Agenzia n. 6, via Sertorelli 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 ■ Valdisotto ■ Villa di Chiavenna ■ Villa di Tirano

PROVINCE OF BERGAMO

■ BERGAMO, via Broseta 64/b angolo via Zandrini
Bergamo: ■ Agenzia n. 1, via Vittore Ghislandi 4
■ Bonate Sotto ■ Carvico ■ Cisano Bergamasco ■ Gazzaniga ■ Grumello del Monte ■ Osio Sotto ■ Romano di Lombardia ■ Treviglio

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 ■ Coccaglio ■ Collebeato ■ Darfo Boario Terme ■ Desenzano del Garda ■ Edolo ■ Gardone Val Trompia ■ Iseo ■ 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) ■ Agenzia n. 4, via Vittorio Emanuele 93 - presso ACSM
■ 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. Maggiano) ■ Agenzia n. 4, viale Montegrappa 18
■ Abbazia 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, corso Vittorio Emanuele II 154
Mantua: ■ Agenzia n. 1, piazza Broletto 7

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'Agate 11 ■ Agenzia n. 7, via Principe Eugenio 1 ■ Agenzia n. 8, via Lessona angolo via Trilussa 2 ■ Agenzia n. 9, presso 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, Ortomerco, via Cesare Lombroso 54 ■ Agenzia n. 17, via Cesare Battisti 1 ■ 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 ■ Agenzia n. 25, viale Zara 13 ■ Agenzia n. 26, corso Lodi angolo via S. Gerolamo Emiliani 1 ■ Agenzia n. 27, via Capecelatro 66
■ Albiate ■ Bernareggio ■ Bovisio Masciago ■ Buccinasco ■ 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, Monte Sacro, 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 70/75 ■ 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 ■ Agenzia n. 23, via Carlo Del Greco 1 (fraz. Lido di Ostia) ■ Agenzia n. 24, via di S. Giovanni in Laterano 51/A

PROVINCE OF TURIN

- TURIN, via XX Settembre 5

PROVINCE OF VARESE

- VARESE, viale Belforte 151
- Varese: ■ Agenzia n. 1, piazza Monte Grappa 6 ■ Agenzia n. 2, via San Giusto angolo via Malta
- Bisuschio ■ Busto Arsizio ■ Carnago ■ Castellanza ■ Gallarate ■ Lavena Ponte Tresa ■ Luino ■ Malpensa 2000 ■ Marchirolo ■ Solbiate Olona ■ Somma Lombardo

PROVINCE OF VERBANO-CUSIO-OSSOLA

- Gravellona Toce

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

MOBILE BRANCH Autobanca

REPRESENTATIVE OFFICES

- GENOA, via Gabriele D'Annunzio 1 ■ GENEVA, rue du Cendrier 12/14
- HONG KONG ■ SHANGHAI (with other banking partners)

OFFICES ABROAD

- Beijing ■ Buenos Aires ■ Cairo ■ Casablanca ■ Istanbul ■ Lima ■ Mexico City ■ Montevideo ■ Montreal ■ Moscow ■ Mumbai ■ New York ■ Santiago ■ Sao Paulo ■ Seoul ■ Shanghai ■ Tel Aviv ■ Toronto ■ Tokyo (with PROMOS – special agency of the Milan Chamber of Commerce for international activities)

FIDUCIARY CONSULTANTS

- Unione Fiduciaria spa - Milan ■ Sofipo Fiduciaire SA - Lugano CH

TREASURY OFFICES

■ Albano S. Alessandro (Bg) ■ Albiolo (Co) ■ Almè (Bg) ■ Appiano Gentile (Co) ■ Bariano (Bg) ■ Barzago (Lc) ■ Basiglio (Mi) ■ Bellano (Lc) ■ Bergamo Ospedali Riu one (So) ■ Binago (Co) ■ Brembate (Bg) ■ Briosco (Mi) ■ Broni (Pv) ■ Brusimpiano (Va) ■ Buglio in Monte (So) ■ Bulgarograsso (Co) ■ Canzo (Co) ■ Carate Urio (Co) ■ Carugo (Co) ■ Casnate con Bernate (Co) ■ Cassago Brianza (Lc) ■ Casteggio (Pv) ■ Castellanza - 2 (Va) ■ Castel San Giovanni (Pc) ■ Castelmarte (Co) ■ Cedrasco (So) ■ Cevo (Bs) ■ Cilavegna (Pv) ■ Colle Brianza (Lc) ■ 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) ■ Manerba del Garda (Bs) ■ Mantua Az. Osp. Carlo Poma ■ Marmirolo (Mn) ■ Marone (Bs) ■ Maslianico (Co) ■ Milan Az. Osp. S. Paolo ■ Milan IULM ■ Milan ASP Golgi Redaelli ■ Milan Reg. Lombardia ■ Montagna (So) ■ Monte Isola (Bs) ■ Monticello (Lc) ■ Montorfano (Co) ■ Mortara (Pv) ■ Mozzanica (Bg) ■ Ossuccio (Co) ■ Pavia Policlinico S. Matteo ■ Peschiera del Garda (Vr) ■ Piacenza Politecnico ■ Pian Camuno (Bs) ■ Pianello del Lario (Co) ■ Ponte di Legno - Passo del Tonale (Bs) ■ Porlezza (Co) ■ Prestine (Bs) ■ Rivanazzano (Pv) ■ Romano di Lombardia Ospedale (Bg) ■ Samolaco (So) ■ San Giovanni Bianco Ospedale (Bg) ■ San Nazzaro Val Cavargna (Co) ■ Sarezzo (Bs) ■ Schignano (Co) ■ Segrate - Milano 2 (Mi) ■ Seregno - Sportello A.E.B. (Mi) ■ Seveso (Mi) ■ Suello (Lc) ■ Torre di S. Maria (So) ■ Toscolano Maderno (Bs) ■ Treviglio Ospedale (Bg) ■ Turate (Co) ■ Turbigo (Mi) ■ Valsolda (Co) ■ Verbania (Vb) ■ Vercana (Co) ■ Verceia (So) ■ Verdellino (Bg) ■ Vezza d'Oglio (Bs) ■ Viggìù (Va) ■ Vilminore di Scalve (Bg) ■ Zone (Bs)

BANCA POPOLARE DI SONDRIO (SUISSE) SA

SWITZERLAND

Head office and Management: Lugano, via Giacomo Luvinì 2/a ■ Ordinary branches: Lugano, via Maggio 1 - www.popso.ch

■ Lugano, via Giacomo Luvinì 2/a ■ Lugano, via Maggio 1 ■ Lugano Cassarate, piazza E. Bossi 2 ■ Basel, Greifengasse 18 ■ Bellinzona, viale Stazione 26 ■ Biasca, piazza Centrale 1 ■ Castasegna, località Farzett ■ Celerina, via Maistra 104 ■ Chiasso, corso San Gottardo 30 ■ Chur, Bahnhofstrasse 9 ■ Locarno, piazza Muraccio ■ Mendrisio, piazzetta Borella ■ Poschiavo, strada San Bartolomeo ■ St. Gallen, Teufenerstrasse 3 ■ St. Moritz, via Dal Bagn 9 ■ Zurich, Uraniastrasse 14

PRINCIPALITY OF MONACO

- Montecarlo, 3 rue Princesse Florestine

PIROVANO STELVIO SPA

Sondrio, corso V. Veneto 7 - www.pirovano.it
Albergo Quarto - Passo dello Stelvio (m 2.760)



Banca Popolare di Sondrio (SUISSE) SA

Branches:

LUGANO Via G. Luvini	CELERINA	ST. MORITZ
LUGANO Via Maggio	CHIASO	ZURICH
LUGANO Cassarate	CHUR	
BASEL	LOCARNO	
BELLINZONA	MENDRISIO	
BIASCA	POSCHIAVO	Principality of Monaco
CASTASEGNA	ST. GALLEN	MONTECARLO

Banca Popolare di Sondrio

Branches:

- 50 in the province of SONDRIO
- 10 in the province of BERGAMO
- 2 in the province of BOLZANO
- 21 in the province of BRESCIA
- 23 in the province of COMO
- 4 in the province of CREMONA
- 18 in the province of LECCO
- 1 in the province of LODI
- 2 in the province of MANTUA
- 28 in MILAN
- 15 in the province of MILAN
- 1 in the province of NOVARA
- 4 in the province of PAVIA
- 1 in the province of PIACENZA
- 25 in ROME
- 1 in TURIN
- 14 in the province of VARESE
- 1 in the province of VERBANO CUSIO OSSOLA
- 93 Treasury offices

Representative offices:

GENEVA, GENOA,
HONG KONG*, SHANGHAI*
**with other banking partners*
BEIJING - BUENOS AIRES - CAIRO
CASABLANCA - ISTANBUL - LIMA
MEXICO CITY - MONTEVIDEO
MONTREAL - MOSCOW
MUMBAI - NEW YORK - SANTIAGO
SAO PAULO - SEOUL - SHANGHAI
TEL AVIV - TORONTO - TOKYO
*(with PROMOS - special agency of the Milan
Chamber of Commerce for international activities)*

Key:

BANCA POPOLARE DI SONDRIO

BANCA POPOLARE DI SONDRIO (SUISSE)

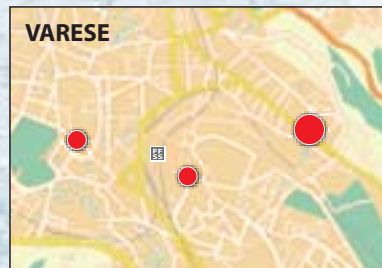
● Branches

● Branches

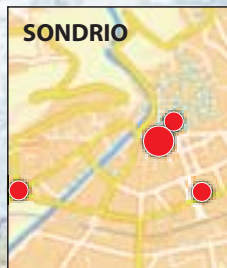
● Treasury offices

● Representative offices

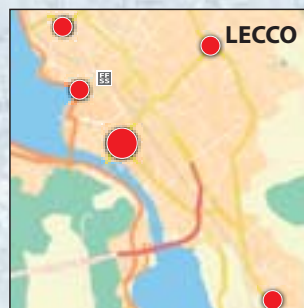
VARESE



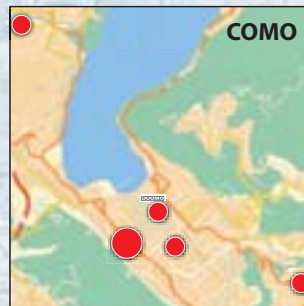
SONDRIO



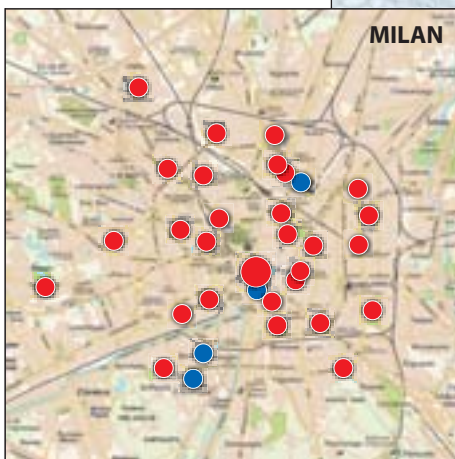
LECCO



COMO

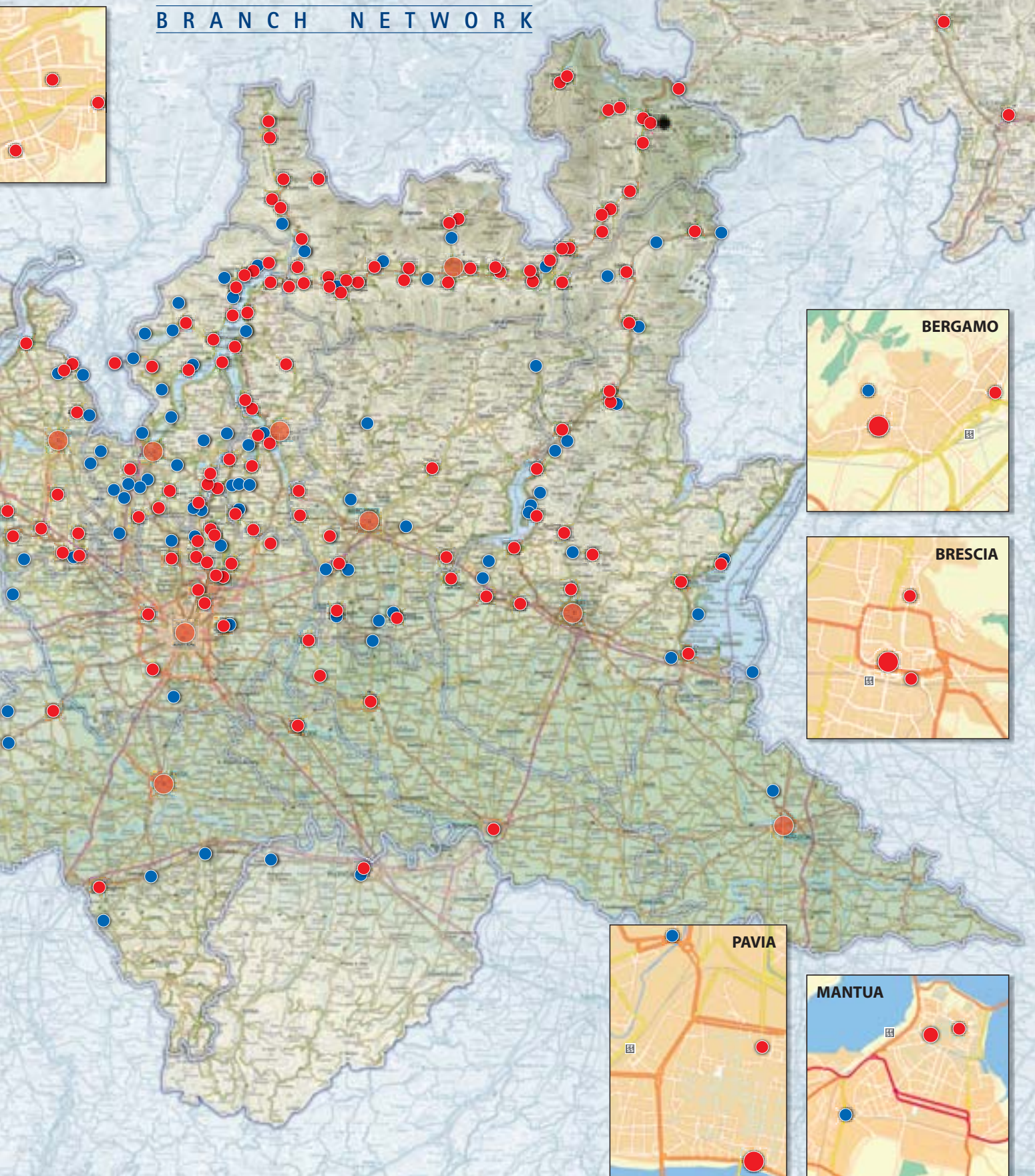


TURIN



THE BANKING GROUP IN THE HEART OF THE ALPS

BRANCH NETWORK



SUMMARY OF THE BANK'S GROWTH

(1995/2005)

(in millions of euro)	1995	2000	2005
Customer deposits:			
direct	2,485	4,588	10,664
indirect	2,909	10,726	16,571
Shareholders' equity (excluding net profit for the year)	335	576	1,120
Customer loans:			
cash loans	1,904	4,444	9,198
overdraft facilities	536	1,119	2,092
Own securities	941	1,432	2,608
Net interest income	136	165	248
Income from banking activities	180	277	416
Net profit for the year	19	38	85
Number of branches	98	150	218
Personnel	1,172	1,687	2,149

NOTICE OF CALLING TO THE SHAREHOLDERS' MEETING

The shareholders of Banca Popolare di Sondrio are called to the ordinary and extraordinary annual general meeting at the head office in Piazza Garibaldi 16, Sondrio, at 10.00 a.m. on Friday, 7 April 2006 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, 8 April 2006 to discuss the following

AGENDA

Ordinary part

- 1) Presentation of the financial statements as of 31 December 2005: 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 directors;
- 4) Appointment of serving and alternate statutory auditors and the chairman of the Board of Statutory Auditors for the three-year period 2006-2008; fixing of annual emoluments.

Extraordinary part

- 1) Change the following articles contained in the articles of association: 1 and 2 (formation, name and objects), 5, 6, 7, 8, 9, 10, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23 (shareholders' equity, shareholders, shares), 26, 27, 28, 29, 30 (shareholders' meetings), 34, 35, 36, 38, 41, 42 (board of directors), 43 (chairman's committee), 46, 47, 51 (board of statutory auditors), 52 (board of advisors), 56 (representation and official signature), 58 (allocation of profits), 59 (reserves). It is also proposed to amend and renumber article 61 (winding up and liquidation), in order to make room for the new article 61 (audit).

Related resolutions and conferral of powers.

Shareholders are entitled to attend shareholders' meetings and exercise their voting rights if they have been recorded on the shareholders' register for at least ninety days and:

- have lodged their shares at the head office or at branches of the bank at least two days prior to the date of the meeting;
- have delivered to the registered offices, at least two working days prior to the date set for the meeting in first calling, the specific communication for the issuer received from the appointed intermediary that holds the shares on deposit. Shareholders have to produce a copy of this communication.

Each shareholder has the right to only one vote, however many shares they hold.

Shareholders 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 at shareholders' meetings by their legal representative.

The documentation required under current regulations will be filed at the Bank's head office and at the offices of Borsa Italiana SpA during the fortnight prior to the shareholders' meeting. Shareholders have a right to look at this documentation and to obtain a copy of it at their own expense.

With reference to point 4) of the agenda of the ordinary shareholders' meeting, the text of art. 47 of the articles of association is as follows:

Art. 47

Presentation of lists of candidates

The Board of Statutory Auditors is appointed on the basis of lists presented by the shareholders, in which the candidates are given consecutive numbers. Each list comprises two sections: one for candidate serving auditors and the other for candidate alternate auditors. Each list must propose three candidate serving auditors and two candidate alternate auditors.

The lists must be filed at the registered offices at least ten days prior to that fixed for the shareholders' meeting held in first calling.

Individual shareholders can only contribute to the presentation of one list and each candidate can be present on only one list.

Lists may be presented by shareholders, meeting the requirements of letter a) in the first paragraph of art. 13, who together represent at least 0.75% of all the shareholders entitled to vote.

By the deadline for the filing of lists, the individual candidates must also file declarations at the registered offices accepting their nomination and confirming, under their own responsibility, that there are no reasons why they may be ineligible or incompatible, and that they meet the requirements established by law and the articles of association for appointment as a statutory auditor.

Sondrio, 20 March 2006

FOR THE BOARD OF DIRECTORS
The Chairman
(Piero Melazzini)

ORDINARY PART

Note. The figures in this report are in euro, and all changes expressed as percentages refer to comparable data from the end of 2004 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

ORDINARY PART

SUMMARY OF RESULTS

Shareholders,

Taking the European Union as a common point of reference, it is clear that the problems of low growth, a strong Euro and raw material prices, especially oil, have been felt everywhere. Each member state has applied its own resources and strategies to tackling these problems, with somewhat diverse results.

On top of this, Italy has faced additional issues, ranging from the size of the national debt to the competitive difficulties of many domestic manufacturers. The outcome was minimal growth. Given the situation during the early part of the year, this result was not too bad. Indeed, current forecasts and certain clear signs of recovery suggest that the worst has passed. This has happened before, when the worst that seemed to be over was not actually the worst. This said, a positive outlook is appropriate in order to face the future with renewed optimism. Banca Popolare di Sondrio experienced another year of sound growth in 2005. This follows many years of strong economic and financial progress, confirming the validity of the decision to work as a local bank with broadened territorial horizons. These results reflect the internal growth achieved as an expression of our potential, while taking account of and respecting our limits. Our approach to operations may not be high profile, but it is respected by the market which has invested in our shares. The number of shareholders has increased and, with this, we believe, their satisfaction for the guaranteed returns. Many of them are customers too, enjoying the quality of the services we provide.

Turning to the numbers, we can start from the end: the net profit for the year was 85.178 million, up 10.36%. This reflects the efficiency of our business model, which is capable of maintaining strong growth while ensuring an operational balance at all times. Our efforts are underpinned by the daily commitment of 2,149 employees, united in the drive to serve our customers with professionalism and courtesy.

Total assets have increased from 12,127 to 13,633 million, +12.42%.

Direct funding also expanded well, not least due to the presentation of an effective range of products and incisive action in newly-charted territories.

Lending has expanded at a sustained rate, building on our solid links with local businesses and households. Our indepth knowledge of our borrowers is both a prerequisite and a guarantee for the correct allocation of resources as part of the professional management of risk.

The trend in funding and lending activities had a directly beneficial effect on net interest income, which offset a further narrowing of the spread.

The services element also expanded well, especially with regard to collection and payment services and trading in securities. Administrative



RESULTS IN BRIEF

(in millions of euro)	2005	2004	Var. %
Balance sheet			
Due from customers	9,198	8,101	13.54
Due from other banks	1,289	1,253	2.92
Financial assets	2,655	2,247	18.12
Equity investments	85	85	-
Total assets	13,633	12,127	12.42
Direct customer deposits	10,664	9,330	14.30
Indirect customer deposits	16,571	13,709	20.88
Insurance premiums	448	397	12.72
Customer assets under administration	27,683	23,436	18.12
Other direct and indirect funding	3,729	3,175	17.45
Shareholders' equity (excluding net profit for the year)	1,120	1,027	9.01
Income statement			
Net interest income	248	230	7.52
Income from banking activities	416	381	9.18
Profit from current operations before income taxes	143	129	10.97
Net profit for the year	85	77	10.36
Key ratios (%)			
Net interest income / Total assets	1.82	1.90	
Balance of financial management / Total assets	2.78	2.76	
Net interest income / Income from banking activities	59.55	60.48	
Administrative expenses / Income from banking activities	59.20	58.49	
Net profit / Total assets	0.62	0.64	
Net profit / Average shareholders' equity (excluding net profit)	7.87	8.29	
Doubtful loans / Customer loans	0.91	0.83	
Capital ratios (%)			
Tier 1 capital / Risk-weighted assets	10.31%	10.88%	
Total capital / Risk-weighted assets	9.93%	10.73%	
Available margin	315	362	
Other information			
Number of employees	2,149	2,074	
Number of branches	218	203	
Number of treasury offices	85	81	

expenses were affected by the large increase in stamp duty, which is also reflected in the level of revenues. Net of this «anomaly», the physiological rise is correlated with the expansion of the branch network. The careful monitoring of costs, partly to the benefit of capital investment, has contributed to the rise in profitability.

The scope of the bank's operations is broadened and complemented by important contributions from group companies, some of which have

THE BANKING GROUP IN THE HEART OF THE ALPS



BANCA POPOLARE DI SONDRIO



**BANCA POPOLARE DI SONDRIO
(SUISSE) SA**



**PIROVANO
THE SKI UNIVERSITY**



undergone significant changes in both operational and governance terms. Banca Popolare di Sondrio (SUISSE) SA makes a significant contribution to group income, while ensuring a presence in a strategic market and providing an important opening towards international business.

The significant increase in earnings allow us to propose a dividend of 0.19 euro per share, which is 11.76% up on last year. The increase in the value of our shares should also be considered, with a rise of 28.17% in 2005. This has therefore been a year of progress, not only in economic and financial terms, but more especially in terms of the broader role played by the bank in support of the territories and populations served. In short, we continue as ever to pursue our mission as a people's cooperative bank.

TERRITORIAL EXPANSION

The significant expansion of the branch network in recent years has supported the broader internal growth achieved by building on the institutional, organisational and operational characteristics of the bank. This dynamic and determined growth, within clearly-defined but broadened perimeters, has been well received.

We started as a local bank, this is our tradition and we have specifically chosen to remain as such. No longer simply provincial, we have taken on a regional dimension and form, without however forgetting that the essence of our business lies in our ties with the territory and our drive to play an active part in its economic and social progress.

Our ability to manage this change has been fundamental, especially the further delegation of operational responsibilities, thus retaining our inbred vocation to respond efficiently to the needs of the community and local economic operators.

The expansion of our branch network makes us even more «popular», considering the increased number of customers and our improved ability to meet their needs. This explains our commitment to growth in recent years, comprising 2005 of course, with a focus on scale and, above all, grassroots penetration.

Even in the age of the Internet, our branches remain an important point of contact with our customers, with whom we intend to maintain a personalised relationship. Our competitive advantage stems from the dialogue maintained with each counterpart and our ability to adapt to their requirements. This gives us the leverage needed to carry forward our long-term expansion plans. To avoid misunderstandings, our intention is to apply new technology in an appropriate manner that leaves enough room for interpersonal relations. We are profoundly convinced, supported by the empirical evidence, that our approach is successful in building long-term relationships and responding fully to the needs of our customers.

These then are the coordinates for our business, which saw an increase in the number of branches to 218 with the opening of 15 in 2005. The expansion of this sizeable network, significant in terms of its scale and

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penetration, was led at the start of the year by the opening of Rome branch 22. This branch, opened on 18 January, is situated on the main arterial route from the capital to Fiumicino airport, on the premises of the World Food Programme, the UN agency established in 1963 to combat famine in the world. Our services at this location, which benefits from extraterritorial status, support this important supranational agency and those who work there to organise the distribution of food to almost 80 million persons each year, in more than 80 nations.

Again in the capital, branch 23 was opened in April in Ostia Lido, «Rome's seaside» on the Tyrrhenian Sea. Established as a bathing resort at the start of the last century, Ostia Lido now has about one hundred thousand inhabitants following the building boom that started in the 1960s. The seafront of this city, which still reflects the key concepts behind the town planning rationale of the time, offers numerous public amenities (restaurants, bars, bathing establishments etc.) which attract a clientele from all over Rome, especially during the summer, but also out of season.

In December, branch 24 was opened in via di San Giovanni in Laterano, in the heart of Rome between the Esquiline and the Celium hills, within view of the Colosseum. This branch is situated directly opposite the main entrance to St. Clement's Basilica, which is a point of considerable interest to for those visiting Rome, while the Basilica of St. John Lateran is close at hand. This area hives with tourists who contribute to its lively economy, as highlighted by the numerous shops and artisans working there.

From the political capital to the economic capital. Branch 25 extends our presence in Milan, where other well-established branches provide effective service to individuals, enterprises and institutions. The new location is situated at the start of viale Zara – close to piazzale Lagosta – which is a main point of entry into the city, particularly for traffic coming off the Sondrio-Lecco highway. This branch will serve the numerous residents of the area, including the many businesses established there.

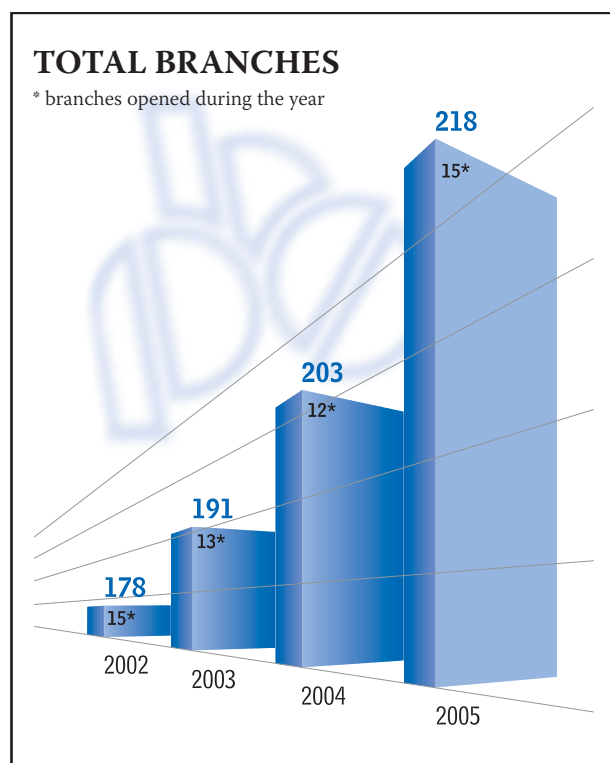
Elsewhere in the province of Milan, new branches were opened at Buccinasco and Bovisio Masciago.

Buccinasco is a centre with about 24,000 inhabitants and provides our first location in the southern part of the province.

Positioned between the Grand canal and the Pavia canal, in an area with agricultural origins, boasting a wealth of springs, Buccinasco is now simply a delightful place to live due, in part, to the orderly work of its town planners.

The local amenities and the abundance of water represent important natural resources that are part of Milan's Southern Agricultural Park. This also includes the municipality of Basiglio, home to the «Milano 3» development, which uses our treasury management services from 1 January 2006.

Bovisio Masciago was created in 1928 on the merger of Bovisio and Masciago, which were previously adjoining but administratively autonomous villages. This is now a township of about 15,000 inhabitants lining the Seveso river, about ten kilometres north of Milan. Its origins go back for centuries, while today it is a fast growing residential area. Furnishings represent the



principal business in the area; which is no surprise since the Brianza is a dynamic area that is well known for the production of furniture and furnishings. Como branch 4 strengthens our penetration in the centre of this provincial capital. The good results obtained here explain our decision to establish deeper roots in the town, thus confirming our position as the leading people's bank in the Larian basin.

Varese branch 2 has been opened in the historic Giubiano area, home to one of Varese's six castles in the 14th and 15th centuries and now a thriving part of the town. This represents a further step towards consolidating our presence in this important Lombardy town, which is the capital of one of Italy's most dynamic provinces.

Elsewhere in the province of Varese, we have opened a branch at Somma Lombardo, another historic municipality once ruled by the Visconte family and still famous for its

impressive castle. This township, with almost 16,500 inhabitants, has always been at the nerve centre of economic activity, although its role has been expanded in recent years with the provision of services to nearby Malpensa Airport, following the further development of this important hub.

In Mantua, branch 1 joins the main branch opened there in 2002, which has recently moved to a more practical location in corso Vittorio Emanuele. Branch 1 is located in the heart of Mantua. In fact, the new branch looks onto Piazza Broletto, which is the focal point for all commercial, professional and institutional activity in this historic Gonzaga town, renowned throughout the world for the richness of its artistic heritage and surrounded by landscapes of great splendour.

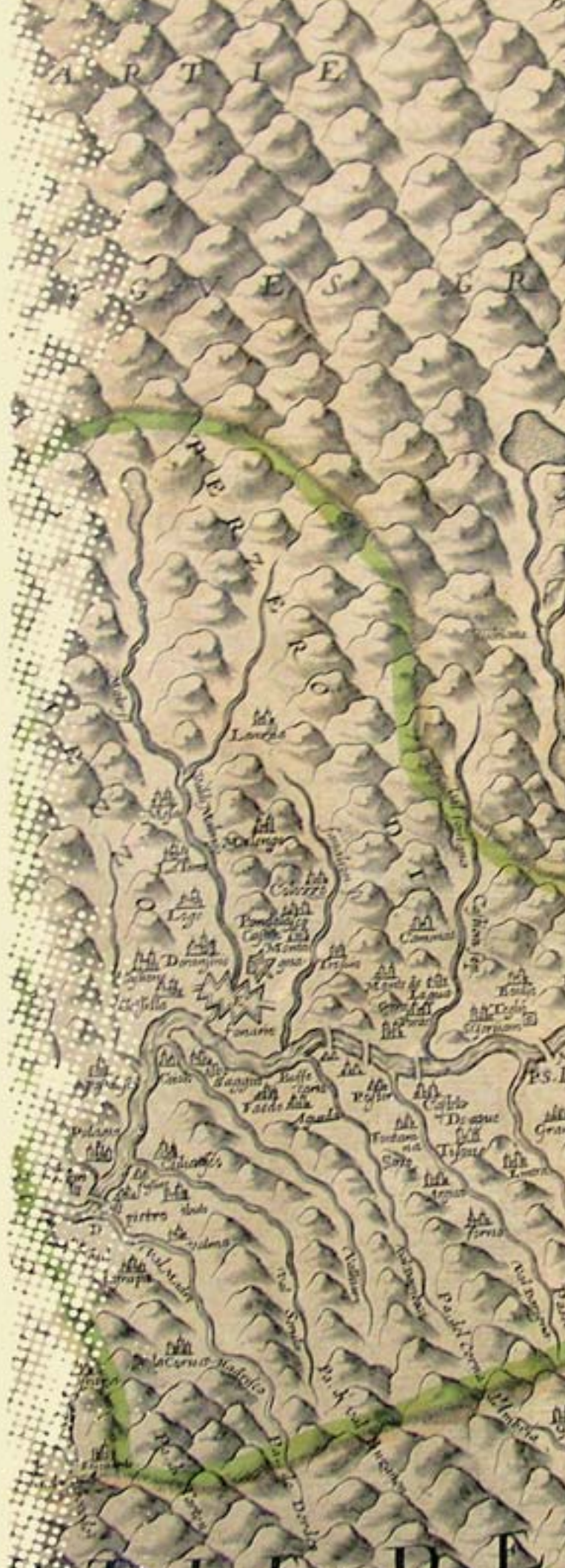
In the province of Brescia, we decided to open at Coccaglio, a township of about 7,000 inhabitants at the foot of Mount Orfano, in the Franciacorta area, a territory famed for its wine production. There has been a great deal of construction in recent years, due to the beauty and peacefulness of the area, with many new top-quality homes. There are also numerous agricultural and engineering firms, together with the production of small domestic appliances and kitchen accessories.

Turning to the province of Bergamo, we have opened a branch at Treviglio, once three separate villages. This is the principal town in the vicinity – with about 26,000 inhabitants – and, although the hills protecting the provincial capital are still in view, Treviglio still manages to enjoy the open spaces and, at times, the fog associated with the southern part of the province. This town, a rail node on the Milan-Venice route, plays host to many major enterprises, especially those active in the engineering and

TERRITORIAL EXPANSION

The significant expansion of the branch network that has taken place in recent years has been put at the service of a wider process of organic growth, based on an enhancement of the Bank's institutional, organisational and operational characteristics. Growth conducted with dynamism and determination, which has had positive reactions, and an enlarged perimeter within specific geographical areas.

We are a local bank by birth and by tradition and continue to be so out of choice. Having doffed our provincial hat, we have now donned a regional one, but without forgetting that the essence of our work is our territorial roots and the desire to be an active part of its economic and social progress. Expanding the branch network means enriching our "popularity", both in terms of an increase in the number of customers and getting closer to their needs. This explains the efforts we have made in recent years, and in the one just ended, to grow in size and, above all, in the frequency of our branches on the ground. This is borne out in 2005 by the start-up of 15 new offices, for a total of 218.



chemical-pharmaceutical industries. Alongside these, there are numerous small and medium-sized enterprises, almost entirely with artisan routes, that represent the driving force of the local economy which once depended on agriculture.

The temporary representative office opened in Turin during September was replaced, towards year end, by our first branch in the capital of Piedmont. We encountered a dynamic city, working hard to prepare for the Winter Olympic Games. This exceptional sporting event was wanted to stimulate the development of infrastructure (the underground and the light railway), as well as the image of Piedmont and its capital. This refound self confidence will surely be boosted by the FIAT Group, which is visibly returning to health and starting to grow again.

The opening of branch 6 completes our presence in Sondrio, at least for the moment. This branch is situation with the regional headquarters of Unione Artigiani, the association for some of the nation's most active and hardworking artisan businesses. The main objective of this opening is to create synergies with the galaxy of artisan businesses, which are well known for the flexibility, dynamism and skill that underpin Italian industry. The area served, a residential zone that also houses the city's scholastic campus, now benefits from a new business services centre that is equipped with a large meeting room and the latest technology.

In our home province, we have also opened at Valdisotto, a village with more than 3,000 inhabitants at the gateway to the tourism and skiing destinations in Bormio and Upper Valtellina. One of Italy's most famous and respected bottlers of mineral water, «Levissima», is based at nearby Cepina, while the thriving local economy also counts many artisan businesses. Valdisotto is dominated by the bell-tower of the church of San Bartolomeo di Castelàz, which escaped the great Mount Coppetto landslide in 1987 that destroyed the S. Antonio Morignone residential area. We also opened a representative office in Genoa during September.

Following a period of crisis, the capital of Liguria, with about 650,000 inhabitants, has found new energy and vigour from the relaunch of the major sea port. Indeed, Genoa is the natural outlet to the sea for a large part of Northern Italy and is ideally placed to serve Europe's manufacturers and consumer markets. In addition, this ancient seafaring republic is strong on services and is becoming an increasingly attractive holiday and cultural destination. In short, this is an important urban centre where, in future, we expect to be able to establish a direct presence.

In addition to our branch locations, there are now 328 bancomat cash dispensers following an increase of 24 during the year. These are operational at all branches and at many of the places where people go to shop.

The treasury offices (+4 during the year) operate on behalf of the entities and institutions that use our services of this kind. The section of this report dedicated to our subsidiary, Banca Popolare di Sondrio (SUISSE) SA, describes the opening of the new Lugano headquarters, in its own building that houses both the management offices and a city branch, as well as the opening of the branch at Mendrisio.

FIRST-TIME ADOPTION OF IFRS AND NEW FORMAT FOR FINANCIAL STATEMENTS

Following the issue of EU Regulation 1606 dated 19 July 2002, all companies listed on EU markets must, commencing from 1 January 2005, prepare consolidated financial statements in accordance with international financial reporting standards (IFRS).

The Italian legislator has authorised the Government to adopt the enabling instructions necessary for the application of these standards. In this context, art. 4 of Decree 38 dated 28 February 2005 envisages that the companies required to prepare consolidated financial statements in accordance with IFRS must also prepare their individual financial statements on the same basis from 2006. Furthermore, these companies may elect to prepare their individual financial statements on the above basis from 2005.

The bank has made this election, so the financial statements presented with this report comply with the IFRSs endorsed by the European Union as of 31 December 2005.

The IFRS financial statements have been prepared in accordance with the Bank of Italy's instructions dated 22 December 2005, which were issued pursuant to art. 9 of Decree 38/05 authorising the Central Bank to establish the reporting formats to be used.

The first-time adoption of the new accounting standards resulted in the need to reclassify various captions in accordance with the new reporting formats. The principal changes are described below. The financial instruments represented by securities, receivables, payables, derivative contracts and equity investments have been reclassified on the basis described below. Securities have been classified as financial assets held for trading, except for those that cannot be considered as trading assets in the strictest sense, which have been classified as available-for-sale financial assets, and for those which have been classified as financial assets at fair value.

Own bonds issued and subsequently repurchased have been eliminated, thus reducing the related liability account.

Equity investments, other than those in subsidiary and associated companies, have been classified as available-for-sale assets.

The captions relating to funding and lending transactions with customers and other banks are essentially unchanged, being classified as amounts due to and from other banks and customers, or as securities in issue. The positive effect deriving from the valuation of trading derivatives, previously classified among other assets, has been reclassified to the financial assets held for trading caption. Similarly, the related negative effect, previously classified among other liabilities, has been reclassified as financial liabilities held for trading. The effect of valuing derivative contracts that hedge bonds issued by the bank is classified in separate asset and liability captions; previously, these securities were stated at cost and, given the requirement for the related financial instruments to be valued on a consistent basis, they were not adjusted to their fair value. Tax assets and liabilities have been reclassified to specific tax asset and tax liability captions; previously, they were classified among

other assets and as provisions for risks and charges, sub-caption b) taxation.

Accruals and deferrals have been added to or deducted from the asset and liability captions concerned; where this was not possible, they have been reclassified among the other assets and other liabilities.

Sub-totals have been added to the income statement (e.g. net interest income) and the section on extraordinary income and expense has been eliminated with the reclassification of the items concerned based, where possible, on their nature.

Aside from presentational differences, the adoption of IFRSs has also affected the substance of the financial statements. The main differences are summarised below, while further details are provided in the General Information section of the notes to the financial statements, and in Section 2 «Basis of Preparation» and Section 4 «Other aspects», where the accounting standards applied are described, together with comparative information on the transition to IFRS and on the effects of first-time adoption.

Property, plant and equipment: with regard to property, under IFRSs the land on which buildings are situated is deemed to have an unlimited useful life; accordingly, it is not subject to impairment and is not depreciated. Under the previous accounting standards, the cost of land occupied by buildings used for operating purposes was depreciated together with these buildings. In order to apply IFRSs, it was necessary to identify the value attributable to the land concerned, determine and eliminate the related accumulated depreciation.

Intangible assets: IAS 38 establishes more restrictive criteria, with respect to the previous accounting standards, for the accounting recognition of these assets; beyond these, the costs incurred on purchasing or creating an intangible asset cannot be capitalised but, rather, must be charged to the income statement as incurred. The cost of restructuring leasehold buildings used by banking branches falls into this category and, accordingly, the residual book value of the related deferred charges recorded in prior years has been eliminated.

IAS 19 governs the accounting treatment of employee benefits. Both severance indemnities and the pension fund are considered to be post-employment benefits. These are now subjected to an actuarial valuation to establish the projected future value of the benefits already earned by employees, in order to determine the amount due to them. This obligation must be discounted to take account of the time expected to elapse before such benefits are paid. Under the previous accounting standards, the liability for severance indemnities was not discounted, while the application of this procedure to the pension fund was governed by regulations requiring a review every three years using different criteria. The necessary adjustments have therefore been made. Under IAS 37, provisions for risks and charges can only be made if the obligation derives from a past event, the settlement of which is likely to require the use of economic resources whose timing and extent can be estimated reliably. If settlement is not expected in the short term, the provision must be discounted to its present value. The previous accounting standards were less

restrictive and did not require consideration of the time element when estimating the charges concerned. As required, the provision for legal disputes and claims from liquidators has been discounted to its present value.

The adoption of IFRSs has also involved recognition of the deferred tax assets and liabilities associated with the various adjustments made. Decree 38/2005 introduced the changes needed to recognise the effects of adopting IFRSs on a tax-neutral basis.

Under the previous accounting standards, loans were stated at their expected recoverable value and, in general, the likely recovery time was not taken into consideration. Conversely, IAS 39 expressly requires consideration of this time factor in relation to the recovery of impaired loans, in order to determine the present value of the amounts deemed to be recoverable. The bank had already begun to use this methodology in prior years and, accordingly, the effect on the current year was both limited and associated with the updating of the previous approach. The general provisions recorded in relation to other loans were essentially determined with reference to two parameters: the PD (Probability of Default) and the LGD (Loss Given Default). Another effect of IAS 39 relates to use of the amortised cost method for the valuation of loans. This involves the initial recognition of an amount, as subsequently increased/decreased by repayments of principal, write-downs and write-backs, and the amortisation of the difference between the amount paid and that recoverable on maturity; this last difference is associated with the charges/income relating to the loan made. The amortised cost method is not applied in relation to short-term loans, since its impact would be negligible.

Under IAS 39, securities classified as financial assets held for trading or as financial assets at fair value are stated at fair value regardless of whether or not they are listed in active, regulated markets. This criterion was essentially adopted from the 2004 financial statements, with the valuation of the securities portfolio at its market value.

IAS 39 also requires securities classified as available-for-sale assets to be stated at fair value, although the effects of this valuation are recognised in equity. This criterion has been adopted in relation to securities listed in regulated markets or when it has been possible to determine fair value reliably. The valuation of certain minority interests using alternative techniques identified widely different possible results for their fair value. This outcome was not considered to be reliable and these equity interests continue to be stated at cost. Previously, all holdings classified as equity investments were stated at cost.

Both trading and hedging derivative contracts are stated at fair value. IAS 39 establishes precise and restrictive requirements for determining if a financial asset or liability is hedged by a given derivative instrument. Retrospective and prospective compliance with these requirements must be checked systematically by applying specific tests. Over the past year, the existing valuation procedures were refined and perfected and suitable new tools were also adopted.

The bonds issued that are covered by a hedging contract are stated at fair value, since international accounting standards require application of

the concept of consistency, with adoption of the same criterion for the valuation of both derivative contracts and the hedged assets/liabilities. Under the previous accounting standards, the application of the «consistency» concept made reference to the way the hedged assets or liabilities were valued. Since the bonds issued were stated at cost, the value of the related derivative contracts was not determined. Lastly, international standards require the effects deriving from their first-time adoption be recognised as part of equity. The resulting effect on equity was positive and was allocated to a specific reserve.

FUNDING

Nothing new under the sun. While the state of the Italian economy remains clouded, the barometer that measures the volume of work performed by the banking system continues to report good weather. This reflects the so-called re-intermediation of financial activities, a phenomenon that has become established over a number of years resulting in steady growth in the funding and lending aggregates, not least with respect to GDP.

In terms of funding, the banking system remains the main point of reference for savers and investors. This expression of confidence is very welcome. In part, at least, this reflects the efforts made by the entire banking system in recent years to consolidate and improve its efficiency. Important work has also been done to improve the financial culture of counterparts, by providing them with ever more useful and timely information, and to respond to the requirements of those interested in low-risk investments.

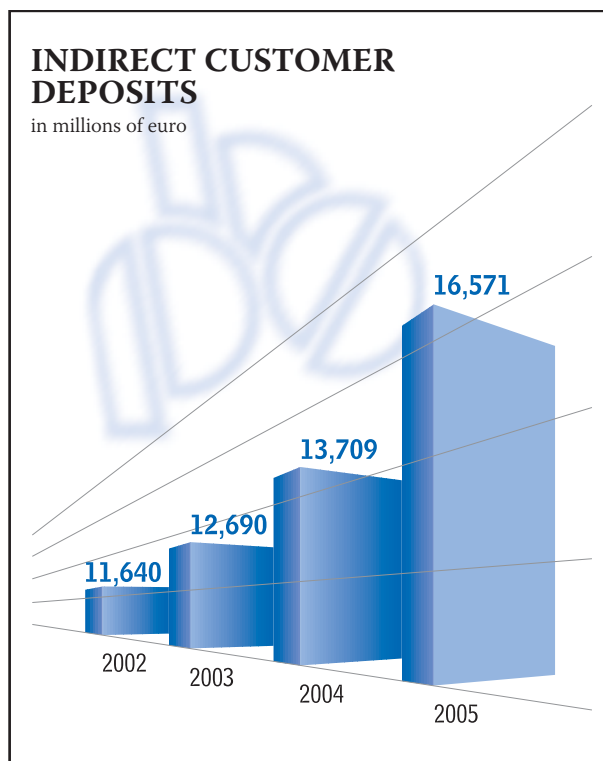
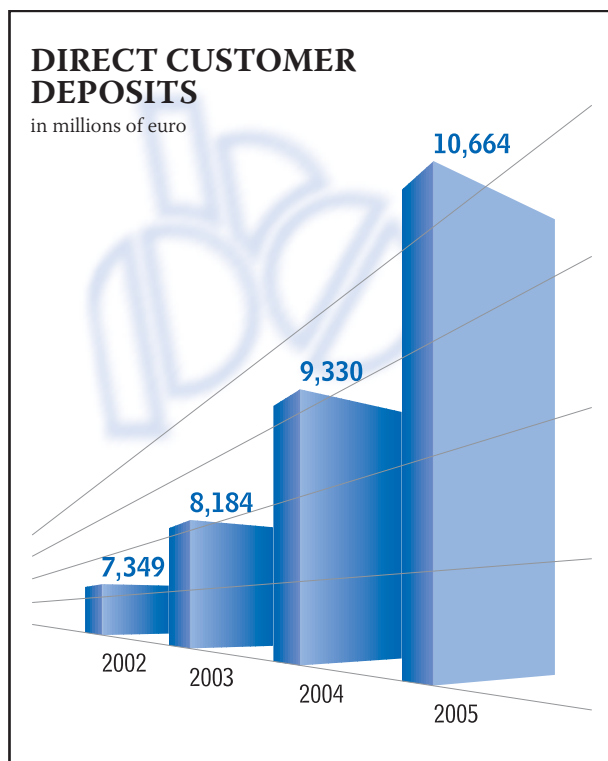
Bank funding has also benefited from the climate created by the industrial collapses that took place in the still recent past, which has discouraged the issue of private financial instruments. In addition, the pulling power of government securities has been affected by the extremely low returns available, which hardly cover the equally low rate of inflation.

Customers are sifted right from the time of accepting their deposits. This is necessary for financing and operating reasons, and also for functional and moral purposes, as required by law.

Having looked at the general background, we turn inward to report the highly satisfactory rise in direct funding from 9,330 to 10,664 million, up 14.30% and breaching the 10 billion threshold.

This significant increase continues the steady growth achieved over the years and appropriately matches the trend in lending which, in terms of operational balance, must of course be funded by deposits.

Our growth outpaces that of the banking system as a whole, not only because of measured territorial expansion, but also as a consequence of the attention dedicated to each counterpart and the strength of the fiduciary relationships established. Relations are cultivated for the long term and are based on the constant monitoring of customer satisfaction, in order to avoid a perhaps silent migration to the competition. These are simple concepts,



which we have already addressed in the past; it is worth repeating them, since they express our nature as a people's bank.

As mentioned, our tight grassroots presence represents a competitive advantage that we want and need to draw on in the best possible way. In this regard, the expansion of our territorial coverage has made a significant contribution to the level of new funding, thus confirming the speed with which we have obtained a useful share of the local markets. At the same time, we have proven our ability to expand in established areas and not merely take a defensive positions.

This represents a confirmation of our way of working, founded on a desire to enrich the wealth of local knowledge and relationships in order to consolidate and develop our business. Our complete and competitive range of commercial products is complemented by such essential factors as the responsiveness and professionalism of our staff, who take care to inform each and every counterpart on a proper basis, assessing the ability of each product to meet their needs and fit their financial resources. This puts our customers in the position to make independent and aware decisions about the most suitable combination of risks and returns to accept. These are the key elements of a fiduciary relationship representing, in other words, the value added by the bank as we go about our daily business.

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.

At 31 December 2005, total funding amounted to 26,611 million euro, an increase of 18.04% from the previous year's figure of 31,412 million.

As mentioned, direct customer deposits amounted to 10,664 million, a rise of 14.30%, which is even more than in 2004 when there was already a strong upward trend.

The market value of indirect deposits is 16,571 million, +20.88%, while insurance premiums collected rose by 12.72% to 448 million.

Deposits from banks amount to 1,265 million, +5.10%, while securities under administration total 2,464 million, +24.98%. Direct deposits continue to be dominated by current accounts, which rose by 15.20% to 7,565 million. Favoured by their increasingly essential service function – as well as by the ongoing preference of savers for liquidity –, current accounts taken alone represent 70.95% of the bank's direct funding. Repo transactions have returned to growth: 1,487 million, +18.77%, while certificates of deposit amount to 46 million, +6.21%. Savings deposits have risen slightly to 546 million, +2%, which demonstrates the lasting interest in an economical and easy-to-manage product.

Bonds continue to represent an indispensable source of funding for the bank. The various issues, on terms that always reflect market trends, have fully met the requirements of subscribers and this caption now totals 911 million, +8.25%, representing 8.55% of total direct funding.

Bank drafts and similar amount to 108 million, +19.96%. The growth in the bank's business is confirmed by the rise in the number of funding accounts,

DIRECT CUSTOMER DEPOSITS

(in thousands of euro)	2005	%	2004	%	Change %
Savings deposits	545,962	5.12	535,252	5.74	2.00
Certificates of deposit	46,171	0.43	43,473	0.47	6.21
Bonds	911,413	8.55	841,932	9.02	8.25
Repo transactions	1,486,842	13.94	1,251,821	13.42	18.77
Bank drafts and similar	107,744	1.01	89,819	0.96	19.96
Current accounts	6,945,864	65.14	6,214,772	66.61	11.76
Current accounts in foreign currency	619,536	5.81	352,612	3.78	75.70
Total	10,663,532	100.00	9,329,681	100.00	14.30

TOTAL FUNDING

(in thousands of euro)	2005	%	2004	%	Change %
Total direct customer deposits	10,663,532	33.95	9,329,681	35.06	14.30
Total indirect customer deposits	16,571,464	52.75	13,709,121	51.52	20.88
Total insurance premiums	448,025	1.43	397,481	1.49	12.72
Total	27,683,021	88.13	23,436,283	88.07	18.12
Due to other banks	1,264,748	4.03	1,203,356	4.52	5.10
Indirect funding from banks	2,464,303	7.84	1,971,705	7.41	24.98
Grand total	31,412,072	100.00	26,611,344	100.00	18.04

to about 246 thousand. This confirms the commercial vitality of not only our new branches, but also those that have been established for longer. Despite this, they never lose sight of the objective to expand their circle of customers, thus improving their penetration of the local economic fabric.

The performance of the stock exchange and other financial markets – described in a separate section of this report – has boosted the level of indirect customer deposits which, as mentioned, have risen by 20.88% to 16,571 million. Here too, the results achieved in this important segment reflect the trust of savers and the work performed to equip the bank with suitable new technical tools. Asset management is discussed in the section on treasury and trading activities. In short, there was also good progress in this area.

Lastly, in this area, the banking system holds a significant part of the nation's savings and this should be encouraged even further or, more precisely, the ethos of saving should be encouraged. Accordingly, the monetary policy of the State – in particular – must remain firm and stable.

LENDING

A year of growth, healthy growth. Just a few words to note that lending has risen from 8,101 million at the end of 2004 to 9,198 million as of 31 December 2005, up 13.54%. And to confirm that – as ever and more than ever – that attention to volume has not overshadowed our focus on quality.

As shown by the statistics on doubtful loans, discussed below, the quality of lending remains satisfactory and decidedly better than the average for the Italian banking system. This is no small achievement. Lending has been expanding strongly for a number of years and the results achieved therefore mean that our internal functions, backed by enhanced controls and supported by the latest knowledge and techniques, have worked together effectively to manage the level of credit risk, which is the most common and significant risk deriving from banking activities. All this, despite the troubled general economic conditions which still give much cause for concern. Our commitment is not limited to minimising the level of doubtful loans. For a people's bank, this first, fundamental task is accompanied by another: management of the allocation of financial resources, so that they are directed with care towards the counterparts privileged by our history and the nature of our activities i.e. households and small and medium-sized enterprises.

The experience of certain banks shows that it is better to draw on the wealth of professional experience and local knowledge in our possession, rather than to explore roads that deviate from our culture and traditions. In other words, we focus on what we do well, in order to do it even better. In any case, there is no shortage of work. There is growing demand from households, especially for home loans and also for consumer credit. These applications are answered, after careful review, on an appropriate and timely basis.

With regard to businesses, bank lending to small and medium-sized enterprises represents about 70% of external loans. These firms, representing the backbone of Italy's manufacturing system, need banking partners that understand their origins and philosophy, care about the local economy and are capable of focusing on the opportunities offered by the expansion of markets. This is the portrait of the bank as we would like it: with strong roots in the local communities served, but with the ability to look above and beyond the national boundaries to grasp the essence of the transformations currently underway.

We want to provide our counterparts, especially those who are entrepreneurs, with specific reassurance: the introduction from next year of the complex set of rules known as «Basel 2», together with the consequent, more extensive use of ratings, will not be treated by us as merely an opportunity to give firms a score, but rather as a chance to share with them the financial solutions needed to guarantee sound growth. Ever closer links between the bank and businesses will result in the pooling of knowledge and skills with a view to promoting the growth of the firms operating in the territories served.

We are well organised for this purpose, with specialist functions and offices, as well as access to the numerous near-banking partners of good standing that are described in a specific section of this report.

For completeness, we need an active banking partner that operates effectively with broad strategies in the field of long-term loans and industrial credit. This will help us respond to a fundamental requirement of Italy's manufacturing system, providing support for initiatives in sectors involving advanced technology, business combinations and investment in training, research and innovation. In short, a return to the past, when the rules of specialisation at that time allowed special credit institutions to sustain the Italian economic boom.

CUSTOMER LOANS

(in thousands of euro)	2005	%	2004	%	Change %
Current accounts	3,049,063	33.16	2,911,931	35.95	4.71
Foreign currency loans	1,112,090	12.09	964,837	11.91	15.26
Advances	220,296	2.40	260,367	3.21	-15.39
Advances with recourse	157,541	1.71	140,920	1.74	11.79
Discounted portfolio	7,856	0.09	8,483	0.10	-7.39
Artisan loans	32,645	0.35	34,185	0.42	-4.50
Agricultural loans	23,385	0.25	18,312	0.23	27.70
Personal loans	68,877	0.75	67,085	0.83	2.67
Other unsecured loans	1,799,376	19.56	1,357,900	16.76	32.51
Mortgage loans	2,642,584	28.73	2,269,482	28.02	16.44
Doubtful loans	84,137	0.91	67,354	0.83	24.92
Total	9,197,850	100.00	8,100,856	100.00	13.54

Looking again at operational matters, interest rates were essentially stable for most of the year. In early December, the ECB raised rates by 0.25%, without waiting any longer for the economic upturn that, indeed, we are still hoping to see.

This explains why there was a further slight narrowing of the spread in 2005, made possible by increased internal efficiency sustained by the careful granting and management of loans. This was achieved, in part, by the investment in professional resources and equipment made in recent years – as discussed in the section of risk management – and, in part, by the nature of our role as a people's bank. In particular, the proper granting and management of loans is guaranteed by the attention given to the local economy, the close relations maintained with borrowing businesses and the intensive monitoring of loans by our staff. This is the most important «economy of scale», assured by our way of being a local bank in a steadily expanding area.

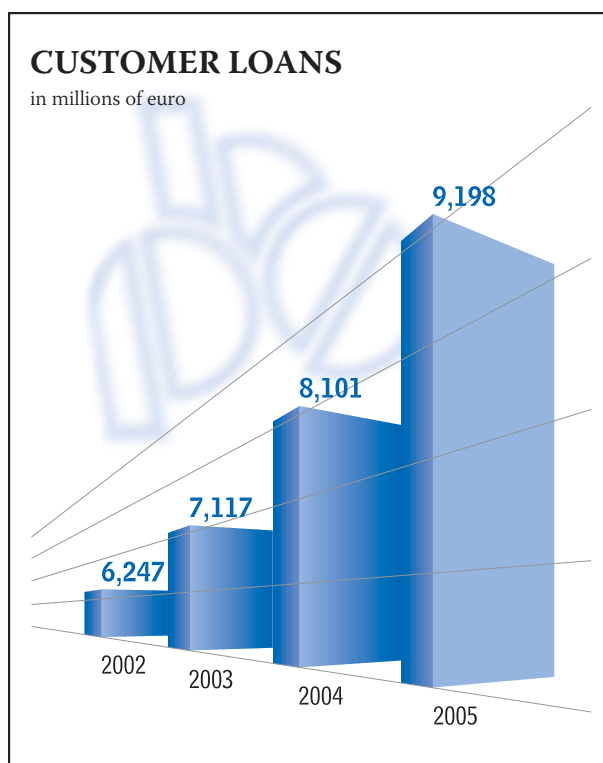
The good quality of our lending is reflected in the figures reported below. Net doubtful loans, i.e. after deducting writedowns, amount to 84 million euro, which is 0.91% of total customer loans, compared with 0.83% at 31 December 2004. Although up slightly, this percentage is significantly lower than the national average.

The writedowns made to cover estimated losses on existing doubtful loans increased from 109 to 121 million, +10.45%. The rigorous application of prudent criteria is, as ever, an important guarantee and confirms management's desire to identify and adjust for all forms of impaired lending.

Watchlist loans, being loans to borrowers in temporary difficulties that are expected to be resolved, amount to 116 million euro, +20.43%, or 1.26% of total loans to customers compared with 1.19% last year.

Loans overdue by more than 180 days total 107 million. The various technical forms of lending are discussed below, in more detail and using different criteria with respect to the analysis set out in table 7.2, presented within Part 3 Section 2 of the notes to the financial statements. As mentioned, these contributed together to the increase in lending to 9,198 million, +13.54%. The first point of significance is the steady expansion of long-term lending. This process has been continuing for a number of years, supported by internal training in the specific professional skills needed and the development of working relations with experienced partners, with a view to responding better to market needs.

The strong interest in the property sector, despite everything, continues to sustain the rapid growth in mortgage lending which – following years of







Nova ITALIAE Delineatio.

Work by Giovanni Antonio Magini (1555-1617). The map was drawn in c. 1631 (Property of Banca Popolare di Sondrio).

expansion – now totals 2,643 million, +16.44%, and represents 28.73% of total loans granted. Clearly, Italian families place home ownership at the top of their priority list, prompted by the high cost of renting and, conversely, by the low level of interest rates. The ability to choose the most suitable technical form, in terms of structure, percentage financed and duration, has certainly helped. Proactive collaboration from Barclays Bank has helped us to keep our products constantly updated, extending them and improving their flexibility with interesting new proposals, including modular schemes. We are also working on links with Centrobanca, an affiliate. There has also been lively demand for loans designed for specific categories of customer.

Current account overdrafts also performed well, rising by 4.71% to 3,049 million, which represents 33.16% of total lending by the bank. In turn, foreign currency loans rose to 1,112 million, +15.26%. The limited increase in personal loans – to 69 million, +2.67% – reflects our effective collaboration with Linea spa, a specialist in this sector. Other unsecured loans have increased by 32.51% to 1,799 million.

Our steady expansion into the Padana areas, traditionally reliant on agriculture, has resulted in the expansion of our business in this sector, where we also operate via Banca della Nuova Terra spa which was established by a number of people's banks, including our own.

Although still modest, the figures denote progress in this area. As mentioned, our affiliates, and the other companies in which we hold interests and with which we work intensively, enable us to offer customers a broader and more sophisticated range of financial instruments.

Our specialist offices are also available to help our business customers, providing top-grade services and consultancy. Reference made to the specific section of this report for further information, without forgetting to mention the intensive work performed on behalf of the European Investment Bank (EIB) which has confirmed its confidence by allocating a third global loan to us, to finance development projects promoted by small and medium-sized enterprises. Lastly, the excellent relations with cooperatives and guarantee consortiums were extended and intensified during the year. These relations cover both the more traditional forms of business and new areas, where these channels allow us to come into contact with a myriad of small enterprises and provide them with the assisted finance made available under current regulations.

The favourable outcome of the inspection carried out by the Supervisory Authorities between 21 September 2004 and 21 January 2005 has encouraged us in our work.

TREASURY AND TRADING OPERATIONS

Stock markets

The international stockmarkets performed rather well in 2005, reflecting the healthy state of the world economy. The consolidation of improved corporate profitability made a significant contribution in this regard, assisted by the significant restructuring work carried out in prior years and the excellent results achieved in certain sectors, especially energy.

Looking further into the general situation, there is a clear contrast between the state of the stockmarkets in the United States and Europe and economic conditions in the respective nations. Indeed, the liveliness of the European stockmarkets stands out with respect to the sluggish, indeed stagnant state of the economies concerned. Conversely, the bubbly rise in US GDP was unable to overcome the essential apathy on Wall Street.

It is always challenging to forecast the performance of share prices, but in the latter case it is also difficult to provide convincing explanations for what happened in the past. We will leave this task to the experts in international financial matters, with the hope that betting by operators on the recovery of the Old World proves to be justified.

In substance, lively action on the European stockmarkets during 2005 resulted in strong rises to levels not seen since 2001. The Italian market trailed in last, with the Mibtel rising just 13.78%, which was still something given the strong +18.1% rise in 2004. Continental performance was sustained, as mentioned, by a widespread improvement in corporate profitability and, equally important, by expectations of a decline in the euro against the dollar, with a predictable benefit for exports. The bond markets were conditioned by the moves of the monetary authorities, who were concerned by the risks of an inflationary spurt caused by the higher prices for raw materials. The Federal Reserve continued to apply its gradual but relentless restrictions, followed timidly by the European Central Bank towards year end. The higher interest rates – represented in the United States by eight consecutive rises of 25 basis points – were mainly reflected at the short-term end of the rate curve, while the long-term end was more stable. This effect is referred to by the experts as the «Greenspan enigma».

Turning to the Italian stock exchange, the market capitalisation closed the year at 49.4% of GDP compared with 43.1% at the end of 2004; there are 282 listed companies, up by 4 following 19 new listings and 15 delistings. Listed companies raised 18.9 billion in the market during the year, via capital increases for cash and share placements, compared with 15.3 billion in 2004. The presence of lively, medium-sized companies alongside the well-known giants is encouraging. The 21 share capital increases raised 12.1 billion, while 6.8 billion was raised from 18 placements, although most of these funds were allocated to the fourth tranche of the ENEL privatisation. On this topic, a successful IPO by Banca Italease has resulted in the listing of our long-standing affiliate. Our investment in this bank now incorporates a substantial capital gain.

With regard to takeover bids, there were 23 transactions worth 19.8 billion compared with a trivial 500 million in 2004.

Our finance department worked well against this background, aware that there are always traps and dangers, even when the market is generally bullish. Professionalism and balance are always essential and they are accompanied by that healthy prudence needed to avoid surprises and unexpected events. The treasury department was kept busy by the abundant flow of liquidity, working hard to benefit from every opportunity to profit from the exchange of interbank deposits. Activity on the electronic market

for interbank deposits (MID) increased by 7.53%, representing a total volume of 111.1 billion from 5,643 transactions.

Portfolio securities

The portfolio of investment securities amounts to 2,608 million, up 20.40% over the year. In terms of the mix, there is still a distinct prevalence of floating-rate government securities, mainly Treasury Certificates (CCTs). The weighting of certain bank bonds with yields linked to euribor has been increased, together with others deriving from securitisations, since the available returns are better than those from government securities. Accordingly, the incidence of fixed-rate securities is extremely limited and most of these mature in the short term.

The limited availability of this last type of instrument for trading has conditioned the volume of trading in investment securities. The overall volume of transactions was unaffected however, totalling 19.57 billion, +3.33% compared with the prior year. The increase in net trading income by 16.8 million, +26.31%, was therefore more than satisfactory. The shortage of fixed-rate securities affected activity in the electronic repo market with institutional partners, where lending transactions dominated with respect to funding transactions. The volume of transactions exceeded 33 billion, down by 36.5% with respect to 2004.

Repo transactions with customers on the other hand benefited from the abundant liquidity available in the market. The balance at year end of 1,487 million is 18.77% higher.

The refund confidence of savers in the stockmarket has had a positive effect on the volume and profitability of orders accepted, including those in relation to foreign securities. There was a major increase in the volume of orders administered via the *trading on line* service, which is kept constantly up to date in terms of content and the functions available.

In addition to the vitality of the bond markets, this higher volume of trading on behalf of customers was prompted by certain trends in the allocation of investment portfolios. On the one hand, customers are abandoning fixed coupon securities in favour of those with indexed yields and, on the other, they are moving away from corporate bonds in general towards government securities and the bonds of issuers with prime ratings. Lastly, placement activity benefited from the substantial level of public offers, as well as, of course, the predominant effect deriving from the distribution of mutual funds and sicavs, which are discussed in the section on asset management. The sense of proportion that governs all banking activity is fundamental in the securities sector, just as it is in relation to foreign exchange.

Performance of BPS stock

BPS stock is traded on Borsa Italiana's Expandi market and rose by a flattering 28.17% in 2005, compared with a 22.11% rise in the reference index, the Mex, and a 13.78% increase in the Mibtel index. Consideration of the situation over the three-year period 2002/2004 shows that the stock has made steady progress – even in the years when the markets fell back.

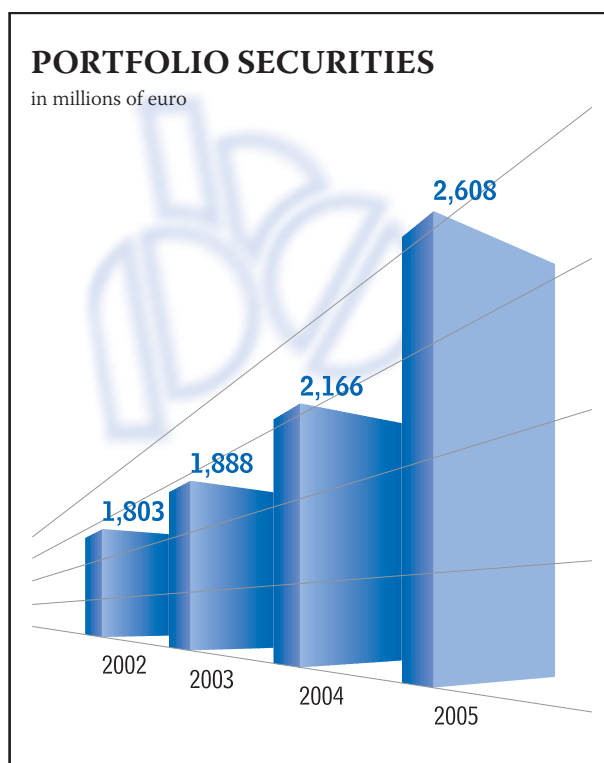
Performance in 2002, 2003 and 2004 was as follows: BPS stock +1.43%, +13.99%, +11.53%; Mex -6.06%, +14.63%, +7.16%; Mibtel -23.50%, +13.94%, +18.13%.

The stockmarket performance of our share price is the proper expression of a business that works, produces and creates wealth and advantage for its shareholders, who have benefited not only from the annual dividend, but also from the steady and substantial rise in the market price of their shares. Add the fact that all our services are offered first to the shareholders and it becomes clear that the bank fulfills all its obligations to owners, mindful of the historic roots of the cooperative banking movement. This explains the vigorous year-by-year increase in the number of shareholders – to 132,902 at the last board meeting for the year, up by 6,060 since 31 December 2004 –, almost all of whom are customers of the bank and therefore key players in a mutually advantageous exchange of values. The participation of our shareholders is very welcome and they can attend meetings in full compliance with current legislation and the articles of association. The foregoing provides firm evidence of the esteem held for the people's cooperative movement, which brings together capital and labour in a spirit of modern self help, which understands that the future security of the population depends on its thrift.

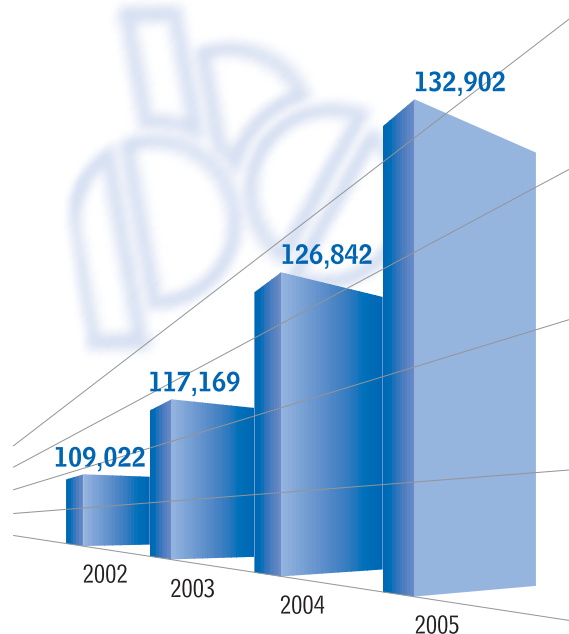
There were no own shares in the Bank's portfolio at the end of the year, so the reserve of 29 million was completely unutilised. The following table summarises trading during 2005.

	Number of shares	Par value	% of capital	Amount traded
Balance at 31/12/2004	0	0	0	0
Purchases	8,206	24,618	0.004	95,476.61
Sales	8,206	24,618	0.004	94,858.55
Trading result				-618.06
Balance at 31/12/2005	0	0	0.000	0.00

Lastly, we turn to look at the important asset management sector with a value that now exceeds 1,000 billion in Italy, mostly invested in bonds. This historic milestone was reached due to the recovery of net inflows and the good performance of the financial markets, which benefited the book value of holdings. Our finance department looks after this delicate «industry» with skill and balance, as ever the main characteristics required for this activity. The commercial range – competitive, regularly updated and without highly or exclusively speculative elements – offers suitable solutions that address the



NUMBER OF SHAREHOLDERS



various requirements of investors, considering their propensity to accept risk. The results achieved in 2005, detailed below for each segment, show the effectiveness of the work performed.

The placement of Arca funds generated net inflows of almost 54 million, raising the total assets managed via these funds, after revaluations, to 1,589 million, +11.7%. The products managed by – Popso (Suisse) Investment Fund –, the group's sicav, and the ethical funds offered by Sistema Valori Responsabili di Etica SGR also performed well, with healthy net inflows. Working with recognised efficiency, the portfolio, security and fund management department has presented a renewed range of products that addresses more closely the various risk profiles, using updated software for greater flexibility. Total assets managed by this department rose, together with the number of active accounts, to 1,732 million, +21.29%,

in addition to 61 million relating to the fund for post-retirement benefits. Savers are principally interested in balanced funds, followed by investment in monetary funds. The various forms of asset management therefore totalled 3,353 million at the end of 2005, up a significant 18.45%.

We are especially pleased to note again the special professionalism demonstrated again by Arca SGR, which has been an affiliate of the bank for more than twenty years.

EQUITY INVESTMENTS

The section of the report on the financial statements relates solely to the companies defined as equity investments under the new international accounting standards adopted from 2005, as reflected in the balance sheet. Pursuant to IAS 27, 28 and 31, this category comprises investments in subsidiary and associated companies, as well as joint ventures. The bank does not currently hold any joint venture investments.

The minority holdings that, given the reason for which they are held, cannot be classified within the «trading portfolio» are reported as «available-for-sale assets», which is a broad «container» that, under IFRS, comprises various types of fixed and variable-yield securities. The principal near-banking investments are described in the next section.

The above changes in classification, required by the new standards, do not affect the bank's established approach to equity investments, as understood in the broadest sense. Indeed, these continue to represent important ties with

companies, mostly established together with other people's banks, that provide essential products and services for the completion of our commercial range. The history of these investments, many held for decades, shows that the intentions of the founders were and remain well placed. Technical quality, market competitiveness – many rank at the top of their respective categories – and profitable management underpin our loyal support for these companies. In this light, we have also contributed actively to the reorganisations and shareholders' agreements designed to facilitate the progression of these specialist companies. Our loyal support is affirmed by the business we generate for them.

There was only one slight change in the equity investments held during the year, regarding the ownership interest held in CBE Service sprl. This totalled 84.937 million at the end of 2005, down by 1.019 million over the year.

The following commentary on equity investments distinguishes between the bank's subsidiary and associated companies.

Subsidiaries:

Banca Popolare di Sondrio (SUISSE) SA (100%). A Swiss bank with head office in Lugano, founded on 3 May 1995.

This subsidiary has now operated for ten years, pursuing its mission to great effect. The objective is to duplicate the mission of the parent bank in Switzerland, on a gradual basis of course and maintaining a sense of proportion, by creating an efficient bank that services its territory – and therefore the households and small enterprises resident there – and contributes to the development of the local economy.

This project was well received and still gains momentum from the intense, historic relations between the Swiss Confederation and the border areas of Lombardy and Piedmont, into which the parent bank has gradually extended. The balance sheet, the internal organisation and the distribution structure are all sound and there are concrete prospects for further growth. Without focusing on absolute size, SUISSE therefore plays an active part in the Swiss banking system, expressing its own personality and dynamism.

The balance sheet aggregates reported in the 2005 financial statements reflect strong progress, partly due to the strengthening of local roots which has also helped to establish relations with institutional counterparts. Services performed well in the areas of securities and foreign exchange, with marked growth in the activities of Go-Banking, the electronic channel.

Net profit approved at the shareholders' meeting held on 8 February 2006 amounted to CHF 8,684,907, +13.24%, which, as in the past, was allocated entirely to the reserves, thus enabling equity to keep pace with the growing scale of the business. Capital and reserves therefore total CHF 111,409,595, of which 50,000,000 relates to share capital.

The branch network has expanded to sixteen, following the addition of two, thus confirming «SUISSE» as the leading foreign bank in terms of territorial presence within the Confederation. The bank's prestigious new building, centrally located in via Luvini, Lugano – the subsidiary's general



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Switzerland

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Via Giacomo Luvini 2/a, Lugano

Tel. 0041 58 8553000

Operations:

Via Maggio 1, Lugano

Tel. 0041 58 8553100

Branches:

LUGANO via Giacomo Luvini

LUGANO via Maggio

LUGANO Cassarate

BASEL

BELLINZONA

BIASCA

CASTASEGNA

CELERINA

CHIASO

CHUR

LOCARNO

MENDRISIO

POSCHIAVO

ST. GALLEN

ST. MORITZ

ZURICH

Principality of Monaco

MONTECARLO

management offices, opened on 3 June 2005 – also houses a new city branch and, in addition, a branch was opened at «Magnificent» Mendrisio, in Canton Ticino, towards the end of the year.

The growth of the network is reflected in the expansion of employment, in order to guarantee with appropriate training the quality of our services. The number of employees rose from 217 to 245 in 2005. Commercial and operational activities are effectively supported by the technological infrastructure, which is updated via an appropriate level of investment.

Popso (Suisse) Investment Fund SICAV and Sofipo Fiduciaire SA have also performed well, with healthy growth. The latter has invested in the formation of Sofipo UF Trustee Limited, a Cypriot company with interesting prospects that specialises in the establishment and administration of trusts, in addition, together with «SUISSE», the company established Sofipo (Austria) GesmbH, a service company based in Vienna, at year end.

Pirovano Stelvio spa (100%). This company manages the hotel facilities at Passo dello Stelvio, an area of great natural beauty, offering much to skiers and for other sports, in addition to its environmental attributes and history.

The fairly cool summer season meant that the slopes remained in good condition for skiing at all times. Despite this and the high standard and diversification of the holiday opportunities offered by Pirovano, the awaited influx of visitors did not take place and, inevitably, another operating loss was reported. It remains difficult, if not impossible, to avoid the ongoing crisis in the holiday industry, which hit a peak last year. Given this, the company contributes benefits not found in the financial statements, not least those of social value. In particular, Pirovano makes a good contribution to the promotion of the Stelvio Pass, with positive effects for the local economy and confirming our people's cooperative ethos.

Pursuit of this objective includes targeted cultural and sporting initiatives – here we are pleased to mention the Mapei Day –, which find an unequalled setting in the splendid scenic beauty of the Pass. More information is provided in the section of this report dedicated to promotional and cultural activities, with a special mention here of the collection of funds for Genoa's Gaslini Hospital, during the traditional Snowfestival held at the end of the season.

Last but not least, the activities of the bank's «Ski University» and excellent hotel accommodation deserve mention for the unquantifiable, but greatly appreciated, benefits they generate. This provides a further reason for the continuation of our commitment, together with those who care about the fate of our provincial tourism.

Sinergia Seconda srl (100%). This property company manages properties not used for banking purposes situated in Milan, Rome and Curno (Bergamo). This last property was acquired at the end of last year as part of loan recovery procedures.

The satisfactory profitability of the assets acquired in the more distant past, largely rented, gives them value. This is essential in order to achieve the



PIROVANO STELVIO

The Pirovano Summer Ski School was born at Stelvio towards the end of the Forties, thanks to the felicitous intuition of Giuseppe Pirovano and Giuliana Boerchio. The couple wanted to realise a dream: to take city people's ideas, poetry and desire for knowledge about mountains to a high altitude. The Pirovano was conceived, right from the start, as a sort of "mountain monastery". Over the years, the passionate skiers that frequented it went through a spiritual initiation, based on a discipline of spartan rigour, simplicity and sport, elements that contributed towards a spirit of aggregation and enthusiasm for every objective that the pupils set themselves, refining their technique, improving their results.

These values have stayed exactly the same in the general philosophy of the Ski University, even when the "baton" passed, in 1985, to Banca Popolare di Sondrio, which carried on in the same vein, with respect for the past and for the guidelines laid down by its founders. This is an initiative which has nothing to do with a bank's institutional duties, but when the bank is Banca Popolare di Sondrio, a reason can be found. It is an operation that forms part of its primary vocation, which is to be bank of the territory, a people's cooperative bank, determined to sustain the economic and social development of the local community, enhancing its natural resources on the one hand, and exalting the creativity and entrepreneurial spirit of its business people on the other.



final objective of selling them. In the meantime, Sinergia Seconda continues work to improve the saleability of all the properties held.

The objectives of Immobiliare San Paolo srl and Immobiliare Borgo Palazzo srl, both subsidiaries, are also the same in relation to their assets situation, respectively, at Azzano San Paolo (Bergamo) and in Bergamo.

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.

The tried and tested ability to perform its institutional tasks with great professionalism and top technology has again enabled Ripoval to operate well over the past year. The company's ownership and operating structure, which dates back to 1990, could however be profoundly modified during 2006.

After a long delay, the regulations for this sector have been radically changed by Decree 203 dated 30 September 2005, «Measures to contrast tax evasion and urgent instructions on financial and fiscal matters», as converted with modifications into Law 248 dated 2 December 2005, the so-called «reform of tax collection» law.

The main points include elimination of the system for outsourcing national tax collection services from 1 October 2006, which have been allocated to the Tax Authorities via Riscossione spa, a company formed together with INPS. This reform envisages that at least 51% of the capital of the current collection agencies, including Ripoval spa, will be purchased by Riscossione spa, on a basis that has not yet been established. Until the total or partial sale of their equity interests, the agencies may transfer their local tax collection businesses to another company. The grant towards tax collection services for 2005, unchanged with respect to the prior year, was confirmed by the above finance law. The law also offers an amnesty for any administrative errors committed up to 30 June 2005 in relation to the tax collection activities carried out; Ripoval has decided to take advantage of this opportunity. The company reported a net profit for the year.

Arca Vita spa (32.528%). This company operates in the life assurance sector, as the parent of a group of the same name. In particular, it controls Arca Assicurazioni spa, in the loss sector, and Arca Vita International spa, and holds investments in Janua B. & A. Broker spa and Banca della Nuova Terra spa, which are discussed in the section on minority interests since the bank also holds significant investments in these companies.

Successfully established for more than fifteen years – having started to write policies at the end of the 1980s –, Arca Vita has remained an insurance group specialised in the supply of bespoke products for the banking system. This reflects an upward spiral founded on constant updates and the elasticity of supply. There was a more than satisfactory rise in the number of new life policies written during 2005. Indeed, growth outpaced the market as a whole in percentage terms which, given the competitive conditions there, demonstrates the vivacity of this affiliate.

Premium income – principally deriving from traditional life policies – also benefited from the innovative unit-linked Capital Tutor policy, which provides low-risk access to the stock markets, alongside the 2005 versions of Investi-DOC and InvestiTIME, which provide capital protection and a minimum guaranteed yield. Placement of supplementary pension products, branded Linea Pensione, has inevitably been affected by the deferral of regulatory changes in this sector.

The company closed the year with a profit.

Servizi Internazionali e Strutture Integrate 2000 srl (33.333%). This international services company is jointly owned together with Banca Popolare dell'Emilia Romagna and Veneto Banca, both fellow people's banks. Having worked hard to achieve structural equilibrium, the subsequent action taken by this company to extend its range of operations resulted in the opening towards year end of a representative office in Shanghai, alongside the established office in Hong Kong.

The development of the Chinese economy provides a major outlet market for many products, as well as enormous opportunities for new entrepreneurial initiatives. In this light, the company's representative offices act as a observatory for the benefit of the shareholder banks, their partners and their customers, providing them with a broad range of support. The Milan office continues to perform valuable work on the analysis of country, banking system and bank risk. The income statement reports a profit for the year.

CBE - Service sprl (25% formerly 23.30%). This service company based in Brussels presents the products of CBE-GEIE, Coopération Bancaire pour l'Europe - Groupement Européen d'Intérêt Economique, the economic interest group to which we belong.

The activities of CBE-GEIE continue to expand and develop, hand in hand with the opening up of international markets. This is reflected in the larger number of customers, principally enterprises and public institutions introduced, in the main, by the bank, and in the continual updating of services.

As a consequence, ImpresaEuropa, a product for seeking and selecting EU financing programmes, has extended the scope of its Check-up bulletins in order to publish three versions: Italy, Internationalisation and ImpresaEuropa.

General information is provided on-line, as usual, while GarEuropa, a service for the identification of calls for bids, has been revised in order to match better the opportunities found with the profiles of the companies concerned. Professional supporting services facilitate preparation of the documentation required for the bids. Lastly, a new product «Statistical analysis» identifies the importance of a given product sector within the contracting market.

The professionalism displayed by CBE Service – and of course CBE-GEIE –, for the benefit of our customers, caused us to increase our equity interest at the time of a change in the shareholder group. The relative majority shareholder remains Sanpaolo IMI, a leading Italian bank.

This company is profitable.

MINORITY INTERESTS HELD FOR OPERATIONAL PURPOSES

As mentioned above, this section covers the significant minority interests held for operational purposes in companies that provide the functional products and services which complement the bank's own range. These holdings are classified, together with other assets, as «available-for-sale assets» since this is required under the new international accounting standards; nevertheless, they remain stable investments held for the long term.

Centrobanca spa (1.60%). This bank is controlled by Banche Popolari Unite, a fellow people's bank.

Presenting itself as «Banca per l'impresa», this affiliate works as a modern merchant bank that is ready to support businesses at the various stages of their development, which includes the arrangement of special forms of finance. Organisationally, this objective is pursued by four internal divisions: corporate finance, private equity, long-term industrial credit and financial markets.

These services are ably supported by the activities of two subsidiaries, FinanzAttiva SIM, which specialises in capital market transactions, and Sviluppo Impresa SGR, a vehicle for equity capital investments. As longstanding shareholders of Centrobanca, being among the founders of the original special credit institution, we monitor its performance with interest due to the good results achieved and because we have worked together well over the years. The financial statements report positive economic results.

Unione Fiduciaria spa (18.309% formerly 4.378%). This company, founded and owned by a number of people's banks, operates in a number of sectors including the holding of securities in trust, the provision of services to banks and financial intermediaries, and corporate consulting and support.

These activities are carried out with rigour and professionalism from the company's historic and prestigious premises in via Amedei, Milan. With a reputation established over many decades, Unione Fiduciaria is firmly positioned at the top of the rankings for this sector. The company's vast experience is enriched by its constant drive for innovation, research and analysis in order to anticipate market needs.

This is demonstrated both day by day and by the key contribution made to the launch of Sofipo UF Trustee Limited, a company that promotes and administers trusts, and on the formation of Sofipo (Austria) GesmbH, an Austrian consultancy and service company focused on the markets of eastern Europe. We participate in these important initiatives via Sofipo Fiduciaire, which is held by our Swiss subsidiary and by Unione Fiduciaria. Guaranteed growth and operational equilibrium have prompted us to take a significantly larger equity interest, as allowed by the ownership limits established for banking groups in the revised articles of association. This reorganisation, backed by other shareholders, assures the independence of management which is essential for the proper and efficient provision of the company's services.

As always, operational effectiveness generates positive results. We note with pleasure that Unione Fiduciaria maintains the cooperative spirit which inspires our fellow people's banks and was the reason for its foundation.

Polis Fondi Immobiliari di Banche Popolari S.G.R.pa (9.80% formerly 7%). Società di gestione di Polis, is a closed-end mutual fund that specialises in residential and other property. Careful and expert changes in the portfolio have resulted in highly satisfactory results for investors. The distributed a dividend for the third time in 2005, amounting to € 160 for each unit or 8% of the related subscription cost.

At 31 December 2005, the value of each unit was appraised by independent experts to be € 2,487.29. The compound net annual yield since the start of the fund, including the dividends distributed, therefore amounts to a very considerable 6.37%. This value, just slightly lower than the placement price, reflects the nature of the fund's activities – investments in property inevitably mature over the medium to long term – and the performance of thinly-traded securities, such as the Polis fund. The increase in our holding derives from a significant change in corporate ownership, with a significant interest being taken by a famous investment group. Five people's banks, including ourselves, and Unione Fiduciaria spa, all founders, have retained the majority interest and are bound by a shareholders' agreement. Our new travelling companion, a specialist in the property sector, has the professional skills needed to increase and diversify the opportunities available to this affiliate.

The company reported a profit.

Banca Italease spa (4.252% formerly 5.807%). This bank is the parent of a banking group active under the same name in the fields of leasing (operating assets and property), factoring, related services and long-term lending.

2005 was a cardinal year for Italease, which has almost forty years of experience as an expression of the founding people's banks, today ranked at the top of the sector.

Given the scale of the company, the decision to approach the capital markets via a stockmarket listing was a natural development. This transaction via an IPO with the waiver of pre-emption rights was completed with success.

Previously, Banca Italease had by unanimous consent absorbed Factorit spa, a long-established factoring company that had been our affiliate since inception. For functional reasons, this activity was then conferred on a newly-formed company, Italease Factorit spa, that is a wholly subsidiary of the parent. These extraordinary transactions resulted in the dilution of our interest in Banca Italease to the extent referred to above. In addition, the shareholders' agreement – to which we are party and which guarantees the stability of governance – has now been signed by Banca Popolare di Milano, a former shareholder of Factorit.

Banca Italease has gathered strength from its market reception and the substantial expansion of its economic and financial aggregates – factors benefiting from the considerable professionalism available –, thus consolidating its position as a point of reference for firms in the leasing and factoring

sectors, and gradually expanding its activities into the area of long-term lending.

This success is compounded by the work performed by distributor-shareholders, the people's banks throughout Italy that represent a natural link to the world of small and medium-sized enterprises. For our part, we confirm our undivided support.

Banca della Nuova Terra spa (6% formerly 3.70%). This bank specialises in the provision of loans and services to farmers, food processors, industries supplying the food chain and operators in the field of agricultural tourism. It also supports work in the areas of environmental protection and alternative and renewable energy sources.

At the head of the banking group with the same name, Banca della Nuova Terra confirms the principles of the cooperative movement by addressing as a specialist operator the needs of the primary sector, where the presence of banks has waned over the years due to the process of despecialisation within the banking system.

In the first full year of operations, this affiliate has obtained better than expected results from ProntoPac, a financing product promoted by Agripart spa, a subsidiary, which makes advances against subsidies due under the EU's Common Agricultural Policy (PAC, in Italian). Long-term mortgage lending was also active. Another subsidiary, MeliorConsulting spa, provides consultancy services with regard to assisted finance.

Our investment in Banca della Nuova Terra ties in with our expansion into the Padana areas, rich in agricultural businesses, and reflects our desire to offer a commercially competitive range of products. Equally as important, our presence reflects the sharing of this initiative with our fellow people's banks, Emilia Romagna, Italiana and Vicenza – together with which we hold the majority interest –, as governed by a shareholders' agreement. The increase in our equity interest reflects the transactions required in order to establish the majority referred to above.

The bank is profitable.

Centrosim spa (3.176%). This stockbroking company specialises in trading on behalf of third parties.

The results for the year indicate that Centrosim has returned to health. Following three years of losses, principally due to the market difficulties experienced during the period, the company has reported a substantial profit for 2005.

This is good, not only in terms of the value of our holding, but also because it justifies the considerable efforts made, together with the other shareholders, to sustain the relaunch of the company by ensuring a flow of business and financial support. We congratulate the team at Centrosim who, with professionalism and tenacity, have worked through the downturn in the sector. The upturn benefited, of course, from the marked recovery in trading and the effects of the reorganisation carried out to reduce costs. As a result, the company can look to the future with greater confidence, while aware that strong competition and tight margins means that considerable volume is required to maintain profitability. We will continue to provide our undivided

support, pleased with the service provided and well aware of the underlying human talent and technology. In the meantime, the sector is preparing for the important innovations introduced by EU Directive 2004/39/EC. These regulations will eliminate, at a future date, the requirement to concentrate trading on the stock exchange, thus allowing the establishment of alternative markets managed by major financial operators. We are confident that Centrosim will adapt effectively to the new requirements, which member states must adopt by 30 April 2006.

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

We have always held this affiliate in high regard – assuring our full collaboration and near-exclusivity in our working relations – and our confidence has been justified. The performance of this company highlights the professionalism and commercial skills of Arca, as well as its balanced approach to risk. Not by chance, this affiliate has worked successfully in the field of mutual funds for more than twenty years, meeting the requirements of both small savers, the preferred customers of people's banks, and wealthier individuals, as well as major institutions that use Arca's personalised management services. These full service activities rate an excellent AM2 from Fitch. The changes in market share – given the increasing support by certain longstanding shareholders for the asset management companies belonging to their respective groups – have not reflected the improved conditions in the Italian market.

While the market has seen an inversion of the relationship between inflows and outflows – net outflows in 2004, net inflows in 2005 –, Arca has simply had to contain the deficit. Nevertheless, the value of assets under management was higher at year end due to the favourable performance of the stock markets.

With regard to supplementary pensions, the company is already prepared with four open-end pension funds under the name of Arca Previdenza, which have recently been joined by Arca Previdenza Aziende. These funds are growing gradually. The start date for sector reforms, moved to 2008 during November 2005, means that the community's interest in supplementary pensions will be deferred for a while. In any case, Arca is ready in every respect to respond effectively should demand «take off».

The company also provides specialist IT, administrative and other services to third parties operating in the asset management sector.

The company closed the year with a profit.

Arca Assicurazioni spa (9.90%). This subsidiary of Arca Vita spa specialises in writing loss policies promoted by the banking sector.

The consolidation of this company's activities has strengthened its balance sheet and improved, looking ahead, the ratio of payouts to premium income. This reflects the diversification of the portfolio, resulting in a gradual but steady increase in the premiums deriving from the elementary segments: home, family and health.

An equally important contribution has been made by the placing banks, with the careful selection of the portfolio especially with regard to third-party

liability in the vehicle segment, which saw a good flow of new business during the second half of the year. A version of this product, InAuto, is now available to provide solely ancillary guarantees. The proposal of loss insurance products in a banking context remains an important way to develop and consolidate customer relations over time. Following an earlier writedown for accounting reasons, this investment was revalued by 0.429 million during the year to reflect the profit reported for 2004. A further net profit was reported in 2005.

Janua B. & A. Broker spa (formerly B. & A. Broker spa) (14.571% formerly 28.571%).

This company operates as an insurance broker and consultant. After more than seven productive years of profitability and consolidation, B. & A. Broker spa has been able to take advantage of favourable market conditions to expand significantly. Having assessed the mutual benefits, B. & A. authorised an increase in share capital reserved for Janua Caer spa, an established broker based in Genoa, which was paid in by the contribution of the latter's business operations. Consequently, the name of the company was changed to Janua B. & A. Broker spa. Following this capital transaction and the subsequent transfer of shares, the shareholders of B. & A. – ourselves, Banca Popolare dell'Emilia Romagna and Arca Vita – have maintained control although, as indicated above, our equity interest has decreased. This attractive combination of complementary businesses improves the overall ability of the company to compete and allows entry into new market segments. This also benefits the commercial range offered by the bank, since businesses, institutions and individual will show increasing interest in insurance broking and consulting with a view to optimising the content and cost of cover.

Janua B. & A. Broker, now ranked twentieth in the relevant national table, reported a net profit for the year.

CIM Italia spa (5.062%). This company specialises in providing electronic cash and banking services for the automated management of retail payments on behalf of banks.

Leader of this sector in Italy, with more than 280,000 POS and remote banking installation, the success of the company is founded on the quality of its technology – flexible, modular and constantly updated – and the efficiency of its organisation. In particular, the effective Linea Diretta telephone support service is administered by a modern, in-house contact centre.

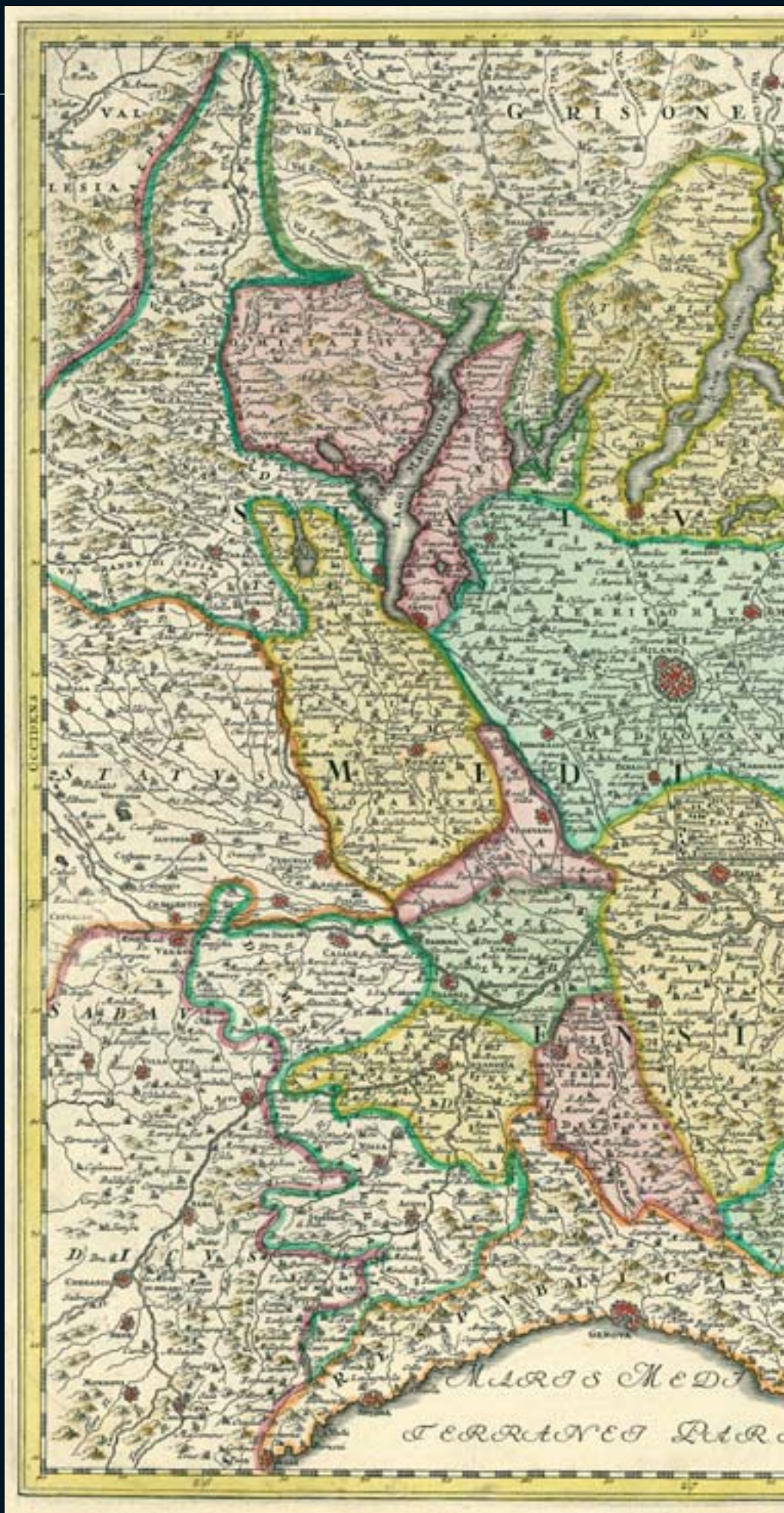
CIM Italy is therefore an important partner for its shareholder banks and affiliates, and their respective customers, enabling it to compete in an expanding sector: the settlement of mass electronic and online transactions. This is reflected in the spread and increasing use of debit and credit cards. This growth of this affiliate is accompanied by more than satisfactory results.

Linea spa (1.416%). This company, founded by a number of people's banks in 1988, specialises in consumer credit.

Our investment in Linea during 2004 followed the successful placement over a number of years of this affiliate's key products: Credito Classico, available through partner retailers, and Presto, a type of personal loan. These

**Ducatus MEDIOLANI
una cum Confinijs
accurata Tabula Exhibitus
auctus et emendatus
Per. Ioh. Bapt. Homannum.**

Work by Johann Baptist
Homann (1663 1724)
drawn in c. 1712
(Property of Banca
Popolare di Sondrio)





are both instalment loans that meet the needs of households and complement the finance made available directly by the bank. With an organisational structure that guarantees the quality and competitiveness of services, and backed by about sixty partner banks with more than three thousand branches, Linea is a leading player in a growing market. The growth of operations is reflected in the profits for the year.

Etica SGR spa (11.10%). This manager of ethical mutual funds belongs to the Banca Popolare Etica banking group, in which we hold an equity interest.

As distributors of the «Valori Responsabili» funds, we have contributed to the gradual but continual growth in the assets managed by this affiliate. Our growing contribution to the number of investors is reflected in the increase and stability of the aggregates administered. We confirm therefore that the products of Etica SGR are attractive to savers and enable the company to occupy a respectable position in this particular market. The rigorous selection of investment counterparts – all included on the books of Ethibel, an independent agency – guarantees their transparency and social responsibility, a key objective that is supported by the Ethical Committee. The healthy operating performance achieved and constant cost control has enabled this affiliate to essentially breakeven for the third successive year.

«Available-for-sale assets» amount to 141 million at 31 December 2005, up 68 million over the year. The increases in value relating to the above investments are summarised below: Unione Fiduciaria spa, 2.479 million due to the greater equity interest; Polis Provisions Immobiliari di Banche Popolari S.G.R. pa, 0.437 million due to the greater equity interest; Banca della Nuova Terra spa, 2.255 million due to the greater equity interest; Arca Assicurazioni spa, 0.429 million following a writeback; Janua B. & A. Broker spa, 0.251 million due to the greater equity interest after dilution.

Lastly, Arca BIM spa and Arca Merchant spa, previously affiliates, were absorbed at year end by Meliorbanca spa, a bank listed on the main Milan Exchange. Our interest in this bank, deriving from the above transactions and limited purchasing in the market, is about 3.3%. We trust that a good working relationship can be established with Meliorbanca, in which a number of people's banks hold, taken together, a substantial equity interest.

The above absorptions and the absorption of Factorit spa by Banca Italease spa were neutral in terms of accounting value.

Related party transactions

Related party transactions as identified in accordance with IAS 24, form part of the bank's ordinary operations and are settled on market terms or, in the absence of suitable parameters, on the basis of the costs incurred. Transactions with these related parties represent 1.17% of total loans and, respectively, 1.74% and 1.09% of direct and indirect deposits.

In Part H of the notes to the financial statements – Related party transactions – these are defined and identified, showing the nature of the relationships.

INVESTMENTS HELD BY THE DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGER

Directors	Company	No. shares held at 31/12/2004		Changes in 2005				No. shares held at 31/12/2005	
		direct	indirect	No. of shares purchased		No. of shares sold		direct	indirect
PIERO MELAZZINI	Banca Popolare di Sondrio scarl	168,000	39,388	-	-	-	-	168,000	39,388
CARLO GRASSI	Banca Popolare di Sondrio scarl	34,000	97,500	-	-	4,000	-	30,000	97,500
ALDO BALGERA	Banca Popolare di Sondrio scarl	201,007	20,212	-	-	-	-	201,007	20,212
CLAUDIO BENEDETTI	Banca Popolare di Sondrio scarl	2,000	1,500	-	-	-	-	2,000	1,500
GIANLUIGI BONISOLO	Banca Popolare di Sondrio scarl	2,832	1,121	-	-	-	-	2,832	1,121
FEDERICO FALCK	Banca Popolare di Sondrio scarl	1,000	0	-	-	-	-	1,000	0
GIUSEPPE FONTANA	Banca Popolare di Sondrio scarl	320,000	0	-	-	-	-	320,000	0
MARIO GALBUSERA	Banca Popolare di Sondrio scarl	3,840	8,000	-	-	-	-	3,840	8,000
NICOLÒ MELZI DI CUSANO	Banca Popolare di Sondrio scarl	64,000	1,440	-	-	-	-	64,000	1,440
MILES EMILIO NEGRI	Banca Popolare di Sondrio scarl	57,000	57,000	-	-	-	-	57,000	57,000
ALDO ROSSI	Banca Popolare di Sondrio scarl	40,000	41,000	-	-	-	-	40,000	41,000
RENATO SOZZANI	Banca Popolare di Sondrio scarl	21,374	21,374	-	-	2,074	2,074	19,300	19,300
LINO ENRICO STOPPANI	Banca Popolare di Sondrio scarl	32,000	32,000	3,000	3,000	-	-	35,000	35,000
BRUNO VANOSSI	Banca Popolare di Sondrio scarl	40,112	47,159	-	-	4,500	-	35,612	47,159
FRANCESCO VENOSTA	Banca Popolare di Sondrio scarl	20,302	2,074	-	4,050	-	-	20,302	6,124
Board of Statutory Auditors									
EGIDIO ALESSANDRI	Banca Popolare di Sondrio scarl	1,455	1,092	-	-	-	-	1,455	1,092
PIO BERSANI	Banca Popolare di Sondrio scarl	800	0	799	799	799	799	800	0
PIERGIUSEPPE FORNI	Banca Popolare di Sondrio scarl	6,808	22,816	-	-	3,508	506	3,300	22,310
MARCO ANTONIO DELL'ACQUA	Banca Popolare di Sondrio scarl	2,000	260	500	75	-	-	2,500	335
MARIO VITALI	Banca Popolare di Sondrio scarl	27,200	5,440	(*) 256	-	-	-	27,456	5,440
General Manager									
MARIO ALBERTO PEDRANZINI	Banca Popolare di Sondrio scarl	20,000	0	-	-	-	-	20,000	0

(*) inherited

During 2005, 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.

Part H of the notes, «Related party transactions», also gives details of the emoluments paid to the Directors, Statutory Auditors and the General Manager, as well as of any loans and guarantees given, as required by art. 136 of Legislative Decree no. 385 of 1 September 1993.

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, trust companies or third parties.

INTERNATIONAL UNIT

The traditional boundaries for trade, financial transactions, cultural and working relations have long since been exceeded, making way for that complex and partially still unknown phenomenon known as globalisation. Against this background, those who work to maintain the links between nations and states, operators and enterprises, have an especially delicate task to perform. The role of the creators and managers of the necessary communications channels, ranging from physical structures to innovative IT highways, is to facilitate contacts between realities that would otherwise be distant.

In substance, this is the mission of our international unit: to serve those who, as part of their activities, need support in communicating and working with correspondents abroad. We have appreciable experience in this sector which, over time, has enabled us to acquire a significant volume of business.

Among the factors contributing to our success, there are four that stand out: dynamism, attention to innovation, professionalism and tenacity. Our dynamism is responsible for releasing the spring that has catapulted us, a simple local bank, towards the international markets. Our commitment to seeking new tools and ways of working for the benefit of our customers, as ever employing the most advanced technology, has proved to be fundamental. The professional skills of our staff, who represent our true value added, has made a pervasive contribution. This is demonstrated by the quality certification earned several years ago, which now reflects consolidated practice and provides essential support for the management of activities and resources. Last but not least, we persevere in the achievement of the achievable.

While these factors have enabled us achieve our full potential internationally, it is fair to remember that they originally stem from a strong attachment to our local origins. We have in fact grown together with the businesses active in our territories, assisting their development and establishing a positive association between the intensity of our market presence –

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necessarily limited in terms of extension – and its projection into foreign markets. During the year, the activities of the international unit benefited considerably from two main sources: retail customers served at branch level for transactions in the goods sector, as well as for foreign exchange and financial transactions; and institutional counterparts, which drawn on the professional and specialist services provided by our central functions, with particular reference to payment systems.

The following discussion covers the principal activities and events that took place during the year, while the statistics presented at the end summarise the overall volume of business. International and foreign exchange transactions are carried out in full compliance with the related legislation, regulations and technical requirements.

Since expanding into cross-border transactions means working with the international economic community and becoming more closely involved in the respective realities, we have taken advantage of the opportunities deriving from our agreement with Promos. This company, the arm of the Milan chamber of commerce that specialises in foreign business, has taken our business customers on about thirty trade missions to as many locations around the world; these targeted and well organised visits were greatly appreciated by the numerous participants. On this subject, we are pleased to recall our inclusion in the Italian economic mission to Turkey – Istanbul, 23-24 November 2005 –, organised jointly by Confindustria, ABI and ICE, and led by the President of the Republic, Carlo Azeglio Ciampi. This was the most significant initiative of its kind ever promoted by Italy. A desk manned by bank personnel worked effectively in the areas dedicated to institutional meetings and to bilateral meetings between Italian firms (more than three hundred) and Turkish operators. Support for business in Valtellina and Valchiavenna underpins a collaboration agreement with the Sondrio chamber of commerce designed to assist operators in the province with their international relations. Our activities in this regard have included contributing to the organisation of a trade mission to Poland, with satisfactory results. Other work with the chamber of commerce includes a useful understanding – benefiting the bank and its customers – with the association of Italian chambers of commerce abroad, based in Rome, whose members are active in about fifty nations.

The quality of the support provided to businesses and institutions is enhanced by the services of Servizi Internazionali e Strutture Integrate 2000 srl – which manages the representative offices in Hong Kong and Shanghai – and CBE Service sprl, based in Brussels. These are described in the section on «Equity investments». Our 2004 report referred to the agreement between the bank and Poste Italiane spa for the provision of important cross-border payment services. This prestigious contract – for the collection of cheques drawn on foreign accounts, and the collection and payment of bank transfers to and from abroad – has now been fully and successfully activated. Accordingly, Poste Italiane has informed all the world's banks that its settlement bank is Banca Popolare di Sondrio. This clearly represents important recognition for us. We have also continued our collaboration with

mutually satisfactory results with many prestigious foreign postal services. In 2004, this enabled us to join the Eurogiro Network, which processes financial instructions for the international postal system.

Timed to coincide with the important SIBOS 2005 convention held in Copenhagen last September, Eurogiro News published a flattering article about our capabilities in the field of cross-border payments. The settlements made via Eurogiro, using the innovative Crosspay system, join those made via the established Target, EBA Step 1 and EBA Step 2 systems. We have been qualified as an «entry point» with regard to this last system, which allows us to operate on behalf of other financial institutions.

Intensive activity in the area of pension payments – where for many years we have held a significant share of the market for receipts and, more recently, for payments on behalf of INPS – has also received recognition in terms of its quality. In particular, the sixth survey of the numerous Italians living abroad who receive their pensions via us has identified the complete satisfaction of 98.47% of all respondents. Further confirmation, in an important area that is not part of our core business, comes from the outsourcing of INPS pension payments.

With regard to retail operations, our «Remittance Home» service is now available for Albania and Sri Lanka, which join Brazil, Ecuador, Moldova, Peru, Romania, Senegal and the Ukraine. Our multiethnic counters at Rome branch 11 and Brescia branch 2 have worked hard on behalf of foreign nationals, to whom we have dedicated our WORKinITALY current account. Activity at our foreign exchange centre was facilitated towards year end when we joined the CLS (Continuous Linked Settlement) system, which reduces the settlement risk for foreign currency transactions by interposing a central counterpart (CLS Bank) based in New York, which subject to supervision by the Federal Reserve. Swift has expressed its regard for the bank by authorising the creation of a Member Administration Closet User Group (MACUG) just for us. The related procedure, only available to three other Italian banks, means that prime domestic and international customers can now obtain their own Swift address and, as such, receive and send financial instructions directly.

Global Compact

Our work to promote the values inherent in the nature of a people's bank has been presented in New York as part of the «Global Compact» project, a UN initiative to encourage firms to support ten universal principles covering ethics, social progress and environment protection. Before moving onto the numbers, attention is drawn to our highly regarded publication «Cambi & Tassi» which, available from the first working day of the new year, provides information and statistics updated to 31 December of the old year. Yet another sign of efficiency.

The number of customers conducting international business via the bank has risen from 15,000 to about 17,000. Our network of international correspondents extends to 120 countries, involving more than 1,500 experienced counterparts.

This benefited activity using the Swift system, which processed more than 1 million messages. With regard to trading in foreign currencies, there

was an increase in current account items (goods and services) of about 18%. The 2004 ranking of Italian banks, communicated by the Italian Exchange Office last July, placed us 16th following a marked improvement with respect to the prior year. Conversely, capital flows decreased by 15.5%. Following a significant rise in 2004, the volume of trading in foreign exchange was consolidated during the year and increased by more than 10%. Trading in exchange/interest rate and commodity derivatives was strong. Since these transactions are matched, they are only subject to counterparty credit risk. Business in gold was weak, possibly due to the marked appreciation of the yellow metal. Turning to the balance sheet, customer deposits denominated in foreign currencies and foreign account euro have risen to 689 million, a significant 63.6% increase; currency deposits from banks total 914 million, +5%. Lastly, foreign currency lending to customers amounts to 1,112 million, +15.26%.

These are significant statistics that see us well placed within the banking system, confirming the professionalism of our international unit which, as always, is driven by an intelligent and tenacious spirit of initiative. The opening up and integration of world markets provides us with a natural outlet for operations, representing a challenge that – as ever – we face squarely, aware of our limits, but determined to play our part without trepidation, supported by the effectiveness of our products and services and by our speed of execution.

This goes to show that attention to local affairs cannot be separated from the opening up of markets; in short, our feet remain firmly on home ground, while our head looks to the world.

SERVICES, PROJECTS AND STRUCTURE

Sales and Marketing

Given confirmation that our market position is developing well – with the balanced improvement of our rankings –, our commercial efforts are directed towards achieving better interaction between customers, services and distribution channels. Focus on the customer is the principal driver of our business, sustained by our in-depth knowledge of the local economies in the areas where we operate. In fact, our branches are equipped to provide high quality, competitive services on, as far as possible, a personalised basis. The continual update of our commercial range confirms the commitment of the specific department within the bank and at affiliated companies. The projects carried out during the year are described below.

In the financial area, our objective is to compete by offering professional products suited to the various investment needs of customers, considering their propensity to accept risk. Working in this direction, the asset management sector has introduced twelve new lines – including those specialising in Eastern Europe, China/Japan and China/India – which raises the total to twenty-three, and has updated its IT infrastructure.

**Popso (Suisse)
Investment
Fund SICAV**

In the wake of the success achieved by our Swiss subsidiary, we have begun to distribute two new sub-funds administered by the Group's sicav: Short Maturity Euro Bond, a short-term bond and monetary fund, and Global Opportunity Equity, an international equity fund denominated in euro. The range is completed by the gamut of mutual funds presented by Arca SGR, the quality of which is confirmed by more than twenty years of professional hard work, and by the ethical funds administered by Etica SGR. The supplementary pensions sector – where we are well established with specific products from Arca SGR and Arca Vita – is expanding gradually. Following repeated deferrals, the start date for the related reforms has been set for 2008, thus enabling those concerned – employees, firms and institutions – to prepare themselves; we are ready to provide the necessary assistance.

**InvestiDOC
InvestiTIME 2005
Capital Tutor**

In the assurance arena, Arca Vita has presented InvestiDOC 2005 and InvestiTIME 2005, which provide capital protection and a minimum guarantee return, and Capital Tutor, a unit-linked policy that lowers the risk of investing in equities, which can also be linked with the 1st Special Issue of InvestiTIME 2005.

In AUTO

With regard to loss cover, Arca Assicurazioni has presented a new version of the successful In AUTO policy which supplements the third-party policies associated with leasing contracts, by providing fire, theft and personal accident cover for drivers. Note too – discussed further elsewhere in this report – the strong development of the insurance broking and consulting activities of Janua B. & A. Broker spa.

In order to find new opportunities for customers, Sofipo Fiduciaire SA, an investment held via SUISSE, has formed Sofipo UF Trustee Limited to specialise in the establishment of trusts as an effective and modern tool for the protection and management of property and other assets.

SCRIGNObps

The bank's on-line services, provided under the name of SCRIGNObps, are increasingly popular and functional. Before discussing events in 2005, it is worth recalling that our website celebrated its tenth anniversary last year, marking a journey that has brought many benefits for users and the bank alike.

The SCRIGNOCard was introduced during the year to improve, via a system of authentication, the security of access to confidential information. SCRIGNOPago Facile («Easy Pay») is an *on-line* application for the payment of utility bills, taxes and other amounts due to public and private organisations. Using *Report*, customers can receive an SMS or e-mail with details about their current accounts and securities.

**Sodalitas Social
Award**

The development of innovative applications for the differently able has won us a nomination for the prestigious Sodalitas Social Award, the Business Social Responsibility hall of fame. Our efforts have also been recognised by other awards.

**The Golden Circle
award for Financial
Innovation 2004**

As part of the «Il Cerchio d'Oro dell'Innovazione Finanziaria 2004» awards organised by RivistaBanca and AIFIn, Associazione Italiana Financial Innovation, we took first place overall in the «Application of technology» category, with our «Accessible digital bank» project, and joint first place in the special category of «Most innovative financial institution».

As part of the eContent Award Italy competition organised by the Milan Polytechnic Foundation together with the European Commission Medici Framework, we were awarded overall first place in the eInclusion category for our «Accessible digital bank» project, and joint first place in the eCulture category for our «popsoarte» initiative, which is a virtual gallery that allows everyone, thanks to the Internet, to view the paintings and sculptures owned by the bank. «Accessible digital bank» also had the honour of representing Italy at the World Summit on the Information Society held in Tunis last November, before 14,000 delegates from virtually every nation in the world.

eContent Award Italy

CartaSi and CIM Italia, our affiliate, have developed additional services for customers equipped with POS terminals in the hotel sector and for payments in currencies other than that normally used. We have also worked on the development of CartaSi SMS, a winning idea for making skipass payments using a mobile phone.

CartaSi SMS

Carta Chiara, associated with the international Visa Electron circuit, completes the range of prepaid payment cards that can be topped up via the SCRIGNO *Internet Banking* service.

Carta Chiara

Central offices

These offices reflect the qualitative division of work in a streamlined and complete manner, ensuring both full operational coverage and the timely satisfaction of all customer requirements.

SOSI – Servizio Organizzazione e Sistemi Informativi is responsible for managing the bank's information systems and technological infrastructure. This is a key role, especially given the decision to retain in-house – mainly for reasons of flexibility and security – the IT and telecommunications procedures for numerous, complex operational processes.

SOSI

Accordingly, SOSI has an onerous and complex task which it addresses in the awareness that its work is vital to both the sales network and the other central offices. Knowing this, SOSI is both motivated and able to contribute to the differentiation of the product range, thus ensuring both the overall competitiveness of the bank and its presence in niche markets.

This is not the right place to list the countless projects that have been completed. It is enough to glance through this report to obtain confirmation that SOSI is indeed fundamental for the functioning of the bank: internet banking and the adoption of IFRS, payment systems and the procedures used by the finance and international units, anti-money laundering, fraud prevention and the ABI PattiChiari transparency initiative being just some of the main areas of activity.

The work to ensure business continuity deserves a quick mention here, although it is discussed in more detail elsewhere. This demanding project, coordinated by SOSI, is proceeding well and in accordance with the related supervisory regulations.

At the forefront when it comes to dealing with institutions, the Public entities and treasury offices department works hard, with determination, efficiency and an eye to technological innovation. As a consequence, there

**Public entities and
treasury offices**

has been an increase in the number of mandates – from 486 to 530, many at national level – and, more marked, in the volume of transactions processed. Work of great value – performed together with the branches, SOSI, the commercial and lending departments and the virtual unit – that has achieved considerable scale over the years, with a dual effect: greater penetration of the bank's local markets and, as a result, the start of work at a national level. Considerable organisational efforts have been made for the benefit of these counterparts. The functions of the basic tool – SCRIGNOGesTes, accessible via the Internet – have been extended and refined, particularly for the giving of electronic instructions. SCRIGNOPago Facile («Easy Pay») allows the rapid and secure payment of utility bills, taxes and other amounts due to the public and private institutions for which the bank provides treasury services. SIOPE – Sistema Informativo delle Operations degli Enti Pubblici was activated on time, from 1st January last, for the online recognition of collections and payments made by the treasuries and cash offices with the Public Administration. Commencing from April, the operators of these organisations – local authorities and universities – attended training and orientation sessions organised by the bank.

At the end of the year, there were 85 treasury offices in total. Among the new openings, the office at the «Carlo Poma» Hospital in Mantua deserves a special mention. We are particularly pleased to spotlight the important work performed by the public entities department with both distinguished professionalism and a wise spirit of initiative.

Virtual unit

Expectations for the concrete and effective development of our virtual unit were well founded and even surpassed. Now the first «branch» in terms of the number of customers administered, this unit specialises in the provision nationwide of on-line payment services to specific categories of customer.

The increased volume of business is supported by specific, innovative products delivered in a technologically advanced manner. Activity is backed by a modern call centre, whose efficiency is much appreciated by our customers. The outlook is bright.

Corporate finance

The consultancy activities of the corporate finance department stand out in terms of the support for special financing transactions provided to entrepreneurs.

These activities include valuation of the economic capital of businesses, the preparation of business plans, and matching the companies concerned with providers of private equity.. The department also manages the loans made using EIB funds and validates, pursuant to the Merloni-ter law, the economic-financial plans associated with applications for project financing.

Branches are encouraged to assess sector performance, market positioning and the sustainability of the business project when evaluating the merits of applications. The corporate finance department also provides general management with prompt and valuable support in the evaluation of business combinations, especially those involving affiliates.

Planning and Control Department

This department measures the current and forecast risk/return using a complex system of methodologies, tools and procedures that comply with the supervisory guidelines and international regulations. Specific IT support for

this activity was developed and updated during the year. Our management control software is now able to identify the indirect costs – the human resources and technology employed – associated with various products so that the related contribution margins can be determined more accurately. The budgeting procedure has also been updated in order to obtain a summary rating of actual results from the application of complex weighting mechanisms. Consistent with IAS 14, the department has also devised a form for reporting the results of the principal business segments. With regard to the recognition, management and control of risks, discussed in a separate section of the annual report, alongside the usual rating credit managers now have information about the «expected loss» from small and medium-sized firms and micro-businesses (mid corporate). More generally, the planning and control department is actively involved in spreading the culture of control and risk mitigation, which are aspects of growing importance that bring substantial benefits.

This office supports our strong territorial expansion, making functional new premises available for use in an effective manner, while also arranging for improvements to and maintenance work on both central and branch offices. This continuous activity is performed with professionalism and in compliance with established guidelines that cover: the quality of work, compliance with health and safety at work regulations, and attention to costs. The statistics confirm the size of the commitment: 31 new branches and treasury offices fitted out or transferred to more suitable premises; work on 18 sites in progress; 7 projects planned, now at the planning authorisation and bidding stage; planning work in progress on a further 7 projects. The total floor area of property owned by the bank covers 129,630 sq.m., of which 17,214 sq.m. held under finance leases, with a total volume of 391,598 cu.m. The land area covered measures 79,189 sq.m. In accordance with the new accounting standards, the «property» element of «property, plant and equipment» includes assets held under finance leases and has been adjusted, in relation to free-standing property, to separate the depreciation of land from that of the related buildings. The carrying value of owned property, net of accumulated depreciation, amounts to 75.757 million, while property held under finance leases totals 36.819 million. Additions to owned property in 2005 amounted to 2.248 million, while depreciation totalled 2.163 million; buildings acquired under finance lease arrangements amounted to 9.185 million, while the related depreciation totalled 0.708 million. The market value of the bank's property reflects significant unrealised capital gains. The bank owns 40 buildings and 34 units in condominiums.

Banking operations are carried on in 52 properties owned by the bank and in 261 leased locations, including 19 held under finance leases.

«Furniture and fittings», a sub-category of property, plant and equipment, totals 14.475 million. The increase of 1.992 million reflects additions net of the depreciation charge for the year.

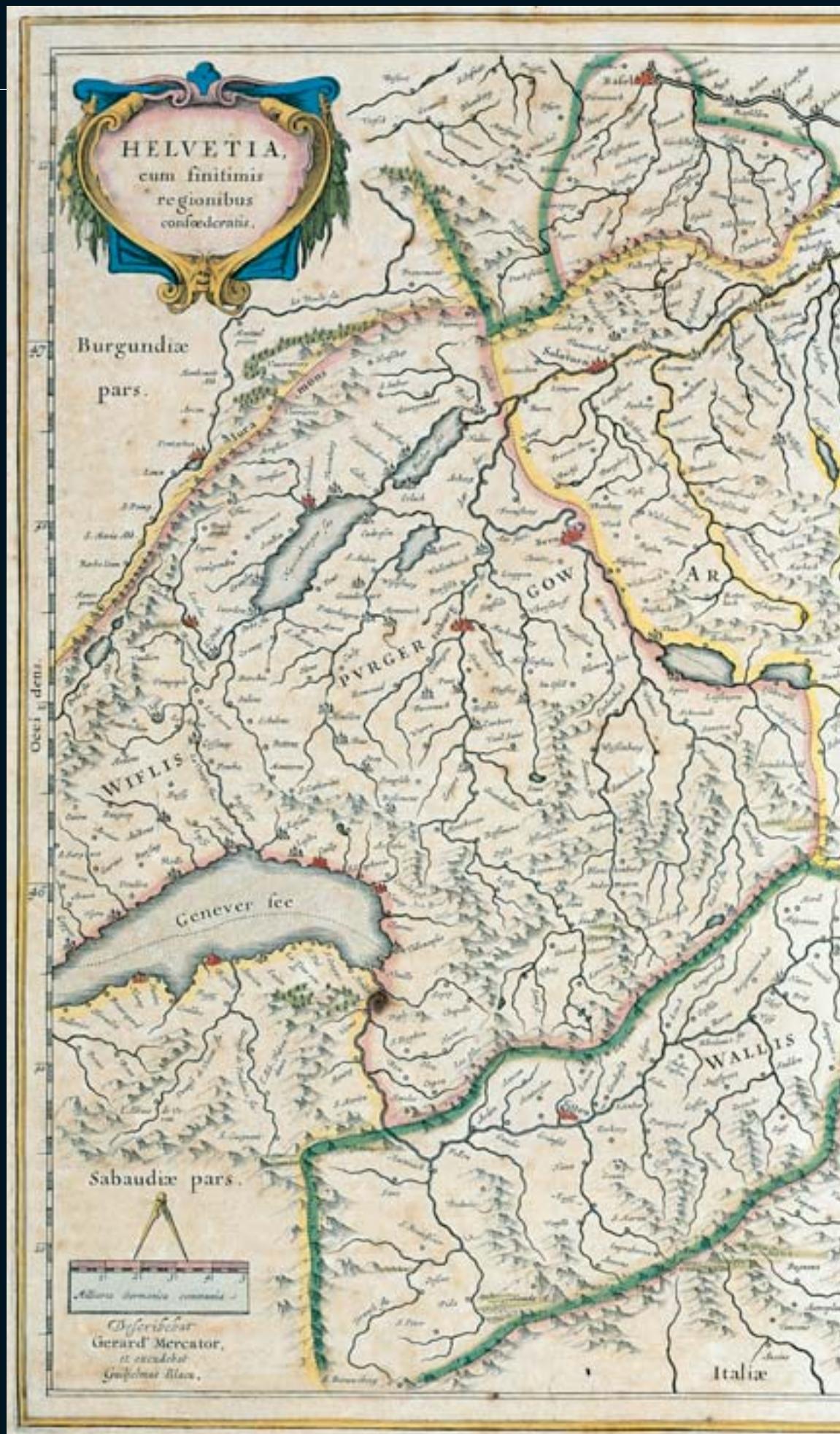
The security department, working together with other offices within the bank, is responsible for managing the entire security process. The objective is to take organisational, technological and regulatory action to improve the

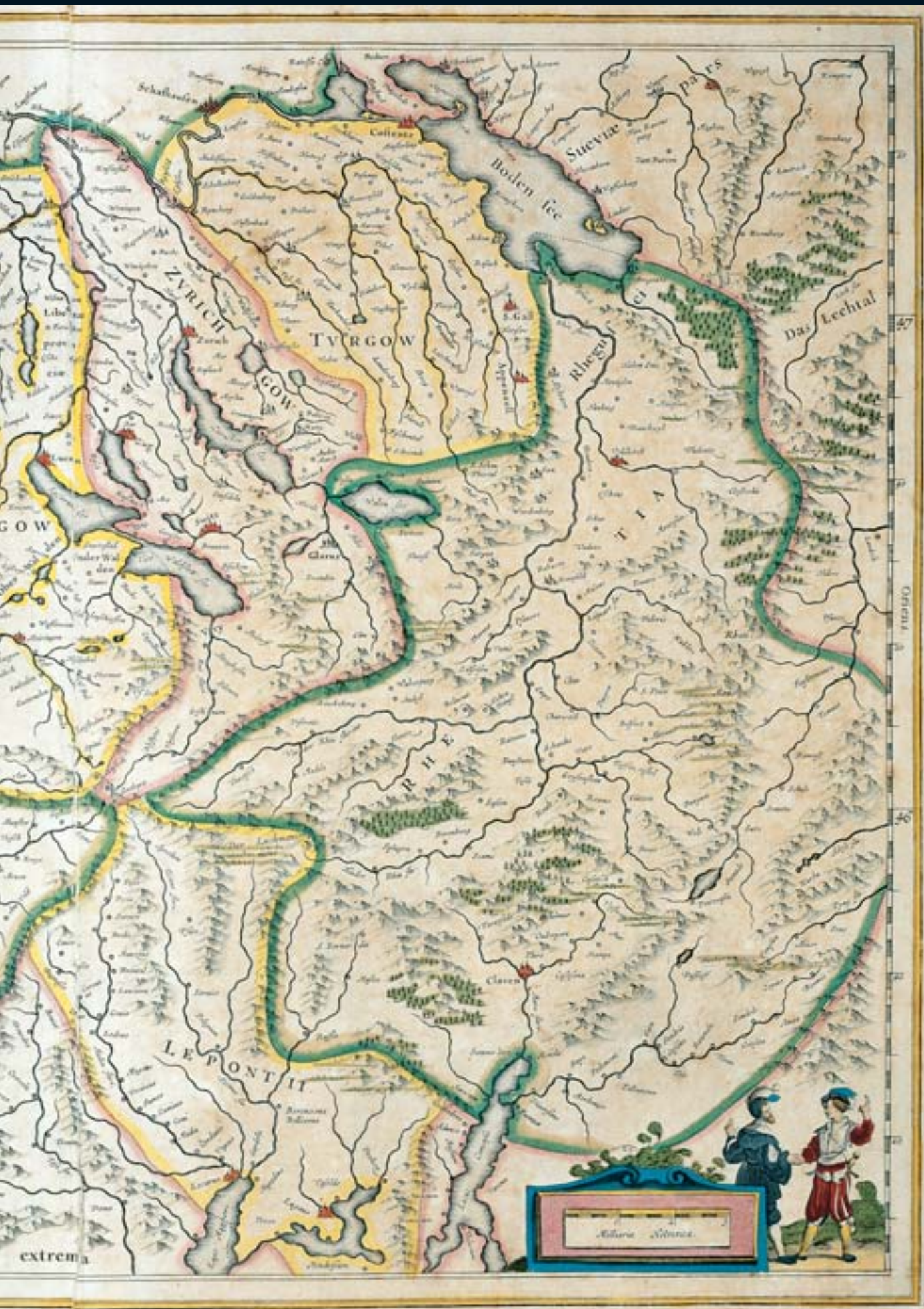
**Technical,
Prevention and
Safety Office**

Security Department

**HELVETIA cum finitimis
regionibus confœderatis.**

Work by Gherardo
Mercatore (Gerhard Kremer,
1512-1594), published for
the first time in 1585
(Property of Banca
Popolare di Sondrio).





safeguarding of assets and the control exercised over operations. The branch protection plan was progressed during the past year with the installation of modern and effective defensive equipment. The department has also dedicated time to studying and combatting debit and credit card fraud, as well as the more recent threats relating to *internet banking* applications. The bank's technological facilities receive considerable attention, especially in the area of data protection; in addition, the department is continuing its work on the delicate *business continuity* project.

Supply Office

The supply office is kept busy by the growing scale of the bank. Accordingly, there is a need to optimise the supply and administration processes, with a view to achieving concrete savings.

The work of the office has followed these guidelines. This is demonstrated by the electronic filing of invoices, now fully functional and accessible via the intranet, and the implementation – almost completed – of the property administration system. Certain major contracts have been renewed with savings, while purchasing via on-line auctions – now routine – has also resulted in benefits. Further action has been taken with regard to the archives. The filing of printed matter has been outsourced with significant benefits, while the hard-copy records kept by law will soon be transferred to the bank's property at San Pietro Berbenno, following the completion of work there, thus freeing more valuable space at the bank's headquarters. We have been monitoring innovations in the electronic filing of documents for some years now, and continue to do so. In terms of the statistics, the supply office recorded more than 24,000 invoices and processed about 77,000 accounting transactions during the year.

Legal Department

The many delicate areas which keep the legal department busy are served with great professionalism. The department's principal tasks include the legal and out-of-court protection of loans, the provision of consultancy for central and branch offices, and the performance of verification work required by the public authorities, with which we collaborate on a proper and timely basis.

On many occasions, together with ABI, we have called for measures to improve procedural arrangements for the compulsory recovery of loans. Accordingly, we are pleased to report that the legislator enacted some major reforms last year and trust that the related enabling measures will match up to expectations. In substance, the innovations related to two areas that affect us closely: the enforcement of judgements and bankruptcy law.

In this latter area, the conditions for the recalling of payments made have been revised, given that the situation had become out of hand.

Recourse to the legal department is a normal part of our work. For many reasons, incessant requests are made for clarification between right and wrong, to know if a given action can or cannot be performed, to find out which regulation governs the deed or transaction to be completed.

Internal Audit Department

Lastly, the internal audit department is responsible for internal control and goes to great lengths to ensure that the activities of central offices and branches comply with the primary and secondary regulations, and are consistent with established and professional business practice. During the

year they carried out 479 audit visits, of which 89 together with the Board of Statutory Auditors. This intensive activity, in line with the work performed in 2004, combines the predominant on-site checks with the systematic use of tested and effective software for remote testing. In addition to this incessant and delicate work, the department also contributes to the control of risk – especially the monitoring and mitigation of operating risks –, partly via the expert analysis of processes in order to validate and strengthen the bank's control functions. Wide-ranging work is also performed on the business procedures subject to quality certification and those covered by the PattiChiari transparency initiative, in order to verify compliance with the related instructions. At group level, the internal audit department has followed up effectively, in line with the various regulations, on the verification work performed in the prior year.

RISK MANAGEMENT

Being a bank, which for us principally means making loans, necessarily involves the acceptable of risk. Living with risk does not however imply getting used to its presence; nor should familiarity engender the conviction that it can be dominated since, by its nature, risk tends to materialise in many new and different ways. This explains our desire and commitment to develop and refine the controls, dedicating significant resources to improving the structures and, above all, to training the professionals who must not only perform their specialist functions, but also ensure that the culture of risk control spreads to permeate every part of the bank.

The following discussion follows on from our earlier reports and ties in with the new regulatory instructions that require the explanatory notes to include extensive qualitative and quantitative information about credit risk, market risk (rate risk, exchange risk and price risk), liquidity risk and operational risks.

The importance attached by the bank to the provision of information on risk predates the new requirements and we are pleased to observe that our shareholders, the supervisory authorities and the market were publicly informed about our efforts in this regard in an article published in issue 3/2005 of «Economia & Management» 3/2005 by Prof. Danilo Drago of SDA Bocconi and Maria Mazzuca. This article, noting that «the banking business essentially consists in the intermediation of risk», analyses the completeness of the related information published in the 2003 annual reports of 26 listed Italian banks. Having identified the residual gap that separates the sample from the top six foreign groups, this study considered 137 indicators, grouped in five macroclasses, and ranked Banca Popolare di Sondrio ninth overall, but second with regard to market risk.

Continuing in the footsteps of tradition, we have worked hard to present immediately the quantitative information required for the explanatory notes, without taking advantage of the exceptions specifically allowed in the transition phase, apart from certain standard tables concerning credit risk.

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In line with prior years, we present below «additional information with respect to that contained in the notes to the financial statements» considered significant for a complete representation of the various aspects of risk faced by the bank. We begin with the rate, exchange and equity price risks inherent to financial activities. The notes to the financial statements describe the VaR (Value at Risk) methodology and the composition of the trading portfolio for operational purposes, which is different to that for supervisory purposes. Accordingly, here we analyse in terms of VaR the extent of the risks associated with this trading portfolio.

The following table lists the principal quantified exposures to the various types of risk, presented on a basis consistent with the second of the two tables published last year.

(in thousands of euro)	31/12/2005	Average	Minimum	Maximum	Limit
Interest rate	288	210	34	849	2,000
Equity (Price)	932	1,014	737	1,534	1,400
Exchange rate	19	31	8	269	100
Total	942	1,052	723	1,630	3,500

The average value of total VaR (1.052 million) has decreased with respect to the prior year (1.128 million), together with each of the three individual risk factors: from 0.348 million to 0.210 for the average VaR due to interest rate risk, from 1.111 million to 1.014 due to equity price risk, from a marginal 0.034 million to 0.031 due to exchange rate risk. The maximum value of total VaR has also declined (from 1.765 million to 1.630), as has the minimum value (from 0.759 million to 0.723), while the year-end value is higher (from 0.762 million, close to the minimum, to 0.942, still below the average).

The exposure limits indicated in the table, in terms of total VaR and for each risk factor, were determined by General Management and did not change during the year. Together with 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 adds to this the absolute value of net losses and any net capital losses incurred on securities since the start of the year, as identified from the securities procedure. This capital absorption peaked on 18 April 2005 at 17.019 million, which was considerably lower than the limit of 65 million (maximum acceptable loss) set by the Board of Directors.

The credit risk (counterpart and issuer risks) inherent in financial activities is also covered by an internal regulation, based on measurements and operational limits that are not specifically described in the notes to the financial statements. As in the past, these too are discussed in this section of the report.

In short, 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 counterpart/issuer. The following are also identified: the maximum credit, weighted as above, granted to individual

counterparts/issuers or groups of counterparts/issuers (individual counterpart risk); the total weighted lines of credit granted to the top ten individual counterparts/issuers or groups of counterparts/issuers (concentration risk); the total lines of credit granted to counterparts/issuers from the same nation (excluding Italy), weighted by the macroclass to which that nation belongs (country risk). This information is set out in the following table.

(in thousands of euro)	31/12/2005	Average	Minimum	Maximum	Limit
Capital absorption	58,959	66,884	38,904	108,085	* 65,000
Maximum capital absorption	261,486	260,390	249,516	268,491	265,000
Individual c/part risk	9,792	9,520	9,105	9,855	18,550
Concentration risk	59,055	60,751	57,372	63,312	74,200
Country risk	17,991	18,134	17,796	18,459	26,500

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

Turning to the bank's interest rate risk, the notes to the financial statements provide the information taken from the ALM (Asset & Liability Management) procedure but, in accordance with the supervisory instructions, this is separated between the trading portfolio for supervisory purposes and the bank book.

Here the total is presented in order to provide the usual overall view and to facilitate comparison with consistent information relating to the prior year.

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 2005 averaged -10.508 million; the latest analysis as of 31 December indicated -15.246 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 2005 averaged 16.565 million; the latest analysis as of 31 December indicated 15.829 million. The scenario analysis measures the potential change in net interest income for the year in the worst case and in the best case scenarios: the monthly analyses for 2005 averaged -3.347 million; the latest analysis as of 31 December indicated -1.603 million.

Analysis of the risks associated with lending activities, our core business, naturally receives our closest attention. The new Basel regulations will soon come into force, representing the goal to be attained. This means preparing methodologies, tools, ways of working and organisational structures that are ready to meet a large number of qualitative and quantitative requirements.

In this regard, we have planned the work necessary and determined the implementation times, the resources available and the costs. The project moves forward in stages, each organised to achieve clearly identifiable and immediately useful results. So we are set for a marathon run, taking broad strides at a fast pace and checking our progress at the staging posts to see if we still are on time. The extension of the rating system to all borrowers will represent a central moment in the implementation of the new prudent

regulations. For this purpose, we are currently preparing models for assessing the probability of default of «family businesses» and «private» customers. Given that this component of risk represents the supporting column for the entire structure, the data used for estimating purposes must be reliable and cover an extended period of time; similarly, the statistical methods used must be rigorous and robust. Accordingly, we have implemented a system for the reclassification of financial statements that generates a considerable volume of quality financial and operating information and statistics.

Development of these new rating systems has progressed alongside our commitment to consolidate the system, active since spring 2004, for small and medium-sized enterprises in the «Mid-Corporate» category. In order to ensure that appropriate assessments are made, we have reviewed the steps in the lending process: this should improve the efficiency of procedures and streamline both the evaluations and the monitoring of risk.

In addition, the «expected loss» has been calculated and communicated for each counterpart, representing the likely loss for the bank in the event of default. Recognition of this element provides a better understanding of the profitability of transactions, given their risk, and therefore encourages the search for a better balance. Lastly, aware that the introduction of rating systems generates both interest and doubts, even fear, especially among small and medium-sized enterprises, we have decided to make available a folder of information prepared by our planning and control department entitled «Basel 2 - A growth path for the bank and the firm». The objective is to provide clear information and facilitate dialogue with the firms, in order to identify, for our mutual benefit, the best financial solutions for the support of growth. We have stressed that the rating does not replace the judgement of the account managers but, rather, supports their analyses. The human assessment is assisted by the technical evaluation and both are designed to raise the level of awareness about risk acceptance; accordingly, they help to enhance the key entrepreneurial role played by the bank as a lender.

As with credit risk, the assessment of operating risk requires the collection of data and information, the preparation of models and methods of calculation, the development of new software, the review of working practices, and enhancement of the knowledge and awareness of our staff. Given that the «event» could occur anywhere within the vital organs of the bank or cause damage from the outside, the work required is both critical and delicate. The approach taken to the adoption of best practice in the areas of risk assessment and management has involved the development of new software. This collects qualitative and quantitative information in an organised manner, stores it in a database for use as input to the statistical models that calculate the possible losses. In the meantime, we have continued to store data and map procedures in order to identify the various activities and allocate risk to each of them. Action has been taken to mitigate the exposures associated with any weaknesses found. The business continuity project has achieved excellent results. The objective was to prepare an emergency plan to ensure, if required, the timely recovery of vital operations and a return to normality within a reasonable timeframe. In particular, as

required by the supervisory instructions issued in July 2004 and following a purpose-designed methodology, we have now identified the critical and essential processes and documented their risk profiles. The next steps should lead us to the final objective which, here too, means measuring the level of exposure and adopting strategies to mitigate the effects of a disaster.

HUMAN RESOURCES

The growing competitiveness of the banking system, not least due to the development of new distribution channels and the effect of international integration, means that all aspects of the bank must be managed as effectively as possible including, first and foremost, our human resources.

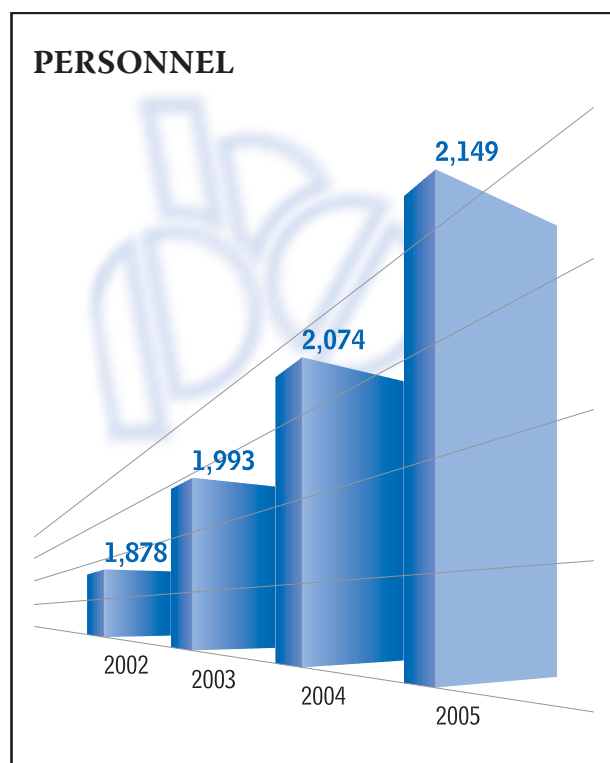
This simple statement confirms something that we have always said: our people are the bank's greatest asset, providing the foundations for all our achievements and for all those expected in the future.

Accepting that the bank is a business in which human resources play a significant role, we can proudly state that the pillars of our success include the professionalism of our staff, the fiduciary relationships they have established with our customers, and their ability to interpret and satisfy the needs of customers effectively, as well as their professional appearance.

But ahead of all this, our people are the convinced standard-bearers of a culture founded on their loyalty to the bank; a characteristic that remains firm and intense, despite the expansion of employment due to the dynamic growth of the bank.

The career path of all those young people who start their professional life with us commences with a rigorous selection process, almost entirely from school leavers and new graduates, and is followed by targeted, high quality training, both in the classroom and on the job. As our people grow, they absorb and respect the code of conduct that represents our house style. This established and effective mechanism enables us to look confidently to the future, with the strength of a united team that is ready to perform its assigned tasks diligently and with determination: ready therefore to take responsibility and compete in the marketplace.

A further 75 persons were employed in 2005, raising the total by 3.62% to 2,149, of which 74% work within the branch network while 26% are based at our headquarters. The average age of our staff is now 35 years with an average seniority of 10 years and 9 months, both up by 3 and 4 months respectively. Alongside those with a permanent contract, many of our staff work effectively on flexible forms of employment contract. We are pleased to underscore the contribution made by the recent «Biagi reform» towards matching the supply and demand for work, by increasing the opportunities for young people and providing firms with the flexibility to shape their personnel structure. This has improved the elasticity of «work», interpreting correctly the intentions of the constitution which in business «safeguards work in all its forms and applications».



Our consolidated objectives for growth by internal means stretch the personnel department, which works hard and well, backed by ever more sophisticated tools and methodologies, to respect the following guidelines: identification of professional requirements; correct sizing of employment; recruitment, selection and induction of new people; assessment, training and job rotation of personnel. The new intake generally starts at branch level, given the learning objectives established with reference to the skills development plan, which includes the allocation of progressively more complex tasks in order to ensure, over time, that the various operational requirements are covered.

In addition to support in the field and targeted internal mobility, professional development is also assured by a broad system of training. Activity over the past year ranged widely, taking proper account of key objectives

– especially with regard to the courses extending over several weeks for new recruits and personnel dedicated to such key sectors as lending and financial activities – as well as immediate needs, in order to improve the professional skills of certain categories of employee. Considerable attention is also dedicated to sales personnel, to enhance their theoretical and practical knowledge of the product range, which is being continually updated and expanded.

The content of these programmes also includes cross-functional elements, such as interpersonal and negotiation skills for dealing with counterparts and managing staff. This last aspect is of particular importance and the subject of many courses.

The training provided by the personnel department also extended to the areas of operation in which the bank, for various reasons, has obtained quality certification. Apart from its commercial value, this certification helps to develop the culture of the bank by emphasising the central role of the customer, together with the need to provide efficient and effective services. Activity in this area – comprising targeted communications, training and the verification of learning – covered the processes concerning the ABI PattiChiari project, the BS7799 security standard for internet banking services and ISO 9000.

The statistics are staggering: classroom work during the year involved 1,213 employees in a total of 46,554 hours of training, in addition to that made available on a multimedia basis. Without discussing the school reforms, we can confirm that their approach to the world of work has enabled us to activate 217 work experience and training contracts, drawing

on our collaboration with 43 commercial high schools, as well as university departments.

Turning to the regulations, the national payroll contract for the banking sector was renewed in 2005, following lengthy negotiations between the Italian Bankers' Association and the Trade Unions. This agreement has introduced and codified the so-called «professional apprenticeship» envisaged under the «Biagi Reform», which calls for the provision of intensive training – at least 120 hours each year – over the four-year contract period.

Following the issue of enabling regulations by the Lombardy Region, adopting the national agreement, we were the first Italian bank to apply this type of contract. The rapid implementation of this new form of employment certainly brings economic and practical benefits for the bank, but also emphasises the attention dedicated to young people, in terms of their training and the development of their skills, to facilitate their professional growth and induction into our organisation.

The awaited reform of supplementary pensions was the subject of a decree last November which fixed the start date as 1 January 2008, together with the new regulations on compulsory pension cover. We will monitor the implementation stage closely.

Lastly, we note that our relations with the trade union representatives remain serene and founded on reciprocal respect. In this climate, negotiations have commenced for the renewal of the supplementary, in-house payroll agreement.

PROMOTIONAL AND CULTURAL ACTIVITIES

The image of the bank is safeguarded and strengthened by the hard work performed every day. Promotion of the bank includes cultural and other initiatives which express the values that underpin our role as a people's cooperative.

As well as being an effective promotional vehicle, our commitment seeks to make an important and lasting contribution to the areas in which we work including, first of all, our home province.

We believe that the year's achievements, described briefly below, confirm our desire to transform intentions into deeds. The start of this presentation is dedicated with great pleasure to our thrice-yearly magazine «Notiziario», since the April 2006 issue is the one hundredth in a fortunate series that commenced back in April 1973. We are proud to have achieved this milestone and to see the growing success of our publication. In addition to the editorial team, our thanks go to the authoritative contributors who have honoured us with their writing and to our increasingly vast readership.

Among the recognition received, we are pleased to quote prof. Franco Brevini, author and journalist, whose article in the Lombardy edition of the *Corriere della Sera* on 3 June 2005, entitled «That Notiziario, world ambassador for Valtellinese culture» generously defined our magazine as a «literary landmark» and stressed its cultural connotations.

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Five illustrious personalities have presented a cycle of conferences, held in our «Besta» hall.

On 10 June, prof. Antonio La Torre, First Honorary President of the Supreme Court of Cassation and Chairman of the Chamber of Public Works Arbitrators, gave a talk on «Europe and the law». The numerous audience was fascinated by his sharp eloquence and considerable knowledge of history and philosophy, not to mention the legal issues.

A week later on 17 June, Mario Resca, chairman and managing director of McDonald's Italy spa, addressed a crowded auditorium on the topic «Doing business in Italy: a case study on McDonald's». A real lesson to us all. On 13 September, prof. Claudio Magris presented his book entitled «Flying blind», which the critics have acclaimed as a masterpiece. The great ability of the speaker, together with the large and well-informed audience, ensured that the evening was memorable.

In December, on the 2nd and 9th respectively, we were visited by prof. Giovanni Bazoli, chairman of Banca Intesa, and prof. Gianfranco Ravasi, prefect of the Ambrosiana library and art gallery.

Prof. Bazoli, a famous banker and lawyer, discussed the «Market and democracy»; the lucid presentation, covered by the national press, stimulated great interest, not least due to the all-encompassing culture of the speaker.

Prof. Ravasi, a close friend, focused on the topic «Man today between faith and indifference», captivating the public with his knowledge of the bible and the scriptures and, not least, by his profound and calm oratory.

On 6 October 2005 a meeting of the ABI Regional Commission for Lombardy was held at our headquarters. The Commission took the opportunity to meet the Authorities and the representatives of local banks.

Returning to our publications, we presented a volume entitled «World Class Valtellina» to mark the World Downhill Ski Championships held at Bormio and Santa Caterina Valfurva between 28 January and 13 February 2005. This book was presented to the shareholders who attended our AGM on 5 March 2005. The well-received series of book-diaries by prof. Gigliola Magrini has continued with «2006 A year in the life - The sky». Our subsidiary, Banca Popolare di Sondrio (SUISSE) SA, has also been active in this area. To mark the inauguration of its new headquarters in via Luvini, Lugano, «SUISSE» went to press with a volume entitled «In the heart of Lugano», with text by Giovanni Orelli and pictures by Christian Schiefer. The cultural supplement that always accompanies our subsidiary's annual report also made its mark by recalling the great pianist Arturo Benedetti Michelangeli, one of the leading interpreters of the XXth century, on the tenth anniversary of his death. We remember with pleasure the broad coverage of Valtellina presented, with our support, in the October 2005 issue of «QuiTouring», the monthly magazine of the Italian Touring Club with a print run in excess of 500,000 copies.

This article, entitled «Cheers on the terrace» and written by Alessandro Gandolfi, a worthy reporter from Parma who also took the photographs, promotes recognition by UNESCO of the Valtellina vine terraces as a world heritage site, a project that is strongly supported by the bank. Following the

filing of the application in January 2005, signed by the Province of Sondrio and Fondazione ProVinea – Vita alla Vite di Valtellina ONLUS, the ministry is carrying out the necessary investigation with maximum attention and assistance from ourselves.

Among the initiatives in support of this application, a press conference was held on 28 October 2005 at the offices of the Lombardy Region, when the President Roberto Formigoni officially confirmed his support for the candidature.

The new library – at the Consortium of Adda Municipalities in the centre of Sondrio – is due to open shortly. The bank has pushed hard for this library, which it has agreed to manage on an innovative basis. The objective is to make our wealth of books and documents, including the Vilfredo Pareto Foundation, the Leoni Foundation and other donations, available to the public. This initiative confirms our commitment to the community in which we work, founded on the cooperative ethos that drives us.

To mark the 81st edition of the World Savings Day, we organised a series of meetings between final-year students from schools in the province of Sondrio and two top athletes: Ivano Brugnetti, olympic walking champion, and Marco De Gasperi, world mountain running champion, were interviewed by Gino Bacci, a sports journalist. Two athletes used to effort and sacrifice, which are important values for those who use savings for useful and positive purposes. Much work has been performed to promote the splendid scenery of the Stelvio Pass, where we have an active branch and subsidiary, Pirovano. A festival of sport is a good way to define the first Mapei Day, an event for cyclists and runners along the Bormio – Stelvio Pass route, held alongside the 21st edition of the King Stelvio cycle race for professionals. About 1,500 athletes battled it out fairly along the difficult route. Proactive collaboration between Mapei – with, in the front line, its chairman Giorgio Squinzi accompanied by his gentle and dynamic wife, Adriana Spazzoli –, the bank, Pirovano and the Bormio Sports Union ensured a success beyond expectations. We note with pleasure that Chairman Squinzi took part in and completed the pleasure cycle ride: a worthy performance from the «steel hare»!

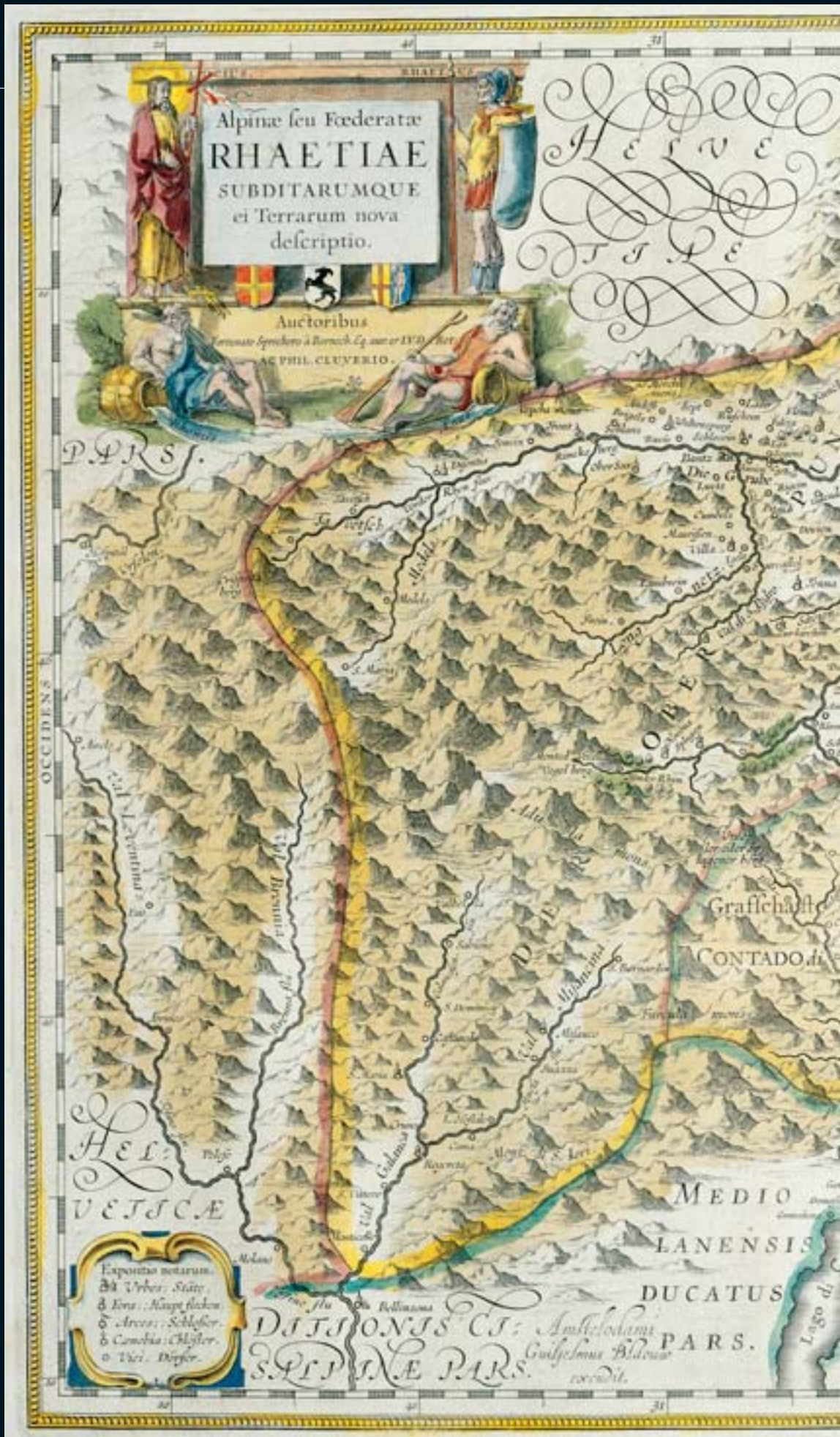
The snows on the glacier set the scene on 14 and 15 October 2005 for the 11th Interbank Triangular Meeting and the 4th Pirovano Interbank Meeting – with 22 banks represented –, involving friendly competition and a thoroughly good time for all. There was considerable interest in the bank's idea to establish an experimental centre at Pirovano for the ageing of wine at altitude, a project that benefits from the collaboration of Fondazione Fojanini di Studi Superiori, which specialises in the development of mountain agriculture, and the Consortium for the safeguarding of Valtellina wines. Periodic tests check the effects of altitude on the ageing of Valtellina wines, in the hope that these experiments can be extended to other Italian «doc» and «docg» wines.

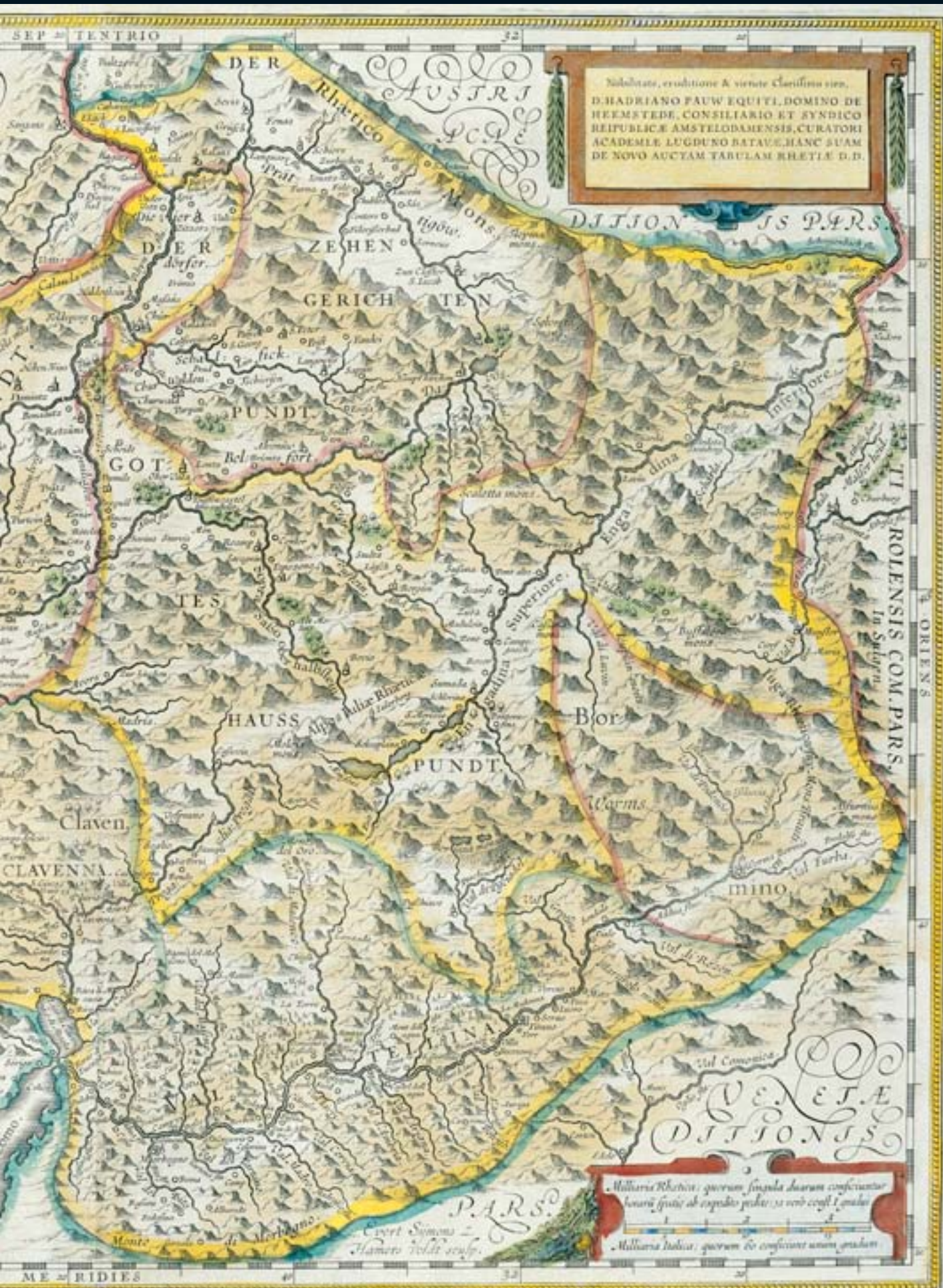
We were happy to make room in our «Donegani» Museum in the Stelvio Pass to establish the highest information point in the Stelvio National Park. This facility was opened as part of the celebration on 6 August 2005 of

Alpinæ seu Fœderatæ
RHAETIAE
Subditarumque ei
Terrarum nova descriptio.

Work by Philipp Clüver
(1580 1622).

Dating back to 1629,
it is the first map to be
drawn of Rhaetia
(Property of Banca
Popolare di Sondrio).





the 70th anniversary of the Park's creation. This anniversary was marked by a concert of classical music played by the Lombardy Chamber Orchestra, conducted flawlessly by Ennio Cominetti. We also heard the wonderful «Stelvio» fanfare overture, composed for the occasion by Colin Mawby, a former director of music at Westminster Cathedral in London. On the tenth anniversary of the death of Egidio Viganò – a Sondrio native who was senior Salesian rector between 1977 and 1995 and bank advisor for about fifteen years –, we remembered this splendid personality by donating a bust sculpted by Nicola Pedrali, an established artist, to Sondrio's Don Bosco Institute. This work, placed in the square that carries his name, was unveiled and blessed on 25 June 2005 by the current senior Salesian rector, don Pascual Chavez, to mark the national conference of former Salesian students which was held at that time.

Philanthropic initiatives included the collection of funds together with «Il Giornale», a daily newspaper, for the victims of the tsunami that struck south-east Asia on 26 December 2004. Part of the one million euro collected has been used to build one hundred homes in Sri Lanka. Work also continues in favour of the Umberto Veronesi Foundation and the Bambino Gesù Foundation. Lastly, we would like to express our appreciation for the activities of the bank's club, which range from culture, to travel, to sport and much else besides, involving an ever greater number of members.

UPDATE OF THE SECURITY PLANNING DOCUMENT

The security planning document, required by attachment B) to Decree 196 dated 30 June 2003 «Code for the protection of personal data», has been updated to take account of the effects of Decree 273 dated 30 December 2005, as converted into Law 51 dated 23 February 2006, which has deferred until 30 June 2006 the application of certain requirements. Currently, we are working to implement further changes associated with the full application of this legislation.

The updated security planning document, including attachments, is kept at SOSI – Servizio Organizzazione e Sistemi Informativi by the Manager responsible for the processing of personal data.

SHAREHOLDERS' EQUITY

The constant significant strengthening of equity, which represents the resources on which the bank can count, remains a priority objective.

This single objective is pursued in two different ways.

The most obvious is represented by extraordinary capital transactions, when the shareholders are asked to contribute fresh financial resources. The most recent increase was completed during the second half of 2004, with the contribution of more than 220 million euro. As with previous similar

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transactions, this was an important occasion to re-affirm the shareholders' full agreement for the strategy of autonomous and independent business development pursued by the directors.

The increase in shareholders' equity also comes from the retention of a significant portion of the net profit earned each year. In particular, the shareholders' meeting held on 5 March 2005 resolved to allocate 10% and 30% of the net profit to, respectively, the legal and statutory reserves, totalling about 29.3 million, plus 6 million allocated to the reserve for own shares and a further allocation of 0.258 million to the legal reserve.

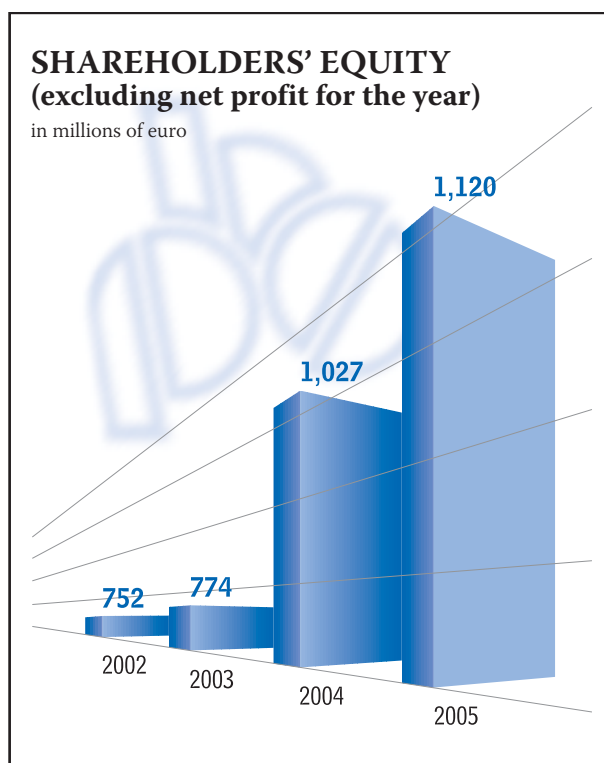
These allocations, although modest compared with the contributions made by capital transactions, represent – year by year – an important source of self financing and are funded by the profitability of the bank, which is making steady and significant progress. The voluntary element of these allocations represents the waiver by shareholders of a possible increase in their dividend, given their desire to reinvest part of the profits earned in the business; this generates a substantial return in terms of the share value.

These are the two directions – different routes to the same common objective – travelled by the financial resources that enable the bank to develop, operationally and in terms of scale, without ever overstepping the mark. We use these words because, in its simplicity, this common phrase contains a valid recommendation that is too frequently ignored. We have chosen to grow with our own efforts and, as such, we always ensure that all new initiatives are covered by the available resources, assessing not only the scale of the investment concerned, but also the nature and extent of the related and consequent risks.

In this context, the dual function of our shareholders' equity is clear: a key resource for financing the expansion of activities and a primary guarantee against the inherent risks.

With regard to the first aspect, it is obvious that the bank can make loans, when the conditions are right, only if it has adequate financial resources. Existence of the so-called tier 1 capital is therefore an essential condition for lending to businesses and households which, indeed, is the primary task of a people's bank. At the same time, it is also possible to work in other operational sectors that have emerged with the development of the market.

In terms of the safeguards against risk, the absolute size of shareholders' equity is not the only factor, since it is also important to correlate this parameter with the nature and scale of the current and potential risks



accepted. Indeed, this is the main objective of the New Capital Accord, more commonly known as the Basel 2 agreement. To this end, as more fully described in the section of this report dedicated to the management of risk, we are dedicating considerable energy and investing substantial resources in the strengthening and qualitative improvement of the control function, both with regard to lending – our primary activity – and in relation to other sectors of activity. The availability of top grade and advanced professional skills, methodologies and tools therefore represents the best defence for the safeguarding of profitability and the bank's capital. The relationship between shareholders' equity and the principal financial parameters is summarised below on a comparative basis. The dynamics confirm the adequacy of our equity, although expansion of the principal aggregates has had a clear impact and suggests, looking ahead, that capital will need to be further strengthened:

- *shareholders' equity/direct customer deposits*
10.49% v. 11.00%
- *shareholders' equity/customer loans*
12.17% v. 12.68%
- *shareholders' equity/financial assets*
42.17% v. 45.70%
- *shareholders' equity/total assets*
8.21% v. 8.47%

Risk-weighted assets total 10,703 million. The Bank's individual solvency ratio (ratio of shareholders' equity for supervisory purposes to risk-weighted assets) is 9.93%, compared with the minimum of 7% required under current regulations for banks that belong to banking groups.

INCOME STATEMENT

The income statement has been prepared in accordance with IFRS, as discussed in the relevant section of this report. The comparative income statement for 2004 has also been prepared in accordance with the new standards, for the sake of consistency.

Profitability improved further during the year: net profit rose to 85.178 million, up 10.36%. This reflects the positive operating performance and rewards the combined efforts of all our employees, thus justifying the confidence of our shareholders. It is important to stress that the bank has improved its ability to generate wealth despite the continuation of unexciting economic conditions nationwide. These results stem in part from the substantial investments made in prior years to expand the volume of intermediation and assets under management while, at the same time, maintaining a slim and agile structure. In addition, our people are adept at combining growth and profitability.

Discussion of the income statement begins with the rise in net interest income to 247.758 million, +7.52%. This satisfactory increase was lower than the rise in overall volume, due to the further reduction of the interest rate spread.

Net commission income rose by 11.07% to 130.424 million. This improvement is attributable to security transactions (acceptance of instructions, placements, asset management) and to the results from collection and payment systems. Dividends, income from trading and other income amounted to 37.837 million, +14.08%.

Income from banking activities increased by 9.18% to 416.019 million. Of this amount, net commission income, dividends, income from trading and other income contributed 40.45%, while net interest income generated 59.55%.

Although lending to customers has expanded considerably, the related write-downs have contracted by 18.32% to 37.359 million. This was due, in particular, to the write-backs identified on valuing the individual positions and includes the write-down of securities by 0.075 million. The balance of financial management was therefore 378.660 million, +12.93%.

Administrative expenses rose to 246.277 million, up 10.50%. Payroll costs – which, in accordance with the new accounting standards, include the remuneration of directors and freelance and project workers – have risen by 6.91%. The increase in other administrative expenses by 14.84% is partly offset, as other income, by the recovery of stamp duty levied on statements of current account and securities.

Net provisions for risks and charges amount to 6 million and have been prudently recorded to cover disputed repayment claims in relation to bankrupt customers.

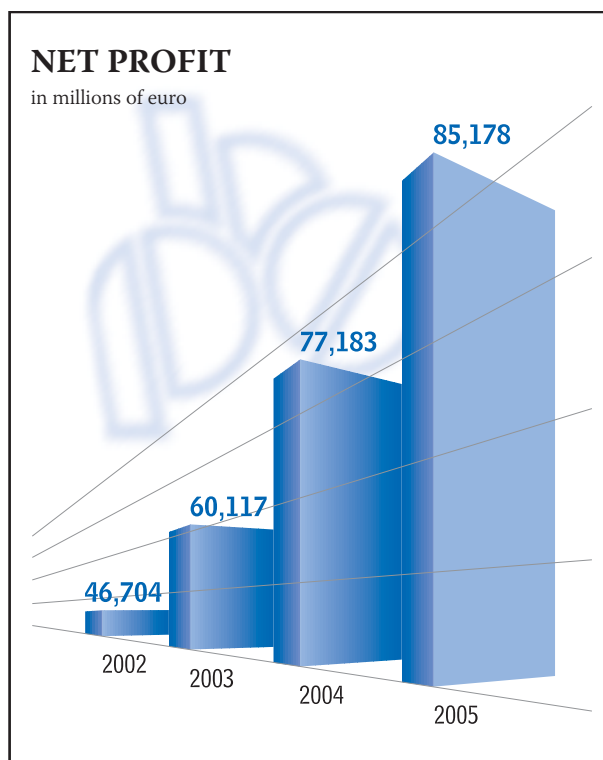
Adjustments to property, plant and equipment totalled 8.521 million, -0.22%, while the amortisation of software amounted to 4.007 million, +31.38%.

Net other operating income amounted to 29.559 million, +8.51%. The sum of administrative expenses, provisions, adjustments to property, plant and equipment and intangible assets, plus net other operating income, comprises «operating costs» which totalled 235.246 million, +13.52%. The ratio of operating costs/income from banking activities was 56.55%, compared with 54.39% in the prior year. The increase was mainly due to the net provision for risks and charges of 6 million discussed above.

Losses on equity investments amounted to 0.958 million, due to the write-down of Pirovano Stelvio spa and Servizi Internazionali

Net interest income

Income from banking activities



SUMMARY INCOME STATEMENT

(thousands of euro)	2005	2004	(+/-)	% change
Net interest income	247,758	230,431	17,327	7.52%
Net commission income	130,424	117,430	12,994	11.07%
Dividends, income from trading and other income	37,837	33,167	4,670	14.08%
Income from banking activities	416,019	381,028	34,991	9.18%
Adjustments to loans	-37,359	-45,737	8,378	-18.32%
Balance of financial management	378,660	335,291	43,369	12.93%
Administrative expenses	-246,277	-222,875	-23,402	10.50%
Provisions, net adjustments to property, plant and equipment and intangible assets, other operating income and expenses and gains and losses	10,295	16,161	-5,866	-36.30%
Profit from ordinary operations, gross of income taxes	142,678	128,577	14,101	10.97%
Income taxes	-57,500	-51,394	-6,106	11.88%
Net profit for the year	85,178	77,183		10.36%

e Strutture Integrate 2000 srl, while profits on the sale of investments totalled 0.222 million.

Net profit for the year

Accordingly, the profit from ordinary operations was 142.678 million, +10.97%, which after deducting income taxes of 57.500 million, +11.88%, resulted in a net profit for the year of 85.178 million, compared with 77.183 in the prior year.

Dividend

The directors therefore propose a dividend of 0.19 euro per share, up 11.76% due to the results of operations. This is compatible with the desire to sustain the growth of the banking activities on a self-financing basis.

CRITERIA FOR COOPERATIVE ACTIVITIES

Art. 2545 of the Italian Civil Code, as modified by the reform of company law, requires the report accompanying the financial statements to specify the operating criteria adopted in order to achieve the cooperative's objectives. It is good that the legislator has given attention to the world of cooperatives, identifying the annual report as the place to describe their guiding principles to the shareholders and the public. In truth, these criteria emerge on various occasions in the preceding sections that describe the activities of the bank in the various sectors. However it will be useful and appropriate to cover this subject separately, with specific reference to articles 1 and 2 of the articles of association which state: «The bank's activities are inspired by the principles of the mutual and cooperative movement» and «As part of institutional work to facilitate the development of all productive activities, the bank, in consideration of its specific objectives as a people's bank, intends to provide specific support for smaller enterprises and

cooperatives; in addition, it will take all appropriate steps to spread and encourage saving».

The steady expansion of the shareholder base has always been a distinctive characteristic of our operations. There were 132,902 shareholders at the end of 2005, up by 6,060 over the year. The demographics are expanding and this directly benefits the activities of the bank. Applications for admission as a shareholder are assessed with reference to the corporate interest, the articles of association and the cooperative spirit, in order to admit those persons who will be able to make a valid contribution.

A broad shareholder base represents the foundations of a people's cooperative and measures the ability of our bank to interpret its mission over time, by updating the ways of working while keeping faith with the founding principles. Accordingly, following in the footsteps of tradition, we will continue to expand the shareholder base. This policy is justified by considering that it is the shareholders who, at the time of a capital increase, guarantee the financial resources needed for the growth of the bank, and it is the shareholders who represent the most important and stable group of customers, and who promote the bank actively when it enters new territories. Participation by the shareholders in the fundamental decision-making process – contributions at the shareholders' meeting have always been encouraged – gives substance to the adjective «people's», while their joint status as both shareholders and customers assures them of the appropriate remuneration of the resources invested, as well as access to the products and services offered by the bank. Our shareholder-customers are central to our way of working and tie back to the founding principles of the cooperative movement. The bank's services are made available to the shareholders first since, pursuant to art. 13 of the articles of association, they take priority in the granting of loans. In this regard, we believe that we appropriately satisfied the well-founded financial requirements of our shareholders during the past year.

In addition to this distinguishing element, we include our desire to facilitate the growth of the territories served. As a people's bank, we have accepted the role of locomotive for the economic and social development of the local communities, with a view to becoming a privileged partner for them with regard to both loans and the services provided to the various categories of customer and to public institutions. Last year's report discussed the initiatives promoted and given our strong support. The most recent are mentioned below, reflecting our acceptance of a lasting responsibility:

- support for Pirovano Stelvio spa, our subsidiary, and consequently tourism in the entire Stelvio area;
- commitment to obtaining recognition from UNESCO of the grapevine terraces in the Valtellina valley as a World Heritage site;
- establishment in Sondrio of a public library managed directly by the bank;

- creation of a virtual art gallery that enables Internet surfers, including disabled persons, to admire the works of art owned by the bank and learn the history of the artists;
- organisation of numerous cultural activities, such as meetings, conferences and publications;
- inclusion of ethical products in our range;
- donations – from the amount allocated for this purpose at the shareholders' meeting – to support entities and associations that carry out cultural, sporting or voluntary work. We also collected funds, together with a national newspaper, resulting the allocation of about 1 million euro to the victims of the tsunami in south-east Asia.

Our commitment to the territory is also reflected in our desire to employ in the areas where we operate the greater part of the financial resources gathered there. Indeed, when we enter into new markets we give priority to supporting their economies by making loans, certain that we will be repaid by the confidence of savers there. We are and we want to remain a people's cooperative bank: on the one hand, we satisfy the needs of savers; on the other, we finance the economies of our territories, based on precise requirements for creditworthiness. This is confirmed by our strategy for territorial expansion, designed to establish a contained and controlled regional presence that is focused on depth, rather than breadth of action.

Lending policy is established to give preference to households, cooperatives and small and medium-sized enterprises. As a national characteristic, these operators by their nature do not move in broader financial circles and, consequently, they need a banking partner that can help them with their operating requirements, as well as to grow and enter into foreign markets. This is the role we have inherited as a people's bank and we are addressing it with renewed commitment.

In addition to the above, we are also involved in the promotion of saving, as reflected in the initiatives arranged for young people to mark the World Savings Day – discussed in the section on promotional and cultural activities –, but above all in our desire to provide customers with knowledgeable and professional service, so that they can make their investment decisions in full awareness. This too is a concrete way to promote saving, currently threatened not so much by a lowering of the traditional Italian propensity to save, but rather by the still recent events that have shaken the confidence of investors and hit the pockets of many, frequently small, savers.

These then are the criteria that, as ever, and ever more effectively, guide the actions of our bank. The growing confidence of both our shareholders – as seen at our crowded shareholders' meetings – and our customers leads us to believe that these criteria are widely agreed upon, and facilitate efficient and profitable operations.

Lastly in this area, we note the proposal to the shareholders' meeting to allocate 30% of the net profit for the year to the statutory reserve, in addition to the 10% allocated to the legal reserve. Taking a long-term view, this decision strengthens the capital of the bank via self financing, thus

helping to achieve its corporate objectives. The effects of this approach on our share price are evident, given the significant growth in its value over the years which has protected our shareholders, despite an increasing dividend, from sometimes sudden fluctuations in the stock exchange indices. This is another way to increase savings, an asset protected by the Constitution which, at art. 45, recognises the social function of the cooperative movement.

In closing, we would like to recall the thoughts of Luigi Luzzatti, who has always inspired and continues to inspire our work. Speaking of people's banks, he stated the conditions needed for them to start and prosper. These include: freedom and the absence of any form of State protection; a merchant's spirit that understands business practice; widespread awareness among the population of the existence of such banks; moral principles that are generally accepted and axiomatic. The Venetian economist proposed the organisation of capital and labour in this way, overcoming the logic of State assistance. These are the concepts adopted by the people's banks, including our bank throughout its entire 135 year history.

SIGNIFICANT SUBSEQUENT EVENTS

The following information on significant events that have taken place subsequent to year end is provided in accordance with regulatory requirements. First of all, the European Central Bank raised the cost of money by 0.25% on 2 March, thus adjusting the reference rate to 2.50%.

With regard to the bank, after a satisfactory 2005 we have moved with renewed vigour during the first part of the new year. Two new branches have been opened in Milan: branch 26 in corso Lodi, in the south-east part of the city, and branch 27 in the western suburbs, close to the Meazza stadium, next to the Don Gnocchi rehabilitation centre.

Alongside the banking branches, our treasury branches provide services to communities and institutions. The eighty-five units operational at the end of 2005 have been joined by municipal branches at Manerba del Garda (Brescia), Basiglio (Milan), Castel San Giovanni (Piacenza), Broni and Casteggio (Pavia), and Torre di Santa Maria (Sondrio), as well as those at Pallanza near Verbania, at Consorzio Servizi at Verbanio Cusio Ossola (Verbania) and at the regional offices in via Fabio Filzi, Milan. In a climate of reciprocal satisfaction, we have signed the new in-house payroll agreement with the Trade Unions. Most recently, we have been appointed to collect waste collection taxes on behalf of Azienda Municipale Ambiente – AMA spa – in Rome. This company, serving a community comprising more than three million uses, is Italy's largest operator in the integrated management of environmental services. Turning to our subsidiary, Banca Popolare di Sondrio (SUISSE) SA, the financial statements for 2005 were approved at the shareholders' meeting held on 8 February 2006. Net profit amounted to CHF 8.7 million, up 13.24%. Lastly, Sofipo GesmbH has commenced activities in Austria. «SUISSE» is one of the founding shareholders of this services company, based in Vienna.

OUTLOOK FOR OPERATIONS

There are fair prospects for growth in Europe, including Italy, although here performance will fall below the average for the Euro area as a whole. The structural problems remain to be resolved, together with those associated with access to adequate supplies of energy, not least due to renewed political tensions in the areas of production. Despite all the uncertainties, we will continue to expand our operations and the scale of the bank, setting down further roots in our chosen territories and in the surrounding areas. Profitability is likely to increase, despite the expected rise in administrative costs associated with the expansion of the branch network.

Considering the likely rise in interest rates, the trend in net interest income should follow the change in banking volumes. Net commission income is also expected to grow well. Income from banking activities is therefore expected to rise considerably. Accordingly, after adjustments, operating costs and the effect of taxation, ever more oppressive, net profit is likely to be higher.

* * *

Shareholders,

**Audit of the financial
statements**

The 2005 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 € 85,178,406, have been audited by Deloitte & Touche spa, whose report is attached further below.

BALANCE SHEET

Total assets		€	13,633,070,848
Liabilities	€	12,428,392,331	
Valuation reserves	€	59,164,939	
Capital	€	660,317,109	
Share premium reserve	€	108,373,020	
Reserves	€	291,645,043	€ 13,547,892,442
Net profit for the year		€	85,178,406

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	€	8,517,841.00
- 30% to the statutory reserve	€	25,553,522.00
- dividend to shareholders of € 0.19 per share	€	41,820,083.57
- to the reserve for own shares	€	9,000,000.00
- to the reserve for donations	€	250,000.00
- the balance, to the legal reserve	€	36,959.43
Total	€	85,178,406.00

SHAREHOLDERS' EQUITY

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

- Valuation reserves	€ 59,164,939.00
- Share capital - 220,105,703 shares, par value € 3 each	€ 660,317,109.00
- Share premium reserve	€ 108,373,020.00
- Reserves	€ 334,753,365.00
Total	€ 1,162,608,433.00

Shareholders,

Having completed our discussion of operations, it is our duty and pleasure to thank all those who, via their business and trust, have helped us to report another good year.

Thanks then to our shareholders and customers, who are increasingly one and the same. Our appreciation for the efforts of the Board of Statutory Auditors which, valiantly chaired by Egidio Alessandri, has performed its broad and delicate functions with, as ever, dedication and professionalism. Recognition too for the work of the Advisory Committee, which is always on hand, and to the members of the Supervisory and Discount Committees for their experience and knowledge, with a special mention for those based in Milan.

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 sister cooperative banks including, in particular, BP di Fondi, with which we have collaborated successfully for many years. Renewed esteem and deferential thanks are due to the Bank of Italy. Our very best wishes to the Governor, Mario Draghi, for an authoritative and successful gubernatorship, brimming with satisfaction. We remain humanly close to Antonio Fazio, who will be well remembered for his good work on behalf of the banking system. We express our respect and profound gratitude 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. These include, especially, Salvatore Messina, manager of the Milan branch of the Bank of Italy, Giambattista Chiarenza, manager of the Rome branch, and Massimiliano Marzano, manager of the Sondrio branch.

Many thanks too for the constant collaboration of the directors, managers and staff of Consob, the Italian Exchange Office and Borsa Italiana, which also manages the Expandi Market, where our shares are traded. We are also grateful to the Federal Commission of Berne Banks, which supervises the activities of our Swiss subsidiary, and to Banque de France, supervisor of the French banking system, for its supervision of SUISSE's branch in Monte

**LOMBARDIAE
Alpestris pars occidentalis
cum VALESIA.**

Work by Gherardo
Mercatore (Gerhard Kremer,
1512-1594),
dating back to c. 1606
(Property of Banca
Popolare di Sondrio).





Carlo. Last but not least, our heartfelt thanks to all our staff for the intelligent and loyal collaboration and their spirit of commitment to the bank. Alessandro Cometti, Luciano Antonio Cossi, Maurizio Folli, Elio Moratti, Valerio Patrizi Dell'Agnello, Renato Perico, Giuseppe Picceni, Giovanni Redegalli and Luigi Tacchini have taken their pensions and we wish them a long life, with happiness and good health. We have received numerous complimentary letters expressing appreciation for the good name of the bank. We are also grateful for the occasional justified criticism, which helps us to improve.

Our final thoughts go to those we may have mistakenly overlooked who, nevertheless, have helped us with their friendly advice, information and so on.

Shareholders,

In presenting the 2005 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 2005 and the proposed allocation of net profit for the year, which includes the payment of a dividend to the shareholders of € 0.19 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 2005, comprising the balance sheet, the income statement and the related explanatory notes; financial statements which report a net profit for the year of € 85,178,406.00. The Shareholders' Meeting therefore specifically approves the allocation of net profit for the year of € 85,178,406.00 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 | € 8,517,841.00 |
| – 30% to the statutory reserve | € 25,553,522.00 |

b) to pay a dividend of € 0.19 to each of the 220,105,703 shares in circulation at 31/12/2005 with dividend rights as from 1/1/2005, transferring to the statutory reserve the amount of the dividends due to any own shares held by the bank on the working day prior to going ex-coupon, for a total amount of

€ 41,820,083.57

c) to allocate to the reserve for own shares	€ 9,000,000.00
d) to allocate the residual net profit:	
– to the reserve for donations	€ 250,000.00
– to the legal reserve, a further	€ 36,959.43

Lastly, the Shareholders' Meeting sets at € 38,000,000 – recorded in the balance sheet among «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».

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 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: Claudio Benedetti, Giuseppe Fontana, Carlo Grassi, Aldo Rossi and Renato Sozzani.

Point 4) on the agenda: Appointment of serving and alternate statutory auditors and the chairman of the Board of Statutory Auditors for the three-year period 2006-2008; fixing of annual emoluments.

Shareholders,

In accordance with the law and the articles of association, the shareholders' meeting is called on to elect the entire Board of Statutory Auditors for the three-year period 2006-2008.

The mandates have expired of Egidio Alessandri, Pio Bersani and Piergiuseppe Forni, serving auditors, and of Marco Antonio Dell'Acqua and Mario Vitali, alternate auditors. In this regard, the notice of meeting included in its entirety article 47 of the articles of association, which governs the presentation of lists of candidates.

The shareholders' meeting is responsible for fixing the annual emoluments of the statutory auditors for the next three years. The directors will propose the amounts concerned.

Sondrio, 20 March 2006

THE BOARD OF DIRECTORS

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

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

From the undersigned statutory auditors:

Pursuant to Legislative Decree 38 dated 28 February 2005, the draft financial statements as of 31 December 2005, presented for your approval, have been prepared in accordance with international accounting standards (IAS). In technical terms, they comprise the balance sheet, the income statement, the statement of changes in financial position, and the statement of changes in equity, together with the principal information contained in the notes to the financial statements; they are accompanied by the report of the directors on the operations and position of the bank.

These innovations with regard to the preparation of the financial statements (individual and consolidated) have involved certain changes in the accounting policies and classification criteria adopted with respect to the past. Accordingly, the notes to the financial statements are presented on a detailed basis, partly to reconcile the new line items with those reported in the prior year. As usual, the 2005 financial statements, the 135th since the foundation of the bank, are summarised below:

BALANCE SHEET

Total assets		€ 13,633,070,848.00
Liabilities	€ 12,428,392,331.00	
Valuation reserves	€ 59,164,939.00	
Capital	€ 660,317,109.00	
Share premium reserve	€ 108,373,020.00	
Reserves	€ 291,645,043.00	€ 13,547,892,442.00
Net profit for the year		€ 85,178,406.00

The principal differences with respect to 2004 are described below.

Firstly, we note that the application of international accounting standards has not resulted in significant changes to the balance sheet or had an extraordinary impact from a fiscal standpoint. The good results achieved derive from ordinary operations.

In particular, there was a marked increase in operating volumes (funding and lending) which, in turn, has benefited profitability.

Total assets amount to 13,633 million, up 12.42%, following increases in the various captions concerned due to the hard work of employees and the business acumen of managers, despite challenging conditions with the economy below par.

The principal asset captions with a positive effect on profitability reflect the bank's operating volumes, which have increased considerably due, in part,

to the numerous recent branch openings. The inevitable increase in liabilities has been contained by the rigorous and careful management of costs, which are incurred with a view to earning profits.

In conclusion, the net profit for the year was up by 10.36% to 85.178 million from 77.183 million last year.

The events that took place during the year are described in the directors' report and were witnessed by this Board, which confirms the fairness and truth of the information provided.

Further confirmation of the reliability of the economic and financial position reported by the bank comes from the ongoing work of the external auditors, who make a valid contribution to the proper functioning of the bank's system of internal accounting controls. The report released by Deloitte & Touche S.p.a., attached to the financial statements, provides a clean opinion on the events and results of operations, without any exceptions or reservations.

Pursuant to art. 150.3 of Legislative Decree 58/98, this Board has had periodic contact with the external auditors for the exchange of data and information deemed useful for the respective activities. Such contacts concluded with reciprocal agreement. Except for the specific technical work performed to audit the financial statements, the external auditors were not requested to perform any special work during the past year and no such work was performed.

This Board is responsible for verifying the adequacy and reliability of the bank's accounting records. This work confirms that the voluminous accounting entries are made correctly, in accordance with legislative requirements, with support from an up-to-date IT system. The monitoring of operations by this Board, pursuant to Legislative Decree 58/98 and art. 2403 of the Italian Civil Code, has been performed to ensure compliance with current legislation, the articles of association and the principles of proper administration. The deeds and instructions issued by top management were received and subjected to critical review, given that the statutory auditors attended the meetings of the Board of Directors (8, in accordance with the articles of association) and those of the Chairman's Committee (91, held twice each week). We determined that the decisions taken, on a unanimous basis, by both these committees were founded on healthy, orthodox criteria and taken in the interests of the bank with a view to stimulating growth, in scale and organisational terms, consistent with the expansion programme that has been underway for several years.

The routine inspection by the Supervisory Authorities, carried out over a period of four months, was completed in January 2005. This was an important event for the validation of the overall system of controls and involved close contact with all sectors of the bank's operations. Various, easily corrected, omissions and organisational imperfections were noted, together with invaluable suggestions and recommendations for the improvement of activities that were well received.

The authoritative opinion given on conclusion of the inspection highlighted that the bank is healthy, developing steadily and profitable.

The directors work consistently in accordance with the principles of prudent management and, as such, we confirm that there have not been any transactions that contrast with the corporate objects, or any non-operating and/or unusual transactions with group companies, related parties or third parties that might have a significant effect on the financial position of the bank.

Routine transactions with related parties, described in detail in the notes to the financial statements, were deemed appropriate by this Board since they were carried out on fair terms in the interest of the bank. In particular, they represent 1.17% of total lending and 1.74% and 1.09%, respectively, of direct and indirect funding.

This Board did not receive any complaints about censurable matters pursuant to art. 2408 of the Italian Civil Code during 2005. A total of 58 complaints were received concerning investment services, chiefly in relation to bonds issued by Cirio, Parmalat and Argentina. Based on the checks made in this regard, we did not identify any procedural weaknesses concerning these transactions or any fault attributable to employees of the bank which, indeed, has never held for placement the bonds of these issuers.

Direct checks performed by the statutory auditors consisted of 89 visits to branches and central offices, which were always made together with the internal auditors. This work identified that tasks and functions are performed properly in compliance with the law and other regulations. Our findings were set down in minutes each time and these reports were also examined by the inspectors sent by the Supervisory Authorities.

Given that the purpose of these checks is to identify errors and omissions, it is right to admit that we have found examples of these. Without wishing to minimise their importance, it is true to say that the vast majority of non compliance was physiological in nature, often induced by the work load and the numerous commitments associated with new openings.

The rapid territorial expansion has inevitably put the organisational structure of the bank under pressure. We have drawn the attention of management to this problem; in any case, they are well aware of the situation and are working to find the best and most rapid solution.

The directors pay the greatest attention to the bank's system of internal controls and, in this regard, they are closely monitored and supported by this Board. The inspectors from the Bank of Italy did not raise any issues concerning weaknesses in the current system of controls.

We can confirm that the internal auditors perform their work diligently and demonstrable skill; their audit techniques for the examination of procedures have been refined with IT support and recourse to updated

technologies for the performance of first and second level testing, and the monitoring and measurement of risk. These activities are assisted by the auditors working within the bank's technological services (SOSI). An efficient planning and control department monitors the preparation of operational information and produces various analyses of the bank's complex activities, thus providing useful indications for the management of the business.

Another important office is dedicated to the effective control of loans in deed of attention, corrective action or recovery measures. The activities of the treasury and cash offices on behalf of various institutions are monitored diligently by a special office equipped with the latest technology.

The presence on the board of Banca Popolare di Sondrio (SUISSE) SA of representatives of the parent bank facilitates checks on its internal controls, and on its compliance with the instructions and strategic objectives communicated by the management of the parent bank. In addition, the internal audit function within SUISSE maintains close relations with the internal audit department of the parent bank. The financial statements of this subsidiary, which is growing steadily under the protection of the Swiss Confederation, are checked by a firm of external auditors who, once again, have released a clean opinion in relation to 2005.

The operational criteria adopted for the achievement of the bank's cooperative objectives, as specified in art. 2545 of the Italian Civil Code and art. 1 of the articles of association, are identifiable from all the activities carried out by the bank. The bank's characteristic as a people's cooperative and mutual society is most clearly evident from the size of the shareholder base, which totalled 132,902 at the end of 2005, up by 6,060.

Shareholders are considered to be customers too, with good reason, since many benefit from the products and services offered by the bank.

The importance attached by the bank to its cooperative activities can be clearly inferred from the operational guidelines described above, the nature of the lending relationships established, with an emphasis on small and medium-sized enterprises, and the support provided to individual economic operators and families (with a significant volume of home loans in the past year). The directors have described in detail the numerous other initiatives that confirm the adoption of these criteria; initiatives that are well known to and approved by the statutory auditors.

Following an in-depth evaluation of the code of self-regulation recommended by the committee for the corporate governance of listed companies, the directors decided not to adopt it, essentially in view of the cooperative nature of the bank.

A copy of the related 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.

Shareholders,

The results of the bank's activities over the past year have been presented to you and explained. They represent the dedicated work of more than 2,000 employees, guided by dynamic directors and senior managers who display great professionalism. Now you are called upon to approve, we trust, the financial statements at 31 December 2005, as presented by the directors, and the proposed allocation of net profit for the year.

For our part, at the end of our three-year mandate, we want to take this opportunity to thank you for your confidence in us.

Sondrio, 23 March 2006

THE BOARD OF STATUTORY AUDITORS

Egidio Alessandri, Chairman

Pio Bersani, Auditor

Piergiuseppe Forni, Auditor



ASSET MANAGEMENT

**BANCASSURANCE AND
SUPPLEMENTARY PENSIONS**

EQUITY INVESTMENTS

SCRIGNO*Internet Banking*

INTERNATIONAL DIVISION

CULTURAL ACTIVITIES

SHAREHOLDERS AND SHARES



ASSET MANAGEMENT

The finance department looks after this delicate "industry" with skill and equilibrium, elements that have always distinguished this activity. The commercial offering – which is competitive and constantly updated – provides adequate responses to the varied needs and risk propensities of

investors. The results achieved in 2005 bear witness to the effectiveness of their work.

The placement of Arca funds marked a positive net inflow of deposits. Distribution of the products of our Group sicav – Popso (Suisse) Investment Fund – also went well, as did the ethical

funds Sistema Valori Responsabili issued by Etica SGR, whose net conferrals are amply positive.

The portfolio management office, handling portfolios in both funds and securities, now has a new range of products, which reflect even better the individual risk profiles.

ARCA FUNDS



ArcaCinqueStelle
ArcaMultiFondo
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
Arca Rendimento Assoluto T3
Arca Rendimento Assoluto T5

SICAV



Popso (Suisse)
Investment Fund Sicav

Short Maturity Euro Bond
Euro Bond
Swiss Franc Bond
US Dollar Bond
European Convertible Bond
European Equity
Swiss Equity
USA Equity
Japanese Equity
Global Opportunity Equity

PORTFOLIO MANAGEMENT

IN FUNDS

Obbligazionaria Internazionale
Bilanciata Internazionale 15%
Bilanciata Internazionale 30%
Bilanciata Internazionale 50%
Bilanciata Internazionale 75%
Azionaria Globale

IN SECURITIES

Gestione Monetaria
Gestione Obbligazionaria
Gestione Bilanciata 5%
Gestione Bilanciata 10%
Gestione Bilanciata 15%
Gestione Bilanciata 20%
Gestione Bilanciata 25%
Gestione Bilanciata 30%
Gestione Bilanciata 40%
Gestione Bilanciata 50%
Gestione Bilanciata 60%
Gestione Bilanciata 75%
Gestione Azionaria

ETHICAL FUNDS



Etica SGR
SISTEMA VALORI RESPONSABILI

Valori Responsabili Monetario
Valori Responsabili Obbligazionario Misto
Valori Responsabili Bilanciato

BANCASSURANCE AND SUPPLEMENTARY PENSIONS

The Arca insurance group maintains its specialisation in the provision of made-to-measure products for the banking channel. The virtuous circle that sees as its points of strength constant product updates and flexibility. In 2005, this resulted in a more than satisfactory increase in subscriptions of new life insurance policies. An increase that in percentage terms is better than that achieved by the ref-

erence market, where the level of competition acts as a measure for our affiliate's strenuous efforts. A contribution to revenues – made up principally of traditional life policies – came from the innovative unit linked policy called Capital Tutor, which gives access to equity markets with a limited amount of risk, to which are tied the 2005 versions of InvestiDOC and InvestiTIME, both

issues with a guaranteed minimum return. The activity in non-life lines continued without respite, with the affiliate Janua B.&A. Broker, specialists in insurance brokerage and consulting, acting as a catalyst. The placement of supplementary pension products has inevitably been affected by the government's decision to postpone the introduction of certain measures relating to pension funds.

BANCASSURANCE

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
Arca Vita Unit Linked Capital Tutor

Arca Vita Unit Linked MULTIFASE NEW
Arca Vita Unit Linked Obiettivo

InvestiDOC
InvestiTIME
InvestiTIME Piano di Risparmio

PER LORO
PROTEZIONE AZIENDA

UNIT TEAM



In AUTO
In FAMIGLIA
GIOIA
In CASA
In SALUTE
Solouna!
Benesserepiù



INSURANCE BROKERAGE through the affiliate

JANUA B.&A. BROKER SPA



SUPPLEMENTARY PENSIONS



FONDO PENSIONE APERTO
ARCA PREVIDENZA

FONDO PENSIONE APERTO
ARCA PREVIDENZA AZIENDE



LINE OF PENSION PRODUCTS:

PROGRESSIVE PENSION PLAN
Programma Dinamico

PROGRESSIVE PENSION PLAN
Programma Garantito

PROGRESSIVE PENSION PLAN
Programma Immediato





EQUITY INVESTMENTS

Equity investments continue to represent our fervent link with companies, especially if they are offshoots of the cooperative banking movement, which provide products and services that are indispensable for our commercial offering.

History, which for many of them is several decades long, shows that the

intention of the founders was and is a winner. Technical quality of the factories, market competitiveness – many of them are sector leaders in their field – and profitable operations are the bases underlying our faithful support.

From this point of view, we have also helped actively to conclude restruc-

turings and agreements between shareholders, with a view to helping these product companies move forwards in the best way possible. Our loyal commitment is reflected in the amount of work that we give these companies.

Subsidiaries

BANCA POPOLARE DI SONDRIO (SUISSE) SA

PIROVANO STELVIO SPA

SINERGIA SECONDA SRL

Associates

RIPOVAL SPA

ARCA VITA SPA

SERVIZI INTERNAZIONALI
E STRUTTURE INTEGRATE 2000 SRL

CBE - SERVICE SPRL

Banking-related minority interests

CENTROBANCA SPA

UNIONE FIDUCIARIA SPA

POLIS - FONDI IMMOBILIARI
DI BANCHE POPOLARI SGR PA

BANCA ITALEASE SPA

BANCA DELLA NUOVA TERRA SPA

CENTROSIM SPA

ARCA SGR SPA

ARCA ASSICURAZIONI SPA

JANUA B. & A. BROKER SPA

CIM ITALIA SPA

LINEA SPA

ETICA SGR SPA

SCRIGNOInternet Banking – the virtual bank

Our virtual banking service continues to grow and be well received by its users.

The main changes during the year are security matters:

- SCRIGNOcard, a strictly personal card that allows holders to authenticate themselves and to access our on-line services in total security;

– the Avvisi service to have more control over on-line transactions by receiving an SMS or e-mail whenever your on-line account is accessed or after issuing instructions;

– certification of the Security Management System according to the BS 7799 standard.

The development of innovative servi-

ces, with particular attention for the handicapped, won us entry to the Sodalitas Social Award, the golden book of Corporate Social Responsibility, and two prizes in the field of digital technologies in the prestigious Italian eContent Award 2004-2005.

SCRIGNO Internet Banking
Banca Popolare di Sondrio



Products

SCRIGNOInternet Banking

SCRIGNOTrading on Line

SCRIGNOcard

SCRIGNOPagoFacile

SCRIGNOVispoPay

SCRIGNOGesTes

SCRIGNOfirma

SCRIGNOmultibanca

SCRIGNOgruppi

SCRIGNOvetrina

Services

Conti Correnti (Italia, Estero)

Deposito titoli

Giroconti

Bonifici (Italia, Estero)

Pagamento utenze, MAV e RAV

Pagamento canone TV

Ricariche telefoniche

Ricariche carte prepagate

Estratti conto (PDF)

Estratti conto e Movimenti CartaSi

Monitoraggio eventi

Avvisi e Controllo Operatività (SMS, E-mail)

Finanziamenti

Shopping

www.popso.it

Our History

BPS Suisse

Branch Network

Products and Services

SCRIGNObps

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

popso arte
Le Popole di Sondrio



INTERNATIONAL DIVISION

Well aware that to expand your range of action abroad you have to introduce yourself to the international business community and come into direct contact with the respective realities, we decided to take advantage of the opportunities offered under the agreement we had with PROMOS, a special agency set up by the Milan Chamber of Commerce to promote foreign trade. It has accompa-

nied some of our corporate customers on thirty or more trade missions to the same number of international markets; visits that were targeted and well organised, for which the participants were full of praise. Also relating to chamber of commerces is the prestigious agreement – to the benefit of the Bank and of its customers – formalised with the Association of Italian Chambers of

Commerce Abroad, based in Rome, whose associates operate in about fifty different countries.

The quality of the assistance given to companies and institutions through the services provided by Servizi Internazionali e Strutture Integrali 2000 Srl, which runs the representative offices in Hong Kong and Shanghai, and CBE Service SpA, which operates in Brussels.

THE ACTIVITIES

Development of relationships with banks, institutions, organisations and companies throughout the world

Access to foreign markets

Processes of internationalisation

Trade and entrepreneurial missions

EU programmes and finance

National and international tenders

Foreign exchange trading

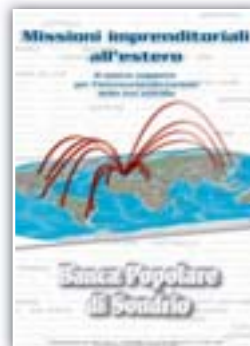
Hedging instruments against foreign exchange rate, interest rate and commodity risks

Derivative instruments

Payment of foreign pensions

Remittances, collections and payments to and from other countries

Correspondent banking



REPRESENTATIVE OFFICES



BEIJING (China)

BUENOS AIRES (Argentina)

CAIRO (Egypt)

CASABLANCA (Morocco)

ISTANBUL (Turkey)

LIMA (Peru)

MEXICO CITY (Mexico)

MONTEVIDEO (Uruguay)

MONTREAL (Canada)

MOSCOW (Russia)

MUMBAI (India)

NEW YORK (USA)

SANTIAGO (Chile)

SAO PAULO (Brazil)

SEOUL (South Korea)

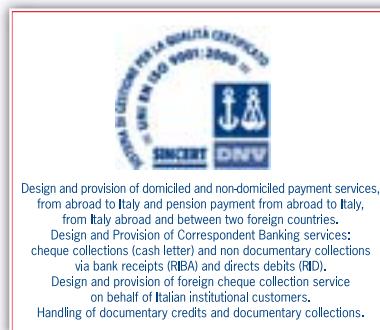
TEL AVIV (Israel)

TORONTO (Canada)

TOKYO (Japan)



a Eurogiro sub-club



CULTURAL ACTIVITIES

The Bank's reputation needs to be protected and reinforced with the work and effort of every day. Its promotion is also helped by initiatives, cultural or otherwise, designed to express values of we as a people's cooperative are carriers and promoters. It is with pleasure that we give the podium to our Notiziario, which comes out every four months. The April 2006

issue will be the 100th of a happy series that began in April 1973. We salute this target with a point of pride and even more so the publication's growing success. Thanks go not only to the editor and his staff, but also the authoritative writers who honour us with their contributions and our increasingly vast reading public. Five illustrious personalities contin-

ued the cycle of conferences in our "Fabio Besta" hall.

Let us return to the world of publishing to remember the volume "Valtellina Mondiale", which we prepared with a view to leaving a concrete eye-witness report of the Alpine Ski World Championship held in Bormio and Santa Caterina Valfurva from 28 January to 13 February 2005.

CONFERENCES

10 June

ANTONIO LA TORRE

"Europe and the Law"



17 June

MARIO RESCA

"Running a Business in Italy: the case of McDonald's"



13 September

CLAUDIO MAGRIS

Presentation of his book
"Alla cieca" (Blind)



2 December

GIOVANNI BAZOLI

"Market and Democracy"



9 December

Mons. GIANFRANCO RAVASI

"Man today between faith and indifference"



PUBLICATIONS



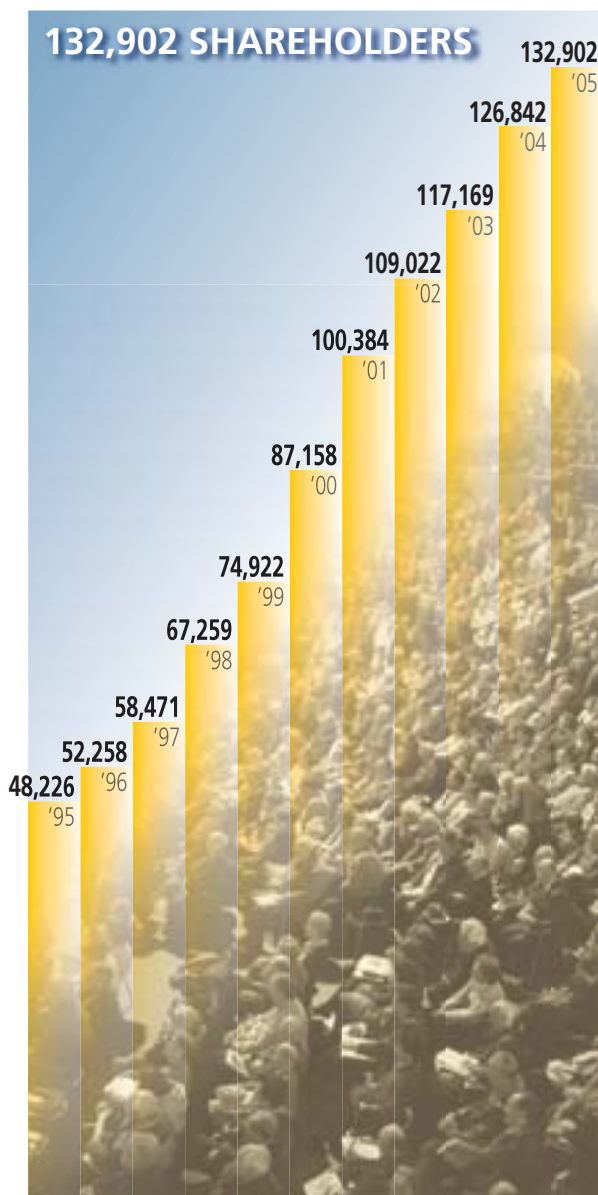


SHAREHOLDERS AND SHARES

The stock market performance of our shares is the correct expression of a company that works, produces and creates wealth to the advantage of our shareholders, who have

enjoyed not only the remuneration provided by the dividend, but also a constant and substantial growth in the share price. If we add that all of our services are offered in primis to

our shareholders, one has the image of a bank that fully absolves its function versus its shareholders, not forgetting its historical role as a people's cooperative.



* FROM 31 DECEMBER 1985 TO 31 DECEMBER 2005: + 327.97%. THERE IS NO GUARANTEE THAT SUCH YIELDS WILL BE REPEATED IN THE FUTURE.

** THE SHARE PRICE AT 31 DECEMBER 1995 OF € 13.27 HAS TO BE ADJUSTED TO € 2.86 BECAUSE OF SUBSEQUENT INCREASES IN CAPITAL. HENCE THE INCREASE IN VALUE FROM THEN TO 31 DECEMBER 2005 IS + 327.97%.

**FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2005**



BALANCE SHEET

(in euro)

ASSET ITEMS		31 12 2005	31 12 2004
10.	CASH AND BALANCES WITH CENTRAL BANKS	57,685,705	56,710,041
20.	FINANCIAL ASSETS HELD FOR TRADING	2,376,276,242	2,084,471,012
30.	FINANCIAL ASSETS AT FAIR VALUE	137,775,206	89,785,120
40.	AVAILABLE-FOR-SALE FINANCIAL ASSETS	140,792,074	73,142,660
50.	FINANCIAL ASSETS HELD TO MATURITY	-	-
60.	DUE FROM OTHER BANKS	1,289,173,988	1,252,655,803
70.	DUE FROM CUSTOMERS	9,197,849,967	8,100,855,746
80.	HEDGING DERIVATIVES	642,007	-
90.	REMEASUREMENT OF FINANCIAL ASSETS BACKED BY GENERAL HEDGES	-	-
100.	EQUITY INVESTMENTS	84,937,496	85,956,620
110.	PROPERTY, PLANT AND EQUIPMENT	127,051,185	116,557,066
120.	INTANGIBLE ASSETS - of which goodwill	4,816,116	3,188,194
130.	TAX ASSETS	15,319,466	14,246,610
	a) current	-	-
	b) deferred	15,319,466	14,246,610
140.	NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE	-	-
150.	OTHER ASSETS	200,751,396	249,539,493
TOTAL ASSETS		13,633,070,848	12,127,108,365

THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER
Piero Melazzini

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

EQUITY AND LIABILITY ITEMS		31 12 2005	31 12 2004
10.	DUE TO OTHER BANKS	1,264,747,655	1,203,356,360
20.	DUE TO CUSTOMERS	9,598,204,037	8,354,455,958
30.	DEBT SECURITIES IN ISSUE	1,065,328,275	975,224,780
40.	FINANCIAL LIABILITIES HELD FOR TRADING	44,732,000	78,757,470
50.	FINANCIAL LIABILITIES AT FAIR VALUE	-	-
60.	HEDGING DERIVATIVES	-	-
70.	REMEASUREMENT OF FINANCIAL LIABILITIES BACKED BY GENERAL HEDGES	-	-
80.	TAX LIABILITIES	28,074,749	21,910,860
	a) current	11,667,048	5,577,526
	b) deferred	16,407,701	16,333,334
90.	LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	-	-
100.	OTHER LIABILITIES	291,870,481	266,298,817
110.	RESERVE FOR SEVERANCE INDEMNITIES	42,767,633	38,271,043
120.	RESERVE FOR RISKS AND CHARGES	92,667,501	84,691,712
	a) staff pension fund	70,666,986	65,730,195
	b) other reserves	22,000,515	18,961,517
130.	REVALUATION RESERVES	59,164,939	-
140.	REDEEMABLE SHARES	-	-
150.	EQUITY INSTRUMENTS	-	-
160.	RESERVES	291,645,043	258,268,683
170.	SHARE PREMIUM RESERVE	108,373,020	108,373,020
180.	SHARE CAPITAL	660,317,109	660,317,109
190.	TREASURY SHARES	-	-
200.	NET PROFIT FOR THE YEAR	85,178,406	77,182,553
TOTAL LIABILITIES AND EQUITY		13,633,070,848	12,127,108,365

THE GENERAL MANAGER
Mario Alberto Pedranzini

THE CHIEF ACCOUNTANT
Maurizio Bertoletti

INCOME STATEMENT

(in euro)

ITEMS	2005	2004
10. INTEREST INCOME AND SIMILAR REVENUES	428,059,204	388,791,175
20. INTEREST EXPENSE AND SIMILAR CHARGES	(180,300,858)	(158,360,002)
30. NET INTEREST INCOME	247,758,346	230,431,173
40. COMMISSION INCOME	142,257,722	126,702,771
50. COMMISSION EXPENSE	(11,834,856)	(9,272,645)
60. NET COMMISSION INCOME	130,422,866	117,430,126
70. DIVIDEND AND SIMILAR INCOME	6,182,319	4,368,721
80. NET TRADING INCOME	18,540,214	28,797,849
90. NET HEDGING GAINS (LOSSES)	184,220	-
100. GAINS/LOSSES ON DISPOSAL OR REPURCHASE OF:	7,670,429	-
a) receivables	-	-
b) available-for-sale financial assets	7,635,733	-
c) financial assets held to maturity	-	-
d) financial liabilities	34,696	-
110. NET CHANGE IN VALUE OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE	5,260,146	-
120. INCOME FROM BANKING ACTIVITIES	416,018,540	381,027,869
130. NET IMPAIRMENT ADJUSTMENTS ON:	(37,358,684)	(45,736,974)
a) receivables	(37,283,684)	(45,736,974)
b) available-for-sale financial assets	(75,000)	-
c) financial assets held to maturity	-	-
d) other financial assets	-	-
140. BALANCE OF FINANCIAL MANAGEMENT	378,659,856	335,290,895
150. ADMINISTRATIVE EXPENSES	(246,277,162)	(222,875,398)
a) personnel expenses	(130,494,028)	(122,057,482)
b) other administrative expenses	(115,783,134)	(100,817,916)
160. NET PROVISIONS FOR RISKS AND CHARGES	(6,000,000)	-
170. NET ADJUSTMENTS TO PROPERTY, PLANT AND EQUIPMENT	(8,520,354)	(8,540,796)
180. NET ADJUSTMENTS TO INTANGIBLE ASSETS	(4,007,221)	(3,049,598)
190. OTHER OPERATING CHARGES/INCOME	29,559,385	27,240,597
200. OPERATING COSTS	(235,245,352)	(207,225,195)
210. SHARE OF PROFIT (LOSS) OF EQUITY INVESTMENTS	(958,233)	497,929
220. NET GAINS (LOSSES) ARISING ON FAIR VALUE ADJUSTMENTS TO PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	-	-
230. ADJUSTMENTS TO GOODWILL	-	-
240. GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS	222,135	12,457
250. PROFIT (LOSS) FROM CURRENT OPERATIONS BEFORE TAX	142,678,406	128,576,086
260. INCOME TAXES ON CURRENT OPERATIONS	(57,500,000)	(51,393,533)
270. PROFIT (LOSS) FROM CURRENT OPERATIONS AFTER TAX	85,178,406	77,182,553
280. PROFIT (LOSS) AFTER TAX ON NON-CURRENT ASSETS HELD FOR SALE	-	-
290. NET PROFIT FOR THE YEAR	85,178,406	77,182,553



STATEMENT OF CHANGES IN EQUITY

				Allocation of prior year results	
	Opening balance at 31.12.2004	Change in opening balances	Opening balance at 1.1.2005	Reserves	Dividends and other allocations
Share capital					
a) ordinary shares	660,317	-	660,317	-	-
b) other shares	-	-	-	-	-
Share premium reserve	108,373	-	108,373	-	-
Reserves					
a) from earnings	258,269	-6,143	252,126	39,515	5
b) other	-	-	-	-	-
Revaluation reserves					
a) available for sale	-	23,156	23,156	-	-
b) cash flow hedges	-	-	-	-	-
c) other (provide details)	-	-	-	-	-
Equity instruments	-	-	-	-	-
Treasury shares	-	-	-	-	-
Net profit for the year	77,183	-	77,183	-39,515	-37,668
Equity	1,104,142	17,013	1,121,155	-	-37,663

A dividend from the results for 2004 of € 0.17 per share, totalling € 37.418 million, was paid from 17 March 2005. The directors have proposed a dividend of € 0.19 from the results for 2005. This dividend is subject to approval by the shareholders and, accordingly, has not been reported as a liability in these financial statements.

The proposed dividend is payable from 21 April 2006. The payout envisaged totals € 41.820 million.

STATEMENT OF CHANGES IN EQUITY

				Allocation of prior year results	
	Opening balance at 31.12.2003	Change in opening balances	Opening balance at 1.1.2004	Reserves	Dividends and other allocations
Share capital					
a) ordinary shares	412,698	-	412,698	-	-
b) other shares	-	-	-	-	-
Share premium reserve	135,886	-	135,886	-	-
Reserves					
a) from earnings	225,373	-4,433	220,940	37,329	-
b) other	-	-	-	-	-
Revaluation reserves					
a) available for sale	-	-	-	-	-
b) cash flow hedges	-	-	-	-	-
c) other (provide details)	-	-	-	-	-
Equity instruments	-	-	-	-	-
Treasury shares	-	-	-	-	-
Net profit for the year	60,117	-	60,117	-28,477	-31,640
Equity	834,074	-4,433	829,641	8,852	-31,640

Changes in the year

Equity transactions

Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Net profit (loss) for 2005	Equity at 31.12.2005
-	-	-	-	-	-	-	-	660,317
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	108,373
-	-	-	-	-	-	-	-	291,646
-	-	-	-	-	-	-	-	-
36,009	-	-	-	-	-	-	-	59,165
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	85,178	85,178
36,009	-	-	-	-	-	-	85,178	1,204,679

Changes in the year

Equity transactions

Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Net profit (loss) for 2004	Equity at 31.12.2004
-	247,619	-	-	-	-	-	-	660,317
-	-	-	-	-	-	-	-	-
-	-27,513	-	-	-	-	-	-	108,373
-	-	-	-	-	-	-	-	258,269
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	77,183	77,183
-	220,106	-	-	-	-	-	77,183	1,104,142

STATEMENT OF CHANGES IN FINANCIAL POSITION (Direct method)

	31-12-2005	31-12-2004
A. Operating activities		
1. Cash generated from operating profits	122,781	132,623
- interest income collected (+)	422,669	385,152
- interest charges paid (-)	-184,441	-162,016
- dividend and similar income (+)	4,907	1,919
- net commission income (+/-)	133,975	117,775
- personnel expenses (-)	-140,226	-122,057
- other costs (-)	-121,141	-112,962
- other revenues (+)	65,536	71,383
- taxes and dues (-)	-58,498	-46,571
- costs/revenues from assets held for sale, net of tax effect	-	-
2. Cash generated by reductions in financial assets	-1,506,510	-1,568,242
- financial assets held for trading	-322,651	-117,730
- financial assets at fair value	-42,541	-89,389
- available-for-sale financial assets	-8,410	-63,825
- customer loans	-1,140,990	-1,013,888
- due from other banks: sight	354,595	-91,718
- due from other banks: other receivables	-390,138	-350,963
- other assets	43,625	159,271
3. Cash generated by increases in financial liabilities	1,445,324	1,260,182
- due to banks: sight	-37,354	147,656
- due to banks: other payables	99,027	76,561
- customer deposits	1,243,250	1,096,870
- debt securities in issue	95,136	41,876
- financial liabilities held for trading	-	-
- financial liabilities at fair value	-	-
- other liabilities	45,265	-102,781
Net cash generated/absorbed by operating activities	61,595	-175,437

Key:

(+) generated (-) absorbed

	31-12-2005	31-12-2004
B. Investing activities		
1. Cash generated by:	1,497	2,475
- sale of equity investments	-	-
- dividends collected from equity investments	1,275	2,450
- sales/redemptions of financial assets held to maturity	-	-
- sale of property, plant and equipment	222	25
- sale of intangible assets	-	-
- sale of business divisions	-	-
2. Cash absorbed by:	-24,908	-18,894
- purchases of equity investments	-163	-110
- purchases of financial assets held to maturity	-	-
- purchases of property, plant and equipment	-19,113	-15,638
- purchases of intangible assets	-5,632	-3,146
- purchases of business divisions	-	-
Net cash generated/absorbed by investing activities	-23,411	-16,419
C. Financing activities		
- issues/purchases of treasury shares	-	220,106
- issues/purchases of equity instruments	-	-
- distribution of dividends and other uses	-37,418	-31,640
Net cash generated/absorbed by financing activities	-37,418	188,466
Net cash generated/absorbed in the year	766	-3,390

RECONCILIATION

Line items	31-12-2005	31-12-2004
Cash and balances with central banks at beginning of year	56,710	60,177
Total net cash generated/absorbed in the year	766	-3,390
Cash and balances with central banks: effect of change in exchange rates	210	-77
Cash and balances with central banks at end of year	57,686	56,710

NOTES TO THE FINANCIAL STATEMENTS

PART A *Accounting policies*

A.1 General information

Section 1 *Declaration of compliance with International Financial Reporting Standards*

Banca Popolare di Sondrio s.c. a r.l. declares that these financial statements have been prepared in accordance with all the international accounting standards (IAS/IFRS) adopted by the International Accounting Standards Board, and the related interpretations of the International Financial Reporting Interpretations Committee, in force at 31 December 2005 and endorsed by the European Commission pursuant to EU Regulation 1606/2002.

The adoption of these international accounting standards has taken advantage of the provisions of art. 4.2 of Decree 38 dated 28 February 2005 «Making the elections envisaged by art. 5 of the (EC) regulation concerning international accounting standards».

Section 2 *Basis of preparation*

The financial statements have been prepared in accordance with the following general criteria described in IAS 1:

- 1) Business continuity. The financial statements have been prepared on a going concern basis and, accordingly, assets, liabilities and «off balance sheet» transactions have been measured at their value in use.
- 2) Accruals basis. Costs and revenues are matched in the accounting periods to which they relate, regardless of when the related transactions are settled.
- 3) Consistency of presentation. Items are presented and classified in the same way from one year to the next, in order to ensure the comparability of information, unless change is required by an international accounting standard or related interpretation, or unless it is clear that a different presentation or classification would be more appropriate for the meaningful and reliable presentation of information. If the presentation or classification of items is changed, the comparative amounts are also reclassified, unless this is not feasible, and the nature of the reclassification is explained together with the related reasons. The format of the financial statements and the explanatory notes complies with the Bank of Italy's Instructions dated 22 December 2005.
- 4) Significance and grouping. Each significant group of similar items is shown separately in the financial statements. Items with a dissimilar nature or use are reported separately, unless they are insignificant.
- 5) Offset of balances. Assets, liabilities, costs and revenues are not offset against each other unless required or allowed by an international accounting standard or related interpretation, or unless this is specifically envisaged in the reporting formats established for banks.
- 6) Comparative information. Prior period comparative information is provided for all the data reported in the financial statements, except if a different approach is allowed by an international accounting standard or related interpretation. As allowed by IFRS 1, the comparative information has not been restated in accordance with IAS 32 and 39 concerning the recognition and measurement of financial instruments and the related

explanatory notes. Explanatory and descriptive information is included when this helps to provide a better understanding of the financial statements for the current year.

The financial statements are prepared in accordance with Italian regulations, to the extent compatible with IFRS. Accordingly, these financial statements reflect the requirements of Decree 87/92, the Italian Civil Code (c.c.) and the Finance Law for listed companies regarding the report on operations (art. 2428 c.c.), the audit (art. 2409-bis c.c.) and publication (art. 2435 c.c.).

Section 3 *Subsequent events*

No events have taken place between the reference date for these financial statements and the date of their approval by the Board of Directors on 20/3/2006 that would require the adjustment of such approved information, and nothing of significance has occurred that would require the provision of additional information.

Section 4 *Other aspects*

The adoption in the current year of IFRS and the related IFRIC interpretations has changed the way certain transactions are reported with respect to the Italian accounting standards adopted in the past.

The adoption of these standards has also involved significant changes to the formats of the balance sheet and the income statement. The principal changes are described below.

Balance sheet

Financial instruments are recognised with reference to the purpose for which they are held, rather than by type.

The equity investments caption comprises solely the interests held in subsidiary companies, associated companies and companies under joint control. Specific captions have been established for reporting the effect of measuring hedging contracts. Accruals and deferrals are classified together with the accounts to which they relate on a more extensive basis than in the past.

The items comprising shareholders' equity have been revised, with the introduction of specific reserves deriving from the application of IFRS.

Income statement

Sub-totals have been added and the profit from non-operating transactions is no longer identified separately; accordingly, the income and expenses previously reported in this last section have been reclassified by nature. Only the results from the sale of investments and those deriving from non-current assets held for sale are now reported separately. The effect of these changes in accounting policy is analysed in detail in the «First-time Adoption of IFRS» section of these explanatory notes.

A.2 Part relating to the main line items in the financial statements

1. Financial assets held for trading

Classification

This caption comprises fixed-income and variable-income securities and units in mutual funds held for trading. It also includes derivative contracts with a positive fair value, excluding

hedges but including those recorded separately from the underlying structured financial instrument, when the requirements for making this distinction are met. A derivative contract is a financial instrument whose value is linked to movements in an interest rate, the prices struck for a financial instrument, the price of a commodity, a currency exchange rate, a price index, a rate index or other type of index, is settled on maturity and requires a limited initial net investment. A derivative is separated from a complex financial instrument when its economic characteristics and risks are not strictly related to the characteristics of the underlying contract, when the embedded instruments comply with the definition of a derivative even after separation, and the hybrid instruments to which they belong are not measure at fair value through the income statement.

Recognition

Assets held for trading are recorded at the settlement date with reference to their fair value, usually represented by the consideration paid by the bank, while the transaction costs and revenues are reflected directly in the income statement.

Trading derivatives are recognised at the «contract» date and are stated at their current value at the time of acquisition.

Accounting policies

Subsequent to initial recording, trading financial instruments are stated at their fair value at the reference date. With regard to instruments listed on active markets, fair value is represented by their official price at the close of trading, while the fair value of instruments not listed on active markets is determined by reference to prices, estimates and valuation models that take account of all the related risk factors having regard for market information, for example by using methods based on the valuation of listed instruments with similar characteristics, calculations of discounted cash flows or models for the determination of option prices.

If the fair value of financial assets cannot be determined on a reliable basis, they are stated at cost.

Recognition of components affecting the income statement

The components of income generated by financial instruments held for trading are recognised in the income statement for the period in which they arise as «Net trading income».

Derecognition

Financial assets held for trading are derecognised on expiry of the contractual rights over the related financial flows or when the financial asset is sold with the transfer of essentially all the related risks and benefits of ownership.

2. Available-for-sale financial assets

Classification

This caption comprises financial assets that are not derivatives and which are not classified as Receivables, Financial assets held for trading or Assets held to maturity.

In particular, this caption includes securities not held for trading and equity interests, also not held for trading, that do not represent investments in subsidiary companies, associated companies or companies under joint control.

Recognition

The assets classified in this caption are recorded on the settlement date. Available-for-sale securities are initially recognised at their fair value, which is usually represented by the fair value of the consideration paid to acquire them, as adjusted by any directly-related transaction costs and revenues.

Aside from the exceptions allowed under IAS 39, it is not possible to transfer assets from the available-for-sale portfolio to other portfolios, or vice versa. The value recorded on any reclassification from Assets held to maturity reflects the fair value of the asset concerned at the time of transfer.

Accounting policies

Subsequent to initial recording, available-for-sale financial assets are stated at their fair value, determined on the basis described in relation to Financial assets held for trading.

Variable-yield securities whose fair value cannot be determined reliably are stated at cost.

An impairment test is performed at each reporting date to check if there is any objective evidence of a reduction in value. Impairment losses represent the difference between the book value of an asset and the present value of estimated cash flows, discounted using the original effective interest rate. Any subsequent writebacks cannot exceed the impairment losses recorded previously.

Recognition of components affecting the income statement

The interest calculated using the effective interest method, which takes account of the amortisation of transaction costs and the difference between cost and redemption value, is recorded in the income statement.

Income and charges deriving from changes in fair value are recorded in specific equity reserves, known as «Valuation reserves», until the asset is derecognised or its value is impaired; the accumulated gains or losses are released to the income statement at the time of derecognition or the recognition of impairment. If the reasons for impairment cease to apply following events subsequent to the reduction in the value of the financial asset, the writebacks relating to fixed-yield securities are reflected in the income statement, while those relating to variable-yield securities are recorded in a specific «valuation reserve» within shareholders' equity.

Derecognition

Financial assets held for trading are derecognised on expiry of the contractual rights over the related financial flows or when the financial asset is sold with the transfer of essentially all the related risks and benefits of ownership.

3. Financial assets held to maturity

The bank does not hold any financial assets with the intention of keeping them until maturity.

4. Receivables

Classification

Receivables comprise deposits with banks and loans to customers, made directly or acquired from third parties, which have fixed or determinable payments, are not listed on

an active market and were not originally classified as «Available-for-sale financial assets».

Recognition

Receivables and loans are classified in the receivables portfolio when they are paid out or acquired and cannot be transferred to other portfolios subsequently. Repurchase agreements are recorded in the financial statements as funding or lending transactions. In particular, spot sales with forward repurchases are recorded as a payable for the spot amount collected, while spot purchases with forward resales are recorded as a receivable for the spot amount paid. Changes in receivables regarding transactions not yet settled are governed by the «settlement date» principle. Loans are initially recorded at their fair value when they were paid out or acquired, which usually corresponds to the amount paid out or the current value paid to acquire them. The initially recorded value includes any transaction costs and revenues directly associated with each loan.

Accounting policies

Subsequent to initial recognition, valuations are carried out on an amortised cost basis, using the effective interest method. Amortised cost is represented by the initial value net of any repayments of principal, as uplifted or decreased by writebacks or writedowns and the amortisation of the difference between the amount paid and that recoverable on maturity. The effective interest rate is the rate using which the present value of future cash flows equals the amount of the loan granted, as adjusted by directly-related costs and revenues. The amortised cost method is not applied to short-term loans since the effect of discounting them is usually not significant: these loans are stated at historical cost. The same criterion is applied to loans without a specific repayment date and to loans repayable on demand. The effective interest rate identified initially, or when the indexation parameter for the loan is modified, is used subsequently to discount the expected cash flows, even if the loan is later restructured and changes are made to the contractual rate.

Loans are subjected to impairment testing at each reporting date to check for any loss in value due to deterioration in the solvency of borrowers.

The following categories of impaired loans are subjected to specific analysis:

- a) doubtful loans;
- b) watchlist loans;
- c) restructured loans.

Losses in the value of individual loans are represented by the extent to which their recoverable value is lower than their amortised cost. Recoverable value is defined as the present value of expected cash flows, determined with reference to the following elements:

- a) value of contractual cash flows net of any expected losses, estimated with reference to the ability of borrowers to meet their obligations and the value of any secured or personal guarantees obtained;
- b) expected timing of recoveries, considering the progress made by recovery procedures;
- c) internal rate of return.

The specific analysis of doubtful loans takes the following parameters into account:

- a) recoveries forecast by the account managers;

- b) expected timing of recoveries based on historical-statistical data;
- c) original discounting rates or the actual contractual rates applying at the time of classifying the loans as doubtful.

The specific analysis of watchlist loans takes the following parameters into account:

- a) recoveries forecast by the offices concerned;
- b) expected timing of recoveries based on historical-statistical data;
- c) historical discounting rates represented by the actual or contractual rates applying at the time the loans were added to the watchlist.

The specific analysis of restructured loans takes the following parameters into account:

- a) plans for the recovery and/or restructuring of the loans, considering the assessment made by the offices concerned;
- b) discounting rates represented by the actual or contractual interest rates applying prior to reaching agreement with the borrowers.

Loans for which there is no objective evidence of impairment, performing loans and loans that are past due/overdrawn for more than 180 days are subjected to an overall appraisal. This segments the portfolios into classes of similar borrowers, considering their ability to make repayments given the level of risk and their economic characteristics. Impairment coefficients are determined having regard for the risk parameters, estimated using historical-statistical data, and expressed as the probability of default (PD) by the customer and the extent of the loss given default (LGD). Loans to borrowers resident in nations deemed to be at risk, based on the assessment of «country risk» made by the Supervisory Authorities, are written down using the overall coefficients established from time to time.

Recognition of components affecting the income statement

The specific and overall impairment adjustments are charged to the income statement.

Any writebacks do not exceed the (specific and overall) impairment adjustments recorded previously.

Derecognition

Loans are derecognised when substantially all the related risks and benefits have been transferred and there is no control over them is retained.

5. Financial assets at fair value

The portfolio of «financial assets at fair value» comprises the securities for which the «fair value option» has been applied. The recognition, measurement and derecognition criteria applied are the same as those adopted in relation to the trading portfolio.

6. Hedging transactions

Classification

The portfolio of hedging derivatives comprises the derivative instruments used by the bank to neutralise or minimise the losses arising in relation to hedged assets and liabilities.

The hedging of market risks can take two different forms:

- a) fair value hedges of the exposure to changes in the fair value of a balance sheet item attributable to a specific risk;
- b) cash flow hedges of the exposure to changes in future cash flows attributable to specific risks associated with balance sheet items.

A transaction can be recorded as a «hedge» if it satisfies the following conditions: a) the hedging relationship must be formally documented; b) the hedge must be effective at its inception and prospectively throughout its life. Effectiveness is tested using specific techniques and exists when the changes in the fair value (or cash flows) of the hedging instrument almost entirely offset the related changes in the hedged instrument (the results of the test fall into the 80% - 125% interval). The effectiveness of the hedge is assessed at each interim reporting date and at year end. If the test reveals that the hedge is not sufficiently effective, the instrument is reclassified to the trading portfolio.

Hedging instruments are recorded using the «contract date» method.

Measurement and recognition of components affecting the income statement

Fair value hedges are measured and recorded on the following basis:

- 1) hedging instruments are stated at their fair value; the fair value of instruments listed on active (efficient) markets is represented by their closing market price, while the fair value of instruments not listed on active markets corresponds to the present value of expected cash flows, which are determined having regard for the different risk profiles of the instruments subject to measurement. The resulting gains and losses are recorded in the «Net hedging gains (losses)» caption of the income statement;
- 2) hedged positions are stated at their fair value and any gains or losses attributable to the hedged risk are also recorded in the «Net hedging gains (losses)» caption of the income statement to match the change in the carrying value of the hedged item.

With regard to interest-earning financial instruments, if the hedge ceases to satisfy the recognition criteria, the difference between the carrying value of the hedged item at the time the hedge ceases and its carrying value had the hedge never existed is amortised to the income statement over the residual life of the original hedge; if the financial instruments concerned do not earn interest, this difference is recorded in the income statement immediately.

Cash flow hedges are measured and recorded on the following basis:

- 1) derivative instruments are stated at their fair value. The gains and losses deriving from the effective part of the hedge are recorded among the «Valuation reserves» within shareholders' equity and released to the income statement when the hedged change in cash flows takes place;
- 2) The hedged item continues to be valued on the basis applicable to the category concerned.

Derecognition

Risk hedges cease to generate accounting effects when they expire, when they are closed out of terminated early, or when they cease to satisfy the recognition criteria.

7. Equity investments

The portfolio of equity investments comprises the holdings in subsidiary companies, associated companies and companies under joint control. A company is an associated company if the bank exercises significant influence over its activities or, in any case, hold 20% or more of the voting rights.

Equity investments are initially recorded at cost on the settlement date. Investments in unlisted companies are subsequently valued at cost, determined with reference to the purchase or subscription price paid, or at the value indicated in the latest approved financial statements. Cost is written down to reflect any permanent losses in value, when the companies concerned are not expected to generate sufficient profits in the immediate future to absorb such losses. Equity investments in listed companies are valued at the lower of purchase or subscription cost or market value, defined as the average quoted price in the second half of the year. Equity investments are derecognised when the financial asset is sold together with the transfer of all the risks and benefits of ownership.

The original value is restored in subsequent years if the reasons for any write-downs cease to apply.

Dividends are accounted for in the year they are collected.

8. Property, plant and equipment

Classification

This caption includes buildings, land, installations, furniture, equipment, furnishings and machinery.

As required by IAS 17, assets held under finance leases are also classified in this caption.

Recognition

Property, plant and equipment are initially recorded at cost, including all expenses directly related to the asset's installation prior to being brought into service. Expenditure on improvements that will generate future economic benefits is added to the value of the assets concerned, while routine maintenance costs are charged to the income statement.

Measurement and recognition of components affecting the income statement

Following initial recognition, property, plant and equipment are stated at cost net of accumulated depreciation and any permanent impairment of value. Depreciation is provided on a systematic basis over the useful lives of the various categories of asset. The total book value of property has been split, based on specific appraisals, between the value of buildings and that of the related land, which is not depreciated since it has an unlimited life. Tangible assets are subjected to impairment testing at year end, or at interim reporting dates if there is evidence of a possible loss of value, and any impairment of their carrying value with respect to their recoverable value is charged to the income statement. Recoverable amount is defined as the asset's fair value, less any selling costs, or, if greater, its value in use as represented by the present value of future cash flows generated by the asset; subsequent writebacks do not exceed the impairment losses recorded previously.

Derecognition

Property, plant and equipment are derecognised on disposal or when their economic lives are over and they are not expected to generate any further economic benefits.

9. Intangible assets

Classification

This caption comprises identifiable, intangible, non-monetary assets that will benefit future years, principally represented by software user licences. Leasehold improvements deriving from the restructuring of rented branch premises are no longer capitalised as intangible assets; the amounts capitalised in prior years have been eliminated by a charge against shareholders' equity.

Recognition

Intangible assets are recorded at purchase cost, as adjusted for any related charges, only if it is probable that the future economic benefits attributable to them will be realised and their cost can be measured reliably. In the absence of these conditions, the cost of the intangible asset is expensed in the period incurred; any costs incurred subsequently are only capitalised if they increase the value of or the economic benefits expected from the assets concerned.

Accounting policies

Subsequent to initial recognition, intangible assets are stated at cost, net of accumulated amortisation and any impairment in value.

Amortisation is provided on a systematic, straight-line basis over the expected useful lives of the intangible assets concerned.

If there is evidence of impairment at the reporting date, the asset's recoverable amount is estimated: the impairment loss, being the difference between the carrying value and the recoverable amount, is charged to the income statement.

Recognition of components affecting the income statement

Periodic amortisation, impairment losses and writebacks are recorded in the «net adjustments to intangible assets» caption of the income statement.

Derecognition

Intangible assets are derecognised when they are not expected to generate any further economic benefits.

10. Severance indemnities

Severance indemnities are treated as a defined-benefit plan or a defined-benefit obligation. Accordingly, pursuant to IAS 19, the value of this obligation is determined by extrapolating the current liability, using actuarial assumptions, in order to estimate the amount that will be paid upon termination of the employment relationship and determine

the present value of this amount. The actuarial calculations are performed using the projected unit credit method, under which each year of service originates an additional unit of indemnity that is used to calculate the final obligation. This calculation is performed by forecasting future payments with reference to historical-statistical analyses and the demographic curve, and discounting them using a market interest rate. The actuarial analysis is carried out each year by an independent actuary. In compliance with Law 335/95, employees hired since 28 April 1993 may allocate part of their severance indemnities to a supplementary pension fund established pursuant to current in-house agreements. The actuarial gains and losses arising from adjustments to the actuarial estimates are recorded in the income statement with reference to the estimated residual period of service of employees.

11. Current and deferred taxation

Tax receivables and payables are reported in the balance sheet as «Tax assets» and «Tax liabilities». Current taxes include advance payments (current assets) and amounts due (current liabilities) in relation to income taxes for the year. Tax liabilities are determined by applying the current tax rates and regulations. Tax assets and liabilities also include a reasonable estimate of the risks deriving from outstanding tax disputes.

Taxable or deductible timing differences give rise to the recognition of deferred tax assets and liabilities. No deferred taxes are provided in relation to higher asset values or reserves subject to the deferral of taxation since, at present, the conditions for the payment of such taxation in future do not apply. Deferred tax assets are recognised using the liability method, only if their recovery in future years is reasonably certain

Tax assets and liabilities are usually recorded with matching entries to the income statement, except when they derive from transactions whose effects are attributed directly to shareholders' equity; in this case, the matching entries are also recorded within shareholders' equity.

12. Provisions for risks and charges

This caption comprises the following provisions:

- a) Post retirement benefits. This is classified as an «internal» pension fund and represents a defined-benefit obligation. This fund is also valued using actuarial estimates and is stated at its present value with support from an independent actuary. The bank has not adopted the «corridor» method allowed by IAS 19, which ignores actuarial gains/losses when the change with respect to the prior year is less than 10%. Accordingly, total fund assets reflect the total accrued liability. The bank is responsible for any unfunded liabilities.
- b) Other provisions. This caption comprises the provisions recorded for liabilities whose timing and extent cannot be determined, when the following conditions are met:
 - 1) the bank has a current obligation (legal or implicit) at the reporting date, as a result of a past event;
 - 2) it is likely that settlement of the obligation will involve the use of economic resources;
 - 3) a reliable estimate can be made of the amount necessary to settle the obligation.

These provisions are stated at their present value if recognition of the time value of money has a significant effect (settlements to be made more than 12 months after the date of recognition).

13. Payables and debt securities in issue

Classification

Amounts due to customers and banks and debt securities in issue comprise the financial instruments (other than trading instruments) that represent the normal funding of the bank's activities by customers and other banks, or by the issue of securities. This caption also includes the liability deriving from finance lease transactions.

Recognition

These financial liabilities are recorded using the settlement date method. They are initially recognised at their fair value, which is usually represented by the amount collected by the bank. The amount initially recorded includes any transaction costs and revenues that are directly related to each liability; this amount does not include the charges made to creditors in order to recover administrative costs. The elements of structured funding, comprising a host instrument and one or more embedded derivatives, are split and recorded separately from the related implicit derivatives, on condition that the economic characteristics and risks of the embedded derivatives are substantially different to those of the host instrument and that the derivatives can be configured as autonomous derivative contracts.

Accounting policies

Subsequent to initial recognition, financial liabilities are measured at amortised cost, using the effective interest method. Short-term liabilities are stated at the amount collected.

Liabilities covered by effective hedges are valued in accordance with the regulations applying to such transactions.

Derecognition

Financial liabilities are derecognised when they expire or are settled.

Funding liabilities that are subsequently repurchased by the bank are eliminated from the financial statements.

Gains and losses on the repurchase of liabilities are recorded in the income statement.

14. Financial liabilities held for trading

This caption comprises derivative instruments with a negative fair value, except for hedging derivatives. The total also includes the negative value of derivatives separated from their underlying structured financial instruments, when the conditions for such separation apply. The criteria for classification, cancellation, measurement and recognition of components affecting the income statement are the same as those described in relation to assets held for trading.

15. Financial liabilities at fair value

The financial statements do not include any financial liabilities at fair value.

16. Currency transactions

Recognition

Assets and liabilities denominated in currencies other than the euro are recognised initially using the spot exchange rates applying on the transaction dates.

Accounting policies

On the reporting date, monetary assets and liabilities denominated in foreign currencies are translated using the spot exchange rates at that time. Non-current financial assets denominated in foreign currencies are translated using the exchange rates ruling at the time of purchase.

Recognition of components affecting the income statement

Exchange differences deriving from the settlement of monetary items or from the translation of monetary items using rates other than the initial translation rate, or the closing rate at the end of prior periods, are recorded in the income statement for the period.

17. Other information

All assets sold have been eliminated from the financial statements. The bank has not established any stock option plans.

Revenues are recorded as received or when collection becomes likely and a reasonable estimate can be made of the amount to be received. In particular, the default interest accrued on doubtful accounts is only credited to the income statement upon collection. Dividends are recorded upon collection.

Any own shares held are deducted from shareholders' equity. Any gains or losses from transactions in own shares are also reflected in shareholders' equity.

FIRST-TIME ADOPTION OF IFRS

As required by IFRS 1, the first-time adoption of IFRS has involved the redetermination of the «opening balances» for the assets and liabilities outstanding at the IFRS transition date. In accordance with IFRS 1, which governs the transition to the new standards, the net difference between the value of the previously-recorded assets and liabilities, determined under Italian accounting standards, and the IFRS amounts redetermined at 1 January 2005, € 17.013 million, has been classified as an equity reserve.

The IFRS transition date was 1.1.2004 for all balances other than those relating to the financial instruments governed by IAS 32 and 39, for which the transition date was 1.1.2005. Accordingly, the comparative information for items stated in accordance with IAS 32 and 39 is not presented on a consistent basis.

The comparative information has been reclassified and reconciled with the new accounting standards, excluding IAS 32 and 39 which have only been applied from 1.1.2005.

The 2004 financial statements prepared in accordance with Decree 87/92 are reconciled on the following pages with the formats adopted on the application of IFRS. These schedules are presented together with notes on the principal differences and the opening IFRS balance sheet at 1 January 2005.

Reconciliation of the balance sheet at 31.12.2004

	Italian accounting standards	Effects of transition to IFRS	Adoption of IFRS
ASSETS			
10. Cash and cash equivalents	56,710,041	-	56,710,041
20. Financial assets held for trading	1,992,420,375	92,050,637	2,084,471,012
30. Financial assets at fair value	89,389,133	395,987	89,785,120
40. Available-for-sale financial assets	73,126,431	16,229	73,142,660
50. Financial assets held to maturity	-	-	-
60. Due from other banks	1,251,837,665	818,138	1,252,655,803
70. Due from customers	8,078,424,234	22,431,512	8,100,855,746
80. Hedging derivatives	-	-	-
90. Change in value of financial assets part of a macrohedge	-	-	-
100. Equity investments	85,956,620	-	85,956,620
110. Property, plant and equipment	74,898,307	41,658,759	116,557,066
120. Intangible assets of which: - goodwill	13,181,525 -	-9,993,331 -	3,188,194 -
130. Tax assets	48,919,996	-34,673,386	14,246,610
a) current	40,993,584	-40,993,584	-
b) deferred	7,926,412	6,320,198	14,246,610
140. Non-current assets and disposal groups held for sale	-	-	-
150. Other assets:	365,734,740	-116,195,247	249,539,493
Total assets	12,130,599,067	-3,490,702	12,127,108,365



		Italian accounting standards	Effects of transition to IFRS	Adoption of IFRS
LIABILITIES AND EQUITY				
10. Due to other banks		1,175,892,562	27,463,798	1,203,356,360
20. Due to customers		8,351,536,098	2,919,860	8,354,455,958
30. Securities issued		971,052,543	4,172,237	975,224,780
40. Financial liabilities held for trading		-	78,757,470	78,757,470
50. Financial liabilities at fair value		-	-	-
60. Hedging derivatives		-	-	-
70. Change in value of financial liabilities part of a macrohedge		-	-	-
80. Tax liabilities		54,013,031	-32,102,171	21,910,860
a) current	46,571,110		-40,993,584	5,577,526
b) deferred	7,441,921		8,891,413	16,333,334
90. Liabilities related to discontinued operations		-	-	-
100. Other liabilities		350,424,236	-84,125,419	266,298,817
110. Severance indemnities		41,080,752	-2,809,709	38,271,043
120. Provisions for risks and charges:		81,997,298	2,694,414	84,691,712
a) post retirement benefits	57,035,781		8,694,414	65,730,195
b) other provisions	24,961,517		-6,000,000	18,961,517
130. Valuation reserves		-	-	-
140. Redeemable shares		-	-	-
150. Capital instruments		-	-	-
160. Reserves		262,701,862	-4,433,179	258,268,683
170. Share premium reserve		108,373,020	-	108,373,020
180. Share capital		660,317,109	-	660,317,109
190. Own shares		-	-	-
200. Net profit for the year		73,210,556	3,971,997	77,182,553
Total liabilities and equity		12,130,599,067	-3,490,702	12,127,108,365

The principal changes with respect to the classification criteria envisaged in Decree 87/92 are described below:

Balance sheet:

Assets

Caption 20 «Financial assets held for trading» now includes the income accrued in relation to securities and the effect of valuing derivative products.

Caption 70 «Due from customers» now includes the accruals and deferrals relating to loans made to customers.

Caption 110 «Property, plant and equipment» has increased due to the inclusion of buildings held under finance leases and the recalculation of the depreciation accumulated on owned buildings.

Caption 120 «Intangible assets» has decreased due to the elimination of «deferred charges» comprising the cost of restructuring leased buildings used as bank branches.

Caption 130 «Tax assets» has decreased following the offset of advances paid against the related liabilities.

Caption 150 «Other assets» has decreased due to the classification of accrued income and the effect of valuing derivatives together with the accounts concerned.

Liabilities and equity

Caption 10 «Due to banks» has increased following recognition of the liability for buildings held under finance lease arrangements.

Caption 20 «Due to customers» has increased following the reclassification of the related accruals.

Caption 30 «Securities issued» has also increased due to the reclassification of accruals.

Caption 40 «Financial liabilities held for trading» now includes the effect of valuing derivative products.

Caption 80 «Tax liabilities» has decreased following the offset of advances paid.

Caption 100 «Other liabilities» has decreased due to the classification of accruals and deferred and the effect of valuing derivatives together with the accounts concerned.

Caption 110 «severance indemnities» has decreased due to the effect of applying the new standards.

Caption 120 «provisions for risks and charges» has increased due to the funding of post-retirement benefits and decreased as a result of discounting the provision for legal claims.

Caption 160 «Reserves» has decreased due to the adjustments recorded on the first-time adoption of IFRS.

Reconciliation of the 2004 income statement

INCOME STATEMENT

10. Interest income and similar revenues
20. Interest expense and similar charges
30. Net interest income
40. Commission income
50. Commission expense
60. Net commission income
70. Dividends and similar income
80. Net trading income
90. Net hedging gains (losses)
100. Profit (loss) from sale or repurchase of:
a) receivables
b) available-for-sale financial assets
c) financial assets held to maturity
d) financial liabilities
110. Net change in value of financial assets and liabilities at fair value
120. Income from banking activities
130. Net value impairment adjustments on:
a) receivables
b) available-for-sale financial assets
c) financial assets held to maturity
d) other financial transactions
140. Balance of financial management
150. Administrative expenses:
a) personnel expenses
b) other administrative expenses
160. Net provisions for risks and charges
170. Net adjustments to property, plant and equipment
180. Net adjustments to intangible assets
190. Other operating income/expense
200. Operating costs
210. Share of profit (loss) of equity investments
220. Net gains (losses) arising on fair value adjustments to property, plant and equipment and intangible assets
230. Adjustments to goodwill
240. Profit (loss) from disposal of investments
250. Profit (loss) on current operations before income taxes
260. Income taxes on current operations
270. Profit (loss) on current operations after income taxes
280. Profit (loss) after tax on non-current assets held for sale
290. Net profit for the year

The positive effect of adopting IFRS on net profit for 2004 was € 3.972 million, as described below.

Caption 20 «Interest expense and similar charges» has increased due to reclassification of the interest element of finance lease charges.

Caption 150 «Administrative expenses» has decreased due to a reduction in personnel expenses and leasing charges, as partly offset by the leasehold restructuring charges incurred during the year that were capitalised under Italian accounting standards.

Caption 170 «Net adjustments to property, plant and equipment» has decreased slightly

	Italian accounting standards	Effects of transition to IFRS	Adoption of IFRS
	388,791,175	-	388,791,175
	-157,889,598	-470,404	-158,360,002
	230,901,577	-470,404	230,431,173
	119,007,359	7,695,412	126,702,771
	-9,272,645	-	-9,272,645
	109,734,714	7,695,412	117,430,126
	4,368,721	-	4,368,721
	28,797,849	-	28,797,849
	-	-	-
	-	-	-
	-	-	-
	-	-	-
	-	-	-
	373,802,861	7,225,008	381,027,869
	-45,736,974	-	-45,736,974
-45,736,974	-	-	-45,736,974
	-	-	-
	-	-	-
	328,065,887	7,225,008	335,290,895
	-224,947,690	2,072,292	-222,875,398
-125,307,865	3,250,382	-122,057,483	
-99,639,825	-1,178,090	-100,817,915	
	-	-	-
	-8,699,903	159,107	-8,540,796
	-7,654,133	4,604,535	-3,049,598
	34,936,009	-7,695,412	27,240,597
	-206,365,717	-859,478	-207,225,195
	497,929	-	497,929
	-	-	-
	-	-	-
	12,457	-	12,457
	122,210,556	6,365,530	128,576,086
	-49,000,000	-2,393,533	-51,393,533
	73,210,556	3,971,997	77,182,553
	-	-	-
	73,210,556	3,971,997	77,182,553

due to the change in the way depreciation is calculated and to the depreciation of buildings held under finance leases.

Caption 180 «Net adjustments to intangible assets» has decreased due to the elimination of «deferred charges», comprising the costs of restructuring leased banking premises that were capitalised under Italian accounting standards, but which are expensed as incurred under IFRS.

Caption 260 «Income taxes on current operations» has increased due to the deferred tax effects of the adjustments made.

Reconciliation of the opening balance sheet at 1 January 2005

	Italian accounting standards
ASSETS	
10. Cash and cash equivalents	56,710,041
20. Financial assets held for trading	1,992,420,375
30. Financial assets at fair value	89,389,133
40. Available-for-sale financial assets	73,126,431
50. Financial assets held to maturity	-
60. Due from other banks	1,251,837,665
70. Due from customers	8,078,424,234
80. Hedging derivatives	-
90. Change in value of financial assets part of a macrohedge	-
100. Equity investments	85,956,620
110. Property, plant and equipment	74,898,307
120. Intangible assets of which: - goodwill	13,181,525 -
130. Tax assets	48,919,996
a) current	40,993,584
b) deferred	7,926,412
140. Non-current assets and disposal groups held for sale	-
150. Other assets	365,734,740
Total assets	12,130,599,067

	Italian accounting standards
LIABILITIES AND EQUITY	
10. Due to other banks	1,175,892,562
20. Due to customers	8,351,536,098
30. Securities issued	971,052,543
40. Financial liabilities held for trading	-
50. Financial liabilities at fair value	-
60. Hedging derivatives	-
70. Change in value of financial liabilities part of a macrohedge	-
80. Tax liabilities	54,013,031
a) current	46,571,110
b) deferred	7,441,921
90. Liabilities related to discontinued operations	-
100. Other liabilities	350,424,236
110. Severance indemnities	41,080,752
120. Provisions for risks and charges:	81,997,298
a) post retirement benefits	57,035,781
b) other provisions	24,961,517
130. Valuation reserves	-
140. Redeemable shares	-
150. Capital instruments	-
160. Reserves	262,701,862
170. Share premium reserve	108,373,020
180. Share capital	660,317,109
190. Own shares	-
200. Net profit for the year	73,210,556
Total liabilities and equity	12,130,599,067

	IFRS at 31/12/2004	Effect of applying IAS 32/39	IFRS at 1/1/2005
	56,710,041	-	56,710,041
	2,084,471,012	-349,382	2,084,121,630
	89,785,120		89,785,120
	73,142,660	23,156,125	96,298,785
	-	-	-
	1,252,655,803		1,252,655,803
	8,100,855,746	- 6,143,085	8,094,712,661
	-	1,436,506	1,436,506
	-	-	-
	85,956,620	-	85,956,620
	116,557,066	-	116,557,066
	3,188,194	-	3,188,194
	-	-	-
	14,246,610	-	14,246,610
	-	-	-
14,246,610	-	-	14,246,610
	-	-	-
	249,539,493	-	249,539,493
	12,127,108,365	18,100,164	12,145,208,529

	IFRS at 31/12/2004	Effect of applying IAS 32/39	IFRS at 1/1/2005
	1,203,356,360	-	1,203,356,360
	8,354,455,958	-	8,354,455,958
	975,224,780	-778,665	974,446,115
	78,757,470	1,865,789	80,623,259
	-		
	-		
	-		
	21,910,860	-	21,910,860
5,577,526		-	5,577,526
16,333,334		-	16,333,334
	-		
	266,298,817	-	266,298,817
	38,271,043	-	38,271,043
	84,691,712	-	84,691,712
65,730,195		-	65,730,195
18,961,517		-	18,961,517
	-	-	-
	-	-	-
	-	-	-
	258,268,683	17,013,040	275,281,723
	108,373,020	-	108,373,020
	660,317,109	-	660,317,109
	-	-	-
	77,182,553	-	77,182,553
	12,127,108,365	18,100,164	12,145,208,529

Reconciliation of shareholders' equity under Italian accounting standards with the IFRS amounts on the transition date (1.1.2004), 31.12.2004 and 1.1.2005

<i>(amounts in thousands of euro)</i>	Equity at 01/01/2004	Net profit for 2004	Equity at 31/12/2004	Equity at 01/01/2005
Financial statements under Italian accounting standards	834,074	73,211	1,104,603	1,104,603
Adjustments				
a) Valuation of receivables (IAS 39)	-	-	-	-6,143
b) Buildings held under finance leases (IAS 17)	2,150	1,352	3,502	3,502
c) Owned buildings (IAS 16)	12,759	727	13,486	13,486
d) Securities and equity investments (IAS 39)	-	-	-	23,156
e) Intangible assets (IAS 38)	-11,029	1,036	-9,993	-9,993
f) Severance indemnities (IAS 19)	3,023	-213	2,810	2,810
g) Post-retirement benefits	-12,158	3,463	-8,695	-8,695
h) Provisions for risks and charges (IAS 37)	1,000		1,000	1,000
i) Tax effect of adjustments	-178	-2,393	-2,571	-2,571
Financial statements under IFRS	829,641	77,183	1,104,142	1,121,155

PART B *Information on the balance sheet*

Section 1 *Cash and cash equivalents - line item 10*

1.1 Cash and balances with central banks: analysis

	31/12/2005	31/12/2004
a) Cash	57,686	56,710
b) Unrestricted deposits with central banks	-	-
Total	57,686	56,710

Section 2 *Financial assets held for trading - line item 20*

2.1 Financial assets held for trading: breakdown by sector

Items/Amounts	31/12/2005		31/12/2004	
	Listed	Unlisted	Listed	Unlisted
A. Cash assets				
1. Fixed-yield securities	1,785,381	446,678	1,555,386	361,620
1.1 Structured securities	-	122	447	122
1.2 Other fixed-yield securities	1,785,381	446,556	1,554,939	361,498
2. Variable-yield securities	34,613	1,221	31,903	980
3. Mutual funds	1,235	59,983	664	52,452
4. Loans	-	-	-	-
4.1 Repurchase agreements	-	-	-	-
4.2 Other	-	-	-	-
5. Impaired loans	-	-	-	-
6. Assets sold but not eliminated from the balance sheet	-	-	-	-
Total A	1,821,229	507,882	1,587,953	415,052
B. Derivatives	18	47,147	108	81,359
1. Financial derivatives	18	47,147	108	81,359
1.1 for trading	18	47,147	108	81,359
1.2 connected with the fair value option	-	-	-	-
1.3 other	-	-	-	-
2. Credit derivatives	-	-	-	-
2.1 for trading	-	-	-	-
2.2 connected with the fair value option	-	-	-	-
2.3 other	-	-	-	-
Total B	18	47,147	108	81,359
Total (A+B)	1,821,247	555,029	1,588,061	496,411

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

Items/Amounts	31/12/2005	31/12/2004
A. Cash assets		
1. Fixed-yield securities	2,232,059	1,917,005
a) Governments and central banks	1,780,590	1,552,813
b) Other public entities	-	-
c) Banks	191,942	126,858
d) Other issuers	259,527	237,334
2. Variable-yield securities	35,834	32,884
a) Banks	13,200	12,018
b) Other issuers:	22,634	20,866
- insurance companies	5,068	2,814
- financial companies	1,406	2,157
- non-financial companies	16,160	15,895
- other	-	-
3. Mutual funds	61,218	53,116
4. Loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
5. Impaired loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
6. Assets sold but not eliminated from the balance sheet	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total A	2,329,111	2,003,005
B. Derivatives		
a) Banks	16,041	29,962
b) Customers	31,124	51,505
Total B	47,165	81,467
Total (A+B)	2,376,276	2,084,472

2.3 Financial assets held for trading: derivatives

Type of derivatives/ underlying assets	Interest rates	Currency and gold	Variable-yield securities	Loans	Other	Total 31/12/2005	Total 31/12/2004
A) Listed derivatives							
1. Financial derivatives:	-	-	18	-	-	18	108
With exchange of capital	-	-	18	-	-	18	108
- options purchased	-	-	-	-	-	-	-
- other derivatives	-	-	18	-	-	18	108
Without exchange of capital	-	-	-	-	-	-	-
- options purchased	-	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	-	-
With exchange of capital	-	-	-	-	-	-	-
Without exchange of capital	-	-	-	-	-	-	-
Total A	-	-	18	-	-	18	108
B) Unlisted derivatives							
1. Financial derivatives:	13,626	26,775	3,317	-	3,429	47,147	81,359
With exchange of capital	-	26,775	-	-	-	26,775	67,765
- options purchased	-	5,178	-	-	-	5,178	2,335
- other derivatives	-	21,597	-	-	-	21,597	65,430
Without exchange of capital	13,626	-	3,317	-	3,429	20,372	13,594
- options purchased	124	-	3,317	-	1,066	4,507	1,365
- other derivatives	13,502	-	-	-	2,363	15,865	12,229
2. Credit derivatives:	-	-	-	-	-	-	-
With exchange of capital	-	-	-	-	-	-	-
Without exchange of capital	-	-	-	-	-	-	-
Total B	13,626	26,775	3,317	-	3,429	47,147	81,359
Total (A+B)	13,626	26,775	3,335	-	3,429	47,165	81,467

2.4 Financial assets held for trading, other than those sold but not eliminated and impaired assets: change in year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	Total 31/12/2005
A. Opening balance	1,917,005	32,883	53,116	-	2,003,004
B. Increases	9,933,856	46,785	90,441	-	10,071,082
B.1 Purchases	9,876,093	41,231	86,768	-	10,004,092
B.2 Positive changes in fair value	411	2,867	1,883	-	5,161
B.3 Other changes	57,352	2,687	1,790	-	61,829
C. Decreases	9,618,801	43,834	82,340	-	9,744,975
B.1 Sales	9,526,584	42,633	82,011	-	9,651,228
B.2 Reimbursements	35,317	-	-	-	35,317
B.3 Negative changes in fair value	6,580	1,053	268	-	7,901
B.4 Other changes	50,320	148	61	-	50,529
D. Closing balance	2,232,060	35,834	61,217	-	2,329,111

Section 3 *Financial assets at fair value - line item 30*

3.1 Financial assets at fair value: breakdown by sector

Items/Amounts	31/12/2005		31/12/2004	
	Listed	Unlisted	Listed	Unlisted
1. Fixed-yield securities	70,515	8,007	46,059	-
1.1 Structured securities	-	-	-	-
1.2 Other fixed-yield securities	70,515	8,007	46,059	-
2. Variable-yield securities	-	-	-	-
3. Mutual funds	2,280	56,973	7,428	36,298
4. Loans	-	-	-	-
4.1 Structured loans	-	-	-	-
4.2 Other	-	-	-	-
5. Impaired loans	-	-	-	-
6. Assets sold but not eliminated from the balance sheet	-	-	-	-
Total	72,795	64,980	53,487	36,298
Cost	73,104	59,416	52,799	34,742

3.2 Financial assets at fair value: breakdown by debtor/issuer

Items/Amounts	31/12/2005	31/12/2004
1. Fixed-yield securities	78,522	46,059
a) Governments and central banks	70,515	46,059
b) Other public entities	-	-
c) Banks	8,007	-
d) Other issuers	-	-
2. Variable-yield securities	-	-
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3. Mutual funds	59,253	43,726
4. Loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
5. Impaired loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
6. Assets sold but not eliminated from the balance sheet	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total	137,775	89,785

3.3 Assets at fair value, other than those sold and not eliminated and impaired assets: change in year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	Total 31/12/2005
A. Opening balance	46,059	-	43,726	-	89,785
B. Increases	39,665	-	15,569	-	55,234
B1. Purchases	38,374	-	10,000	-	48,374
B2. Positive changes in fair value	-	-	5,564	-	5,564
B3. Other changes	1,291	-	5	-	1,296
C. Decreases	7,202	-	42	-	7,244
C1. Sales	5,541	-	-	-	5,541
C2. Reimbursements	-	-	-	-	-
C3. Negative changes in fair value	267	-	42	-	309
C4. Other changes	1,394	-	-	-	1,394
D. Closing balance	78,522	-	59,253	-	137,775

Section 4 Available-for-sale financial assets - line item 40

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

Items/Amounts	31/12/2005		31/12/2004	
	Listed	Unlisted	Listed	Unlisted
1. Fixed-yield securities	-	10,756	-	10,668
1.1 Structured securities	-	-	-	-
1.2 Other fixed-yield securities	-	10,756	-	10,668
2. Variable-yield securities	98,026	24,490	11,429	45,731
2.1 Carried at fair value	98,026	2,876	11,429	-
2.2 Carried at cost	-	21,614	-	45,731
3. Mutual funds	-	7,520	-	5,314
4. Loans	-	-	-	-
5. Impaired loans	-	-	-	-
6. Assets sold but not eliminated from the balance sheet	-	-	-	-
Total	98,026	42,766	11,429	61,713

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

Items/Amounts	31/12/2005	31/12/2004
1. Fixed-yield securities	10,756	10,668
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	10,756	10,668
2. Variable-yield securities	122,516	57,160
a) Banks	93,710	25,061
b) Other issuers:	28,806	32,099
- insurance companies	3,224	2,320
- financial companies	8,060	17,124
- non-financial companies	17,522	12,655
- other	-	-
3. Mutual funds	7,520	5,314
4. Loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
5. Impaired loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
6. Assets sold but not eliminated from the balance sheet	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total	140,792	73,142

4.5 Available-for-sale financial assets, other than those sold and not eliminated and impaired assets: change in year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	Total 31/12/2005
A. Opening balance	10,668	57,160	5,314	-	73,142
B. Increases	398	89,968	2,779	-	93,145
B1. Purchases	-	7,341	2,322	-	9,663
B2. Positive changes in FV	-	44,212	457	-	44,669
B3. Write-backs	-	-	-	-	-
- booked to income statement	-	-	-	-	-
- booked to shareholders' equity	-	-	-	-	-
B4. Transfers to other asset portfolios	-	-	-	-	-
B5. Other changes	398	38,415	-	-	38,813
C. Decreases	310	24,612	573	-	25,495
C1. Sales	-	8,902	-	-	8,902
C2. Reimbursements	-	-	-	-	-
C3. Negative changes in FV	-	1,753	573	-	2,326
C4. Impairment write-downs	75	-	-	-	75
- booked to income statement	75	-	-	-	75
- booked to shareholders' equity	-	-	-	-	-
C5. Transfers to other asset portfolios	-	-	-	-	-
C6. Other changes	235	13,957	-	-	14,192
D. Closing balance	10,756	122,516	7,520	-	140,792

Section 6 Due from other banks - line item 60

6.1 Loans and advances to banks: breakdown by sector

Type of transaction/Amounts	31/12/2005	31/12/2004
A. Deposits with central banks	293,927	158,228
1. Time deposits	-	-
2. Compulsory reserve	293,927	158,228
3. Repurchase agreements	-	-
4. Other	-	-
B. Due from other banks	995,247	1,094,428
1. Current accounts and sight deposits	171,619	530,379
2. Time deposits	783,007	442,311
3. Other loans	40,621	121,738
3.1 Repurchase agreements	40,159	121,643
3.2 Finance leases	-	-
3.3 Other	462	95
4. Fixed-yield securities	-	-
4.1 Structured securities	-	-
4.2 Other fixed-yield securities	-	-
5. Impaired loans	-	-
6. Assets sold but not eliminated from the balance sheet	-	-
Total (book value)	1,289,174	1,252,656
Total (fair value)	1,289,174	1,252,656

Section 7 *Due from customers - line item 70*

7.1 Due from customers: breakdown by sector

Type of transaction/Amounts	31/12/2005	31/12/2004
1. Current accounts	3,104,756	3,016,107
2. Repurchase agreements	-	-
3. Mortgage loans	3,476,587	3,005,553
4. Credit cards, personal loans and assignments of one-fifth of salary	69,973	68,412
5. Finance leases	-	-
6. Factoring	-	-
7. Other transactions	2,231,991	1,844,642
8. Fixed-yield securities	-	-
8.1 Structured loans	-	-
8.2 Other fixed-yield securities	-	-
9. Impaired loans	314,543	166,142
10. Assets sold but not eliminated from the balance sheet	-	-
Total (book value)	9,197,850	8,100,856
Total (fair value)	9,255,942	-

7.2 Loans and advances to customers: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2005	31/12/2004
1. Fixed-yield securities:		
a) Governments	-	-
b) Other public entities	-	-
c) Other issuers	-	-
- non-financial companies	-	-
- financial companies	-	-
- insurance companies	-	-
- other	-	-
2. Loans to:		
a) Governments	-	-
b) Other public entities	131,265	57,492
c) Other issuers	8,752,041	7,877,222
- non-financial companies	6,163,655	5,791,421
- financial companies	679,105	404,107
- insurance companies	10,045	-
- other	1,899,236	1,681,694
3. Impaired loans:		
a) Governments	-	-
b) Other public entities	-	-
c) Other issuers	314,544	166,142
- non-financial companies	226,742	124,754
- financial companies	8,934	8,954
- insurance companies	-	-
- other	78,868	32,434
4. Assets sold but not eliminated from the balance sheet:		
a) Governments	-	-
b) Other public entities	-	-
c) Other issuers	-	-
- non-financial companies	-	-
- financial companies	-	-
- insurance companies	-	-
- other	-	-
Total	9,197,850	8,100,856

Section 8 Hedging derivatives - line item 80

8.1 Hedging derivatives: breakdown by type of contract and underlying asset

Type of derivative/underlying asset	Interest rates	Currency and gold	Variable-yield securities	Loans	Other	Total 31/12/2005
A) Listed derivatives						
1. Financial derivatives:	-	-	-	-	-	-
With exchange of capital	-	-	-	-	-	-
- options purchased	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-
Without exchange of capital	-	-	-	-	-	-
- options purchased	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	-
With exchange of capital	-	-	-	-	-	-
Without exchange of capital	-	-	-	-	-	-
Total A	-	-	-	-	-	-
B) Unlisted derivatives						
1. Financial derivatives:	642	-	-	-	-	642
With exchange of capital	-	-	-	-	-	-
- options purchased	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-
Without exchange of capital	642	-	-	-	-	642
- options purchased	-	-	-	-	-	-
- other derivatives	642	-	-	-	-	642
2. Credit derivatives:	-	-	-	-	-	-
With exchange of capital	-	-	-	-	-	-
Without exchange of capital	-	-	-	-	-	-
Total B	642	-	-	-	-	642
Total (A+B) 31/12/2005	642	-	-	-	-	642

8.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

Transaction/Type of hedge	Fair Value						Financial flows	
	Specific						Specific	Generic
	Interest rate risk	Exchange risk	Credit risk	Price risk	Multiple risks	Generic		
1. Available-for-sale financial assets	-	-	-	-	-	-	-	-
2. Receivables	-	-	-	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-	-	-	-
4. Portfolio	-	-	-	-	-	-	-	-
Total assets	-	-	-	-	-	-	-	-
1. Financial liabilities	642	-	-	-	-	-	-	-
2. Portfolio	-	-	-	-	-	-	-	-
Total liabilities	642	-	-	-	-	-	-	-

Section 10 *Equity investments - line item 100*

10.1 Investments in subsidiary companies, companies under joint control and companies subject to significant influence: disclosures

Name	Location	% holding	% of votes
A. Investments in wholly-owned subsidiaries			
1. BANCA POPOLARE DI SONDRIO (SUISSE) S.A.	Via Luvini 2/a - 6901 Lugano (Switzerland)	100.000	100.000
2. PIROVANO STELVIO S.p.A.	Corso V. Veneto 7 - Sondrio	100.000	100.000
3. SINERGIA SECONDA S.R.L.	Via Santa Maria Fulcorina 1 - Milan	100.000	100.000
B. Investments in companies under joint control			
C. Associated companies (subject to significant influence)			
1. RIPOVAL S.p.A.	Via Pio Rajna 9 - Sondrio	50.000	50.000
2. SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 S.R.L.	Via A. Doria 31 - Milan	33.333	33.333
3. ARCA VITA S.p.A.	Via San Marco 48 - Verona	32.528	32.528
4. C.B.E. SERVICE SPRL	Avenue Louise 125, Bte 1 - Brussels (Belgium)	25.000	25.000

10.2 Investments in subsidiary companies, companies under joint control and companies subject to significant influence: accounting information

Name	Total assets	Total revenues	Net profit (loss)	Equity	Book value	Fair value
A. Investments in wholly-owned subsidiaries						
1. BANCA POPOLARE DI SONDRIO (SUISSE) S.A.	804,134	54,447	5,585	71,641	32,928	-
2. PIROVANO STELVIO S.p.A.	4,188	1,539	-903	1,359	3,498	-
3. SINERGIA SECONDA S.R.L.	29,482	1,163	307	10,941	10,329	-
B. Investments in companies under joint control						
C. Associated companies (subject to significant influence)						
1. RIPOVAL S.p.A.	15,543	3,197	153	3,104	1,291	-
2. SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 S.R.L.	356	643	-81	96	32	-
3. ARCA VITA S.p.A.	3,272,585	569,710	12,403	104,467	36,853	-
4. C.B.E. SERVICE SPRL	55	34	-	25	6	-
Total	4,126,343	630,733	17,464	191,633	84,937	

Equity investments are recorded at cost, as required by IAS 27/28/31.

The amounts reported in the table regarding the investments in Ripoval Spa, Servizi Internazionali e Strutture Integrate 2000 srl, Arca Vita Spa and C.B.E. Service Sprrl relate to the latest-available financial statements, prepared as of 31/12/2004.

The bank's interest in the results of these equity investments amounts to € 9.072 million.

Dividends collected during the year totalled € 1.275 million.

10.3 Equity investments: changes in the year

	31/12/2005	31/12/2004
A. Opening balance	85,956	86,119
B. Increases	163	-
B1. Purchases	-	-
B2. Write-backs	-	-
B3. Revaluations	-	-
B4. Other changes	163	-
C. Decreases	1,182	163
C1. Sales	-	-
C2. Write-downs	958	163
C3. Other changes	224	-
D. Closing balance	84,937	85,956
E. Total revaluations	-	-
F. Total write-downs	4,301	3,343

The increase reflects coverage of the 2004 loss incurred by Pirovano Stelvio S.p.A.

The decrease comprises the writedown of Pirovano Stelvio S.p.A. by € 0.903 million, following losses in the current year, and of Servizi Internazionali e Strutture Integrate 2000 s.r.l. by € 0.055 million, together with the reclassification of the investment in Janua B&A Broker S.p.A. following the dilution of ownership to less than 20% as a consequence of the merger involving this former associated company.

10.6 Commitments relating to investments in associated companies

There are no joint and several commitments that might give rise to contingencies.

Section 11 *Property, plant and equipment - line item 110*

11.1 Property, plant and equipment: analysis of assets valued at cost

Assets/Values	31/12/2005	31/12/2004
A. Assets used in business		
1.1 owned	90,232	88,215
a) land	38,136	38,136
b) buildings	37,621	37,596
c) furniture	5,268	4,561
d) IT equipment	2,039	1,797
e) other	7,168	6,125
1.2 purchased under finance leases	36,819	28,342
a) land	9,976	6,976
b) buildings	26,843	21,366
c) furniture	-	-
d) IT equipment	-	-
e) other	-	-
Total A	127,051	116,557
B. Investment property		
2.1 owned	-	-
a) land	-	-
b) buildings	-	-
2.2 purchased under finance leases	-	-
a) land	-	-
b) buildings	-	-
Total B	-	-
Total (A+B)	127,051	116,557

Property, plant and equipment are valued at cost. Buildings have a fair value of € 215.920 million, as determined by an internal appraisal. Buildings used for business purposes are worth € 107.665 million.

11.3 Property, plant and equipment used for business purposes: changes in year

	Land	Buildings	Furniture	IT equipment	Other	Total 31/12/2005
A. Opening gross amount	45,112	96,585	10,866	4,842	14,446	171,851
A1. Total net reductions in value	-	-37,623	-6,305	-3,045	-8,321	-55,294
A2. Opening net amount	45,112	58,962	4,561	1,797	6,125	116,557
B. Increases	3,000	8,433	2,094	1,493	4,093	19,113
B1. Purchases	3,000	8,433	2,094	1,493	4,093	19,113
B2. Capitalised improvement expenditure	-	-	-	-	-	-
B3. Write-backs	-	-	-	-	-	-
B4. Fair value increases booked to	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B5. Positive exchange rate adjustments	-	-	-	-	-	-
B6. Transfers from investment property	-	-	-	-	-	-
B7. Other changes	-	-	-	-	-	-
C. Decreases	-	2,932	1,386	1,250	3,051	8,619
C1. Disposals	-	61	-	-	38	99
C2. Depreciation	-	2,871	1,386	1,250	3,013	8,520
C3. Impairment charges booked to	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C4. Fair value decreases booked to	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C5. Negative exchange rate adjustments	-	-	-	-	-	-
C6. Transfers to:	-	-	-	-	-	-
a) investment property	-	-	-	-	-	-
b) assets related to discontinued operations	-	-	-	-	-	-
C7. Other changes	-	-	-	-	-	-
D. Closing net amount	48,112	64,463	5,269	2,040	7,167	127,051
D1. Total net reductions in value	-	-40,437	-7,691	-4,295	-11,198	-63,621
D2. Closing gross amount	48,112	104,900	12,960	6,335	18,365	190,672
E. Valuation at cost	-	-	-	-	-	-

This item totals € 127.051 million, an increase of € 10.494 million (+9%).

The principal changes relate to:

- owned buildings
Sondrio Head Office - improvements to the basement and continuation of the partial restructuring of the building situated in via Vittorio Veneto; San Pietro Berbenno - completion of work on the central archives; Livigno - start of restructuring work; Milan - completion of the building situated in via Porpora; Breno - purchase of a portion of the building adjacent to the branch;
- leased buildings
leasing contracts arranged for buildings in via Vittorio Veneto and via Macello, Sondrio, and in Treviglio and Salò;
- furniture, installations and other
increases relate to head office and branch IT equipment, furniture and fittings and miscellaneous equipment for newly-opened branches.

Depreciation is provided over the estimated useful lives of the fixed assets concerned, as summarised below:

property, plant and equipment	depreciation period (years)
buildings	33
furniture and fittings	7
IT equipment	3
miscellaneous machinery and equipment	5
vehicles	3
security counters	3
safes	8

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.

11.5 Commitments for the purchase of property, plant and equipment

Contractual commitments for the purchase of property, plant and equipment amount to € 2.544 million, compared with € 4.083 million.

Section 12 *Intangible assets - line item 120*

12.1 Intangible assets: breakdown by type

Assets/Values	31/12/2005		31/12/2004	
	Limited duration	Unlimited duration	Limited duration	Unlimited duration
A1. Goodwill	-	-	-	-
A2. Other intangible assets	4,816	-	3,188	-
A2.1 Carried at cost:	4,816	-	3,188	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	4,816	-	3,188	-
A2.2 Carried at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	4,816	-	3,188	-

Intangible assets comprise the cost of purchasing software with a finite life that is amortised over that period, which is normally 3 years.

These assets are analysed by year of purchase below:

	31/12/2005	31/12/2004
recorded in 2003	13	1,092
recorded in 2004	1,048	2,096
recorded in 2005	3,755	-
	4,816	3,188

In accordance with IFRS, this caption no longer includes the deferred cost of restructuring leased premises used by banking branches. Intangible assets amount to € 12.248 million at 31/12/2005, compared with € 9.994 million at the end of the prior year, +22.55%.

12.2 Intangible assets: change in year

	Goodwill	Other intangible assets generated internally		Other intangible assets: other		Total 31/12/2005
		Lim	Unlim	Lim	Unlim	
A. Opening balance	-	-	-	9,166	-	9,166
A1. Total net reductions in value	-	-	-	-5,978	-	-5,978
A2. Opening net amount	-	-	-	3,188	-	3,188
B. Increases	-	-	-	5,635	-	5,635
B1. Purchases	-	-	-	5,635	-	5,635
B2. Increases in internally generated intangible assets	-	-	-	-	-	-
B3. Write-backs	-	-	-	-	-	-
B4. Positive changes in fair value	-	-	-	-	-	-
- booked to shareholders' equity	-	-	-	-	-	-
- booked to income statement	-	-	-	-	-	-
B5. Exchange gains	-	-	-	-	-	-
B6. Other changes	-	-	-	-	-	-
C. Decreases	-	-	-	4,007	-	4,007
C1. Disposals	-	-	-	-	-	-
C2. Write-downs	-	-	-	4,007	-	4,007
- Amortisation	-	-	-	4,007	-	4,007
- Write-downs	-	-	-	-	-	-
+ equity	-	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C3. Negative changes in fair value	-	-	-	-	-	-
- booked to shareholders' equity	-	-	-	-	-	-
- booked to income statement	-	-	-	-	-	-
C4. Transfers to discontinued operations due for disposal	-	-	-	-	-	-
C5. Exchange losses	-	-	-	-	-	-
C6. Other changes	-	-	-	-	-	-
D. Closing net amount	-	-	-	4,816	-	4,816
D1. Total net value adjustments	-	-	-	-9,985	-	-9,985
E. Closing gross amount	-	-	-	14,801	-	14,801
F. Valuation at cost	-	-	-	-	-	-

Key

Lim: limited duration

Unlim: unlimited duration

12.3 Other information

Contractual commitments to purchase software user rights amount to € 4.346 million, compared with € 3.108 million in the prior year.

Section 13 *Tax assets and liabilities - asset line item 130 and liability line item 80*

13.1 Deferred tax assets: breakdown

Deferred tax assets recorded in relation to timing differences are analysed as follows:

	31/12/2005	31/12/2004
Loan write-downs	455	427
Provisions for risks and charges	7,821	4,973
Deferred charges	4,683	3,822
Securities and equity investments	571	398
Administrative expenses	1,789	4,626
Total	15,319	14,246

The deferred tax assets recorded in relation to the provisions for risks and charges concern the provision for legal disputes, the provision for guarantees given and the provision for personnel charges. Deferred tax assets have been recognised in relation to all deductible timing differences.

13.2 Deferred tax liabilities: breakdown

Deferred tax liabilities are analysed as follows:

	31/12/2005	31/12/2004
Owned buildings	7,765	7,186
Accelerated depreciation	3,448	3,455
Leased buildings	1,995	1,351
Securities and deferred capital gains	2,822	31
Administrative expenses	378	927
Loans	-	3,383
Total	16,408	16,333

The amount relating to owned buildings comprises the deferred taxation arising on the adoption of IFRS, with the elimination of the accumulated depreciation of land, and that calculated in 2004 on the elimination of «fiscal interference».

13.3 Change in deferred tax assets (with contra-entry to income statement)

	31/12/2005	31/12/2004
1. Opening balance	14,246	8,527
2. Increases	7,899	11,228
2.1 Deferred tax assets arising during the year	7,899	11,228
a) relating to prior years	911	-
b) due to changes in accounting policies	2,521	9,607
c) write-backs	-	-
d) other	4,467	1,621
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	6,826	5,509
3.1 Deferred tax assets eliminated during the year	6,107	5,061
a) reversals	3,227	2,157
b) written down as no longer recoverable	-	-
c) change in accounting policies	2,880	2,904
3.2 Reduction in tax rates	-	-
3.3 Other decreases	719	448
4. Closing balance	15,319	14,246

13.4 Change in deferred tax liabilities (with contra-entry to income statement)

	31/12/2005	31/12/2004
1. Opening balance	16,334	50
2. Increases	4,322	16,384
2.1 Deferred tax liabilities arising during the year	4,322	16,384
a) relating to prior years	2,338	3,665
b) due to changes in accounting policies	644	8,962
c) other	1,340	3,757
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	4,248	100
3.1 Deferred tax liabilities eliminated during the year	3,806	93
a) reversals	3,256	23
b) due to changes in accounting policies	550	-
c) other	-	70
3.2 Reduction in tax rates	-	-
3.3 Other decreases	442	7
4. Closing balance	16,408	16,334

Section 15 Other assets - line item 150

15.1 Other assets: breakdown

	31/12/2005	31/12/2004
Advances paid to tax authorities	9,759	6,935
Withholdings on interest due to customers	168	86
Tax credits and related interest	1,273	4,547
Unpaid cheques and bills	1,722	1,486
Current account cheques drawn on third parties	52,512	37,777
Current account cheques drawn on the bank	22,264	20,419
Items in transit with branches	-	163
Costs pertaining to the subsequent year	786	636
Advances to suppliers	10,725	8,758
Advances to customers awaiting collections	33,602	42,584
Value date differentials on portfolio transactions	637	584
Miscellaneous debits in transit	24,194	23,282
Guarantee deposits	114	114
Liquid assets servicing post-retirement benefits	10,130	4,053
Advance payment as per Decree 341 of 10/12/2003	-	66,377
Accrued income	17,310	16,473
Prepayments	4,055	2,920
Residual items	11,500	12,345
Total	200,751	249,539

Liabilities and Equity

Section 1 Due to other banks - line item 10

1.1 Deposits from banks: breakdown by type

Type of transaction/Amounts	31/12/2005	31/12/2004
1. Due to central banks		
2. Due to other banks	1,264,748	1,203,356
2.1 Current accounts and sight deposits	185,643	223,145
2.2 Time deposits	922,517	852,986
2.3 Loans	156,588	127,225
2.3.1 Financial leases	31,468	24,671
2.3.2 Other	125,120	102,554
2.4 Payables for commitments to repurchase own equity instruments	-	-
2.5 Liabilities for assets sold and not cancelled from the balance sheet	-	-
2.5.1 Repurchase agreements	-	-
2.5.2 Other	-	-
2.6 Other payables	-	-
Total	1,264,748	1,203,356
Fair value	1,264,748	1,203,356

1.5 Payables for finance leases

31,468

24,671

Payables per finance leases amount to € 31.468 million, compared with € 24.671 million at the end of the prior year, +27.55%, and relate to buildings used as banking branches. Total outstanding lease commitments, including interest, amount to € 34.372 million. These payables fall due as follows:

within 12 months	3,371	2,317
1 to 5 years	12,818	11,058
over 5 years	15,279	11,296
Total	31,468	24,671

Section 2 Customer deposits - line item 20

2.1 Due to customers: breakdown by sector

Type of transaction/Amounts	31/12/2005	31/12/2004
1. Current accounts and sight deposits	7,624,377	6,857,360
2. Time deposits	486,980	245,266
3. Third-party funds under administration	5	10
4. Loans	-	-
4.1 financial leases	-	-
4.2 other	-	-
5. Payables for commitments to repurchase own equity instruments	-	-
6. Liabilities for assets sold and not cancelled from the balance sheet	1,486,842	1,251,821
6.1 Repurchase agreements	1,486,842	1,251,821
6.2 Other	-	-
7. Other payables	-	-
Total	9,598,204	8,354,457
Fair value	9,598,204	8,354,457

Section 3 *Securities issued - line item 30*

3.1 Securities issued: breakdown by sector

Type of security/Amounts	31/12/2005		31/12/2004	
	Book value	Fair value	Book value	Fair value
A. Listed securities	-	-	-	-
1. Bonds	-	-	-	-
1.1 structured	-	-	-	-
1.2 other	-	-	-	-
2. other securities	-	-	-	-
2.1 structured	-	-	-	-
2.2 other	-	-	-	-
B. Unlisted securities	1,065,328	1,065,328	975,224	975,224
1. Bonds	911,414	911,414	841,932	841,932
1.1 structured	-	-	-	-
1.2 other	911,414	911,414	841,932	841,932
2. other securities	153,914	153,914	133,292	133,292
2.1 structured	-	-	-	-
2.2 other	153,914	153,914	133,292	133,292
Total	1,065,328	1,065,328	975,224	975,224

The fair value of unhedged bonds is essentially considered to reflect their amortised cost.

3.3 Securities in issue: covered by specific hedges

	31/12/2005	31/12/2004
1. Securities covered by specific fair-value hedges:	87,144	98,452
a) interest rate risk	87,144	98,452
b) exchange risk	-	-
c) multiple risks	-	-
2. Securities covered by specific cash-flow hedges:	-	-
a) interest rate risk	-	-
b) exchange risk	-	-
c) other	-	-

Section 4 *Financial liabilities held for trading - line item 40*

4.1 Financial liabilities held for trading: breakdown by sector

Type of transaction/Amounts	31/12/2005				31/12/2004			
	NV	FV		FV*	NV	FV		FV*
		Q	NQ			Q	NQ	
A. Cash liabilities								
1. Due to other banks	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-
3. Fixed-yield securities	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	-	-	-
3.1.2 Other bonds	-	-	-	-	-	-	-	-
3.2 Other securities	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	-	-	-
3.2.2 Other	-	-	-	-	-	-	-	-
Total (A)	-	-	-	-	-	-	-	-
B. Derivatives	-			-	-			-
1. Financial derivatives		-	44,732			-	78,757	
1.1 For trading	-	-	44,732	-	-	-	78,757	-
1.2 Connected with the fair value option	-	-	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-	-	-
2. Credit derivatives		-	-			-	-	
2.1 For trading	-	-	-	-	-	-	-	-
2.2 Connected with the fair value option	-	-	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-	-	-
Total (B)	-	-	44,732	-	-	-	78,757	-
Total (A+B)	-	-	44,732	-	-	-	78,757	-

FV = Fair Value

FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date

NV = Nominal or notional value

Q = Listed

NQ = Unlisted

4.4 Financial liabilities held for trading: derivatives

Type of derivatives/ Underlying assets	Interest rates	Currency and gold	Variable-yield securities	Loans	Other	Total 31/12/2005	Total 31/12/2004
A) Listed derivatives							
1) Financial derivatives	-	-	-	-	-	-	-
- With exchange of capital	-	-	-	-	-	-	-
- options issued	-	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-	-
- Without exchange of capital	-	-	-	-	-	-	-
- options issued	-	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-	-
2) Credit derivatives	-	-	-	-	-	-	-
- With exchange of capital	-	-	-	-	-	-	-
- Without exchange of capital	-	-	-	-	-	-	-
Total A	-	-	-	-	-	-	-
B) Unlisted derivatives							
1) Financial derivatives	12,626	25,958	3,317	-	2,831	44,732	78,758
- With exchange of capital	-	25,958	-	-	-	25,958	66,040
- options issued	-	5,178	-	-	-	5,178	2,324
- other derivatives	-	20,780	-	-	-	20,780	63,716
- Without exchange of capital	12,626	-	3,317	-	2,831	18,774	12,718
- options issued	96	-	3,317	-	1,051	4,464	1,212
- other derivatives	12,530	-	-	-	1,780	14,310	11,506
2) Credit derivatives	-	-	-	-	-	-	-
- With exchange of capital	-	-	-	-	-	-	-
- Without exchange of capital	-	-	-	-	-	-	-
Total B	12,626	25,958	3,317	-	2,831	44,732	78,758
Total (A+B)	12,626	25,958	3,317	-	2,831	44,732	78,758

Section 8 Tax liabilities - line item 80

This caption includes the income tax liability and amounts to € 28.075 million, up € 6.164 million with respect to the prior year, +28.13%.

The current liability is stated net of the advance payments made during the year, € 47.179 million.

The analysis of deferred tax liabilities and the related changes during the year are presented in Part B Section 13 of these explanatory notes. No deferred taxes have been booked on the reserves in suspense for tax purposes as they are unlikely to be used.

The bank's tax years from 1979 to 1987 are still open due to an outstanding dispute, together with those from 2001 onwards. The outstanding dispute relates to recurring issues concerning taxable income and withholding taxes on foreign deposits. To date, the bank has won all the related appeals to the first and second-level courts regarding the years from 1979 to 1987.

Section 10 *Other liabilities - line item 100*

10.1 Other liabilities: breakdown

	31/12/2005	31/12/2004
Amounts at the disposal of third parties	30,538	25,154
Taxes to be paid on behalf of third parties	20,256	15,554
Taxes to be paid	5,139	1,082
Employee salaries and contributions	14,874	12,668
Suppliers	8,525	4,012
Transit accounts for sundry entities	33,533	5,324
Invoices to be received	3,955	3,489
Value date differentials on portfolio transactions	-	84,967
Directors' and statutory auditors' emoluments	1,023	1,011
Loans disbursed to customers to be finalised	8,441	15,487
Miscellaneous credit items being settled	137,954	70,455
Items in transit with branches	-	106
Accrued expenses	6,888	6,183
Deferred income	4,120	5,502
Allowance for risks on guarantees and commitments	4,000	5,000
Residual items	12,624	10,305
Total	291,870	266,299

Section 11 *Severance indemnities - line item 110*

11.1 Severance indemnities: change in year

	31/12/2005	31/12/2004
A. Opening balance	38,271	37,594
B. Increases	7,979	6,169
B1. Provisions	7,979	6,169
B2. Other increases	-	-
C. Decreases	3,482	5,492
C1. Payments made	1,502	1,156
C2. Other decreases	1,980	4,336
D. Closing balance	42,768	38,271

11.2 Other information

The recalculation of the obligation to pay severance indemnities in accordance with IFRS revealed an overprovision at the IFRS transition date, 1.1.2004, of € 3.023 million. The consequent recalculation of the 2004 provision resulted in an additional provision of € 0.213 million.

Payments made of € 1.502 million compare with payments in 2004 of € 1.156 million.

Other decreases relate to payments to the Arca Previdenza Fund totalling € 1.868 million, compared with € 1.205 million in the prior year, and to the tax on the annual revaluation of € 0.112 million, compared with € 0.108 million in the prior year, in addition to the surplus referred to above.

The provision for severance indemnities required under Italian regulations amounts to € 43.912 million.

Section 12 Provisions for risks and charges - line item 120

12.1 Provisions for risks and charges: breakdown

Items/Amounts	31/12/2005	31/12/2004
1. Post-retirement benefits	70,667	65,730
2. Other provisions for risks and charges	22,001	18,961
2.1 legal disputes	19,000	13,000
2.2 personnel expenses	2,866	5,719
2.3 Other	135	242
Total	92,668	84,691

At year end, the bank is not exposed to any other risks that might result in future charges, other than those covered by the provisions referred to above. It is reasonable to conclude that there are no contingent liabilities.

12.2 Provisions for risks and charges: change in the year

	Post-retirement benefits	Other provisions	Total 31/12/2005
A. Opening balance	65,730	18,961	84,691
B. Increases	7,760	6,250	14,010
B1. Provisions	3,130	6,037	9,167
B2. Changes due to the passage of time	848	213	1,061
B3. Changes due to variations in the discount rate	-	-	-
B4. Other increases	3,782	-	3,782
C. Decreases	2,823	3,210	6,033
C1. Utilisations during the year	2,408	2,332	4,740
C2. Changes due to variations in the discount rate	-	-	-
C3. Other decreases	415	878	1,293
D. Closing balance	70,667	22,001	92,668

12.3 Defined-benefit pension plans

12.3.1. Description of plans

The bank's pension plan for employees is an internal defined-benefit plan intended to supplement the pension paid to retired employees by the State. The plan is funded by contributions from the bank and from employees which are determined on a percentage of income basis and credited each month. The plan is a separate fund pursuant to art. 2117 of the Italian Civil Code.

The value of the fund is adjusted with reference to its membership, which was closed on 28/4/1993. This closed group comprises 702 employees and 152 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 975 employees have opted to enrol. This plan is also a separate fund pursuant to art. 2117 of the Italian Civil Code.

The adequacy of the fund with respect to the present value of the obligation at the reference date was verified using calculations prepared by an independent actuary, making demographic assumptions that distinguish between age and gender, as well as technical-economic assumptions that reflect the theoretical changes in earnings and payments. The technical assessments made reference to dynamic economic and financial assumptions. The discounting rate reflects the yield on prime bonds.

12.3.2. Changes in the plans during the year

The changes in the present value of the bank's defined-benefit obligations during the year are summarised below:

	2005	2004
at 1 January	65,730	63,399
service cost	1,804	1,759
interest cost	3,251	2,999
actuarial gains/losses	2,290	-90
payments	-2,408	-2,337
at 31 December	70,667	65,730

12.3.3. Changes in plan assets during the year and other information

The changes in the fair value of plan assets during the year are summarised below:

	2005	2004
at 1 January	65,730	51,241
yield	3,782	1,870
contributions	3,978	15,089
payments	-2,823	-2,470
at 31 December	70,667	65,730

The fair value of pension plan assets is summarised in the following table:

	31/12/2005	31/12/2004
Mutual funds invested in bonds	53,727	45,899
Mutual funds invested in shares	6,256	6,721
Mutual funds invested in property	554	496
Other assets	10,130	12,614
Total	70,667	65,730

12.3.4. Reconciliation of the present value of the plans, the present value of the assets servicing the plans and the assets and liabilities recorded in the balance sheet

	31/12/2005	31/12/2004
Present value of the obligations to plan members	70,667	65,730
Fair value of assets	70,667	65,730
Difference	-	-

12.3.5. Description of the principal actuarial assumptions

The actuarial calculations made the following assumptions:

	31/12/2005	31/12/2004
Discount rate	4.6%	4.6%
Expected increase in salaries	2%	2%
Rate of inflation	2%	2%
Underlying rate of salary increases	1.5%	1.5%

12.3.6. Comparative information

The size of the fund has increased by € 4.937 million, +7.50%, mainly as a consequence of the actuarial assumptions used for the calculations, while payments increased by 3.04%. The contribution made by employees totalled € 0.344 million (€ 0.330 million in the prior year). The way calculations are made was changed as a result of adopting IFRS; the redetermination of the total pension obligation resulted in a supplementary provision for 2004 of € 8.694 million, accordingly, provision under Italian accounting standards of € 57.036 million was increased to € 65.730 million.

12.4 Provisions for risks and charges – other provisions

These comprise:

	31/12/2005	31/12/2004
Provision for legal disputes	19,000	13,000
Provision for personnel expenses	2,866	5,719
Provision for charitable donations	135	242
Total	22,001	18,961

The provision for legal disputes covers outstanding disputes regarding, in particular, claims for repayment from the liquidators of bankrupt customers, concerning positions classified as doubtful or which have already been written off, and other disputes that have arisen in the ordinary course of business. The bank makes provisions in these cases when, considering the opinion of legal advisors, it appears likely that payments will be made and a reasonable estimate can be made of the amount concerned. No provisions are made in relation to disputes considered to be without merit. The duration of such disputes is difficult to assess, given the extended time required in order to obtain justice. The expected payments have been stated at their present value, considering the average time taken to complete bankruptcy claims and using the legal rate of interest as the discounting rate. This provision has increased by € 6 million to reflect additional repayment claims in relation to bankrupt customers.

The provision for personnel expenses essentially relates to the cost of untaken holidays and to disputes with employees. The reduction of € 2.854 million includes payments of € 1.975 million made during the year and the release of € 0.879 million which is no longer required.

The provision for charitable donations comprises an allocation from net profits authorised by the shareholders which is used to make approved payments. The increase of € 0.250 million reflects the allocation of 2004 net profit, while the reduction of € 0.357 million was a consequence of payments made during the year.

Section 14 *Equity - items 130, 150, 160, 170, 180, 190 and 200*

14.1 Equity: breakdown

Items/Amounts	31/12/2005	31/12/2004
1. Share capital	660,317	660,317
2. Share premium reserve	108,373	108,373
3. Reserves	291,645	258,269
4. (Own shares)	-	-
5. Valuation reserves	59,165	-
6. Capital instruments	-	-
7. Net profit (loss) for the year	85,178	77,183
Total	1,204,678	1,104,142

14.2 «Share capital» and «Own shares»: breakdown

Share capital comprises 220,105,703 issued and fully-paid ordinary shares, par value € 3 each, totalling € 660.317 million. The bank does not hold any own shares at year end.

14.3 Share capital – Number of shares: change in year

There were no share capital transactions during the year.

14.5 Profit reserves: other information

Profit reserves contribute to the capital adequacy of the bank, considering both current and future operations. They amount to € 291.645 million and comprise:

- Legal reserve, consisting of profits allocated pursuant to art. 2430 of the Italian Civil Code and art. 58 of the Articles of Association, which amounts to € 61.730 million, +14%, following the allocation of € 7.579 million from 2004 net profit.
- Statutory reserve, required by art. 58 of the Articles of Association, which amounts to € 151.921 million, +16.90%, following the allocation of € 21.963 million from 2004 net profit and the reclassification of expired dividends totalling € 5 thousand.
- Reserve for the purchase of own shares, also required by art. 58 of the Articles of Association, which is available to the directors under art. 21 of the Articles for the purchase or sale of own shares on market terms, as part of normal trading to support the liquidity of the shares. This reserve amounts to € 29.000 million, +26.09%, following an increase of € 6.000 million on the allocation of 2004 net profit.
- Reserve law 102 dated 2.5.1990, the «Valtellina law», established in 1990 and increased in 1991 in order to obtain the fiscal benefits envisaged by this law, € 6.456 million.
- Reserve pursuant to art. 13 of Decree 124/93, € 0.142 million.
- Other reserves, € 42.396 million, derive from the reclassification of the former reserve for general banking risks, required by art. 11 of Decree 87 dated 27/1/1992, € 49 million, net of «F.T.A.» adjustment of € 6.604 million.

14.6 Equity instruments: breakdown and change in year

No equity instruments have been issued.

14.7 Valuation reserves: breakdown

Items/Components	31/12/2005	31/12/2004
1. Available-for-sale financial assets	59,165	-
2. Property, plant and equipment	-	-
3. Intangible assets	-	-
4. Hedges of foreign investments	-	-
5. Cash-flow hedges	-	-
6. Exchange differences	-	-
7. Non-current assets held for sale and discontinued operations	-	-
8. Special revaluation regulations	-	-
Total	59,165	-

These reserves principally derive from the revaluation of the equity interests in Banca Italease spa and A.E.M. spa.

14.8 Valuation reserves: change in year

	Available-for-sale financial assets	Property, plant and equipment	Intangible assets	Hedges of foreign investments	Cash-flow hedges	Exchange differences	Non-current assets held for sale and discontinued operations	Special revaluation regulations
A. Opening balance	-	-	-	-	-	-	-	-
B. Increases	67,824	-	-	-	-	-	-	-
B.1 Increases in fair value	44,668	-	-	-	-	-	-	-
B.2 Other changes	23,156	-	-	-	-	-	-	-
C. Decreases	8,659	-	-	-	-	-	-	-
C.1 Decreases in fair value	2,326	-	-	-	-	-	-	-
C.2 Other changes	6,333	-	-	-	-	-	-	-
D. Closing balance	59,165	-	-	-	-	-	-	-

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

Assets/Values	31/12/2005		31/12/2004	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	-	-	-	-
2. Variable-yield securities	60,297	1,016	-	-
3. Mutual funds	457	573	-	-
4. Loans -	-	-	-	-
Total	60,754	1,589	-	-

14.10 Valuation reserves for available-for-sale financial assets: change in year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans
1. Opening balance	-	-	-	-
2. Positive changes	-	67,367	457	-
2.1 Increases in fair value	-	44,211	457	-
2.2 Release to the income statement of negative reserves	-	-	-	-
- from impairment	-	-	-	-
- from disposal	-	-	-	-
2.3 Other changes	-	23,156	-	-
3. Negative changes	-	8,086	573	-
3.1 Reductions in fair value	-	1,753	573	-
3.2 Release to the income statement of positive reserves: from disposal	-	6,333	-	-
3.3 Other changes	-	-	-	-
4. Closing balance	-	59,281	-116	-

Other information

1. Guarantees given and commitments

Operations	31/12/2005	31/12/2004
1. Financial guarantees	956,900	768,888
a) Banks	140,141	97,613
b) Customers	816,759	671,275
2. Commercial guarantees	1,100,455	1,005,688
a) Banks	39,979	39,327
b) Customers	1,060,476	966,361
3. Irrevocable commitments to make loans	442,838	211,677
a) Banks	92,843	34,197
i) certain to be called on	92,169	34,197
ii) not certain to be called on	674	-
b) Customers	349,995	177,480
i) certain to be called on	7,588	24,224
ii) not certain to be called on	342,407	153,256
4. Commitments underlying credit derivatives: protection sold	-	-
5. Assets lodged to guarantee the commitments of third parties	34,400	8,000
6. Other commitments	-	-
Total	2,534,593	1,994,253

2. Assets lodged to guarantee the bank's liabilities and commitments

Portfolio	31/12/2005	31/12/2004
1. Financial assets held for trading	1,485,924	1,228,315
2. Financial assets at fair value	14,425	16,428
3. Available-for-sale financial assets	-	-
4. Financial assets held to maturity	-	-
5. Due from other banks	-	-
6. Due from customers	-	-
7. Property, plant and equipment	-	-

Assets held for trading comprise the securities sold to customers under repurchase agreements; financial assets at fair value comprise the guarantee deposit paid in relation to the issue of bankers' drafts.

4. Management and intermediation for third parties

Type of service	31/12/2005
1. Trading in financial instruments on behalf of third parties	-
a) Purchases	-
1. settled	-
2. not settled	-
b) Sales	-
1. settled	-
2. not settled	-
2. Portfolio management	1,731,589
a) Individual	1,731,589
b) Collective	-
3. Custody and administration of securities	23,286,264
a) third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	2,244,066
1. Securities issued by the reporting bank	-
2. Other securities	2,244,066
b) Third party securities in custody (excluding portfolio management): other	8,380,770
1. Securities issued by the reporting bank	1,497,612
2. Other securities	6,883,158
c) third-party securities on deposit with third parties	10,221,870
d) own securities on deposit with third parties	2,439,558
4. Other transactions	-

PART C *Information on the income statement*

Section 1 *Interest - line items 10 and 20*

1.1 Interest and similar income: breakdown

Items/technical forms	Performing financial assets		Impaired financial assets	Other assets	Total	Total
	Fixed-yield securities	Loans			31/12/2005	31/12/2004
1. Financial assets held for trading	49,367	-	-	-	49,367	43,478
2. Available-for-sale financial assets	397	-	-	-	397	240
3. Financial assets held to maturity	-	-	-	-	-	-
4. Due from other banks	-	25,981	-	-	25,981	20,223
5. Due from customers	-	333,769	16,467	-	350,236	322,041
6. Financial assets at fair value	1,291	-	-	-	1,291	1,028
7. Hedging derivatives	-	-	-	786	786	1,781
8. Financial assets sold and not eliminated from the balance sheet	-	-	-	-	-	-
9. Other financial assets	-	-	-	-	-	-
Total	51,055	359,750	16,467	786	428,058	388,791

1.2 Interest and similar income: differential on hedging transactions

Items/Amounts	31/12/2005	31/12/2004
A. Positive differentials on transactions involving:		
A.1 Specific hedge of the fair value of assets	-	-
A.2 Specific hedge of the fair value of liabilities	786	1,781
A.3 Macro hedge of interest rate risk	-	-
A.4 Specific hedge of cash flows from assets	-	-
A.5 Specific hedge of cash flows from liabilities	-	-
A.6 Macro cash flow hedge	-	-
Total positive differences (A)	786	1,781
B. Negative differentials on transactions involving:		
B.1 Specific hedge of the fair value of assets	-	-
B.2 Specific hedge of the fair value of liabilities	-	-
B.3 Macro hedge of interest rate risk	-	-
B.4 Specific hedge of cash flows from assets	-	-
B.5 Specific hedge of cash flows from liabilities	-	-
B.6 Macro cash flow hedge	-	-
Total negative differentials (B)	-	-
C. Net total (A-B)	786	1,781

1.3 Interest income and similar revenues: other information

Interest income has increased from € 388.791 million to € 428.058 million, +10.10%, up € 39.267 million, due to the rise in lending despite the reduced propensity to invest in new projects, given current economic conditions, and the continual erosion of the interest margin.

1.3 Interest income and similar revenue

on foreign currency assets	25,626	20,452
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1.4 Interest expense and similar charges: breakdown

Items/technical forms	Payables	Securities	Other liabilities	Total 31/12/2005	Total 31/12/2004
1. Due to other banks	18,961	-	-	18,961	14,864
2. Due to customers	136,453	-	-	136,453	118,885
3. Securities issued	-	24,886	-	24,886	24,611
4. Financial liabilities held for trading	-	-	-	-	-
5. Financial liabilities at fair value	-	-	-	-	-
6. Financial liabilities associated with assets sold and not eliminated from the balance sheet	-	-	-	-	-
7. Other liabilities	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-
Total	155,414	24,886	-	180,300	158,360

1.6 Interest expense and similar charges: other information

Interest expense has increased from € 158.360 million to € 180.300 million, up 13.85% due to the expansion of funding.

1.6.1 Interest expense and similar charges on foreign currency liabilities

16,163 **11,208**

1.6.2 Interest expense on the liability under finance leases

558 **470**

Section 2 Commissions - line items 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	31/12/2005	31/12/2004
a) guarantees given	8,379	7,792
b) credit derivatives	-	-
c) management, intermediation and consultancy services:	52,790	43,159
1. trading in financial instruments	-	-
2. trading in foreign currencies	4,532	4,146
3. portfolio management	7,130	5,900
3.1 Individual	7,130	5,900
3.2 Collective	-	-
4. custody and administration of securities	2,138	1,732
5. custodian bank	2,480	2,079
6. placement of securities	18,501	16,113
7. acceptance of orders	10,439	6,848
8. consultancy	27	42
9. distribution of third party services	7,543	6,299
9.1 portfolio management	-	-
9.1.1 Individual	-	-
9.1.2 Collective	-	-
9.2 insurance products	4,044	3,809
9.3 other products	3,499	2,490
d) collection and payment services	40,749	35,990
e) services for securitisation transactions	-	-
f) services for factoring transactions	-	-
g) tax collection services	-	-
h) other services	40,340	39,762
Total	142,258	126,703

2.2 Commission income: distribution channels for products and services

Channels/Amounts	31/12/2005	31/12/2004
a) bank branches	33,174	28,312
1. portfolio management	7,130	5,900
2. placement of securities	18,501	16,113
3. third-party products and services	7,543	6,299
b) door-to-door sales	-	-
1. portfolio management	-	-
2. placement of securities	-	-
3. third-party products and services	-	-
c) other distribution channels	-	-
1. portfolio management	-	-
2. placement of securities	-	-
3. third-party products and services	-	-

2.3 Commission expense: breakdown

Services/Amounts	31/12/2005	31/12/2004
a) guarantees received	160	100
b) credit derivatives	-	-
c) management and intermediation services	1,432	1,456
1. trading in financial instruments	-	-
2. trading in foreign currencies	-	-
3. portfolio management	-	-
3.1 own portfolio	-	-
3.2 third-party portfolio	-	-
4. custody and administration of securities	1,432	1,456
5. placement of financial instruments	-	-
6. door-to-door distribution of financial instruments, products and services	-	-
d) collection and payment services	7,757	6,787
e) other services	2,486	930
Total	11,835	9,273

Section 3 *Dividends and similar income - line item 70*

3.1 Dividends and similar income: breakdown

Services/Amounts	31/12/2005		31/12/2004	
	Dividends	Income from mutual funds	Dividends	Income from mutual funds
A. Financial assets held for trading	1,220	4	1,767	-
B. Available-for-sale financial assets	3,342	161	1,600	-
C. Financial assets at fair value	-	180	-	99
D. Equity investments	1,275	-	903	-
Total	5,837	345	4,270	99

Section 4 *Net trading income - line item 80*

4.1 Net trading income: breakdown

Transactions/Income items	Gains (A)	Dealing profits (B)	Losses (C)	Trading losses (D)	Net profit (loss) [(A+B)-(C+D)]
1. Financial assets held for trading	3,300	21,447	7,645	1,400	15,702
1.1 Fixed-yield securities	411	7,583	6,580	1,252	162
1.2 Variable-yield securities	2,867	2,687	1,054	148	4,352
1.3 Mutual funds	22	63	-	-	85
1.4 Loans	-	-	-	-	-
1.5 Other	-	11,114	11	-	11,103
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Fixed-yield securities	-	-	-	-	-
2.2 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange differences	-	-	-	-	-
4. Derivatives	725	2,113	-	-	2,838
4.1 Financial derivatives:	725	2,113	-	-	2,838
- On debt securities and interest rates	299	1,191	-	-	1,490
- On equities and equity indices	3	114	-	-	117
- On currency and gold	-	-	-	-	-
- Other	423	808	-	-	1,231
4.2 Credit derivatives	-	-	-	-	-
Total	4,025	23,560	7,645	1,400	18,540

Section 5 *Net hedging gains (losses) - line item 90*

5.1 Net hedging gains (losses): breakdown

Income items/Amounts	31/12/2005	31/12/2004
A. Income from:		
A1. Fair value hedges	-	-
A2. Hedged financial assets (Fair value)	-	-
A3. Hedged financial liabilities (Fair value)	697	-
A4. Cash-flow hedges	-	-
A5. Foreign currency assets and liabilities	-	-
Total income from hedging activities (A)	697	-
B. Charges from:		
B1. Fair value hedges	513	-
B2. Hedged financial assets (Fair value)	-	-
B3. Hedged financial liabilities (Fair value)	-	-
B4. Cash-flow hedges	-	-
B5. Foreign currency assets and liabilities	-	-
Total charges from hedging activities (B)	513	-
C. Net hedging gains (losses) (A - B)	184	-

Section 6 *Gains (losses) on disposals/repurchases - line item 100*

6.1 Gains (losses) on disposals/repurchases – breakdown

Items/income items	31/12/2005			31/12/2004		
	Profits	Losses	Net result	Profits	Losses	Net result
Financial assets						
1. Due from other banks	-	-	-	-	-	-
2. Due from customers	-	-	-	-	-	-
3. Available-for-sale financial assets	7,636	-	7,636	-	-	-
3.1 Fixed-yield securities	-	-	-	-	-	-
3.2 Variable-yield securities	7,636	-	7,636	-	-	-
3.3 Mutual funds	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	7,636	-	7,636	-	-	-
Financial liabilities						
1. Due to other banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	66	32	34	-	-	-
Total liabilities	66	32	34	-	-	-

Section 7 *Net change in value of financial assets and liabilities at fair value - line item 110*

7.1 Net change in value of financial assets/liabilities at fair value: breakdown

Transactions/Income items	Gains (A)	Dealing profits (B)	Losses (C)	Trading losses (D)	Net profit (loss) [(A+B)-(C+D)]
1. Financial assets	5,564	5	309	-	5,260
1.1 Fixed-yield securities	-	-	267	-	-267
1.2 Variable-yield securities	-	-	-	-	-
1.3 Mutual funds	5,564	5	42	-	5,527
1.4 Loans	-	-	-	-	-
2. Financial liabilities	-	-	-	-	-
2.1 Securities issued	-	-	-	-	-
2.2 Due to other banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Foreign currency financial assets and liabilities: exchange differences	-	-	-	-	-
4. Derivatives	-	-	-	-	-
4.1 Financial derivatives:	-	-	-	-	-
- On debt securities and interest rates	-	-	-	-	-
- On equities and equity indices	-	-	-	-	-
- On currency and gold	-	-	-	-	-
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total derivatives	-	-	-	-	-
Total	5,564	5	309	-	5,260

Section 8 *Net impairment adjustments - line item 130*

8.1 Net impairment adjustments to loans: breakdown

Transactions/ Income items	Adjustments			Write-backs				Total 31/12/2005	Total 31/12/2004
	Type		Portfolio	Type		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Due from other banks	-	-	-	-	-	-	-	-	-
B. Due from customers	22,577	32,127	-	612	15,808	-	1,000	-37,284	-45,737
C. Total	22,577	32,127	-	612	15,808	-	1,000	-37,284	-45,737

8.2 Net impairment adjustments to available-for-sale financial assets: breakdown

Transactions/Income items	Adjustments		Adjustments		Total 31/12/2005	Total 31/12/2004
	Type		Type			
	Write-offs	Other	A	B		
A. Fixed-yield securities	75	-	-	-	75	-
B. Variable-yield securities	-	-	-	-	-	-
C. Mutual funds	-	-	-	-	-	-
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	75	-	-	-	75	-

Key:

A = Interest

B = Other write-backs

Section 9 *Administrative expenses - line item 150*

9.1 Personnel expenses: breakdown

Type of expense/Amounts	31/12/2005	31/12/2004
1) Employees	125,578	117,784
a) wages and salaries	81,959	76,577
b) social security contributions	23,686	22,404
c) severance indemnities	-	-
d) pension expenses	-	-
e) provision for severance indemnities	7,979	6,169
f) provision for post-retirement benefits and similar commitments:	7,369	4,471
- defined contribution	-	-
- defined benefit	7,369	4,471
g) payments to external supplementary pension funds:	697	605
- defined contribution	697	605
- defined benefit	-	-
h) costs deriving from payment agreements based on own capital instruments	-	-
i) other personnel benefits	3,888	7,558
2) Other personnel	3,541	2,909
3) Directors	1,375	1,364
Total	130,494	122,057

9.2 Average number of employees by category

	31/12/2005	31/12/2004
- Employees	2,113	2,035
a) managers	18	18
b) total officials	391	374
- of which: 3rd and 4th level	181	162
c) Other employees	1,704	1,643
- Other personnel	91	98

	31/12/2005	31/12/2004
Actual number of employees		
- Employees	2,149	2,074
- Other personnel	96	86

9.3 Post-retirement defined benefit plans: Total costs

The charge to the income statement for the year is summarised as follows:

	31/12/2005	31/12/2004
Service cost	1,804	1,759
Interest cost	3,251	2,999
Actuarial gains/losses	2,290	-90
Contributions from employees	-344	-330
Reductions and payments	368	133
Total charge to income statement	7,369	4,471
Yield from assets servicing the fund	-3,782	-1,870
Total charge	3,587	2,601

The costs have been recorded as personnel expenses, while the yield from assets servicing the fund has been credited to caption 190 «other operating income/expense». Information regarding the outstanding obligations and related changes during the year, the assets servicing the fund and related changes during the year, and principal actuarial assumptions made is provided in the tables reported in Part B Section 12.3 of the notes to the financial statements. The bank has not adopted the «corridor» method for the recognition of actuarial gains/losses; accordingly, there are no unrecorded gains/losses of this type.

9.4 Other employee benefits

This caption essentially comprises the cost of «meal vouchers», the reimbursement of travel and accommodation expenses, insurance costs and other benefits. This amount is stated net of € 0.879 million released from the provision for personnel expenses.

9.5 Other administrative expenses: breakdown

	31/12/2005	31/12/2004
telephone, post and data transmission	12,021	11,759
maintenance of property, plant and equipment	5,682	5,181
rent of buildings	13,589	12,186
security	4,307	4,148
transportation	1,747	1,817
professional fees	6,192	5,489
office materials	2,280	2,372
electricity, heating and water	3,145	2,660
advertising and entertainment	3,152	2,908
legal expenses	3,465	3,429
insurance	2,395	2,264
company searches and information	2,590	2,467
indirect taxes and dues	21,856	16,996
software and hardware rental and maintenance	3,797	3,255
data entry by third parties	790	714
cleaning	3,315	3,215
membership fees	1,347	1,235
services received from third parties	2,405	2,159
outsourced activities	8,217	7,962
statutory auditors' emoluments	226	228
deferred charges	6,948	3,568
other	6,317	4,806
Total	115,783	100,818

Section 10 Net provisions for risks and charges - line item 160

10.1 Net provisions for risks and charges: breakdown

These comprise a provision of € 6 million for legal disputes in relation to claims for the return of payments from bankrupt customers.

Section 11 Net adjustments to property, plant and equipment - line item 170

11.1 Net adjustments to property, plant and equipment: breakdown

Asset/Income item	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c)
A. Property, plant and equipment				
A1. Owned	7,812	-	-	7,812
- For business purposes	7,812	-	-	7,812
- For investment purposes	-	-	-	-
A2. Held under financial leases	708	-	-	708
- For business purposes	708	-	-	708
- For investment purposes	-	-	-	-
Total	8,520	-	-	8,520

The finance lease charges paid during the year amounted to € 3.019 million, compared with € 2.449 million in the prior year.

Section 12 *Net adjustments to intangible assets - line item 180*

12.1 Net adjustments to intangible assets: breakdown

Asset/Income item	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c)
A. Intangible assets				
A1. Owned	4,007	-	-	4,007
- Internally generated	-	-	-	-
- Other	4,007	-	-	4,007
A2. Acquired under financial leases	-	-	-	-
Total	4,007	-	-	4,007

The adjustments relate to intangible assets with a finite life consisting of rights to use computer software. There were no significant impairment losses relating to intangible assets during the year, accordingly no further information is provided pursuant to para. 130.a) c) d) f) g) and para. 131 of IAS 36.

Section 13 *Other operating income and expense - line item 190*

This caption amounts to € 29.559 million and comprises other operating income of € 32.140 million, net of other operating expenses of € 2.581 million.

13.1 Other operating expenses: breakdown

	31/12/2005	31/12/2004
Out-of-period expense	458	516
Provision for general banking risks	-	9,000
Other	2,123	1,721
Total	2,581	11,237

13.2 Other operating income: breakdown

	31/12/2005	31/12/2004
Recovery of charges on deposits and overdrafts	952	945
Rental income from buildings	713	726
Recovery of customer insurance	729	694
Recovery of taxes	19,952	14,998
Financial income of post-retirement benefits plan	3,782	1,870
Out-of-period income - other	356	13,333
Out-of-period income - overprovisions	9	29
Other	5,647	5,884
Total	32,140	38,479

Section 14 *Share of profit (loss) of equity investments - line item 210*

14.1 Share of profit (loss) of equity investments: breakdown

Income item/Amount	31/12/2005	31/12/2004
A. Income	-	813
1 Revaluations	-	-
2 Profit from disposals	-	296
3 Write-backs	-	517
4 Other positive changes	-	-
B. Charges	958	315
1 Write-downs	958	315
2 Impairment write-downs	-	-
3 Loss from disposals	-	-
4 Other negative changes	-	-
Net result	-958	498

Section 17 *Profit (loss) from disposal of investments - line item 240*

17.1 Profit (loss) from disposal of investments: breakdown

Income item/Amount	31/12/2005	31/12/2004
A. Buildings	190	-
- Profit from disposals	190	-
- Loss from disposals	-	-
B. Other assets	32	12
- Profit from disposals	37	16
- Loss from disposals	-5	-4
Net result	222	12

Section 18 *Income taxes on current operations - line item 260*

18.1 Income taxes on current operations: breakdown

Income item/Amount	31/12/2005	31/12/2004
Current taxes (-)	-58,498	-40,830
Change in prior period income taxes (+/-)	-	-
Reduction in current taxes (+)	-	-
Change in deferred tax assets (+/-)	1,073	5,720
Change in deferred tax liabilities (+/-)	-75	-16,284
Income taxes for the year (-) (-1+/-2+3+/-4+/-5)	-57,500	-51,394

18.2 Reconciliation between the theoretical and current tax burden

Income taxes are calculated at 33% for IRES and 5.25% for IRAP.

The total tax charge for the year is reconciled with the net profit for the year as follows:

IRES (corporate income taxes)	
Profit before income taxes	142,678
Tax calculated using the domestic tax rate	47,084
Tax effect of non-deductible/non-taxable costs/income	-6,280
Income taxes	40,804
Effective rate	28.59%

The profit subject to IRAP amounts to € 318.030 million, with a tax charge of € 16.696 million.

Section 21 Earnings per share

21.1 Average number of ordinary shares (fully diluted)

There were no transactions involving share capital during the year and no financial instruments were issued that might involve the future issue of shares. Accordingly, the number of shares interested in net profit is unchanged with respect to the prior year.

	31/12/2005	31/12/2004
No. of shares	220,105,703	220,105,703

21.2 Other information

IAS 33 requires that EPS «earnings per share» be reported in accordance with the following definitions:

«Basic EPS», determined by dividing the net profit attributable to the bearers of ordinary shares by the weighted average number of ordinary shares in issue. «Diluted EPS», determined by taking account of the dilutive effect of all potential ordinary shares.

There are no circumstances under which earnings can be diluted and there are no activities to be sold for which basic and diluted EPS must be stated separately.

	31/12/2005	31/12/2004
Earnings per share - €	0.387	0.414

In 2004, earnings per share was determined using the weighted average number of shares in issue having regard for the capital increase.

The change in accounting policies during the year has been fully described in Part A.2.17 of these notes to the financial statements.

Following the reclassification of the 2004 financial statements in accordance with IFRS, the previously-reported net profit of € 73.211 million was increased to € 77.183 million, up € 3.972 million, due mainly to the adjustments made to buildings, post-retirement benefits, severance indemnities and deferred charges.

Accordingly, 2004 earnings per share rose from € 0.392 to € 0.414.

PART D *Segment information*

Given that the bank's benefits and risks are significantly influenced by differences in the various products and services and only marginally by the territorial distribution of the sales network, the primary segment comprises the bank's business activities while the secondary segment relates to the geographical areas concerned.

Each sub-segment has been identified based on the nature of the products and services offered and on the type of customer concerned, so that the related risk profile and profitability are sufficiently similar. As recommended by the Supervisory Authorities regarding the preparation of the financial statements (see Circular 262 dated 22.12.2005 «The financial statements of banks: formats and rules for preparation»), reference has been made to the New Capital Accord (see Basel Committee, «International convergence of capital measurement and capital standards», Appendix 6 «Business line classification») for the calculation of operating risks using standardised methodology.

Geographical information is based on the distribution of branches throughout Italy.

A. Primary format

A.1 Distribution by business segment: income statement

The following sub-segments are discussed:

- Enterprises: these comprise the «non-financial companies» and «family businesses» which, for the determination of credit risk under the terms of the Accord, are subject to the model adopted for the assessment of «enterprises» or «small and medium-sized enterprises»; the results reported relate to the taking of deposits, lending, the giving of guarantees, leasing and factoring, and the provision of collection and payment services. Revenues from currency transactions with resident and non-resident customers are also significant to this sub-segment.
- Individuals and other customers: these comprise all the other counterparts which, with reference to the above criteria, essentially consist of «consumer households», «public administrations», «finance companies» and «non-profit organisations»; the results reported derive from routine transactions with these customers, including the taking of deposits, intermediation in savings transactions, the granting of long-term loans and consumer credit, the provision of collection and payment services, the issue of credit and debit cards and other ancillary functions.
- Securities: this sub-segment comprises the results of transactions with customers involving direct trading in securities, the acceptance of instructions, the placement of financial instruments, insurance and pension productions, and the management of portfolios.
- Central functions: this sub-segment reports the results deriving from the management of portfolio securities and equity investments, currency transactions on own account, and treasury management activities. In addition, it includes certain residual activities not classified elsewhere since the revenues earned are not significant pursuant to IFRS.

The following tables present the pre-tax results of the above sub-segments for 2005 and 2004.

Interest income and expense include a notional element to reflect the contribution to the financial margin made by each sub-segment.

This aspect is managed by using a multiple internal transfer rate («treasury pool»), considering both currency and duration, which keeps assets and liabilities in balance and which is settled within the «central functions» sub-segment.



Administrative expenses are allocated directly to the various sub-segments, wherever possible; in other cases, they are allocated using suitable drivers that essentially reflect the scale of the activities concerned.

The «reconciliation» column is used for the tie-in to the financial statements.

	Enterprises	Individuals and other customers	Securities	Headquarters	Total	Reconciliation	Total 31/12/2005
Interest income	270,039	297,310	-	280,646	847,995	-419,937	428,058
Interest expense	-152,769	-209,937	-	-237,531	-600,237	419,937	-180,300
Net interest income	117,270	87,373	-	43,115	247,758	-	247,758
Commission income	40,034	51,577	52,131	5,890	149,632	-7,373	142,259
Commission expense	-3,676	-4,342	-2,974	-511	-11,503	-332	-11,835
Dividends and similar income	-	-	-	6,182	6,182	-	6,182
Net trading income	-	-	-	19,421	19,421	-881	18,540
Net hedging profit (loss)	-	-	-	184	184	-	184
Gains/losses on disposals or repurchases	-	-	-	7,671	7,671	-	7,671
Net change in value of financial assets and liabilities at fair value	-	-	-	5,260	5,260	-	5,260
Income from banking activities	153,628	134,608	49,157	87,212	424,605	-8,586	416,019
Adjustments to the net value of financial assets	-26,244	-11,282	-	-7,467	-44,993	7,634	-37,359
Balance of financial management	127,384	123,326	49,157	79,745	379,612	-952	378,660
Administrative expenses	-65,538	-83,154	-28,822	-44,433	-221,947	-24,330	-246,277
Provisions for risks and charges	-7,661	726	-	935	-6,000	-	-6,000
Net adjustments to property, plant and equipment	-2,711	-3,325	-1,039	-1,446	-8,521	-	-8,521
Net adjustments to intangible assets	-1,275	-1,564	-489	-679	-4,007	-	-4,007
Other operating income/expense	-113	3,133	461	796	4,277	25,282	29,559
Share of profit/loss of equity investments	-	-	-	-958	-958	-	-958
Profit/loss from disposal of investments	-	-	-	222	222	-	222
Gross profit	50,086	39,142	19,268	34,182	142,678	-	142,678

	Enterprises	Individuals and other customers	Securities	Headquarters	Total	Reconciliation	Total 31/12/2004
Interest income	244,278	267,876	-	244,958	757,112	-368,321	388,791
Interest expense	-132,947	-187,275	-	-206,459	-526,681	368,321	-158,360
Net interest income	111,331	80,601	-	38,499	230,431	-	230,431
Commission income	36,914	46,636	45,625	5,464	134,639	-7,936	126,703
Commission expense	-3,376	-3,636	-2,449	-534	-9,995	722	-9,273
Dividends and similar income	-	-	-	4,369	4,369	-	4,369
Net trading income	-	-	-	24,294	24,294	4,504	28,798
Net hedging profit (loss)	-	-	-	-	-	-	-
Gains/losses on disposals or repurchases	-	-	-	-	-	-	-
Net change in value of financial assets and liabilities at fair value	-	-	-	-	-	-	-
Income from banking activities	144,869	123,601	43,176	72,092	383,738	-2,710	381,028
Adjustments to the net value of financial assets	-40,602	-5,195	-	-1,705	-47,502	1,765	-45,737
Balance of financial management	104,267	118,406	43,176	70,387	336,236	-945	335,291
Administrative expenses	-60,609	-77,813	-26,683	-40,352	-205,457	-17,418	-222,875
Provisions for risks and charges	2,289	-2,301	-	12	-	-	-
Net adjustments to property, plant and equipment	-2,731	-3,316	-1,055	-1,438	-8,540	-	-8,540
Net adjustments to intangible assets	-975	-1,184	-377	-514	-3,050	-	-3,050
Other operating income/expense	212	2,380	383	5,903	8,878	18,363	27,241
Share of profit/loss of equity investments	-	-	-	498	498	-	498
Profit/loss from disposal of investments	-	-	-	12	12	-	12
Gross profit	42,453	36,172	15,444	34,508	128,577	-	128,577

A.2 Distribution by business segment: balance sheet

	Enterprises	Individuals and other customers	Securities	Central functions	Total 31/12/2005
Financial assets	5,922,728	3,275,122	-	4,029,596	13,227,446
Other assets	-	-	-	273,756	273,756
Property, plant and equipment	40,423	49,586	15,496	21,546	127,051
Intangible assets	1,532	1,880	587	817	4,816
Financial liabilities	1,689,542	8,973,990	-	1,309,480	11,973,012
Other liabilities	3,148	139	-	316,658	319,945
Provisions	52,792	47,376	14,184	21,084	135,436
Guarantees given	1,489,745	602,010	-	-	2,091,755
Commitments	311,754	131,084	-	-	442,838

	Enterprises	Individuals and other customers	Securities	Central functions	Total 31/12/2004
Financial assets	5,349,248	2,751,608	–	3,586,012	11,686,868
Other assets	–	–	–	320,496	320,496
Property, plant and equipment	37,277	45,252	14,397	19,631	116,557
Intangible assets	1,020	1,237	394	537	3,188
Financial liabilities	1,197,279	8,132,392	–	1,282,113	10,611,784
Other liabilities	4,546	15	–	283,658	288,219
Provisions	43,219	46,304	13,552	19,888	122,963
Guarantees given	1,357,021	425,556	–	–	1,782,577
Commitments	109,679	101,997	–	–	211,676

Summary discussion of results

The results of the various sub-segments are discussed below.

Enterprises: this sub-segment contributes 35% of the overall results and confirms the fundamental role attributed by the bank to the support given to productive activities.

Direct deposits (financial liabilities) amount to about € 1,690 million, while lending (financial assets) amounts to € 5,923 million.

With respect to income from banking activities, net adjustments for the impairment of financial assets represent about 17% of the total, while administrative expenses absorb 42.7%.

Comparison with the prior year reflects an 18% rise in profits.

This was mainly due to synergies between the following factors:

- an increase in net interest income (+5.3%) due to the greater volume of business, which more than offset the narrower spread;
- higher commission income (+8.4%), especially from leasing activities, lending and the granting of guarantees;
- increased administrative expenses (other costs +11.9%, personal expenses +5.7%);
- smaller adjustments of financial assets (-35.4%).

Individuals and other customers: this sub-segment contributes more than 27% of overall results.

Direct deposits (financial liabilities) amount to about € 8,974 million, while lending (financial assets) amounts to € 3,275 million.

With respect to income from banking activities, net adjustments for the impairment of financial assets represent 8.4% of the total, while administrative expenses absorb 61.8%.

Comparison with the prior year reflects an 8.2% rise in profits, mainly due to the following factors:

- an increase in net interest income by 8.4%, since the increase in volume more than offset the narrower spread;
- a marked increase in commission income (up about 10%), especially from the sale of credit and debit cards and the granting of long-term and personal loans;
- increase in administrative expenses by 6.9% (other costs +8.7%, personnel expenses +5.3%);
- higher adjustments of financial assets, by about € 6 million in absolute terms and +117% in relative terms, due to increased emphasis within the loan portfolio on business with counterparts that have a moderately higher risk profile.

Securities: this sub-segment contributes 13.5% of overall results.

With respect to income from banking activities, administrative expenses absorb 58.6% of the total.

Comparison with the prior year reflects a rise in profits by about 25%, mainly due to the following factors:

- a substantial increase in commission income (up about 14%), spread evenly across all activities;
- an increase in administrative expenses by 8% (other costs +10.4%, personnel expenses +6.3%).

Central functions: the results of this sub-segment were essentially stable with respect to the prior year, contributing 24% of overall results.

B. Secondary format

The following information refers to the location of branches.

An alternative analysis, based on the residence of counterparts, does not give significantly different results.

Branches are aggregated into two geographical areas, «Northern Italy» and «Central Italy», since there is a significance difference in the respective customer profiles, while products, services, commercial and management policies are all the same.

In particular, in the North, the volume of business is principally generated by «non-financial companies» and «consumer households and family businesses», while in Central Italy the «public administrations» are especially significant.

B.1 Distribution by geographical areas: income statement

	Northern Italy	Central Italy	Total	Reconciliation	Total 31/12/2005
Interest income	753,509	94,486	847,995	-419,937	428,058
Interest expense	-524,097	-76,140	-600,237	419,937	-180,300
Net interest income	229,412	18,346	247,758	-	247,758
Commission income	127,732	21,900	149,632	-7,373	142,259
Commission expense	-9,816	-1,687	-11,503	-332	-11,835
Dividends and similar income	6,182	-	6,182	-	6,182
Net trading income	19,421	-	19,421	-881	18,540
Net hedging profit (loss)	184	-	184	-	184
Gains/losses on disposals or repurchases	7,671	-	7,671	-	7,671
Net change in value of financial assets and liabilities at fair value	5,260	-	5,260	-	5,260
Income from banking activities	386,046	38,559	424,605	-8,586	416,019
Adjustments to the net value of financial assets	-38,646	-6,347	-44,993	7,634	-37,359
Balance of financial management	347,400	32,212	379,612	-952	378,660
Administrative expenses	-200,601	-21,346	-221,947	-24,330	-246,277
Provisions for risks and charges	-5,881	-119	-6,000	-	-6,000
Net adjustments to property, plant and equipment	-7,694	-827	-8,521	-	-8,521
Net adjustments to intangible assets	-3,618	-389	-4,007	-	-4,007
Other operating income/expense	3,848	429	4,277	25,282	29,559
Share of profit/loss of equity investments	-958	-	-958	-	-958
Profit/loss from disposal of investments	222	-	222	-	222
Gross profit	132,718	9,960	142,678	-	142,678

	Northern Italy	Central Italy	Total	Reconciliation	Total 31/12/2004
Interest income	670,925	86,187	757,112	-368,321	388,791
Interest expense	-456,680	-70,001	-526,681	368,321	-158,360
Net interest income	214,245	16,186	230,431	-	230,431
Commission income	115,328	19,311	134,639	-7,936	126,703
Commission expense	-8,694	-1,301	-9,995	722	-9,273
Dividends and similar income	4,369	-	4,369	-	4,369
Net trading income	24,294	-	24,294	4,504	28,798
Net hedging profits (losses)	-	-	-	-	-
Gains/losses on disposals or repurchases	-	-	-	-	-
Net change in the value of financial assets and liabilities at fair value	-	-	-	-	-
Income from banking activities	349,542	34,196	383,738	-2,710	381,028
Adjustments to the net value of financial assets	-43,029	-4,473	-47,502	1,765	-45,737
Balance of financial management	306,513	29,723	336,236	-945	335,291
Administrative expenses	-185,054	-20,403	-205,457	-17,418	-222,875
Provisions for risks and charges	259	-259	-	-	-
Net adjustments to property, plant and equipment	-7,673	-867	-8,540	-	-8,540
Net adjustments to intangible assets	-2,740	-310	-3,050	-	-3,050
Other operating income/expense	8,401	477	8,878	18,363	27,241
Share of profit/loss of equity investments	498	-	498	-	498
Profit/loss from disposal of investments	12	-	12	-	12
Gross profit	120,216	8,361	128,577	-	128,577

B.2 Distribution by geographical areas: balance sheet

	Northern Italy	Central Italy	Total 31/12/2005
Financial assets	12,277,913	949,533	13,227,446
Other assets	273,756	-	273,756
Property, plant and equipment	114,715	12,336	127,051
Intangible assets	4,348	468	4,816
Financial liabilities	8,729,418	3,243,594	11,973,012
Other liabilities	319,824	121	319,945
Provisions	123,152	12,284	135,436
Guarantees given	1,774,025	317,730	2,091,755
Commitments	441,777	1,061	442,838

	Northern Italy	Central Italy	Total 31/12/2004
Financial assets	10,947,622	739,246	11,686,868
Other assets	320,496	-	320,496
Property, plant and equipment	104,719	11,838	116,557
Intangible assets	2,864	324	3,188
Financial liabilities	7,921,302	2,690,482	10,611,784
Other liabilities	288,111	108	288,219
Provisions	110,948	12,015	122,963
Guarantees given	1,399,334	383,243	1,782,577
Commitments	183,853	27,823	211,676

PART E *Information on risks and related hedging policy*

Section 1 *Credit risk*

QUALITATIVE INFORMATION

1. General matters

Consistent with its mission as a people's cooperative, the lending policy of the bank is directed towards supporting the local economies served, by providing financial resources to applicants that pursue proper objectives and meet precise merit criteria for the granting of loans.

The scale of lending is essentially correlated with the needs of two specific customer segments: healthy small and medium-sized enterprises and families. The bank gives preference to lending to medium-sized enterprises and small economic operators since they do not move in broader financial circles and, consequently, need a point of reference that can understand their requirements and meet them with skill, efficiency and speed. In this context, support is provided on a prudent basis, establishing two-way communications with borrowers based on reciprocal trust and transparency, in order to build long-term relationships. The specific objective of maintaining risk within traditionally low limits encourages the bank to prefer projects of an economic-productive nature and to limit, as far as possible, lending to financial sectors and/or sectors that, for various reasons, are subject to excessive levels of risk. The demand for loans from the reference counterparts – families and enterprises – has, in recent years, shifted strongly towards the longer term and this has resulted in a change in the profile of the loan portfolio, to the extent consistent with the related sources of funding.

Consumer credit is also granted via product companies in which the bank holds an equity investment. Apart from not taking the related risk directly, this approach enables the bank to expand the product range and innovate as the market develops, and to promote services that are competitive with those provided by the more specialist operators. A similar approach is taken in such specialist sectors as leasing and factoring.

The strategic and operational guidelines described below have not changed significantly over the past year.

2. Credit risk management policies

2.1 Organisational aspects

Lending policy, as ever focused on ensuring that the distribution of resources is widely diversified, seeks to create a portfolio of loans exposed to the minimum degree of risk.

The exposures to individual counterparts and groups of related counterparts are held well below the levels that might generate losses which would affect the financial equilibrium of the bank.

The principal loans are, nevertheless, subjected to continual, detailed monitoring.

Similarly, the other forms of concentration - involving counterparts in the same economic sector or the same geographical area - are also monitored constantly and held within prudent limits.

The other types of lending risk (counterpart, legal and operational risk) are all monitored as part of the lending process. This involves the clear allocation of responsibilities and the establishment of appropriately structured organisational functions, having regard for the number of persons involved, their experience and their technical knowledge.

The principal parties involved in the lending process are:

- The *Board of Directors*. Supervises and oversees the proper allocation of financial resources and, in particular:
 - establishes the strategic direction and lending policies;
 - establishes criteria for the recognition, management and assessment of risks;
 - approves the chain of decision-making delegation and checks that powers are exercised properly;
 - checks that General Management has created a suitable organisational structure, consistent with the risks accepted, and has defined the tasks and responsibilities of the various functions in a clear and appropriate manner, periodically verifying their adequacy and effectiveness.

In addition, the Board adopts resolutions to the extent of its autonomous powers.

- *General Management*. General Management implements the strategies and policies established by the Board of Directors and, in particular:
 - prepares regulations, activities, procedures and organisational structures for the adoption and application of an efficient lending process and a solid system for the control of the related risks;
 - checks the adequacy and effectiveness of the above elements;
 - takes the necessary action to eliminate any weaknesses and inefficiencies that are identified;
 - communicates its objectives and policies to the organisational functions.

In addition, General Management adopts resolutions to the extent of the autonomy granted.

- *Branches*. The branches play a key role in business development. They manage relations with new and established borrowers, obtaining all the documentation required for the assessment of their creditworthiness; they also filter applications and prepare the formal requests for credit, approving directly those within the scope of their powers.

The branches monitor outstanding loans and identify on a timely basis those showing signs of impairment; positions are reviewed at predetermined intervals. In event the anomalies, they work with the central functions to take suitable steps with regard to the counterparts concerned.

- *Coordination functions.* These guide the branches in their geographical areas, providing essential support in the development of customer relations and for the management of complex and/or risky positions.
They examine requests for loans to be presented to the central functions and express an opinion, while approving directly those within the scope of their powers.
- *The Central Loans Department.* The Credit Assessment office supports the work of the central committees by receiving applications from branches, checking their completeness and accuracy, and completing the assessment.
The Risk Office administers the applications. In particular, this office updates the IT database with information on the approved loans and the underlying guarantees, after ensuring that the latter comply with the requirements set out in the loan authorisation. The Medium-term and Special Loans Office arranges mortgages, leasing, factoring, artisan and agricultural loans, loans under framework agreements and personal loans.
- *The Watchlist and Lending Control Department* reviews outstanding loans and identifies those that show signs of anomalies; depending on how serious these are, the department monitors them more closely, proposes a restructuring, or classifies them on the watchlist or as non-performing loans.
This department also administers all watchlist and restructured loans.
- *Legal and Claims Department.* This department works to safeguard the interests of the bank with regard to disputed assets and liabilities. In particular, with regard to «non-performing» loans, the department takes the legal action needed to recover the outstanding amounts and also takes out-of-court action together with the Watchlist Department.
- The risk control office within the *Planning and Management Control Department* determines the models, tools and procedures required for the implementation of credit rating systems. This office analyses the loan portfolios and ensures that the forecasting systems established over time remain effective.
- The *Internal Audit Department* verifies compliance with internal and external regulations at all stages in the lending process. In particular, this department checks that the criteria for the proper classification of loans are correctly applied.
The department also identifies anomalous items that might reflect situations of increasing risk and reports them to the departments concerned.

2.2 Systems for managing, measuring and monitoring

The individual offices involved at the various stages of the lending process carry out «first level or routine» checks to ensure that procedures are followed properly.

Outstanding loans are reviewed periodically, having regard for the situation identified at the initial assessment stage, to ensure that the borrower and any guarantors remain solvent, to verify loan quality and the validity of and protection afforded by the guarantees concerned, and to determine the profitability of the conditions applied having regard for the risk profile. Trust accounts are also monitored in order to identify any new or ongoing anomalies on a timely basis. In this regard, the home branches of the loans concerned play an important role since, by maintaining customer relations, they are able to identify immediately any signs of impairment.

The central offices prepare a summary indicator of risk each month, using performance measurement and control methodologies that consider both internal and banking system data, as well as the allocated credit rating, where available.

The positions identified by the summary indicator to be at significant risk are analysed appropriately and, where there are clear signs of impairment, they are placed under observation or classified as «anomalous», depending on how serious the situation is.

Checks are performed during the initial assessment, payout and monitoring stages with regard to the concentration of risk in relation to individual counterparts or groups of counterparts that are linked by legal or economic relationships. For this purpose, reference is made to the individual limits on large loans which, under the current supervisory regulations applying to banks on a non-consolidated basis, represent a «major risk».

For management purposes, the bank adopts a rating system that currently covers SMEs (partnerships and companies with sales of between € 1.5 million and € 50 million) and micro-enterprises (partnerships and companies with sales of less than € 1.5 million and loans in excess of € 75,000).

This system determines a rating for the counterparts concerned and an associated probability of default (PD), representing the estimated likelihood that the counterpart will become insolvent within one year. The probability of default depends solely on the characteristics of the counterpart; accordingly, it is not modified by any guarantees obtained by the bank.

This is a hybrid system, based on the use of statistical models, as supplemented by the opinion of loan assessment personnel who modify or accept the results initially determined on an automatic basis. The rating process takes account of financial information (financial statements), past experience, both internally and within the banking system (central risks database), and qualitative information.

The final assessment is presented on a scale of 13 classes of healthy counterparts and 1 class of insolvent counterparts; these ratings are accompanied operationally by a summary opinion, in order to rate the quality of the borrower within the bank's portfolio of customers.

Consistent with the approach taken in the past, the concept of insolvency adopted by the rating process does not consider the exposure to borrowers whose positions, at the reference date, are past due or have been overdrawn for more than 180 days; work is currently underway to align the definitions, models and processes with the approach adopted by the new regulations. The current definition of insolvency includes both the internally-defined doubtful and watchlist loans, as well as the «adjusted doubtful loans» referred to in the supervisory instructions.

At the end of December 2005, this sub-portfolio included 12.95% of borrowers, representing 46% of cash lending to customers.

The related probability of insolvency within one year (after the modifications and acceptances made by personnel), measured monthly as part of the rating process, is 1.04%, compared with an average during the year of 1.08%.

The rating is used when granting, reviewing and monitoring loans. The rating for each position is calculated monthly for monitoring purposes, but is determined on an ad hoc basis when considering new loans or reviewing existing loans.

Ratings awarded by specialist agencies to ordinary customers cover just 2.8% of cash lending, given the prevalence within the portfolio of small and medium-sized enterprises and the low propensity to obtain such ratings of Italian firms. Where available, these ratings are taken into due consideration in the evaluation of creditworthiness. With regard to the assessment of lending to Italian and foreign banks, the ratings given by leading agencies are used wherever available. Otherwise, an internal rating, based on the application of a simplified model, is used. More specifically, this model involves the examination of a series of quantitative and qualitative indicators and information, which produce values for the determination of a final score. This score is positioned on a scale of ten classes, the first of which represents a counterpart/issuer with minimal risk, while the ninth highlights maximum risk and the tenth represents a state of insolvency. These ten classes are then grouped into four macroclasses for comparison with the ratings given by international agencies. Various analyses of the loan portfolio are performed on a periodic basis: by geographical area, by individual branch/coordination area, by economic sector, by product, by risk category, by deterioration rate, by risk concentration/diversification, by capital commitment and by return in relation to risk. The changes in the risk exposure of the Mid-Corporate sub-portfolio are

also assessed by considering the distribution of counterparts by rating class and changes in the average probability of default, having regard for the more significant rating parameters.

These assessments support the formulation of policy guidelines for lending, help adopt suitable operational measures and provide operational guidelines to the central and branch functions concerned.

2.3 Credit risk mitigation techniques

The bank obtains the guarantees considered usual for banking activities: these principally comprise mortgages on buildings, pledges on financial instruments and personal guarantees.

Personal guarantees principally comprise limited, general guarantees given by individuals and companies whose creditworthiness is considered adequate following a specific assessment.

The availability of guarantees is considered when determining the total extent of the facilities grantable to a customer or to the legal and/or economic group to which the customer belongs.

The estimated value of the security offered by counterparts is «discounted» on a prudent basis, having regard for the nature of the instrument made available (mortgages on buildings, pledges of cash or other financial instruments).

The value of security given in the form of financial instruments listed on regulated markets is automatically revised each day with reference to the quoted prices, in order to check that the cover remains within the agreed line of credit or, otherwise, to report the situation to the account managers on a timely basis.

The bank is not party to settlement agreements regarding on- and off-balance sheet transactions.

Suitable arrangements are made when obtaining, assessing and verifying guarantees to ensure that they will prevail over third parties and can be enforced, both at the time and in the future. At this time, there are no contractual restrictions threatening the legal validity of guarantees received.

The central functions that perform the above checks are different to the functions that grant and review lending; the Internal Audit Department carries out periodic checks to ensure that these activities are performed properly and on a prudent basis. There were no significant changes in the procedures described above during the year.

2.4 Impaired financial assets

Risk profiles are monitored at all operational stages in lending relationships with, in particular, effective supervision to ensure that any anomalies are evaluated on a timely basis.

Loans are classified as «anomalous» if there are serious signs of impairment and, depending on the nature and gravity of the anomaly, they are separated into the following categories:

- *Watchlist*, covering the entire exposure to borrowers that are experiencing temporary objective difficulties that are likely to be resolved within a reasonable period of time;
- *Restructured*, covering loans subject to the revision of the originally agreed terms (e.g. the rescheduling of payments, the reduction of principal and/or interest charges), due to a deterioration in the economic and financial condition of the borrower, leading to a loss for the bank;
- *Doubtful*, covering the entire cash exposure to borrowers that are insolvent or in an equivalent state, regardless of the guarantees given.

The loans not allocated to the above categories are deemed to be performing loans.

The management of «anomalous» loans involves taking action, based on the gravity of the situation, to restore normality or, otherwise, to commence appropriate recovery procedures.

In particular:

- with regard to watchlist loans, efforts are made to re-establish the original conditions of reliability and profitability within a reasonable period of time; if this is deemed to be impossible, the non-performing loans concerned are reclassified as doubtful;
- with regard to restructured loans, compliance with the agreed conditions is monitored and, in the event of non-compliance, the need for their reclassification as watchlist or doubtful loans is assessed;
- with regard to doubtful loans, suitable efforts are made to obtain recovery or, if possible, they are rescheduled and/or settlements are proposed on an amicable basis in order to terminate the relationship.

Overdue and overdrawn positions are identified immediately and reported to the account managers and area managers concerned, so that the necessary checks can be performed.

If this situation persists for more than thirty days, the central functions are «alerted» so that they can work together with those at a branch level to find a solution.

The accounts concerned are placed under observation in the above action is not successful, assuming that the related risks are covered and the customer is deemed to be sufficiently reliable.

Adjustments are made in strict compliance with both the primary and secondary regulations and on a highly prudent basis. The simulations carried out during the year have resulted in the adoption of reliable and rigorous methodologies for calculating the adjustments required. Frequent review of the factors underlying the assessments made ensures that these appropriately reflect the real level of risk inherent in the loan portfolio.



QUANTITATIVE INFORMATION

A. Asset quality

A.1 Impaired and performing loans: size, adjustments, trends, economic and territorial distribution

A.1.1 Distribution of financial assets by portfolio and quality of lending (book values)

Portfolio/quality	Doubtful loans	Watchlist loans	Restructured exposures	Exposures past due	Country risk	Other assets	Total 31/12/2005
1. Financial assets held for trading	-	-	-	-	-	2,376,276	2,376,276
2. Available-for-sale financial assets	-	-	-	-	-	140,792	140,792
3. Financial assets held to maturity	-	-	-	-	-	-	-
4. Due from other banks	-	-	-	-	-	1,289,174	1,289,174
5. Due from customers	84,137	116,180	6,740	107,486	2,691	8,880,616	9,197,850
6. Financial assets at fair value	-	-	-	-	-	137,775	137,775
7. Financial assets being sold	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	642	642
Total 31/12/2005	84,137	116,180	6,740	107,486	2,691	12,825,275	13,142,509

A.1.2 Distribution of financial assets by portfolio and quality of lending (gross and net values)

Portfolio/quality	Impaired loans				Other assets			Total net exposure
	Gross exposure	Specific adjustments	General portfolio adjustments	Net exposure	Gross exposure	General portfolio adjustments	Net exposure	
1. Financial assets held for trading	-	-	-	-	2,376,276	-	2,376,276	2,376,276
2. Available-for-sale financial assets	-	-	-	-	80,623	60,169	140,792	140,792
3. Financial assets held to maturity	-	-	-	-	-	-	-	-
4. Due from other banks	-	-	-	-	1,289,174	-	1,289,174	1,289,174
5. Due from customers	461,404	146,861	-	314,543	8,925,285	-41,978	8,883,307	9,197,850
6. Financial assets at fair value	-	-	-	-	137,775	-	137,775	137,775
7. Financial assets being sold	-	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	642	-	642	642
Total 31/12/2005	461,404	146,861	-	314,543	12,809,775	18,191	12,827,966	13,142,509

A.1.3 Cash and off-balance sheet exposures to banks: gross and net values

Type of exposure/Amounts	Gross exposure	Specific adjustments	General portfolio adjustments	Net exposure
A. Cash exposures				
a) Doubtful loans	-	-	-	-
b) Watchlist loans	-	-	-	-
c) Restructured exposures	-	-	-	-
d) Exposures past due	-	-	-	-
e) Country risk	-	-	-	-
f) Other assets	1,532,316	-	-55,736	1,588,052
Total A	1,532,316	-	-55,736	1,588,052
B. Off-balance sheet exposures				
a) Impaired	-	-	-	-
b) Other	316,047	-	-	316,047
Total B	316,047	-	-	316,047

A.1.6 Cash and off-balance sheet exposures to customers: gross and net values

Type of exposure/Amounts	Gross exposure	Specific adjustments	General portfolio adjustments	Net exposure
A. Cash exposures				
a) Doubtful loans	204,813	120,676	-	84,137
b) Watchlist loans	141,510	25,330	-	116,180
c) Restructured exposures	7,099	359	-	6,740
d) Exposures past due	107,982	496	-	107,486
e) Country risk	3,844	-	1,153	2,691
f) Other assets	11,225,807	-	36,391	11,189,416
Total A	11,691,055	146,861	37,544	11,506,650
B. Off-balance sheet exposures				
a) Impaired	29,359	-	3,287	26,072
b) Other	2,236,995	-	713	2,236,282
Total B	2,266,354	-	4,000	2,262,354

A.1.7 Cash exposures to customers: dynamics of gross impaired loans and loans subject to «country risk»

Categories	Doubtful loans	Watchlist loans	Restructured exposures	Exposures past due	Country risk
A. Opening gross exposure	176,612	110,299	11,994	-	3,248
- of which: sold but not eliminated from the balance sheet	-	-	-	-	-
B. Increases	89,175	86,589	905	107,982	880
B1. transfers from performing loans	14,509	68,841	-	90,705	-
B2. transfers from other categories of impaired exposure	33,705	-	-	-	-
B3. other increases	40,961	17,748	905	17,277	880
C. Decreases	60,974	55,378	5,800	-	284
C1. transfers to performing loans	-	1,364	4,936	-	-
C2. write-offs	36,861	-	-	-	-
C3. collections	24,113	19,517	864	-	284
C4. proceeds from disposals	-	-	-	-	-
C5. transfers to other categories of impaired exposure	-	33,705	-	-	-
C6. other decreases	-	792	-	-	-
D. Closing gross exposure	204,813	141,510	7,099	107,982	3,844
- of which: sold but not eliminated from the balance sheet	-	-	-	-	-

A.1.8 Cash exposures to customers: dynamics of total writedowns

Categories	Doubtful loans	Watchlist loans	Restructured exposures	Exposures past due	Country risk
A. Total opening adjustments	109,257	13,827	2,128	-	974
- of which: sold but not eliminated from the balance sheet	-	-	-	-	-
B. Increases	58,289	23,849	4	496	264
B1. Adjustments	49,566	15,184	4	-	264
B2. transfers from other categories of impaired exposure	7,936	-	-	-	-
B3. other increases	787	8,665	-	496	-
C. Decreases	46,870	12,346	1,773	-	85
C1. Write-backs on valuation	2,060	885	883	-	-
C2. Write-backs due to collections	7,949	3,521	438	-	85
C3. write-offs	36,861	-	-	-	-
C4. transfers to other categories of impaired exposure	-	7,936	-	-	-
C5. other decreases	-	4	452	-	-
D. Total closing adjustments	120,676	25,330	359	496	1,153
- of which: sold but not eliminated from the balance sheet	-	-	-	-	-

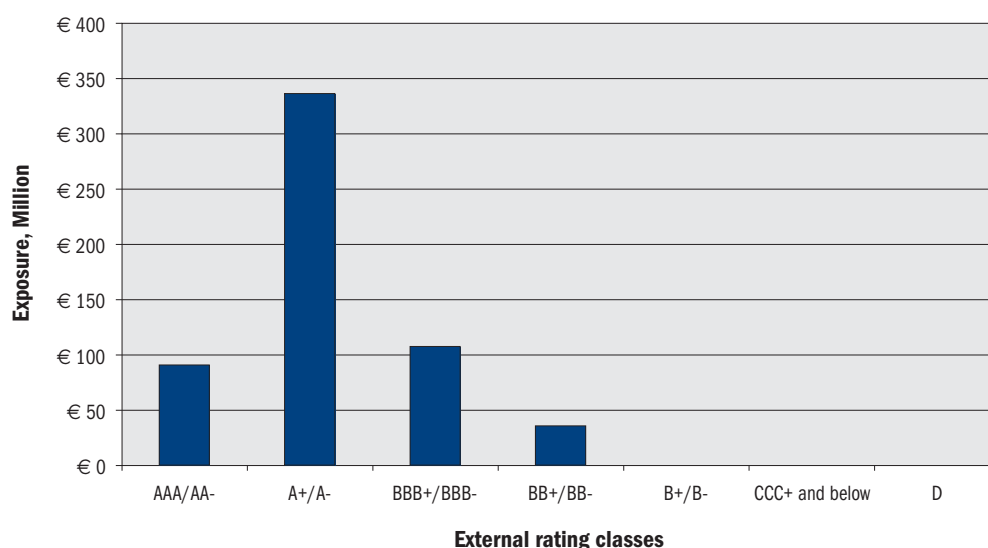
A.2 Classification of exposures based on external and internal ratings

A.2.1 Distribution of cash lending by external rating class

The distribution of lending to banks and customers is reported by classes that reflect the long-term rating awarded to them by leading international agencies, as held in the bank's database.

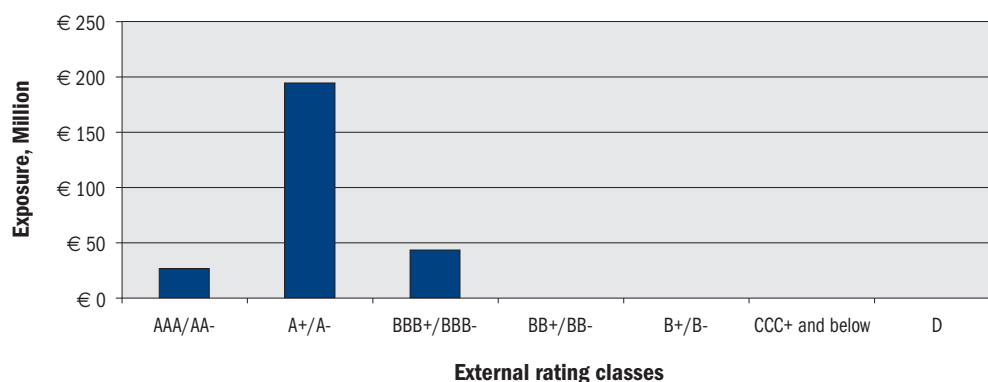
The exposure to banks with such ratings amounts to € 569.474 million, which represents 57% of the amounts «due from banks», excluding compulsory deposits.

The following graph shows the risk distribution of this sub-portfolio. The first column, comprising the rating classes from triple A to AA-, identifies the lower-risk counterparts, while those included in classes CCC+ and below reflect the highest degree of risk, followed only by a state of insolvency, being class D.



The exposure to rated customers amounts to € 260.285 million, which represents 2.8% of «loans to customers».

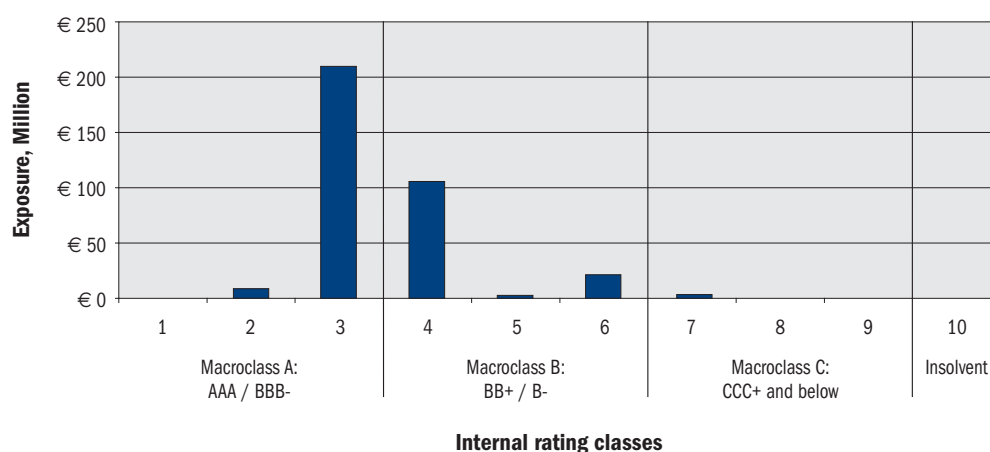
The following graph shows the distribution of this sub-portfolio by rating class, on the basis described above.



A.2.2 Distribution of cash lending by internal rating class

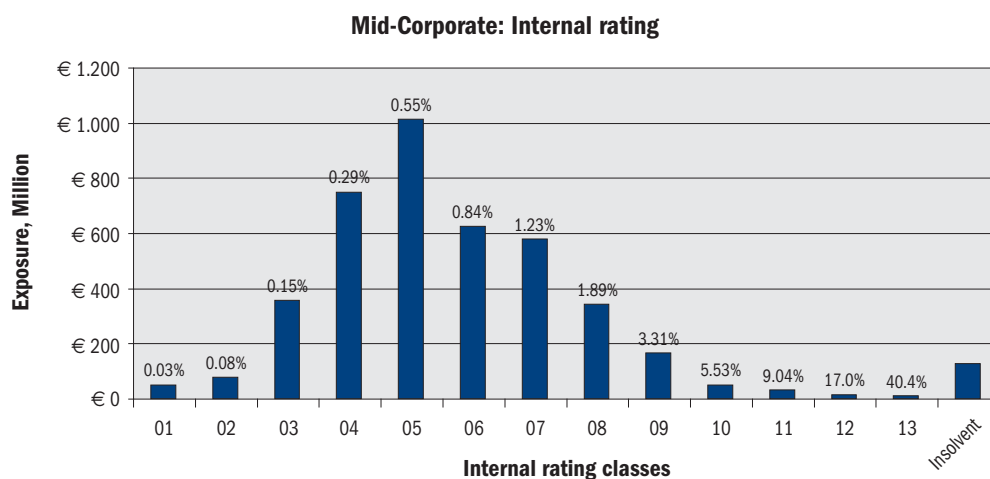
The distribution of loans to banks and customers is reported with reference to the ratings awarded using the internally developed models referred to in the report on operations and described in the qualitative information provided in this section. The amounts due from banks with a rating amount to € 350.898 million, which represents about 35% of all amounts «due from banks», excluding compulsory deposits.

The following graph shows the risk distribution of this sub-portfolio. This presents the ten classes used by the internal system to classify customers. The first class identifies customers with the lowest risk, while the ninth class highlights the maximum risk, which is only exceeded by a state of insolvency, class 10. These ten classes are then grouped into four macroclasses to facilitate comparison with the ratings given by international agencies.



The exposure to customers with an internal rating amounts to € 4,232.293 million, representing 46% of «loans to customers».

The following graph presents the risk profile of this sub-portfolio, using the internal scale of 13 classes for healthy counterparts and 1 class for insolvent parties. The average probability of default (PD) for each class is also indicated in a label attached to each column.



A.3 Distribution of guaranteed exposures by type of guarantee

The following tables relate to cash deposits with banks, loans to customers and off-balance sheet exposures. Exposures are stated net of specific and portfolio adjustments. As required by the prudent supervisory regulations, the guarantees are allocated with reference to gross exposures. The amounts shown in the «guarantees» columns relate to the exposure covered and not to the contractual or fair value of the guarantees concerned. This means that the real value of the guarantees may exceed that shown.

A.3.1 Guaranteed cash exposures to banks and customers

	Amount of exposure	Secured guarantees		
		Buildings	Securities	Other assets
1. Guaranteed exposures to banks	-	-	-	-
1.1 fully guaranteed	-	-	-	-
1.2 partially guaranteed	-	-	-	-
2. Guaranteed exposures to customers	5,763,107	3,632,374	202,477	74,801
2.1 fully guaranteed	5,282,048	3,627,110	159,289	16,833
2.2 partially guaranteed	481,059	5,264	43,188	57,968

A.3.2 Guaranteed «off-balance sheet» exposures to banks and customers

	Amount of exposure	Secured guarantees		
		Buildings	Securities	Other assets
1. Guaranteed exposures to banks	-	-	-	-
1.1 fully guaranteed	-	-	-	-
1.2 partially guaranteed	-	-	-	-
2. Guaranteed exposures to customers	520,770	1,002	34,071	18,468
2.1 fully guaranteed	448,012	1,002	17,285	14,760
2.2 partially guaranteed	72,758	-	16,786	3,708

A.3.3 Guaranteed exposures on impaired loans to banks and customers

	Amount of exposure	Secured guarantees		
		Buildings	Securities	Other assets
1. Guaranteed exposures to banks	-	-	-	-
1.1 100% or more	-	-	-	-
1.2 between 50% and 100%	-	-	-	-
1.3 up to 50%	-	-	-	-
2. Guaranteed exposures to customers	253,366	219,794	18,900	607
2.1 100% or more	223,880	215,301	12,836	470
2.2 between 50% and 100%	11,842	4,150	5,799	137
2.3 up to 50%	17,644	343	265	-

Personal guarantees

Credit derivatives				Guarantees given			
Governments	Other public entities	Banks	Other parties	Governments	Other public entities	Banks	Other parties
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	1,339	14,778	1,815,853
-	-	-	-	-	1,188	10,607	1,577,148
-	-	-	-	-	151	4,171	238,705

Personal guarantees

Credit derivatives				Guarantees given			
Governments	Other public entities	Banks	Other parties	Governments	Other public entities	Banks	Other parties
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	73	4,225	437,762
-	-	-	-	-	73	4,225	411,392
-	-	-	-	-	-	-	26,370

Guarantees

Personal guarantees

Credit derivatives				Guarantees given			
Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	185	106	94,849
-	-	-	-	-	185	106	80,917
-	-	-	-	-	-	-	10,029
-	-	-	-	-	-	-	3,903

A.3.4 Guaranteed exposures on impaired «off-balance sheet» positions with banks and customers

	Amount of exposure	Secured guarantees		
		Buildings	Securities	Other assets
1. Guaranteed exposures to banks	-	-	-	-
1.1 100% or more	-	-	-	-
1.2 between 50% and 100%	-	-	-	-
1.3 up to 50%	-	-	-	-
2. Guaranteed exposures to customers	3,291	-	97	342
2.1 100% or more	2,905	-	71	332
2.2 between 50% and 100%	296	-	10	10
2.3 up to 50%	90	-	16	-

B. Distribution and concentration of lending

B.1 Distribution by sector of cash and «off-balance sheet» exposures to customers

Exposures/Counterparts	Governments and central banks				Other public entities				Financial companies		
	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure	Gross exposure	Specific adjustments	Portfolio adjustments
A. Cash exposures											
A1. Doubtful loans	-	-	-	-	-	-	-	-	405	103	-
A2. Watchlist loans	-	-	-	-	-	-	-	-	10,631	2,118	-
A3. Restructured exposures	-	-	-	-	-	-	-	-	-	-	-
A4. Exposure past due	-	-	-	-	-	-	-	-	119	1	-
A5. Other exposures	-	-	-	-	131,377	-	112	131,265	682,307	-	3,201
Total A	-	-	-	-	131,377	-	112	131,265	693,462	2,222	3,201
B. «Off-balance sheet» exposures											
B1. Doubtful loans	-	-	-	-	-	-	-	-	-	-	-
B2. Watchlist loans	-	-	-	-	-	-	-	-	-	-	-
B3. Other impaired assets	-	-	-	-	-	-	-	-	4	-	-
B4. Other exposures	-	-	-	-	36,887	-	-	36,887	79,630	-	-
Total B	-	-	-	-	36,887	-	-	36,887	79,634	-	-
Total 31/12/2005	-	-	-	-	168,264	-	112	168,152	773,096	2,222	3,201

The following table analyses the loans and off-balance sheet exposures to customers by the economic sectors of counterparts. The additional financial assets comprising the «cash exposures to customers» caption, not shown above, consist of government fixed-yield securities, fixed and variable-yield securities placed by private issuers, and units in mutual funds. An analysis of debtors/issuers is presented in the tables shown in Part B – Information on the Balance Sheet.

Guarantees							
Personal guarantees							
Credit derivatives				Guarantees given			
Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	8	3,422
-	-	-	-	-	-	8	3,221
-	-	-	-	-	-	-	191
-	-	-	-	-	-	-	10

Insurance companies					Non-financial companies				Other parties			
Net exposure	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure
302	-	-	-	-	144,263	81,881	-	62,382	60,145	38,693	-	21,452
8,513	-	-	-	-	104,240	20,275	-	83,965	26,639	2,937	-	23,702
-	-	-	-	-	7,099	359	-	6,740	-	-	-	-
118	-	-	-	-	73,994	340	-	73,654	33,869	155	-	33,714
679,106	10,045	-	-	10,045	6,192,980	-	29,325	6,163,655	1,908,575	-	9,339	1,899,236
688,039	10,045	-	-	10,045	6,522,576	102,855	29,325	6,390,396	2,029,228	41,785	9,339	1,978,104
-	-	-	-	-	3,205	-	2,469	736	1,714	-	817	897
-	-	-	-	-	12,136	-	-	12,136	145	-	-	145
4	-	-	-	-	3,170	-	-	3,170	8,984	-	-	8,984
79,630	-	-	-	-	1,813,129	-	613	1,812,516	307,349	-	100	307,249
79,634	-	-	-	-	1,831,640	-	3,082	1,828,558	318,192	-	917	317,275
767,673	10,045	-	-	10,045	8,354,216	102,855	32,407	8,218,954	2,347,420	41,785	10,256	2,295,379

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

	31/12/2005	31/12/2004
a) Other services for sale	2,141,359	1,886,546
b) Wholesale and retail services, recoveries and repairs	930,690	886,256
c) Construction and public works	784,324	761,167
d) Energy products	290,284	174,046
e) Metal products excluding cars and transportation	277,567	273,611
f) Other sectors	1,921,110	1,934,548
Total	6,345,334	5,916,174

B.3 Territorial distribution of the cash and «off-balance sheet» exposures to customers

Exposures/Geographical areas	ITALY		OTHER EU COUNTRIES	
	Gross exposure	Net exposure	Gross exposure	Net exposure
A. Cash exposures				
A1. Doubtful loans	204,698	84,047	116	90
A2. Watchlist loans	141,028	115,713	467	454
A3. Restructured exposures	7,099	6,740	-	-
A4. Exposure past due	104,918	104,437	3,050	3,036
A5. Other exposures	8,836,750	8,796,324	84,267	83,351
Total	9,294,493	9,107,261	87,900	86,931
B. «Off-balance sheet» exposures				
B1. Doubtful loans	4,919	1,633	-	-
B2. Watchlist loans	12,281	12,281	-	-
B3. Other impaired assets	12,129	12,129	30	30
B4. Other exposures	2,217,163	2,216,449	19,697	19,697
Total	2,246,492	2,242,492	19,727	19,727
Total 31/12/2005	11,540,985	11,349,753	107,627	106,658

The following table analyses lending and off-balance sheet exposures to customers by the counterpart's country of residence. The additional financial assets comprising the «cash exposures to customers» caption, not shown above, mainly relate to counterparts resident in Italy.

AMERICA		ASIA		REST OF THE WORLD	
Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
-	-	-	-	-	-
-	-	-	-	15	14
-	-	-	-	-	-
7	7	-	-	6	6
3,342	2,912	924	720	-	-
3,349	2,919	924	720	21	20
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
18	18	118	118	-	-
18	18	118	118	-	-
3,367	2,937	1,042	838	21	20

B.4 Territorial distribution of cash and «off-balance sheet» exposures to banks

Exposures/Geographical areas	ITALY		OTHER EU COUNTRIES	
	Gross exposure	Net exposure	Gross exposure	Net exposure
A. Cash exposures				
A1. Doubtful loans	-	-	-	-
A2. Watchlist loans	-	-	-	-
A3. Restructured exposures	-	-	-	-
A4. Exposure past due	-	-	-	-
A5. Other exposures	950,642	950,642	308,987	308,987
Total	950,642	950,642	308,987	308,987
B. «Off-balance sheet» exposures				
B1. Doubtful loans	-	-	-	-
B2. Watchlist loans	-	-	-	-
B3. Other impaired assets	-	-	-	-
B4. Other exposures	254,831	254,831	58,618	58,618
Total	254,831	254,831	58,618	58,618
Total 31/12/2005	1,205,473	1,205,473	367,605	367,605

The following table analyses loans and off-balance sheet exposures to banks by the counterpart's country of residence. The additional financial assets comprising the «cash exposures to banks» caption, not shown above, relate to counterparts resident in Italy and, to a limited extent, in other EU nations and in America.

B.5 Significant risks

	31/12/2005	31/12/2004
a) Amount	438,399	491,613
b) Number	3	4

C. Securitisation transactions and disposal of assets

C.1 Securitisation transactions

QUALITATIVE INFORMATION

The bank has not entered into any direct securitisation transactions and has not been involved in such transactions organised by third parties. Fixed-yield securities deriving from securitisations arranged by third parties have been acquired solely for portfolio management reasons.

QUANTITATIVE INFORMATION

C.1.1 Exposures deriving from securitisations, analysed by type of underlying asset

Type of underlying asset/Exposures	Cash exposures					
	Senior		Mezzanine		Junior	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. With own underlying assets	-	-	-	-	-	-
a) Impaired	-	-	-	-	-	-
b) Other	-	-	-	-	-	-
B. With underlying assets of third parties	219,071	219,409	-	-	-	-
a) Impaired	-	-	-	-	-	-
b) Other	219,071	219,409	-	-	-	-

AMERICA		ASIA		REST OF THE WORLD	
Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
4,695	4,695	16,346	16,346	8,504	8,504
4,695	4,695	16,346	16,346	8,504	8,504
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
294	294	2,275	2,275	29	29
294	294	2,275	2,275	29	29
4,989	4,989	18,621	18,621	8,533	8,533

Guarantees given						Credit lines					
Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-



C.1.3 Exposures deriving from the principal «third party» securitisations, analysed by type of asset securitised and by type of exposure

Type of asset securitised/Exposures	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Adjustments/ write-backs	Book value	Adjustments/ write-backs	Book value	Adjustments/ write-backs
A.1 CREDIFARMA CLASS A	10,071	-	-	-	-	-
- Securities	10,071	-	-	-	-	-
A.2 SCIP CLASS A3	2	-	-	-	-	-
- Securities	2	-	-	-	-	-
A.3 CPG-AEM CLASS A1	19,394	94	-	-	-	-
- Securities	19,394	94	-	-	-	-
A.4 SCIC CLASS A2	10	-	-	-	-	-
- Securities	10	-	-	-	-	-
A.5 ITALEASE F. CLASS A2	7,036	-	-	-	-	-
- Securities	7,036	-	-	-	-	-
A.6 ITALEASE SR 2005-1 CLASS A2	2,002	-	-	-	-	-
- Securities	2,002	-	-	-	-	-
A.7 SCIP CLASS A4	23,600	-	-	-	-	-
- Securities	23,600	-	-	-	-	-
A.8 SCIP CLASS A5	40,214	-	-	-	-	-
- Securities	40,214	-	-	-	-	-
A.9 SCIP CLASS B2	9,059	45	-	-	-	-
- Securities	9,059	45	-	-	-	-
A.10 FIP CLASS A1	17,216	-	-	-	-	-
- Securities	17,216	-	-	-	-	-
A.11 FIP CLASS A2	40,717	200	-	-	-	-
- Securities	40,717	200	-	-	-	-
A.12 S.C.C.I. SERIES 10	50,089	-	-	-	-	-
- Securities	50,089	-	-	-	-	-

C.1.4 Exposures to securitisations analysed by portfolio and by type

Exposure/Portfolio	Financial assets held for trading	Financial assets at fair value	Available-for-sale financial assets	Financial assets held to maturity	Loans	Total	Total
						31/12/2005	31/12/2004
1. Cash exposures	219,409	-	-	-	-	219,409	208,201
- «Senior»	219,409	-	-	-	-	219,409	178,447
- «Mezzanine»	-	-	-	-	-	-	29,754
- «Junior»	-	-	-	-	-	-	-
2. Off-balance sheet exposures	-	-	-	-	-	-	-
- «Senior»	-	-	-	-	-	-	-
- «Mezzanine»	-	-	-	-	-	-	-
- «Junior»	-	-	-	-	-	-	-

[illegible]

Section 2 *Market risks*

2.1 Interest rate risk - Trading portfolio reported for supervisory purposes

QUALITATIVE INFORMATION

A. General aspects

The principal source of interest rate risk is represented by the bonds held by the bank.

The objectives and strategies for trading activities involving the securities portfolio are designed to maximise its profitability by taking investment opportunities, while working to contain the level of risk. This means that the duration of the bond portfolio is very short.

The bank's role in trading activities essentially consists of arbitrage in securities to benefit from short-term trading opportunities, rather than of taking long-term risk positions.

This strategy is consistent with the general approach adopted by the bank, based on the prudent management of all risks.

With regard to the treatment of derivative instruments, the offices deal in untraded options on fixed-yield government securities, while activity regarding other innovative or complex instruments is negligible.

The nature of trading activities did not change significantly over the year.

B. Management and measurement of interest rate risk

The internal processes for control and management of the interest rate risk associated with the trading portfolio (as defined below) have the following characteristics. The organisational structure comprises: the Board of Directors, which establishes guidelines and the maximum degree of acceptable risk; General Management, which carries out supervision and, in turn, sets limits on risk that are consistent with those established by the Board; the «central and branch internal auditors», part of the Internal Audit function, who check on compliance with established limits; the «Risk control» office, within the Planning and management control department, measures risk and produces the related reports; the «Treasury» office, within the Finance department, and the «Exchange centre», within the International department, accept risk by operating in the markets.

The system for the limitation of risk, especially financial risk (interest rate, exchange rate, share price), is governed by the Board resolution on «Operational and managerial limits for financial activities» adopted on 29 November 2001. This system is organised on the basis described below. As part of its governance functions, the Board of Directors quantifies the maximum acceptable loss for the period, consistent with the bank's volume of business. At the next level, General Management allocates this Maximum Acceptable Loss between financial risks and credit risks. Suitable limits on the potential exposure to financial risk are established in terms of Value at Risk. At a lower level, operational limits are set on a basis consistent with the above management limits; these are directly utilisable by operators in order to monitor changes in the risk profile of the positions held.

The procedures for the control and management of risk described above have not changed significantly during the year.

The methodology used for the analysis of sensitivity to interest rate risk essentially comprises application of the internal model for strategic Asset & Liability Management (ALM), described in section 2.2 below (interest rate risk inherent in the bank's portfolio), and an internal model for the daily calculation of Value at Risk (VaR) that has the characteristics described below.

With regard to the principal assumptions and underlying parameters, this model is parametric with variances and co-variances defined in accordance with the famous JP Morgan riskmetrics methodology. It covers the activity in financial instruments exposed to interest rate risk included in the trading portfolios held for operational or supervisory purposes. The first includes bonds held, interbank deposits made and received, and funding and lending repurchase agreements with banks, including any related unsettled transactions (securities,

deposits and funding and lending repos). The second includes the same instruments, excluding any unsettled interbank deposits to be received or delivered, together with funding and lending repurchase agreements with ordinary customers (including, in this case, any unsettled amounts), options on fixed-yield securities (none at the balance sheet date), spot and forward rate agreements, and interest rate derivatives.

Had they been present, the options would have been treated using delta-gamma methodology.

The parameters for the calculation of VaR are as follows: holding period of one day, observation period of 252 days (for the estimation of volatility and the correlation of risk factors) and a confidence interval of 99%.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation of the trading portfolio for operational purposes is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs; the VaR relating to the trading portfolio for supervisory purposes is determined using two separate systems, one just for interest rate derivatives; within each system, the aggregation takes account of the correlations while, prudently, the VaRs determined by each system are summed; these correlations are estimated by an external consultant appointed by the bank.

The policies and procedures for the ex post comparison of the model's results with actual results («back testing») regarding the bonds held, excluding unsettled amounts (to be received or delivered), consist in a comparison between the daily VaR and, on the one hand, the change in market value on the following day for the same positions used to calculate the VaR (theoretical loss), and, on the other, the difference between capital gains, write-backs, capital losses, and the realised gains and losses on transactions in bonds held in the portfolio, as reported by the securities procedure (actual loss).

The changes during the year in the exposure to risk of the trading portfolio for operational purposes are described in the «Risk management» section of the directors' report on operations; with regard to the trading portfolio for supervisory purposes, VaR information is not available for the prior year and, accordingly, the information provided was obtained from reporting on prudent parameters and from the ALM system, but solely in relation to bonds held and lending and funding repos with ordinary customers. On the first aspect, with regard to the change in the overall capital requirement for market risks from 31.335 million at 31/12/2004 to 33.905 at 31/12/2005, the portion attributable to the portfolio risk on fixed-yield securities has increased from 3.149 million to 4.669. With regard to the second aspect, the effect of a change in interest rates of +100 basis points over twelve months on the future interest margin – difference between the future interest income on bonds held and lending repos with customers, and the future interest expense on funding repos with customers – has risen from an increase of 6.451 million, the minimum value in 2005, to 10.690, which is not far short of the maximum of 11.126; the effect of an instantaneous change in interest rates by +100 basis points on equity – difference between the present value of bonds held and lending repos with customers, with respect to that for funding repos with customers – has increased from a loss of 4.453 million, being the minimum for 2005, to 6.533; the difference between the future income margin for the following twelve months under the most favourable scenario and that under the worst outcome has decreased from 1.695 million to 1.535.

The internal model is not used to determine the capital requirements for market risk reported for supervisory purposes to the Bank for Italy. The standard methodology is used in this case, as reflected in the amounts reported above.

QUANTITATIVE INFORMATION

2. Trading portfolio reported for supervisory purposes - internal models and methodologies for the analysis of sensitivity

Value at Risk (VaR), end of year

	(in thousands of euro)
bonds	284.8
options on fixed-yield securities	0.0
repo transactions	45.0
exchange rates	5.5
sub total	263.5
rate derivatives	3.9
Total	267.4

Information on average, minimum and maximum VaR relating to the operating portfolio is provided in the «Risk management» section of the directors' report on operations.

With regard to the distribution of VaR during the year, the average VaR for each month in 2005 is presented below with reference to the same operating portfolio.

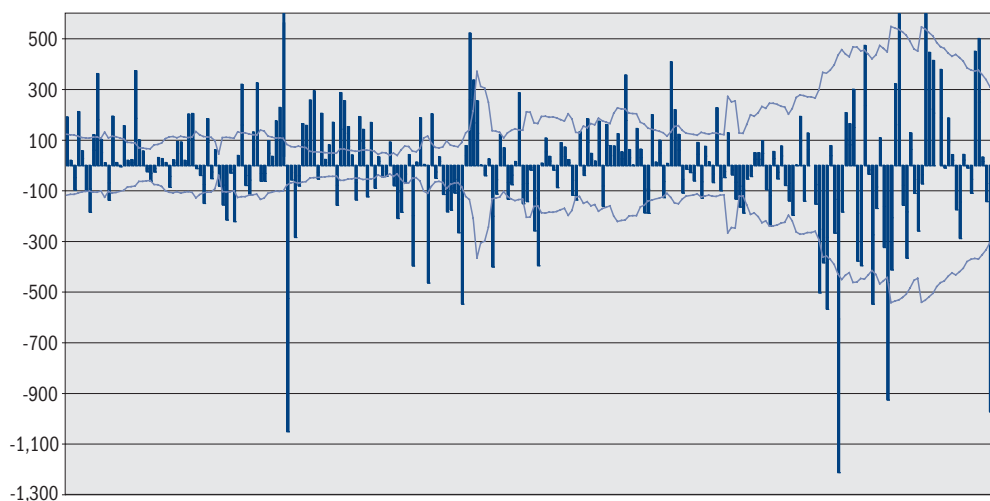
January	118.3
February	142.0
March	123.6
April	87.7
May	59.6
June	221.7
July	172.6
August	173.9
September	139.5
October	293.5
November	481.3
December	447.1

With reference to 245 observations of bonds held, excluding unsettled amounts (to be received or delivered), actual losses exceeded VaR on 44 occasions, while theoretical losses exceeded VaR on 59 occasions.

The following graphs compare VaR with the daily results.

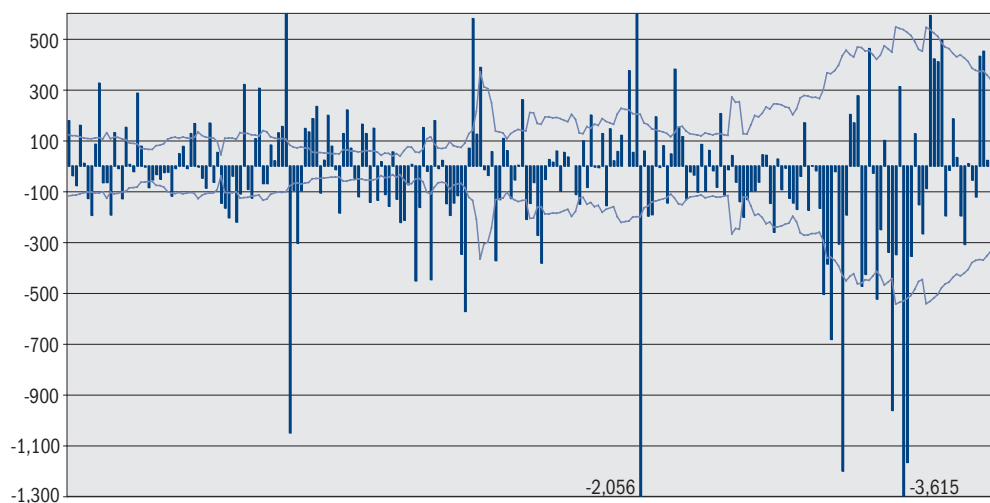
Bonds: VaR and actual profits/losses

(in thousands of euro)



Bonds: VaR and theoretical profits/losses

(in thousands of euro)



The following information on bonds held and lending and funding repos is taken from the ALM procedure, consistent with that provided in section 2.2 below in relation to the banking book. The «period end (net)» data includes repos with banks, while the other information only includes those with ordinary customers.

Effects of a change in interest rates by +100 basis points over a twelve-month period on the future interest margin.

For a change of -100 basis points, the sign of the amounts should be reversed. The future interest margin comprises the difference between the future interest income from bonds held and lending repos and the future interest expense on funding repos, based on assumptions for the changes in volume prepared by the bank.

Exposure to risk

	(in thousands of euro)
at period end (net)	10,873
at period end	10,690
average	9,401
minimum	6,451
maximum	11,126

Effects of an instant change in interest rates of +100 basis points on equity.

For a change of -100 basis points, the sign of the amounts should be reversed.

Equity is defined as the difference between the present value of bonds held and lending repos, and that of funding repos.

Exposure to risk

	(in thousands of euro)
at period end (net)	-6,535
at period end	-6,533
average	-5,780
minimum	-4,453
maximum	-8,529

Analysis of scenario: difference between the future interest margin for the following twelve months under the worst scenario and that under the most favourable outcome.

The scenarios considered are that with constant market rates and the three referred to in the qualitative information provided in section 2.2 on the interest rate risk of the banking book.

Exposure to risk

	(in thousands of euro)
at period end (net)	-1,508
at period end	-1,535
average	-1,693
minimum	-1,205
maximum	-2,872

2.2 Interest rate risk - Banking book

QUALITATIVE INFORMATION

A. General aspects, management and measurement of interest rate risk

The principal sources of interest rate risk deriving from fair value are associated with funding transactions (especially the issue of bonds) and lending transactions (principally long-term loans) at a fixed rate; the interest rate risk deriving from cash flows is originated by other sight of indexed rate assets and liabilities, which represent the majority of the total.

The internal management and control of interest rate risk is centralised within General Management, which periodically checks the ALM situation (integrated asset and liability management) prepared each month and takes the necessary operational decisions. There were no significant changes during the year in the risk management and control procedures described.

The measurement and control of interest rate essentially consist in the methodology for the «control of exposure to interest rate risk» defined by the Bank of Italy in Section IV, Chapter 8 of the «Supervisory instructions for banks», and in an internal model for strategic Asset & Liability Management (ALM) with the characteristics described below.

With regard to the principal assumptions and underlying parameters, the model used supports «gap analysis», for analysing the sensitivity of net interest income, and «duration analysis», for analysing the sensitivity of equity, both from a static standpoint, considering the operations outstanding at the reference date, and from a dynamic standpoint, using a form for the simulation of future transactions and three alternative scenarios for rate changes provided by an external consultant using an econometric model (with regard to the processing with cut-off dates on 1/11/2005 and 1/12/2005, one of the three scenarios was replaced by that developed by the bank for budget purposes).

The system covers the following assets in terms of the financial instruments exposed to interest rate risk included in the bank book for either operational or reporting purposes. The first includes interest-earning assets and interest-bearing liabilities, as defined in the balance sheet format prepared by the national association of peoples' banks, based on the supervisory matrix, excluding all securities held apart from bonds. The second includes the above elements, except for bonds held (including subordinated bonds, classified in the format mentioned as «due from banks») and lending and funding repos with customers, since these are part of the trading portfolio. The final calculation for the year also excluded the lending and funding repos with banks. The various risk profiles are aggregated by simple summation.

The internal policies and procedures for the analysis of scenarios involve calculating all the results under the three, more or less favourable, alternative scenarios mentioned for possible changes in interest rates.

B. Fair value hedges

The objectives and strategies for fair value hedges described below are intended to fix the spread on certain types of liability.

The bank has not arranged any macro hedges.

The specific hedges arranged relate to a number of unlisted interest rate swaps regarding the issue of bonds; the notional amounts concerned are not significant.

C. Cash flow hedges

The bank has not arranged any cash-flow hedges.

QUANTITATIVE INFORMATION

2. Bank book: internal models and other methodologies for the analysis of sensitivity

The following information on income-earning assets and interest-bearing liabilities (as defined in the qualitative information provided for this section), other than bonds held and lending and funding repos, is taken from the ALM procedure. The «period end (net)» information excludes repos from banks and customers, while only the latter are excluded from the other information.

Effects of a change in interest rates by +100 basis points over a twelve-month period on the future interest margin.

For a change of -100 basis points, the sign of the amounts should be reversed. The future interest margin comprises the difference between the future interest income from income-earning assets (excluding bonds held and lending repos) and the future interest expense on interest-bearing liabilities (excluding funding repos), based on assumptions for the changes in volume prepared by the bank.

Exposure to risk

	(in thousands of euro)
at period end (net)	4,956
at period end	5,139
average	7,164
minimum	5,139
maximum	9,801

Effects of an instant change in interest rates of +100 basis points on equity.

For a change of -100 basis points, the sign of the amounts should be reversed.

Equity is defined as the difference between the present value of income-earning assets (excluding bonds held and lending repos), and that of interest-bearing liabilities (excluding funding repos).

Exposure to risk

	(in thousands of euro)
at period end (net)	-8,711
at period end	-8,713
average	-4,728
minimum	-1,452
maximum	-8,713

Analysis of scenario: difference between the future interest margin for the following twelve months under the worst scenario and that under the most favourable outcome.

The scenarios considered are that with constant market rates and the three referred to in the qualitative information provided in this section.

Exposure to risk

	(in thousands of euro)
at period end (net)	-415
at period end	-370
average	-2,077
minimum	-370
maximum	-7,312

2.3 Price risk - Trading portfolio reported for supervisory purposes

QUALITATIVE INFORMATION

A. General aspects

The principal source of price risk relates to the shares and units in mutual funds held, including the investments that service the post-retirement benefits of employees.

As with regard to interest rate risk, the strategy for containing price risk as part of the bank's overall risk management strategy is to take a prudent approach.

This is evidenced by the low weighting of variable-yield securities within the entire securities portfolio (excluding those servicing the post-retirement benefits of employees, which are classified among the «assets available for sale»), which represent just 4% of the overall total of 95.786 million.

Furthermore, variable-yield securities comprise holdings in leading companies with a liquid market and a good dividend yield. Once again, trading activity concentrates on benefiting from short-term opportunities while, with regard to innovative instruments, the transactions in equity options have been both limited and perfectly matched. There were no significant changes during the year.

B. Management and measurement of price risk

The characteristics of the internal management and control of price risk in relation to the trading portfolio for operating purposes (as defined below) are the same - in terms of organisational structure and the limitation of risk acceptance - as those described in relation to interest rate risk in section 2.1, to which reference is made.

The analysis of sensitivity to price risk - limited to changes due to market fluctuations and excluding, therefore, those deriving from factors specific to issuers or counterparts - essentially involves application of an internal model for the daily calculation of Value at Risk (VaR) with the characteristics described below.

With regard to the principal assumptions and underlying parameters, this model is parametric with variances and co-variances defined in accordance with the famous JP Morgan riskmetrics methodology. It covers the activity in financial instruments exposed to interest rate risk included in the trading portfolios held for operational or supervisory purposes. The first comprises shares (including warrants) and units in mutual funds and sicavs held by the bank, including any unsettled transactions (shares and quotas to be received or delivered). The second includes these instruments plus the similar instruments held to service the post-retirement benefits of employees.

The parameters for the calculation of VaR are as follows: holding period of one day, observation period of 252 days (for the estimation of volatility and the correlation of risk factors) and a confidence interval of 99%.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs; these correlations are estimated by an external consultant appointed by the bank.

The policies and procedures for the ex post comparison of the model's results with actual results («back testing») regarding the trading portfolio for operational purposes, consist in a comparison between the daily VaR and, on the one hand, the change in market value on the following day for the same positions used to calculate the VaR (theoretical loss), and, on the other, the difference between capital gains, write-backs, capital losses, and the realised gains and losses on transactions in the shares held in the portfolio, as reported by the securities procedure (actual loss). For back testing purposes, the VaR information and the theoretical and actual losses include both the price risk and the small exchange risk element deriving from shares, funds and sicavs denominated in foreign currencies.

The changes during the year in the exposure to risk of the trading portfolio for operational purposes are described in the «Risk management» section of the directors' report on operations; with regard to the trading portfolio for supervisory purposes, VaR information is not available for the prior year and, accordingly, the information provided was obtained from reporting on prudent parameters where, with regard to the change in the overall capital requirement for market risks from 31.335 million at 31/12/2004 to 33.905 at 31/12/2005,

the portion attributable to the portfolio risk on variable-yield securities has increased from 3.870 million to 3.641 and that attributable to specific risk has decreased from 3.414 million to 2.772.

The internal model is not used to determine the capital requirements for market risk reported for supervisory purposes to the Bank for Italy. The standard methodology is used in this case, as reflected in the amounts reported above.

QUANTITATIVE INFORMATION

1. Trading portfolio reported for supervisory purposes: cash exposures in variable-yield securities and mutual funds

Type of exposure/Amounts	Book value	
	Listed	Unlisted
A. Variable-yield securities	34,631	9,989
A1. Shares	34,631	9,989
A2. Innovative capital instruments	-	-
A3. Other forms of capital	-	-
B. Mutual funds	3,516	124,475
B1. Italian law	2,835	68,933
- open-end harmonised	-	53,052
- open end, not harmonised	-	-
- closed end	2,835	6,323
- reserved	-	1,197
- hedge funds	-	8,361
B2. Other EU nations	681	55,542
- harmonised	681	55,542
- open end, not harmonised	-	-
- closed end, not harmonised	-	-
B3. Non-EU nations	-	-
- open end	-	-
- closed end	-	-
Total	38,147	134,464

2. Trading portfolio reported for supervisory purposes: distribution of exposures on variable-yield securities and stock indices by principal listing nation

Type of transaction/ Listing index	Listed				Unlisted
	Italy	France	The Netherlands	Germany	
A. Variable-yield securities	31,206	1,207	801	1,418	9,989
- long positions	31,206	1,207	801	1,418	9,989
- short positions	-	-	-	-	-
B. Purchase/sale transactions not yet settled in variable-yield securities	-	-	-	-	-
- long positions	-	-	-	-	-
- short positions	-	-	-	-	-
C. Other derivatives on variable-yield securities	-	-	-	-	-
- long positions	-	-	-	-	-
- short positions	-	-	-	-	-
D. Derivatives on stock indices	-	-	-	-	-
- long positions	-	-	-	-	-
- short positions	-	-	-	-	-

3. Trading portfolio reported for supervisory purposes - internal models and methodologies for the analysis of sensitivity

Value at Risk (VaR), end of year

	(in thousands of euro)
shares	445.6
mutual funds and sicavs	619.7
post-retirement benefits	242.5
total	1,162.8

Information on average, minimum and maximum VaR relating to the operating portfolio is provided in the «Risk management» section of the directors' report on operations.

With regard to the distribution of VaR during the year, the average VaR for each month in 2005 is presented below with reference to the same operating portfolio.

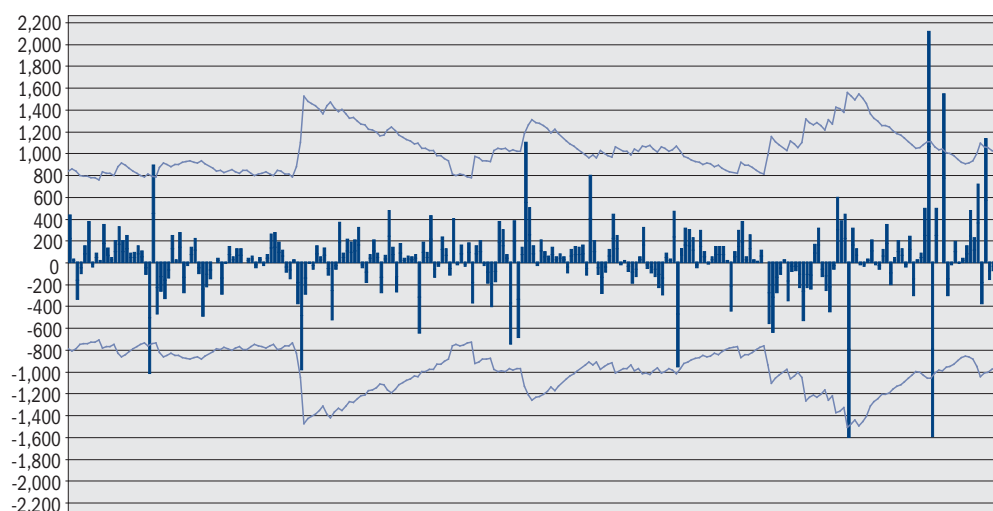
January	782.1
February	825.4
March	844.9
April	1,099.2
May	1,189.4
June	912.2
July	1,117.2
August	995.3
September	878.9
October	1,117.5
November	1,274.6
December	988.9

With reference to 245 observations of the trading portfolio for operational purposes, actual losses exceeded VaR on 3 occasions and theoretical losses also exceeded VaR on 3 occasions.

The following graphs compare VaR with the daily results.

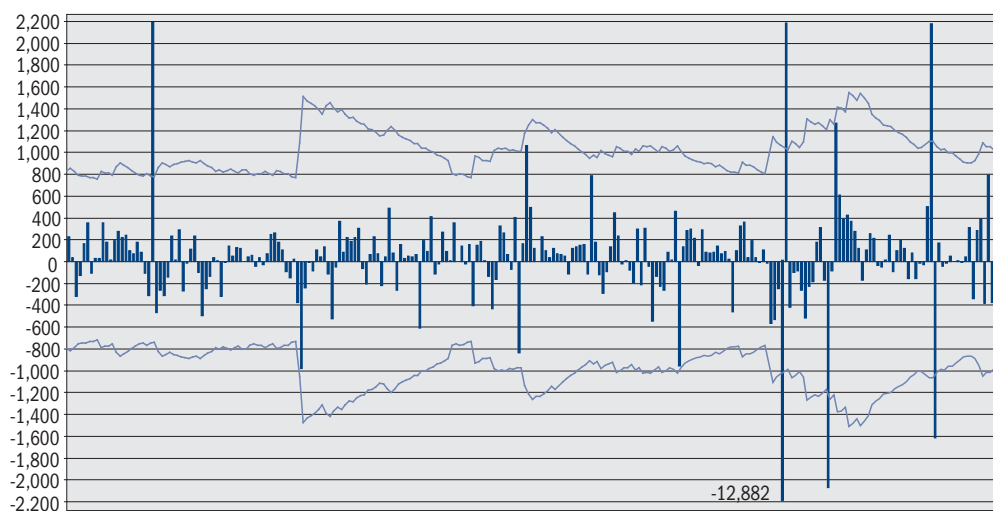
Operational portfolio: VaR and theoretical profits/losses

(in thousands of euro)



Operational portfolio: VaR and actual profits/losses

(in thousands of euro)



2.4 Price risk - Banking book

QUALITATIVE INFORMATION

A. General aspects, management and measurement of price risk

The source of price risk consists of the variable-yield securities not included in the trading portfolio reported for supervisory purposes, which were classified as equity investments until the adoption of IFRS.

The equity investments held by the bank essentially relate to companies that supply the goods and services which complete the bank's range of commercial services and, therefore, are necessary for the achievement and maintenance of an effective competitive position. These are stable investments and reflect the established strategy of concentrating the bank's activities on ordinary operations, while also making recourse – for certain, important near-banking activities (mutual funds, insurance, leasing, factoring, stock-broking, trust management etc.) – to specialist operators with recognised professional skills that are frequently ranked at the forefront of the various domestic markets concerned. Banca Popolare di Sondrio (SUISSE) SA, a wholly owned Swiss bank that is part of the banking group, does not strictly fit in with these principles; while Pirovano Stelvio spa and Sinergia Seconda srl, where acquired in the past as part of loan recovery operations.

The Bank understands these companies well and participates in their management; accordingly, the risk – which is more strategic than market related – is well monitored.

The measurement and control of price risk – limited to changes due to market fluctuations and excluding, therefore, those deriving from factors specific to issuers or counterparts – essentially involves application of an internal model for the daily calculation of Value at Risk (VaR) with the characteristics described below. With regard to the principal assumptions and underlying parameters, this model is parametric with variances and co-variances defined in accordance with the famous JP Morgan riskmetrics methodology. It covers the activity in financial instruments exposed to price risk included in the bank book – variable-yield securities classified as «equity investments» prior to the adoption of IFRS.

The parameters for the calculation of VaR are as follows: holding period of one day, observation period of 252 days (for the estimation of volatility and the correlation of risk factors) and a confidence interval of 99%.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs; these correlations are estimated by an external consultant appointed by the bank.

For the calculation of VaR, unlisted equity investments are stated at book value and listed investments are stated at their year-end market price; the value of Italease at the end of 2004 was determined with reference to a theoretical estimated price.

B. Assets hedging price risk

The bank has not carried out any transactions to hedge price risk.

QUANTITATIVE INFORMATION

1. Bank book: cash exposures in variable-yield securities and mutual funds

Type of exposure/Amounts	Book value	
	Listed	Unlisted
A. Variable-yield securities	98,026	100,660
A1. Shares	98,026	100,660
A2. Innovative capital instruments	-	-
A3. Other forms of capital	-	-
B. Mutual funds	-	-
B1. Italian law	-	-
- open-end harmonised	-	-
- open end, not harmonised	-	-
- closed end	-	-
- reserved	-	-
- hedge funds	-	-
B2. Other EU nations	-	-
- harmonised	-	-
- open end, not harmonised	-	-
- closed end, not harmonised	-	-
B3. Non-EU nations	-	-
- open end	-	-
- closed end	-	-
Total	98,026	100,660

2. Bank book - internal models and other methodologies for the analysis of sensitivity

Value at Risk (VaR), end of year

	(in thousands of euro)
equity investments	2,071.0
Total	2,071.0
end of period in prior year	
equity investments	1,671.2
Total	1,671.2

2.5 Exchange risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of exchange risk

The principal sources of exchange risk consist in: the investment in Banca Popolare di Sondrio (SUISSE) SA, denominated in Swiss francs, certain mutual funds and sicavs denominated in foreign currencies held by the bank and to service the post-retirement benefits of employees, and the net foreign currency position managed by the «Exchange Centre», deriving principally from intermediation in repos with private customers and on the interbank market, as well as the exchange position deriving from trading in other financial products (difference between premiums on currency options, interest on foreign currency deposits. etc.). Excluding securities, the bank's role in foreign currency transactions is largely commercial, with a view to meeting customers' needs and resulting in management of the related treasury requirements.

The characteristics of the internal management and control of exchange risk in relation to the trading portfolio for operating purposes (as defined below) are the same - in terms of organisational structure and the limitation of risk acceptance - as those described in relation to interest rate risk in section 2.1, to which reference is made. There were no significant changes during the year in the risk management and control procedures described.

The measurement and control of exchange risk essentially involves application of an internal model for the daily calculation of Value at Risk (VaR) with the characteristics described below. With regard to the principal assumptions and underlying parameters, this model is parametric with variances and co-variances defined in accordance with the famous JP Morgan riskmetrics methodology. It covers the activity in financial instruments exposed to interest rate risk included in the trading portfolios held for operational or supervisory purposes. The first includes: the foreign currency items (excluding gold) within income-earning assets and interest-bearing liabilities, as defined in the balance sheet format prepared by the national association of peoples' banks, based on the supervisory matrix, excluding the securities held to service the post-retirement benefits of employees; it also includes the foreign currency portion of the following items in the above matrix: 1571 (currency to be received), 1569 (currency to be delivered), 1003 (cash), 1165 (notes), 1225.18 (notes sent to third parties), 1911.04 (presenters of notes), 1709.02 (interest-free current accounts held), 1561 (deposits to be received from banks) and 1565 (deposits to be made with banks). Securities held and interbank deposits made and received, including unsettled balances (to be received or delivered), are analysed separately, while the net balance in each currency deriving from other captions is treated as a day deposit (given or received).

The second portfolio comprises all the foreign currency assets and liabilities (including gold), both on an off-balance sheet, set out in table 1 below. Foreign exchange and interbank deposits made and received, including unsettled balances (to be received or delivered), are analysed separately, while the net balance in each currency deriving from other captions is treated as a day deposit (given or received). The parameters for the calculation of VaR are as follows: holding period of one day, observation period of 252 days (for the estimation of volatility and the correlation of risk factors) and a confidence interval of 99%.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs; these correlations are estimated by an external consultant appointed by the bank.

The internal model based on VaR is not used to determine the capital requirements for market risk reported for supervisory purposes to the Bank for Italy. The standard methodology is used in this case.

B. Hedging of exchange risk

The bank has not arranged any specific hedges of exchange risk.

The position of the «Exchange Centre» is updated on a real-time basis; this enables exchange traders to act in the interbank market to offset any mismatches that may arise due to the transactions described above.

Any unmatched foreign currency positions are small and, in any case, fall within the limits established by the internal regulations and the tighter limits on VaR established by General Management.



QUANTITATIVE INFORMATION

1. Distribution of assets, liabilities and derivatives by foreign currency

Items	Currency					
	US Dollars	Japanese Yen	Swiss Francs	Sterling	NZL Dollars	Other currencies
A. Financial assets	587,228	401,597	566,981	44,583	7,665	13,837
A.1 Fixed-yield securities	-	-	-	-	-	-
A.2 Variable-yield securities	-	-	32,928	-	-	-
A.3 Loans to banks	289,982	38,291	71,687	42,949	7,648	12,218
A.4 Loans to customers	288,967	360,196	460,143	1,367	17	1,417
A.5 Other financial assets	8,279	3,110	2,223	267	-	202
B. Other assets	157	3	7	31	-	4
C. Financial liabilities	708,359	308,632	462,182	38,229	5,847	11,571
C.1 Due to banks	447,448	54,510	385,432	15,036	5,830	7,028
C.2 Due to customers	260,911	254,122	76,750	23,193	17	4,543
C.3 Fixed-yield securities	-	-	-	-	-	-
D. Other liabilities	208	-	62	434	-	-
E. Financial derivatives	1,213	-252	947	118	199	-66
- options						
+ long positions	3,939	391	33	71	215	1,596
+ short positions	4,123	274	29	67	3	1,734
- other derivatives						
+ long positions	14,019	6,740	3,915	1,060	187	473
+ short positions	12,622	7,109	2,972	946	200	401
F. Currency to be received and delivered	120,012	-91,091	-72,708	-6,044	-1,878	-1,249
F.1 Currency to be received	1,228,026	464,689	165,880	110,471	7,540	50,010
F.2 Currency to be delivered	1,108,014	555,780	238,588	116,515	9,418	51,259
TOTAL ASSETS	1,833,369	873,420	736,816	156,216	15,607	65,920
TOTAL LIABILITIES	1,833,326	871,795	703,833	156,191	15,468	64,965
NET BALANCE (+/-)	43	1,625	32,983	25	139	955

2. Internal models and other methodologies for the analysis of sensitivity

Value at Risk (VaR), end of year

	(in thousands of euro)
interbank deposits	1,899.9
foreign exchange	1,399.6
other assets/liabilities	2,266.1
total	120.8

Details of the principal currencies

USD	0.3
JPY	19.9
CHF	115.8
GBP	1.0
other currencies	6.2
total	120.8

Information on average, minimum and maximum VaR relating to the operating portfolio is provided in the «Risk management» section of the directors' report on operations.

With regard to the distribution of VaR during the year, the average VaR for each month in 2005 is presented below with reference to the same operating portfolio.

January	46.8
February	26.8
March	24.6
April	16.0
May	28.4
June	38.9
July	46.4
August	22.3
September	24.6
October	28.2
November	32.3
December	46.7

2.6 Derivative products

A. Financial derivatives

A.1 Trading portfolio: notional amounts at period end

Type of transaction/Underlyings	Fixed-yield securities and interest rates		Variable-yield securities and stock indices	
	Listed	Unlisted	Listed	Unlisted
1. Forward rate agreements	-	-	-	-
2. Interest rate swaps	-	817,947	-	-
3. Domestic currency swap	-	-	-	-
4. Currency interest rate swaps	-	-	-	-
5. Basis swap	-	479,384	-	-
6. Swap of stock indices	-	-	-	-
7. Swap of real indices	-	-	-	-
8. Futures	-	-	-	-
9. Cap options	-	8,746	-	-
- Purchased	-	4,373	-	-
- Issued	-	4,373	-	-
10. Floor options	-	6,380	-	-
- Purchased	-	3,190	-	-
- Issued	-	3,190	-	-
11. Other options	-	20,000	-	44,000
- Purchased	-	10,000	-	22,000
- plain vanilla	-	10,000	-	-
- exotic	-	-	-	22,000
- Issued	-	10,000	-	22,000
- plain vanilla	-	10,000	-	-
- exotic	-	-	-	22,000
12. Forward contracts	-	-	-	-
- Purchased	-	-	-	-
- Sales	-	-	-	-
- currency against currency	-	-	-	-
13. Other derivative contracts	-	-	18	-
Total	-	1,332,457	18	44,000

Exchange rates and gold		Other instruments		Total 31/12/2005		Total 31/12/2004	
Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
-	-	-	-	-	-	-	-
-	-	-	-	-	817,947	-	1,096,019
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	479,384	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	37,366	-	37,366	-	52,695
-	-	-	-	-	8,746	-	27,436
-	-	-	-	-	4,373	-	13,718
-	-	-	-	-	4,373	-	13,718
-	-	-	-	-	6,380	-	4,936
-	-	-	-	-	3,190	-	2,468
-	-	-	-	-	3,190	-	2,468
-	270,552	-	8,926	-	343,478	-	570,307
-	135,465	-	4,463	-	171,928	-	285,087
-	103,054	-	4,463	-	117,517	-	253,087
-	32,411	-	-	-	54,411	-	32,000
-	135,087	-	4,463	-	171,550	-	285,220
-	102,676	-	4,463	-	117,139	-	253,220
-	32,411	-	-	-	54,411	-	32,000
-	3,884,084	-	-	-	3,884,084	-	2,906,123
-	1,810,690	-	-	-	1,810,690	-	1,418,019
-	1,864,872	-	-	-	1,864,872	-	1,447,587
-	208,522	-	-	-	208,522	-	40,517
-	-	-	-	18	-	-	-
-	4,154,636	-	46,292	18	5,577,385	-	4,657,516

A.2 Bank book: notional amounts at period end

A.2.1 For hedging

Type of transaction/Underlyings	Fixed-yield securities and interest rates		Variable-yield securities and stock indices	
	Listed	Unlisted	Listed	Unlisted
1. Forward rate agreements	-	-	-	-
2. Interest rate swaps	-	77,000	-	-
3. Domestic currency swaps	-	-	-	-
4. Currency interest rate swap	-	-	-	-
5. Basis swaps	-	10,000	-	-
6. Swap of stock indices	-	-	-	-
7. Swap of real indices	-	-	-	-
8. Futures	-	-	-	-
9. Cap options	-	-	-	-
- Purchased	-	-	-	-
- Issued	-	-	-	-
10. Floor options	-	-	-	-
- Purchased	-	-	-	-
- Issued	-	-	-	-
11. Other options	-	-	-	-
- Purchased	-	-	-	-
- plain vanilla	-	-	-	-
- exotic	-	-	-	-
- Issued	-	-	-	-
- plain vanilla	-	-	-	-
- exotic	-	-	-	-
12. Forward contracts	-	-	-	-
- Purchased	-	-	-	-
- Sales	-	-	-	-
- currency against currency	-	-	-	-
13. Other derivative contracts	-	-	-	-
Total	-	87,000	-	-

Exchange rates and gold		Other instruments		Total 31/12/2005		Total 31/12/2004	
Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
-	-	-	-	-	-	-	-
-	-	-	-	-	77,000	-	87,000
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	10,000	-	10,000
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	87,000	-	97,000

A.3 Financial derivatives: purchase and sale of underlyings

Type of transaction/Underlyings	Fixed-yield securities and interest rates		Variable-yield securities and stock indices	
	Listed	Unlisted	Listed	Unlisted
A. Trading portfolio for supervisory purposes:	-	853,072	18	44,000
1. With exchange of capital	-	-	18	-
- Purchases	-	-	18	-
- Sales	-	-	-	-
- Currency against currency	-	-	-	-
2. Without exchange of capital	-	853,072	-	44,000
- Purchases	-	426,536	-	22,000
- Sales	-	426,536	-	22,000
- Currency against currency	-	-	-	-
B. Bank book:	-	77,000	-	-
B.1 For hedging	-	77,000	-	-
1. With exchange of capital	-	-	-	-
- Purchases	-	-	-	-
- Sales	-	-	-	-
- Currency against currency	-	-	-	-
2. Without exchange of capital	-	77,000	-	-
- Purchases	-	77,000	-	-
- Sales	-	-	-	-
- Currency against currency	-	-	-	-
B.2 Other derivatives	-	-	-	-
1. With exchange of capital	-	-	-	-
- Purchases	-	-	-	-
- Sales	-	-	-	-
- Currency against currency	-	-	-	-
2. Without exchange of capital	-	-	-	-
- Purchases	-	-	-	-
- Sales	-	-	-	-
- Currency against currency	-	-	-	-

A.4 Financial derivatives «over the counter»: Positive fair value - counterpart risk

Counterpart/Underlyings	Fixed-yield securities and interest rates			Variable-yield securities and stock indices		
	Gross not offset	Gross offset	Future exposure	Gross not offset	Gross offset	Future exposure
A. Trading portfolio for supervisory purposes						
A.1 Governments and central banks	-	-	-	-	-	-
A.2 Public entities	-	-	-	-	-	-
A.3 Banks	3,947	-	1,366	1,383	-	1,082
A.4 Financial businesses	90	-	69	1,933	-	678
A.5 Insurance	-	-	-	-	-	-
A.6 Non-financial companies	9,301	-	432	18	-	-
A.7 Other parties	288	-	49	-	-	-
Total A 31/12/2005	13,626	-	1,916	3,334	-	1,760
Total 31/12/2004	9,462	-	-	1,473	-	-
B. Bank book						
B.1 Governments and central banks	-	-	-	-	-	-
B.2 Public entities	-	-	-	-	-	-
B.3 Banks	642	-	140	-	-	-
B.4 Financial businesses	-	-	-	-	-	-
B.5 Insurance	-	-	-	-	-	-
B.6 Non-financial companies	-	-	-	-	-	-
B.7 Other parties	-	-	-	-	-	-
Total B 31/12/2005	642	-	140	-	-	-
Total 31/12/2004	-	-	-	-	-	-

A.5 Financial derivatives «over the counter»: Negative fair value - financial risk

Counterpart/Underlyings	Fixed-yield securities and interest rates			Variable-yield securities and stock indices		
	Gross not offset	Gross offset	Future exposure	Gross not offset	Gross offset	Future exposure
A. Trading portfolio for supervisory purposes						
A.1 Governments and central banks	-	-	-	-	-	-
A.2 Public entities	-	-	-	-	-	-
A.3 Banks	11,836	-	1,657	-	-	-
A.4 Financial businesses	51	-	45	-	-	-
A.5 Insurance	-	-	-	3,317	-	-
A.6 Non-financial companies	738	-	362	-	-	-
A.7 Other parties	-	-	34	-	-	-
Total A 31/12/2005	12,625	-	2,098	3,317	-	-
Total 31/12/2004	8,761	-	-	1,212	-	-
B. Bank book						
B.1 Governments and central banks	-	-	-	-	-	-
B.2 Public entities	-	-	-	-	-	-
B.3 Banks	-	-	-	-	-	-
B.4 Financial businesses	-	-	-	-	-	-
B.5 Insurance	-	-	-	-	-	-
B.6 Non-financial companies	-	-	-	-	-	-
B.7 Other parties	-	-	-	-	-	-
Total B 31/12/2005	-	-	-	-	-	-
Total 31/12/2004	-	-	-	-	-	-

Exchange rates and gold			Other instruments			Different underlyings	
Gross not offset	Gross offset	Future exposure	Gross not offset	Gross offset	Future exposure	Offset	Future exposure
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
9,517	-	7,212	1,193	-	936	-	-
1,247	-	6,202	444	-	505	-	-
-	-	-	-	-	-	-	-
10,395	-	5,764	830	-	231	-	-
5,615	-	3,264	963	-	817	-	-
26,774	-	22,442	3,430	-	2,489	-	-
67,765	-	-	2,767	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-

Exchange rates and gold			Other instruments			Different underlyings	
Gross not offset	Gross offset	Future exposure	Gross not offset	Gross offset	Future exposure	Offset	Future exposure
1,712	-	287	-	-	-	-	-
12	-	140	-	-	-	-	-
11,992	-	10,191	1,467	-	1,033	-	-
938	-	810	505	-	271	-	-
-	-	-	-	-	-	-	-
5,701	-	3,882	846	-	718	-	-
5,604	-	2,969	12	-	32	-	-
25,959	-	18,279	2,830	-	2,054	-	-
66,040	-	-	2,745	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-

A.6 Residual life of financial derivatives «over the counter»: notional value

Underlyings/residual value	Within 12 months	1 to 5 years	Over 5 years	Total 31/12/2005
A. Trading portfolio for supervisory purposes	6,060,227	767,198	82,433	6,909,858
A.1 Financial derivatives on fixed-yield securities and interest rates	1,976,953	605,527	82,433	2,664,913
A.2 Financial derivatives on variable-yield securities and stock indices	-	44,017	-	44,017
A.3 Financial derivatives on exchange rates and gold	4,055,015	99,621	-	4,154,636
A.4 Financial derivatives on other instruments	28,259	18,033	-	46,292
B. Bank book	136,000	38,000	-	174,000
B.1 Financial derivatives on fixed-yield securities and interest rates	136,000	38,000	-	174,000
B.2 Financial derivatives on variable-yield securities and stock indices	-	-	-	-
B.3 Financial derivatives on exchange rates and gold	-	-	-	-
B.4 Financial derivatives on other instruments	-	-	-	-
Total 31/12/2005	6,196,227	805,198	82,433	7,083,858
Total 31/12/2004	4,807,308	1,093,608	79,273	5,980,189

Section 3 *Liquidity risk*

QUALITATIVE INFORMATION

A. General aspects, management and measurement of liquidity risk

The principal sources of liquidity risk relate to transactions in securities, long-term loans and treasury services provided to institutions and pension funds.

The short and long-term liquidity positions are managed by applying policies designed to maintain broad equilibrium.

The coverage of expected liquidity requirements is checked and monitored by the bank's Treasury Department, which takes timely action in the markets to ensure the appropriate availability of funds.

QUANTITATIVE INFORMATION

1. Distribution of cash assets and liabilities by residual maturity

Currency: EURO

Captions / Residual duration	fixed duration					unspecified duration	Total
	sight	up to 3 months	3 to 12 months	1 to 5 years	over 5 years		
1. Assets	3,649,514	1,036,336	668,254	3,132,154	2,443,084	422,393	11,351,735
1.1 Due from other banks	122,592	409,802	325	-	-	293,680	826,399
1.2 Due from customers	3,416,185	626,455	664,055	1,721,820	1,528,525	128,702	8,085,742
1.3 Fixed-yield securities	-	79	3,874	1,409,136	908,237	11	2,321,337
1.4 Mutual funds	110,737	-	-	1,198	6,322	-	118,257
2. Liabilities	7,760,744	1,532,129	325,768	582,715	191,104	-	10,393,460
2.1 Due to other banks	204,216	35,238	4,942	47,682	57,386	-	349,465
2.2 Due to customers	7,448,245	1,455,226	75,181	16	-	-	8,978,668
2.3 Securities issued	108,283	41,665	246,645	535,017	133,718	-	1,065,328
- bonds	-	14,909	228,740	534,046	133,718	-	911,413
- certificates of deposit	539	26,756	17,905	971	-	-	46,171
- other securities	107,744	-	-	-	-	-	107,744

Currency: US DOLLARS

Captions / Residual duration	fixed duration					unspecified duration	Total
	sight	up to 3 months	3 to 12 months	1 to 5 years	over 5 years		
1. Assets	70,845	443,607	70,638	261	125	167	585,643
1.1 Due from other banks	4,557	229,021	56,404	-	-	-	289,982
1.2 Due from customers	59,594	214,586	14,234	261	125	167	288,967
1.3 Fixed-yield securities	-	-	-	-	-	-	-
1.4 Mutual funds	6,694	-	-	-	-	-	6,694
2. Liabilities	95,987	540,727	71,645	-	-	-	708,359
2.1 Due to other banks	11,178	365,167	71,103	-	-	-	447,448
2.2 Due to customers	84,809	175,560	542	-	-	-	260,911
2.3 Securities issued	-	-	-	-	-	-	-
- bonds	-	-	-	-	-	-	-
- certificates of deposit	-	-	-	-	-	-	-
- other securities	-	-	-	-	-	-	-



Currency: SWISS FRANCS

Captions / Residual duration	fixed duration					unspecified duration	Total
	sight	up to 3 months	3 to 12 months	1 to 5 years	over 5 years		
1. Assets	7,900	313,363	70,033	56,557	83,024	953	531,830
1.1 Due from other banks	3,919	62,348	5,420	-	-	-	71,687
1.2 Due from customers	3,981	251,015	64,613	56,557	83,024	953	460,143
1.3 Fixed-yield securities	-	-	-	-	-	-	-
1.4 Mutual funds	-	-	-	-	-	-	-
2. Liabilities	63,094	381,536	17,552	-	-	-	462,182
2.1 Due to other banks	1,649	367,064	16,719	-	-	-	385,432
2.2 Due to customers	61,445	14,472	833	-	-	-	76,750
2.3 Securities issued	-	-	-	-	-	-	-
- bonds	-	-	-	-	-	-	-
- certificates of deposit	-	-	-	-	-	-	-
- other securities	-	-	-	-	-	-	-

Currency: JAPANESE YEN

Captions / Residual duration	fixed duration					unspecified duration	Total
	sight	up to 3 months	3 to 12 months	1 to 5 years	over 5 years		
1. Assets	24,067	252,438	121,517	3,166	339	-	401,527
1.1 Due from other banks	20,761	15,807	1,723	-	-	-	38,291
1.2 Due from customers	266	236,631	119,794	3,166	339	-	360,196
1.3 Fixed-yield securities	-	-	-	-	-	-	-
1.4 Mutual funds	3,040	-	-	-	-	-	3,040
2. Liabilities	10,204	235,299	62,780	349	-	-	308,632
2.1 Due to other banks	149	54,361	-	-	-	-	54,510
2.2 Due to customers	10,055	180,938	62,780	349	-	-	254,122
2.3 Securities issued	-	-	-	-	-	-	-
- bonds	-	-	-	-	-	-	-
- certificates of deposit	-	-	-	-	-	-	-
- other securities	-	-	-	-	-	-	-

Currency: OTHER CURRENCIES

Captions / Residual duration	fixed duration					unspecified duration	Total
	sight	up to 3 months	3 to 12 months	1 to 5 years	over 5 years		
1. Assets	20,619	44,782	215	-	-	-	65,616
1.1 Due from other banks	20,615	42,199	-	-	-	-	62,814
1.2 Due from customers	4	2,583	215	-	-	-	2,802
1.3 Fixed-yield securities	-	-	-	-	-	-	-
1.4 Mutual funds	-	-	-	-	-	-	-
2. Liabilities	27,437	28,210	-	-	-	-	55,647
2.1 Due to other banks	1,848	26,046	-	-	-	-	27,894
2.2 Due to customers	25,589	2,164	-	-	-	-	27,753
2.3 Securities issued	-	-	-	-	-	-	-
- bonds	-	-	-	-	-	-	-
- certificates of deposit	-	-	-	-	-	-	-
- other securities	-	-	-	-	-	-	-

The breakdown by maturity is based on the residual life of assets and liabilities, being the difference between the balance sheet date and the maturity dates of each transaction. In the event of repayment plans, the residual 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.

Doubtful and other past due loans to customers are shown with unspecified duration.

2. Distribution of financial liabilities by sector

Exposures/Counterparts	Governments and central banks	Other public entities	Financial businesses	Insurance companies	Non-financial companies	Other parties
1. Due to customers	50,435	1,722,513	449,264	18,616	2,479,380	4,877,996
2. Securities issued	-	137,104	22,401	69,477	47,623	788,723
3. Financial liabilities held for trading	1,712	12	26,790	3,317	7,285	5,616
4. Financial liabilities at fair value	-	-	-	-	-	-
Total 31/12/2005	52,147	1,859,629	498,455	91,410	2,534,288	5,672,335

3. Geographical breakdown of financial liabilities

Exposures/Counterparts	ITALY	OTHER EU COUNTRIES	AMERICA	ASIA	REST OF THE WORLD
1. Due to customers	9,510,546	68,235	13,272	1,396	4,755
2. Due to other banks	565,693	652,266	84	46,430	274
3. Securities issued	1,063,362	1,926	40	-	-
4. Financial liabilities held for trading	20,902	23,164	442	224	-
5. Financial liabilities at fair value	-	-	-	-	-
Total 31/12/2005	11,160,503	745,591	13,838	48,050	5,029

Section 4 *Operational risks*

QUALITATIVE INFORMATION

A. General aspects, management and measurement of operational risk

This is the risk of loss due to errors or inadequate procedures, action by personnel, the malfunctioning of technology, or external events that cause or might cause objective and measurable losses recorded by the accounting system and, as such, with a traceable impact on the income statement.

This definition includes legal risks, but excludes risks to the bank's reputation and strategic risks. The bank is well aware that these risks, should they emerge, could generate losses that might significantly affect the results for the year, damaging its reputation and, in the more significant cases, even jeopardising its stability. Accordingly, a feasibility study was carried out in autumn 2002, when work on the New Capital Accord first identified the need for a specific capital adequacy requirement, and a specific project was commenced in the following year.

The guidelines contained in the above Accord, recently adopted at EU level, provide a frame of reference for this project and set objectives to be attained over time. These envisage the creation of effective operational and risk-mitigation processes, the proper identification and classification of losses, regular analysis of them and the appropriate assessment and/or measurement of the exposure to risk. For this purpose, a methodology for the recognition and assessment of operational risk has been devised and developed, based on an integrated qualitative and quantitative approach which, in practice, enables risk to be measured in terms of both potential and actual losses.

Specifically, the «qualitative» analysis involves a self-diagnosis, essentially performed via interviews with the managers of key functions, in order to assess the degree of exposure to risk based on a combination of opinions expressed in terms of impact, likelihood of occurrence and effectiveness of controls.

In this regard, the principal business processes are broken down into phases, sub-phases and activities and the risks identified are allocated to them: the potential impact of the risks is then assessed, based on their relative weightings and qualitatively estimated frequencies. Considering the mitigating effect of existing controls (which, in turn, are compared with best practice), a score is calculated to express the degree of residual risk. The risks with the greatest potential impact have already been identified, together with the areas affected by them; following this order of priority, the processes regarding collections and payments, securities and lending have been mapped and recorded.

The Internal Audit department is responsible for guiding this work, given the nature of the risks concerned and consistent with its role in the constant improvement of processes, the monitoring of controls and the mitigation of risk.

The operational structures concerned are helped by these activities since, in addition to enhancing their knowledge and awareness, they are assisted in the identification of areas for improvement and the required corrective action. The quantitative approach is based on gathering data on actual and potential losses and on operational incidents, in order to estimate both the provisions required for expected losses and the economic capital needed to absorb unexpected losses, having regard for historical experience and the application of appropriate statistical techniques. As required by the New Capital Accord, the criteria for gathering data include not only the extent of any losses, but also the collection of detailed descriptive information on the underlying causes of the event, the nature of the event that took place (Event Type) and the operational area concerned (Business Line).

Given the complexity of the methodology applied, an organisational solution adopted from September 2003 has, by balancing accuracy and simplicity, helped to reconstruct the loss history from January 1999 and provided a starting point for the systematic recording of loss events.

Considering that the regulations encourage banks to use internal statistical models for the measurement of risk, a project completed during 2004 resulted in the development of three alternative models (actuarial, analytical and Bayesian) and verification of their effectiveness having regard for the nature and availability of data. Exposure is now also calculated on an experimental basis with reference to the Value at Risk (VaR), by establishing a value for the maximum loss that can be accepted over a given period of time, with a given degree of probability. Due to the approximations made, the results are not yet sufficiently reliable and must therefore be read with extreme caution.

The quantitative risk profile is monitored by the Planning and Management Control Department - Risk Control office, which has access to the specialist resources required. With regard to the sources of operational risk, having regard for the information gathered above, the main issue relates to the legal risks associated with transactions involving financial instruments, which were a particular problem in prior years. In particular, given the bank's distribution structure, with operational units spread throughout the territory, as well as the use, to a lesser extent, of virtual banking facilities, the potential risks and actual losses are principally associated with fraudulent and criminal actions. This includes bank raids, theft, false instructions, the duplication of debit and credit cards, and the alteration of cheques.

There is also an extremely limited risk of material damage to the fabric of the bank, human error in the processing of transactions and, only very rarely, employee infidelity.

QUANTITATIVE INFORMATION

The database of losses incurred by the bank since the start of 1999 documents the reconstruction of 565 events.

A summary table of these events is presented below in percentage terms, for completeness, having regard for the gross losses incurred and the situation net of recoveries and insurance reimbursements.

The extent of recoveries, amounting to about 47% of the total, demonstrates the effectiveness of the operational action taken to minimise or transfer the losses incurred.

Sources of losses from 01/01/1999 to 31/12/2005

	No. of events	Gross loss	% of total	Net loss	% of total	% recovered
Legal	78	5,292,081	37.82%	3,459,894	46.82%	34.62%
Fraud	247	4,240,630	30.30%	2,124,654	28.75%	49.90%
Other	240	4,461,610	31.88%	1,805,486	24.43%	59.53%
Total	565	13,994,321	100.00%	7,390,034	100.00%	47.19%

Key:

Legal: investment in financial instruments, other outstanding legal matters.

Fraud: bank raids, theft, false instructions, cloning of debit and credit cards, alteration of cheques.

Other: material damage, human error in the processing of transactions, employee infidelity.

PART F *Information on equity*

Section 1 *Capital*

QUALITATIVE INFORMATION

Capital adequacy, in the light of growth prospects and changes in risk, is given constant, close attention by the bank, as confirmed in the report on operations.

Given that self-financing is inevitably insufficient, the bank has made recourse to periodic capital increases over the years, in order to meet appropriately the requirements specified above.

These increases have always been greeted with universal acceptance by the shareholders and approved by the market, due to the provision of clear and precise information about the underlying objectives and to the simple and easily understood mechanisms applied.

QUANTITATIVE INFORMATION

The component parts and size of the bank's capital and equity are described in Part B, Section 14 of these notes to the financial statements.

Section 2 *Capital and capital adequacy ratios*

2.1 Capital for supervisory purposes

A. QUALITATIVE INFORMATION

This is the principal point of reference in the assessments made by the Supervisory Authorities regarding the stability of individual banks and the banking system as a whole. The principal prudent control mechanisms all make reference to capital for supervisory purposes: the solvency ratio, the requirements to cover market risk, the rules governing the concentration of risk and those for the matching of maturities. This aggregate comprises basic capital plus supplementary capital; holdings in excess of 10% in non-consolidated banking and financial companies are deducted from this total, together with all holdings of less than 10% in banking and financial companies and subordinated assets recoverable from banks, to the extent that they exceed 10% of the supplementary capital.

Capital for supervisory purposes is determined in accordance with the regulations applying as of 31 December 2005.

Consistent with the equity reported for operating purposes, capital for supervisory purposes comprises the amounts paid in by shareholders, retained earnings and the monetary revaluations recorded in prior years in accordance with specific legislation. As an exception, the valuation reserves established for available-for-sale financial assets are not included in this total. Hybrid equity instruments, subordinated liabilities and innovative equity instruments are also excluded.

1. Basic capital (tier 1)

The positive elements of basic capital comprise share capital, the share premium reserve, other reserves and part of the net profit for 2005, on the assumption that the shareholders will approve the proposed allocations to reserves; the negative elements of basic capital solely comprise solely the value of intangible assets.

2. Supplementary capital (tier 2)

The positive elements of supplementary capital comprise 35% of the net gains on investments in listed non-banking and non-financial companies, while the negative elements consist of the other intangibles recorded as assets in the balance sheet.

3. Tier 3 capital

There are no elements for inclusion in tier 3 capital.

B. QUANTITATIVE INFORMATION

	31/12/2005	31/12/2004
A. Basic capital (tier 1 before the application of precautionary filters)	1,103,093	1,053,753
Precautionary filters of tier 1 capital	-	-
- Positive IFRS precautionary filters		
- Negative IFRS precautionary filters		
B. Tier 1 capital after the application of precautionary filters	1,103,093	1,053,753
C. Supplementary capital (tier 2 before the application of precautionary filters)	1,659	794
Precautionary filters for tier 2 capital	-	-
- Positive IFRS precautionary filters		
- Negative IFRS precautionary filters		
D. Tier 2 capital after the application of precautionary filters	1,659	794
E. Total tier 1 and tier 2 capital after the application of precautionary filters	1,104,752	1,054,547
Items to be deducted from tier 1 and tier 2 capital	-41,785	-15,692
F. Capital for supervisory purposes	1,062,967	1,038,855

2.2 Capital adequacy

A. QUALITATIVE INFORMATION

The following table shows the absorption of supervisory capital in 2005 and 2004 in relation to assets at risk. With regard to credit risk, the good quality of the bank's assets is confirmed by the fact that the 14.08% rise in volume translates into a 10.64% rise in the value of risk-weighted assets using the criteria established for supervisory purposes. In percentage terms, capital absorption has risen to 67.22%, from 62.17% in 2004.

With regard to market risk, the overall level is very low despite an 8.20% rise in the weighted value, with a capital absorption of 3.19% compared with 3.02% in 2004.

Overall, despite an increase in capital absorption of 10.53%, the level of free capital at the end of 2005, € 314.5 million, is sufficient to ensure compliance with the supervisory parameters and allows adequate room for growth.

B. QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts		Weighted amounts	
	31/12/2005	31/12/2004	31/12/2005	31/12/2004
A. Assets at risk				
A.1 Credit risk	12,740,653	11,168,396	10,207,872	9,226,339
Standard methodology				
Cash assets	10,951,174	9,782,551	8,707,041	7,999,744
1. Exposures (other than variable-yield securities and other subordinated assets) to (or guaranteed by):	9,406,496	8,444,654	7,823,761	7,219,159
1.1 Governments and central banks	425,354	275,485	-	-
1.2 Public entities	144,589	101,709	28,953	20,342
1.3 Banks	1,217,089	1,002,564	243,418	200,513
1.4 Other parties (other than mortgage loans on residential and non-residential buildings)	7,619,464	7,064,896	7,551,390	6,998,304
2. Mortgage loans on residential buildings	1,152,598	978,271	576,299	489,135
3. Mortgage loans on non-residential buildings	75,325	52,928	75,325	52,928
4. Shares, equity investments and subordinated assets	94,342	121,783	97,878	126,228
5. Other cash assets	222,413	184,915	133,778	112,294
Off-balance sheet assets	1,789,479	1,385,845	1,500,831	1,226,595
1. Guarantees and commitments to (or guaranteed by):	1,788,965	1,382,190	1,500,728	1,225,695
1.1 Governments and central banks	9,812	10,182	-	-
1.2 Public entities	65,524	32,928	13,105	6,585
1.3 Banks	282,491	149,945	56,498	29,989
1.4 Other parties	1,431,138	1,189,135	1,431,125	1,189,121
2. Derivative contracts with (or guaranteed by):	514	3,655	103	900
2.1 Governments and central banks	-	-	-	-
2.2 Public entities	-	-	-	-
2.3 Banks	514	3,094	103	619
2.4 Other parties	-	561	-	281
B. Capital adequacy requirements				
B.1 Credit risk	-	-	714,551	645,844
B.2 Market risks	-	-	33,905	31,335
1. Standard methodology	-	-	33,905	31,335
of which:				
+ risk for positions in fixed-yield securities	-	-	14,501	10,918
+ risk for positions in variable-yield securities	-	-	16,213	15,313
+ exchange risk	-	-	-	-
+ other risks	-	-	3,191	5,104
2. Internal models	-	-	-	-
of which:				
+ risk for positions in fixed-yield securities	-	-	-	-
+ risk for positions in variable-yield securities	-	-	-	-
+ exchange risk	-	-	-	-
B.3 Other precautionary requirements	-	-	-	-
B.4 Total precautionary requirements	-	-	748,456	677,179
C. Risk assets and capital ratios				
C.1 Risk-weighted assets	-	-	10,702,921	9,683,653
C.2 Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)	-	-	10.31	10.88
C.3 Capital for supervisory purposes / Risk-weighted assets (Total capital ratio)	-	-	9.93	10.73

PART H *Related party transactions*

1. Information on the remuneration of directors and managers

The emoluments of the directors, the statutory auditors and the general manager is detailed in the following table.

Name and surname	Company	Office	Term of office	Emoluments for the office	Other emoluments
PIERO MELAZZINI	Banca Popolare Sondrio	Chairman Chief Executive Officer	1/1/2005-31/12/2005	675	
	Banca Popolare Sondrio (Suisse) SA	Chairman		65	
CARLO GRASSI	Banca Popolare Sondrio	Deputy Chairman	1/1/2005-31/12/2005	175	
ALDO BALGERA	Banca Popolare Sondrio	Director	1/1/2005-31/12/2005	33	
CLAUDIO BENEDETTI	Banca Popolare Sondrio	Director	1/1/2005-31/12/2005	34	
GIANLUIGI BONISOLO	Banca Popolare Sondrio	Director	1/1/2005-31/12/2005	53	
FEDERICO FALCK	Banca Popolare Sondrio	Director	1/1/2005-31/12/2005	33	
GIUSEPPE FONTANA	Banca Popolare Sondrio	Director	1/1/2005-31/12/2005	33	
MARIO GALBUSERA	Banca Popolare Sondrio	Director	1/1/2005-31/12/2005	33	
NICOLÒ MELZI DI CUSANO	Banca Popolare Sondrio	Director	1/1/2005-31/12/2005	34	
EMILIO NEGRI MILES	Banca Popolare Sondrio	Director	1/1/2005-31/12/2005	47	
ALDO ROSSI	Banca Popolare Sondrio	Director	1/1/2005-31/12/2005	34	
RENATO SOZZANI	Banca Popolare Sondrio	Director	1/1/2005-31/12/2005	61	
	Pirovano Stelvio spa	Chairman		2	
LINO ENRICO STOPPANI	Banca Popolare Sondrio	Director	1/1/2005-31/12/2005	34	
BRUNO VANOSSI	Banca Popolare Sondrio	Director	1/1/2005-31/12/2005	33	
FRANCESCO VENOSTA	Banca Popolare Sondrio	Director	1/1/2005-31/12/2005	43	68
EGIDIO ALESSANDRI	Banca Popolare Sondrio	Chairman of the Board of Statutory Auditors	1/1/2005-31/12/2005	108	
	Sinergia Seconda srl	Auditor		6	
	Pirovano Stelvio spa	Auditor		2	
	Inarcheck spa	Auditor		9	
PIO BERSANI	Banca Popolare Sondrio	Auditor	1/1/2005-31/12/2005	59	
PIERGIUSEPPE FORNI	Banca Popolare Sondrio	Auditor	1/1/2005-31/12/2005	55	
	Sinergia Seconda srl	Auditor		4	
	Pirovano Stelvio spa	Auditor		2	
MARIO VITALI	Sinergia Seconda srl	Auditor	1/1/2005-31/12/2005	4	
MARIO ALBERTO PEDRANZINI	Banca Popolare Sondrio	General Manager	1/1/2005-31/12/2005	508	

The report on operations discloses the equity investments held by the directors and the related changes during the year.

2. Related party disclosures

Related parties have been identified in accordance with IAS 24.

Consistent with this standard, the following parties are deemed to be related:

1. Subsidiary companies, parent companies and companies under joint control.
2. Companies that can exercise significant influence over the reporting bank.
3. Associated companies.
4. Joint ventures in which the reporting bank holds an investment.
5. Managers with strategic responsibilities within the bank or its subsidiary.
6. Close family members of the parties listed from points 1 to 6.
7. Subsidiary companies, companies under joint control and companies subject to significant influence by one of these parties listed in points 5 and 6.
8. Pension funds of employees and any other entity related to them.

Close family members are defined as follows: the companion, the children of the related party – the children of the companion – and the dependents of the related party or the companion.

Relations with companies in which investments are held are conducted as part of normal operations and mainly relate to current accounts, deposit accounts and loans. These relations are settled on arms'-length terms. Other relations with other related parties, excluding the above companies, are also settled on the market terms applying to the individual transactions, or on terms in line with those applied to employees, if applicable. No specific provisions were made during the year for losses on amounts due from related parties. The remuneration of the directors and statutory auditors is authorised at the shareholders' meeting; the remuneration of the Chief Executive Officer is authorised by the Board of Directors.

There are no profit-related incentive plans for managers or pension plans other than the post-retirement benefits envisaged for participating employees of the bank; there are no stock-options plans.

	Assets	Liabilities	Income	Charges	Guarantees given	Guarantees received
Directors	86	7,543	2	148	3	1,387
Statutory auditors	227	131	7	1	97	599
Management	156	1,215	2	21	-	77
Family members	1,136	6,284	51	117	153	2,639
Subsidiaries	106,632	109,358	2,318	3,299	27,677	32,114
Associated companies	13,658	70,722	475	3,430	6,638	-
Other related parties	530	12,549	21	251	957	154

APPENDICES:

The appendices listed below contain additional information with respect to the notes to the financial statements, of which they form an integral part:

- list of significant equity investments;
- list of revalued assets still owned by the bank (article 10, Law 72 dated 19/3/1983);
- financial statements of the subsidiary companies, Banca Popolare di Sondrio (SUISSE) SA, Pirovano Stelvio SpA and Sinergia Seconda Srl, and of the associated companies, Ripoval SpA and Arca Vita SpA.

LIST OF SIGNIFICANT EQUITY INVESTMENTS

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	Country	% held	Notes
- Acquedotto dello Stelvio srl	(I)	27.000%	held indirectly through Pirovano Stelvio spa
- AMC Automotive Casting spa	(I)	30.000%	pledge
- Arca Vita spa	(I)	32.528%	
- Banca Popolare di Sondrio (SUISSE) SA	(CH)	100.000%	
- C.B.E. Service sprl	(B)	25.000%	
- Etica Sgr spa	(I)	11.100%	
- Immobiliare Borgo Palazzo srl	(I)	100.000%	held indirectly through Sinergia Seconda srl
- Immobiliare S. Paolo srl	(I)	100.000%	held indirectly through Sinergia Seconda srl
- Inarcheck spa	(I)	12.000%	
- Janua B. & A. Broker spa	(I)	14.571%	
- Pirovano Stelvio spa	(I)	100.000%	
- Razza Lomellina srl	(I)	100.000%	pledge
- Ripoval spa	(I)	50.000%	
- Sifas spa	(I)	21.614%	held indirectly through Pirovano Stelvio spa
- Sinergia Seconda srl	(I)	100.000%	
- Servizi Internazionali e Strutture Integrate 2000 srl	(I)	33.333%	
- Sofipo GmbH	(A)	15.000%	held indirectly through Banca Popolare di Sondrio (SUISSE) SA
- Sofipo Fiduciaire SA	(CH)	30.000%	held indirectly through Banca Popolare di Sondrio (SUISSE) SA
- Sofipo UF Trustee Limited	(CY)	10.000%	held indirectly through Banca Popolare di Sondrio (SUISSE) SA
- Unione Fiduciaria spa	(I)	18.309%	



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 31/12/2005	Net book value as of 31/12/2005
APRICA - Corso Roma, 140	77,468	0	356,355	146,929	580,752	402,663	178,089
BERBENNO DI VALTELLINA - Via Raneé, 542	12,775,352	0	0	99,417	12,874,769	2,754,242	10,120,527
BERGAMO - Via Broseta, 64/B	584,144	0	0	0	584,144	49,400	534,744
BORMIO - Via Roma, 64	439,238	46,481	573,267	136,524	1,195,510	129,586	1,065,924
BORMIO - Via Roma, angolo Via Don Peccedi	2,966,334	0	361,520	301,774	3,629,628	901,142	2,728,486
BRENO - Piazza Ronchi, 4	817,751	0	0	87,467	905,218	387,649	517,569
CHIAVENNA - Via Dolzino, 67	1,061,379	46,481	1,149,057	1,066,173	3,323,090	1,552,477	1,770,613
CHIESA IN VALMALENCO - Via Roma, 138	35,519	17,560	664,795	133,250	851,124	393,530	457,594
COLICO - Piazza Cavour, 11	177,749	0	0	96,488	274,237	168,504	105,733
DELEBIO - Piazza S. Carpofofo, 7/9	844,205	23,241	645,773	688,773	2,201,992	983,133	1,218,859
DERVIO - Via Don Invernizzi, 2	1,270,219	0	0	329,276	1,599,495	593,408	1,006,087
DOMASO - Via Statale Regina, 71	111,037	0	0	53,817	164,854	89,242	75,612
DONGO - Piazza V. Matteri, 14	1,567,930	0	0	415,551	1,983,481	774,785	1,208,696
EDOLO - Piazza Martiri della Libertà, 16	1,058,736	0	0	509,161	1,567,897	893,481	674,416
GERA LARIO - Via Statale Regina, 14	292,667	0	131,677	227,733	652,077	243,555	408,522
GRAVEDONA - Piazza Garibaldi, 10/12	903,799	0	0	223,957	1,127,756	382,699	745,057
GROSIO - Via Roma, 67	26,372	7,230	229,791	51,484	314,877	175,710	139,167
GROSOTTO - Via Statale, 73	15,538	12,911	147,146	42,099	217,694	123,121	94,573
ISOLACCIA DI VALDIDENTRO - Via Nazionale, 31	403,788	0	290,229	272,602	966,619	449,702	516,917
LECCO - Corso Martiri della Liberazione, 63/65	9,574,331	0	351,191	2,124,557	12,050,079	4,532,770	7,517,309
LECCO - Via Galandra, 28	168,623	0	0	41,959	210,582	88,444	122,138
LIVIGNO - Via Prestefan	3,049,811	0	0	0	3,049,811	109,190	2,940,621
LIVIGNO - Via S. Antoni, 33	544,893	0	345,487	358,828	1,249,208	366,591	882,617
MADESIMO - Via Carducci, 3	493,541	0	0	203,733	697,274	412,964	284,310
MARCHIROLO - Via Cav. Emilio Busetti, 7/A	1,089,019	0	0	0	1,089,019	239,071	849,948
MAZZO DI VALTELLINA - Via S. Stefano, 18	11,529	16,010	163,550	48,833	239,922	133,474	106,448
MILAN - Piazza Borromeo, 1	38,217	0	0	213,722	251,939	106,961	144,978
MILAN - Via Compagnoni, 9	51,141	0	0	6,842	57,983	41,748	16,235
MILAN - Via Lippi, 25	53,970	0	0	1,635	55,605	40,035	15,570
MILAN - Via Morigi, 2/A	73,590	0	0	123,930	197,520	112,587	84,933
MILAN - Via Porpora, 104	4,323,402	0	0	165,381	4,488,783	714,777	3,774,006
MILAN - Via S. Maria Fulcorina, 1	10,881,110	159,818	3,047,096	2,461,826	16,549,850	3,604,574	12,945,276
MILAN - Via S. Maria Fulcorina, 11	493,165	0	0	0	493,165	266,309	226,856
MILAN - Via Sangallo, 16	4,752	0	0	11,915	16,667	9,500	7,167
MILAN - Via Solari, 15	422,156	0	0	0	422,156	37,994	384,162

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 31/12/2005	Net book value as of 31/12/2005
MONTAGNA IN VALTELLINA - Via Stelvio, 30	472,050	0	328,458	398,008	1,198,516	552,098	646,418
MORBEGNO - Piazza Caduti della Libertà, 6	1,892,539	0	1,088,606	704,283	3,685,428	1,525,650	2,159,778
MORBEGNO - Via Garibaldi, 81	589,318	25,823	0	56,050	671,191	317,355	353,836
MORBEGNO - Via Nani, 13	54,709	0	0	17,739	72,448	45,642	26,806
MOZZO - Via Gabriele D'Annunzio, 4	26,424	0	0	14,259	40,683	18,307	22,376
NOVATE MEZZOLA - Via Roma, 13	45,681	0	251,282	89,219	386,182	191,665	194,517
PASSO DELLO STELVIO	630,416	0	0	296,176	926,592	544,571	382,021
PONTE IN VALTELLINA - Piazza della Vittoria, 1	24,734	12,911	258,098	86,540	382,283	179,479	202,804
REGOLEDO DI COSIO VALTELLINO - Via Roma, 7	134,617	0	0	78,405	213,022	104,309	108,713
ROME - Piazzale Filippo il Macedone, 75	2,400,000	0	0	0	2,400,000	108,000	2,292,000
ROME - Via Di Propaganda, 27	155,626	0	350,503	88,926	595,055	475,283	119,772
S. CASSIANO DI PRATA CAMPORTACCIO Via Spluga, 108	397,671	0	0	103,093	500,764	219,052	281,712
S. SIRO - Via Statale Regina	467,692	0	0	0	467,692	113,613	354,079
S. PIETRO DI BERBENNO - Via Nazionale Ovest, 110	67,941	22,208	328,181	122,795	541,125	283,783	257,342
SEREGNO - Via Wagner, 137/A	123,950	0	0	13,282	137,232	74,105	63,127
SONDALO - Via Zubiani, 2/4/6/8/10	21,756	25,823	312,456	158,005	518,040	290,777	227,263
SONDRIO - Corso Vittorio Veneto, 7	754,142	0	0	1,190,813	1,944,955	348,791	1,596,164
SONDRIO - Largo Pedrini, 8	200,617	0	0	22,527	223,144	123,813	99,331
SONDRIO - Piazza Garibaldi, 16 Via Ragazzi del '99, 6	1,314,201	351,191	7,810,125	3,142,651	12,618,168	4,830,192	7,787,976
SONDRIO - Via Bernina, 1	224,721	0	82,385	45,795	352,901	102,185	250,716
SONDRIO - Via Caimi, 29	357,915	0	0	46,342	404,257	277,163	127,094
SONDRIO - Via Cesura, 4	156,991	0	0	64,149	221,140	65,996	155,144
SONDRIO - Via delle Prese - Piazzale Toccalli	348,609	0	0	0	348,609	162,103	186,506
SONDRIO - Via Lungomallero Cadorna, 24	1,002,455	0	196,254	451,249	1,649,958	668,381	981,577
SONDRIO - Via Lusardi, 53	247,506	0	0	0	247,506	103,953	143,553
SONDRIO - Via Pio Rajna, 1	16,195	0	0	40,221	56,416	28,772	27,644
SONDRIO - Via Tonale, 6	56,297	0	243,248	54,643	354,188	268,481	85,707
TALAMONA - Via Cusini, 29	223,476	0	313,640	203,691	740,807	497,218	243,589
TEGLIO - Piazza S. Eufemia, 2	40,150	13,944	546,700	148,165	748,959	346,485	402,474
TIRANO - Località Valchiosa	139,352	0	0	0	139,352	61,162	78,190
TIRANO - Piazza Cavour, 20	392,572	0	1,736,322	718,576	2,847,470	1,347,976	1,499,494
TRESENDA DI TEGLIO - Via Nazionale, 57	192,524	0	193,671	67,596	453,791	271,680	182,111
VILLA DI CHIAVENNA - Via Roma, 39	197,713	0	0	7,639	205,352	163,494	41,858
VILLA DI TIRANO - Traversa Foppa, 25	440,816	0	0	7,651	448,467	143,470	304,997
	70,513,851	781,632	22,496,863	19,084,124	112,876,470	37,120,022	75,756,448

FINANCIAL STATEMENTS:

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 2005

(in Swiss francs)

ASSETS	2005	2004
Liquid assets	21,485,451	20,318,699
Due from other banks	210,877,684	243,125,046
Due from customers	343,271,962	291,521,772
Mortgage loans	574,580,019	457,860,887
Investment securities	53,329,045	44,217,621
Equity investments	408,362	350,000
Fixed assets	24,917,328	24,762,250
Accrued income and prepayments	13,721,058	8,833,358
Other assets	7,917,917	16,635,140
Total assets	1,250,508,826	1,107,624,773
Total amounts due from Group companies and holders of qualifying equity investments	73,018,448	84,587,504

LIABILITIES AND EQUITY	2005	2004
Money market securities	26,000	201,000
Deposits from other banks	150,707,036	232,394,047
Customer deposits - savings and investments	307,131,862	253,192,435
Other customer deposits	516,743,496	389,263,900
Treasury liabilities	105,068,000	63,111,000
Accrued expenses and deferred income	11,093,827	12,742,479
Other liabilities	15,611,260	22,037,61
Adjustments and provisions	32,717,750	31,957,614
Share capital	50,000,000	50,000,000
General legal reserve	52,724,688	45,055,155
Net profit for the year	8,684,907	7,669,533
Total liabilities and equity	1,250,508,826	1,107,624,773
Total amounts due to Group companies and holders of qualifying equity investments	130,198,351	195,373,534

OFF BALANCE SHEET TRANSACTIONS	2005	2004
Contingent liabilities	79,464,999	76,301,821
Additional payment commitments	300,000	300,000
Derivative products	972,858,386	1,198,616,245
– Gross positive replacement value	4,083,821	9,820,223
– Gross negative replacement value	5,741,485	14,207,766
Fiduciary transactions	498,891,856	504,900,899



INCOME STATEMENT

(in Swiss francs)

	2005	2004
Interest income and discounts	33,413,062	28,370,666
Interest income and dividends from trading securities	-	684
Interest income and dividends from investment securities	578,796	499,219
Interest expense	-17,094,198	-13,257,699
Net interest income	16,897,660	15,612,870
Commission income:		
- on lending transactions	385,744	595,826
- on trading in securities and investments	45,114,648	39,566,049
- on services	4,235,004	3,571,133
Commission expense	-5,669,766	-4,386,110
Net commission income and income from services	44,065,630	39,346,898
Profits from financial transactions	5,159,893	4,716,337
Profit (loss) on disposal of financial investments	355,062	102,695
Income from equity investments	10,000	4,000
Net proceeds from properties	-1,703	49,257
Other ordinary income	578,122	563,509
Other ordinary charges	-	-191,429
Total other ordinary income	941,481	528,032
Net income from ordinary banking operations	67,064,664	60,204,137
Personnel costs	26,561,151	24,193,532
Other operating expenses	17,513,716	14,636,072
Operating expenses	44,074,867	38,829,604
Gross profit	22,989,797	21,374,533

	2005	2004
Depreciation and amortisation	-9,379,233	-8,500,000
Adjustments, provisions and losses	-2,200,000	-2,500,000
Extraordinary income	9,343	-
Extraordinary charges	-	-
Income taxes	-2,735,000	-2,705,000
Net profit for the year	8,684,907	7,669,533
ALLOCATION OF NET PROFIT		
Net profit for the year	8,684,907	7,669,533
Retained earnings	-	-
Earnings available for allocation	8,684,907	7,669,533
Proposal of the Board of Directors for the allocation of 2005 net profit of CHF to general legal reserve	8,684,907	7,669,533
Balance carried forward	-	-



PIROVANO STELVIO SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2005

(in euro)

ASSETS	31/12/2005	31/12/2004
B) NON-CURRENT ASSETS		
I Intangible assets		
03 Industrial patent rights and intellectual property rights	2,341	2,837
07 Other intangible assets	8,972	11,805
Total I	11,313	14,642
II Property, plant and equipment		
01 Land and buildings	2,713,264	2,776,062
02 Equipment and machinery	111,913	112,002
03 Industrial and commercial equipment	64,369	52,583
04 Other assets	35,419	22,127
05 Assets under construction and advances	642,734	234,140
Total II	3,567,699	3,196,914
III Financial assets		
01 Equity investments		
b) in associated companies	306,289	925,890
d) in other companies	300	300
Total 01	306,589	926,190
02 Loans		
d) to others		
beyond 12 months	10,366	12,015
Total 02	10,366	12,015
Total III	316,955	938,205
TOTAL NON-CURRENT ASSETS	3,895,967	4,149,761
C) CURRENT ASSETS		
I Inventories		
04 Finished products and merchandise	24,741	26,790
Total I	24,741	26,790
II Receivables		
01 Due from customers		
a) within 12 months	34,064	40,403
Total 01	34,064	40,403
04 Due from parent company		
a) within 12 months	132,887	57,560
Total 04	132,887	57,560
04-bis Due from tax authorities		
a) within 12 months	92,814	55,092
Total 04-bis	92,814	55,092
05 Due from others		
a) within 12 months	7,012	5,585
Total 05	7,012	5,585
Total II	266,777	158,640
IV Cash and banks		
03 Cash and cash equivalents on hand	448	334
Total IV	448	334
TOTAL CURRENT ASSETS	291,966	185,764
D) ACCRUED INCOME AND PREPAYMENTS		
02 Other accrued income and prepayments	241	6,280
TOTAL ACCRUED INCOME AND PREPAYMENTS	241	6,280
TOTAL ASSETS	4,188,174	4,341,805

LIABILITIES AND EQUITY	31/12/2005	31/12/2004
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) Conversion reserve	2	7
Total VII	2	7
IX Loss for the year	(903,130)	(162,970)
TOTAL SHAREHOLDERS' EQUITY	1,358,935	2,099,100
C) SEVERANCE INDEMNITIES	60,410	51,934
D) PAYABLES		
04 Due to banks		
a) within 12 months	36,668	33,850
b) beyond 12 months	(0)	36,668
<i>Total 04</i>	<i>36,668</i>	<i>70,518</i>
06 Advance payments		
a) within 12 months	330	(0)
<i>Total 06</i>	<i>330</i>	<i>(0)</i>
07 Trade payables		
a) within 12 months	360,752	217,218
<i>Total 07</i>	<i>360,752</i>	<i>217,218</i>
11 Due to Parent Company		
a) within 12 months	2,335,238	1,845,983
<i>Total 11</i>	<i>2,335,238</i>	<i>1,845,983</i>
12 Taxes payable		
a) within 12 months	7,481	31,421
<i>Total 12</i>	<i>7,481</i>	<i>31,421</i>
13 Due to social security institutions		
a) within 12 months	7,312	5,705
<i>Total 13</i>	<i>7,312</i>	<i>5,705</i>
14 Other payables		
a) within 12 months	16,913	14,304
<i>Total 14</i>	<i>16,913</i>	<i>14,304</i>
TOTAL PAYABLES	2,764,694	2,185,149
E) ACCRUED EXPENSES AND DEFERRED INCOME		
02 Other accrued expenses and deferred income	4,135	5,622
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	4,135	5,622
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,188,174	4,341,805



MEMORANDUM ACCOUNTS	31/12/2005	31/12/2004
01 PERSONAL GUARANTEES RECEIVED		
d) Sureties received from Parent Company	40,443	103,726
Total 01	40,443	103,726
TOTAL MEMORANDUM ACCOUNTS	40,443	103,726

INCOME STATEMENT	31/12/2005	31/12/2004
A) PRODUCTION VALUE		
01 Revenues from sales and services	1,429,753	1,679,200
05 Other revenues and income		
a) other revenues and income	99,958	86,352
Total 5	99,958	86,352
TOTAL PRODUCTION VALUE	1,529,711	1,765,552
B) PRODUCTION COSTS		
06 Raw materials, consumables and goods	(304,091)	(272,228)
07 Services	(660,299)	(769,842)
09 Personnel costs		
a) wages and salaries	(525,460)	(495,137)
b) social security contributions	(172,796)	(163,223)
c) severance indemnities	(31,173)	(28,015)
e) other costs	(768)	(3,589)
Total 9	(730,197)	(689,964)
10 Depreciation, amortisation and write-downs		
a) amortisation of intangible assets	(4,258)	(6,180)
b) depreciation of property, plant and equipment	(121,181)	(124,475)
Total 10	(125,439)	(130,655)
11 Change in raw materials, consumables and goods	(2,049)	(146)
14 Sundry operating costs	(57,503)	(50,418)
TOTAL PRODUCTION COSTS	(1,879,578)	(1,913,253)
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS (A-B)	(349,867)	(147,701)
C) FINANCIAL INCOME AND CHARGES		
16 Other financial income		
a) from loans recorded among non-current assets		
a4) to third parties	82	119
Total a)	82	119
d) other financial income		
d4) from third parties	9,262	11,246
Total d)	9,262	11,246
Total 16	9,344	11,365
17 Interest and other financial charges		
c) Parent Company	(38,512)	(31,216)
d) third parties	(5,337)	(7,895)
Total 17	(43,849)	(39,111)
TOTAL FINANCIAL INCOME AND CHARGES	(34,505)	(27,746)
D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS		
19 Write-downs		
a) of equity investments	(619,602)	(0)
Total 19	(619,602)	(0)
TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS	(619,602)	(0)
E) EXTRAORDINARY ITEMS		
20 Income		
b) other extraordinary income	2	(0)
Total 20	2	(0)
21 Charges		
c) other extraordinary charges	(15,327)	(21,261)
Total 21	(15,327)	(21,261)
TOTAL EXTRAORDINARY ITEMS	(15,325)	(21,261)
PRE-TAX PROFIT (LOSS)	(1,019,299)	(196,708)
22 Current income taxes and changes in deferred tax assets and liabilities		
Total 22	116,169	33,738
23 LOSS FOR THE YEAR	(903,130)	(162,970)



SINERGIA SECONDA SRL

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2005

(in euro)

ASSETS	31/12/2005	31/12/2004
A) AMOUNTS RECEIVABLE FROM SHAREHOLDERS	-	-
Of which already called €		
B) NON-CURRENT ASSETS		
I - Intangible assets		
7 - Other	-	10,329
Total intangible assets	-	10,329
II - Property, plant and equipment		
1) Land and buildings		
1 - owned	10,557,074	-
Total fixed assets	10,557,074	-
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	10,577,074	30,329
C) CURRENT ASSETS		
I - Inventories		
4) finished products and merchandise	4,534,389	10,589,130
Total inventories	4,534,389	10,589,130
II - Receivables		
1) due from customers		
a) due within 12 months	179,037	31,963
2) due from subsidiary companies		
a) due within 12 months	13,088,107	13,088,107
4 bis) due from tax authorities		
a) due within 12 months	1,023,207	-
5) due from others		
a) due within 12 months	4,120	38,920
Total receivables	14,294,471	13,158,990
III - Financial assets not held as non-current assets	-	-
IV - Cash and banks		
3) cash and cash equivalents on hand	22	22
Total cash and banks	22	22
TOTAL CURRENT ASSETS	18,828,882	23,748,142
D) ACCRUED INCOME AND PREPAYMENTS		
1) accrued income and prepayments	75,903	8,362
TOTAL ACCRUED INCOME AND PREPAYMENTS	75,903	8,362
TOTAL ASSETS	29,481,859	23,786,833

LIABILITIES AND EQUITY		31/12/2005	31/12/2004
A) SHAREHOLDERS' EQUITY			
I - Share capital	10,200,000		10,200,000
II - Share premium reserve	-		-
III - Revaluation reserves	-		-
IV - Legal reserve	434,266		155,636
V - Statutory reserves	-		-
VI - Reserve for own shares	-		-
VII - Other reserves			
d) rounding differences on conversion to euro	-1		-1
VIII - Retained earnings	-		-
IX - Net profit for the year	306,739		288,959
TOTAL SHAREHOLDERS' EQUITY	10,941,004		10,644,594
B) RESERVES FOR RISKS AND CHARGES			
2) for current and deferred taxation	-		1,487
TOTAL RESERVES FOR RISKS AND CHARGES	-		1,487
C) SEVERANCE INDEMNITIES			
	-		-
D) PAYABLES			
7) due to suppliers			
a) due within 12 months	82,528		46,913
11) due to parent companies			
a) due within 12 months	18,423,060		12,921,871
12) taxes payable			
a) due within 12 months	121		109,646
14) other payables			
a) due within 12 months	16,046		15,711
TOTAL PAYABLES	18,521,755		13,094,141
E) ACCRUED EXPENSES AND DEFERRED INCOME			
1) accrued expenses and deferred income	19,100		46,611
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	19,100		46,611
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	29,481,859		23,786,833



MEMORANDUM ACCOUNTS	31/12/2005	31/12/2004
b) Tenant guarantees	10,329	10,329
TOTAL MEMORANDUM ACCOUNTS	10,329	10,329

INCOME STATEMENT	31/12/2005	31/12/2004
A) PRODUCTION VALUE		
1) revenues from sales and services	1,159,299	1,096,871
5) other revenues and income	-	-
c) other revenues	429	14,184
TOTAL PRODUCTION VALUE	1,159,728	1,111,055
B) PRODUCTION COSTS		
6) for raw materials, consumables and goods	4,500,000	-
7) for services		
a) cost of managing property for sale	34,389	292,268
d) cost of managing operating assets	271,935	-
f) cost of maintaining operating assets	77,416	-
10) depreciation, amortisation and write-downs		
a) amortisation of intangible assets	-	6,228
11) change in raw materials, consumables and goods	-4,534,389	-28,341
14) sundry operating costs		
a) other operating costs and charges	33,488	27,959
b) non-deductible charges	37,509	36,579
TOTAL PRODUCTION COSTS	420,348	334,693
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	739,380	776,362
C) FINANCIAL INCOME AND CHARGES		
17) interest and other financial charges		
c) third parties	309,990	277,472
TOTAL FINANCIAL INCOME AND CHARGES	-309,990	-277,472
D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS		
TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS	-	-
E) EXTRAORDINARY ITEMS		
20) income		
b) other extraordinary income	3,030	-
c) rounding differences on conversion to euro	-	1
TOTAL EXTRAORDINARY ITEMS	3,030	1
PRE-TAX PROFIT (LOSS)	432,420	498,891
22) current income taxes and change in deferred tax assets and liabilities		
a) IRES (corporate income taxes)	100,624	176,705
b) IRAP (regional business tax)	25,057	33,227
23) Net profit (loss) for the year	306,739	288,959



RIPOVAL SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004

(in euro)

ASSET ITEMS		31/12/2004	31/12/2003
10.	CASH AND BANKS	341,386	1,720,981
20.	DUE FROM BANKS	13,515	26,979
	a) Sight	13,515	26,979
40.	DUE FROM CUSTOMERS	13,543,991	19,283,496
	a) From taxpayers	-	-
	b) From entities for ordinary tax rolls	799,319	734,926
	of which:		
	for instalments paid in advance to tax authorities	606,226	667,357
	c) From other entities for tax collection	12,744,672	18,548,570
90.	INTANGIBLE ASSETS	939	10,431
	of which:		
	software	939	7,274
	leasehold improvements	-	3,157
100.	FIXED ASSETS	1,264,602	1,340,578
	a) Land and buildings	1,183,754	1,230,172
	b) Equipment and machinery	59,117	75,153
	c) Furniture and office machines	12,664	35,253
	d) Other assets	9,067	-
130.	OTHER ASSETS	364,615	220,705
140.	ACCRUED INCOME AND PREPAYMENTS	13,526	13,218
	a) Prepayments	13,526	13,218
TOTAL ASSETS		15,542,574	22,616,388

LIABILITY AND EQUITY ITEMS		31/12/2004	31/12/2003
10.	DUE TO BANKS	4,122,458	5,771,811
	a) Sight	4,122,458	5,771,811
30.	DUE TO CUSTOMERS	7,545,813	12,652,445
	a) Due to entities for ordinary tax rolls	269,841	315,301
	b) Other amounts due to entities	7,241,820	12,286,706
	c) Due to taxpayers	34,152	50,438
50.	OTHER LIABILITIES	334,168	341,033
	a) Trade payables	89,105	76,817
	b) Taxes payable	50,532	51,645
	c) Other payables	194,531	212,571
80.	RESERVE FOR RISKS AND CHARGES	436,477	540,055
	b) Taxation reserve	284,192	427,770
	c) Other reserves	152,285	112,285
120.	SHARE CAPITAL	2,582,300	2,582,300
140.	RESERVES	368,744	331,486
	a) Legal reserve	118,247	98,384
	b) Other reserves	250,497	221,233
	c) Retained earnings	-	11,869
170.	NET PROFIT (LOSS) FOR THE YEAR	152,614	397,258
TOTAL LIABILITIES AND EQUITY		15,542,574	22,616,388

GUARANTEES AND COMMITMENTS		31/12/2004	31/12/2003
20.	Commitments	-	-



INCOME STATEMENT

(in euro)

COSTS		2004	2003
10.	INTEREST EXPENSE AND SIMILAR CHARGES	70,777	203,367
	of which:		
	Interest on bank loans	70,777	203,367
20.	COMMISSIONS AND FEES FOR COLLECTION SERVICES	333,932	349,643
	a) For collection services	173,234	199,044
	b) For other services	160,698	150,599
40.	ADMINISTRATIVE EXPENSES	2,220,265	2,222,341
	a) Personnel expenses	1,461,180	1,454,176
	of which:		
	Wages and salaries	959,059	948,324
	Social security contributions	340,985	340,889
	Contribution for capital	70,117	69,771
	Company bonus	58,000	62,000
	b) Expenses for professional services	295,808	312,356
	c) Consumables and miscellaneous office costs	213,471	208,154
	d) Expenses for non-professional services	125,506	120,344
	e) Expenses for the use of third-party assets	20,908	20,670
	f) Indirect taxes and duties	103,392	106,641
50.	ADJUSTMENTS TO INTANGIBLE AND FIXED ASSETS	103,477	141,537
	a) Amortisation of intangible assets	10,338	16,782
	b) Depreciation of fixed assets	93,139	124,755
60.	ADJUSTMENTS TO EMOLUMENTS	2,614	3,861
70.	PROVISIONS FOR RISKS AND CHARGES	40,000	40,000
110.	EXTRAORDINARY EXPENSE	25,658	45,654
130.	INCOME TAXES FOR THE YEAR	248,000	392,000
140.	NET PROFIT FOR THE YEAR	152,614	397,258
TOTAL		3,197,337	3,795,661

INCOME		2004	2003
10.	INTEREST INCOME AND SIMILAR REVENUES	112,910	98,589
	a) From amounts due from customers	3,287	991
	b) Other interest income	109,623	97,598
30.	INCOME FROM TAX COLLECTION	3,020,370	3,635,198
	a) Primary income from rolls	603,252	638,844
	b) Supplementary income from rolls	284,580	172,756
	c) Income from direct payments	746,879	767,180
	d) Other income from tax collection	7,754	443,976
	e) Sector incentive grants	1,377,905	1,612,442
40.	PROFITS FROM FINANCIAL TRANSACTIONS	-	4,164
70.	OTHER OPERATING INCOME	21,743	24,599
	a) Income from capital	21,743	24,599
80.	EXTRAORDINARY INCOME	42,314	33,111
TOTAL		3,197,337	3,795,661



ARCA VITA SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004

(in euro)

ASSETS

A. SUBSCRIBED CAPITAL NOT YET PAID

of which already called

B. INTANGIBLE ASSETS

1. Acquisition commission to be amortised
 - a) life business
 - b) accident business
2. Other acquisition expenses
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
 3. Other buildings
 4. Other real rights
 5. Assets under construction and advances
- II - Investments in Group companies and other equity investments
 1. Shares and quotas:
 - a) parent companies
 - b) subsidiaries
 - c) affiliated companies
 - d) associated companies
 - e) other
 2. Bonds issued by:
 - a) parent companies
 - b) subsidiaries
 - c) affiliated companies
 - d) associated companies
 - e) other
 3. Loans to:
 - a) parent companies
 - b) subsidiaries
 - c) affiliated companies
 - d) associated companies
 - e) other
- III - Other financial investments
 1. Shares and quotas
 - a) Listed shares
 - b) Unlisted shares
 - c) Quotas
 2. Units in mutual funds
 3. Bonds and other fixed-yield securities
 - a) listed
 - b) unlisted
 - c) convertible bonds
 4. Loans
 - a) secured loans
 - b) loans against insurance policies
 - c) other loans
 5. Mutual funds
 6. Deposits with banks
 7. Other financial investments
- IV - Deposits with reinsurers

31/12/2004		31/12/2003	
2,410,548	2,410,548	1,524,677	1,524,677
		454,872	
2,514,951	4,925,499	4,111,170	6,090,719
5,056,065		4,140,393	
1,123,606		2,216,347	
	6,179,671		6,356,740
22,069,798		22,918,206	
289,423		289,423	
3,757,500	26,116,721		23,207,629
-		-	
700,000			
	700,000		23,207,629
26,993,137		8,322,200	
	26,993,137		8,322,200
	112,042,831		121,042,839
1,258,704,359		1,043,089,123	
5,222,322		19,219,752	
981,987	1,264,908,668	8,828,166	1,071,137,041
200,551		150,167	
	200,551		150,167
	2,043,277		1,144,383
	1,406,188,464		1,201,796,630
	1,439,184,856		1,231,360,999



ASSETS

D. INVESTMENTS BENEFITING LIFE ASSURANCE POLICYHOLDERS BEARING THE RELATED RISKS AND THOSE DERIVING FROM THE MANAGEMENT OF PENSION FUNDS

- I - Investments relating to services linked to investment funds and stockmarket indices
- II - Investments relating to the management of pension funds

D bis. TECHNICAL RESERVES CARRIED BY REINSURERS

- I - ACCIDENT BUSINESS
 - 1. Premium reserve
 - 2. Accident reserve
 - 3. Profit-sharing reserve
 - 4. Other technical reserves
- II - LIFE BUSINESS
 - 1. Actuarial reserves
 - 2. Premium reserves for supplementary insurance
 - 3. Reserve for claims to be settled
 - 4. Profit-sharing reserve
 - 5. Other technical reserves
 - 6. Technical reserves for investments benefiting life assurance policyholders bearing the related 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
 - 4. Amounts recoverable from policyholders and third parties
- II - Receivables deriving from reinsurance transactions with:
 - 1. Insurance and reinsurance companies
 - 2. Reinsurance broking
- 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
 - 4. Supplies and other assets
- II - Liquidity
 - 1. Bank and post office deposits
 - 2. Cheques and cash
- III - Own shares
- IV - Other assets
 - 1. Transit accounts with reinsurers
 - 2. Sundry assets

G. ACCRUED INCOME AND PREPAYMENTS

- 1. Interest
- 2. Leasing instalments
- 3. Other

TOTAL ASSETS

31/12/2004			31/12/2003		
	1,703,841,216	1,703,841,216		1,963,720,677	1,963,720,677
	-			-	
11,830,226			11,920,111		
139,216			116,919		
295,173			382,838		
2,879,652	15,144,267	15,144,267	1,071,284	13,491,152	13,491,152
212,579			407,158		
925			428		
607,082			886,869		
855,486	1,676,072		1,032,324	2,326,779	
8,778,245	8,778,245		10,045,188	10,045,188	
	44,594,727	55,049,044		33,501,625	45,873,592
1,017,723			1,557,122		
8,650			16,100		
203,462	1,229,835		180,163	1,753,385	
37,469,953			43,008,620		
6,557	37,476,510		3,056	43,011,676	
34,103	34,103	38,740,448		-	44,765,061
	15,630,705			18,013,656	
	68,608	15,699,313		662	
				156,956	18,171,274
	3,272,584,643			3,323,473,474	

LIABILITIES AND SHAREHOLDERS' EQUITY

A. SHAREHOLDERS' EQUITY

- I - Share capital
- II - Share premium reserve
- III - Revaluation reserves
- IV - Legal reserve
- V - Statutory reserves
- VI - Reserve for own and Parent Company's shares
- VII - Other reserves
- VIII - Retained earnings (accumulated losses)
- IX - Profit (loss) for the year

B. SUBORDINATED LIABILITIES

C. TECHNICAL RESERVES

- II - LIFE BUSINESS
 - 1. Actuarial reserves
 - 2. Premium reserves for supplementary insurance
 - 3. Reserve for claims to be settled
 - 4. Profit-sharing reserve
 - 5. Other technical reserves

D. TECHNICAL RESERVES EVEN THOUGH THE INVESTMENT RISK IS BORNE BY POLICYHOLDERS AND THOSE DERIVING FROM THE MANAGEMENT OF PENSION FUNDS

- I - Reserves relating to contracts linked to investment funds and stockmarket indices
- II - Reserves deriving from the management of pension funds

E. PROVISIONS FOR RISKS AND CHARGES

- 1. Post retirement benefits
- 2. Taxation reserve
- 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
 - 3. Guarantee deposits and premiums from policyholders
 - 4. Provisions to guarantee policyholders
- II - Payables, deriving from reinsurance transactions, with:
 - 1. Insurance and reinsurance companies
 - 2. Reinsurance broking
- III - Bonds
- IV - Due to banks
- V - Secured payables
- VI - Other loans and financial payables
- VII - 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
 - 1. Transit accounts with reinsurers
 - 2. Commission on premiums being collected
 - 3. Miscellaneous liabilities

H. ACCRUED EXPENSES AND DEFERRED INCOME

- 1. Interest
- 2. Leasing instalments
- 3. Other

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

31/12/2004			31/12/2003		
	38,235,600			38,235,600	
	9,399,516			9,399,516	
				34,916	
	6,063,822			5,413,257	
	38,348,038			34,648,038	
	16,763			84,682	
	12,402,935	104,466,674		6,505,646	94,321,655
1,371,839,460			1,177,412,746		
578,297			497,531		
38,945,893			27,986,938		
12,599,534	1,423,963,184	1,423,963,184	14,850,125	1,220,747,340	1,220,747,340
	1,703,840,822			1,963,720,677	
		1,703,840,822			1,963,720,677
	1,645,640	1,645,640		2,550,705	2,550,705
		11,180,936			9,128,778
6,781,335			8,080,839		
354,464					
	7,135,799			8,080,839	
4,318,965			4,008,652		
	4,318,965			4,008,652	
	36,170			251,249	
	340,600				
	823,108			738,951	
433,524			466,117		
7,559,667			13,152,791		
166,925			182,895		
6,515,876	14,675,992		6,112,764	19,914,567	
13,007			8,453		
	13,007	27,343,641		8,453	33,002,711
	143,000				
	746	143,746		1,608	1,608
	3,272,584,643			3,323,473,474	



MEMORANDUM ACCOUNTS
AS OF 31 DECEMBER 2004
(in euro)

- I - Guarantees given
 - 1. Sureties
 - 2. Endorsements
 - 3. Other personal guarantees
 - 4. Secured guarantees
- II - Guarantees received
 - 1. Sureties
 - 2. Endorsements
 - 3. Other personal guarantees
 - 4. Secured guarantees
- III - Guarantees granted by third parties in the company's interest
- IV - Commitments
- V - Third-party assets
- VI - Assets servicing pension funds managed on behalf of third parties
- VII - Securities deposited with third parties
- VIII - Other memorandum accounts

31/12/2004		31/12/2003	
	1,500,000		4,090,000
	30,000		20,020,000
	44,302,529		46,251,202
	3,005,056,667		3,098,490,157

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

(in euro)

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
(of which from Group companies)
 - b) Income from other investments:
 - aa) land and buildings
 - bb) other investments
(of which from Group companies)
 - c) Writebacks of investments
 - d) Profits on the sale of investments
(of which from Group companies)
3. INCOME AND UNREALIZED GAINS ON INVESTMENTS BENEFITING POLICYHOLDERS BEARING THE RELATED RISK AND ON INVESTMENTS DERIVING FROM THE MANAGEMENT OF PENSION FUNDS
4. OTHER TECHNICAL INCOME, NET OF AMOUNTS TRANSFERRED TO REINSURERS
5. CLAIMS-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
7. PROFIT SHARING, NET OF AMOUNTS TRANSFERRED TO REINSURERS

31/12/2004			31/12/2003		
	366,950,866			486,961,875	
	4,830,412	362,120,454		3,455,455	483,506,420
	557,176			228,463	
	199,976			-	
	70,000			118,500	
	51,633,419			48,127,649	
	70,000			81,000	
	6,019,568			5,413,193	
	15,817,304			10,556,574	
	-	74,097,467		-	64,444,379
		122,688,741			139,206,879
		6,821,158			5,756,096
532,085,976			290,033,447		
1,216,257	530,869,719		1,365,803	288,667,644	
10,956,157			-794,845		
290,888	10,665,269	541,534,988	822,859	-1,617,704	287,049,940
194,753,451			235,726,920		
-89,885	194,843,336		-885,815	236,612,735	
80,766			54,542		
22,297	58,469		-5,881	60,423	
-2,250,592			1,859,614		
-	-2,250,592		-	1,859,614	
-259,879,855			83,228,656		
1,808,367	-261,688,222	-69,037,009	1,071,283	82,157,373	320,690,145
		-		-	

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, OTHER FINANCIAL CHARGES AND UNREALIZED LOSSES ON INVESTMENTS BENEFITING POLICYHOLDERS BEARING THE RELATED RISK AND ON INVESTMENTS DERIVING FROM THE MANAGEMENT OF PENSION FUNDS

11. OTHER TECHNICAL CHARGES, NET OF AMOUNTS TRANSFERRED TO REINSURERS

12. (-) PORTION OF INVESTMENT INCOME TRANSFERRED TO THE NON-TECHNICAL STATEMENT (CAPTION III.4)

13. LIFE ASSURANCE BUSINESS - TECHNICAL STATEMENT RESULTS (caption III.2)

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

31/12/2004			31/12/2003		
	3,926,315			8,288,648	
	16,514,691			17,263,868	
	885,870			1,106,718	
	1,474,230			1,527,396	
	7,046,824			7,376,974	
	466,307	27,609,883		2,816,187	30,533,981
	1,612,163			1,351,103	
	5,287,755			8,624,556	
	6,624,193	13,524,111		3,574,639	13,550,298
		22,629,596			20,734,569
		5,513,555			5,379,617
		4,271,752			3,955,932
		19,680,944			11,019,292
		19,680,944			11,019,292
		4,271,752			3,955,932
		3,466,149			2,800,231
		6,170,279			6,562,684
		21,248,566			11,212,771
		516,114			473,549
		140,335			156,873
		375,779			316,676
		21,624,345			11,529,447
		9,221,410			5,023,801
		12,402,935			6,505,646

**REPORT OF THE INDEPENDENT AUDITORS ON THE
FINANCIAL STATEMENTS PURSUANT TO ART. 156 OF DECREE 58 OF 24.2.1998**
(Translation from the original issued in Italian)

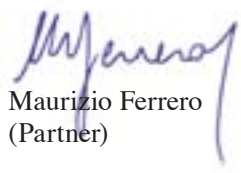
**To the Shareholders of
BANCA POPOLARE DI SONDRIO S.C.A R.L.**

1. We have audited the financial statements, comprising the balance sheet, the income statement, the statement of changes in shareholders' equity, the statement of changes in financial position and the related explanatory notes, of Banca Popolare di Sondrio S.c. a r.l. as of and for the year ended 31 December 2005. The Board of Directors of Banca Popolare di Sondrio S.c. a r.l. is responsible for preparing the financial statements. We are responsible for expressing a professional opinion on the financial statements, which we have formed on the basis of our audit. The above financial statements have been prepared for the first time in accordance with the International Financial Reporting Standards adopted by the European Union.
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 evidence 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.

The financial statements present comparative prior year information prepared in accordance with the same accounting standards, except for the effects of applying IAS 32 and IAS 39 which, as allowed by IFRS 1, have been applied from 1 January 2005. Section A.2 of the notes to the financial statements illustrates the effects of the transition to the International Financial Reporting Standards adopted by the European Union. The information presented in this Section A.2 has been examined by us for the purpose of expressing our opinion on the financial statements as of 31 December 2005.

3. In our opinion, the financial statements of Banca Popolare di Sondrio S.c.a.r.l. as of 31 December 2005 comply with the International Financial Reporting Standards adopted by the European Union; they have therefore been prepared clearly and provide a true and fair view of the assets and liabilities, financial position, results for the year, changes in equity and cash flows of Banca Popolare di Sondrio S.c. a r.l. as of and for the year ended on that date.

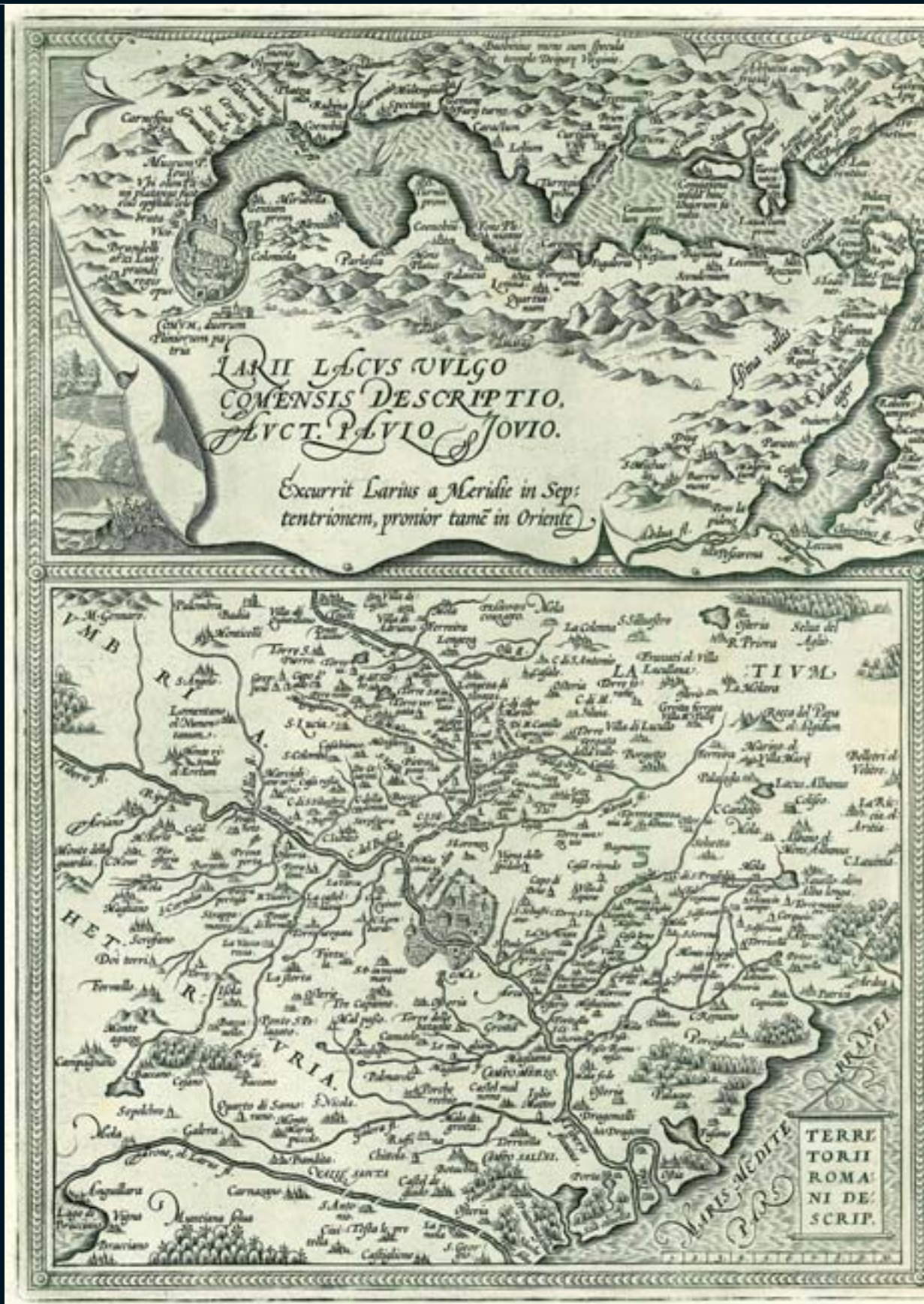
DELOITTE & TOUCHE S.p.A

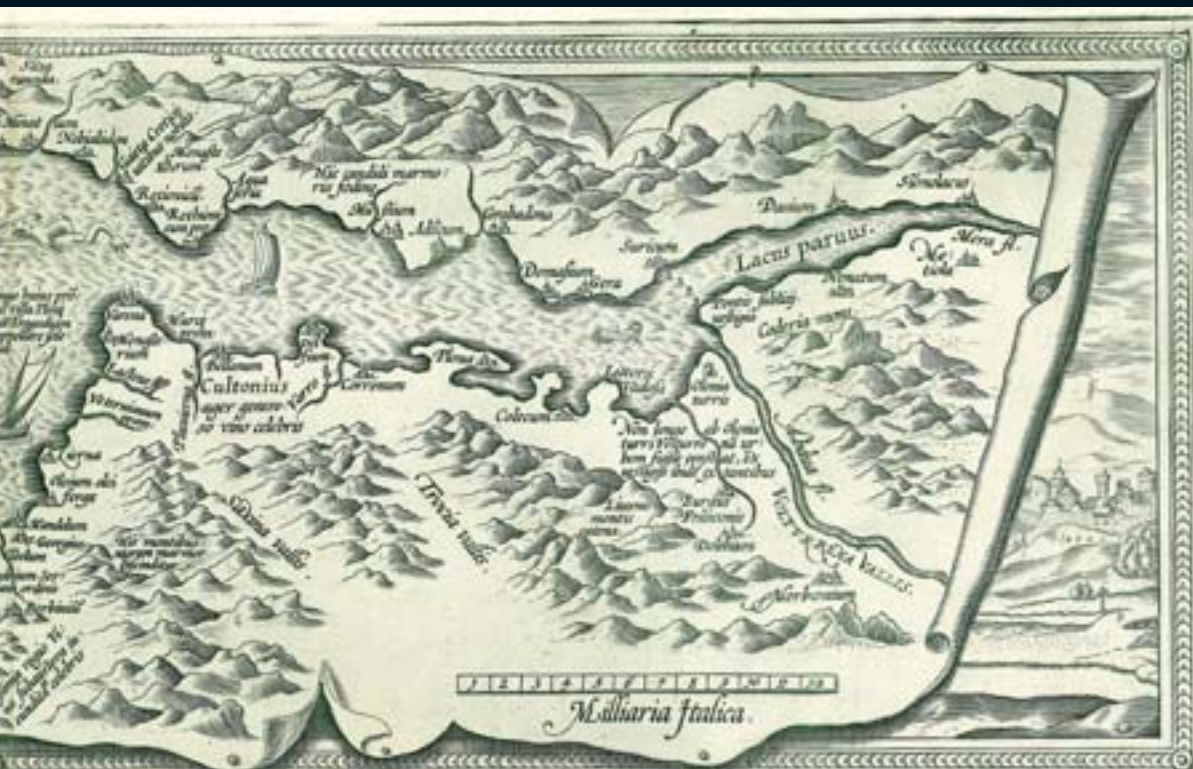


Maurizio Ferrero
(Partner)

Milan, 23 March 2006

Larii Lacus Vulgo
Comensis Descriptio,
Auct. Paulo Jovio.
Territorii Romani Descrip.
Fori Iulii,
Vulgo Friuli Typus.
Work by Abraham Wortels
(1527 1598)
- Italianised to Ortelio -
dating back to c. 1570
(Property of Banca
Popolare di Sondrio).





Banca Popolare di Sondrio

**CONSOLIDATED FINANCIAL
STATEMENTS OF THE
BANCA POPOLARE DI SONDRIO
BANKING GROUP**

DIRECTORS' REPORT ON OPERATIONS

Shareholders,

As parent bank of the Banca Popolare di Sondrio Banking Group, registration no. 5696.0, we are obliged to present consolidated financial statements. Following the adoption of EU Regulation 1606 dated 19 July 2002, the consolidated financial statements have been prepared in accordance with international financial reporting standards (IFRS).

COMPOSITION OF THE BANKING GROUP

The Banca Popolare di Sondrio Banking Group comprises:

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., CHF 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 directors' report on operations accompanying the parent bank's financial statements for 2005 contains information on the international and Italian economic situation during the year. We would, however, like to add a few comments about Switzerland, even if based on indices and information which are not yet final and official. Switzerland has performed well at a European level, benefiting from a climate of greater optimism, against the traditional background of price stability, low unemployment and lack of social strife. The economic trend – with GDP up by about 1.9% – should be sustained by robust export demand, capital investment and an increase in the propensity of consumers to spend.

The moderate adjustment made to interest rates by the Swiss National Bank, which raised the reference rate on 15 December by 0.25%, in line with the decision taken by the European Central Bank, is unlikely to hinder economic growth given continuation of the expansionary monetary policy.

On the foreign exchanges, the franc was essentially stable against the euro, depreciating by 14.07% against the dollar, while the Zurich stock exchange reported the best performance in Europe with a rise of 33.2%.

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

The expansion of the Group's commercial network continued during the year, with the dual purpose of entering into new areas and of intensifying and strengthening the action taken in established territories.

Territorial expansion is a strategic objective that accompanies the general increase in the scale and operations of the Group.

Special attention is of course given to the border areas between the Swiss Confederation and Italy, in order to promote our function as the banking intermediary capable of supporting effectively customers – individuals, enterprises and institutions – on both sides of the frontier.

The Parent Bank has expanded its network by 15 branches, including 3 in Rome, 1 in Turin and the others in Lombardy. Extensive information is provided in the report on operations attached to the 2005 financial statements.

For its part, Banca Popolare di Sondrio (SUISSE) SA has continued to set down roots in Switzerland, increasingly becoming a bank that serves the local communities. Our presence in certain cantons is starting to become relatively significant, with 7 branches in Ticino and 4 in Grigioni. This evidenced by the opening of a city branch at the new management headquarters situated in via Luvini, Lugano, and, at year end, of the branch in Mendrisio. This town, with more than 7,000 inhabitants, is one of the most important production and commercial centres in the Italian-speaking part of Switzerland. The many industrial firms based in the area have been gradually joined by modern shopping centres that attract crowds of people, partly due to the convenient motorway connections.

At the end of 2005, the Group had a total of 234 branches and 2 representative offices.

GROUP PERFORMANCE

Funding

Once again, funding was lively during the year with constant progress that highlights the ability of the Group to consolidate its fiduciary relationships with customers. The quality and completeness of the commercial range has

enabled us to expand our activities in established areas, as well as to extend meaningfully into new markets.

Direct customer deposits amount to 11,324 million, a rise of 14.64%.

Deposits received from other banks have climbed by 7.97% to 1,168 million.

Indirect customer deposits have risen by 17.39% to 18,181 million, insurance business amounted to 448 million, +12.72%. Indirect deposits from other banks have also risen: 2,464 million, +24.98%. Consolidated funding therefore totals 33,585 million, +16.55%.

With regard to the performance of individual captions, there was further dynamic growth in current accounts. These climbed by 15.02% to 8,090 million and represent 71.45% of total direct funding. Bonds grew well, +10.90% to 980 million, while savings deposits rose to 613 million, +6.53%. Repo transactions climbed 18.77% to 1,487 million.

Asset management benefited from the progression of financial and stock markets worldwide. Due to the Group's skills and the operational tools available, business in this sector rose by 18.97% to 4,278 million.

DIRECT CUSTOMER DEPOSITS

(in thousands of euro)	2005	% of total	2004	% of total	% change
Savings deposits	612,968	5.41	575,409	5.83	6.53
Certificates of deposit	46,171	0.41	43,473	0.44	6.21
Bonds	979,599	8.65	883,310	8.94	10.90
Repo transactions	1,486,842	13.13	1,251,821	12.67	18.77
Bank drafts and similar	107,761	0.95	89,949	0.91	19.80
Current accounts	7,139,378	63.05	6,326,030	64.04	12.86
Current accounts in foreign currency	951,082	8.40	707,963	7.17	34.34
Total	11,323,801	100.00	9,877,955	100.00	14.64

TOTAL FUNDING

(in thousands of euro)	2005	% of total	2004	% of total	% change
Total direct customer deposits	11,323,801	33.72	9,877,955	34.28	14.64
Total indirect customer deposits	18,181,063	54.13	15,487,177	53.74	17.39
Total insurance-related deposits	448,025	1.33	397,481	1.38	12.72
Total	29,952,889	89.18	25,762,613	89.40	16.26
Due to other banks	1,168,147	3.48	1,081,940	3.75	7.97
Indirect deposits from banks	2,464,303	7.34	1,971,705	6.85	24.98
Grand total	33,585,339	100.00	28,816,258	100.00	16.55

Loans

If a bank is measured by its ability to lend, there can be no doubt that our Group carried out this function over the past year with renewed dynamism and consolidated skill. This is confirmed both by the growth in volume and by the statistics on the quality of lending.

Despite a general economic situation that hardly suggests a strong recovery, lending has risen to 9,771 million, +14.04%. This demonstrates with hard facts our desire to work effectively for the benefit of the productive activities and, of course, households. At the same time, the increased volumes generated have contributed to profitability, after absorbing a further slight reduction in the spread of interest rates.

CUSTOMER LOANS

(in thousands of euro)	2005	% of total	2004	% of total	% change
Current accounts	3,045,525	31.17	2,902,202	33.88	4.94
Foreign currency loans	1,608,210	16.46	1,360,050	15.87	18.25
Advances	299,402	3.06	338,422	3.95	-11.53
Advances subject to collection	157,541	1.61	140,920	1.64	11.79
Discounted portfolio	7,856	0.08	8,483	0.10	-7.39
Artisan loans	32,645	0.33	34,185	0.40	-4.50
Agricultural loans	23,385	0.24	18,312	0.21	27.70
Personal loans	68,877	0.70	67,085	0.78	2.67
Other unsecured loans	1,799,742	18.42	1,358,215	15.85	32.51
Mortgage loans	2,642,675	27.0	2,269,578	26.50	16.44
Doubtful loans	84,657	0.87	70,402	0.82	20.25
Total	9,770,515	100.00	8,567,854	100.00	14.04

A brief analysis of the various captions highlights the sustained growth of mortgage loans to 2,643 million, +16.44%. Current accounts rise by 4.94% to 3,046 million, representing 31.17% of total lending. Other unsecured loans increased by 32.51% to 1,800 million.

With regard to the quality of lending, net doubtful loans after writedown now amount to 0.87% of total customer loans, compared with 0.82% last year. This reflects the continued high quality of the loan portfolio, confirming the Group's vigilant approach to the monitoring of lending risk.

Portfolio of financial assets

The portfolio of assets held for trading, stated at fair value, and available-for-sale assets rose by 18.04% over the year to 2,691 million. Movements in the portfolio are detailed in tables contained in the notes to the consolidated financial statements Part B - Asset Sections 2 - 3 - 4. Given the predominance

of the parent bank's portfolio with respect to the total, the reader is referred to the report on operations accompanying its financial statements for information on investment policies.

The price of shares in Banca Popolare di Sondrio, listed on the Expandi market of the Milan exchange, rose by 28.17% over the year, for the further benefit of shareholders who have seen substantial rises in recent years. There has been an increase in the number of shareholders in the Parent Bank who are resident in Switzerland. This is an inevitable consequence of our ongoing relations with the customers of SUISSE.

The parent bank held no own shares as of 31 December 2005, while the reserve for the purchase of own shares totals 29 million.

Trading in own shares during the year is summarised below:

	No. of shares	Par value	% of capital	Amount of trades
Balance as of 31/12/2004	-	-	-	-
Purchases	8,206	24,618	0.004	95,476.61
Sales	8,206	24,618	0.004	94,858.55
Results from trading	-	-	-	-618.06
Balance as of 31/12/2005	-	-	-	0.00

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

The report on operations accompanying the parent bank's 2005 financial statements contains information on the equity investments held.

The table below summarises the transactions with non-consolidated associated companies. Interest income of 0.475 million and interest expense of 3.430 million has been charged to or by these companies.

Related party transactions, as identified in accordance with IAS 24, form part of ordinary operations and are settled on market terms or, in the absence of suitable parameters, on the basis of the costs incurred.

In Part H of the notes to the financial statements – Related party transactions – these are defined and identified, showing the nature of the relationships.



TRANSACTIONS WITH NON-CONSOLIDATED ASSOCIATED COMPANIES

Situation as of 31/12/2005 (in thousands of euro)

	Associated companies of the parent company		Associated companies of subsidiaries	
	2005	2004	2005	2004
ASSETS				
Due from other banks	-	-	-	-
Customer loans	13,658	1,409	-	16
Securities	-	10,162	-	-
LIABILITIES				
Due to other banks	-	-	-	-
Customer deposits	1,147	5,157	788	852
Securities issued	69,477	92,695	-	-
GUARANTEES AND COMMITMENTS				
Guarantees given	6,530	6,528	118	118
Commitments	-	-	-	-

During 2005, as well as during the current year, there have been no non-operating or unusual transactions that might have a significant effect on the Group's economic or financial standing.

HUMAN RESOURCES

As of 31 December 2005, the Group's headcount came to 2,394, up 4.5% on the figure of 2,291 reported at the end of 2004. The rise in employment is closely correlated with the needs of the two banks in the Group, which are both committed to developing their own branch networks and, consequently, to strengthening the central support functions.

A breakdown of employment by category is contained in the notes.

CAPITAL AND RESERVES

The allocation to reserves of a significant portion of net profit supports the increase in shareholders' equity to 1,158 million at 31 December 2005, +9.59%.

The capital ratios listed below reflect, however, the effects of rapid expansion by the Group:

- *capital/direct customer deposits*
10.23% v. 10.70%;
- *capital/customer loans*
11.85% v. 12.33%;
- *shareholders' equity/financial assets*
43.04% v. 46.36%;
- *capital/total assets*
8.12% v. 8.38%.

RECONCILIATION BETWEEN THE PARENT BANK'S AND THE CONSOLIDATED FINANCIAL STATEMENTS

Because of the difference in size between the parent bank and the other consolidated companies, the individual contributions of the latter are not very significant, although certainly not negligible either. The following table reconciles the «net profit for the year» and «shareholders' equity» reported in the parent bank's and in the consolidated financial statements.

RECONCILIATION OF THE SHAREHOLDERS' EQUITY AND NET PROFIT FOR THE YEAR REPORTED BY THE PARENT BANK WITH THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of euro)

	Equity	of which: Net profit for the year
Shareholders' equity of the parent bank as of 31/12/2005	1,204,678	85,178
Difference with respect to carrying values of equity investments in:		
– companies consolidated on a line-by-line basis	52,547	7,279
– companies valued using the equity method	(3,461)	3,056
Balance as of 31/12/2005, as reported in the consolidated financial statements	1,253,764	95,513

INCOME STATEMENT

Activities were conducted in a somewhat stagnant general economic context, with overall growth that was less than expected.

Despite this, the Group's results have improved considerably: net profit amounted to 95.513 million, +15.32%.

The trends in the various components of the income statement largely reflect those seen in the parent bank's own financial statements.

Net interest income benefited from the considerable rise in volume and climbed to 258.517 million, +8.61%. Income from lending rose 10.03% to 446.100 million, while the cost of funding amounted to 187.583 million, +12.05%. Net commission income climbed by 11.05% to 158.586 million.

Dividends, income from trading and other income amounted to 43.062 million, +20%.

These movements were reflected in income from banking activities, which rose 10.43% to 460.165 million. Of this amount, net commission income, dividends, income from trading and other income contributed 43.82%, while net interest income generated 56.18%. Although lending to customers has expanded considerably, the related write-downs have contracted by 17.58% to 38.152 million. This was due, in particular, to the write-backs identified on valuing the individual positions and includes the write-down of securities by 0.075 million. The balance of financial management was therefore 422.013 million, +13.93%. Administrative expenses rose 10.06% to 277.434 million. Payroll costs – which, in accordance with the new accounting standards, include the remuneration of directors and freelance and project workers – have risen by +7.35%. The increase in other administrative expenses by 13.35% is partly offset, as other income, by the recovery of stamp duty levied on statements of current account and securities.

Net provisions for risks and charges amounted to 6 million and have been prudently recorded to cover disputed repayment claims in relation to bankrupt customers.

SUMMARY INCOME STATEMENT

(in thousands of euro)	2005	2004	changes (+/-)	% change
Net interest income	258,517	238,016	20,501	8.61
Net commission income	158,586	142,801	15,785	11.05
Dividends, income from trading and other income	43,062	35,886	7,176	20.00
Income from banking activities	460,165	416,703	43,462	10.43
Adjustments to loans	-38,152	-46,288	8,136	-17.58
Balance of financial management	422,013	370,415	51,598	13.93
Administrative expenses	-277,434	-252,073	-25,361	10.06
Provisions, net adjustments to property, plant and equipment and intangible assets, other operating income and expenses and gains and losses	11,238	17,903	-6,665	-37.23
Profit from ordinary operations, gross of income taxes	155,817	136,245	19,572	14.37
Income taxes	-60,304	-53,422	-6,882	12.88
Net profit for the year	95,513	82,823	12,690	15.32

Adjustments to property, plant and equipment totalled 12.338 million, +7.72%, while the amortisation of software amounted to 5.475 million, +16.22%.

Net other operating income amounted to 32.731 million, +1.29%.

The sum of administrative expenses, provisions, adjustments to property, plant and equipment and intangible assets, plus net other operating income, comprises «operating costs» which totalled 268.516 million, +13.81%.

The ratio of operating costs/income from banking activities was 58.35%, compared with 56.62% in the prior year. Profits from equity investments totalled 2.098 million, up 18.26%. Profits on the sale of investments totalled 0.222 million.

Accordingly, the profit from ordinary operations was 155.817 million, +14.37%, which after deducting income taxes of 60.304 million, +12.88%, resulted in a net profit for the year of 95.513 million, compared with 82.823 in the prior year (+15.32%).

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 2005. With regard to Switzerland, there is nothing to report that may significantly change the context in which Banca Popolare di Sondrio (SUISSE) SA operates. In terms of the prospects, volumes are expected to increase with possible improvements with regard to interest rates. Services are also forecast to make a positive contribution. This should cover the likely rise in administrative expenses associated, in particular, with investment to expand the branch networks in both Italy and Switzerland. Two new branches are due to open shortly in the Swiss Confederation.

Sondrio, 20 March 2006

THE BOARD OF DIRECTORS

REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE 2005 CONSOLIDATED FINANCIAL STATEMENTS

Shareholders,

The Board of Statutory Auditors of the bank has examined the 2005 consolidated financial statements prepared by the Board of Directors, which are presented for your examination.

The various components of these financial statements, comprising the balance sheet, the income statement and the explanatory notes, have been prepared in accordance with the instructions issued by the Bank of Italy on 22 December 2005 and legal requirements. Consistent with the preparation of the individual financial statements, the consolidated financial statements have been prepared in accordance with international accounting standards (IAS), and are presented together with the necessary information about the changes made.

Considering the content of the financial statements, there have been increases in the various line items with respect to last year, partly due to the good performance of the bank's subsidiary and affiliated companies.

There were significant increases in the operational aggregates for direct and indirect funding and lending, as well as in the size of consolidated shareholders' equity. Consolidated net profit amounted to euro 95.513 million (+15.32%).

The consolidated financial statements were also audited by Deloitte & Touche S.p.a., the external auditors, who have released an unqualified auditors' report, which is attached.

The structure of the Group is unchanged. Banca Popolare di Sondrio (SUISSE) SA, which operates in Switzerland under the supervision of that nation's Federal Banking Commission, is growing and becoming clearly more important.

The book value of the investment in this subsidiary bank 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. The Parent Bank's relations with its subsidiary and associated companies are described in full in the Directors' Report and this Board has determined that the consolidation was performed using the financial statements approved by the respective boards of directors and checked by the auditors concerned.

Intercompany and related-party transactions have taken place in the interests of the individual companies and did not include any non-operating and/or unusual transactions. Reference is made to the attached explanatory notes for a detailed description of the changes made in 2005 and for further information on the consolidated financial statements. This Board has examined and concurs with such information.

Sondrio, 23 March 2006

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

**CONSOLIDATED
FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2005**



CONSOLIDATED BALANCE SHEET

(in thousands of euro)

ASSET ITEMS		31 12 2005	31 12 2004
10.	CASH AND BALANCES WITH CENTRAL BANKS	71,502	69,880
20.	FINANCIAL ASSETS HELD FOR TRADING	2,412,260	2,116,711
30.	FINANCIAL ASSETS AT FAIR VALUE	137,775	89,785
40.	AVAILABLE-FOR-SALE FINANCIAL ASSETS	140,862	73,175
50.	FINANCIAL ASSETS HELD TO MATURITY	-	-
60.	DUE FROM OTHER BANKS	1,292,920	1,229,008
70.	DUE FROM CUSTOMERS	9,770,515	8,567,854
80.	HEDGING DERIVATIVES	642	-
90.	REMEASUREMENT OF FINANCIAL ASSETS BACKED BY GENERAL HEDGES	-	-
100.	EQUITY INVESTMENTS	35,220	32,897
110.	TECHNICAL RESERVES CARRIED BY REINSURERS	-	-
120.	PROPERTY, PLANT AND EQUIPMENT	154,696	133,076
130.	INTANGIBLE ASSETS - of which goodwill	6,131	4,617
140.	TAX ASSETS	15,714	14,595
	a) current	97	13
	b) deferred	15,617	14,582
150.	NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE	-	-
160.	OTHER ASSETS	223,289	279,291
TOTAL ASSETS		14,261,526	12,610,889

THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER
Piero Melazzini

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

EQUITY AND LIABILITY ITEMS		31 12 2005	31 12 2004
10.	DUE TO OTHER BANKS	1,168,148	1,081,940
20.	DUE TO CUSTOMERS	10,190,270	8,861,222
30.	DEBT SECURITIES IN ISSUE	1,133,531	1,016,733
40.	FINANCIAL LIABILITIES HELD FOR TRADING	46,704	85,297
50.	FINANCIAL LIABILITIES AT FAIR VALUE	-	-
60.	HEDGING DERIVATIVES	-	-
70.	REMEASUREMENT OF FINANCIAL LIABILITIES BACKED BY GENERAL HEDGES	-	-
80.	TAX LIABILITIES	32,743	26,368
	a) current	13,058	7,146
	b) deferred	19,685	19,222
90.	LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	-	-
100.	OTHER LIABILITIES	300,870	276,608
110.	SEVERANCE INDEMNITIES	42,828	38,323
120.	RESERVES FOR RISKS AND CHARGES	92,668	84,692
	a) post retirement benefits	70,667	65,730
	b) other provisions	22,001	18,962
130.	TECHNICAL RESERVES	-	-
140.	VALUATION RESERVES	58,737	192
150.	REDEEMABLE SHARES	-	-
160.	EQUITY INSTRUMENTS	-	-
170.	RESERVES	330,824	288,001
180.	SHARE PREMIUM RESERVE	108,373	108,373
190.	SHARE CAPITAL	660,317	660,317
200.	OWN SHARES	-	-
210.	MINORITY INTERESTS	-	-
220.	NET PROFIT FOR THE YEAR	95,513	82,823
TOTAL LIABILITIES AND EQUITY		14,261,526	12,610,889

THE GENERAL MANAGER
Mario Alberto Pedranzini

THE CHIEF ACCOUNTANT
Maurizio Bertoletti

CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

ITEMS	2005	2004
10. INTEREST INCOME AND SIMILAR REVENUES	446,100	405,429
20. INTEREST EXPENSE AND SIMILAR CHARGES	(187,583)	(167,413)
30. NET INTEREST INCOME	258,517	238,016
40. COMMISSION INCOME	173,143	154,322
50. COMMISSION EXPENSE	(14,557)	(11,521)
60. NET COMMISSION INCOME	158,586	142,801
70. DIVIDENDS AND SIMILAR INCOME	6,221	4,407
80. NET TRADING INCOME	22,353	31,478
90. NET HEDGING GAINS (LOSSES)	1,557	-
100. GAINS/LOSSES ON DISPOSALS OR REPURCHASES OF:	7,671	1
a) receivables	-	-
b) available-for-sale financial assets	7,636	1
c) financial assets held to maturity	-	-
d) financial liabilities	35	-
110. NET CHANGE IN VALUE OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE	5,260	-
120. INCOME FROM BANKING ACTIVITIES	460,165	416,703
130. NET IMPAIRMENT ADJUSTMENTS ON:	(38,152)	(46,288)
a) receivables	(38,077)	(46,288)
b) available-for-sale financial assets	(75)	-
c) financial assets held to maturity	-	-
d) other financial transactions	-	-
140. BALANCE OF FINANCIAL MANAGEMENT	422,013	370,415
150. NET PREMIUMS	-	-
160. NET OTHER INSURANCE INCOME/EXPENSE	-	-
170. BALANCE OF FINANCIAL AND INSURANCE MANAGEMENT	-	-
180. ADMINISTRATIVE EXPENSES	(277,434)	(252,073)
a) personnel expenses	(148,304)	(138,152)
b) other administrative expenses	(129,130)	(113,921)
190. NET PROVISIONS FOR RISKS AND CHARGES	(6,000)	-
200. NET ADJUSTMENTS TO PROPERTY, PLANT AND EQUIPMENT	(12,338)	(11,454)
210. NET ADJUSTMENTS TO INTANGIBLE ASSETS	(5,475)	(4,711)
220. OTHER OPERATING INCOME/EXPENSE	32,731	32,314
230. OPERATING COSTS	(268,516)	(235,924)
240. SHARE OF PROFIT (LOSS) OF EQUITY INVESTMENTS	2,098	1,774
250. NET GAINS (LOSSES) ARISING ON FAIR VALUE ADJUSTMENTS TO PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	-	-
260. ADJUSTMENTS TO GOODWILL	-	-
270. GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS	222	(20)
280. PROFIT (LOSS) FROM CURRENT OPERATIONS BEFORE TAX	155,817	136,245
290. INCOME TAXES ON CURRENT OPERATIONS	(60,304)	(53,422)
300. PROFIT (LOSS) FROM CURRENT OPERATIONS AFTER TAX	95,513	82,823
310. PROFIT (LOSS) AFTER TAX ON NON-CURRENT ASSETS HELD FOR SALE	-	-
320. NET PROFIT FOR THE YEAR	95,513	82,823
330. NET PROFIT FOR THE YEAR ATTRIBUTABLE TO MINORITY INTERESTS	-	-
340. NET PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO THE PARENT BANK	95,513	82,823



STATEMENT OF CHANGES IN EQUITY

	Opening balance at 31.12.2004	Change in opening balances	Opening balance at 1.1.2005	Allocation of prior year results	
				Reserves	Dividends and other allocations
Share capital					
a) ordinary shares	660,317	-	660,317	-	-
b) other shares	-	-	-	-	-
Share premium reserve	108,373	-	108,373	-	-
Reserves					
a) from earnings	288,001	-2,787	285,214	44,030	5
b) other	-	-	-	-	-
Valuation reserves					
a) available for sale	-	22,536	22,536	-	-
b) cash flow hedges	-	-	-	-	-
c) other	192	-	192	-	-
Equity instruments	-	-	-	-	-
Own shares	-	-	-	-	-
Net profit for the year	82,823	-	82,823	-44,030	-38,793
Equity	1,139,706	19,749	1,159,455	-	-38,788

A dividend from the results for 2004 of € 0.17 per share, totalling € 37.418 million, was paid from 17 March 2005. The directors have proposed a dividend of € 0.19 from the results for 2005. This dividend is subject to approval by the shareholders and, accordingly, has not been reported as a liability in these financial statements.

The proposed dividend is payable from 21 April 2006. The payout envisaged totals € 41.820 million.

STATEMENT OF CHANGES IN EQUITY

	Opening balance at 31.12.2003	Change in opening balances	Opening balance at 1.1.2004	Allocation of prior year results	
				Reserves	Dividends and other allocations
Share capital					
a) ordinary shares	412,698		412,698	-	-
b) other shares	-		-	-	-
Share premium reserve	135,886		135,886	-	-
Reserves					
a) from earnings	248,062	-16,057	232,005	55,403	
b) other	-	-	-	-	-
Valuation reserves					
a) available for sale	-	-	-	-	-
b) cash flow hedges	-	-	-	-	-
c) other	-	192	192		
Equity instruments	-		-	-	-
Own shares	-	-	-	-	-
Net profit for the year	63,873	-	63,873	-32,233	-31,640
Equity	860,519	-15,865	844,654	23,170	-31,640

Changes in the year

Equity transactions

Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Net profit (loss) for 2005	Equity at 31.12.2005
-	-	-	-	-	-	-	-	660,317
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	108,373
-	-	-	-	-	-	-	-	329,249
1,575	-	-	-	-	-	-	-	1,575
36,009	-	-	-	-	-	-	-	58,545
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	192
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	95,513	95,513
37,584	-	-	-	-	-	-	95,513	1,253,764

Changes in the year

Equity transactions

Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Net profit (loss) for 2004	Equity at 31.12.2004
-	247,619	-	-	-	-	-	-	660,317
-	-	-	-	-	-	-	-	-
-	-27,513	-	-	-	-	-	-	108,373
-	-	-	-	-	-	-	-	287,408
593	-	-	-	-	-	-	-	593
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	192
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	82,823	82,823
593	220,106	-	-	-	-	-	82,823	1,139,706

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION (direct method)

	31-12-2005	31-12-2004
A. Operating activities		
1. Cash generated from operations	131,803	139,333
- interest income collected (+)	438,445	400,892
- interest charges paid (-)	-187,858	-166,145
- dividends and similar income (+)	4,946	1,957
- net commission income (+/-)	161,428	142,729
- personnel expenses (-)	-157,867	-138,093
- other costs (-)	-135,365	-128,684
- other revenues (+)	70,021	75,263
- taxes and dues (-)	-61,947	-48,586
- costs/revenues from assets held for sale, net of tax effect	-	-
2. Cash generated by reductions in financial assets	-1,645,912	-1,609,893
- financial assets held for trading	-324,713	-125,412
- financial assets at fair value	-42,541	-89,389
- available-for-sale financial assets	-8,448	-63,825
- due to customers	-1,250,902	-1,068,781
- due from other banks: sight	332,695	-71,547
- due from other banks: other receivables	-391,800	-382,339
- other assets	39,797	191,400
3. Cash generated by increases in financial liabilities	1,582,348	1,305,041
- due to other banks: sight	-5,598	113,766
- due to other banks: other payables	91,747	92,577
- due to customers	1,332,773	1,166,370
- debt securities in issue	122,004	52,915
- financial liabilities held for trading	-4,145	-
- financial liabilities at fair value	-	-
- other liabilities	45,567	-120,587
Net cash generated/absorbed by operating activities	68,239	-165,519

	31-12-2005	31-12-2004
B. Investing activities		
1. Cash generated by:	1,507	2,489
- sale of equity investments	-	-
- dividends collected from equity investments	1,275	2,450
- sales/redemptions of financial assets held to maturity	-	-
- sale of property, plant and equipment	232	39
- sale of intangible assets	-	-
- sale of business divisions	-	-
2. Cash absorbed by:	-30,837	-26,394
- purchases of equity investments	-	-
- purchases of financial assets held to maturity	-	-
- purchases of property, plant and equipment	-23,820	-22,000
- purchases of intangible assets	-7,017	-4,394
- purchases of business divisions	-	-
Net cash generated/absorbed by investing activities	-29,330	-23,905
C. Financing activities		
- issues/purchases of own shares	-	220,106
- issues/purchases of equity instruments	-	-
- distribution of dividends and other uses	-37,418	-31,640
Net cash generated/absorbed by financing activities	-37,418	188,466
Net cash generated/absorbed in the year	1,491	-958

RECONCILIATION

Line items	31-12-2005	31-12-2004
Cash and balances with central banks at beginning of year	69,880	70,793
Total net cash generated/absorbed in the year	1,491	-958
Cash and balances with central banks: effect of change in exchange rates	131	45
Cash and balances with central banks at end of year	71,502	69,880

NOTES TO THE FINANCIAL STATEMENTS

PART A *Accounting policies*

A.1 General information

Section 1 *Declaration of compliance with International Financial Reporting Standards*

Banca Popolare di Sondrio s.c. a r.l. declares that these consolidated financial statements have been prepared in accordance with all the international accounting standards (IAS/IFRS) adopted by the International Accounting Standards Board, and the related interpretations of the International Financial Reporting Interpretations Committee, in force at 31 December 2005 and endorsed by the European Commission pursuant to EU Regulation 1606/2002.

Section 2 *Basis of preparation*

The financial statements have been prepared in accordance with the following general criteria described in IAS 1:

- 1) Business continuity. The financial statements have been prepared on a going concern basis and, accordingly, assets, liabilities and «off balance sheet» transactions have been measured at their value in use.
- 2) Accruals basis. Costs and revenues are matched in the accounting periods to which they relate, regardless of when the related transactions are settled.
- 3) Consistency of presentation. Items are presented and classified in the same way from one year to the next, in order to ensure the comparability of information, unless change is required by an international accounting standard or related interpretation, or unless it is clear that a different presentation or classification would be more appropriate for the meaningful and reliable presentation of information. If the presentation or classification of items is changed, the comparative amounts are also reclassified, unless this is not feasible, and the nature of the reclassification is explained together with the related reasons. The format of the financial statements and the explanatory notes complies with the Bank of Italy's Instructions dated 22 December 2005.
- 4) Significance and grouping. Each significant group of similar items is shown separately in the financial statements. Items with a dissimilar nature or use are reported separately, unless they are insignificant.
- 5) Offset of balances. Assets, liabilities, costs and revenues are not offset against each other unless required or allowed by an international accounting standard or related interpretation, or unless this is specifically envisaged in the reporting formats established for banks.
- 6) Comparative information. Prior period comparative information is provided for all the data reported in the financial statements, except if a different approach is allowed by an international accounting standard or related interpretation. As allowed by IFRS 1, the comparative information has not been restated in accordance with IAS 32 and 39 concerning the recognition and measurement of financial instruments and the related explanatory notes. Explanatory and descriptive information is included when this helps to provide a better understanding of the financial statements for the current year. The

financial statements are prepared in accordance with Italian regulations, to the extent compatible with IFRS. Accordingly, these financial statements reflect the requirements of Decree 87/92, the Italian Civil Code (c.c.) and the Finance Law for listed companies regarding the report on operations (art. 2428 c.c.), the audit (art. 2409-bis c.c.) and publication (art. 2435 c.c.).

Section 3 *Scope of consolidation and methodology*

The consolidated financial statements represent the economic and financial position of the Banca Popolare di Sondrio banking group as of and for the year ended 31.12.2005; they comprise the financial statements of the parent bank, Banca Popolare di Sondrio (SUISSE) SA and those companies in which the parent bank holds, directly or indirectly, the majority of voting rights.

The following companies have been consolidated on a line-by-line basis:

Banca Popolare di Sondrio (SUISSE) SA

Pirovano Stelvio spa

Sinergia Seconda srl

Immobiliare San Paolo srl

Immobiliare Borgo Palazzo srl

The scope of consolidation also includes holdings in equity investments that represent interests of between 20% and 50%. These holdings are valued using the equity method, except for insignificant interests which are valued at cost.

The ownership percentages are specified in the following table:

	% ownership
1. RIPOVAL S.p.A.	50.000
2. SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 S.R.L.	33.333
3. ARCA VITA S.p.A.	32.528
4. C.B.E. SERVICE SPRL	25.000
5. SOFIPO FIDUCIAIRE SA	30.000
6. ACQUEDOTTO DELLO STELVIO S.R.L.	27.000
7. SIFAS S.p.A.	21.614

The book value of investments consolidated line-by-line is eliminated against the interest held in their shareholders' equity. Intercompany balances and transactions are eliminated. Insignificant income and charges pertaining to transactions carried out at normal market conditions have not been eliminated. The financial statements of these group companies are reclassified appropriately and, where necessary, restated in accordance with the accounting policies adopted by the group.

Section 4 *Subsequent events*

No events have taken place between the reference date for these financial statements and the date of their approval by the Board of Directors on 20 March 2006 that would require the adjustment of such approved information, and nothing of significance has occurred that would require the provision of additional information.

Section 5 *Other information*

The adoption in the current year of IFRS and the related IFRIC interpretations has changed the way certain transactions are reported with respect to the Italian accounting standards adopted in the past.

The adoption of these standards has also involved significant changes to the formats of the balance sheet and the income statement. The principal changes are described below.

Balance sheet

Financial instruments are recognised with reference to the purpose for which they are held, rather than by type.

The equity investments caption comprises solely the interests held in subsidiary companies, associated companies and companies under joint control. Specific captions have been established for reporting the effect of measuring hedging contracts. Accruals and deferrals are classified together with the accounts to which they relate on a more extensive basis than in the past.

The items comprising shareholders' equity have been revised, with the introduction of specific reserves deriving from the application of IFRS.

Income statement

Sub-totals have been added and the profit from non-operating transactions is no longer identified separately; accordingly, the income and expenses previously reported in this last section have been reclassified by nature. Only the results from the sale of investments and those deriving from non-current assets held for sale are now reported separately.

The effect of these changes in accounting policy is analysed in detail in the «First-time Adoption of IFRS» section of these explanatory notes.

A.2 Part relating to the main line items in the financial statements

1. Financial assets held for trading

Classification

This caption comprises fixed-income and variable-income securities and units in mutual funds held for trading. It also includes derivative contracts with a positive fair value, excluding hedges but including those recorded separately from the underlying structured financial instrument, when the requirements for making this distinction are met. A derivative contract is a financial instrument whose value is linked to movements in an interest rate, the prices struck for a financial instrument, the price of a commodity, a currency exchange rate, a price index, a rate index or other type of index, is settled on maturity and requires a limited initial net investment. A derivative is separated from a complex financial instrument when its economic characteristics and risks are not strictly related to the characteristics of the underlying contract, when the embedded instruments comply with the definition of a derivative even after separation, and the hybrid instruments to which they belong are not measure at fair value through the income statement.

Recognition

Assets held for trading are recorded at the settlement date with reference to their fair value, usually represented by the consideration paid by the bank, while the transaction costs and revenues are reflected directly in the income statement. Trading derivatives are recognised at the «contract» date and are stated at their current value at the time of acquisition.

Accounting policies

Subsequent to initial recording, trading financial instruments are stated at their fair value at the reference date. With regard to instruments listed on active markets, fair value is represented by their official price at the close of trading, while the fair value of instruments not listed on active markets is determined by reference to prices, estimates and valuation models that take account of all the related risk factors having regard for market information, for example by using methods based on the valuation of listed instruments with similar characteristics, calculations of discounted cash flows or models for the determination of option prices.

If the fair value of financial assets cannot be determined on a reliable basis, they are stated at cost.

Recognition of components affecting the income statement

The components of income generated by financial instruments held for trading are recognised in the income statement for the period in which they arise as «Net trading income».

Derecognition

Financial assets held for trading are derecognised on expiry of the contractual rights over the related financial flows or when the financial asset is sold with the transfer of essentially all the related risks and benefits of ownership.

2. Available-for-sale financial assets

Classification

This caption comprises financial assets that are not derivatives and which are not classified as Receivables, Financial assets held for trading or Assets held to maturity.

In particular, this caption includes securities not held for trading and equity interests, also not held for trading, that do not represent investments in subsidiary companies, associated companies or companies under joint control.

Recognition

The assets classified in this caption are recorded on the settlement date.

Available-for-sale securities are initially recognised at their fair value, which is usually represented by the fair value of the consideration paid to acquire them, as adjusted by any directly-related transaction costs and revenues.

Aside from the exceptions allowed under IAS 39, it is not possible to transfer assets from the available-for-sale portfolio to other portfolios, or vice versa. The value recorded on any reclassification from Assets held to maturity reflects the fair value of the asset concerned at the time of transfer.

Accounting policies

Subsequent to initial recording, available-for-sale financial assets are stated at their fair value, determined on the basis described in relation to Financial assets held for trading.

Variable-yield securities whose fair value cannot be determined reliably are stated at cost.

An impairment test is performed at each reporting date to check if there is any objective evidence of a reduction in value. Impairment losses represent the difference between the book value of an asset and the present value of estimated cash flows, discounted using the original effective interest rate. Any subsequent writebacks cannot exceed the impairment losses recorded previously.

Recognition of components affecting the income statement

The interest calculated using the effective interest method, which takes account of the amortisation of transaction costs and the difference between cost and redemption value, is recorded in the income statement.

Income and charges deriving from changes in fair value are recorded in specific equity reserves, known as «Valuation reserves», until the asset is derecognised or its value is impaired: the accumulated gains or losses are released to the income statement at the time of derecognition or the recognition of impairment.

If the reasons for impairment cease to apply following events subsequent to the reduction in the value of the financial asset, the writebacks relating to fixed-yield securities are reflected in the income statement, while those relating to variable-yield securities are recorded in a specific «valuation reserve» within shareholders' equity.

Derecognition

Financial assets held for trading are derecognised on expiry of the contractual rights over the related financial flows or when the financial asset is sold with the transfer of essentially all the related risks and benefits of ownership.

3. Financial assets held to maturity

There are no financial assets that the bank intends to hold until maturity.

4. Receivables

Classification

Receivables comprise deposits with banks and loans to customers, made directly or acquired from third parties, which have fixed or determinable payments, are not listed on an active market and were not originally classified as «Available-for-sale financial assets».

Recognition

Receivables and loans are classified in the receivables portfolio when they are paid out or acquired and cannot be transferred to other portfolios subsequently. Repurchase agreements are recorded in the financial statements as funding or lending transactions. In particular, spot sales with forward repurchases are recorded as a payable for the spot amount collected, while spot purchases with forward resales are recorded as a receivable for the spot amount paid. Changes in receivables regarding transactions not yet settled are governed by the «settlement date» method.

Loans are initially recorded at their fair value when they were paid out or acquired, which usually corresponds to the amount paid out or the current value paid to acquire them. The initially recorded value includes any transaction costs and revenues directly associated with each loan.

Accounting policies

Subsequent to initial recognition, valuations are carried out on an amortised cost basis, using the effective interest method. Amortised cost is represented by the initial value net of any repayments of principal, as uplifted or decreased by writebacks or writedowns and the amortisation of the difference between the amount paid and that recoverable on maturity. The effective interest rate is the rate using which the present value of future cash flows equals the amount of the loan granted, as adjusted by directly-related costs and revenues. The amortised cost method is not applied to short-term loans since the effect of discounting them is usually not significant: these loans are stated at historical cost. The same criterion is applied to loans without a specific repayment date and to loans repayable on demand. The effective interest rate identified initially, or when the indexation parameter for the loan is modified, is used subsequently to discount the expected cash flows, even if the loan is later restructured and changes are made to the contractual rate.

Loans are subjected to impairment testing at each reporting date to check for any loss in value due to deterioration in the solvency of borrowers.

The following categories of impaired loan are subjected to specific analysis:

- a) doubtful loans;
- b) watchlist loans;
- c) restructured loans.

Losses in the value of individual loans are represented by the extent to which their recoverable value is lower than their amortised cost. Recoverable value is defined as the present value of expected cash flows, determined with reference to the following elements:

- a) value of contractual cash flows net of any expected losses, estimated with reference to the ability of borrowers to meet their obligations and the value of any secured or personal guarantees obtained;
- b) expected timing of recoveries, considering the progress made by recovery procedures;
- c) internal rate of return.

The specific analysis of doubtful loans takes the following parameters into account:

- a) recoveries forecast by the account managers;
- b) expected timing of recoveries based on historical-statistical data;
- c) original discounting rates or the actual contractual rates applying at the time of classifying the loans as doubtful.

The specific analysis of watchlist loans takes the following parameters into account:

- a) recoveries forecast by the offices concerned;
- b) expected timing of recoveries based on historical-statistical data;
- c) historical discounting rates represented by the actual or contractual rates applying at the time the loans were added to the watchlist.

The specific analysis of restructured loans takes the following parameters into account:

- a) plans for the recovery and/or restructuring of the loans, considering the assessment made by the offices concerned;
- b) discounting rates represented by the actual or contractual interest rates applying prior to reaching agreement with the borrowers.

Loans for which there is no objective evidence of impairment, performing loans and loans that are past due/overdrawn for more than 180 days are subjected to an overall appraisal. This segments the portfolios into classes of similar borrowers, considering their ability to make repayments given the level of risk and their economic characteristics. Impairment coefficients are determined having regard for the risk parameters, estimated using historical-statistical data, and expressed as the probability of default (PD) by the customer and the extent of the loss given default (LGD).

Loans to borrowers resident in nations deemed to be at risk, based on the assessment of «country risk» made by the Supervisory Authorities, are written down using the overall coefficients established from time to time.

Recognition of components affecting the income statement

The specific and overall impairment adjustments are charged to the income statement.

Any writebacks do not exceed the (specific and overall) impairment adjustments recorded previously.

Derecognition

Loans are derecognised when substantially all the related risks and benefits have been transferred and no control over them is retained.

5. Financial assets at fair value

The portfolio of «financial assets at fair value» comprises the securities for which the «fair value option» has been applied. The recognition, measurement and derecognition criteria applied are the same as those adopted in relation to the trading portfolio.

6. Hedging transactions

Classification

The portfolio of hedging derivatives comprises the derivative instruments used by the bank to neutralise or minimise the losses arising in relation to hedged assets and liabilities.

The hedging of market risks can take two different forms:

- a) fair value hedges of the exposure to changes in the fair value of a balance sheet item attributable to a specific risk;
- b) cash flow hedges of the exposure to changes in future cash flows attributable to specific risks associated with balance sheet items.

A transaction can be recorded as a «hedge» if it satisfies the following conditions: a) the hedging relationship must be formally documented; b) the hedge must be effective

at its inception and prospectively throughout its life. Effectiveness is tested using specific techniques and exists when the changes in the fair value (or cash flows) of the hedging instrument almost entirely offset the related changes in the hedged instrument (the results of the test fall into the 80% - 125% interval). The effectiveness of the hedge is assessed at each interim reporting date and at year end. If the test reveals that the hedge is not sufficiently effective, the instrument is reclassified to the trading portfolio.

Hedging instruments are recorded using the «contract date» method.

Measurement and recognition of components affecting the income statement

Fair value hedges are measured and recorded on the following basis:

- 1) hedging instruments are stated at their fair value; the fair value of instruments listed on active (efficient) markets is represented by their closing market price, while the fair value of instruments not listed on active markets corresponds to the present value of expected cash flows, which are determined having regard for the different risk profiles of the instruments subject to measurement. The resulting gains and losses are recorded in the «Net hedging gains (losses)» caption of the income statement;
- 2) hedged positions are stated at their fair value and any gains or losses attributable to the hedged risk are also recorded in the «Net hedging gains (losses)» caption of the income statement to match the change in the carrying value of the hedged item.

With regard to interest-earning financial instruments, if the hedge ceases to satisfy the recognition criteria, the difference between the carrying value of the hedged item at the time the hedge ceases and its carrying value had the hedge never existed is amortised to the income statement over the residual life of the original hedge; if the financial instruments concerned do not earn interest, this difference is recorded in the income statement immediately.

Cash flow hedges are measured and recorded on the following basis:

- 1) derivative instruments are stated at their fair value. The gains and losses deriving from the effective part of the hedge are recorded among the «Valuation reserves» within shareholders' equity and released to the income statement when the hedged change in cash flows takes place;
- 2) The hedged item continues to be valued on the basis applicable to the category concerned.

Derecognition

Risk hedges cease to generate accounting effects when they expire, when they are closed out of terminated early, or when they cease to satisfy the recognition criteria.

7. Equity investments

The portfolio of equity investments comprises the holdings in subsidiary companies, associated companies and companies under joint control. A company is an associated company if the bank exercises significant influence over its activities or, in any case, hold 20% or more of the voting rights.

Recognition

Equity investments are initially recorded at cost on the settlement date.

Accounting policies

Investments are subsequently valued at equity, determined with reference to the value indicated in the latest approved financial statements. The initially-recorded value of each equity investment is increased or decreased in proportion to the net profit or loss for the year of the company concerned, and is reduced by the amount of any dividends collected. If the solvency of an equity investment appears to have deteriorated, it is subjected to impairment testing in order to check for any losses of value. The impairment loss is the difference between the lower new value and the previous carrying value.

Any subsequent writebacks cannot exceed the impairment losses recorded previously.

Measurement and recognition of components affecting the income statement

The negative differences on initial recognition, the interest in net profits or losses for the year, and impairment losses are recorded in the «share of profit/loss of equity investments» caption of the income statement.

Derecognition

Equity investments are derecognised when the financial asset is sold together with the transfer of all the risks and benefits of ownership.

8. Property, plant and equipment

Classification

This caption includes buildings, land, installations, furniture, equipment, furnishings and machinery.

As required by IAS 17, assets held under finance leases are also classified in this caption.

Recognition

Property, plant and equipment are initially recorded at cost, including all expenses directly related to the asset's installation prior to being brought into service. Expenditure on improvements that will generate future economic benefits is added to the value of the assets concerned, while routine maintenance costs are charged to the income statement.

Measurement and recognition of components affecting the income statement

Following initial recognition, property, plant and equipment are stated at cost net of accumulated depreciation and any permanent impairment of value. Depreciation is provided on a systematic basis over the useful lives of the various categories of asset.

The total book value of property has been split, based on specific appraisals, between the value of buildings and that of the related land, which is not depreciated since it has an unlimited life. Tangible assets are subjected to impairment testing at year end, or at interim reporting dates if there is evidence of a possible loss of value, and any impairment of their carrying value with respect to their recoverable value is charged to the income statement. Recoverable amount is defined as the asset's fair value, less any selling costs, or, if greater, its value in use as represented by the present value of future cash flows generated by the asset; subsequent writebacks do not exceed the impairment losses recorded previously.

Derecognition

Property, plant and equipment are derecognised on disposal or when their economic lives are over and they are not expected to generate any further economic benefits.

9. Intangible assets

Classification

This caption comprises identifiable, intangible, non-monetary assets that will benefit future years, principally represented by software user licences. Leasehold improvements deriving from the restructuring of rented branch premises are no longer capitalised as intangible assets; the amounts capitalised in prior years have been eliminated by a charge against shareholders' equity.

Recognition

Intangible assets are recorded at purchase cost, as adjusted for any related charges, only if it is probable that the future economic benefits attributable to them will be realised and their cost can be measured reliably. In the absence of these conditions, the cost of the intangible asset is expensed in the period incurred; any costs incurred subsequently are only capitalised if they increase the value of or the economic benefits expected from the assets concerned.

Accounting policies

Subsequent to initial recognition, intangible assets are stated at cost, net of accumulated amortisation and any impairment in value.

Amortisation is provided on a systematic, straight-line basis over the expected useful lives of the intangible assets concerned.

If there is evidence of impairment at the reporting date, the asset's recoverable amount is estimated: the impairment loss, being the difference between the carrying value and the recoverable amount, is charged to the income statement.

Recognition of components affecting the income statement

Periodic amortisation, impairment losses and writebacks are recorded in the «net adjustments to intangible assets» caption of the income statement.

Derecognition

Intangible assets are derecognised when they are not expected to generate any further economic benefits.

10. Severance indemnities

Severance indemnities are treated as a defined-benefit plan or a defined-benefit obligation. Accordingly, pursuant to IAS 19, the value of this obligation is determined by extrapolating the current liability, using actuarial assumptions, in order to estimate the amount that will be paid upon termination of the employment relationship and determine the present value of this amount. The actuarial calculations are performed using the projected unit credit method, under which each year of service originates an additional unit of indemnity that is used to calculate the final obligation. This calculation is performed by forecasting future payments with reference to historical-statistical analyses and the demographic curve, and discounting them using a market interest rate. The actuarial analysis is carried out each year by an independent actuary.

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. The actuarial gains and losses arising from adjustments to the actuarial estimates are recorded in the income statement with reference to the estimated residual period of service of employees.

11. Current and deferred taxation

Tax receivables and payables are reported in the balance sheet as «Tax assets» and «Tax liabilities». Current taxes include advance payments (current assets) and amounts due (current liabilities) in relation to income taxes for the year. Tax liabilities are determined by applying the current tax rates and regulations. Tax assets and liabilities also include a reasonable estimate of the risks deriving from outstanding tax disputes. Taxable or deductible timing differences give rise to the recognition of deferred tax assets and liabilities. No deferred taxes are provided in relation to higher asset values or reserves subject to the deferral of taxation since, at present, the conditions for the payment of such taxation in future do not apply. Deferred tax assets are recognised using the liability method, only if their recovery in future years is reasonably certain.

Tax assets and liabilities are usually recorded with matching entries to the income statement, except when they derive from transactions whose effects are attributed directly to shareholders' equity; in this case, the matching entries are also recorded within shareholders' equity.

12. Provisions for risks and charges

This caption comprises the following provisions:

- a) Post retirement benefits. This is classified as an «internal» pension fund and represents a defined-benefit obligation. This fund is also valued using actuarial estimates and is stated at its present value with support from an independent actuary. The bank has not adopted the «corridor» method allowed by IAS 19, which ignores actuarial gains/losses when the change with respect to the prior year is less than 10%. Accordingly, total fund assets reflect the total accrued liability. The bank is responsible for any unfunded liabilities.

b) Other provisions. This caption comprises the provisions recorded for liabilities whose timing and extent cannot be determined, when the following conditions are met:

- 1) the bank has a current obligation (legal or implicit) at the reporting date, as a result of a past event;
- 2) it is likely that settlement of the obligation will involve the use of economic resources;
- 3) a reliable estimate can be made of the amount necessary to settle the obligation.

These provisions are stated at their present value if recognition of the time value of money has a significant effect (settlements to be made more than 12 months after the date of recognition).

13. Payables and debt securities in issue

Classification

Amounts due to customers and banks and debt securities in issue comprise the financial instruments (other than trading instruments) that represent the normal funding of the bank's activities by customers and other banks, or by the issue of securities. This caption also includes the liability deriving from finance lease transactions.

Recognition

These financial liabilities are recorded using the settlement date method. They are initially recognised at their fair value, which is usually represented by the amount collected by the bank. The amount initially recorded includes any transaction costs and revenues that are directly related to each liability; this amount does not include the charges made to creditors in order to recover administrative costs.

The elements of structured funding, comprising a host instrument and one or more embedded derivatives, are split and recorded separately from the related implicit derivatives, on condition that the economic characteristics and risks of the embedded derivatives are substantially different to those of the host instrument and that the derivatives can be configured as autonomous derivative contracts.

Accounting policies

Subsequent to initial recognition, financial liabilities are measured at amortised cost, using the effective interest method. Short-term liabilities are stated at the amount collected.

Liabilities covered by effective hedges are valued in accordance with the regulations applying to such transactions.

Derecognition

Financial liabilities are derecognised when they expire or are settled.

Funding liabilities that are subsequently repurchased by the bank are eliminated from the financial statements.

Gains and losses on the repurchase of liabilities are recorded in the income statement.

14. Financial liabilities held for trading

This caption comprises derivative instruments with a negative fair value, except for hedging derivatives. The total also includes the negative value of derivatives separated from their underlying structured financial instruments, when the conditions for such separation apply. The criteria for classification, cancellation, measurement and recognition of components affecting the income statement are the same as those described in relation to assets held for trading.

15. Financial liabilities at fair value

The financial statements do not include any financial liabilities at fair value.

16. Currency transactions

Recognition

Assets and liabilities denominated in currencies other than the euro are recognised initially using the spot exchange rates applying on the transaction dates.

Accounting policies

On the reporting date, monetary assets and liabilities denominated in foreign currencies are translated using the spot exchange rates at that time. Long-term investments expressed in foreign currency are converted at the exchange rate ruling at the time of purchase.

Recognition of components affecting the income statement

Exchange differences deriving from the settlement of monetary items or from the translation of monetary items using rates other than the initial translation rate, or the closing rate at the end of prior periods, are recorded in the income statement for the period.

17. Other information

All assets sold have been eliminated from the financial statements. The bank has not established any stock option plans.

Revenues are recorded as received or when collection becomes likely and a reasonable estimate can be made of the amount to be received. In particular, the default interest accrued on doubtful accounts is only credited to the income statement upon collection. Dividends are recorded upon collection. Any own shares held are deducted from shareholders' equity. Any gains or losses from transactions in own shares are also reflected in shareholders' equity.

FIRST-TIME ADOPTION OF IFRS

As required by IFRS 1, the first-time adoption of IFRS has involved the redetermination of the «opening balances» for the assets and liabilities outstanding at the IFRS transition date. In accordance with IFRS 1, which governs the transition to the new standards, the net difference between the value of the previously-recorded assets and liabilities, determined under Italian accounting standards, and the IFRS amounts redetermined at 1 January 2005, € 19.749 million, has been classified as an equity reserve.

The IFRS transition date was 1.1.2004 for all balances other than those relating to the financial instruments governed by IAS 32 and 39, for which the transition date was 1.1.2005. Accordingly, the comparative information for items stated in accordance with IAS 32 and 39 is not presented on a consistent basis.

The comparative information has been reclassified and reconciled with the new accounting standards, excluding IAS 32 and 39 which have only been applied from 1.1.2005.

The 2004 financial statements prepared in accordance with Decree 87/92 are reconciled on the following pages with the formats adopted on the application of IFRS. These schedules are presented together with notes on the principal differences and the opening IFRS balance sheet at 1 January 2005. The information provided differs from that disclosed in the half-year report at 30 June 2005 as a result of reclassifications and adjustments made following the issue of interpretations, especially in relation to the effects of taxation.

Reconciliation of the balance sheet at 31.12.2004

	Italian accounting standards	Effects of transition to IFRS	Adoption of IFRS
ASSETS			
10. Cash and cash equivalents	69,879,202	356	69,879,558
20. Financial assets held for trading	2,020,852,302	95,858,859	2,116,711,161
30. Financial assets at fair value	89,389,133	395,987	89,785,120
40. Available-for-sale financial assets	73,126,431	48,936	73,175,367
50. Financial assets held to maturity	-	-	-
60. Due from other banks	1,227,875,366	1,132,336	1,229,007,702
70. Due from customers	8,557,728,304	10,126,178	8,567,854,482
80. Hedging derivatives	-	-	-
90. Change in value of financial assets part of a macrohedge	-	-	-
100. Equity investments	51,583,942	- 18,687,065	32,896,877
110. Technical reserves carried by reinsurers	-	-	-
120. Property, plant and equipment	88,095,034	44,980,989	133,076,023
130. Intangible assets	16,260,805	- 11,643,732	4,617,073
of which:			
- goodwill	-	-	-
140. Tax assets	48,919,996	- 34,324,965	14,595,031
a) current	40,993,584	- 40,980,541	13,043
b) deferred	7,926,412	6,655,576	14,581,988
150. Non-current assets and disposal groups held for sale	-	-	-
160. Other assets:	378,981,648	- 99,691,005	279,290,643
Total assets	12,622,692,163	- 11,803,126	12,610,889,037



		Italian accounting standards	Effects of transition to IFRS	Adoption of IFRS
LIABILITIES AND EQUITY				
10. Due to other banks		1,056,061,721	25,878,169	1,081,939,890
20. Due to customers		8,857,899,324	3,322,762	8,861,222,086
30. Securities issued		1,012,086,959	4,646,016	1,016,732,975
40. Financial liabilities held for trading		-	85,296,900	85,296,900
50. Financial liabilities at fair value		-	-	-
60. Hedging derivatives		-	-	-
70. Change in value of financial liabilities part of a macrohedge		-	-	-
80. Tax liabilities		55,500,682	- 29,132,315	26,368,367
a) current	48,058,761		-40,912,646	7,146,115
b) deferred	7,441,921		11,780,331	19,222,252
90. Liabilities related to discontinued operations		-	-	-
100. Other liabilities		367,164,165	-90,556,191	276,607,974
110. Severance indemnities		41,080,752	-2,757,775	38,322,977
120. Provisions for risks and charges:		81,997,298	2,694,414	84,691,712
a) post retirement benefits	57,035,781		8,694,414	65,730,195
b) other provisions	24,961,517		-6,000,000	18,961,517
130. Technical reserves		-	-	-
140. Valuation reserves		-	192,104	192,104
150. Redeemable shares		-	-	-
160. Capital instruments		-	-	-
170. Reserves		304,058,679	-16,057,477	288,001,202
180. Share premium reserve		108,373,020	-	108,373,020
190. Share capital		660,317,109	-	660,317,109
200. Own shares		-	-	-
210. Minority interests		-	-	-
220. Net profit for the year		78,152,454	4,670,267	82,822,721
Total liabilities and equity		12,622,692,163	-11,803,126	12,610,889,037

The principal changes with respect to the classification criteria envisaged in Decree 87/92 are described below:

Balance sheet:

Assets

Caption 20 «Financial assets held for trading» now includes the income accrued in relation to securities and the effect of valuing derivative products.

Caption 70 «Due from customers» now includes the accruals and deferrals relating to loans made to customers.

Caption 120 «Property, plant and equipment» has increased due to the inclusion of buildings held under finance leases and the recalculation of the depreciation accumulated on owned buildings.

Caption 130 «Intangible assets» has decreased due to the elimination of «deferred charges» comprising the cost of restructuring leased buildings used as bank branches.

Caption 140 «Tax assets» has decreased following the offset of advances paid against the related liabilities.

Caption 160 «Other assets» has decreased due to the classification of accrued income and the effect of valuing derivatives together with the accounts concerned.

Liabilities and Equity

Caption 10 «Due to banks» has increased following recognition of the liability for buildings held under finance lease arrangements.

Caption 20 «Due to customers» has increased following the reclassification of the related accruals.

Caption 30 «Securities issued» has also increased due to the reclassification of accruals.

Caption 40 «Financial liabilities held for trading» now includes the effect of valuing derivative products.

Caption 80 «Tax liabilities» has decreased following the offset of advances paid.

Caption 100 «Other liabilities» has decreased due to the classification of accruals and deferred and the effect of valuing derivatives together with the accounts concerned.

Caption 110 «Severance indemnities» has decreased due to the effect of applying the new standards.

Caption 120 «Provisions for risks and charges» has increased due to the funding of post-retirement benefits and decreased as a result of discounting the provision for legal claims.

Caption 170 «Reserves» has decreased due to the adjustments recorded on the first-time adoption of IFRS.

Reconciliation of the 2004 income statement

INCOME STATEMENT

10. Interest income and similar revenues
20. Interest expense and similar charges
30. Net interest income
40. Commission income
50. Commission expense
60. Net commission income
70. Dividends and similar income
80. Net trading income
90. Net hedging gains (losses)
100. Gains/losses on disposal or repurchase of:
a) receivables
b) available-for-sale financial assets
c) financial assets held to maturity
d) financial liabilities
110. Net change in value of financial assets and liabilities at fair value
120. Income from banking activities
130. Net impairment adjustments on:
a) receivables
b) available-for-sale financial assets
c) financial assets held to maturity
d) other financial transactions
140. Balance of financial management
150. Net premiums
160. Net other insurance income/expense
170. Balance of financial and insurance management
180. Administrative expenses:
a) personnel expenses
b) other administrative expenses
190. Net provisions for risks and charges
200. Net adjustments to property, plant and equipment
210. Net adjustments to intangible assets
220. Other operating income/expense
230. Operating costs
240. Share of profit (loss) of equity investments
250. Net gains (losses) arising on fair value adjustments to property, plant and equipment and intangible assets
260. Adjustments to goodwill
270. Profit (loss) from disposal of investments
280. Profit (loss) on current operations before income taxes
290. Income taxes on current operations
300. Profit (loss) on current operations after income taxes
310. Profit (loss) after tax on non-current assets held for sale
320. Net profit for the year
330. Net profit (loss) for the year attributable to minority interests
340. Net profit for the year attributable to the parent bank

The positive effect of adopting IFRS on net profit for 2004 was € 4.670 million, as described below.

Caption 20 «Interest expense and similar charges» has increased due to reclassification of the interest element of finance lease charges.

Caption 180 «Administrative expenses» has increased due to a reduction in provision to the post-retirement benefits and for leasing charges, as partly offset by the leasehold restructuring charges incurred during the year that were previously capitalised under Italian accounting standards.

	Italian accounting standards	Effects of transition to IFRS	Adoption of IFRS
	404,920,260	508,659	405,428,919
	-161,524,304	-5,888,387	-167,412,691
	243,395,956	-5,379,728	238,016,228
	146,626,964	7,695,412	154,322,376
	-11,521,260	-	-11,521,260
	135,105,704	7,695,412	142,801,116
	3,504,033	903,093	4,407,126
	26,878,374	4,599,304	31,477,678
	-	-	-
	894	-	894
-	-	-	-
894	-	-	-
-	-	-	-
-	-	-	-
	408,884,961	7,818,081	416,703,042
	-46,287,778	-	-46,287,778
-46,287,778	-	-	-
-	-	-	-
-	-	-	-
	362,597,183	7,818,081	370,415,264
	-	-	-
	-	-	-
	-	-	-
	-250,088,067	-1,985,357	-252,073,424
-140,712,705	2,560,419	-138,152,286	
-109,375,362	-4,545,776	-113,921,138	
	1,069,522	-1,069,522	-
	-11,509,533	55,518	-11,454,015
	-11,981,578	7,270,609	-4,710,969
	35,838,180	-3,524,150	32,314,030
	-236,671,476	747,098	-235,924,378
	3,000,034	-1,225,949	1,774,085
	-	-	-
	-	-	-
	-20,095	-	-20,095
	128,905,646	7,339,230	136,244,876
	-50,753,192	-2,668,963	-53,422,155
	78,152,454	4,670,267	82,822,721
	-	-	-
	78,152,454	4,670,267	82,822,721
	-	-	-
	78,152,454	4,670,267	82,822,721

Caption 200 «Net adjustments to property, plant and equipment» has decreased slightly due to the change in the way depreciation is calculated and to the depreciation of buildings held under finance leases.

Caption 210 «Net adjustments to intangible assets» has decreased due to the elimination of «deferred charges», comprising the costs of restructuring leased banking premises that were capitalised under Italian accounting standards, but which are expensed as incurred under IFRS.

Caption 290 «Income taxes on current operations» has increased due to the deferred tax effects of the adjustments made.

Reconciliation of the opening balance sheet at 1 January 2005

	Italian accounting standards
ASSETS	
10. Cash and cash equivalents	69,879,202
20. Financial assets held for trading	2,020,852,302
30. Financial assets at fair value	89,389,133
40. Available-for-sale financial assets	73,126,431
50. Financial assets held to maturity	-
60. Due from other banks	1,227,875,366
70. Due from customers	8,557,728,304
80. Hedging derivatives	-
90. Change in value of financial assets part of a macrohedge	-
100. Equity investments	51,583,942
110. Technical reserves carried by reinsurers	-
120. Property, plant and equipment	88,095,034
130. Intangible assets of which: - goodwill	16,260,805
140. Tax assets	48,919,996
a) current	40,993,584
b) deferred	7,926,412
150. Non-current assets and disposal groups held for sale	-
160. Other assets	378,981,648
Total assets	12,622,692,163

	Italian accounting standards
LIABILITIES AND EQUITY	
10. Due to other banks	1,056,061,721
20. Due to customers	8,857,899,324
30. Securities issued	1,012,086,959
40. Financial liabilities held for trading	-
50. Financial liabilities at fair value	-
60. Hedging derivatives	-
70. Change in value of financial liabilities part of a macrohedge	-
80. Tax liabilities:	55,500,682
a) current	48,058,761
b) deferred	7,441,921
90. Liabilities related to discontinued operations	-
100. Other liabilities	367,164,165
110. Severance indemnities	41,080,752
120. Provisions for risks and charges:	81,997,298
a) post retirement benefits	57,035,781
b) other provisions	24,961,517
130. Technical reserves	-
140. Valuation reserves	-
150. Redeemable shares	-
160. Capital instruments	-
170. Reserves	304,058,679
180. Share premium reserve	108,373,020
190. Share capital	660,317,109
200. Own shares	-
210. Minority interests	-
220. Net profit for the year	78,152,454
Total liabilities and equity	12,622,692,163

	IFRS at 31/12/2004	Effect of applying IAS 32/39	IFRS at 1/1/2005
	69,879,558	-	69,879,558
	2,116,711,161	-88,466	2,116,622,695
	89,785,120	-	89,785,120
	73,175,367	23,156,125	96,331,492
	-	-	-
	1,229,007,702	-	1,229,007,702
	8,567,854,482	-3,048,401	8,564,806,081
	-	1,436,506	1,436,506
	-	-	-
	32,896,877	-619,602	32,277,275
	-	-	-
	133,076,023	-	133,076,023
	4,617,073	-	4,617,073
	-	-	-
	14,595,031	-	14,595,031
13,043	-	-	13,043
14,581,988	-	-	14,581,988
	-	-	-
	279,290,643	-	279,290,643
	12,610,889,037	20,836,162	12,631,725,199

	IFRS at 31/12/2004	Effect of applying IAS 32/39	IFRS at 1/1/2005
	1,081,939,890	-	1,081,939,890
	8,861,222,086	-	8,861,222,086
	1,016,732,975	-778,665	1,015,954,310
	85,296,900	1,865,789	87,162,689
	-	-	-
	-	-	-
	-	-	-
	26,368,367	-	26,368,367
7,146,115	-	-	7,146,115
19,222,252	-	-	19,222,252
	-	-	-
	276,607,974	-	276,607,974
	38,322,977	-	38,322,977
	84,691,712	-	84,691,712
65,730,195	-	-	65,730,195
18,961,517	-	-	18,961,517
	-	-	-
	192,104	23,417,041	23,609,145
	-	-	-
	-	-	-
	288,001,202	-3,668,003	284,333,199
	108,373,020	-	108,373,020
	660,317,109	-	660,317,109
	-	-	-
	-	-	-
	82,822,721	-	82,822,721
	12,610,889,037	20,836,162	12,631,725,199

Reconciliation of shareholders' equity under Italian accounting standards with the IFRS amounts on the transition date (1.1.2004), 31.12.2004 and 1.1.2005

<i>(amounts in thousands of euro)</i>	Equity at 01/01/2004	Net profit for 2004	Equity at 31/12/2004	Equity at 01/01/2005
Consolidated financial statements	860,519	78,152	1,150,901	1,150,901
Adjustments				
a) Valuation of receivables (IAS 39)				-3,048
b) Buildings held under finance leases (IAS 17)	2,150	1,352	3,502	3,502
c) Owned buildings (IAS 16)	12,863	748	13,611	13,611
d) Securities and equity investments (IAS 39)				22,797
e) Intangible assets (IAS 38)	-11,918	248	-11,670	-11,670
f) Severance indemnities (IAS 19)	3,023	-213	2,810	2,810
g) Post-retirement benefits	-12,158	3,463	-8,695	-8,695
h) Provisions for risks and charges (IAS 37)	1,000		1,000	1,000
i) Tax effect of adjustments	-2,671	-2,453	-5,124	-5,124
l) Consolidation differences	-8,155	1,526	-6,629	-6,629
Consolidated financial statements under IFRS	844,653	82,823	1,139,706	1,159,455

PART B *Information on the balance sheet*

Assets

Section 1 *Cash and cash equivalents - line item 10*

1.1 Cash and balances with central banks: analysis

	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
a) Cash	68,464	-	68,464	66,421
b) Unrestricted deposits with central banks	3,038	-	3,038	3,459
Total	71,502	-	71,502	69,880

Section 2 *Financial assets held for trading - line item 20*

2.1 Financial assets held for trading: breakdown by sector

Items/Amounts	Banking group		Other businesses		Total	Total
	Listed	Unlisted	Listed	Unlisted	31/12/2005	31/12/2004
A. Cash assets						
1. Fixed-yield securities	1,814,265	448,664	-	-	2,262,929	1,940,371
1.1 Structured securities	28,884	2,108	-	-	30,992	23,934
1.2 Other fixed-yield securities	1,785,381	446,556	-	-	2,231,937	1,916,437
2. Variable-yield securities	35,622	1,221	-	-	36,843	33,940
3. Mutual funds	1,235	63,153	-	-	64,388	57,238
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
5. Impaired loans	-	-	-	-	-	-
6. Assets sold but not eliminated from the balance sheet	-	-	-	-	-	-
Total A	1,851,122	513,038	-	-	2,364,160	2,031,549
B. Derivatives						
1. Financial derivatives	40	48,060	-	-	48,100	85,162
1.1 for trading	40	48,060	-	-	48,100	85,162
1.2 connected with the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	40	48,060	-	-	48,100	85,162
Total (A+B)	1,851,162	561,098	-	-	2,412,260	2,116,711

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

Items/Amounts	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
A. Cash assets				
1. Fixed-yield securities	2,262,929	-	2,262,929	1,940,371
a) Governments and central banks	1,780,590	-	1,780,590	1,564,104
b) Other public entities	9,359	-	9,359	682
c) Banks	212,228	-	212,228	132,702
d) Other issuers	260,752	-	260,752	242,883
2. Variable-yield securities	36,843	-	36,843	33,940
a) Banks	13,200	-	13,200	12,018
b) Other issuers:	23,643	-	23,643	21,922
- insurance companies	5,363	-	5,363	3,061
- financial companies	1,406	-	1,406	2,157
- non-financial companies	16,874	-	16,874	16,704
- other	-	-	-	-
3. Mutual funds	64,388	-	64,388	57,238
4. Loans	-	-	-	-
a) Governments and central banks	-	-	-	-
b) Other public entities	-	-	-	-
c) Banks	-	-	-	-
d) Other parties	-	-	-	-
5. Impaired loans	-	-	-	-
a) Governments and central banks	-	-	-	-
b) Other public entities	-	-	-	-
c) Banks	-	-	-	-
d) Other parties	-	-	-	-
6. Assets sold but not eliminated from the balance sheet	-	-	-	-
a) Governments and central banks	-	-	-	-
b) Other public entities	-	-	-	-
c) Banks	-	-	-	-
d) Other issuers	-	-	-	-
Total A	2,364,160	-	2,364,160	2,031,549
B. Derivatives				
a) Banks	14,506	-	14,506	27,668
b) Customers	33,594	-	33,594	57,494
Total B	48,100	-	48,100	85,162
Total (A+B)	2,412,260	-	2,412,260	2,116,711

2.3 Financial assets held for trading: trading derivatives

2.3.1 attributable to the banking group

Type of derivatives/ underlying assets	Interest rates	Currency and gold	Variable-yield securities	Loans	Other	Total 31/12/2005	Total 31/12/2004
A) Listed derivatives							
1. Financial derivatives:	-	-	40	-	-	40	220
With exchange of capital	-	-	40	-	-	40	220
- options purchased	-	-	22	-	-	22	112
- other derivatives	-	-	18	-	-	18	108
Without exchange of capital	-	-	-	-	-	-	-
- options purchased	-	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	-	-
With exchange of capital	-	-	-	-	-	-	-
Without exchange of capital	-	-	-	-	-	-	-
Total A	-	-	40	-	-	40	220
B) Unlisted derivatives							
1. Financial derivatives:	11,884	29,401	3,317	-	3,458	48,060	84,942
With exchange of capital	-	29,401	-	-	-	29,401	74,141
- options purchased	-	5,395	-	-	-	5,395	2,753
- other derivatives	-	24,006	-	-	-	24,006	71,388
Without exchange of capital	11,884	-	3,317	-	3,458	18,659	10,801
- options purchased	124	-	3,317	-	1,094	4,535	1,365
- other derivatives	11,760	-	-	-	2,364	14,124	9,436
2. Credit derivatives:	-	-	-	-	-	-	-
With exchange of capital	-	-	-	-	-	-	-
Without exchange of capital	-	-	-	-	-	-	-
Total B	11,884	29,401	3,317	-	3,458	48,060	84,942
Total (A+B)	11,884	29,401	3,357	-	3,458	48,100	85,162

2.4 Financial assets held for trading, other than those sold but not eliminated and impaired assets: change in year

2.4.1 attributable to the banking group

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	Total 31/12/2005
A. Opening balance	1,940,076	33,932	57,205	-	2,031,213
B. Increases	9,952,000	46,855	91,115	-	10,089,970
B.1 Purchases	9,893,323	41,231	87,128	-	10,021,682
B.2 Positive changes in fair value	575	2,918	2,150	-	5,643
B.3 Other changes	58,102	2,706	1,837	-	62,645
C. Decreases	9,629,146	43,944	83,933	-	9,757,023
B.1 Sales	9,526,584	42,743	83,604	-	9,652,931
B.2 Reimbursements	45,256	-	-	-	45,256
B.3 Negative changes in fair value	6,580	1,053	268	-	7,901
B.4 Other changes	50,726	148	61	-	50,935
D. Closing balance	2,262,930	36,843	64,387	-	2,364,160

Section 3 *Financial assets at fair value - line item 30*

3.1 Financial assets at fair value: breakdown by sector

Items/Amounts	Banking group		Other businesses		Total	Total
	Listed	Unlisted	Listed	Unlisted	31/12/2005	31/12/2004
1. Fixed-yield securities	70,515	8,007	-	-	78,522	46,059
1.1 Structured securities	-	-	-	-	-	-
1.2 Other fixed-yield securities	70,515	8,007	-	-	78,522	46,059
2. Variable-yield securities	-	-	-	-	-	-
3. Mutual funds	2,280	56,973	-	-	59,253	43,726
4. Loans	-	-	-	-	-	-
4.1 Structured loans	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
5. Impaired loans	-	-	-	-	-	-
6. Assets sold but not eliminated from the balance sheet	-	-	-	-	-	-
Total	72,795	64,980	-	-	137,775	89,785
Cost	73,104	59,416	-	-	132,520	87,541

3.2 Financial assets at fair value: breakdown by debtor/issuer

Items/Amounts	Banking group	Other businesses	Total	Total
	group		31/12/2005	31/12/2004
1. Fixed-yield securities	78,522	-	78,522	46,059
a) Governments and central banks	70,515	-	70,515	46,059
b) Other public entities	-	-	-	-
c) Banks	8,007	-	8,007	-
d) Other issuers	-	-	-	-
2. Variable-yield securities	-	-	-	-
a) Banks	-	-	-	-
b) Other issuers:	-	-	-	-
- insurance companies	-	-	-	-
- financial companies	-	-	-	-
- non-financial companies	-	-	-	-
- other	-	-	-	-
3. Mutual funds	59,253	-	59,253	43,726
4. Loans	-	-	-	-
a) Governments and central banks	-	-	-	-
b) Other public entities	-	-	-	-
c) Banks	-	-	-	-
d) Other parties	-	-	-	-
5. Impaired loans	-	-	-	-
a) Governments and central banks	-	-	-	-
b) Other public entities	-	-	-	-
c) Banks	-	-	-	-
d) Other parties	-	-	-	-
6. Assets sold but not eliminated from the balance sheet	-	-	-	-
a) Governments and central banks	-	-	-	-
b) Other public entities	-	-	-	-
c) Banks	-	-	-	-
d) Other parties	-	-	-	-
Total	137,775	-	137,775	89,785

3.3 Assets at fair value, other than those sold and not eliminated and impaired assets: change in year

3.3.1 attributable to the banking group

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	Total 31/12/2005
A. Opening balance	46,059	-	43,726	-	89,785
B. Increases	39,665	-	15,569	-	55,234
B1. Purchases	38,374	-	10,000	-	48,374
B2. Positive changes in fair value	-	-	5,564	-	5,564
B3. Other changes	1,291	-	5	-	1,296
C. Decreases	7,202	-	42	-	7,244
C1. Sales	5,541	-	-	-	5,541
C2. Reimbursements	-	-	-	-	-
C3. Negative changes in fair value	267	-	42	-	309
C4. Other changes	1,394	-	-	-	1,394
D. Closing balance	78,522	-	59,253	-	137,775

Section 4 Available-for-sale financial assets - line item 40

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

Items/Amounts	Banking group		Other businesses		31/12/2005		31/12/2004	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
1. Fixed-yield securities	-	10,756	-	-	-	10,756	-	10,668
1.1 Structured securities	-	-	-	-	-	-	-	-
1.2 Other fixed-yield securities	-	10,756	-	-	-	10,756	-	10,668
2. Variable-yield securities	98,026	24,560	-	-	98,026	24,560	11,429	45,764
2.1 Carried at fair value	98,026	2,876	-	-	98,026	2,876	11,429	-
2.2 Carried at cost	-	21,684	-	-	-	21,684	-	45,764
3. Mutual funds	-	7,520	-	-	-	7,520	-	5,314
4. Loans	-	-	-	-	-	-	-	-
5. Impaired loans	-	-	-	-	-	-	-	-
6. Assets sold but not eliminated from the balance sheet	-	-	-	-	-	-	-	-
Total	98,026	42,836	-	-	98,026	42,836	11,429	61,746

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

Items/Amounts	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
1. Fixed-yield securities	10,756	-	10,756	10,668
a) Governments and central banks	-	-	-	-
b) Other public entities	-	-	-	-
c) Banks	-	-	-	-
d) Other issuers	10,756	-	10,756	10,668
2. Variable-yield securities	122,586	-	122,586	57,193
a) Banks	93,710	-	93,710	25,061
b) Other issuers:	28,876	-	28,876	32,132
- insurance companies	3,224	-	3,224	2,320
- financial companies	8,130	-	8,130	17,157
- non-financial companies	17,522	-	17,522	12,655
- other	-	-	-	-
3. Mutual funds	7,520	-	7,520	5,314
4. Loans	-	-	-	-
a) Governments and central banks	-	-	-	-
b) Other public entities	-	-	-	-
c) Banks	-	-	-	-
d) Other parties	-	-	-	-
5. Impaired loans	-	-	-	-
a) Governments and central banks	-	-	-	-
b) Other public entities	-	-	-	-
c) Banks	-	-	-	-
d) Other parties	-	-	-	-
6. Assets sold but not eliminated from the balance sheet	-	-	-	-
a) Governments and central banks	-	-	-	-
b) Other public entities	-	-	-	-
c) Banks	-	-	-	-
d) Other parties	-	-	-	-
Total	140,862	-	140,862	73,175

4.5 Available-for-sale financial assets, other than those sold and not eliminated and impaired assets: change in year

4.5.1 attributable to the banking group

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	Total 31/12/2005
A. Opening balance	10,668	57,193	5,314	-	73,175
B. Increases	398	90,005	2,779	-	93,182
B1. Purchases	-	7,378	2,322	-	9,700
B2. Positive changes in FV	-	44,212	457	-	44,669
B3. Write-backs	-	-	-	-	-
- booked to income statement	-	-	-	-	-
- booked to shareholders' equity	-	-	-	-	-
B4. Transfers to other asset portfolios	-	-	-	-	-
B5. Other changes	398	38,415	-	-	38,813
C. Decreases	310	24,612	573	-	25,495
C1. Sales	-	8,902	-	-	8,902
C2. Reimbursements	-	-	-	-	-
C3. Negative changes in FV	-	1,753	573	-	2,326
C4. Impairment write-downs	75	-	-	-	75
- booked to income statement	75	-	-	-	75
- booked to shareholders' equity	-	-	-	-	-
C5. Other changes	-	-	-	-	-
C6. Transfers to other asset portfolios	235	13,957	-	-	14,192
D. Closing balance	10,756	122,586	7,520	-	140,862

Section 6 Due from other banks - line item 60

6.1 Loans and advances to banks: breakdown by sector

6.1.1 attributable to the banking group

Type of transaction/Amounts	31/12/2005	31/12/2004
A. Deposits with central banks	293,927	158,228
1. Time deposits	-	-
2. Compulsory reserve	293,927	158,228
3. Repurchase agreements	-	-
4. Other	-	-
B. Due from other banks	998,993	1,070,770
1. Current accounts and sight deposits	192,884	469,608
2. Time deposits	765,488	479,424
3. Other loans	40,621	121,738
3.1 Repurchase agreements	40,159	121,643
3.2 Finance leases	-	-
3.3 Other	462	95
4. Fixed-yield securities	-	-
4.1 Structured securities	-	-
4.2 Other fixed-yield securities	-	-
5. Impaired loans	-	-
6. Assets sold but not eliminated from the balance sheet	-	-
Total (book value)	1,292,920	1,228,998
Total (fair value)	1,292,920	1,228,998

6.1.3 attributable to other businesses

Type of transaction/Amounts	31/12/2005	31/12/2004
A. Deposits with central banks	-	-
1. Time deposits	-	-
2. Compulsory reserve	-	-
3. Repurchase agreements	-	-
4. Other	-	-
B. Due from other banks	-	10
1. Current accounts and sight deposits	-	10
2. Time deposits	-	-
3. Other loans	-	-
3.1 Repurchase agreements	-	-
3.2 Finance leases	-	-
3.3 Other	-	-
4. Fixed-yield securities	-	-
4.1 Structured securities	-	-
4.2 Other fixed-yield securities	-	-
5. Impaired loans	-	-
6. Assets sold but not eliminated from the balance sheet	-	-
Total (book value)	-	10
Total (fair value)	-	10

Section 7 Due from customers - line item 70

7.1 Due from customers: breakdown by sector

7.1.1 attributable to the banking group

Type of transaction/Amounts	31/12/2005	31/12/2004
1. Current accounts	3,133,747	3,044,683
2. Repurchase agreements	-	-
3. Mortgage loans	3,848,509	3,301,436
4. Credit cards, personal loans and assignments of one-fifth of salary	69,973	68,411
5. Finance leases	-	-
6. Factoring	-	-
7. Other transactions	2,403,377	1,986,867
8. Fixed-yield securities	-	-
8.1 Structured loans	-	-
8.2 Other fixed-yield securities	-	-
9. Impaired loans	314,543	166,142
10. Assets sold but not eliminated from the balance sheet	-	-
Total (book value)	9,770,149	8,567,539

7.1.3 attributable to other businesses

Type of transaction/Amounts	31/12/2005	31/12/2004
1. Current accounts	42	48
2. Repurchase agreements	-	-
3. Mortgage loans	-	-
4. Credit cards, personal loans and assignments of one-fifth of salary	-	-
5. Finance leases	-	-
6. Factoring	-	-
7. Other transactions	324	267
8. Fixed-yield securities	-	-
8.1 Structured loans	-	-
8.2 Other fixed-yield securities	-	-
9. Impaired loans	-	-
10. Assets sold but not eliminated from the balance sheet	-	-
Total (book value)	366	315

7.2 Loans and advances to customers: breakdown by debtor/issuer

7.2.1 attributable to the banking group

Type of transaction/Amounts	31/12/2005	31/12/2004
1. Fixed-yield securities:		
a) Governments	-	-
b) Other public entities	-	-
c) Other issuers	-	-
- non-financial companies	-	-
- financial companies	-	-
- insurance companies	-	-
- other	-	-
2. Loans to:		
a) Governments	-	-
b) Other public entities	148,510	69,821
c) Other issuers	9,306,575	8,328,529
- non-financial companies	6,238,392	5,883,207
- financial companies	760,467	468,138
- insurance companies	10,064	-
- other	2,297,652	1,977,184
3. Impaired loans:		
a) Governments	-	-
b) Other public entities	-	-
c) Other issuers	315,064	169,190
- non-financial companies	226,858	124,754
- financial companies	8,934	8,954
- insurance companies	-	-
- other	79,272	35,482
4. Assets sold but not eliminated from the balance sheet:		
a) Governments	-	-
b) Other public entities	-	-
c) Other issuers	-	-
- non-financial companies	-	-
- financial companies	-	-
- insurance companies	-	-
- other	-	-
Total	9,770,149	8,567,539

7.2.3 attributable to other businesses

Type of transaction/Amounts	31/12/2005	31/12/2004
1. Fixed-yield securities:		
a) Governments	-	-
b) Other public entities	-	-
c) Other issuers	-	-
- non-financial companies	-	-
- financial companies	-	-
- insurance companies	-	-
- other	-	-
2. Loans to:		
a) Governments	-	-
b) Other public entities	-	-
c) Other issuers	366	315
- non-financial companies	366	315
- financial companies	-	-
- insurance companies	-	-
- other	-	-
3. Impaired loans:		
a) Governments	-	-
b) Other public entities	-	-
c) Other issuers	-	-
- non-financial companies	-	-
- financial companies	-	-
- insurance companies	-	-
- other	-	-
4. Assets sold but not eliminated from the balance sheet:		
a) Governments	-	-
b) Other public entities	-	-
c) Other issuers	-	-
- non-financial companies	-	-
- financial companies	-	-
- insurance companies	-	-
- other	-	-
Total	366	315

7.3 Due from customers: assets covered by specific hedges

7.3.1 attributable to the banking group

Type of transaction/Amounts	31/12/2005	31/12/2004
1. Loans covered by specific fair-value hedges:		
a) interest rate risk	-	-
b) exchange risk	-	-
c) credit risk	-	-
d) multiple risks	-	-
2. Loans covered by specific cash-flow hedges:		
a) interest rate risk	209,183	170,932
b) exchange rate risk	-	-
c) other	-	-
Total	209,183	170,932

Section 8 Hedging derivatives - line item 80

8.1 Hedging derivatives: breakdown by type of contract and underlying asset

8.1.1 attributable to the banking group

Type of derivative/underlying asset	Interest rates	Currency and gold	Variable-yield securities	Loans	Other	Total 31/12/2005
A) Listed						
1. Financial derivatives:	-	-	-	-	-	-
With exchange of capital	-	-	-	-	-	-
- options purchased	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-
Without exchange of capital	-	-	-	-	-	-
- options purchased	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	-
With exchange of capital	-	-	-	-	-	-
Without exchange of capital	-	-	-	-	-	-
Total A	-	-	-	-	-	-
B) Unlisted						
1. Financial derivatives:	642	-	-	-	-	642
With exchange of capital	-	-	-	-	-	-
- options purchased	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-
Without exchange of capital	642	-	-	-	-	642
- options purchased	-	-	-	-	-	-
- other derivatives	642	-	-	-	-	642
2. Credit derivatives:	-	-	-	-	-	-
With exchange of capital	-	-	-	-	-	-
Without exchange of capital	-	-	-	-	-	-
Total B	642	-	-	-	-	642
Total (A+B) 31/12/2005	642	-	-	-	-	642

8.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge (book value)

8.2.1 attributable to the banking group

Transaction/Type of hedge	Fair Value						Financial flows	
	Specific						Specific	Generic
	Interest rate risk	Exchange risk	Credit risk	Price risk	Multiple risks	Generic		
1. Available-for-sale financial assets	-	-	-	-	-	-	-	-
2. Receivables	-	-	-	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-	-	-	-
4. Portfolio	-	-	-	-	-	-	-	-
Total assets	-	-	-	-	-	-	-	-
1. Financial liabilities	642	-	-	-	-	-	-	-
2. Portfolio	-	-	-	-	-	-	-	-
Total liabilities	642	-	-	-	-	-	-	-



Section 10 Equity investments - line item 100

10.1 Investments in companies under joint control (valued at equity) and companies subject to significant influence: disclosures

Name	Location	Type of relationship	Type of investment	% held	% of votes
			Parent company		
B. Companies					
1. RIPOVAL S.p.A.	Via Pio Rajna 9 - Sondrio		Banca Popolare di Sondrio	50.000	50.000
2. ARCA VITA S.p.A.	Via San Marco 48 - Verona		Banca Popolare di Sondrio	32.528	32.528
3. SOFIPO FIDUCIAIRE SA	Via Balestra 22b - Lugano		Banca Popolare di Sondrio (SUISSE) SA	30.000	30.000

10.2 Investments in companies under joint control and companies subject to significant influence: accounting information

Name	Total assets	Total revenues	Net profit (loss)	Equity	Book value	Fair value
A. Companies valued at equity						
A.1 under joint control						
A.2 associated companies (subject to significant influence)						
1. RIPOVAL S.p.A.	15,543	3,197	153	3,104	1,482	
2. ARCA VITA S.p.A.	3,272,585	569,710	12,403	104,467	33,133	
3. SOFIPO FIDUCIAIRE SA	4,134	2,596	140	870	261	
B. Companies consolidated on a proportional basis						

10.3 Equity investments: changes in the year

	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
A. Opening balance	31,971	926	32,897	39,744
B. Increases	3,222	-	3,222	211
B1. Purchases	-	-	-	-
B2. Write-backs	-	-	-	-
B3. Revaluations	-	-	-	-
B4. Other changes	3,222	-	3,222	211
C. Decreases	279	620	899	7,058
C1. Sales	-	-	-	-
C2. Write-downs	55	-	55	163
C3. Other changes	224	620	844	6,895
D. Closing balance	34,914	306	35,220	32,897
E. Total revaluations	-	-	-	-
F. Total write-downs	4,494	620	5,114	3,537

Section 12 *Property, plant and equipment - line item 120*

12.1 Property, plant and equipment: analysis of assets valued at cost

Assets/Values	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
A. Assets used in business				
1.1 owned	103,752	14,125	117,877	104,734
a) land	38,984	1,866	40,850	38,991
b) buildings	45,869	12,047	57,916	49,068
c) furniture	6,354	60	6,414	5,310
d) IT equipment	3,758	-	3,758	3,267
e) other	8,787	152	8,939	8,098
1.2 purchased under finance leases	36,819	-	36,819	28,342
a) land	9,976	-	9,976	6,976
b) buildings	26,843	-	26,843	21,366
c) furniture	-	-	-	-
d) IT equipment	-	-	-	-
e) other	-	-	-	-
Total A	140,571	14,125	154,696	133,076
B. Investment property				
2.1 owned	-	-	-	-
a) land	-	-	-	-
b) buildings	-	-	-	-
2.2 purchased under finance leases	-	-	-	-
a) land	-	-	-	-
b) buildings	-	-	-	-
Total B	-	-	-	-
Total (A+B)	140,571	14,125	154,696	133,076



12.3 Property, plant and equipment used for business purposes: changes in year

12.3.1 Attributable to the banking group

	Land	Buildings	Furniture	IT equipment	Other	Total 31/12/2005
A. Opening gross amount	46,166	107,555	13,370	8,064	20,996	196,151
A1. Total net reductions in value	-	-40,197	-8,111	-4,808	-13,260	-66,376
A2. Opening net amount	46,166	67,358	5,259	3,256	7,736	129,775
B. Increases	3,019	10,325	2,786	2,112	4,765	23,007
B1. Purchases	3,000	10,325	2,785	2,111	4,763	22,984
B2. Capitalised improvement expenditure	-	-	-	-	-	-
B3. Write-backs	-	-	-	-	-	-
B4. Fair value increases booked to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B5. Positive exchange rate adjustments	-	-	1	1	2	4
B6. Transfers from investment property	-	-	-	-	-	-
B7. Other changes	19	-	-	-	-	19
C. Decreases	225	4,971	1,691	1,610	3,714	12,211
C1. Sales	225	61	-	-	38	324
C2. Depreciation	-	4,910	1,691	1,610	3,676	11,887
C3. Impairment charges booked to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C4. Fair value decreases booked to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C5. Negative exchange rate adjustments	-	-	-	-	-	-
C6. Transfers to:	-	-	-	-	-	-
a) investment property	-	-	-	-	-	-
b) assets related to discontinued operations	-	-	-	-	-	-
C7. Other changes	-	-	-	-	-	-
D. Closing net amount	48,960	72,712	6,354	3,758	8,787	140,571
D1. Total net reductions in value	-	-45,050	-9,803	-6,417	-16,800	-78,070
D2. Closing gross amount	48,960	117,762	16,157	10,175	25,587	218,641
E. Valuation at cost	-	-	-	-	-	-

12.3.3 attributable to other businesses

	Land	Buildings	Furniture	IT equipment	Other	Total 31/12/2005
A. Opening gross amount	-	4,446	-	-	1,594	6,040
A1. Total net reductions in value	-	-1,426	-	-	-1,409	-2,835
A2. Opening net amount	-	3,020	-	-	185	3,205
B. Increases	1,866	9,100	-	-	85	11,051
B1. Purchases	-	-	-	-	85	85
B2. Capitalised improvement expenditure	-	-	-	-	-	-
B3. Write-backs	-	-	-	-	-	-
B4. Fair value increases booked to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B5. Positive exchange rate adjustments	-	-	-	-	-	-
B6. Transfers from investment property	-	-	-	-	-	-
B7. Other changes	1,866	9,100	-	-	-	10,966
C. Decreases	-	73	-	-	58	131
C1. Sales	-	-	-	-	-	-
C2. Depreciation	-	63	-	-	58	121
C3. Impairment charges booked to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C4. Fair value decreases booked to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C5. Negative exchange rate adjustments	-	-	-	-	-	-
C6. Transfers to:	-	-	-	-	-	-
a) investment property	-	-	-	-	-	-
b) assets related to discontinued operations	-	-	-	-	-	-
C7. Other changes	-	10	-	-	-	10
D. Closing net amount	1,866	12,047	-	-	212	14,125
D1. Total net reductions in value	-	-1,489	-	-	-1,467	-2,956
D2. Closing gross amount	1,866	13,536	-	-	1,679	17,081
E. Valuation at cost	-	-	-	-	-	-



Section 13 *Intangible assets - line item 130*

13.1 Intangible assets: breakdown by type

Assets/Values	Banking group		Other businesses		Total 31/12/2005		Total 31/12/2004	
	Limited duration	Unlimited duration	Limited duration	Unlimited duration	Limited duration	Unlimited duration	Limited duration	Unlimited duration
A1. Goodwill	-	-	-	-	-	-	-	-
A1.1 attributable to the banking group	-	-	-	-	-	-	-	-
A1.2 attributable to minority interests	-	-	-	-	-	-	-	-
A2. Other intangible assets	6,120	-	11	-	6,131	-	4,617	-
A2.1 Carried at cost:	6,120	-	11	-	6,131	-	4,617	-
a) Intangible assets generated internally	-	-	-	-	-	-	-	-
b) Other assets	6,120	-	11	-	6,131	-	4,617	-
A2.2 Carried at fair value:	-	-	-	-	-	-	-	-
a) Intangible assets generated internally	-	-	-	-	-	-	-	-
b) Other assets	-	-	-	-	-	-	-	-
Total	6,120	-	11	-	6,131	-	4,617	-

13.2 Intangible assets: change in year

13.2.1 attributable to the banking group

	Goodwill	Other intangible assets generated internally		Other intangible assets: other		Total 31/12/2005
		Lim	Unlim	Lim	Unlim	
A. Opening balance	-	-	-	20,147	-	20,147
A1. Total net reductions in value	-	-	-	-15,567	-	-15,567
A2. Opening net amount	-	-	-	4,580	-	4,580
B. Increases	-	-	-	7,014	-	7,014
B1. Purchases	-	-	-	7,009	-	7,009
B2. Increases in internally generated intangible assets	-	-	-	-	-	-
B3. Write-backs	-	-	-	-	-	-
B4. Positive changes in fair value	-	-	-	-	-	-
- booked to shareholders' equity	-	-	-	-	-	-
- booked to income statement	-	-	-	-	-	-
B5. Exchange gains	-	-	-	5	-	5
B6. Other changes	-	-	-	-	-	-
C. Decreases	-	-	-	5,474	-	5,474
C1. Sales	-	-	-	-	-	-
C2. Write-downs	-	-	-	5,474	-	5,474
- Amortisation	-	-	-	5,474	-	5,474
- Write-downs	-	-	-	-	-	-
+ equity	-	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C3. Negative changes in fair value	-	-	-	-	-	-
- booked to shareholders' equity	-	-	-	-	-	-
- booked to income statement	-	-	-	-	-	-
C4. Transfers to discontinued operations due for disposal	-	-	-	-	-	-
C5. Exchange losses	-	-	-	-	-	-
C6. Other changes	-	-	-	-	-	-
D. Closing net amount	-	-	-	6,120	-	6,120
D1. Total net value adjustments	-	-	-	-21,041	-	-21,041
E. Closing gross amount	-	-	-	27,161	-	27,161
F. Valuation at cost	-	-	-	-	-	-

Key

Lim: limited duration

Unlim: unlimited duration



13.2.3 attributable to other businesses

	Goodwill	Other intangible assets generated internally		Other intangible assets: other		Total 31/12/2005
		Lim	Unlim	Lim	Unlim	
A. Opening balance	-	-	-	135	-	135
A1. Total net reductions in value	-	-	-	-109	-	-109
A2. Opening net amount	-	-	-	26	-	26
B. Increases	-	-	-	1	-	1
B1. Purchases	-	-	-	1	-	1
B2. Increases in internally generated intangible assets	-	-	-	-	-	-
B3. Write-backs	-	-	-	-	-	-
B4. Positive changes in fair value	-	-	-	-	-	-
- booked to shareholders' equity	-	-	-	-	-	-
- booked to income statement	-	-	-	-	-	-
B5. Exchange gains	-	-	-	-	-	-
B6. Other changes	-	-	-	-	-	-
C. Decreases	-	-	-	16	-	16
C1. Sales	-	-	-	-	-	-
C2. Write-downs	-	-	-	4	-	4
- Amortisation	-	-	-	4	-	4
- Write-downs	-	-	-	-	-	-
+ equity	-	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C3. Negative changes in fair value	-	-	-	-	-	-
- booked to shareholders' equity	-	-	-	-	-	-
- booked to income statement	-	-	-	-	-	-
C4. Transfers to discontinued operations due for disposal	-	-	-	-	-	-
C5. Exchange losses	-	-	-	-	-	-
C6. Other changes	-	-	-	12	-	12
D. Closing net amount	-	-	-	11	-	11
D1. Total net value adjustments	-	-	-	-113	-	-113
E. Closing gross amount	-	-	-	124	-	124
F. Valuation at cost	-	-	-	-	-	-

Section 14 *Tax assets and liabilities - asset line item 140 and liability line item 80*

14.1 Deferred tax assets: breakdown

	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
Other businesses				
Loan write-downs	457	-	457	427
Provisions for risks and charges	7,821	-	7,821	4,973
Deferred charges	4,979	-	4,979	4,158
Securities and equity investments	571	-	571	398
Administrative expenses	1,789	-	1,789	4,626
Total	15,617	-	15,617	14,582

14.2 Deferred tax liabilities: breakdown

	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
Other businesses				
Owned buildings	7,797	-	7,797	7,211
Accelerated depreciation	3,448	-	3,448	3,455
Leased buildings	1,995	-	1,995	1,351
Revaluation of securities and gains	2,822	-	2,822	31
Administrative expenses	378	-	378	927
Loans	3,245	-	3,245	6,247
Total	19,685	-	19,685	19,222

14.3 Change in deferred tax assets (with contra-entry to income statement)

	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
1. Opening balance	14,582	-	14,582	8,527
2. Increases	8,017	-	8,017	11,564
2.1 Deferred tax assets recorded during the year	7,984	-	7,984	11,564
a) relating to prior years	911	-	911	-
b) due to changes in accounting policies	2,521	-	2,521	9,607
c) write-backs	-	-	-	-
d) other	4,552	-	4,552	1,957
2.2 New taxes or increases in tax rates	33	-	33	-
2.3 Other increases	-	-	-	-
3. Decreases	6,982	-	6,982	5,509
3.1 Deferred tax assets eliminated during the year	6,111	-	6,111	5,061
a) reversals	3,231	-	3,231	2,157
b) written down as no longer recoverable	-	-	-	-
c) change in accounting policies	2,880	-	2,880	2,904
3.2 Reduction in tax rates	-	-	-	-
3.3 Other decreases	871	-	871	448
4. Closing balance	15,617	-	15,617	14,582

14.4 Change in deferred tax liabilities (with contra-entry to income statement)

	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
1. Opening balance	19,222	-	19,222	50
2. Increases	4,733	-	4,733	19,272
2.1 Deferred tax liabilities recorded during the year	4,446	-	4,446	16,408
a) relating to prior years	2,338	-	2,338	3,665
b) due to changes in accounting policies	644	-	644	8,962
c) other	1,464	-	1,464	3,781
2.2 New taxes or increases in tax rates	-	-	-	-
2.3 Other increases	287	-	287	2,864
3. Decreases	4,270	-	4,270	100
3.1 Deferred tax liabilities eliminated during the year	3,805	-	3,805	93
a) reversals	3,255	-	3,255	23
b) due to changes in accounting policies	550	-	550	-
c) other	-	-	-	70
3.2 Reduction in tax rates	-	-	-	-
3.3 Other decreases	465	-	465	7
4. Closing balance	19,685	-	19,685	19,222

Section 16 *Other assets - line item 160*

16.1 Other assets: breakdown

	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
Advances paid to tax authorities	9,759	-	9,759	7,016
Withholdings on interest due to customers	168	-	168	86
Tax credits and related interest	2,232	-	2,232	5,414
Outstanding cheques and bills	1,722	-	1,722	1,486
Current account cheques drawn on third parties	52,512	-	52,512	37,777
Current account cheques drawn on Group banks	22,264	-	22,264	20,419
Items in transit with branches	-	-	-	579
Inventories	-	16,518	16,518	22,575
Costs pertaining to the subsequent year	786	-	786	636
Advances to suppliers	10,725	1,031	11,756	9,725
Advances to customers on loans	33,602	-	33,602	42,584
Value date differentials on portfolio transactions	637	-	637	584
Miscellaneous debits in transit	24,194	-	24,194	23,333
Guarantee deposits	114	3	117	202
Liquid assets serving post-retirement benefits	10,130	-	10,130	4,053
Advance payment as per Decree 341 of 10/12/2003	-	-	-	66,377
Accrued income	17,039	-	17,039	16,325
Prepayments	6,806	-	6,806	3,872
Differences on elimination	543	-	543	3,903
Residual items	11,607	897	12,504	12,345
Total	204,840	18,449	223,289	279,291

Liabilities and Equity

Section 1 *Due to other banks - line item 10*

1.1 Deposits from banks: breakdown by type

Type of transaction/Members of the group	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
1. Due to central banks	-	-	-	-
2. Due to other banks	1,168,111	37	1,168,148	1,081,940
2.1 Current accounts and sight deposits	91,498	37	91,535	94,829
2.2 Time deposits	920,025	-	920,025	859,886
2.3 Loans	156,588	-	156,588	127,225
2.3.1 Financial leases	31,468	-	31,468	24,671
2.3.2 Other	125,120	-	125,120	102,554
2.4 Payables for commitments to repurchase own equity instruments	-	-	-	-
2.5 Liabilities for assets sold and not cancelled from the balance sheet	-	-	-	-
2.5.1 Repurchase agreements	-	-	-	-
2.5.2 Other	-	-	-	-
2.6 Other payables	-	-	-	-
Total	1,168,111	37	1,168,148	1,081,940
Fair value	1,168,111	37	1,168,148	1,081,940

1.5 Payables for finance leases **31,468** **24,671**

Section 2 *Due to customers - line item 20*

2.1 Due to customers: breakdown by sector

Type of transaction/Members of the group	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
1. Current accounts and sight deposits	8,149,438	-	8,149,438	7,323,968
2. Time deposits	553,985	-	553,985	285,423
3. Third-party funds under administration	5	-	5	10
4. Loans	-	-	-	-
4.1 finance leases	-	-	-	-
4.2 other	-	-	-	-
5. Payables for commitments to repurchase own equity instruments	-	-	-	-
6. Liabilities for assets sold and not cancelled from the balance sheet	1,486,842	-	1,486,842	1,251,821
6.1 Repurchase agreements	1,486,842	-	1,486,842	1,251,821
6.2 Other	-	-	-	-
7. Other payables	-	-	-	-
Total	10,190,270	-	10,190,270	8,861,222
Fair value	10,190,270	-	10,190,270	8,861,222

Section 3 *Securities issued - line item 30*

3.1 Securities issued: breakdown by sector

Type of security/ Members of the group	Banking group		Other businesses		31/12/2005		31/12/2004	
	Book value	Fair Value	Book value	Fair Value	Book value	Fair Value	Book value	Fair Value
A. Listed securities	-	-	-	-	-	-	-	-
1. Bonds	-	-	-	-	-	-	-	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	-	-	-	-	-	-	-	-
2. Other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
B. Unlisted securities	1,133,531	1,133,531	-	-	1,133,531	1,133,531	1,016,733	1,016,733
1. Bonds	979,600	979,600	-	-	979,600	979,600	883,310	883,310
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	979,600	979,600	-	-	979,600	979,600	883,310	883,310
2. Other securities	153,931	153,931	-	-	153,931	153,931	133,423	133,423
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	153,931	153,931	-	-	153,931	153,931	133,423	133,423
Total	1,133,531	1,133,531	-	-	1,133,531	1,133,531	1,016,733	1,016,733

3.3 Analysis of line item 30 «Securities in issue»: covered by specific hedges

Type of transaction/Amounts	31/12/2005	31/12/2004
1. Securities covered by specific fair-value hedges:	87,144	98,452
a) interest rate risk	87,144	98,452
b) exchange risk	-	-
c) multiple risks	-	-
2. Securities covered by specific cash-flow hedges:	-	-
a) interest rate risk	-	-
b) exchange risk	-	-
c) other	-	-
Total	87,144	98,452



Section 4 *Financial liabilities held for trading - line item 40*

4.1 Financial liabilities held for trading: breakdown by sector

Type of security/ Members of the group	Banking group				Other businesses			
	FV			FV*	FV			FV*
	NV	Q	NQ		NV	Q	NQ	
A. Cash liabilities								
1. Due to other banks	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-
3. Fixed-yield securities	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	-	-	-
3.1.2 Other bonds	-	-	-	-	-	-	-	-
3.2 Other securities	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	-	-	-
3.2.2 Other	-	-	-	-	-	-	-	-
Total (A)	-	-	-	-	-	-	-	-
B. Derivatives								
1. Financial derivatives	-	21	46,683	-	-	-	-	-
1.1 For trading	-	21	46,683	-	-	-	-	-
1.2 Connected with the fair value option	-	-	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-	-	-
2.1 For trading	-	-	-	-	-	-	-	-
2.2 Connected with the fair value option	-	-	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-	-	-
Total (B)	-	21	46,683	-	-	-	-	-
Total (A+B)	-	21	46,683	-	-	-	-	-

FV = Fair Value

FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date

NV = Nominal or notional value

Q = Listed

NQ = Unlisted

[illegible]

4.4 Financial liabilities held for trading: derivatives

4.4.1 attributable to the banking group

Type of derivatives/ Underlying assets	Interest rates	Currency and gold	Variable-yield securities	Loans	Other	Total 31/12/2005	Total 31/12/2004
A) Listed derivatives							
1) Financial derivatives	-	-	21	-	-	21	112
- With exchange of capital	-	-	21	-	-	21	112
- options issued	-	-	21	-	-	21	112
- other derivatives	-	-	-	-	-	-	-
- Without exchange of capital	-	-	-	-	-	-	-
- options issued	-	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-	-
2) Credit derivatives	-	-	-	-	-	-	-
- With exchange of capital	-	-	-	-	-	-	-
- Without exchange of capital	-	-	-	-	-	-	-
Total A	-	-	21	-	-	21	112
B) Unlisted derivatives							
1) Financial derivatives	12,256	28,251	3,317	-	2,859	46,683	85,185
- With exchange of capital	-	28,251	-	-	28	28,279	72,456
- options issued	-	5,394	-	-	28	5,422	2,731
- other derivatives	-	22,857	-	-	-	22,857	69,725
- Without exchange of capital	12,256	-	3,317	-	2,831	18,404	12,729
- options issued	96	-	3,317	-	1,051	4,464	1,212
- other derivatives	12,160	-	-	-	1,780	13,940	11,517
2) Credit derivatives	-	-	-	-	-	-	-
- With exchange of capital	-	-	-	-	-	-	-
- Without exchange of capital	-	-	-	-	-	-	-
Total B	12,256	28,251	3,317	-	2,859	46,683	85,185
Total (A+B)	12,256	28,251	3,338	-	2,859	46,704	85,297

Section 8 Tax liabilities

This caption includes the income tax liability and amounts to € 32.743 million, up € 6.375 million with respect to the prior year, +24.18%.

The current liability is stated net of the advance payments made during the year, € 48.088 million.

The analysis of deferred tax liabilities and the related changes during the year are presented in Part B Section 14 of these explanatory notes. No deferred taxes have been booked on the reserves in suspense for tax purposes as they are unlikely to be used.

The Parent Bank's tax years from 1979 to 1987 are still open due to an outstanding dispute, together with those from 2001 onwards. The outstanding dispute relates to recurring issues concerning taxable income and withholding taxes on foreign deposits. To date, the bank has won all the related appeals to the first and second-level courts regarding the years from 1979 to 1987.

Section 10 Other liabilities

10.1 Other liabilities: breakdown

	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
Amounts at the disposal of third parties	30,539	-	30,539	25,154
Taxes to be paid on behalf of third parties	24,011	7	24,018	17,947
Taxes to be paid	5,139	-	5,139	1,082
Employee salaries and contributions	14,874	24	14,898	12,688
Suppliers	11,077	389	11,466	4,245
Transit accounts for sundry entities	33,533	-	33,533	5,324
Invoices to be received	3,955	88	4,043	3,624
Value date differentials on portfolio transactions	-	-	-	84,967
Directors' and statutory auditors' emoluments	1,023	4	1,027	1,013
Loans disbursed to customers to be finalised	8,441	-	8,441	15,487
Miscellaneous credit items being settled	137,954	-	137,954	70,455
Items in transit with branches	-	-	-	106
Accrued expenses	9,159	-	9,159	11,188
Deferred income	4,120	-	4,120	5,502
Allowance for risks on guarantees and commitments	4,000	-	4,000	5,000
Residual items	12,512	21	12,533	12,826
Total	300,337	533	300,870	276,608

Section 11 Severance indemnities - line item 110

11.1 Severance indemnities: change in year

	Banking group	Other businesses	Total 31/12/2005
A. Opening balance	38,271	52	38,323
B. Increases	7,979	31	8,010
B1. Provisions	7,979	31	8,010
B2. Other increases	-	-	-
C. Decreases	3,482	23	3,505
C1. Payments made	1,502	23	1,525
C2. Other decreases	1,980	-	1,980
D. Closing balance	42,768	60	42,828

Section 12 Provisions for risks and charges - line item 120

12.1 Provisions for risks and charges: breakdown

Items/Components	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
1. Post-retirement benefits	70,667	-	70,667	65,730
2. Other provisions for risks and charges	22,001	-	22,001	18,962
2.1 legal disputes	19,000	-	19,000	13,000
2.2 personnel expenses	2,866	-	2,866	5,720
2.3 Other	135	-	135	242
Total	92,668	-	92,668	84,692

12.2 Provisions for risks and charges: change in the year

Items/Components	Banking group		Other businesses		Total 31/12/2005	
	Post-retirement benefits	Other provisions	Post-retirement benefits	Other provisions	Post-retirement benefits	Other provisions
A. Opening balance	65,730	18,962	-	-	65,730	18,962
B. Increases	7,760	6,250	-	-	7,760	6,250
B1. Provisions	3,130	6,037	-	-	3,130	6,037
B2. Changes due to the passage of time	848	213	-	-	848	213
B3. Changes due to variations in the discount rate	-	-	-	-	-	-
B4. Other changes	3,782	-	-	-	3,782	-
C. Decreases	2,823	3,211	-	-	2,823	3,211
C1. Utilisations during the year	2,408	2,332	-	-	2,408	2,332
C2. Changes due to variations in the discount rate	-	-	-	-	-	-
C3. Other changes	415	879	-	-	415	879
D. Closing balance	70,667	22,001	-	-	70,667	22,001

12.3 Defined-benefit pension plans

12.3.1. Description of plans

The Parent Bank's pension plan for employees is an internal defined-benefit plan intended to supplement the pension paid to retired employees by the State. The plan is funded by contributions from the bank and from employees which are determined on a percentage of income basis and credited each month. This plan is a separate fund pursuant to art. 2117 of the Italian Civil Code.

The value of the fund is adjusted with reference to its membership, which was closed on 28/4/1993. This closed group comprises 702 employees and 152 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 975 employees have opted to enrol. This plan is also a separate fund pursuant to art. 2117 of the Italian Civil Code.

The adequacy of the fund with respect to the present value of the obligation at the reference date was verified using calculations prepared by an independent actuary, making demographic assumptions that distinguish between age and gender, as well as technical-economic assumptions that reflect the theoretical changes in earnings and payments. The technical assessments made reference to dynamic economic and financial assumptions. The discounting rate reflects the yield on prime bonds.

12.3.2. Changes in the plans during the year

The changes in the present value of the bank's defined-benefit obligations during the year are summarised below:

	2005	2004
at 1 January	65,730	63,399
service cost	1,804	1,759
interest cost	3,251	2,999
actuarial gains/losses	2,290	-90
payments	-2,408	-2,337
at 31 December	70,667	65,730

12.3.3. Changes in plan assets during the year and other information

The changes in the fair value of plan assets during the year are summarised below:

	2005	2004
at 1 January	65,730	51,241
yield	3,782	1,870
contributions	3,978	15,089
payments	-2,823	-2,470
at 31 December	70,667	65,730

The fair value of pension plan assets is summarised in the following table:

	31/12/2005	31/12/2004
Mutual funds invested in bonds	53,727	45,899
Mutual funds invested in shares	6,256	6,721
Mutual funds invested in property	554	496
Other assets	10,130	12,614
Total	70,667	65,730

12.3.4. Reconciliation of the present value of the plans, the present value of the assets servicing the plans and the assets and liabilities recorded in the balance sheet

	31/12/2005	31/12/2004
Present value of the obligations to plan members	70,667	65,730
Fair value of assets	70,667	65,730
Difference	-	-

12.3.5. Description of the principal actuarial assumptions

The actuarial calculations made the following assumptions:

	31/12/2005	31/12/2004
Discount rate	4.60%	4.60%
Expected increase in salaries	2.00%	2.00%
Rate of inflation	2.00%	2.00%
Underlying rate of salary increases	1.50%	1.50%

12.3.6. Comparative information

The size of the fund has increased by € 4.937 million, +7.50%, mainly as a consequence of the actuarial assumptions used for the calculations, while payments increased by 3.04%. The contribution made by employees totalled € 0.344 million (€ 0.330 million in the prior year). The way calculations are made was changed as a result of adopting IFRS; the redetermination of the total pension obligation resulted in a supplementary provision for 2004 of € 8.694 million, accordingly, provision under Italian accounting standards of € 57.036 million was increased to € 65.730 million.

12.4 Provisions for risks and charges - other provisions

	31/12/2005	31/12/2004
Provision for legal disputes	19,000	13,000
Provision for personnel expenses	2,866	5,720
Provision for charitable donations	135	242
Total	22,001	18,962

See section 12.4 of the Parent Bank's explanatory notes for comments.

Section 15 *Group equity - Items 140, 160, 170, 180, 190, 200 and 220*

15.1 Group equity: breakdown

Items/Amounts	31/12/2005	31/12/2004
1. Share capital	660,317	660,317
2. Share premium reserve	108,373	108,373
3. Reserves	330,824	288,001
4. (Own shares)	-	-
a) Parent Bank	-	-
b) subsidiaries	-	-
5. Valuation reserves	58,737	192
6. Capital instruments	-	-
7. Net profit for the year attributable to the Group	95,513	82,823
Total	1,253,764	1,139,706

15.2 «Share capital» and «Own shares»: breakdown

The share capital of the Parent Bank comprises 220,105,703 issued and fully-paid ordinary shares, par value € 3 each, totalling € 660.317 million.

The Parent Bank does not hold any own shares at year end.

15.3 Share capital - Number of shares of the Parent Bank: change in year

There were no share capital transactions during the year.

15.5 Profit reserves: other information

Profit reserves contribute to the capital adequacy of the bank, considering both current and future operations. They amount to € 330.824 million and comprise:

Legal reserve, consisting of profits, which amounts to € 109.393 million.

Statutory reserve, required by art. 58 of the Articles of Association, which amounts to € 151.921 million.

Reserve for the purchase of own shares, also required by art. 58 of the Articles of Association, which is available to the directors under art. 21 of the Articles for the purchase or sale of own shares on market terms, as part of normal trading to support the liquidity of the shares. This totals € 29.000 million.

Reserve law 102 dated 2.5.1990, the «Valtellina law», established in 1990 and increased in 1991 in order to obtain the fiscal benefits envisaged by this law, € 6.456 million. Reserve pursuant to art. 13 of Decree 124/93, € 0.142 million.

Other reserves, € 33.912 million, derive from the reclassification of the former reserve for general banking risks, required by art. 11 of Decree 87 dated 27/1/1992, net of «F.T.A.» and consolidation adjustments.

15.6 Valuation reserves: breakdown

Items/Components	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
1. Available-for-sale financial assets	59,165	-620	58,545	-
2. Property, plant and equipment	-	-	-	-
3. Intangible assets	-	-	-	-
4. Hedges of foreign investments	-	-	-	-
5. Cash-flow hedges	-	-	-	-
6. Exchange differences	-	-	-	-
7. Non-current assets held for sale and discontinued operations	-	-	-	-
8. Special revaluation regulations	-	192	192	192
Total	59,165	-428	58,737	192

15.7 Valuation reserves: change in year

15.7.1 attributable to the banking group

	Available-for-sale financial assets	Property, plant and equipment	Intangible assets	Hedges of foreign investments	Cash-flow hedges	Exchange differences	Non-current assets held for sale and discontinued operations	Special revaluation regulations
A. Opening balance	-	-	-	-	-	-	-	-
B. Increases	67,824	-	-	-	-	-	-	-
B.1 Increases in fair value	44,668	-	-	-	-	-	-	-
B.2 Other changes	23,156	-	-	-	-	-	-	-
C. Decreases	8,659	-	-	-	-	-	-	-
C.1 Decreases in fair value	2,326	-	-	-	-	-	-	-
C.2 Other changes	6,333	-	-	-	-	-	-	-
D. Closing balance	59,165	-	-	-	-	-	-	-

15.7.3 attributable to other businesses

	Available- for-sale financial assets	Property, plant and equipment	Intangible assets	Hedges of foreign investments	Cash-flow hedges	Exchange differences	Non-current assets held for sale and discontinued operations	Special revaluation regulations
A. Opening balance	-	-	-	-	-	-	-	192
B. Increases	-	-	-	-	-	-	-	-
B.1 Increases in fair value	-	-	-	-	-	-	-	-
B.2 Other changes	-	-	-	-	-	-	-	-
C. Decreases	620	-	-	-	-	-	-	-
C.1 Decreases in fair value	-	-	-	-	-	-	-	-
C.2 Other changes	620	-	-	-	-	-	-	-
D. Closing balance	-620	-	-	-	-	-	-	192

15.8 Valuation reserves for available-for-sale financial assets: breakdown

Assets/Values	Banking group		Other businesses		31/12/2005		31/12/2004	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	-	-	-	-	-	-	-	-
2. Variable-yield securities	60,297	1,016	-	-	60,297	1,016	-	-
3. Mutual funds	457	573	-	-	457	573	-	-
4. Loans	-	-	-	-	-	-	-	-
Total	60,754	1,589	-	-	60,754	1,589	-	-

15.9 Valuation reserves for available-for-sale financial assets: change in year

15.9.1 attributable to the banking group

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans
1. Opening balance	-	-	-	-
2. Positive changes	-	67,367	457	-
2.1 Increases in fair value	-	44,211	457	-
2.2 Release to the income statement of negative reserves	-	-	-	-
- from impairment	-	-	-	-
- from disposals	-	-	-	-
2.3 Other changes	-	23,156	-	-
3. Negative changes	-	8,086	573	-
3.1 Reductions in fair value	-	1,753	573	-
3.2 Impairment write-downs	-	-	-	-
3.3 Release to the income statement of positive reserves: from disposals	-	6,333	-	-
3.4 Other changes	-	-	-	-
4. Closing balance	-	59,281	-116	-

15.9.3 attributable to other businesses

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans
1. Opening balance	-	-	-	-
2. Positive changes	-	-	-	-
2.1 Increases in fair value	-	-	-	-
2.2 Release to the income statement of negative reserves	-	-	-	-
- from impairment	-	-	-	-
- from disposals	-	-	-	-
2.3 Other changes	-	-	-	-
3. Negative changes	-	620	-	-
3.1 Reductions in fair value	-	-	-	-
3.2 Impairment write-downs	-	620	-	-
3.3 Release to the income statement of positive reserves: from disposals	-	-	-	-
3.4 Other changes	-	-	-	-
4. Closing balance	-	-620	-	-

Section 17 Other information

1. Guarantees given and commitments

Operations	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
1. Financial guarantees	956,900	-	956,900	768,888
a) Banks	140,141	-	140,141	97,613
b) Customers	816,759	-	816,759	671,275
2. Commercial guarantees	1,145,552	-	1,145,552	1,055,142
a) Banks	39,979	-	39,979	39,327
b) Customers	1,105,573	-	1,105,573	1,015,815
3. Irrevocable commitments to make loans	445,657	-	445,657	305,124
a) Banks	92,843	-	92,843	34,197
i) certain to be called on	92,169	-	92,169	34,197
ii) not certain to be called on	674	-	674	-
b) Customers	352,814	-	352,814	270,927
i) certain to be called on	10,407	-	10,407	117,671
ii) not certain to be called on	342,407	-	342,407	153,256
4. Commitments underlying credit derivatives: protection sold	-	-	-	-
5. Assets lodged to guarantee the commitments of third parties	37,004	-	37,004	8,000
6. Other commitments	579	-	579	-
Total	2,585,692	-	2,585,692	2,137,154

2. Assets lodged to guarantee the bank's liabilities and commitments

Portfolio	31/12/2005	31/12/2004
1. Financial assets held for trading	1,485,924	1,234,100
2. Financial assets at fair value	14,425	16,428
3. Available-for-sale financial assets	-	-
4. Financial assets held to maturity	-	-
5. Due from other banks	-	-
6. Due from customers	-	-
7. Property, plant and equipment	-	-

5. Management and intermediation for third parties: banking group

Type of service	Amounts
1. Trading in financial instruments on behalf of third parties	6,964,279
a) Purchases	3,701,274
1. settled	2,849,291
2. not settled	851,983
b) Sales	3,263,005
1. settled	2,505,103
2. not settled	757,902
2. Portfolio management	2,461,511
a) Individual	2,461,511
b) Collective	-
3. Custody and administration of securities	25,299,023
a) third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	2,244,066
1. Securities issued by consolidated companies	-
2. Other securities	2,244,066
b) Third party securities in custody (excluding portfolio management): other	10,297,968
1. Securities issued by consolidated companies	1,497,612
2. Other securities	8,800,356
c) third-party securities on deposit with third parties	10,286,874
d) own securities on deposit with third parties	2,470,115
4. Other transactions	-

PART C *Information on the consolidated income statement*

Section 1 *Interest - line items 10 and 20*

1.1 Interest and similar income: breakdown

1.1.1 attributable to the banking group

Items/technical forms	Performing financial assets		Impaired financial assets	Other assets	Total	
	Fixed-yield securities	Loans			31/12/2005	31/12/2004
1. Financial assets held for trading	49,707	-	-	-	49,707	43,766
2. Financial assets at fair value	397	-	-	-	397	240
3. Available-for-sale financial assets	-	-	-	-	-	-
4. Financial assets held to maturity	-	25,981	-	-	25,981	20,223
5. Due from other banks	-	335,260	16,467	-	351,727	323,176
6. Due from customers	1,291	16,202	-	-	17,493	16,232
7. Hedging derivatives	-	-	-	786	786	1,781
8. Financial assets sold and not eliminated from the balance sheet	-	-	-	-	-	-
9. Other assets	-	-	-	-	-	-
Total	51,395	377,443	16,467	786	446,091	405,418

1.1.3 attributable to other businesses

Items/technical forms	Performing financial assets		Impaired financial assets	Other assets	Total	
	Fixed-yield securities	Loans			31/12/2005	31/12/2004
1. Financial assets held for trading	-	-	-	-	-	-
2. Available-for-sale financial assets	-	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-	-
4. Due from other banks	-	-	-	-	-	-
5. Due from customers	-	-	-	-	-	-
6. Financial assets at fair value	-	9	-	-	9	11
7. Hedging derivatives	-	-	-	-	-	-
8. Financial assets sold and not eliminated from the balance sheet	-	-	-	-	-	-
9. Other financial assets	-	-	-	-	-	-
Total	-	9	-	-	9	11



1.2 Interest and similar income: differential on hedging transactions

Items/Amounts	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
A. Positive differentials on transactions involving:				
A.1 Specific hedge of the fair value of assets	-	-	-	-
A.2 Specific hedge of the fair value of liabilities	786	-	786	1,781
A.3 Macro hedge of interest rate risk	-	-	-	-
A.4 Specific hedge of cash flows from assets	-	-	-	-
A.5 Specific hedge of cash flows from liabilities	-	-	-	-
A.6 Macro cash flow hedge	-	-	-	-
Total positive differences (A)	786	-	786	1,781
B. Negative differentials on transactions involving:				
B.1 Specific hedge of the fair value of assets	-	-	-	-
B.2 Specific hedge of the fair value of liabilities	-	-	-	-
B.3 Macro hedge of interest rate risk	-	-	-	-
B.4 Specific hedge of cash flows from assets	-	-	-	-
B.5 Specific hedge of cash flows from liabilities	-	-	-	-
B.6 Macro cash flow hedge	-	-	-	-
Total negative differentials (B)	-	-	-	-
C. Net total (A-B)	786	-	786	1,781

1.3 Interest income and similar revenues: other information

1.3.1 Interest income and similar revenue on foreign currency assets

41,875 38,687

1.4 Interest expense and similar charges: breakdown

1.4.1 attributable to the banking group

Items/technical forms	Payables	Securities	Other liabilities	Total 31/12/2005	Total 31/12/2004
1. Due to other banks	15,904	-	-	15,904	12,681
2. Due to customers	141,811	-	-	141,811	123,532
3. Securities issued	-	25,984	-	25,984	25,456
4. Financial liabilities held for trading	3,530	-	-	3,530	5,405
5. Financial liabilities at fair value	-	-	-	-	-
6. Financial liabilities associated with assets sold and not eliminated from the balance sheet	-	-	-	-	-
7. Other liabilities	-	-	-	-	16
8. Hedging derivatives	-	-	-	-	-
Total	161,245	25,984	-	187,229	167,090

1.4.3 attributable to other businesses

Items/technical forms	Payables	Securities	Other liabilities	Total 31/12/2005	Total 31/12/2004
1. Due to other banks	-	-	349	349	315
2. Due to customers	-	-	5	5	8
3. Securities issued	-	-	-	-	-
4. Financial liabilities held for trading	-	-	-	-	-
5. Financial liabilities at fair value	-	-	-	-	-
6. Financial liabilities associated with assets sold and not eliminated from the balance sheet	-	-	-	-	-
7. Other liabilities	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-
Total	-	-	354	354	323

1.5 Interest expense and similar charges: differential on hedging transactions

Items/Amounts	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
A. Positive differentials on transactions involving:				
A.1 Specific hedge of the fair value of assets	-	-	-	-
A.2 Specific hedge of the fair value of liabilities	-	-	-	-
A.3 Macro hedge of interest rate risk	-	-	-	-
A.4 Specific hedge of cash flows from assets	-	-	-	-
A.5 Specific hedge of cash flows from liabilities	-	-	-	-
A.6 Macro cash flow hedge	-	-	-	-
Total positive differences (A)	-	-	-	-
B. Negative differentials on transactions involving:				
B.1 Specific hedge of the fair value of assets	2,005	-	2,005	4,599
B.2 Specific hedge of the fair value of liabilities	-	-	-	-
B.3 Macro hedge of interest rate risk	-	-	-	-
B.4 Specific hedge of cash flows from assets	-	-	-	-
B.5 Specific hedge of cash flows from liabilities	-	-	-	-
B.6 Macro cash flow hedge	-	-	-	-
Total negative differentials (B)	2,005	-	2,005	4,599
C. Net total (A-B)	2,005	-	2,005	4,599

1.6 Interest expense and similar charges: other information

1.6 Interest expense and similar charges on foreign currency liabilities

24,008 21,599

1.6.2 Interest expense on the liability under finance leases

558 470

Section 2 Commissions - line items 40 and 50

2.1 Commission income: breakdown

2.1.1 attributable to the banking group

Type of service/Amounts	31/12/2005	31/12/2004
a) guarantees given	8,379	7,792
b) credit derivatives	-	-
c) management, intermediation and consultancy services	79,660	67,158
1. trading in financial instruments	19,982	17,326
2. foreign currency trading	4,532	4,146
3. portfolio management	7,130	5,900
3.1 Individual	7,130	5,900
3.2 Collective	-	-
4. custody and administration of securities	9,552	8,371
5. custodian bank	2,480	2,079
6. placement of securities	17,405	15,401
7. acceptance of orders	10,439	6,848
8. consultancy	27	42
9. distribution of third party services	8,113	7,045
9.1 portfolio management	-	-
9.1.1 Individual	-	-
9.1.2 Collective	-	-
9.2 insurance products	4,296	4,021
9.3 other products	3,817	3,024
d) collection and payment services	41,083	36,314
e) services for securitisation transactions	-	-
f) services for factoring transactions	-	-
g) tax collection services	-	-
h) other services	44,021	43,058
Total	173,143	154,322

2.2 Commission income: distribution channels for products and services: banking group

Channels/Segments	31/12/2005	31/12/2004
a) bank branches	32,648	28,346
1. portfolio management	7,130	5,900
2. placement of securities	17,405	15,401
3. third-party products and services	8,113	7,045
b) door-to-door sales	-	-
1. portfolio management	-	-
2. placement of securities	-	-
3. third-party products and services	-	-
c) other distribution channels	-	-
1. portfolio management	-	-
2. placement of securities	-	-
3. third-party products and services	-	-

2.3 Commission expense: breakdown

2.3.1 attributable to the banking group

Services/Segments	31/12/2005	31/12/2004
a) guarantees received	160	100
b) credit derivatives	-	-
c) management and intermediation services	3,959	3,532
1. trading in financial instruments	2,338	1,914
2. trading in foreign currency	-	-
3. portfolio management	-	-
3.1 own portfolio	-	-
3.2 third-party portfolio	-	-
4. custody and administration of securities	1,621	1,618
5. placement of financial instruments	-	-
6. door-to-door distribution of financial instruments, products and services	-	-
d) collection and payment services	7,847	6,896
e) other services	2,591	993
Total	14,557	11,521

Section 3 Dividends and similar income - line item 70

3.1 Dividends and similar income: breakdown

Items/Income	Banking group		Other businesses		31/12/2005		31/12/2004	
	Dividends	Income from mutual funds	Dividends	Income from mutual funds	Dividends	Income from mutual funds	Dividends	Income from mutual funds
A. Financial assets held for trading	1,252	4	-	-	1,252	4	1,802	-
B. Available-for-sale financial assets	3,342	161	-	-	3,342	161	1,600	-
C. Financial assets at fair value	-	180	-	-	-	180	-	99
D. Equity investments	1,282	-	-	-	1,282	-	906	-
Total	5,876	345	-	-	5,876	345	4,308	99

Section 4 *Net trading income - line item 80*

4.1 Net trading income: breakdown

4.1.1 attributable to the banking group

Transactions/Income items	Gains (A)	Dealing profits (B)	Losses (C)	Trading losses (D)	Net profit (loss) [(A+B)-(C+D)]
1. Financial assets held for trading	8,346	21,676	8,718	1,400	19,904
1.1 Fixed-yield securities	576	7,732	6,872	1,252	184
1.2 Variable-yield securities	2,965	2,702	1,081	148	4,438
1.3 Mutual funds	1,309	63	754	-	618
1.4 Loans	-	-	-	-	-
1.5 Other	3,496	11,179	11	-	14,664
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Fixed-yield securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange differences	-	-	-	-	-
4. Derivatives	725	1,724	-	-	2,449
4.1 Financial derivatives:	725	1,724	-	-	2,449
- On debt securities and interest rates	299	802	-	-	1,101
- On equities and equity indices	3	114	-	-	117
- On currency and gold	-	-	-	-	-
- Other	423	808	-	-	1,231
4.2 Credit derivatives	-	-	-	-	-
Total	9,071	23,400	8,718	1,400	22,353

Section 5 *Net hedging gains (losses) - line item 90*

5.1 Net hedging gains (losses): breakdown

Operations	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
A. Income from:				
A1. Fair value hedges	1,505	-	1,505	-
A2. Hedged financial assets (Fair value)	-	-	-	-
A3. Hedged financial liabilities (Fair value)	697	-	697	-
A4. Cash-flow hedges	-	-	-	-
A5. Foreign currency assets and liabilities	-	-	-	-
Total income from hedging activities (A)	2,202	-	2,202	-
B. Charges from:				
B1. Fair value hedges	513	-	513	-
B2. Hedged financial assets (Fair value)	132	-	132	-
B3. Hedged financial liabilities (Fair value)	-	-	-	-
B4. Cash-flow hedges	-	-	-	-
B5. Foreign currency assets and liabilities	-	-	-	-
Total charges from hedging activities (B)	645	-	645	-
C. Net hedging gains (losses) (A - B)	1,557	-	1,557	-

Section 6 *Gains (losses) on disposals/repurchases - line item 100*

6.1 Gains (losses) on disposals/repurchases: breakdown

Items/income items	Banking group		Net result
	Profits	Losses	
Financial assets			
1. Due from other banks	-	-	-
2. Due from customers	-	-	-
3. Available-for-sale financial assets	7,636	-	7,636
3.1 Fixed-yield securities	-	-	-
3.2 Variable-yield securities	7,636	-	7,636
3.3 Mutual funds	-	-	-
3.4 Loans	-	-	-
4. Financial assets held to maturity	-	-	-
Total assets	7,636	-	7,636
Financial liabilities			
1. Due to other banks	-	-	-
2. Due to customers	-	-	-
3. Securities issued	66	32	34
Total liabilities	66	32	34

Section 7 *Net change in value of financial assets and liabilities at fair value - line item 110*

7.1 Net change in value of financial assets/liabilities at fair value: breakdown

7.1.1 attributable to the banking group

Transactions/Income items	Gains (A)	Dealing profits (B)	Losses (C)	Trading losses (D) [(A+B)-(C+D)]	Net profit (loss)
1. Financial assets	5,564	5	309	-	5,260
1.1 Fixed-yield securities	-	-	267	-	-267
1.2 Variable-yield securities	-	-	-	-	-
1.3 Mutual funds	5,564	5	42	-	5,527
1.4 Loans	-	-	-	-	-
2. Financial liabilities	-	-	-	-	-
2.1 Fixed-yield securities	-	-	-	-	-
2.2 Due to other banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Foreign currency financial assets and liabilities: exchange differences	-	-	-	-	-
4. Derivatives	-	-	-	-	-
4.1 Financial derivatives:	-	-	-	-	-
- On debt securities and interest rates	-	-	-	-	-
- On equities and equity indices	-	-	-	-	-
- On currency and gold	-	-	-	-	-
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total derivatives	-	-	-	-	-
Total	5,564	5	309	-	5,260

Other businesses			Total 31/12/2005			Total 31/12/2004		
Profits	Losses	Net result	Profits	Losses	Net result	Profits	Losses	Net result
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	7,636	-	7,636	1	-	1
-	-	-	-	-	-	-	-	-
-	-	-	7,636	-	7,636	1	-	1
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	7,636	-	7,636	1	-	1
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	66	32	34	-	-	-
-	-	-	66	32	34	-	-	-

Section 8 Net impairment adjustments - line item 130

8.1 Net impairment adjustments to loans: breakdown

8.1.1 attributable to the banking group

Transactions/ Income items	Adjustments			Write-backs				Total 31/12/2005	Total 31/12/2004
	Type		Portfolio	Type		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Due from other banks	-	-	-	-	-	-	-	-	-
B. Due from customers	22,577	32,911	-	612	15,808	-	1,000	38,068	-46,288
C. Total	22,577	32,911	-	612	15,808	-	1,000	38,068	-46,288

Key

A = Interest

B = Other write-backs

8.1.3 attributable to other consolidated companies

Transactions/ Income items	Adjustments			Write-backs				Total 31/12/2005	Total 31/12/2004
	Type		Portfolio	Type		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Due from other banks	-	-	-	-	-	-	-	-	-
B. Due from customers	-	9	-	-	-	-	-	9	-
C. Total	-	9	-	-	-	-	-	9	-



8.2 Net impairment adjustments to available-for-sale financial assets: breakdown

8.2.1 attributable to the banking group

Transactions/Income items	Adjustments		Adjustments		Total 31/12/2005	Total 31/12/2004
	Type Write-offs	Other	Type A	B		
A. Fixed-yield securities	75	-	-	-	75	-
B. Variable-yield securities	-	-	-	-	-	-
C. Mutual funds	-	-	-	-	-	-
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	75	-	-	-	75	-

Key

A = Interest

B = Other write-backs

Section 11 Administrative expenses - line item 180

11.1 Personnel expenses: breakdown

Type of expense/Segments	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
1) Employees	142,262	730	142,992	133,508
a) wages and salaries	96,245	525	96,770	89,796
b) social security contributions	24,955	173	25,128	23,826
c) severance indemnities	-	31	31	28
d) pension expenses	1,129	-	1,129	1,051
e) provision for severance indemnities	7,979	-	7,979	6,169
f) provision for post-retirement benefits and similar commitments	7,369	-	7,369	4,471
- defined contribution	-	-	-	-
- defined benefit	7,369	-	7,369	4,471
g) payments to external supplementary pension funds	697	-	697	605
- defined contribution	697	-	697	605
- defined benefit	-	-	-	-
h) costs deriving from payment agreements based on own capital instruments	-	-	-	-
i) other personnel benefits	3,888	1	3,889	7,562
2) Other personnel	3,733	-	3,733	3,073
3) Directors	1,579	-	1,579	1,571
Total	147,574	730	148,304	138,152

11.2 Average number of employees by category: banking group

	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
- Employees	2,344	3	2,347	2,243
a) managers	19	-	19	19
b) total officials	470	-	470	447
- of which: 3rd and 4th level	260	-	260	235
c) other employees	1,855	3	1,858	1,777
- Other personnel	91	-	91	98

	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
Actual number of employees				
- Employees	2,394	3	2,397	2,294
- Other personnel	96	-	96	86

11.3 Post-retirement defined benefit plans: total costs

The charge to the income statement for the year is summarised as follows:

	31/12/2005	31/12/2004
Service cost	1,804	1,759
Interest cost	3,251	2,999
Actuarial gains/losses	2,290	-90
Contributions from employees	-344	-330
Reductions and payments	368	133
Total charge to income statement	7,369	4,471
Yield from assets servicing the fund	-3,782	-1,870
Total charge	3,587	2,601

The costs, which relate to the Parent Bank, have been recorded as personnel expenses, while the yield from assets servicing the fund has been credited to caption 220 «other operating income/expense».

Information regarding the outstanding obligations and related changes during the year, the assets servicing the fund and related changes during the year, and principal actuarial assumptions made is provided in the tables reported in Part B Section 12.3 of the notes to the financial statements.

The bank has not adopted the «corridor» method for the recognition of actuarial gains/losses; accordingly, there are no unrecorded gains/losses of this type.

11.4 Other employee benefits

This caption essentially comprises the cost of «meal vouchers», the reimbursement of travel and accommodation expenses, insurance costs and other benefits. This amount is stated net of € 0.879 million released from the provision for personnel expenses.

11.5 Other administrative expenses: breakdown

	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
telephone, post and data transmission	13,832	18	13,850	12,655
maintenance of fixed assets	6,041	119	6,160	5,597
rent paid on buildings	15,805	21	15,826	14,133
surveillance	4,615	-	4,615	4,348
transportation	1,976	224	2,200	2,290
professional fees	6,192	256	6,448	5,751
office materials	2,357	231	2,588	2,930
electricity, heating and water	3,286	238	3,524	3,100
advertising and entertainment	4,125	50	4,175	3,776
legal expenses	3,732	12	3,744	3,764
insurance	2,713	30	2,743	2,442
corporate survey and information	2,633	-	2,633	2,968
indirect taxes and dues	22,515	121	22,636	17,957
software and hardware rental and maintenance	5,145	7	5,152	4,262
data registration with third parties	790	-	790	714
cleaning	3,666	64	3,730	3,531
membership fees	1,411	-	1,411	1,280
services received from third parties	3,787	21	3,808	2,696
outsourced activities	8,217	-	8,217	7,962
statutory auditors' emoluments	226	26	252	248
deferred charges	7,499	-	7,499	5,408
other	7,035	94	7,129	6,109
Total	127,598	1,532	129,130	113,921

Section 13 *Net adjustments to property, plant and equipment*

13.1 Net adjustments to property, plant and equipment: breakdown

13.1.1 attributable to the banking group

Asset/Income item	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c)
A. Property, plant and equipment				
A1. Owned	11,509	-	-	11,509
- For business purposes	11,509	-	-	11,509
- For investment purposes	-	-	-	-
A2. Held under financial leases	708	-	-	708
- For business purposes	708	-	-	708
- For investment purposes	-	-	-	-
Total	12,217	-	-	12,217

13.1.3 attributable to other businesses

Asset/Income item	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c)
A. Property, plant and equipment				
A1. Owned	121	-	-	121
- For business purposes	121	-	-	121
- For investment purposes	-	-	-	-
A2. Acquired under financial leases	-	-	-	-
- For business purposes	-	-	-	-
- For investment purposes	-	-	-	-
Total	121	-	-	121

Section 14 *Net adjustments to intangible assets - line item 210*

14.1 Net adjustments to intangible assets: breakdown

14.1.1 attributable to the banking group

Asset/Income item	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c)
A. Intangible assets				
A1. Owned	5,471	-	-	5,471
- Internally generated	-	-	-	-
- Other	5,471	-	-	5,471
A2. Held under financial leases	-	-	-	-
Total	5,471	-	-	5,471

14.1.3 attributable to other businesses

Asset/Income item	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c)
A. Intangible assets				
A1. Owned	4	-	-	4
- Internally generated	-	-	-	-
- Other	4	-	-	4
A2. Held under financial leases	-	-	-	-
Total	4	-	-	4

Section 15 Other operating income and expense - line item 220

15.1 Other operating expenses: breakdown

	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
Out-of-period expense	458	15	473	538
Provision for general banking risks	-	-	-	9,000
Other	1,991	5	1,996	2,828
Total	2,449	20	2,469	12,366

15.2 Other operating income: breakdown

	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
Recovery of charges on deposits and overdrafts	952	-	952	945
Rent received for buildings	713	1,102	1,815	1,859
Recovery of customer insurance	729	-	729	694
Recovery of taxes	19,952	-	19,952	14,998
Financial income of post-retirement benefits plan	3,782	-	3,782	1,870
Out-of-period income - other	356	66	422	13,389
Out-of-period income - overprovisions	9	-	9	29
Other	5,842	1,697	7,539	10,896
Total	32,335	2,865	35,200	44,680

Section 16 Share of profit (loss) of equity investments - line item 240

16.1 Share of profit (loss) of equity investments: breakdown

Income item/Segments	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
A. Income	3,056	-	3,056	2,089
1 Revaluations	-	-	-	-
2 Profit from disposals	-	-	-	296
3 Write-backs	-	-	-	517
4 Other positive changes	3,056	-	3,056	1,276
B. Charges	958	-	958	315
1 Write-downs	958	-	958	315
2 Impairment write-downs	-	-	-	-
3 Loss from disposals	-	-	-	-
4 Other negative changes	-	-	-	-
Net result	2,098	-	2,098	1,774

Section 19 Profit (loss) from disposal of investments - line item 270

19.1 Profit (loss) from disposal of investments: breakdown

Income item/Amount	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
A. Buildings	190	-	190	-
- Profit from disposals	190	-	190	-
- Loss from disposals	-	-	-	-
B. Other assets	32	-	32	-20
- Profit from disposals	37	-	37	16
- Loss from disposals	-5	-	-5	-36
Net result	222	-	222	-20

Section 20 Income taxes on current operations - line item 290

20.1 Income taxes on current operations: breakdown

Income item/Amount	Banking group	Other businesses	Total 31/12/2005	Total 31/12/2004
1. Current taxes (-)	-60,677	-180	-60,857	-42,798
2. Change in prior period income taxes (+/-)	-	-	-	-
3. Reduction in current taxes (+)	-	-	-	-
4. Change in deferred tax assets (+/-)	1,038	-	1,038	5,877
5. Change in deferred tax liabilities (+/-)	-485	-	-485	-16,501
6. Income taxes for the year (-) (-1+/-2+3+/-4+/-5)	-60,124	-180	-60,304	-53,422

20.2 Reconciliation between the theoretical and current tax burden

Income taxes are calculated at 33% for IRES and 5.25% for IRAP.

The total tax charge for the year is reconciled with the net profit for the year as follows:

IRES (corporate income taxes)	
Profit before income taxes	155,817
Tax calculated using the domestic tax rate	51,420
Tax effect of non-deductible/non-taxable costs/income	-7,233
Effect of different tax rates applying to subsidiaries operating in other jurisdictions	-625
Income taxes	43,562
Effective rate	27.96%

The profit subject to IRAP amounts to € 319.097 million, with a tax charge of € 16.742 million.

Section 24 *Earnings per share*

24.1 Average number of ordinary shares (fully diluted)

There were no transactions involving share capital during the year and no financial instruments were issued that might involve the future issue of shares. Accordingly, the number of shares interested in net profit is unchanged with respect to the prior year.

	31/12/2005	31/12/2004
No. of shares	220,105,703	220,105,703

24.2 Other information

IAS 33 requires that EPS «earnings per share» be reported in accordance with the following definitions:

«Basic EPS», determined by dividing the net profit attributable to the bearers of ordinary shares by the weighted average number of ordinary shares in issue. «Diluted EPS», determined by taking account of the dilutive effect of all potential ordinary shares.

There are no circumstances under which earnings can be diluted and there are no activities to be sold for which basic and diluted EPS must be stated separately.

	31/12/2005	31/12/2004
Earnings per share - €	0.430	0.440

In 2004, earnings per share was determined using the weighted average number of shares in issue having regard for the capital increase.

The change in accounting policies during the year has been fully described in Part A.2.17 of these notes to the financial statements.

Following the reclassification of the 2004 financial statements in accordance with IFRS, the previously-reported net profit of € 78.152 million was increased to € 82.823 million, up € 4.671 million, due mainly to the adjustments made to buildings, post-retirement benefits, severance indemnities and deferred charges.

Accordingly, 2004 earnings per share rose from € 0.42 to € 0.44.

PART D *Segment information*

A. Primary format

The primary format has been determined using the methodology applied in relation to the Parent Bank.

Accordingly, reference is made to the section of the notes to the Parent Bank's financial statements entitled Part D – Segment information.

A.1 Distribution by business segment: income statement

	Enterprises	Individuals and other customers	Securities	Headquarters	Total	Reconciliation	Total 31/12/2005
Interest income	272,785	313,178	-	283,826	869,789	-423,689	446,100
Interest expense	-154,508	-216,690	-	-240,074	-611,272	423,689	-187,583
Net interest income	118,277	96,488	-	43,752	258,517	-	258,517
Commission income	40,374	55,395	79,955	4,792	180,516	-7,373	173,143
Commission expense	-3,676	-4,537	-6,425	413	-14,225	-332	-14,557
Dividends and similar income	-	-	-	6,221	6,221	-	6,221
Net trading income	-	-	-	23,234	23,234	-881	22,353
Net hedging profits (losses)	-	1,269	-	288	1,557	-	1,557
Gains/losses on disposals or repurchases	-	-	-	7,671	7,671	-	7,671
Net change in the value of financial assets and liabilities at fair value	-	-	-	5,260	5,260	-	5,260
Income from banking activities	154,975	148,615	73,530	91,631	468,751	-8,586	460,165
Adjustments to the net value of financial assets	-26,349	-11,962	-	-7,475	-45,786	7,634	-38,152
Balance of financial management	128,626	136,653	73,530	84,156	422,965	-952	422,013
Administrative expenses	-65,717	-92,968	-38,347	-56,072	-253,104	-24,330	-277,434
Provisions for risks and charges	-7,661	726	-	935	-6,000	-	-6,000
Net adjustments to property, plant and equipment	-2,742	-4,713	-2,336	-2,547	-12,338	-	-12,338
Net adjustments to intangible assets	-1,287	-2,113	-1,002	-1,073	-5,475	-	-5,475
Other operating income/expense	-113	3,133	461	3,968	7,449	25,282	32,731
Share of profit/loss of equity investments	-	-	-	2,098	2,098	-	2,098
Profit/loss from disposal of investments	-	-	-	222	222	-	222
Gross profit	51,106	40,718	32,306	31,687	155,817	-	155,817

	Enterprises	Individuals and other customers	Securities	Headquarters	Total	Reconciliation	Total 31/12/2004
Interest income	246,922	283,346	-	247,594	777,862	-372,433	405,429
Interest expense	-134,506	-193,028	-	-212,312	-539,846	372,433	-167,413
Net interest income	112,416	90,318	-	35,282	238,016	-	238,016
Commission income	37,245	50,043	70,219	4,751	162,258	-7,936	154,322
Commission expense	-3,376	-3,808	-5,120	61	-12,243	722	-11,521
Dividends and similar income	-	-	-	4,407	4,407	-	4,407
Net trading income	-	-	-	26,974	26,974	4,504	31,478
Net hedging profits (losses)	-	-	-	-	-	-	-
Gains/losses on disposals or repurchases	-	-	-	1	1	-	1
Net change in the value of financial assets and liabilities at fair value	-	-	-	-	-	-	-
Income from banking activities	146,285	136,553	65,099	71,476	419,413	-2,710	416,703
Adjustments to the net value of financial assets	-40,673	-5,675	-	-1,705	-48,053	1,765	-46,288
Balance of financial management	105,612	130,878	65,099	69,771	371,360	-945	370,415
Administrative expenses	-60,801	-87,813	-36,083	-49,958	-234,655	-17,418	-252,073
Provisions for risks and charges	2,289	-2,301	-	12	-	-	-
Net adjustments to property, plant and equipment	-2,754	-4,363	-2,033	-2,304	-11,454	-	-11,454
Net adjustments to intangible assets	-989	-1,803	-955	-964	-4,711	-	-4,711
Other operating income/expense	212	2,380	383	10,976	13,951	18,363	32,314
Share of profit/loss of equity investments	-	-	-	1,774	1,774	-	1,774
Profit/loss from disposal of investments	-	-	-	-20	-20	-	-20
Gross profit	43,569	36,978	26,411	29,287	136,245	-	136,245

A.2 Distribution by business segment: balance sheet

	Enterprises	Individuals and other customers	Securities	Central functions	Total 31/12/2005
Financial assets	6,028,081	3,762,811	-	3,999,302	13,790,194
Other assets	-	-	-	310,505	310,505
Property, plant and equipment	40,534	54,663	20,242	39,257	154,696
Intangible assets	1,543	2,369	1,044	1,175	6,131
Financial liabilities	1,697,723	9,627,894	-	1,213,036	12,538,653
Other liabilities	3,148	139	-	330,326	333,613
Provisions	52,792	47,376	14,184	21,144	135,496
Guarantees given	1,498,287	641,169	-	-	2,139,456
Commitments	311,766	133,891	-	-	445,657

	Enterprises	Individuals and other customers	Securities	Central functions	Total 31/12/2004
Financial assets	5,440,550	3,141,761	-	3,527,119	12,109,430
Other assets	-	-	-	363,766	363,766
Property, plant and equipment	37,386	50,254	19,073	26,363	133,076
Intangible assets	1,032	1,764	886	935	4,617
Financial liabilities	1,216,105	8,664,869	-	1,164,218	11,045,192
Other liabilities	4,546	15	-	298,415	302,976
Provisions	43,219	46,304	13,552	19,940	123,015
Guarantees given	1,361,217	470,813	-	-	1,832,030
Commitments	109,679	195,445	-	-	305,124

Summary discussion of results

The combined results for the «enterprises» and the «individuals and other customers» segments are not significantly different to those reported by the Parent Bank, since the «SUISSE» subsidiary only makes a small contribution, while the other consolidated subsidiaries are insignificant.

Accordingly, reference is made to the individual financial statements in relation to these aggregates.

It is worth noting that the «securities» sub-segment makes a significant contribution.

In particular:

- this sub-segment contributes 20.7% of overall results;
- with respect to income from banking activities, the related administrative expenses absorb 52.1% of the total.

Comparison with the prior year highlights an improvement in results by about 22.3%, largely due to an increase in commissions (up about 13%) and the contained rise in administrative expenses (+6.3%).

«Central functions» – the only sub-segment in which the non-banking subsidiaries have a small effect – achieved broadly stable results, making a 20.34% contribution to the total.

This is smaller in absolute terms with respect to the Parent Bank taken alone, mainly because of the substantial investment in property made by the Swiss subsidiary, together with the recruitment of additional staff for the central functions.

B. Secondary format

The methodology applied is that adopted by the Parent Bank.

The following information refers to the location of branches.

There are differences between the Parent Bank and the Swiss subsidiary regarding the types of customer served, the products and services provided, and commercial and operational policies adopted. Accordingly, the analysis includes the «Swiss» area as well as the domestic market.

B.1 Distribution by geographical area: income statement

	Northern Italy	Central Italy	Switzerland	Total	Reconciliation	Total 31/12/2005
Interest income	753,521	94,486	23,625	871,632	-425,532	446,100
Interest expense	-524,104	-76,140	-12,792	-613,036	425,453	-187,583
Net interest income	229,417	18,346	10,833	258,596	-79	258,517
Commission income	127,731	21,900	31,982	181,613	-8,470	173,143
Commission expense	-9,815	-1,687	-3,646	-15,148	591	-14,557
Dividends and similar income	6,182	-	39	6,221	-	6,221
Net trading income	19,421	-	4,202	23,623	-1,270	22,353
Net hedging profits (losses)	392	-	1,269	1,661	-104	1,557
Gains/losses on disposals or repurchases	7,671	-	-	7,671	-	7,671
Net change in the value of financial assets and liabilities at fair value	5,260	-	-	5,260	-	5,260
Income from banking activities	386,259	38,559	44,679	469,497	-9,332	460,165
Adjustments to the net value of financial assets	-38,654	-6,347	-785	-45,786	7,634	-38,152
Balance of financial management	347,605	32,212	43,894	423,711	-1,698	422,013
Administrative expenses	-202,864	-21,346	-28,894	-253,104	-24,330	-277,434
Provisions for risks and charges	-5,881	-119	-	-6,000	-	-6,000
Net adjustments to property, plant and equipment	-7,815	-827	-3,696	-12,338	-	-12,338
Net adjustments to intangible assets	-3,623	-389	-1,463	-5,475	-	-5,475
Other operating income/expense	7,015	429	5	7,449	25,282	32,731
Share of profit/loss of equity investments	2,098	-	-	2,098	-	2,098
Profit/loss from disposal of investments	222	-	-	222	-	222
Gross profit	136,757	9,960	9,846	156,563	-746	155,817

	Northern Italy	Central Italy	Switzerland	Total	Reconciliation	Total 31/12/2004
Interest income	670,936	86,187	21,001	778,124	-372,695	405,429
Interest expense	-456,695	-70,001	-10,917	-537,613	370,200	-167,413
Net interest income	214,241	16,186	10,084	240,511	-2,495	238,016
Commission income	115,327	19,311	28,332	162,970	-8,648	154,322
Commission expense	-8,693	-1,301	-2,843	-12,837	1,316	-11,521
Dividends and similar income	4,369	-	38	4,407	-	4,407
Net trading income	24,294	-	3,403	27,697	3,781	31,478
Net hedging profits (losses)	-	-	-	-	-	-
Gains/losses on disposals or repurchases	-	-	1	1	-	1
Net change in the value of financial assets and liabilities at fair value	-	-	-	-	-	-
Income from banking activities	349,538	34,196	39,015	422,749	-6,046	416,703
Adjustments to the net value of financial assets	-43,029	-4,473	-551	-48,053	1,765	-46,288
Balance of financial management	306,509	29,723	38,464	374,696	-4,281	370,415
Administrative expenses	-187,271	-20,403	-26,981	-234,655	-17,418	-252,073
Provisions for risks and charges	259	-259	-	-	-	-
Net adjustments to property, plant and equipment	-7,798	-867	-2,789	-11,454	-	-11,454
Net adjustments to intangible assets	-2,754	-310	-1,647	-4,711	-	-4,711
Other operating income/expense	13,462	477	12	13,951	18,363	32,314
Share of profit/loss of equity investments	1,774	-	-	1,774	-	1,774
Profit/loss from disposal of investments	13	-	-33	-20	-	-20
Gross profit	124,194	8,361	7,026	139,581	-3,336	136,245

B.2 Distribution by geographical area: balance sheet

	Northern Italy	Central Italy	Switzerland	Total 31/12/2005
Financial assets	12,119,997	949,533	720,664	13,790,194
Other assets	291,495	-	19,010	310,505
Property, plant and equipment	128,841	12,336	13,519	154,696
Intangible assets	4,359	468	1,304	6,131
Financial liabilities	8,619,725	3,243,594	675,334	12,538,653
Other liabilities	319,829	121	13,663	333,613
Provisions	123,212	12,284	-	135,496
Guarantees given	1,774,025	317,730	47,701	2,139,456
Commitments	441,777	1,061	2,819	445,657

	Northern Italy	Central Italy	Switzerland	Total 31/12/2004
Financial assets	10,753,022	739,246	617,162	12,109,430
Other assets	344,112	-	19,654	363,766
Property, plant and equipment	107,916	11,838	13,322	133,076
Intangible assets	2,891	324	1,402	4,617
Financial liabilities	7,776,766	2,690,482	577,944	11,045,192
Other liabilities	288,323	108	14,545	302,976
Provisions	111,000	12,015	-	123,015
Guarantees given	1,399,334	383,243	49,453	1,832,030
Commitments	183,853	27,823	93,448	305,124

PART E *Information on risks and related hedging policy*

Section 1 **Credit risk**

1.1 Credit risk

QUALITATIVE INFORMATION

General matters

The Parent Bank manages and coordinates the activities the Swiss subsidiary, thereby ensuring the harmonisation at group level of the objectives and strategies that underpin the banking business.

These objectives are discussed more extensively in the corresponding section of the notes to the individual financial statements, to which reference is made. In short, they focus on the provision of financial support to medium-sized enterprises, small economic operators and households, while maintaining the level of risk within extremely prudent limits.

All this without ignoring the characteristics of the Swiss market, where access to credit guaranteed by property or securities is established practice.

Credit risk management policies

Organisational aspects

The organisational structure of the Parent Bank is described in detail in the corresponding section of the notes to the individual financial statements.

The Swiss subsidiary is organised in a manner similar to that of the Parent Bank.

However, since it is smaller, certain activities are grouped together within the same organisational units, rather than being delegated to specialist offices.

Systems for managing, measuring and monitoring

As part of its coordination activities, the Parent Bank requires the Swiss subsidiary to apply the control methodology already discussed in detail in the corresponding section of the notes to the individual financial statements. In this regard, it is worth noting that the Swiss subsidiary has its own rating system.

This system, which covers the entire portfolio, is not based on statistical techniques since the extremely limited historical data available means that the related models are not sufficiently robust.

Accordingly, the approach adopted, based on the type of counterpart, involves gathering predetermined financial, environmental and qualitative parameters and information; the combined evaluation of these elements results in the determination of a final score, which is used by final evaluator to assign a rating and the related probability of default.

This methodology has been analysed by the independent auditors, who consider it appropriate given the scale, complexity and risks involved in the activities performed.

Credit risk mitigation techniques

As part of its coordination and control activities, the Parent Bank requires the Swiss subsidiary to adopt credit risk mitigation techniques that are essentially the same as those described in the corresponding section of the notes to the individual financial statements.

In this regard, with reference to the opening remarks, the majority of Swiss lending is backed by secured guarantees.

Impaired financial assets

As part of its coordination and control activities, the Parent Bank requires the Swiss subsidiary to adopt methodologies for the classification and management of impaired loans that are consistent with those described in the corresponding section of the notes to the individual financial statements.

QUANTITATIVE INFORMATION

Asset quality

A.1 Impaired and performing loans: size, adjustments, trends, economic and territorial distribution

A.1.1 Distribution of financial assets by portfolio and quality of lending (book values)

Portfolio/quality	Banking group						Other businesses		Total 31/12/2005
	Doubtful loans	Watchlist loans	Restructured exposures	Exposures past due	Country risk	Other assets	Impaired loans	Other	
1. Financial assets held for trading	-	-	-	-	-	2,412,260	-	-	2,412,260
2. Available-for-sale financial assets	-	-	-	-	-	140,862	-	-	140,862
3. Financial assets held to maturity	-	-	-	-	-	-	-	-	-
4. Due from other banks	-	-	-	-	-	1,292,920	-	-	1,292,920
5. Due from customers	84,657	116,180	6,740	107,486	2,691	9,452,761	-	-	9,770,515
6. Financial assets at fair value	-	-	-	-	-	137,775	-	-	137,775
7. Financial assets being sold	-	-	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	642	-	-	642
Total 31/12/2005	84,657	116,180	6,740	107,486	2,691	13,437,220	-	-	13,754,974

A.1.2 Distribution of financial assets by portfolio and quality of lending (gross and net values)

Portfolio/quality	Gross exposure
A. Banking group	
1. Financial assets held for trading	-
2. Available-for-sale financial assets	-
3. Financial assets held to maturity	-
4. Due from other banks	-
5. Due from customers	464,411
6. Financial assets at fair value	-
7. Financial assets being sold	-
8. Hedging derivatives	-
Total A	464,411
A. Other consolidated companies	
1. Financial assets held for trading	-
2. Available-for-sale financial assets	-
3. Financial assets held to maturity	-
4. Due from other banks	-
5. Due from customers	-
6. Financial assets at fair value	-
7. Financial assets being sold	-
8. Hedging derivatives	-
Total B	-
Total 31/12/2005	464,411

A.1.3 Cash and off-balance sheet exposures to banks: gross and net values

Type of exposure/Amounts	Gross exposure	Specific adjustments	General portfolio adjustments	Net exposure
A. Cash exposures				
A.1 Banking group				
a) Doubtful loans	-	-	-	-
b) Watchlist loans	-	-	-	-
c) Restructured exposures	-	-	-	-
d) Exposures past due	-	-	-	-
e) Country risk	-	-	-	-
f) Other assets	1,730,453	-	-55,736	1,786,189
Total A.1	1,730,453	-	-55,736	1,786,189
A.2 Other businesses				
a) Impaired	-	-	-	-
b) Other	-	-	-	-
Total A.2	-	-	-	-
Total A	1,730,453	-	-55,736	1,786,189
B. Off-balance sheet exposures				
B.1 Banking group				
a) Impaired	-	-	-	-
b) Other	314,512	-	-	314,512
Total B.1	314,512	-	-	314,512
B.2 Other businesses				
a) Impaired	-	-	-	-
b) Other	-	-	-	-
Total B.2	-	-	-	-
Total B	314,512	-	-	314,512

Impaired loans			Other assets			Total net exposure
Specific adjustments	General portfolio adjustments	Net exposure	Gross exposure	General portfolio adjustments	Net exposure	
-	-	-	2,412,260	-	2,412,260	2,412,260
-	-	-	80,693	-60,169	140,862	140,862
-	-	-	-	-	-	-
-	-	-	1,292,920	-	1,292,920	1,292,920
149,340	7	315,064	9,500,779	45,694	9,455,085	9,770,149
-	-	-	137,775	-	137,775	137,775
-	-	-	-	-	-	-
-	-	-	642	-	642	642
149,340	7	315,064	13,425,069	-14,475	13,439,544	13,754,608
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	366	-	366	366
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	366	-	366	366
149,340	7	315,064	13,425,435	-14,475	13,439,910	13,754,974

A.1.6 Cash and off-balance sheet exposures to customers: gross and net values

Type of exposure/Amounts	Gross exposure	Specific adjustments	General portfolio adjustments	Net exposure
A. Cash exposures				
A.1 Banking group				
a) Doubtful loans	207,820	123,156	7	84,657
b) Watchlist loans	141,510	25,330	-	116,180
c) Restructured exposures	7,099	359	-	6,740
d) Exposures past due	107,982	496	-	107,486
e) Country risk	3,844	-	1,153	2,691
f) Other assets	11,822,045	-	40,107	11,781,938
Total A.1	12,290,300	149,341	41,267	12,099,692
A.2 Other businesses				
a) Impaired	-	-	-	-
b) Other	-	-	-	-
Total A.2	-	-	-	-
Total A	12,290,300	149,341	41,267	12,099,692
B. Off-balance sheet exposures				
B.1 Banking group				
a) Impaired	29,359	-	3,287	26,072
b) Other	2,290,564	-	713	2,289,851
Total B.1	2,319,923	-	4,000	2,315,923
B.2 Other businesses				
a) Impaired	-	-	-	-
b) Other	-	-	-	-
Total B.2	-	-	-	-
Total B	2,319,923	-	4,000	2,315,923

A.1.7 Cash exposures to customers: dynamics of gross impaired loans and loans subject to «country risk»

Categories	Doubtful loans	Watchlist loans	Restructured exposures	Exposures past due	Country risk
A. Opening gross exposure	181,267	110,299	11,994	-	3,248
- of which: sold but not eliminated from the balance sheet	-	-	-	-	-
B. Increases	91,089	86,589	905	107,982	880
B1. transfers from performing loans	15,433	68,841	-	90,705	-
B2. transfers from other categories of impaired exposure	34,133	-	-	-	-
B3. other increases	41,523	17,748	905	17,277	880
C. Decreases	64,536	55,378	5,800	-	284
C1. transfers to performing loans	-	1,364	4,936	-	-
C2. write-offs	37,740	-	-	-	-
C3. collections	26,489	19,517	864	-	284
C4. proceeds from disposals	-	-	-	-	-
C5. transfers to other categories of impaired exposure	-	34,133	-	-	-
C6. other decreases	307	364	-	-	-
D. Closing gross exposure	207,820	141,510	7,099	107,982	3,844
- of which: sold but not eliminated from the balance sheet	-	-	-	-	-

A.1.8 Cash exposures to customers: dynamics of total writedowns

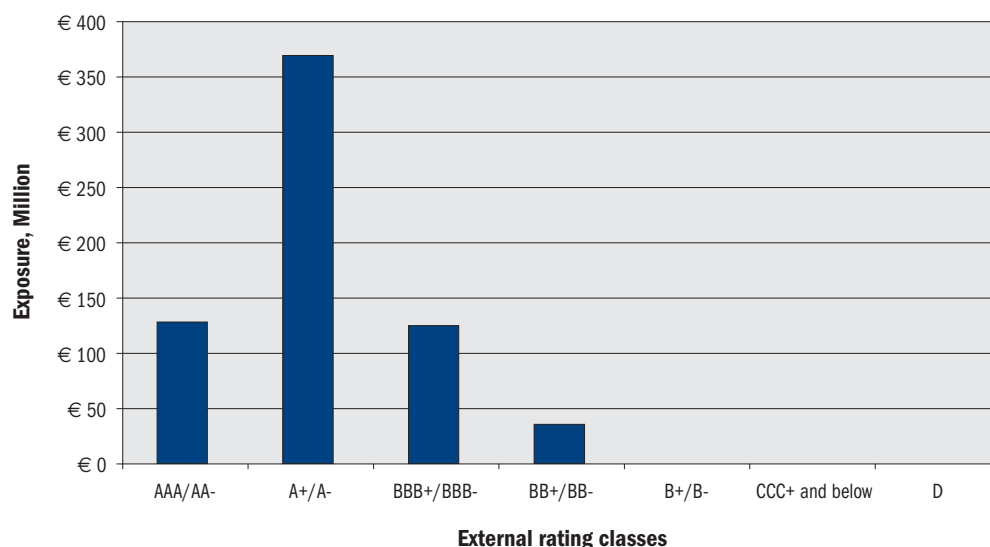
Categories	Doubtful loans	Watchlist loans	Restructured exposures	Exposures past due	Country risk
A. Total opening adjustments	112,875	13,827	2,128	-	974
- of which: sold but not eliminated from the balance sheet	-	-	-	-	-
B. Increases	59,905	23,849	4	496	264
B1. Adjustments	49,566	15,184	4	-	264
B2. transfers from other categories of impaired exposure	8,196	-	-	-	-
B3. other increases	2,143	8,665	-	496	-
C. Decreases	49,618	12,346	1,773	-	85
C1. Write-backs on valuation	2,060	885	883	-	-
C2. Write-backs due to collections	9,472	3,521	438	-	85
C3. write-offs	37,587	-	-	-	-
C4. transfers to other categories of impaired exposure	260	7,936	-	-	-
C5. other decreases	239	4	452	-	-
D. Total closing adjustments	123,162	25,330	359	496	1,153
- of which: sold but not eliminated from the balance sheet	-	-	-	-	-

A.2 Classification of exposures based on external and internal ratings

A.2.1 Distribution of cash lending by external rating class

The distribution of lending to banks and customers is reported by classes that reflect the long-term rating awarded to them by leading international agencies, as held in the bank's database.

The exposure to banks with such ratings amounts to € 659.108 million.

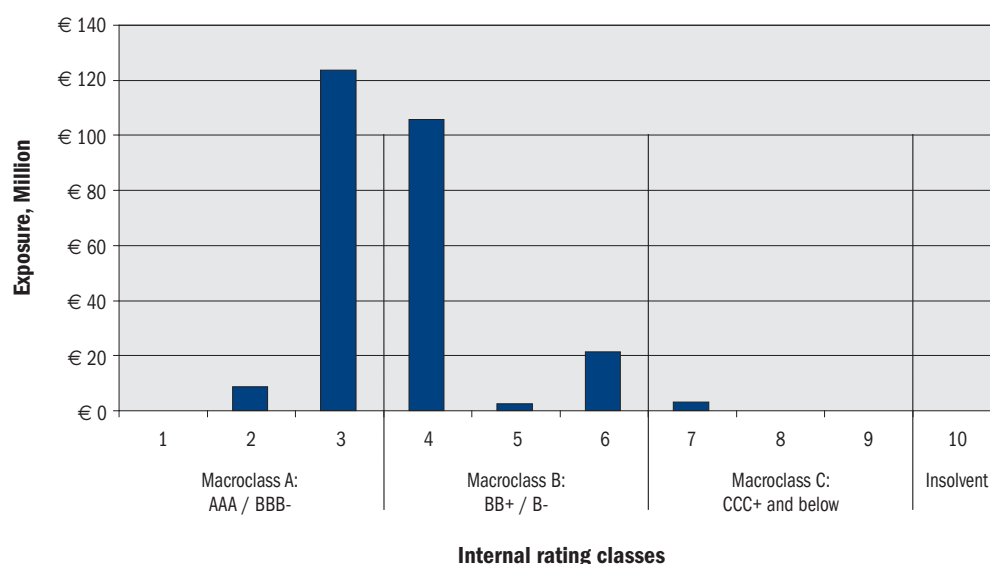


The exposure to customers with an external rating amounts to € 260.285 million and relates entirely to the Parent Bank; accordingly, reference is made to the presentation made in the corresponding section of the notes to the individual financial statements.

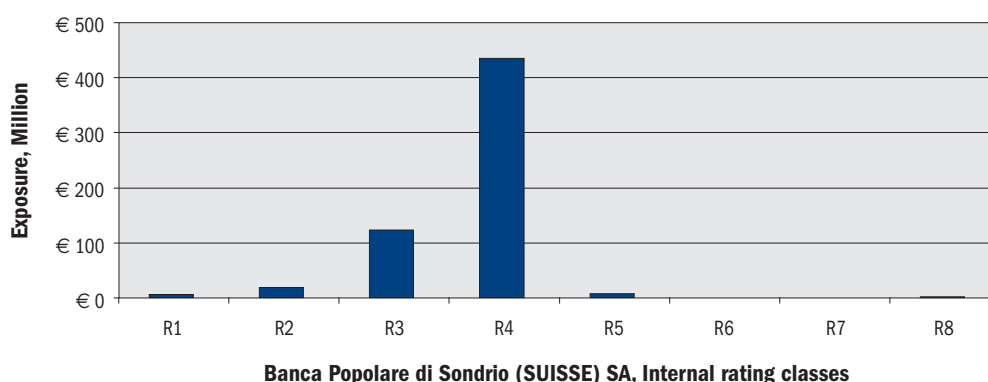
A.2.2 Distribution of cash lending by internal rating class

The distribution of loans to banks and customers is reported with reference to the ratings awarded using internally developed models.

The exposure to banks with such ratings amounts to € 265.009 million.



Banca Popolare di Sondrio (SUISSE) SA applies its own customer rating system, discussed in the section on qualitative information, that identified 8 categories of risk. The following graph shows the risk distribution of this sub-portfolio.



Information on the exposures of the Parent Bank is provided in the corresponding section of the notes to the individual financial statements.

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.1 Guaranteed cash exposures to banks and customers

	Amount of exposure	Secured guarantees		
		Buildings	Securities	Other assets
1. Guaranteed exposures to banks	-	-	-	-
1.1 fully guaranteed	-	-	-	-
1.2 partially guaranteed	-	-	-	-
2. Guaranteed exposures to customers	6,300,119	4,031,289	302,739	74,801
2.1 fully guaranteed	5,819,060	4,026,025	259,551	16,833
2.2 partially guaranteed	481,059	5,264	43,188	57,968

A.3.2 Guaranteed «off-balance sheet» exposures to banks and customers

	Amount of exposure	Secured guarantees		
		Buildings	Securities	Other assets
1. Guaranteed exposures to banks	-	-	-	-
1.1 fully guaranteed	-	-	-	-
1.2 partially guaranteed	-	-	-	-
2. Guaranteed exposures to customers	569,511	1,002	82,813	18,468
2.1 fully guaranteed	496,753	1,002	66,027	14,760
2.2 partially guaranteed	72,758	-	16,786	3,708

Personal guarantees

Credit derivatives				Guarantees given			
Governments	Other public entities	Banks	Other parties	Governments	Other public entities	Banks	Other parties
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	1,339	52,613	1,815,853
-	-	-	-	-	1,188	48,442	1,577,148
-	-	-	-	-	151	4,171	238,705

Personal guarantees

Credit derivatives				Guarantees given			
Governments	Other public entities	Banks	Other parties	Governments	Other public entities	Banks	Other parties
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	73	4,225	437,762
-	-	-	-	-	73	4,225	411,392
-	-	-	-	-	-	-	26,370

A.3.3 Guaranteed exposures on impaired loans to banks and customers

	Amount of exposure	Secured guarantees		
		Buildings	Securities	Other assets
1. Guaranteed exposures to banks	-	-	-	-
1.1 100% or more	-	-	-	-
1.2 between 50% and 100%	-	-	-	-
1.3 up to 50%	-	-	-	-
2. Guaranteed exposures to customers	254,112	220,289	18,900	607
2.1 100% or more	223,880	215,301	12,836	470
2.2 between 50% and 100%	12,514	4,618	5,799	137
2.3 up to 50%	17,718	370	265	-

A.3.4 Guaranteed exposures on impaired «off-balance sheet» positions with banks and customers

	Amount of exposure	Secured guarantees		
		Buildings	Securities	Other assets
1. Guaranteed exposures to banks	-	-	-	-
1.1 100% or more	-	-	-	-
1.2 between 50% and 100%	-	-	-	-
1.3 up to 50%	-	-	-	-
2. Guaranteed exposures to customers	3,291	-	97	342
2.1 100% or more	2,905	-	71	332
2.2 between 50% and 100%	296	-	10	10
2.3 up to 50%	90	-	16	-

Guarantees							
Personal guarantees							
Credit derivatives				Guarantees given			
Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	185	106	94,849
-	-	-	-	-	185	106	80,917
-	-	-	-	-	-	-	10,029
-	-	-	-	-	-	-	3,903

Guarantees							
Personal guarantees							
Credit derivatives				Guarantees given			
Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	8	3,422
-	-	-	-	-	-	8	3,221
-	-	-	-	-	-	-	191
-	-	-	-	-	-	-	10

B. Distribution and concentration of lending

B.1 Distribution by sector of cash and «off-balance sheet» exposures to customers

Exposures/Counterparts	Governments and central banks				Other public entities				Financial companies		
	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure	Gross exposure	Specific adjustments	Portfolio adjustments
A. Cash exposures											
A1. Doubtful loans	-	-	-	-	-	-	-	-	405	103	-
A2. Watchlist loans	-	-	-	-	-	-	-	-	10,631	2,118	-
A3. Restructured exposures	-	-	-	-	-	-	-	-	-	-	-
A4. Exposure past due	-	-	-	-	-	-	-	-	119	1	-
A5. Other exposures	-	-	-	-	148,730	-	220	148,510	764,179	-	3,712
Total A	-	-	-	-	148,730	-	220	148,510	775,334	2,222	3,712
B. «Off-balance sheet» exposures											
B1. Doubtful loans	-	-	-	-	-	-	-	-	-	-	-
B2. Watchlist loans	-	-	-	-	-	-	-	-	-	-	-
B3. Other impaired assets	-	-	-	-	-	-	-	-	4	-	-
B4. Other exposures	-	-	-	-	36,887	-	-	36,887	82,187	-	-
Total B	-	-	-	-	36,887	-	-	36,887	82,191	-	-
Total 31/12/2005	-	-	-	-	185,617	-	220	185,397	857,525	2,222	3,712

B.2 Distribution of loans to non-financial businesses

	31/12/2005	31/12/2004
a) Other services for sale	2,141,359	1,890,461
b) Wholesale and retail services, recoveries and repairs	959,708	888,957
c) Construction and public works	796,735	827,094
d) Energy products	293,520	174,046
e) Metal products excluding cars and transportation	277,567	273,611
f) Other sectors	1,943,865	1,934,548
Total	6,412,754	5,988,717

B.3 Territorial distribution of the cash and «off-balance sheet» exposures to customers (book value)

Exposures/Geographical areas	ITALY		OTHER EU COUNTRIES	
	Gross exposure	Net exposure	Gross exposure	Net exposure
A. Cash exposures				
A1. Doubtful loans	205,842	84,050	1,978	608
A2. Watchlist loans	141,028	115,713	467	454
A3. Restructured exposures	7,099	6,740	-	-
A4. Exposure past due	104,918	104,437	3,050	3,036
A5. Other exposures	8,877,815	8,837,389	613,566	606,457
Total	9,336,702	9,148,329	619,061	610,555
B. «Off-balance sheet» exposures				
B1. Doubtful loans	4,919	1,633	-	-
B2. Watchlist loans	12,281	12,281	-	-
B3. Other impaired assets	12,129	12,129	30	30
B4. Other exposures	2,218,292	2,217,579	70,234	70,234
Total	2,247,621	2,243,622	70,264	70,264
Total 31/12/2005	11,584,323	11,391,951	689,325	680,819

Net exposure	Insurance companies				Non-financial companies				Other parties			
	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure
302	-	-	-	-	144,924	82,426	-	62,498	62,491	40,627	7	21,857
8,513	-	-	-	-	104,240	20,275	-	83,965	26,639	2,937	-	23,702
-	-	-	-	-	7,099	359	-	6,740	-	-	-	-
118	-	-	-	-	73,994	340	-	73,654	33,869	155	-	33,714
760,467	10,064	-	-	10,064	6,247,443	-	29,794	6,217,649	2,330,363	-	11,968	2,318,395
769,400	10,064	-	-	10,064	6,577,700	103,400	29,794	6,444,506	2,453,362	43,719	11,975	2,397,668
-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	3,205	-	2,469	736	1,714	-	817	897
-	-	-	-	-	12,136	-	-	12,136	145	-	-	145
4	-	-	-	-	3,170	-	-	3,170	8,984	-	-	8,984
82,187	-	-	-	-	1,854,230	-	613	1,853,617	317,260	-	100	317,160
82,191	-	-	-	-	1,872,741	-	3,082	1,869,659	328,103	-	917	327,186
851,591	10,064	-	-	10,064	8,450,441	103,400	32,876	8,314,165	2,781,465	43,719	12,892	2,724,854

AMERICA		ASIA		REST OF THE WORLD	
Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
-	-	-	-	-	-
-	-	-	-	15	14
-	-	-	-	-	-
7	7	-	-	6	6
10,666	10,235	960	756	248	247
10,673	10,242	960	756	269	267
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
570	570	138	138	1,329	1,329
570	570	138	138	1,329	1,329
11,243	10,812	1,098	894	1,598	1,596

B.4 Territorial distribution of cash and «off-balance sheet» exposures to banks

Exposures/Geographical areas	ITALY		OTHER EU COUNTRIES	
	Gross exposure	Net exposure	Gross exposure	Net exposure
A. Cash exposures				
A1. Doubtful loans	-	-	-	-
A2. Watchlist loans	-	-	-	-
A3. Restructured exposures	-	-	-	-
A4. Exposure past due	-	-	-	-
A5. Other exposures	951,908	951,908	306,092	306,092
Total	951,908	951,908	306,092	306,092
B. «Off-balance sheet» exposures				
B1. Doubtful loans	-	-	-	-
B2. Watchlist loans	-	-	-	-
B3. Other impaired assets	-	-	-	-
B4. Other exposures	254,831	254,831	57,083	57,083
Total	254,831	254,831	57,083	57,083
Total 31/12/2005	1,206,739	1,206,739	363,175	363,175

B.5 Significant risks (pursuant to supervisory regulations)

	31/12/2005	31/12/2004
a) Amount	438,399	491,613
b) Number	3	4

C. Securitisation transactions and disposal of assets

C.1 Securitisation transactions

QUANTITATIVE INFORMATION

C.1.1 Exposures deriving from securitisations, analysed by type of underlying asset

Type of underlying asset/Exposures	Cash exposures					
	Senior		Mezzanine		Junior	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. With own underlying assets	-	-	-	-	-	-
a) Impaired	-	-	-	-	-	-
b) Other	-	-	-	-	-	-
B. With underlying assets of third parties	219,071	219,409	-	-	-	-
a) Impaired	-	-	-	-	-	-
b) Other	219,071	219,409	-	-	-	-

AMERICA		ASIA		REST OF THE WORLD	
Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
4,696	4,696	21,718	21,718	8,506	8,506
4,696	4,696	21,718	21,718	8,506	8,506
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
294	294	2,275	2,275	29	29
294	294	2,275	2,275	29	29
4,990	4,990	23,993	23,993	8,535	8,535

Guarantees given						Credit lines					
Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-



C.1.3 Exposures deriving from the principal «third party» securitisations, analysed by type of asset securitised and by type of exposure

Type of asset securitised/Exposures	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Adjustments/ write-backs	Book value	Adjustments/ write-backs	Book value	Adjustments/ write-backs
A.1 CREDIFARMA CLASS A	10,071	-	-	-	-	-
- Securities	10,071	-	-	-	-	-
A.2 SCIP CLASS A3	2	-	-	-	-	-
- Securities	2	-	-	-	-	-
A.3 CPG-AEM CLASS A1	19,394	94	-	-	-	-
- Securities	19,394	94	-	-	-	-
A.4 SCIC CLASS A2	10	-	-	-	-	-
- Securities	10	-	-	-	-	-
A.5 ITALEASE F. CLASS A2	7,036	-	-	-	-	-
- Securities	7,036	-	-	-	-	-
A.6 ITALEASE SR 2005-1 CLASS A2	2,002	-	-	-	-	-
- Securities	2,002	-	-	-	-	-
A.7 SCIP CLASS A4	23,600	-	-	-	-	-
- Securities	23,600	-	-	-	-	-
A.8 SCIP CLASS A5	40,214	-	-	-	-	-
- Securities	40,214	-	-	-	-	-
A.9 SCIP CLASS B2	9,059	45	-	-	-	-
- Securities	9,059	45	-	-	-	-
A.10 FIP CLASS A1	17,216	-	-	-	-	-
- Securities	17,216	-	-	-	-	-
A.11 FIP CLASS A2	40,717	200	-	-	-	-
- Securities	40,717	200	-	-	-	-
A.12 S.C.C.I. SERIES 10	50,089	-	-	-	-	-
- Securities	50,089	-	-	-	-	-

C.1.4 Exposures to securitisations analysed by portfolio and by type

Exposure/Portfolio	For trading	At fair value	Available-for-sale	Held to maturity	Loans	Total 31/12/2005	Total 31/12/2004
1. Cash exposures	219,409	-	-	-	-	219,409	208,201
- «Senior»	219,409	-	-	-	-	219,409	178,447
- «Mezzanine»	-	-	-	-	-	-	29,754
- «Junior»	-	-	-	-	-	-	-
2. Off-balance sheet exposures	-	-	-	-	-	-	-
- «Senior»	-	-	-	-	-	-	-
- «Mezzanine»	-	-	-	-	-	-	-
- «Junior»	-	-	-	-	-	-	-

[illegible]

1.2 Market risks

1.2.1 Interest rate risk - Trading portfolio reported for supervisory purposes

QUALITATIVE INFORMATION

A. General aspects

Information on the Parent Bank is provided in the corresponding section of the notes to the individual financial statements.

The interest rate risk accepted by the subsidiary in relation to the trading portfolio reflect the presence of fixed-yield bonds.

These are mainly held as an investment rather than for trading in the strictest sense.

In particular, the positions are held until their natural maturity, unless their disposal is prompted by favourable market conditions.

The portfolio mainly comprises prime bonds with a limited duration.

B. Management and measurement of interest rate risk

Information on the Parent Bank is provided in the corresponding section of the notes to the individual financial statements.

The Parent Bank assesses the market risk exposure (measurement of VaR) of the subsidiary using information provided by the latter.

The approach adopted for analysing the sensitivity to interest rate risk – solely in relation to bonds held at year end – essentially reflects the internal model used by the Parent Company to calculate Value at Risk (VaR), as described in the corresponding section of the notes to the individual financial statements.

This model covers those financial instruments exposed to interest rate risk included in the trading portfolio reported for supervisory purposes being, in particular, the bonds held by the Parent Bank or the subsidiary, including any unsettled transactions (securities to be received or delivered).

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs.

The policies and procedures for the ex post comparison of the model's results with actual results («*back testing*») are only applied in relation to the bonds held by the Parent Bank.

QUANTITATIVE INFORMATION

2. Trading portfolio reported for supervisory purposes - internal models and methodologies for the analysis of sensitivity

Value at Risk (VaR), end of year

	(in thousands of euro)
Parent Bank's bonds	284.8
Subsidiary's bonds	32.2
Total	305.5

1.2.2 Interest rate risk - Banking book

QUALITATIVE INFORMATION

A. General aspects, management and measurement of interest rate risk

Information on the Parent Bank is provided in the corresponding section of the notes to the individual financial statements.

As with the Parent Bank, the principal source of interest rate risk for the subsidiary derives from fixed-rate lending (mortgage loans).

The General Management of the subsidiary is assisted by the AL.CO. (Asset & Liability Management Committee) which, each month, analyses the gaps by duration in order to monitor risk trends and make the appropriate decisions.

The subsidiary's board of directors has established prudent gap limits in order to minimise risk and receives a specific quarterly report from General Management, which is signed off by the Internal Audit Department.

In accordance with the relevant Swiss regulations, a quarterly gap analysis and duration analysis is performed, covering the entire balance sheet exposure (including therefore both the trading and the investment portfolios), in order to measure the impact on profits and equity of a change of 100 basis points over a twelve-month period in relation to the principal balance sheet currencies.

The measurement and control of interest rate risk essentially consist in an internal model for strategic Asset & Liability Management (ALM) regarding the Parent Bank, as described in the corresponding section of the notes to the individual financial statements, and a model for the subsidiary bank. In addition to the official report on the overall position of the subsidiary bank, mentioned above, this model reports each month on gaps with a duration of more than one year deriving from fixed-rate funding and lending transactions involving the bank book.

In addition, stress tests are performed on a quarterly basis in order to measure the effect on profits and equity of anomalous and unexpected changes in the rate curve for the principal balance sheet currencies.

B. Fair value hedges

Information on the Parent Bank is provided in the corresponding section of the notes to the individual financial statements.

Significant loans with similar characteristics granted by the subsidiary are normally hedged against rate risk by arranging interest-rate swaps (IRS) via the Parent Bank.

C. Cash flow hedges

The Group has not arranged any cash-flow hedges.

QUANTITATIVE INFORMATION

2. Bank book - internal models and other methodologies for the analysis of sensitivity

Information on the Parent Bank is provided in the corresponding section of the notes to the individual financial statements.

Information relating to the subsidiary is set out below (including in relation to the trading portfolio).

Effect on profits of exposure to interest margin risk

Exposure to risk

(in millions of Swiss francs)	CHF	EUR	USD
at period end	-1.599	-0.145	-0.046
average	-1.215	-0.119	-0.055
maximum	-1.599	-0.145	-0.100
minimum	-0.979	-0.076	-0.033

Effect on equity of exposure to interest margin risk

Exposure to risk

(in millions of Swiss francs)	CHF	EUR	USD
at period end	-3.140	-0.030	-0.040
average	-3.345	-0.230	-0.068
maximum	-4.000	-0.320	-0.100
minimum	-2.880	-0.030	-0.040

1.2.3 Price risk - Trading portfolio reported for supervisory purposes

QUALITATIVE INFORMATION

A. General aspects

Information on the Parent Bank is provided in the corresponding section of the notes to the individual financial statements.

The price risk deriving from the subsidiary's trading portfolio relates to the investment in prime shares and, above all, in Group mutual funds (Popso (SUISSE) Investment Fund Sicav). These are mainly held as an investment, for the long term, rather than for trading in the strictest sense.

The subsidiary's accounting department performs a monthly valuation in order to reflect any adverse price changes in the income statement, while the Asset Management office monitors the situation during the month, consistent with the procedure followed in relation to customer assets under administration. The subsidiary's General Management presents a report on the status of the trading portfolio to its Board of Directors every month.

B. Management and measurement of price risk

Information on the Parent Bank is provided in the corresponding section of the notes to the individual financial statements.

The Parent Bank assesses the market risk exposure (measurement of VaR) of the subsidiary using information provided by the latter. The analysis of sensitivity to price risk – limited to changes due to market fluctuations and excluding, therefore, those deriving from factors specific to issuers or counterparts and relating to period end – essentially involves application of an internal model of the Parent Bank for the calculation of Value at Risk (VaR) with the characteristics described in the corresponding section of the notes to the individual financial statements.

In particular, the model used covers the financial instruments exposed to price risk included in the Parent Bank's trading portfolio reported for supervisory purposes, as well as the shares and units in sicavs held by the subsidiary, except for the three equity investments included in the bank book.

The internal policies and procedures for the ex post comparison of the model's results with actual results («back testing») are applied solely in relation to the trading portfolio for operational purposes of the Parent Bank.

QUANTITATIVE INFORMATION

1. Trading portfolio reported for supervisory purposes: cash exposures in variable-yield securities and mutual funds

Type of exposure/Amounts	Book value	
	Listed	Unlisted
A. Variable-yield securities	34,631	9,989
A1. Shares	34,631	9,989
A2. Innovative capital instruments	-	-
A3. Other forms of capital	-	-
B. Mutual funds	3,516	124,475
B1. Italian law	2,835	68,933
- open-end harmonised	-	53,052
- open end, not harmonised	-	-
- closed end	2,835	6,323
- reserved	-	1,197
- hedge funds	-	8,361
B2. Other EU nations	681	55,542
- harmonised	681	55,542
- open end, not harmonised	-	-
- closed end, not harmonised	-	-
B3. Non-EU nations	-	-
- open end	-	-
- closed end	-	-
Total	38,147	134,464

2. Trading portfolio reported for supervisory purposes: distribution of exposures on variable-yield securities and stock indices by principal listing nation

Type of transaction/ Listing index	Listed				Unlisted
	Italy	France	The Netherlands	Germany	
A. Variable-yield securities	31,206	1,207	801	1,418	9,989
- long positions	31,206	1,207	801	1,418	9,989
- short positions	-	-	-	-	-
B. Purchase/sale transactions not yet settled in variable-yield securities	-	-	-	-	-
- long positions	-	-	-	-	-
- short positions	-	-	-	-	-
C. Other derivatives on variable-yield securities	-	-	-	-	-
- long positions	-	-	-	-	-
- short positions	-	-	-	-	-
D. Derivatives on stock indices	-	-	-	-	-
- long positions	-	-	-	-	-
- short positions	-	-	-	-	-

3. Trading portfolio reported for supervisory purposes - internal models and methodologies for the analysis of sensitivity

Value at Risk (VaR), end of year

	(in thousands of euro)
Parent Bank	1,162.8
subsidiary	31.8
total	1,192.4

1.2.4 Price risk - Banking book

QUALITATIVE INFORMATION

A. General aspects, management and measurement of price risk

Information on the Parent Bank is provided in the corresponding section of the notes to the individual financial statements.

The Parent Bank assesses the price risk exposure (measurement of VaR) of the subsidiary using information provided by the latter.

The analysis of sensitivity to price risk – limited to changes due to market fluctuations and excluding, therefore, those deriving from factors specific to issuers or counterparts and relating to period end – essentially involves application of an internal model of the Parent Bank for the calculation of Value at Risk (VaR) with the characteristics described in the corresponding section of the notes to the individual financial statements.

In particular, the model used covers the financial instruments exposed to price risk included in the Parent Bank's investment book, excluding the investment in Banca Popolare di Sondrio (SUISSE) SA, as well as the three variable-yield securities (two in 2004) held by this subsidiary which were classified as «equity investments» prior to the adoption of IFRS.

For the calculation of VaR, these three unlisted equity investments are stated at book value.

B. Assets hedging price risk

The Group has not carried out any transactions to hedge price risk.

QUANTITATIVE INFORMATION

1. Bank book: cash exposures in variable-yield securities and mutual funds

Type of exposure/Amounts	Book value	
	Listed	Unlisted
A. Variable-yield securities	98,026	100,660
A1. Shares	98,026	100,660
A2. Innovative capital instruments	-	-
A3. Other forms of capital	-	-
B. Mutual funds	-	-
B1. Italian law	-	-
- open-end harmonised	-	-
- open end, not harmonised	-	-
- closed end	-	-
- reserved	-	-
- hedge funds	-	-
B2. Other EU nations	-	-
- harmonised	-	-
- open end, not harmonised	-	-
- closed end, not harmonised	-	-
B3. Non-EU nations	-	-
- open end	-	-
- closed end	-	-
Total	98,026	100,660

2. Bank book - internal models and other methodologies for the analysis of sensitivity

Value at Risk (VaR), end of year

	(in thousands of euro)
Parent Bank (excluding SUISSE)	1,724.1
subsidiary	3.5
total	1,726.6
end of period in prior year	
Parent Bank (excluding SUISSE)	1,325.9
subsidiary	3.0
total	1,328.1

1.2.5 Exchange risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of exchange risk

Information on the Parent Bank is provided in the corresponding section of the notes to the individual financial statements.

Except with regard to securities held in the trading portfolio, the subsidiary's enters into currency transactions to satisfy customer requirements and to cover transitory treasury mismatches, which in any case are contained within the prudent limits established by the subsidiary's Board of Directors and General Management.

The measurement and control of exchange risk – with reference to the situation at year end – essentially involves application of the Parent Bank's internal model for the calculation of Value at Risk (VaR) with the characteristics described in the corresponding section of the notes to the individual financial statements.

In particular, the model used cover the financial instruments exposed to exchange risk included in the bank book and all foreign currency assets and liabilities (including gold), both on an off-balance sheet, as set out in table 1 below. Foreign exchange and interbank deposits made and received by the Parent Bank, including unsettled balances (to be received or delivered), are analysed separately, while the net balance in each currency deriving from other captions is treated as a day deposit (given or received).

B. Hedging of exchange risk

Information on the Parent Bank is provided in the corresponding section of the notes to the individual financial statements.

The activities of the subsidiary are consistent with those of the Parent Bank. The subsidiary's Exchange Office administers the positions and matches the exchange risk in the interbank market, while maintaining residual exposures within the limits established in the internal regulations.

QUANTITATIVE INFORMATION

1. Distribution of assets and liabilities by currency

	US DOLLARS	JAPANESE YEN	SWISS FRANCS	STERLING	NZL DOLLARS	OTHER CURRENCIES
Banking group	balance	balance	balance	balance	balance	balance
A. Financial assets	597,317	413,654	1,053,114	45,298	7,740	16,549
A.1 Fixed-yield securities	1,297	-	20,407	-	-	-
A.2 Variable-yield securities	-	-	483	-	-	-
A.3 Due from other banks	292,713	48,164	72,849	43,605	7,723	14,892
A.4 Due from customers	294,642	361,745	949,553	1,374	17	1,417
A.5 Other financial assets	8,665	3,745	9,822	319	-	240
B. Other assets	157	3	20,088	31	-	4
C. Financial liabilities	740,239	317,348	836,816	44,647	5,842	13,664
C.1 Due to banks	447,797	54,510	382,253	16,355	75	5,341
C.2 Due to customers	292,442	262,838	386,361	28,292	5,767	8,323
C.3 Securities issued	-	-	68,202	-	-	-
D. Other liabilities	208	-	68,991	434	-	-
E. Derivatives	-509	-293	-570	72	199	139
+ long positions	18,025	7,185	2,378	1,141	402	2,276
+ short positions	18,534	7,478	2,948	1,069	203	2,137
F. Currency to be received and delivered	141,969	-93,287	-149,896	86	-1,878	-1,603
F.1 Currency to be received	1,354,705	476,280	191,464	127,927	7,540	50,668
F.2 Currency to be delivered	1,212,736	569,567	341,360	127,841	9,418	52,271
Total assets	1,970,204	897,122	1,267,044	174,397	15,682	69,497
Total liabilities	1,971,717	894,393	1,250,115	173,991	15,463	68,072
Net balance (+/-)	-1,513	2,729	16,929	406	219	1,425

2. Internal models and other methodologies for the analysis of sensitivity

Value at Risk (VaR), end of year

	(in thousands of euro)
Parent Bank (net of eliminations)	137.2
subsidiary (net of eliminations)	145.6
total	71.1
Details of the principal currencies	
USD	18.3
JPY	33.3
CHF	58.9
GBP	3.9
other currencies	7.3
total	71.1

1.2.6 Derivative products

A. Financial derivatives

A.1 Trading portfolio: notional amounts at period end

Type of transaction/Underlyings	Fixed-yield securities and interest rates		Variable-yield securities and stock indices	
	Listed	Unlisted	Listed	Unlisted
1. Forward rate agreements	-	-	-	-
2. Interest rate swaps	-	411,000	-	-
3. Domestic currency swaps	-	-	-	-
4. Currency interest rate swaps	-	-	-	-
5. Basis swaps	-	479,384	-	-
6. Swap of stock indices	-	-	-	-
7. Swap of real indices	-	-	-	-
8. Futures	-	-	-	-
9. Cap options	-	8,746	-	-
- Purchased	-	4,373	-	-
- Issued	-	4,373	-	-
10. Floor options	-	6,380	-	-
- Purchased	-	3,190	-	-
- Issued	-	3,190	-	-
11. Other options	-	20,000	4,998	46,736
- Purchased	-	10,000	2,499	23,368
- plain vanilla	-	10,000	2,499	-
- exotic	-	-	-	23,368
- Issued	-	10,000	2,499	23,368
- plain vanilla	-	10,000	2,499	-
- exotic	-	-	-	23,368
12. Forward contracts	-	-	-	-
- Purchases	-	-	-	-
- Sales	-	-	-	-
- currency against currency	-	-	-	-
13. Other derivative contracts	-	-	18	-
Total	-	925,510	5,016	46,736

Exchange rates and gold		Other instruments		Total 31/12/2005		Total 31/12/2004	
Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
-	-	-	-	-	-	-	-
-	-	-	-	-	411,000	-	759,742
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	479,384	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	37,366	-	37,366	-	53,981
-	-	-	-	-	8,746	-	27,436
-	-	-	-	-	4,373	-	13,718
-	-	-	-	-	4,373	-	13,718
-	-	-	-	-	6,380	-	4,936
-	-	-	-	-	3,190	-	2,468
-	-	-	-	-	3,190	-	2,468
-	322,284	-	8,926	4,998	397,946	6,272	699,600
-	161,331	-	4,463	2,499	199,162	3,136	349,734
-	128,920	-	4,463	2,499	143,383	3,136	317,734
-	32,411	-	-	-	55,779	-	32,000
-	160,953	-	4,463	2,499	198,784	3,136	349,866
-	128,542	-	4,463	2,499	143,005	3,136	317,866
-	32,411	-	-	-	55,779	-	32,000
-	4,350,177	-	-	-	4,350,177	278	3,466,321
-	1,927,675	-	-	-	1,927,675	-	1,560,869
-	1,981,858	-	-	-	1,981,858	-	1,590,438
-	440,644	-	-	-	440,644	278	315,014
-	-	-	-	18	-	-	-
-	4,672,461	-	46,292	5,016	5,690,999	6,550	5,012,016

A.2 Bank book: notional amounts at period end

A.2.1 For hedging

Type of transaction/Underlyings	Fixed-yield securities and interest rates		Variable-yield securities and stock indices	
	Listed	Unlisted	Listed	Unlisted
1. Forward rate agreements	-	-	-	-
2. Interest rate swaps	-	280,473	-	-
3. Domestic currency swaps	-	-	-	-
4. Currency interest rate swaps	-	-	-	-
5. Basis swaps	-	10,000	-	-
6. Swap of stock indices	-	-	-	-
7. Swap of real indices	-	-	-	-
8. Futures	-	-	-	-
9. Cap options	-	-	-	-
- Purchased	-	-	-	-
- Issued	-	-	-	-
10. Floor options	-	-	-	-
- Purchased	-	-	-	-
- Issued	-	-	-	-
11. Other options	-	-	-	-
- Purchased	-	-	-	-
- plain vanilla	-	-	-	-
- exotic	-	-	-	-
- Issued	-	-	-	-
- plain vanilla	-	-	-	-
- exotic	-	-	-	-
12. Forward contracts	-	-	-	-
- Purchases	-	-	-	-
- Sales	-	-	-	-
- currency against currency	-	-	-	-
13. Other derivative contracts	-	-	-	-
Total	-	290,473	-	-

Exchange rates and gold		Other instruments		Total 31/12/2005		Total 31/12/2004	
Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
-	-	-	-	-	-	-	-
-	-	-	-	-	280,473	-	253,820
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	10,000	-	10,000
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
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-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	290,473	-	263,820

A.3 Financial derivatives: purchase and sale of underlyings

Type of transaction/Underlyings	Fixed-yield securities and interest rates		Variable-yield securities and stock indices	
	Listed	Unlisted	Listed	Unlisted
A. Trading portfolio for supervisory purposes:	-	446,126	5,014	46,738
1. With exchange of capital	-	-	5,014	-
- Purchases	-	-	2,515	-
- Sales	-	-	2,499	-
- Currency against currency	-	-	-	-
2. Without exchange of capital	-	446,126	-	46,738
- Purchases	-	223,063	-	23,369
- Sales	-	223,063	-	23,369
- Currency against currency	-	-	-	-
B. Bank book:	-	280,473	-	-
B.1 For hedging	-	280,473	-	-
1. With exchange of capital	-	-	-	-
- Purchases	-	-	-	-
- Sales	-	-	-	-
- Currency against currency	-	-	-	-
2. Without exchange of capital	-	280,473	-	-
- Purchases	-	77,000	-	-
- Sales	-	203,473	-	-
- Currency against currency	-	-	-	-
B.2 Other derivatives	-	-	-	-
1. With exchange of capital	-	-	-	-
- Purchases	-	-	-	-
- Sales	-	-	-	-
- Currency against currency	-	-	-	-
2. Without exchange of capital	-	-	-	-
- Purchases	-	-	-	-
- Sales	-	-	-	-
- Currency against currency	-	-	-	-

[illegible]

A.4 Financial derivatives «over the counter»: Positive fair value - counterpart risk

Counterpart/Underlyings	Fixed-yield securities and interest rates			Variable-yield securities and stock indices		
	Gross not offset	Gross offset	Future exposure	Gross not offset	Gross offset	Future exposure
A. Trading portfolio for supervisory purposes						
A.1 Governments and central banks	-	-	-	-	-	-
A.2 Public entities	-	-	-	-	-	-
A.3 Banks	2,206	-	378	1,412	-	1,213
A.4 Financial businesses	90	-	69	1,942	-	717
A.5 Insurance	-	-	-	-	-	-
A.6 Non-financial companies	9,301	-	432	18	-	-
A.7 Other parties	288	-	49	13	-	61
Total A 31/12/2005	11,885	-	928	3,385	-	1,991
Total 31/12/2004	-	-	-	-	-	-
B. Bank book						
B.1 Governments and central banks	-	-	-	-	-	-
B.2 Public entities	-	-	-	-	-	-
B.3 Banks	642	-	140	-	-	-
B.4 Financial businesses	-	-	-	-	-	-
B.5 Insurance	-	-	-	-	-	-
B.6 Non-financial companies	-	-	-	-	-	-
B.7 Other parties	-	-	-	-	-	-
Total B 31/12/2005	642	-	140	-	-	-
Total 31/12/2004	-	-	-	-	-	-

A.5 Financial derivatives «over the counter»: Negative fair value - financial risk

Counterpart/Underlyings	Fixed-yield securities and interest rates			Variable-yield securities and stock indices		
	Gross not offset	Gross offset	Future exposure	Gross not offset	Gross offset	Future exposure
A. Trading portfolio for supervisory purposes						
A.1 Governments and central banks	-	-	-	-	-	-
A.2 Public entities	-	-	-	-	-	-
A.3 Banks	11,466	-	1,657	28	-	132
A.4 Financial businesses	51	-	45	8	-	39
A.5 Insurance	-	-	-	3,317	-	-
A.6 Non-financial companies	738	-	362	-	-	-
A.7 Other parties	-	-	34	13	-	61
Total A 31/12/2005	12,255	-	2,098	3,366	-	232
Total 31/12/2004	-	-	-	-	-	-
B. Bank book						
B.1 Governments and central banks	-	-	-	-	-	-
B.2 Public entities	-	-	-	-	-	-
B.3 Banks	-	-	-	-	-	-
B.4 Financial businesses	-	-	-	-	-	-
B.5 Insurance	-	-	-	-	-	-
B.6 Non-financial companies	-	-	-	-	-	-
B.7 Other parties	-	-	-	-	-	-
Total B 31/12/2005	-	-	-	-	-	-
Total 31/12/2004	-	-	-	-	-	-

Exchange rates and gold			Other instruments			Different underlyings	
Gross not offset	Gross offset	Future exposure	Gross not offset	Gross offset	Future exposure	Offset	Future exposure
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
9,695	-	7,388	1,193	-	936	-	-
3,290	-	8,216	444	-	505	-	-
-	-	-	-	-	-	-	-
10,395	-	5,764	830	-	231	-	-
6,021	-	3,664	963	-	817	-	-
29,401	-	25,032	3,430	-	2,489	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-

Exchange rates and gold			Other instruments			Different underlyings	
Gross not offset	Gross offset	Future exposure	Gross not offset	Gross offset	Future exposure	Offset	Future exposure
1,712	-	287	-	-	-	-	-
12	-	140	-	-	-	-	-
12,150	-	10,369	1,467	-	1,033	-	-
2,677	-	2,773	505	-	271	-	-
-	-	-	-	-	-	-	-
5,701	-	3,882	846	-	718	-	-
6,001	-	3,417	12	-	32	-	-
28,253	-	20,868	2,830	-	2,054	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-

A.6 Residual life of financial derivatives «over the counter»: notional value

Underlyings/residual value	Within 12 months	1 to 5 years	Over 5 years	Total 31/12/2005
A. Trading portfolio for supervisory purposes	6,112,979	453,120	55,425	6,621,524
A.1 Financial derivatives on fixed-yield securities and interest rates	1,504,146	291,449	55,425	1,851,020
A.2 Financial derivatives on variable-yield securities and stock indices	7,734	44,017	-	51,751
A.3 Financial derivatives on exchange rates and gold	4,572,840	99,621	-	4,672,461
A.4 Financial derivatives on other instruments	28,259	18,033	-	46,292
B. Bank book	372,404	195,039	13,504	580,947
B.1 Financial derivatives on fixed-yield securities and interest rates	372,404	195,039	13,504	580,947
B.2 Financial derivatives on variable-yield securities and stock indices	-	-	-	-
B.3 Financial derivatives on exchange rates and gold	-	-	-	-
B.4 Financial derivatives on other instruments	-	-	-	-
Total 31/12/2005	6,485,383	648,159	68,929	7,202,471

1.3 Liquidity risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of liquidity risk

The principal sources of liquidity risk relate to transactions in securities, long-term loans and treasury services provided to institutions and pension funds.

The short and long-term liquidity positions are managed at Group level and by each company by applying policies designed to maintain broad equilibrium.

The coverage of expected liquidity requirements is checked and monitored on a continuous basis and timely action is taken in the markets to ensure the appropriate availability of funds.

QUANTITATIVE INFORMATION

1. Distribution of cash assets and liabilities by residual maturity

Currency: EURO

Captions / Residual duration	fixed duration					unspecified duration	Total
	sight	up to 3 months	3 to 12 months	1 to 5 years	over 5 years		
1. Assets	3,652,395	1,089,430	677,554	3,140,820	2,443,084	422,393	11,425,676
1.1 Due from other banks	128,800	390,170	326	-	-	293,680	812,976
1.2 Due from customers	3,410,318	699,181	672,854	1,721,820	1,528,525	128,702	8,161,400
1.3 Fixed-yield securities	-	79	4,374	1,417,802	908,237	11	2,330,503
1.4 Mutual funds	113,277	-	-	1,198	6,322	-	120,797
2. Liabilities	7,875,423	1,557,145	326,969	582,715	191,104	-	10,533,356
2.1 Due to other banks	117,981	33,788	4,943	47,682	57,386	-	261,780
2.2 Due to customers	7,649,159	1,481,692	75,381	16	-	-	9,206,248
2.3 Securities issued	108,283	41,665	246,645	535,017	133,718	-	1,065,328
- bonds	-	14,909	228,740	534,046	133,718	-	911,413
- certificates of deposit	539	26,756	17,905	971	-	-	46,171
- other securities	107,744	-	-	-	-	-	107,744

Currency: US DOLLARS

Captions / Residual duration	fixed duration					unspecified duration	Total
	sight	up to 3 months	3 to 12 months	1 to 5 years	over 5 years		
1. Assets	74,262	447,425	71,809	1,558	125	167	595,346
1.1 Due from other banks	7,288	229,021	56,404	-	-	-	292,713
1.2 Due from customers	60,280	218,404	15,405	261	125	167	294,642
1.3 Fixed-yield securities	-	-	-	1,297	-	-	1,297
1.4 Mutual funds	6,694	-	-	-	-	-	6,694
2. Liabilities	120,056	548,539	71,644	-	-	-	740,239
2.1 Due to other banks	5,595	371,100	71,102	-	-	-	447,797
2.2 Due to customers	114,461	177,439	542	-	-	-	292,442
2.3 Securities issued	-	-	-	-	-	-	-
- bonds	-	-	-	-	-	-	-
- certificates of deposit	-	-	-	-	-	-	-
- other securities	-	-	-	-	-	-	-



Currency: SWISS FRANCS

Captions / Residual duration	fixed duration					unspecified duration	Total
	sight	up to 3 months	3 to 12 months	1 to 5 years	over 5 years		
1. Assets	58,738	356,299	190,783	329,664	106,372	953	1,042,809
1.1 Due from other banks	3,152	64,277	5,420	-	-	-	72,849
1.2 Due from customers	55,586	292,022	180,219	316,359	104,414	953	949,553
1.3 Fixed-yield securities	-	-	5,144	13,305	1,958	-	20,407
1.4 Mutual funds	-	-	-	-	-	-	-
2. Liabilities	345,256	404,834	29,178	55,079	2,469	-	836,816
2.1 Due to other banks	1,042	370,279	10,932	-	-	-	382,253
2.2 Due to customers	344,172	33,576	8,485	128	-	-	386,361
2.3 Securities issued	42	979	9,761	54,951	2,469	-	68,202
- bonds	42	979	9,761	54,951	2,469	-	68,202
- certificates of deposit	-	-	-	-	-	-	-
- other securities	-	-	-	-	-	-	-

Currency: JAPANESE YEN

Captions / Residual duration	fixed duration					unspecified duration	Total
	sight	up to 3 months	3 to 12 months	1 to 5 years	over 5 years		
1. Assets	34,570	253,865	121,639	3,166	339	-	413,579
1.1 Due from other banks	30,634	15,807	1,723	-	-	-	48,164
1.2 Due from customers	266	238,058	119,916	3,166	339	-	361,745
1.3 Fixed-yield securities	-	-	-	-	-	-	-
1.4 Mutual funds	3,670	-	-	-	-	-	3,670
2. Liabilities	18,920	235,299	62,780	349	-	-	317,348
2.1 Due to other banks	149	54,361	-	-	-	-	54,510
2.2 Due to customers	18,771	180,938	62,780	349	-	-	262,838
2.3 Securities issued	-	-	-	-	-	-	-
- bonds	-	-	-	-	-	-	-
- certificates of deposit	-	-	-	-	-	-	-
- other securities	-	-	-	-	-	-	-

Currency: OTHER CURRENCIES

Captions / Residual duration	fixed duration					unspecified duration	Total
	sight	up to 3 months	3 to 12 months	1 to 5 years	over 5 years		
1. Assets	23,953	44,860	215	-	-	-	69,028
1.1 Due from other banks	23,942	42,276	-	-	-	-	66,218
1.2 Due from customers	11	2,584	215	-	-	-	2,810
1.3 Fixed-yield securities	-	-	-	-	-	-	-
1.4 Mutual funds	-	-	-	-	-	-	-
2. Liabilities	31,211	32,421	521	-	-	-	64,153
2.1 Due to other banks	297	21,474	-	-	-	-	21,771
2.2 Due to customers	30,914	10,947	521	-	-	-	42,382
2.3 Securities issued	-	-	-	-	-	-	-
- bonds	-	-	-	-	-	-	-
- certificates of deposit	-	-	-	-	-	-	-
- other securities	-	-	-	-	-	-	-

2. Distribution of financial liabilities by sector

Exposures/Counterparts	Governments and central banks	Other public entities	Financial businesses	Insurance companies	Non-financial companies	Other parties
1. Due to customers	50,435	1,744,274	518,199	18,928	2,478,935	5,379,500
2. Securities issued	-	137,104	22,401	69,477	47,623	856,926
3. Financial liabilities held for trading	1,712	12	26,420	3,317	7,285	7,958
4. Financial liabilities at fair value	-	-	-	-	-	-
Total 31/12/2005	52,147	1,881,390	567,020	91,722	2,533,843	6,244,384

3. Geographical breakdown of financial liabilities

Geographical breakdown of financial liabilities	ITALY	OTHER EU COUNTRIES	AMERICA	ASIA	REST OF THE WORLD
1. Due to customers	9,658,579	504,527	16,459	2,225	8,481
2. Due to other banks	564,715	555,246	1,445	46,430	274
3. Securities issued	1,063,362	70,128	40	-	-
4. Financial liabilities held for trading	20,902	25,137	442	224	-
4. Financial liabilities at fair value	-	-	-	-	-
Total 31/12/2005	11,307,558	1,155,038	18,386	48,879	8,755

1.4 Operational risks

QUALITATIVE INFORMATION

A. General aspects, management and measurement of operational risk

The report on operations and the corresponding section in the notes to the individual financial statements describe in detail the ongoing project to develop a system for the measurement, management and control of operational risk, as required by the new New Capital Accord.

In particular, this description covers the methodologies applied for the recognition and measurement of risk, the operational structures involved in these activities and the statistical models for the estimation of loss that are currently being tested.

Following the necessary checks, with a view to establishing a common database and operational methodologies, this system will be adapted as required and extended to the Swiss subsidiary.

The latter's exposure is, in any case, extremely limited due to the way internal control is organised, with the presence of specialists and action directly at operating unit level.

At Group level, the principal risks in this area relate to legal problems, the proper performance of transactions and, therefore, the possibility of human error and unauthorised behaviour.

In addition, particular attention is also given to the IT aspects, security and business continuity.

This last project, which is well advanced at the Parent Bank, will also affect the (less significant) work being performed in this area by the Swiss bank.

QUANTITATIVE INFORMATION

Reference is made to the corresponding section of the notes to the individual financial statements.

PART F *Information on consolidated equity*

Section 1 Consolidated capital

QUALITATIVE INFORMATION

The Group always pays great attention to the adequacy of its capital, having regard for the prospects for growth and changes in the exposure to risk.

Given that self-financing is inevitably insufficient, group banks have made recourse to periodic capital increases over the years, in order to meet appropriately the requirements specified above.

These increases have always been greeted with universal acceptance by the shareholders and approved by the market, due to the provision of clear and precise information about the underlying objectives and to the simple and easily understood mechanisms applied.

QUANTITATIVE INFORMATION

The component parts and size of the Group's capital and equity are described in Part B, Section 15 of these notes to the financial statements.

Section 2 *Capital and capital adequacy ratios*

2.2 Capital for supervisory purposes

A. QUALITATIVE INFORMATION

This is the principal point of reference in the assessments made by the Supervisory Authorities regarding the stability of individual banks and the banking system as a whole. The principal prudent control mechanisms all make reference to capital for supervisory purposes: the solvency ratio, the requirements to cover market risk, the rules governing the concentration of risk and those for the matching of maturities.

This aggregate comprises basic capital plus supplementary capital; holdings in excess of 10% in non-consolidated banking and financial companies are deducted from this total, together with all holdings of less than 10% in banking and financial companies and subordinated assets recoverable from banks, to the extent that they exceed 10% of the supplementary capital.

Consistent with the equity reported for operating purposes, capital for supervisory purposes comprises the amounts paid in by shareholders, retained earnings and the monetary revaluations recorded in prior years in accordance with specific legislation. As an exception, the valuation reserves established for available-for-sale financial assets are not included in this total.

Hybrid equity instruments, subordinated liabilities and innovative equity instruments are also excluded.

Consistent with the new regulations on capital for supervisory purposes and on capital adequacy, the calculations for 2005 apply the so-called «precautionary filters», with a view to reducing the potential volatility of the aggregates following the adoption of IFRS.

Those relating to 31 December 2004, have however been made in accordance with the regulations in force at the time. As such, the respective amounts cannot be compared since they have been determined on an inconsistent basis.

1. Basic capital (tier 1)

The positive elements of basic capital comprise share capital, the share premium reserve, other reserves and part of the net profit for 2005, on the assumption that the shareholders will approve the proposed allocations to reserves; the negative elements comprise the intangible assets and losses on available-for-sale securities deducted from the valuation reserves.

2. Supplementary capital (tier 2)

The positive elements of supplementary capital comprise 50% of the valuation reserve for securities and the gains arising on the redetermination of the cost of buildings on the first-time adoption of IFRS; the negative elements consist of the estimated losses on assets recorded in the balance sheet.

3. Tier 3 capital

There are no elements for inclusion in tier 3 capital.

B. QUANTITATIVE INFORMATION

	31/12/2005	31/12/2004
A. Basic capital (tier 1 before the application of precautionary filters)	1,143,077	1,091,258
Precautionary filters of tier 1 capital	-	-
- Positive IFRS precautionary filters	-	-
- Negative IFRS precautionary filters	-116	-
B. Tier 1 capital after the application of precautionary filters	1,142,061	1,091,258
C. Supplementary capital (tier 2 before the application of precautionary filters)	-230	794
Precautionary filters for tier 2 capital	-	-
- Positive IFRS precautionary filters	43,249	-
- Negative IFRS precautionary filters	-	-
D. Tier 2 capital after the application of precautionary filters	43,019	794
E. Total tier 1 and tier 2 capital after the application of precautionary filters	1,185,980	1,092,052
Items to be deducted from tier 1 and tier 2 capital	-38,554	-16,098
F. Capital for supervisory purposes	1,147,426	1,075,954

2.3 Capital adequacy

A. QUALITATIVE INFORMATION

The following table shows the absorption of the Group's supervisory capital in 2005 and 2004 in relation to assets at risk. For the reasons given above, the two periods cannot be compared since the values have not been determined on a consistent basis.

With regard to credit risk, total risk-weighted assets at 31 December 2005 of € 10,702 million represent 74.62% absorption of capital for supervisory purposes.

Market risks only absorb 3.26% of capital, demonstrating the low exposure to risk in this area.

Overall, the level of free capital at the end of 2005, € 253.834 million, is sufficient to ensure compliance with the supervisory parameters and allows adequate room for growth.

B. QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts		Weighted amounts	
	31/12/2005	31/12/2004	31/12/2005	31/12/2004
A. Assets at risk				
A.1 Credit risk	13,522,753	11,762,505	10,702,444	9,574,278
Standard methodology				
Cash assets	11,569,333	10,236,073	9,112,000	8,301,521
1. Exposures (other than variable-yield securities and other subordinated assets) to (or guaranteed by):	9,672,293	8,656,963	8,045,836	7,415,200
1.1 Governments and central banks	436,132	285,195	-	-
1.2 Public entities	147,941	101,198	29,623	20,240
1.3 Banks	1,254,917	1,011,269	250,984	202,254
1.4 Other parties (other than mortgage loans on residential and non-residential buildings)	7,833,303	7,259,301	7,765,229	7,192,706
2. Mortgage loans on residential buildings	1,485,130	1,243,514	742,565	621,757
3. Mortgage loans on non-residential buildings	75,325	52,928	75,325	52,928
4. Shares, equity investments and subordinated assets	94,375	81,291	97,910	84,512
5. Other cash assets	242,210	201,377	150,364	127,124
Off-balance sheet assets	1,953,420	1,526,432	1,590,444	1,272,757
1. Guarantees and commitments to (or guaranteed by):	1,951,918	1,521,933	1,590,073	1,271,549
1.1 Governments and central banks	77,360	103,626	-	-
1.2 Public entities	65,170	32,622	13,034	6,525
1.3 Banks	290,421	150,812	58,084	30,162
1.4 Other parties	1,518,967	1,234,873	1,518,955	1,234,862
2. Derivative contracts with (o guaranteed by):	1,502	4,499	371	1,208
2.1 Governments and central banks	-	-	-	-
2.2 Public entities	-	-	-	-
2.3 Banks	1,502	3,938	371	927
2.4 Other parties	-	561	-	281
B. Capital adequacy requirements				
B.1 Credit risk	-	-	856,196	765,942
B.2 Market risks	-	-	-	-
1. Standard methodology	-	-	37,396	33,579
of which:				
- risk for positions in fixed-yield securities	-	-	17,576	12,949
- risk for positions in variable-yield securities	-	-	16,547	15,817
- exchange risk	-	-	-	-
- other risks	-	-	3,273	4,813
B.3 Other precautionary requirements	-	-	-	-
B.4 Total precautionary requirements (B1+B2+B3)	-	-	893,592	799,521
C. Risk assets and capital ratios				
C.1 Risk-weighted assets	-	-	11,169,894	9,994,016
C.2 Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)	-	-	10.23	10.92
C.3 Capital for supervisory purposes / Risk-weighted assets (Total capital ratio)	-	-	10.27	10.77

PART H *Related party transactions*

1. Information on the remuneration of directors and managers

Reference is made to the information provided in the individual financial statements.

The report on operations discloses the equity investments held by the directors and the related changes during the year.

2. Related party disclosures

Related parties have been identified in accordance with IAS 24.

Consistent with this standard, the following parties are deemed to be related:

1. Subsidiary companies, parent companies and companies under joint control.
2. Companies that can exercise significant influence over the reporting bank.
3. Associated companies.
4. Joint ventures in which the reporting bank holds an investment.
5. Managers with strategic responsibilities within the bank or its subsidiary.
6. Close family members of the parties listed from points 1 to 6.
7. Subsidiary companies, companies under joint control and companies subject to significant influence by one of the parties listed in points 5 and 6.
8. Pension funds of employees and any other entity related to them.

Close family members are defined as follows: the companion, the children of the related party – the children of the companion – and the dependents of the related party or the companion.

Relations with companies in which investments are held are conducted as part of normal operations and mainly relate to current accounts, deposit accounts and loans. These relations are settled on arms'-length terms. Other relations with other related parties, excluding the above companies, are also settled on the market terms applying to the individual transactions, or on terms in line with those applied to employees, if applicable. No specific provisions were made during the year for losses on amounts due from related parties. The remuneration of the directors and statutory auditors is authorised at the shareholders' meeting; the remuneration of the Chief Executive Officer is authorised by the Board of Directors.

There are no profit-related incentive plans for managers or pension plans other than the post-retirement benefits envisaged for participating employees of the bank; there are no stock-options plans.

	Assets	Liabilities	Income	Charges	Guarantees given	Guarantees received
Directors	86	7,544	2	149	4	1,387
Statutory auditors	227	132	7	2	98	599
Management	156	1,216	3	21	-	77
Family members	1,136	6,285	51	118	153	2,640
Subsidiaries	106,632	109,358	2,319	3,300	27,677	32,114
Associated companies	13,658	71,412	475	3,430	6,648	-
Other related parties	531	12,549	22	252	957	155

**REPORT OF THE INDEPENDENT AUDITORS ON THE CONSOLIDATED
FINANCIAL STATEMENTS PURSUANT TO ART.156 OF DECREE 58 OF 24.2.1998**

(Translation from the original issued in Italian)

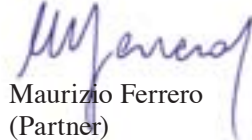
**To the Shareholders of
BANCA POPOLARE DI SONDRIO S.C.A R.L.**

1. We have audited the consolidated financial statements, comprising the balance sheet, the income statement, the statement of changes in shareholders' equity, the statement of changes in financial position and the related explanatory notes, of Banca Popolare di Sondrio S.c. a r.l. and its subsidiaries ("Banca Popolare di Sondrio Group") as of and for the year ended 31 December 2005. The Board of Directors of Banca Popolare di Sondrio S.c. a r.l. is responsible for preparing the financial statements. We are responsible for expressing a professional opinion on the financial statements, which we have formed on the basis of our audit. The above consolidated financial statements have been prepared for the first time in accordance with the International Financial Reporting Standards adopted by the European Union.
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 evidence 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.

The consolidated financial statements present comparative prior year information prepared in accordance with the same accounting standards, except for the effects of applying IAS 32 and IAS 39 which, as allowed by IFRS 1, have been applied from 1 January 2005. Section A.2 of the notes to the financial statements illustrates the effects of the transition to the International Financial Reporting Standards adopted by the European Union. As explained in Section A.2 of the notes to the financial statements, the Directors have modified the information provided on the effects of the transition to IFRSs. Such information was previously approved by the Board of Directors and published, as an attachment to the compulsory half-year report, in the IFRS reconciliation schedules that were examined by us and on which we issued our auditors' report dated 10 October 2005. The information presented in Section A.2 of the notes to the financial statements has been examined by us for the purpose of expressing our opinion on the consolidated financial statements as of 31 December 2005.

3. In our opinion, the consolidated financial statements of Banca Popolare di Sondrio S.c.a.r.l. as of 31 December 2005 comply with the International Financial Reporting Standards adopted by the European Union; they have therefore been prepared clearly and provide a true and fair view of the assets and liabilities, financial position, results for the year, changes in equity and cash flows of the Banca Popolare di Sondrio Group as of and for the year ended on that date.

DELOITTE & TOUCHE S.p.A.



Maurizio Ferrero
(Partner)

Milan, 23 March 2006

EXTRAORDINARY PART

DIRECTORS' REPORT

EXTRAORDINARY PART

Shareholders,

Today's Extraordinary Meeting has been called to resolve on the approval of certain changes to the articles of association in order to reflect the changes in company law introduced by Decree 6 dated 17 January 2003, as amended by Decree 37 dated 6 February 2004.

The proposed changes are largely to adopt the essential aspects of the new regulations; in addition, a number of opportunities made available under the reform of company law have been taken.

The regulations concerned were extended to us by Decree 310 dated 28 December 2004 concerning «Additions and changes to company law and to the consolidated banking law» which, by adding art. 150 bis to the Consolidated Banking Law, extended the new regulations to people's banks and specifically identified those few provisions that are not applicable.

In the absence of the related enabling regulations, it was not possible to revise the articles of association at the Shareholders' Meeting held on 5 March 2005 to approve the 2004 financial statements. In order to revise the articles by the specified date of 30 June 2005, it would have been necessary to call a special extraordinary meeting and incur the related organisation and economic costs. Having ascertained that the only consequence of non-compliance with the deadline of 30 June 2005 was, as confirmed by the Supervisory Authorities, the loss of effectiveness of those articles that do not comply with the new regulations, the directors of the bank decided to deal with the subject at today's Shareholders' Meeting.

In the same way, the articles of association cannot be amended yet, to reflect the requirements of Law 262 dated 28 December 2005 concerning «Instructions for the safeguarding of savings and the regulation of financial markets», since many of them require the issue of enabling instructions that are currently not available. These amendments will therefore be made at a later time, in accordance with the instructions to be issued by the competent authorities. Turning to the changes presented for your approval, the need to make the modifications required by the reform of company law has, as mentioned, presented us with an opportunity to review other articles. In certain cases, the articles concerned were no longer consistent with the regulatory framework (consider, as an example, the regulations governing virtual securities and the centralisation of their management with Monte Titoli); in other cases, the proposed changes reflect the increased size of the shareholder base (e.g. the quorum for extraordinary meetings); in others, the objective is for the articles to take better account of the fact that our shares are listed on a regulated market: the Expandi.

We have taken great care to safeguard the institutional and operational characteristics of our bank, giving emphasis among other matters to our special ties with the territories served. Lastly, additional changes have been

considered appropriate to ensure the completeness and thoroughness of the text.

The proposed changes have been drafted with reference to the indications contained in the «New standard articles of association for people's banks», prepared by the National Association of People's Banks. The Bank of Italy has indicated that there are no objections, from a supervisory standpoint, to the adoption of these changes.

Given the above, the Extraordinary Shareholders' Meeting is recommended to change the following articles contained in the articles of association: 1 and 2 (formation, name and objects), 5, 6, 7, 8, 9, 10, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23 (shareholders' equity, shareholders, shares), 26, 27, 28, 29, 30 (shareholders' meetings), 34, 35, 36, 38, 41, 42 (board of directors), 43 (chairman's committee), 46, 47, 51 (board of statutory auditors), 52 (board of advisors), 56 (representation and official signature), 58 (allocation of profits), 59 (reserves). It is also proposed to renumber article 61 (winding up and liquidation) as number 62, in order to make room for the new article 61 (audit). In the view of the directors, the above changes do not give rise to the right of shareholders to withdraw.

The current text of the articles of association is presented below together with the proposed text, highlighting the changes. The commentary explains the reasons for the amendments made.

CURRENT TEXT

CHAPTER I

Formation - Name Objects - Duration - Registered offices

Art. 1

Formation, name

The bank, originally formed under the name of Banca Mutua Popolare della Provincia di Sondrio by public deed on 4 March 1871, witnessed by G. B. Caimi, and authorised to operated by the Royal Decrees dated 8 April 1871 and 19 July 1874, took the form of a cooperative society with limited liability and the current name of Banca Popolare di Sondrio – società cooperativa a responsabilità limitata, by an extraordinary resolution adopted by the shareholders on 27 March 1949.

The bank's activities are inspired by the principles of the mutual and cooperative movement and comply with the law and these articles of association.

Art. 2

Corporate objects

The object of the bank is to gather savings from and make loans, in their various

PROPOSED TEXT

CHAPTER I

Formation - Name Objects - Duration - Registered offices

Art. 1

Formation, name

The bank, originally formed under the name of Banca Mutua Popolare della Provincia di Sondrio by public deed on 4 March 1871, witnessed by G. B. Caimi, and authorised to operated by the Royal Decrees dated 8 April 1871 and 19 July 1874, took the form of a cooperative society with limited liability and the name of Banca Popolare di Sondrio – società cooperativa a responsabilità limitata, by an extraordinary resolution adopted by the shareholders on 27 March 1949, and the current name of Banca Popolare di Sondrio – società cooperativa per azioni, by an extraordinary resolution adopted by the shareholders on 8 April 2006.

The bank's activities are inspired by the principles of the mutual and cooperative movement and comply with the law and these articles of association.

Comment

This gives effect to art. 2518 of the Italian Civil Code, whereby the liability of the members of cooperative societies is limited to their investment in the share capital of the bank. Accordingly, consistent with art. 2515 of the Italian Civil Code, the new name of Banca Popolare di Sondrio - società cooperativa per azioni is proposed, partly to highlight that the capital of the bank is represented by shares.

Art. 2

Corporate object

The object of the bank is to gather savings from and make loans, in their various

CURRENT TEXT

forms, to shareholders and non-shareholders alike.

The bank can perform all permitted banking and financial transactions and services, providing current regulations are adhered to. The bank can also carry out any banking-related business or any other activity in connection with its corporate object.

The bank can issue bonds in accordance with current regulations. As part of institutional work to facilitate the development of all productive activities, the bank, in consideration of its specific objectives as a people's bank, intends to provide specific support for smaller enterprises and cooperatives; in addition, it will take all appropriate steps to spread and encourage saving.

The bank, as parent of the Banca Popolare di Sondrio banking group, pursuant to art. 61 of Decree 385/1993, issues instructions to members of the group, as part of its management and coordination activities in the interests of Group stability, regarding the implementation of directives issued by the Bank of Italy.

Art. 3

Duration of the bank

La duration of the bank is fixed until 31 December 2050, unless extended.

Art. 4

Registered offices of the bank

The registered offices of the bank are at piazza Garibaldi 16, Sondrio, where all

PROPOSED TEXT

forms, to shareholders and non-shareholders alike.

The bank can perform all permitted banking and financial transactions and services, providing current regulations are adhered to. The bank can also carry out any banking-related business or any other activity in connection with its corporate object.

The bank can issue bonds in accordance with current regulations. As part of institutional work to facilitate the development of all productive activities, the bank, in consideration of its specific objectives as a people's bank, intends to provide specific support for the smaller enterprises and cooperatives present in the territories served; in addition, it will take all appropriate steps to spread and encourage saving. The bank, as parent of the Banca Popolare di Sondrio banking group, pursuant to art. 61 of Decree 385/1993, issues instructions to members of the group, as part of its management and coordination activities in the interests of Group stability, regarding the implementation of directives issued by the Bank of Italy.

Comment

The proposed change to the 4th paragraph is intended to emphasise the link between the bank and the territory.

Art. 3

Duration of the company

Unchanged

Art. 4

Registered offices of the bank

Unchanged

CURRENT TEXT

shareholders elect domicile for all legal effects regarding their relations with the bank.

The competent management board may resolve, in accordance with current regulations, to establish, acquire, sell or close branches of all types, representative offices and other offices, in Italy and abroad.

CHAPTER II

Shareholders' equity - Shareholders - Shares

Art. 5

Shareholders' equity

Shareholders' equity comprises:

- a) share capital;
- b) legal or ordinary reserve;
- c) statutory or extraordinary reserve;
- d) all other reserves, regardless of their

names.

Art. 6

Share capital Basis for changes Price of shares

The bank's share capital is variable and is represented by registered shares each with a par value of Euro 3 (three).

The issue of new shares, which in principle can be unlimited, may be resolved:

PROPOSED TEXT

CHAPTER II

Shareholders' equity - Shareholders - Shares

Art. 5

Shareholders' equity

Shareholders' equity comprises:

- a) share capital;
- b) legal or ordinary reserve;
- c) statutory or extraordinary reserve;
- d) share premium reserve;
- e) all other reserves formed from the net

profit for the year and/or by application of the law or international accounting standards.

Comment

The article concerning the composition of shareholders' equity is updated to take account of the international accounting standards, as recommended by the bankers' association.

Art. 6

Share capital Basis for changes Price of shares

The bank's share capital is variable and is represented by registered shares each with a par value of Euro 3 (three).

The issue of new shares, which in principle can be unlimited, may be resolved:

CURRENT TEXT

- 1 -on an ordinary basis by the Board of Directors;
- 2 -onanextraordinarybasisatanextraordinary meeting of shareholders, held in compliance with art. 2441 of the Italian Civil Code.

Subject to different legislative requirements and/or instructions from the bank supervisory authorities, the ordinary issue of new shares while the shares of the bank remain listed on an official market is reserved for the admission of new shareholders and takes place by subscription for just one share. In this regard, each year following the approval of the financial statements at the shareholders' meeting, the board of directors determines:

- a) the premium that, taking account of the equity reserves reported in the financial statements, must be paid on subscription, in addition to the par value of each new share;
- b) the size of the adjustment referred to in art. 13 below in order to obtain dividend rights for the entire year.

Art. 7

Shareholders

Physical persons can be admitted as shareholders, even if they are minors. In addition, legal persons, all types of company, consortiums, associations and other collective entities can also be shareholders. They must appoint in writing the physical person authorised to represent them; all changes to such appointment are unenforceable with regard to the bank until they have been properly notified in writing.

In all cases, those who represent shareholders for whatever reason cannot by virtue of such representation be elected to the bank's boards. Persons may not admitted as

PROPOSED TEXT

- 1 -on an ordinary basis by the Board of Directors;
- 2 -onanextraordinarybasisatanextraordinary meeting of shareholders, held in compliance with art. 2441 of the Italian Civil Code.

While the shares of the bank are listed on regulated markets, the issue of new shares may only take place by resolutions adopted at the extraordinary meeting.

Comment

The replacement of the current third paragraph, describing the basis for the ordinary issue of new shares, establishes that while the shares of the bank are listed on regulated markets, the issue of new shares may only take place by resolutions adopted at the extraordinary meeting.

The ordinary issue of shares, the price of which must be established at the shareholders' meeting pursuant to the new art. 2528 of the Italian Civil Code, has not taken place for many years and the banking association has recommended the elimination of this method for banks whose shares are listed on regulated markets.

Art. 7

Shareholders

Physical persons can be admitted as shareholders, even if they are minors. In addition, legal persons, all types of company, consortiums, associations and other collective entities can also be shareholders. They must appoint in writing the physical person authorised to represent them; all changes to such appointment are unenforceable with regard to the bank until they have been properly notified in writing.

In all cases, those who represent shareholders for whatever reason cannot by virtue of such representation be elected to the bank's boards. Persons may not admitted as

CURRENT TEXT

shareholders if they are banned, incapable or bankrupts who have not been legally rehabilitated, or if they have been banned by a court sentence from holding public office, whether temporarily or otherwise.

Art. 8**Applications for admission as a shareholder**

Those who wish to become a shareholder must present a written application to the board of directors containing their personal details, address and all other information and/or declarations required by law or, in general, requested by the bank including, in particular, an express declaration of acceptance of the articles of association. Applications by minors must be signed by their legal representative.

PROPOSED TEXT

shareholders if they are banned, incapable or bankrupts who have not been legally rehabilitated, or if they have been banned by a court sentence from holding public office, whether temporarily or otherwise.

The decision to admit shareholders takes account of any existing business relationships with them.

Comment

A final paragraph has been added to specify that the evaluation of applications for admission as a shareholder of the bank also take account of any current business relations with the bank.

Art. 8**Applications for admission as a shareholder**

Those who wish to become a shareholder must present an application to the board of directors containing the number of shares purchased or subscribed for, their personal details, address and all other information and/or declarations required by law or, in general, requested by the bank including, in particular, an express declaration of acceptance of the articles of association. Applications by minors must be signed by their legal representative.

Until the holder of shares has applied for and obtained admission as a shareholder, only the related equity rights can be exercised.

Comment

In the first paragraph, it is established that applications for admission as a shareholder must state the number of shares acquired or subscribed for.

It is proposed to add a second paragraph to specify that the holders of shares can only exercise the related equity rights until they have been admitted as shareholders.

CURRENT TEXT

Art. 9

Board authorised to adopt resolutions

The Board of Directors, or the Chairman's Committee, which the Board may empower, decides on applications for admission as a shareholder by adopting a suitably-reasoned resolution, having regard for the interests of the bank and the spirit of the cooperative movement.

Art. 10

Admission

The approval of an application for admission as a shareholder must be communicated to the shareholder, within ninety days of receipt of the application, by a letter addressed to the domicile communicated by the latter.

Art. 11

Refusal of admission Review procedure

The refusal of admission as a shareholder must be communicated to the applicant within

PROPOSED TEXT

Art. 9

Board authorised to adopt resolutions

The Board of Directors decides on applications for admission as a shareholder by adopting a suitably-reasoned resolution, having regard for the interests of the bank, the spirit of the cooperative movement and the requirements of the articles of association.

Comment

Since it is not consistent with the new requirements of art. 2544 of the Italian Civil Code, the authorisation to delegate decisions on the admission of shareholders to the Chairman's Committee has been abrogated. The criteria to be considered by the Board of Directors when deciding on the admission of shareholders include those established in the articles of association, as required by law.

Art. 10

Admission

The approval of an application for admission as a shareholder must be recorded in the shareholders' register and communicated to the shareholder, within ninety days of receipt of the application, by a letter addressed to the domicile communicated by the latter.

Comment

Pursuant to art. 2528 of the Italian Civil Code, the directors are required to record the admission of new shareholders in the shareholders' register.

Art. 11

Refusal of admission Review procedure

Unchanged

CURRENT TEXT

ninety days of receipt of the application by the bank.

Within thirty days of receipt of the communication of rejection, the applicant may present a request for review of the related application by the bank's Committee of Advisors.

The Committee of Advisors, established in accordance with the articles of association and joined by a representative of the applicant, decides within thirty days of the request for review, whether to require a re-examination of the application or to reject it and, in either case, communicates its decision to the Board of Directors. If the Committee of Advisors requires a re-examination, the Board of Directors will make a final decision on the application and adopt a reasoned resolution.

Art. 12**Attainment of shareholder status**

Admission as a shareholder lapses if the applicant does not pay in the total amount required within thirty days of the communication of admission.

Shareholder status is attained, following payment of the above amount, on entry into the shareholders' register.

Art. 13**Shareholder's rights**

A shareholder may obtain a loan in preference to non-shareholders offering the same guarantees, to the extent and on the basis established by the competent committees. A shareholder is entitled:

PROPOSED TEXT**Art. 12****Attainment of shareholder status**

Shareholder status is attained on entry into the shareholders' register, having completed the required formalities.

Comment

The first paragraph of the current text is, in part, no longer applicable and is covered by the new paragraph which specifies that shareholder status is attained on entry into the shareholders' register, having completed the required formalities.

Art. 13**Shareholder's rights**

A shareholder may obtain a loan in preference to non-shareholders offering the same guarantees, to the extent and on the basis established by the competent committees.

CURRENT TEXT

- a) to attend and, if recorded in the shareholders' register for at least three months, to vote at shareholders' meetings and be elected as an officer of the bank;
- b) to receive the dividend for the full year in relation to new shares subscribed for under the ordinary procedure, pursuant to art. 6.2.1); the shareholder must pay the bank the dividend adjustment established by the Board of Directors to cover the period from the start of the year.

In the event of a capital increase pursuant to art. 6.2.2), the shareholders' meeting determines the dividend enjoyment date for the new shares issued using the extraordinary procedure.

Art. 14

Limitation on share ownership

No-one, shareholder or non-shareholder, may be the registered holder of shares with a total par value that exceeds the limit on share capital ownership established law.

The bank will not record the ownership of shares exceeding this limit in the shareholders' register.

PROPOSED TEXT

If recorded on the shareholders' register for at least ninety days, the shareholder has the right to attend shareholders' meetings, to vote and to be elected as an officer of the bank.

In the event of a capital increase pursuant to art. 6.2.2), the shareholders' meeting determines the dividend enjoyment date for the new shares issued using the extraordinary procedure.

Comment

Point b) of the current first paragraph is abrogated to take account of the new requirement of art. 6, under which, while the shares of the bank are listed on a regulated market, the issue of new shares can only be authorised by a shareholders' resolution.

The new second paragraph governs the rights of the shareholder – until now covered in point a) of the first paragraph – and, pursuant to art. 2370 of the Italian Civil Code, allows attendance at shareholders' meetings only if recorded in the shareholders' register for at least ninety days, consistent with the qualification period for the right to vote. The period of 3 months has been replaced by that of ninety days, in accordance with the new requirements of art. 2538 of the Italian Civil Code.

Art. 14

Limitation on share ownership

No-one, shareholder or non-shareholder, may be the registered holder of shares with a total par value that exceeds the limit on share capital ownership established law.

The bank will act in accordance with the law with regard to any shares that exceed this limit.

Comment

The second paragraph makes reference to the law for the action to be taken if the limit on share ownership is exceeded.

CURRENT TEXT**Art. 15****Dividend**

The payment of dividends on shares that have not been cancelled, stolen or lost is properly made to the presenter of the share certificate, unless specified otherwise by law or the registered holder of the shares has legally notified the bank in writing of any objections.

Dividends not collected within five years of the day on which they became payable revert to the bank.

Art. 16**Withdrawal of a shareholder**

Withdrawal from the bank is only allowed in the circumstances permitted by law, on the basis and with the effects envisaged therein. In the event of withdrawal, the redemption of shares takes place in accordance with the law.

PROPOSED TEXT**Art. 15****Dividend**

Dividends not collected within five years of the day on which they became payable revert to the bank.

Comment

The first paragraph is abrogated since it is superceded by the regulations governing virtual securities and the centralisation of their administration with Monte Titoli.

Art. 16**Withdrawal of a shareholder**

Withdrawal from the bank is only allowed in the circumstances permitted by law, on the basis and with the effects envisaged therein.

On redemption of the shares held by a withdrawing or excluded shareholder, the amount due on the shares, while they remain listed on a regulated market, will be settled on the basis and terms envisaged in para. 3 of art. 2437 ter of the Italian Civil Code. If the bank's share cease to be listed on a regulated market, the settlement price will be determined by the Board of Directors in compliance with the criteria established in art. 2535 of the Italian Civil Code.

Comment

Improvements are made to the current text. In particular, the addition of the second paragraph governs better the settlement of amounts due to withdrawing shareholders, on the basis recommended by the bankers' association.

CURRENT TEXT

Art. 17

Reasons for exclusion

Shareholders covered by one of the cases envisaged in the last paragraph of art. 7 are excluded from the bank, after review by the Board of Directors. In addition, the Board of Directors may exclude from the bank:

- a) those responsible for damaging the interests or the prestige of the bank;
- b) those who have forced the bank to take legal action to obtain performance of contractual undertakings made to the bank;
- c) those covered by the situations described in art. 22.

The shareholder may, within thirty days of notification of exclusion sent by registered letter, request the Committee of Advisors to review such exclusion. It is not possible under any circumstances to suspend the challenged exclusion. The Committee of Advisors reports within thirty days of receipt of the appeal, determining if the exclusion should be re-examined or rejecting the request.

If the Committee of Advisors requires a re-examination, the Board of Directors will make a final decision with a reasoned resolution.

The excluded shareholder is entitled to redemption of the shares held, on the basis established by law, on presentation of the related share certificates. If the exclusion derives from the circumstances envisaged in letter c) above, the offset rules set out in paras. 2, 3 and 4 of art. 22 below are applied to the extent of the amount due to the bank.

PROPOSED TEXT

Art. 17

Reasons for exclusion

Shareholders covered by one of the cases envisaged in the third paragraph of art. 7 are excluded from the bank, after review by the Board of Directors. In addition, the Board of Directors may exclude from the bank:

- a) any shareholder responsible for damaging the interests or the prestige of the bank;
- b) any shareholder who has forced the bank to take legal action to obtain performance of contractual undertakings made to the bank;
- c) any shareholder who has not complied with agreements with bank, or is subject to court-supervised procedures, as described in art. 22 below.

The shareholder may, within thirty days of notification of exclusion sent by registered letter, request the Committee of Advisors to review such exclusion. It is not possible under any circumstances to suspend the challenged exclusion. The Committee of Advisors reports within thirty days of receipt of the appeal, determining if the exclusion should be re-examined or rejecting the request.

If the Committee of Advisors requires a re-examination, the Board of Directors will make a final decision with a reasoned resolution.

The excluded shareholder is entitled to redemption of the shares pursuant to art. 16 of the articles of association. If the exclusion derives from the circumstances envisaged in letter c) above, the offset rules set out in paras. 2, 3 and 4 of art. 22 below are applied to the extent of the amount due to the bank.

Comment

The changes to the second paragraph represent mere formalities.

CURRENT TEXT

PROPOSED TEXT

The reference to share certificates in the last paragraph has been deleted since these are now administered on a virtual basis; in addition, reference is made to art. 16 for the criteria used for settlement of the shares held by the excluded shareholder.

Art. 18

Death of a shareholder

In the event of the death of a shareholder, the relationship continues with the heirs. Given that the bank may object to the transfer of shares, the heirs must, having completed legal formalities, apply to the Board of Directors for the transfer of the shares into their names pursuant to and for the purposes of arts. 8, 9, 10, 11 and 12. The case of joint ownership is governed by the second paragraph of art. 19.

Art. 18

Death of a shareholder

In the event of the death of a shareholder, the relationship may continue with the heirs that meet the requirements for admission as shareholders of the bank, on condition that they apply for admission and such application is accepted.

The case of joint ownership is governed by the second paragraph of art. 19.

Comment

The first paragraph has been revised to envisage the continuation of the relationship with the heirs of a deceased shareholder, on condition that they apply for admission and are accepted.

Art. 19

Shares

The shares are indivisible.

If a share is jointly owned, the rights of the joint owners must be exercised by a common representative. If a common representative has not been appointed or if such appointment has not been communicated to the bank, the communications and declarations made by the bank to one of the joint owners are effective in relation to all of them. The joint owners of the share are jointly and severally liable for the obligations of ownership. The shares cannot be pledged or otherwise restricted in favour of third parties with consequences for the bank without the

Art. 19

Shares

The shares are indivisible.

If a share is jointly owned, the rights of the joint owners must be exercised by a common representative appointed in accordance with legal requirements. If a common representative has not been appointed or if such appointment has not been communicated to the bank, the communications and declarations made by the bank to one of the joint owners are effective in relation to all of them. The joint owners of the share are jointly and severally liable for the obligations of ownership. The shares cannot be pledged or otherwise restricted in favour

CURRENT TEXT

consent of the Board of Directors. Pledges or other restrictions that are not in favour of the bank take effect in relation to the bank from the time they are recorded in the shareholders' register. In the event of a pledge or the transfer of enjoyment rights, the shareholder retains the right to vote at shareholders' meetings.

Art. 20

Transfer of shares

The shares can be transferred on the basis established by law, including by endorsement, but the transfer must be approved in advance by the Board of Directors. Applications for authorisation of the transfer must be signed by the transferor and the transferee, or only by the latter if the legitimacy of the transfer can be demonstrated by a deed of transfer or other suitable documentation or by presentation of the share certificates bearing an unbroken series of endorsements authenticated on the basis required by law. The applications and subsequent process for the authorisation of the transfer are subject to the rules set out in arts. 8, 9, 10, 11 and 12.

If the transfer is not authorised, the transferee cannot exercise rights other than the related equity rights and cannot be recorded in the shareholders' register.

Art. 21

Purchase of own shares

The Board of Directors may acquire the bank's shares in accordance with art. 2522 of

PROPOSED TEXT

of third parties with consequences for the bank without the consent of the Board of Directors. Pledges or other restrictions that are not in favour of the bank take effect in relation to the bank from the time they are recorded in the shareholders' register. In the event of a pledge or the transfer of enjoyment rights, the shareholder retains the right to vote at shareholders' meetings.

Comment

An addition has been made to the second paragraph, in order to comply with art. 2347 of the Italian Civil Code.

Art. 20

Transfer of shares

The shares can be transferred on the basis established by law.

Comment

Only the first part of the first paragraph of the current art. 20 is retained.

The other provisions are superceded. In particular, the rule that subordinates the transfer of shares to the prior authorisation of the Board of Directors contrasts with the new regulations introduced by the reform of company law applying to people's banks. For the same reason, the last paragraph governing the non-authorisation of transfer must also be deleted.

The other provisions are superceded now that securities are administered on a virtual basis by Monte Titoli.

Art. 21

Purchase of own shares

The Board of Directors may acquire the bank's shares in accordance with art. 2529 of

CURRENT TEXT

the Italian Civil Code, to the extent of the specific reserve established out of distributable profits allocated for this purpose at the shareholders' meeting.

The shares purchased by the Board of Directors can be re-sold or cancelled.

Art. 22**Restrictions over shares**

By agreement with the shareholders, the shares are from the time of issue restricted and pledged in favour of the bank, even if the latter does not hold the related certificates, to guarantee all the direct and indirect obligations of the shareholder towards the bank. For this purpose, the bank has in any case the right to retain the shares that are held on deposit or otherwise.

If the shareholder is in breach with regard to the bank, or is subject to court supervised arrangements, the Board of Directors may, at its discretion, without prejudice to all other action and without need to give prior warning or for judicial formalities, sell all or part of the shares owned by the shareholder up to the amount due from the latter, inclusive of expenses and related charges, or proceed, using the reserve referred to in art. 21, to purchase shares up to the same amount at the closing price struck on the day of the transaction in the regulated market in which the shares are traded. If the shareholder is declared bankrupt, this offset takes place as of right on the date of the declaration.

If the share certificates are not held by the bank and the shareholder does not comply

PROPOSED TEXT

the Italian Civil Code, to the extent of the specific reserve established out of distributable profits allocated for this purpose at the shareholders' meeting.

The shares purchased can be re-sold or cancelled.

Comment

The reference to the Italian Civil Code has been updated, since art. 2522 has been replaced by art. 2529, which is similar. Certain other wording has also been improved.

Art. 22**Restrictions over shares**

By agreement with the shareholders, the shares are from the time of issue restricted and pledged in favour of the bank, even when not deposited with the latter, to guarantee all the direct and indirect obligations of the shareholder towards the bank. For this purpose, the bank has in any case the right to retain the shares that are held on deposit or otherwise.

If the shareholder is in breach with regard to the bank, or is subject to court supervised arrangements, the Board of Directors may, at its discretion, without prejudice to all other action and without need to give prior warning or for judicial formalities, sell all or part of the shares owned by the shareholder up to the amount due from the latter, inclusive of expenses and related charges, or proceed, using the reserve referred to in art. 21, to purchase shares up to the same amount at the closing price struck on the day of the transaction in the regulated market in which the shares are traded. If the shareholder is declared bankrupt, this offset takes place as of right on the date of the declaration.

If the shares are not held by the bank and the shareholder does not comply on a

CURRENT TEXT

on a timely basis with the bank's demand, sent by registered letter, to deposit them with the bank, the Board of Directors will arrange to cancel the share certificates that have not been deposited and issue duplicates, without formalities or restrictions, in order to implement the provisions of the previous paragraph. Pursuant to art. 1252 of the Italian Civil Code, the bank has the right to offset amounts due from an excluded shareholder against the proceeds from the sale of the shares, against the amount corresponding to a direct purchase, and against the right of the shareholder to settlement of the amount due on exclusion. Any surplus is held for the shareholder in an account that does not earn interest.

Art. 23

Redemption of shares

In the event of the redemption of shares, as envisaged in these articles of association, the Board of Directors cancels the certificates representing the shares concerned.

If the certificates are not deposited with the bank, the shareholder is sent a registered letter demanding that they be delivered within fifteen days; after this time interval has expired without result, the Board of Directors in any case cancels the certificates.

If the address of the shareholder is not known to the bank and it is not possible therefore to notify the demand, this is published in the Legal Announcements Sheet for the Province of Sondrio and the certificates are cancelled after four months

PROPOSED TEXT

timely basis with the bank's demand, sent by registered letter, to deposit them with the bank, the Board of Directors will arrange to cancel them and issue duplicates, without formalities or restrictions, in order to implement the provisions of the previous paragraph. Pursuant to art. 1252 of the Italian Civil Code, the bank has the right to offset amounts due from an excluded shareholder against the proceeds from the sale of the shares, against the amount corresponding to a direct purchase, and against the right of the shareholder to settlement of the amount due on exclusion. Any surplus is held for the shareholder in an account that does not earn interest.

Comment

The first and third paragraphs have been modified to reflect the fact that shares are now administered on a virtual basis by Monte Titoli. The change in the second paragraph reflects the new wording of art. 21.

Art. 23

Redemption of shares

The Board of Directors may use the reserve referred to in art. 21 to redeem the shares of an excluded shareholder or of a shareholder that has exercised the right to withdraw.

The redeemed shares can be re-sold or cancelled.

Comment

The current rules are completely superceded given that, as already mentioned, the shares are administered on a virtual basis by Monte Titoli; they are replaced by stating that the shares of an excluded or withdrawing shareholder can be redeemed by the Board of Directors by use of the reserve referred to in art.

CURRENT TEXT

have elapsed from the time of publication without result.

CHAPTER III

Company boards

Art. 24

Name

The bank's activities are managed, based on the delegated powers established by law and the following provisions, by:

- a) the Shareholders' meeting;
- b) the Board of Directors;
- c) the Chairman's Committee (Executive Committee), if appointed;
- d) the Chairman;
- e) the Chief Executive Officer, if appointed;
- f) the Board of Statutory Auditors;
- g) the Committee of Advisors;
- h) General management.

FIRST SECTION

Shareholders' meeting

Art. 25

General rules

The Shareholders' Meeting represents all of the shareholders and its resolutions, adopted in compliance with the law and with these articles of association, bind all of the shareholders, even if they were not present or disagree.

PROPOSED TEXT

21 above, as allowed by art. 2529 of the Italian Civil Code.

CHAPTER III

Company boards

Art. 24

Name

Unchanged

FIRST SECTION

Shareholders' meeting

Art. 25

General rules

Unchanged

CURRENT TEXT

Art. 26

Calling of the Shareholders' meeting

The shareholders' meeting is called, on the basis and with the timing required by law, by the Board of Directors and is held at the bank's registered offices or at any other place indicated in the notice of meeting.

The shareholders' meeting is either ordinary or extraordinary. In addition to the occasions required by law, the Board of Directors must call the shareholders' meeting within one month on receipt of a written request stating the matters to be discussed, with signatures authenticated in the manner established by law, from at least one tenth of the shareholders entitled to vote at meetings at the time of the request.

The Board of Statutory Auditors may call the shareholders' meeting in the circumstances envisaged by law.

Art. 27

Attendance at meetings and proxies

Shareholders are entitled to attend shareholders' meetings and exercise their voting rights if they satisfy the requirement of art. 13.a) and have deposited their shares, at least five days prior to the date of the meeting, at the registered offices or at

PROPOSED TEXT

Art. 26

Calling of the Shareholders' meeting

The shareholders' meeting is called, on the basis and with the timing required by law, by the Board of Directors and is held at the bank's registered offices or at any other place indicated in the notice of meeting.

The shareholders' meeting is either ordinary or extraordinary. In addition to the occasions required by law, the Board of Directors must call the shareholders' meeting without delay following a written request stating the matters to be discussed, with signatures authenticated in the manner established by law, from at least one tenth of the shareholders entitled to vote at meetings at the time of the request.

The Board of Statutory Auditors may call the shareholders' meeting in the circumstances envisaged by law.

Comment

The change proposed to the third paragraph implements art. 2367.1 of the Italian Civil Code and takes account of the abrogation of art. 125 of the Consolidated Finance Law (Decree 58/98), which envisaged for listed issuers that a shareholders' meeting must be called within 30 days of the presentation of a reasoned request by the shareholders.

Art. 27

Attendance at meetings and proxies

Shareholders are entitled to attend shareholders' meetings and exercise their voting rights if they satisfy the requirement of art. 13.2 and have delivered to the registered offices, at least two working days prior to the date set for the meeting in first calling, the

CURRENT TEXT

branches of the bank or with the appointed bodies listed in the notice of convocation. Each shareholder has the right to one vote, regardless of the number of shares held. A shareholder may be represented by another shareholder in accordance with art. 2372.4 of the Italian Civil Code.

The proxy forms, to be completed in writing with the name of the representative and the shareholders' meeting concerned, are valid in both first and second calling. No shareholder can be a proxy for more than one other shareholder.

Shareholders who are minors can be represented at shareholders' meetings by their legal representative, even if the latter is in one of the situations envisaged by art. 2372.4 of the Italian Civil Code or is not a shareholder of the bank.

It is not possible to vote by correspondence.

PROPOSED TEXT

specific communication for the issuer received from the appointed intermediary that holds the shares on deposit this communication is not required from shareholders who have deposited their shares with the bank or other banks within the group. The securities cannot be collected before the shareholders' meeting has taken place.

Each shareholder has the right to one vote, regardless of the number of shares held. A shareholder may be represented by another shareholder in accordance with art. 2372.5 of the Italian Civil Code.

The proxy forms, to be completed in writing with the name of the representative and the shareholders' meeting concerned, are valid in both first and second calling. No shareholder can be a proxy for more than one other shareholder.

Shareholders who are minors can be represented at shareholders' meetings by their legal representative, even if the latter is in one of the situations envisaged by art. 2372.5 of the Italian Civil Code or is not a shareholder of the bank.

It is not possible to vote by correspondence.

Comment

The first paragraph has been reworded to take account of the new provisions contained in art. 2370 of the Italian Civil Code regarding participation at shareholders' meetings.

As envisaged in para. 2 of the above article, the deadline for receipt by the bank of the communication confirming the right to attend, issued by the appointed intermediary that holds the bank's shares on deposit, is two working days prior to the date set for the shareholders' meeting held in first calling.

CURRENT TEXT

PROPOSED TEXT

Art. 28

Chairman of Shareholders' Meetings Secretary - Scrutineers

Ordinary and extraordinary shareholders' meetings are chaired by the Chairman of the Board of Directors or, if absent or unavailable, by his deputy or, otherwise, by a shareholder appointed by those present. The chairman of the shareholders' meeting has full powers to direct the business of the meeting and, in particular, to check that it is quorate and able to adopt resolutions, to direct and moderate the discussions and to establish the methods of voting. The shareholders' meeting, on a proposal from the chairman, elects a secretary who takes the minutes; at extraordinary meetings and whenever considered appropriate by the chairman, the secretarial functions are performed by a notary.

Art. 28

Chairman of Shareholders' Meetings Secretary - Scrutineers

An exception is made for the shares already deposited with the bank or other banks in the group, since in this case it is possible to check directly that the requirements for attendance at the shareholders' meeting are met.

The proposed changes are intended to ensure efficient and orderly access to the meeting by shareholders, considering the broad shareholder base and the large number of participants at meetings.

Again in compliance with art. 2370 of the Italian Civil Code, it is envisaged that the shares cannot be collected until the shareholders' meeting has taken place.

The reference to art. 13 has also been amended, since letter a) has been abrogated.

The reference to art. 2372 of the Italian Civil Code has been updated in the third and sixth paragraphs.

Ordinary and extraordinary shareholders' meetings are chaired by the Chairman of the Board of Directors or, if absent or unavailable, by his deputy or, otherwise, by a shareholder appointed by those present. The chairman of the shareholders' meeting has full powers to direct the business of the meeting and, in particular, to check the identity of participants and the legitimacy of their right to attend the meeting; that it is quorate and able to adopt resolutions; to direct and moderate the discussions and the conduct of business and to establish the methods of voting, determining the results.

The shareholders' meeting, on a proposal from the chairman, elects a secretary who

CURRENT TEXT

On a proposal from the chairman, the shareholders' meeting appoints two or more scrutineers from among the shareholders present.

Art. 29**Ordinary shareholders' meeting**

The ordinary shareholders' meeting, called to resolve on the matters referred to in art. 2364 of the Italian Civil Code, must be held at least once each year, usually within four months of the end of the financial year. The meeting is quorate in first calling with the presence, directly or via proxies, of at least one quarter of the shareholders entitled to vote; in second calling, with the presence or representation of any number of shareholders.

The ordinary shareholders' meeting adopts resolutions by an absolute majority of the votes cast; the appointment of directors and officers takes place with the relative majority of the votes cast. Voting at the shareholders' meeting takes place by a show of hands, while the directors and officers are appointed by secret ballot. In the event of a tie for the appointment of directors and officers, the eldest candidate is elected.

With regard to all other voting, in the case of a tie the motion is deemed to have been rejected.

PROPOSED TEXT

takes the minutes; at extraordinary meetings and whenever considered appropriate by the chairman, the secretarial functions are performed by a notary.

On a proposal from the chairman, the shareholders' meeting appoints two or more scrutineers from among the shareholders present.

Comment

The tasks of the meeting's chairman are clarified in the second paragraph having regard for the new provisions of art. 2371 of the Italian Civil Code.

Art. 29**Ordinary shareholders' meeting**

The ordinary shareholders' meeting, called to resolve on the matters referred to in art. 2364 of the Italian Civil Code, must be held at least once each year, usually within one hundred and twenty days of the end of the financial year. The meeting is quorate in first calling with the presence, directly or via proxies, of at least one quarter of the shareholders entitled to vote; in second calling, with the presence or representation of any number of shareholders.

The ordinary shareholders' meeting adopts resolutions by an absolute majority of the votes cast; the appointment of directors and officers takes place with the relative majority of the votes cast. Voting at the shareholders' meeting takes place by a show of hands, while the directors and officers are appointed by secret ballot. In the event of a tie for the appointment of directors and officers, the eldest candidate is elected.

With regard to all other voting, in the case of a tie the motion is deemed to have been rejected.

CURRENT TEXT

Art. 30

Extraordinary Shareholders' Meeting

Extraordinary meetings are called in the circumstances defined in the relevant legislation. The extraordinary shareholders' meeting adopts resolutions by an absolute majority of the votes cast, but this majority – even when the law requires a special majority – must represent, in first calling, the votes in favour of at least one quarter of the shareholders entitled to vote and, in second calling, the votes in favour of at least one fiftieth of such shareholders.

However, with regard to changes in the corporate object, the transformation of the bank or its early winding up pursuant to art. 2448.5 of the Italian Civil Code, the absolute majority in both first and second callings must comprise at least one third of the shareholders entitled to vote.

PROPOSED TEXT

Art. 30

Extraordinary Shareholders' Meeting

Extraordinary meetings are called in the circumstances defined in the relevant legislation. The extraordinary shareholders' meeting adopts resolutions by an absolute majority of the votes cast, but this majority – even when the law requires a special majority – must represent, in first calling, the votes in favour of at least one fifth of the shareholders entitled to vote and, in second calling, the votes in favour of at least one hundredth of such shareholders.

However, with regard to changes in the corporate object, the transformation and the merger of the bank, its early winding up pursuant to art. 2484.6 of the Italian Civil Code, or in this article, the absolute majority in first calling must comprise the votes in favour of at least one third of the shareholders entitled to vote and, in second calling, the votes in favour of at least one thirtieth of such shareholders.

Comment

The proposed changes to paragraphs 2 and 3 regarding the quorum of extraordinary meetings take account of the rapid increase in the shareholder base.

In paragraph 3, the reference to art. 2448.5 of the Italian Civil Code is replaced by art. 2484.6, which is similar.

The circumstances covered by the third paragraph include the merger of the bank and changes to the wording of the third paragraph.

CURRENT TEXT**PROPOSED TEXT****Art. 31****Art. 31****Minutes of the Shareholders' Meeting****Minutes of the Shareholders' meeting**

Minutes of the meetings and the resolutions adopted must be taken and recorded in the related minute book, signed by the chairman and the secretary. This book must also contain a transcription of the minutes taken by notaries.

Unchanged

The above minute book and extracts from it, certified as authentic by the chairman and the secretary of the shareholders' meeting, or by the Chairman of the Board of Directors or by his deputy, represent proof of the meetings and the resolutions adopted at them.

SECOND SECTION**SECOND SECTION****Board of directors****Board of directors****Art. 32****Art. 32****Composition and appointment****Composition and appointment**

The Board of Directors comprises fifteen members, elected at the shareholders' meeting from among the shareholders entitled to vote at shareholders' meetings.

Unchanged

The directors are exonerated from the payment of a guarantee deposit and are not responsible for the effects of their work beyond the responsibilities established by law.

Art. 33**Art. 33****Requirements - Reasons for non-election****Requirements - Reasons for non-election**

The directors must possess the subjective requirements established by law, and by the supervisory regulations applicable to banks.

Unchanged

CURRENT TEXT

Art. 34

Term of office

The directors are appointed for a three-year period, except for the rotation described in the next paragraph, and may be re-elected.

One third of the Board of Directors is renewed every year. In this regard, a draw is held if the expiry of the directors cannot be determined with reference to their length of service.

Art. 35

Replacement of directors

If for any reason the Board loses one or more directors during the course of the year, the others must take steps to replace them, by adopting a resolution approved by the Board of Statutory Auditors. The directors appointed in this way remain in office until the next shareholders' meeting. If the Board loses the majority of its directors, those remaining in office must call the shareholders' meeting to appoint replacements for those who have left office.

The directors appointed at the shareholders' meeting take the place and, for the purposes of the rotation referred to in the second paragraph of art. 34, the seniority in office of those who they replaced. In the event of simultaneous appointments to positions of different durations, the longest duration is allocated to the director appointed with the

PROPOSED TEXT

Art. 34

Term of office

The directors are appointed for three financial years, except for the rotation described in the next paragraph, and may be re-elected. The mandate of the directors expires on the date of the shareholders' meeting called to approve the financial statements for their last financial year in office.

One third of the Board of Directors is renewed every financial year. In this regard, a draw is held if the expiry of the directors cannot be determined with reference to their length of service.

Comment

This article has been amended in line with the new provisions of art. 2383.2 of the Italian Civil Code.

Art. 35

Replacement of directors

If for any reason the Board loses one or more directors during the course of the year, the others must take steps to replace them, by adopting a resolution approved by the Board of Statutory Auditors. The directors appointed in this way remain in office until the next shareholders' meeting. If the Board loses the majority of the directors appointed at the shareholders' meeting, those remaining in office must call the shareholders' meeting to appoint replacements for those who have left office.

The directors appointed at the shareholders' meeting take the place and, for the purposes of the rotation referred to in the second paragraph of art. 34, the seniority in office of those who they replaced. In the event of simultaneous appointments to positions of different durations, the longest duration is allocated to the director appointed with the

CURRENT TEXT

highest number of votes and, in the case of a tie, to the eldest director.

Art. 36**Board appointments**

The Board of Directors elects a chairman and one or two deputy chairmen from among its members and may appoint a chief executive officer, specifying his powers. These officers remain in office until their respective appointments as directors expire. If the chairman is absent or unavailable, he is replaced by the deputy chairman or, if there are two deputy chairmen, by the deputy chairman appointed by the Board as the specific deputy of the chairman; if this appointment is not made, the order of replacement by the two deputy chairmen reflects their respective seniorities in office.

If the deputy chairman or the deputy chairmen are also absent or unavailable, the related functions are performed by the chief executive officer, if appointed, or otherwise by the eldest director – or in the event of equality by the longest-serving director – unless the Board allocates them to another director, who retains the duties until the next date for the re-appointment of directors. The Board appoints a secretary from among its members or requests the general manager or, if absent, his deputy, to perform this function.

If the office of chairman or deputy chairman becomes vacant during the year, the Board of Directors – having co-opted a new director in accordance with art. 35 – makes the related appointment.

PROPOSED TEXT

highest number of votes and, in the case of a tie, to the eldest director.

Comment

The second paragraph is modified to comply with the provisions of art. 2386.2 of the Italian Civil Code.

Art. 36**Board appointments**

The Board of Directors elects a chairman and one or two deputy chairmen from among its members and may appoint a chief executive officer, specifying his powers. These officers remain in office until their respective appointments as directors expire. If the chairman is absent or unavailable, he is replaced by the deputy chairman or, if there are two deputy chairmen, by the deputy chairman appointed by the Board as the specific deputy of the chairman; if this appointment is not made, the order of replacement by the two deputy chairmen reflects their respective seniorities in office.

If the deputy chairman or the deputy chairmen are also absent or unavailable, the related functions are performed by the chief executive officer, if appointed, or otherwise by the eldest director – or in the event of equality by the longest-serving director – unless the Board allocates them to another director, who retains the duties until the next date for the re-appointment of directors. The Board appoints a secretary from among its members or requests the general manager or a member of general management or another senior employee to perform this function.

If the office of chairman or deputy chairman becomes vacant during the year, the Board of Directors – having co-opted a new

CURRENT TEXT**PROPOSED TEXT****Art. 37****Meetings of the Board of Directors**

The Board of Directors is called to ordinary meetings every two months and to extraordinary meetings every time the chairman deems it necessary. The Board also meets when at least one third of the directors submit a reasoned request for a meeting; in this case, the meeting must be held within fifteen days of the request, unless the nature of the matters to be examined requires a longer period of time.

Meetings are called by the chairman or his deputy, by a notice sent to the individual residence of the directors and serving statutory auditors at least five days prior to the date fixed for the meeting, except in urgent cases when the above notice and procedures can be waived by sending a telegram, telex or fax, or by making telephone contact.

The Board of Statutory Auditors and the Chairman's Committee may call meetings of the Board of Directors, on the basis established by law.

The general manager attends the meetings of the Board of Directors, pursuant to art. 54, unless they are declared secret.

Art. 38**Chairmanship and resolutions**

The meetings of the Board of Directors are chaired by the Chairman or by his deputy, pursuant to art. 36.

director in accordance with art. 35 – makes the related appointment.

Comment

The fourth paragraph is expanded to envisage the appointment of a senior bank employee as the secretary to the Board.

Art. 37**Meetings of the Board of Directors**

Unchanged

Art. 38**Chairmanship and resolutions**

The meetings of the Board of Directors are chaired by the Chairman or by his deputy, pursuant to art. 36.

CURRENT TEXT

The quorum for board meetings is a simple majority of the directors in office.

Resolutions are adopted by an absolute majority of the votes; in the event of a tie, the chairman of the meeting has the casting vote.

Appointment of the chairman, the deputy chairman or chairmen, the chief executive officer and the director referred to in the third paragraph of art. 36 requires the votes in favour of at least ten directors.

The rules set down in art. 53 below apply to resolutions regarding the general manager and other members of general management.

PROPOSED TEXT

In addition to calling the Board of Directors, the chairman decides on the agenda and coordinates the proceedings, ensuring that suitable information is provided to all the directors about the matters placed on the agenda.

The quorum for board meetings is a simple majority of the directors in office.

Resolutions are adopted by a show of hands and by the absolute majority of the votes cast; in the event of a tie, the chairman of the meeting has the casting vote.

Appointment of the chairman, the deputy chairman or chairmen, the chief executive officer and the director referred to in the third paragraph of art. 36 requires the votes in favour of at least ten directors. The rules set down in art. 53 below apply to resolutions regarding the general manager and other members of general management.

Comment

The duties of the chairman of the Board of Directors are more fully described in the first paragraph, having regard for the new provision of art. 2381.1 of the Italian Civil Code. The third paragraph clarifies that resolutions are adopted by a show of hands.

Art. 39**Directors' emoluments**

The remuneration of the Board of Directors is fixed each year at the shareholders' meeting.

The shareholders' meeting also determines the amount of attendance fees and the flat rate or other reimbursement of the expenses incurred by directors for attendance at board meetings.

Art. 39**Directors' emoluments**

Unchanged

CURRENT TEXT

Having heard the opinion of the Board of Statutory Auditors, the Board of Directors fixes the remuneration of those directors with special duties envisaged by the articles of association.

Art. 40**Minutes of the Board of Directors**

Minutes of the Board meetings and the resolutions adopted must be taken and recorded in the related minute book, signed by the chairman and the secretary. The minutes are presented to the Board for approval at the next meeting or, at the latest, at the meeting after that. The above minute book and extracts from it, certified as authentic by the chairman and the secretary, or by the Chairman of the Board of Directors or by his deputy, represent proof of the meetings and the resolutions adopted at them.

Art. 41**Powers of the Board of Directors**

The Board of Directors exercises all powers of ordinary and extraordinary administration, except for those reserved solely for the shareholders' meeting. In addition to the powers that cannot be delegated by law, the decisions regarding the following matters are reserved solely for the Board of Directors:

- determination of strategic guidelines for operations;
- appointment of the Chairman's Committee (Executive Committee) and delegation of the related duties;
- appointment of the chief executive officer, if applicable, and delegation of the related powers;
- determination of the members of general management, their job titles and their

PROPOSED TEXT**Art. 40****Minutes of the Board of Directors**

Unchanged

Art. 41**Powers of the Board of Directors**

The Board of Directors exercises all powers of ordinary and extraordinary administration, except for those reserved solely for the shareholders' meeting. In addition to the powers that cannot be delegated by law, the decisions regarding the following matters are reserved solely for the Board of Directors:

- determination of strategic guidelines for operations;
- appointment of the Chairman's Committee (Executive Committee) and delegation of the related duties;
- appointment of the chief executive officer, if applicable, and delegation of the related powers;
- determination of the members of general management, their job titles and their

CURRENT TEXT

duties; appointment, removal and firing of management;

- appointment and firing of executives;
- the formation of committees or commissions for consultative purposes, establishing their composition, duties and functioning, as well as any attendance fees for any members who are not directors;
- delegation of decision-making powers regarding the granting of loans;
- decisions regarding equity investments;
- decisions on the taking of legal and administrative action at all levels and stages in the legal process, except in relation to the recovery of loans;
- determination of the criteria for the coordination and management of group companies and for the implementation of instructions from the Bank of Italy.

The directors inform the Board of Statutory Auditors at board meetings about the activities performed and the principal economic and financial transactions made by the bank or its subsidiary companies. In particular, they report on all operations involving a potential conflict of interest.

PROPOSED TEXT

duties; appointment, removal and firing of management;

- appointment and firing of executives;
- the formation of committees or commissions for consultative purposes, establishing their composition, duties and functioning, as well as any attendance fees for any members who are not directors;
- delegation of decision-making powers regarding the granting of loans;
- decisions regarding equity investments, except for those involving the acceptance of unlimited liability for the obligations of the company concerned. Decisions on the latter are reserved for the shareholders' meeting;
- decisions on the taking of legal and administrative action at all levels and stages in the legal process, except in relation to the recovery of loans;
- determination of the criteria for the coordination and management of group companies and for the implementation of instructions from the Bank of Italy.

The Board of Directors also has sole responsibility for decisions to align the articles of association with regulatory requirements, for the opening and closing of secondary offices, and for the absorption of companies that are wholly owned or at least 90% owned.

The directors inform the Board of Statutory Auditors at board meetings about the activities performed and the principal economic and financial transactions made by the bank or its subsidiary companies. In particular, they report on all operations in which they have an interest, either directly or on behalf of third parties.

Comment

The second paragraph regarding the decisions on equity investments is modified to include

CURRENT TEXT

PROPOSED TEXT

the limitation introduced by art. 2361.2 of the Italian Civil Code.

The third paragraph, which is entirely new, empowers the Board of Directors to establish secondary offices, align the articles of association with regulatory requirements and to decide on the merger of companies that are wholly owned or at least 90% owned. This reflects the provisions of art. 2365.2 of the Italian Civil Code. As noted by the Bank of Italy in a letter (prot. 251784) to the bank dated 17 March 2004, the granting of these powers to the Board of Directors simplifies the adoption of the related resolutions and helps to improve the efficiency of operations.

An addition has been made to the final paragraph in order to comply with art. 150 of the Consolidated Finance Law (Decree 58/98).

Art. 42

Delegation of board powers

In compliance with the law and the articles of association, the Board of Directors may delegate its powers to an Executive Committee, known as the Chairman's Committee, established on the basis described in art. 43, and to a director who takes the position of chief executive officer, determining the limits on the powers associated with the respective mandates.

The Board of Directors may also delegate specific powers for certain types of transaction or deed to individual directors, the general manager or members of general management, acting together or alone.

With regard to lending, the Board may delegate decision-making powers not only to the Chairman's Committee and the chief executive officer, but also to the general

Art. 42

Delegation of board powers

In compliance with the law and the articles of association, the Board of Directors may delegate its powers to an Executive Committee, known as the Chairman's Committee, established on the basis described in art. 43, and to a director who takes the position of chief executive officer, determining the limits on the powers associated with the respective mandates.

The Chairman's Committee reports to the Board of Directors and the Board of Statutory Auditors, once per quarter, on the bank's general performance (including its exposure to risks) and outlook, as well as on the principal transactions carried out by the bank and its subsidiaries.

The Board of Directors may also delegate specific powers for certain types of transaction

CURRENT TEXT

manager, members of general management, executives, officials, branch managers and their deputies or close assistants, to be exercised either together with others or alone, within predetermined limits that depend on their roles and seniority within the bank. Decisions taken by those to whom powers have been delegated are subsequently brought to the Board's attention in ways laid down by the Board, at the next Board meeting.

PROPOSED TEXT

or deed to individual directors, the general manager or members of general management, acting together or alone.

With regard to lending, the Board may delegate decision-making powers not only to the Chairman's Committee and the chief executive officer, but also to other lending committees, the general manager, members of general management, executives, 3rd and 4th level supervisors, branch managers and their deputies or close assistants, to be exercised either together with others or alone, within predetermined limits that depend on their roles and seniority within the bank. Decisions taken by those to whom powers have been delegated are subsequently brought to the Board's attention in ways laid down by the Board, at the next Board meeting.

Comment

The second paragraph is entirely new and applies the provisions of art. 2381.5 of the Italian Civil Code.

The fourth paragraph formalises the ability to delegate lending decisions to committees and, in addition, replaces the word «officials», now outdated, with 3rd and 4th level supervisors.

Chairman's Committee

Art. 43

The Executive Committee, known as the Chairman's Committee, is appointed by the Board of Directors and comprises:

- a) the Chairman, the deputy chairman or the deputy chairmen, the chief executive officer, if appointed, and the director referred to in the third paragraph of art. 36;

Chairman's Committee

Art. 43

The Executive Committee, known as the Chairman's Committee, is appointed by the Board of Directors and comprises:

- a) the Chairman, the deputy chairman or the deputy chairmen, the chief executive officer, if appointed, and the director referred to in the third paragraph of art. 36;

CURRENT TEXT

- b) three directors appointed each year by the Board at the first meeting held after the ordinary shareholders' meeting.

Unless declared secret, the meetings are usually also attended by the general manager, pursuant to the second paragraph of art. 54, or if he is absent or not available, by his deputy pursuant to art. 55.

When discussing specific matters or cases, the Chairman may invite other directors, members of general management, executives and officials to attend meetings without any voting rights.

The meetings of the Chairman's Committee, held with a frequency determined by the committee, are quorate when attended by the absolute majority of its members, including at least one of those listed in letter a) of the first paragraph. When meetings are not secret, the general manager or, if absent or unavailable, his deputy are included in the total for determining the majority. The meetings are chaired by the Chairman or, if absent or unavailable, as specified in the second and third paragraphs of art. 36.

Resolutions are adopted by an absolute majority of the votes cast; in the event of a tie, the Chairman of the meeting has the casting vote.

The secretarial functions are carried out by a person appointed by the Committee pursuant to the fourth paragraph of art. 36.

The resolutions adopted by the Chairman's Committee are communicated – in overall terms on lending matters – to the next meeting of the Board of Directors. The meetings of and resolutions adopted by the Chairman's Committee are set down in minutes recorded in a minute book signed by all those taking part in the meetings. The provisions of the second paragraph of art. 40 are applied.

PROPOSED TEXT

- b) three directors appointed for a financial year by the Board at the first meeting held after the ordinary shareholders' meeting.

Unless declared secret, the meetings are usually also attended by the general manager, pursuant to the second paragraph of art. 54, or if he is absent or not available, by his deputy pursuant to art. 55.

When discussing specific matters or cases, the Chairman may invite other directors, members of general management, executives and 3rd and 4th level supervisors to attend meetings without any voting rights.

The meetings of the Chairman's Committee, held with a frequency determined by the committee, are quorate when attended by the absolute majority of its members, including at least one of those listed in letter a) of the first paragraph. When meetings are not secret, the general manager or, if absent or unavailable, his deputy are included in the total for determining the majority.

The meetings are chaired by the Chairman or, if absent or unavailable, as specified in the second and third paragraphs of art. 36.

Resolutions are adopted by a show of hands and by an absolute majority of the votes cast; in the event of a tie, the Chairman of the meeting has the casting vote.

The secretarial functions are carried out by a person appointed by the Committee pursuant to the fourth paragraph of art. 36.

The resolutions adopted by the Chairman's Committee are communicated – in overall terms on lending matters – to the next meeting of the Board of Directors. The meetings of and resolutions adopted by the Chairman's Committee are set down in minutes recorded in a minute book signed by all those taking part in the meetings. The provisions of the second paragraph of art. 40 are applied.

CURRENT TEXT**PROPOSED TEXT****Comment**

Following the logic of the changes made to art. 34 above, the term «each year» is replaced with «one financial year» in letter b) of the first paragraph. The word «officials» is replaced by 3rd and 4th level supervisors in the third paragraph. The sixth paragraph clarifies that resolutions are adopted by a show of hands.

Chairman

Chairman

Art. 44**Art. 44**

In addition to the functions and powers envisaged by other provisions of the articles of association, the Chairman of the Board of Directors monitors the performance of the bank and may take urgent decisions or action – including the promotion of legal or administrative action at all levels in the legal process, including appeals and applications to the Court of Cassation – that would otherwise be reserved for the Board of Directors or the Chairman's Committee, informing them about such deeds at the next meeting. With regard to lending, the Chairman makes his decisions on proposals from the general manager.

Unchanged

If absent or unavailable, the functions and powers of the Chairman are carried out and exercised by his deputy pursuant to art. 36 of these articles of association.

The right to exercise the powers envisaged in the foregoing paragraphs and compliance with the obligation to inform the Board of Directors or the Chairman's Committee regarding the decisions made and actions taken cannot be challenged by third parties.

CURRENT TEXT

Chief Executive Officer

Art. 45

The chief executive officer, if appointed pursuant to art. 36, performs the functions described in the articles of association and exercises the powers delegated by the Board of Directors. He works closely with the Chairman and the Chairman's Committee, and usually reports via them to the Board of Directors regarding the decisions taken.

THIRD SECTION

Board of Statutory Auditors

Art. 46

Composition - Duration - Ineligibility

The Board of Statutory Auditors comprises three serving members and two alternate members, not necessarily shareholders, who are elected at the shareholders' meeting which also appoints the chairman of this board. The Board of Statutory Auditors remains in office for three years and can be re-elected.

The causes for ineligibility and the lapsing of appointments described in art. 17 above are applicable, in addition to those established by law. In addition, persons may not be appointed as a statutory auditor if they are serving auditors for more than five listed companies or are directors or management committee members of other banks, except for people's banks and affiliated companies.

PROPOSED TEXT

Chief Executive Officer

Art. 45

Unchanged

THIRD SECTION

Board of Statutory Auditors

Art. 46

Composition - Duration - Ineligibility

The Board of Statutory Auditors comprises three serving members and two alternate members, not necessarily shareholders, who are elected at the shareholders' meeting which also appoints the chairman of this board.

The Board of Statutory Auditors remains in office for three financial years, expiring on the date of the shareholders' meeting called to approve the financial statements regarding the third financial year of their appointment, and can be re-elected.

The causes for ineligibility and the lapsing of appointments described in art. 17 above are applicable, in addition to those established by law. In addition, persons may not be appointed as a statutory auditor if they are serving auditors for more than five listed companies or are directors or management committee members of other banks, except for people's banks and affiliated companies.

CURRENT TEXT**PROPOSED TEXT****Art. 47****Presentation of lists of candidates**

The Board of Statutory Auditors is appointed on the basis of lists presented by the shareholders, in which the candidates are given consecutive numbers.

Each list comprises two sections: one for candidate serving auditors and the other for candidate alternate auditors. Each list must propose three candidate serving auditors and two candidate alternate auditors. The lists must be filed at the registered offices at least ten days prior to that fixed for the shareholders' meeting held in first calling. Individual shareholders can only contribute to the presentation of one list and each candidate can be present on only one list.

Lists may be presented by shareholders, meeting the requirements of letter a) in the first paragraph of art. 13, who together represent at least 0.75% of all the shareholders entitled to vote.

By the deadline for the filing of lists, the individual candidates must also file declarations at the registered offices accepting their nomination and confirming, under their own responsibility, that there are no reasons why they may be ineligible or incompatible, and that they meet the requirements established by law and the articles of association for appointment as a statutory auditor.

Comment

The changes to the second paragraph implement the new provisions of art. 2400 of the Italian Civil Code regarding the appointment and termination of the Board of Statutory Auditors.

Art. 47**Presentation of lists of candidates**

The Board of Statutory Auditors is appointed on the basis of lists presented by the shareholders, in which the candidates are given consecutive numbers.

Each list comprises two sections: one for candidate serving auditors and the other for candidate alternate auditors. Each list must propose three candidate serving auditors and two candidate alternate auditors. The lists must be filed at the registered offices at least ten days prior to that fixed for the shareholders' meeting held in first calling. Individual shareholders can only contribute to the presentation of one list and each candidate can be present on only one list.

Lists may be presented by shareholders, meeting the requirements of the second paragraph of art. 13.2, who together represent at least 0.50% of all the shareholders entitled to vote. By the deadline for the filing of lists, the individual candidates must also file declarations at the registered offices accepting their nomination and confirming, under their own responsibility, that there are no reasons why they may be ineligible or incompatible, and that they meet the requirements established by law and the articles of association for appointment as a statutory auditor.

Comment

The percentage of shareholders required to sign the lists of candidates is reduced in the fourth paragraph from 0.75% to 0.50% for the reasons given in the comment on art. 30 above, namely

CURRENT TEXT

PROPOSED TEXT

Art. 48

Election of Statutory Auditors

Those entitled to vote can only vote for one list of candidates.

The procedure for electing the Board of Statutory Auditors is as follows:

- a) two serving auditors and one alternate auditor are taken from the list that won the most votes, in the order in which they are listed in the respective sections;
- b) one serving auditor and one alternate auditor are taken from the list that won the second highest number of votes, in the order in which they are listed in the respective sections.

If two or more lists obtain the same number of votes, the list whose first candidate serving auditor is the eldest shall prevail. Lists that do not obtain at least 15% of all the votes cast at the shareholders' meeting will be ignored. If only one list exceeds this threshold and if only one list is presented, all the serving and alternate auditors will be elected from that list.

The first candidate in the list winning the most votes or, if there is only one list, the first candidate on that list, is appointed as Chairman of the Board of Statutory Auditors.

Art. 49

Replacement of Statutory Auditors

If one or more serving auditors cease to serve, the alternate auditors on the same list are appointed in their place, in order of their age. The replacement auditors remain in office until the next shareholders' meeting, which must appoint the statutory auditors needed to make up the number required. In the situation described in

the rapid increase in the size of the shareholder base.

The reference to art. 13 is also updated.

Art. 48

Election of Statutory Auditors

Unchanged

Art. 49

Replacement of Statutory Auditors

Unchanged

CURRENT TEXT

the previous paragraph, the functions of the chairman who has ceased to serve are performed, until the next shareholders' meeting, by the eldest serving auditor elected from the same list. The shareholders' meeting replaces the Statutory Auditors in the following manner:

- a) if it is necessary to replace statutory auditors drawn from the only list presented or, if there is more than one, from the list winning the most votes, the new serving auditor or auditors, and any appointment as Chairman, are appointed by a relative majority of the votes cast for the individual candidates;
- b) if it is necessary to replace auditors drawn from another list pursuant to letter b) of the second paragraph of art. 48 above, the election is decided by the relative majority of votes cast for the candidates on the list of the statutory auditors to be replaced.

If this methodology cannot be applied, the shareholders' meeting decides by a relative majority of the votes cast for the individual candidates, without regard for their lists.

At least ten days prior to that fixed for the shareholders' meeting held in first calling, the candidates must confirm: their acceptance of nomination and – where applicable – of any designation as chairman; their declaration that there are no reasons why they may be ineligible or incompatible and that they meet the requirements for the office of statutory auditor.

Art. 50

Tasks of the Board of Statutory Auditors

The Board of Statutory Auditors monitors: compliance with the law, the articles of association, the regulations and the shareholders' resolutions; compliance with the principles of proper administration; the adequacy of the bank's organisational structure, with regard to the aspects relevant to the board, and of the system of internal controls

PROPOSED TEXT

Art. 50

Tasks of the Board of Statutory Auditors

Unchanged

CURRENT TEXT

and the accounting and administrative system, as well as the reliability of this last system to present properly the results of operations.

The Board of Statutory Auditors also performs all the other duties required by law, taking account furthermore of the role of the auditors established in the supervisory instructions for banks.

The Board of Statutory Auditors must attend Shareholders' Meetings, the meetings of the Board of Directors and those of the Chairman's Committee.

The minutes and deeds of the Board of Statutory Auditors must be signed by all those taking part.

Art. 51

Statutory Auditors' emoluments

The Shareholders' Meeting establishes the annual emoluments of the statutory auditors for the entire three-year period; it also determines the fees for attending the meetings of the Board of Directors and the Chairman's Committee and, on a flat-rate basis or otherwise, the reimbursement of the expenses incurred in the performance of their duties.

PROPOSED TEXT

Art. 51

Statutory Auditors' emoluments

The Shareholders' Meeting establishes the annual emoluments of the statutory auditors for the entire duration of their appointment; it also determines the fees for attending the meetings of the Board of Directors and the Chairman's Committee and, on a flat-rate basis or otherwise, the reimbursement of the expenses incurred in the performance of their duties.

Comment

The text is aligned with the provisions of art. 2402 of the Italian Civil Code.

FOURTH SECTION

Advisory committee

Art. 52

The Committee of Advisors comprises three serving and two alternate members chosen from among the shareholders at the ordinary shareholders' meeting.

FOURTH SECTION

Advisory committee

Art. 52

The Committee of Advisors comprises three serving and two alternate members chosen from among the shareholders at the ordinary shareholders' meeting.

CURRENT TEXT

They remain in office for three years, can be re-elected and work free-of-charge, except for the reimbursement of their expenses.

The Committee may appoint a chairman from among its members, who will call meetings as necessary and direct the related business.

The alternate members replace, in order of age and until the next shareholders' meeting, the serving members who cease to serve and, from time to time, the members who cannot participate in the making of decisions due to family ties or legitimate impediment. The Committee of Advisors makes a final decision, in equity, by an absolute majority and without any procedural restrictions, on any disputes between the bank and its shareholders and between shareholders regarding the interpretation or application of the articles of association or any other resolution or decision taken by the bank's boards affecting relations with the shareholders, except for disputes following the rejection of applications for admission as a shareholder and the exclusion of shareholders, for which the Committee of Advisors decides on requests for review pursuant to the second paragraph of art. 11 and the third and fourth paragraphs of art. 17.

PROPOSED TEXT

They remain in office for three financial years, ending on the date of the shareholders' meeting called to approve the financial statements for the third financial year of their mandate, can be re-elected and work free-of-charge, except for the reimbursement of their expenses.

The Committee may appoint a chairman from among its members, who will call meetings as necessary and direct the related business.

The alternate members replace, in order of age and until the next shareholders' meeting, the serving members who cease to serve and, from time to time, the members who cannot participate in the making of decisions due to family ties or legitimate impediment. The Committee of Advisors makes a decision, in equity, by an absolute majority and without any procedural restrictions, on any disputes between the bank and its shareholders and between shareholders regarding the interpretation or application of the articles of association or any other resolution or decision taken by the bank's boards affecting relations with the shareholders, except for disputes following the rejection of applications for admission as a shareholder and the exclusion of shareholders, for which the Committee of Advisors decides on requests for review pursuant to the second paragraph of art. 11 and the third and fourth paragraphs of art. 17.

Comment

For consistency, the term of office of the Board of Advisors is governed in the second paragraph on the basis applying to the directors and statutory auditors.

The word «final» has been deleted from the fifth paragraph to clarify that recourse to the Board of Advisors is optional and that its decisions are not binding, since the shareholders may still refer to the judicial authorities or any other competent authority.

CURRENT TEXT

FIFTH SECTION

General management

Art. 53

Composition and resolutions regarding members

General management comprises the general manager and the other members appointed by the Board of Directors, which determines the number of persons concerned and their duties.

The appointment, suspension, removal or firing of the general manager requires the votes in favour of at least ten board directors; the appointment, removal or firing of other members of general management requires the votes in favour of an absolute majority of board directors.

Art. 54

General Manager Functions and duties

The general manager, assisted by the other members of general management, implements the decisions taken by the Board of Directors, the Chairman's Committee and the chief executive officer, if appointed; supervises the functioning of the bank, its operations and services, performing the duties and exercising the powers granted under these articles of association and by other boards within the bank; decides independently on the taking of appropriate legal action for the recovery of loans. The general manager participates with a consultative vote at Board meetings that are not declared secret and with a decision-making vote at meetings of the Chairman's Committee that are not declared secret. The general manager is responsible for the bank's personnel. He may propose the recruitment, promotion and removal of employees and take the disciplinary action envisaged in the collective payroll agreements,

PROPOSED TEXT

FIFTH SECTION

General management

Art. 53

Composition and resolutions regarding members

Unchanged

Art. 54

General Manager Functions and duties

Unchanged

CURRENT TEXT

but not fire personnel; when required by the circumstances, he may temporarily suspend any employee while awaiting the adoption of definitive measures. With regard to the making of loans, the general manager exercises the powers delegated to him by the Board of Directors, pursuant to the third paragraph of art. 42, and may make proposals in all other cases.

Art. 55**Deputies of the General Manager**

If absent or unavailable, the general manager is replaced in the exercise of all allocated powers and functions by the member of General Management appointed by the Board of Directors as the deputy of the general manager; in the absence of this appointment, or if the deputy is absent or unavailable, the role of deputy is taken by the member of General Management that is immediately below the general manager by grade and seniority within that grade.

TITLE IV**Representation and official signature****Art. 56****Representation and official signature
Mandates and powers of attorney**

The Chairman represents the bank, signing alone, in dealings with third parties and in judgement, in both judicial and administrative courts, including the appeal court and the court of cassation; these powers are exercised by his deputy if he is absent or unavailable, temporarily or otherwise, pursuant to art. 36 and art. 44 of the articles of association. The Board of Directors may also delegate the power to represent the bank and sign alone on its behalf, for certain deeds or categories of deed, to the chief executive officer, if appointed, to individual directors, to

PROPOSED TEXT**Art. 55****Deputies of the General Manager**

Unchanged

TITLE IV**Representation and official signature****Art. 56****Representation and official signature
Mandates and powers of attorney**

The Chairman represents the bank, signing alone, in dealings with third parties and in judgement, in both judicial and administrative courts, including the appeal court and the court of cassation; these powers are exercised by his deputy if he is absent or unavailable, temporarily or otherwise, pursuant to art. 36 and art. 44 of the articles of association. The Board of Directors may also delegate the power to represent the bank and sign alone on its behalf, for certain deeds or categories of deed, to the chief executive officer, if appointed, to individual directors, to

CURRENT TEXT

the general manager and to other members of general management.

Signature powers are also exercised by each board director together with the general manager, a member of general management, an executive or an official.

The general manager or, if absent or unavailable, his deputy exercises the power to sign alone for all acts of ordinary administration.

Signature powers may also be delegated by the Board of Directors and by the Chairman's Committee, if so authorised by the Board, to members of general management, executives, officials and staff of the bank, establishing limits and the manner in which such powers will be exercised.

The Board of Directors may grant mandates and powers of attorney to employees of the bank and third parties for the performance of specific deeds or categories of deed.

The legitimate right to exercise powers to represent the bank, in judgement or otherwise, and to apply the official signature of the bank cannot be challenged by third parties.

CHAPTER V

Financial statements - Profits - Reserves

Art. 57

Financial statements

The bank's financial year ends on 31 December each year.

Following the end of each financial year, the Board of Directors arranges for the preparation of the financial statements and

PROPOSED TEXT

the general manager and to other members of general management.

Signature powers are also exercised by each board director together with the general manager or a member of general management.

The general manager or, if absent or unavailable, his deputy exercises the power to sign alone for all acts of ordinary administration.

Signature powers may also be delegated by the Board of Directors and by the Chairman's Committee, if so authorised by the Board, to members of general management, executives, 3rd and 4th level supervisors and staff of the bank, establishing limits and the manner in which such powers will be exercised.

The Board of Directors may grant mandates and powers of attorney to employees of the bank and third parties for the performance of specific deeds or categories of deed.

The legitimate right to exercise powers to represent the bank, in judgement or otherwise, and to apply the official signature of the bank cannot be challenged by third parties.

Comment

It is considered appropriate to restrict the granting of signature powers in the third paragraph. In addition, the word «officials» is replaced by 3rd and 4th level supervisors in the fifth paragraph.

CHAPTER V

Financial statements - Profits - Reserves

Art. 57

Financial statements

Unchanged

CURRENT TEXT

the report on operations, in accordance with legal requirements.

Art. 58**Allocation of profits**

The first deductions from the net profit for the year approved at the shareholders' meeting comprise:

- the percentage to be allocated to the legal or ordinary reserve in accordance with legal requirements;
- a percentage of not less than 20% and not more than 30% to be allocated to the statutory or extraordinary reserve.

The residual profit is allocated as follows:

- a) to the shareholders, for an amount that, based on a proposal by the Board of Directors, is established by the shareholders' meeting using prudent criteria;
- b) the balance on a proposal by the Board of Directors and approved by the shareholders' meeting, that may be used to establish or increase new or existing reserves, under whatever name, including the fund for the purchase of own shares and a fund for charitable donations and cultural and social activities.

On preparing the financial statements, the Board of Directors may allocate profit for the creation or increase reserves, prior to determining the net profit referred to in the first paragraph above.

Art. 59**Reserves**

In addition to the allocation of profit required by law and art. 58 above, the reserves include:

PROPOSED TEXT**Art. 58****Allocation of profits**

The first deductions from the net profit for the year approved at the shareholders' meeting comprise:

- the percentage to be allocated to the legal or ordinary reserve in accordance with legal requirements;
- a percentage of not less than 20% and not more than 30% to be allocated to the statutory or extraordinary reserve.

The residual profit is allocated as follows:

- a) to the shareholders, for an amount that, based on a proposal by the Board of Directors, is established by the shareholders' meeting using prudent criteria;
- b) the balance on a proposal by the Board of Directors and approved by the shareholders' meeting, that may be used to establish or increase new or existing reserves, under whatever name, including the reserve for the purchase of own shares and a reserve for charitable donations and cultural and social activities.

On preparing the financial statements, the Board of Directors may allocate profit for the creation or increase reserves, prior to determining the net profit referred to in the first paragraph above.

Comment

The change of wording in letter b) of the second paragraph reflects the revised wording of art. 21.

Art. 59**Reserves**

In addition to the allocation of profit required by law and art. 58 above, the reserves include:

CURRENT TEXT

- the share premium referred to in letter a) of the third paragraph of art. 6;
- the adjustment interest referred to in letter b) of the third paragraph of art. 6;
- the dividends declared on own shares held by the bank;
- the expired dividends reverting to the bank pursuant to the second paragraph of art. 15 above, and any other amount due to shareholders for capital transactions and other reasons covered by the articles of association that are not claimed and become time expired.

PROPOSED TEXT

- the dividends declared on own shares held by the bank;
- the expired dividends reverting to the bank pursuant to art. 15 above, and any other amount due to shareholders for capital transactions and other reasons covered by the articles of association that are not claimed and become time expired.

Comment

With regard to the changes referring to art. 6 above, the first two lines are eliminated from this article.

In the last line, the reference to art. 15 is corrected since it now comprises just one paragraph.

CHAPTER VI

Other provisions

Art. 60

Duplicate savings books

If savings books containing deposits not exceeding the amounts established by current regulations are lost, stolen or destroyed, the Board of Directors may authorise the issue of the related duplicates after thirty days have elapsed from the posting of a notice in the issuing branch that reports the loss and calls on any interested parties to come forward, provided that no objections are received during this time. If objections are received, duplicates are only issued on instructions from the judicial authorities.

CHAPTER VI

Other provisions

Art. 60

Duplicate savings books

Unchanged

Art. 61

Audit

The bank is audited in accordance with the law by a registered auditing firm appointed

CURRENT TEXT**PROPOSED TEXT**

at the shareholders' meeting, having received the opinion of the Board of Statutory Auditors.

Comment

This new article complies with the provisions of art. 2409 bis of the Italian Civil Code and, as recommended by the Supervisory Authorities, specifies the type of audit adopted by the bank.

CHAPTER VII**TITLE VII****Winding up and liquidation****Winding up and liquidation****Art. 61****Art. 62**

Without prejudice to the provisions contained in the third paragraph of art. 30 above, concerning the early winding up of the bank pursuant to art. 2448.5 of the Italian Civil Code, in the event of a winding up the shareholders' meeting will appoint the liquidators, determine their powers and how the liquidation will be conducted, and decide on the allocation of the net assets reported in the final balance sheet.

The allocation of the amounts due to the shareholders is made in proportion to their respective interests in the share capital of the bank.

Without prejudice to the provisions contained in the third paragraph of art. 30 above, concerning the early winding up of the bank pursuant to art. 2484.6 of the Italian Civil Code, in the event of a winding up the shareholders' meeting will appoint the liquidators, determine their powers and how the liquidation will be conducted, and decide on the allocation of the net assets reported in the final balance sheet.

The allocation of the amounts due to the shareholders is made in proportion to their respective interests in the share capital of the bank.

Comment

Following the introduction of art. 61 above, this article has been renumbered.

In addition, the reference to art. 2448.5 of the Italian Civil Code is replaced by art. 2484.6, which is similar.

Shareholders,

You are now invited to resolve on the directors' proposals, in the form of the following resolution presented for your approval, which includes the conferral of powers on the legal representatives:

«The extraordinary shareholders' meeting of Banca Popolare di Sondrio:

- having heard the report of the Board of Directors;
- having noted the report of the Board of Statutory Auditors;

hereby resolves:

- 1) – to approve the new wording of articles 1 and 2 (formation, name and object), 5, 6, 7, 8, 9, 10, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23 (shareholders' equity, shareholders, shares), 26, 27, 28, 29, 30 (shareholders' meeting), 34, 35, 36, 38, 41, 42 (board of directors), 43 (Chairman's Committee), 46, 47, 51 (Board of Statutory Auditors), 52 (Committee of Advisors), 56 (representation and official signature), 58 (allocation of profits), 59 (reserves) of the articles of association, as presented in the text proposed by the Board of directors;
 - to modify and renumber art. 61 (winding up and liquidation) and introduce a new art. 61 (audit) of the articles of association, as presented in the text proposed by the Board of directors;
- 2) to delegate to the Chairman and the Deputy Chairman, acting alone, the powers required to obtain release of the necessary authorisation from the Bank of Italy and to make public and effective under the law the above shareholders' resolution; as well as to make any changes, deletions and/or additions to this resolution that may be required by the competent authorities for the approval, filing, registration and publication required by law, all with the promise that such actions will be approved and deemed valid».

Sondrio, 20 March 2006

THE BOARD OF DIRECTORS

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE EXTRAORDINARY SHAREHOLDERS' MEETING CALLED FOR 8 APRIL 2006

Shareholders,

Modifications and additions to the current articles of association of the bank are required following the introduction of legislation affecting various provisions.

Accordingly, a new text prepared by the directors is now presented for your examination and approval, with the changes to the individual articles shown on a comparative basis and accompanied by suitable comments and explanations.

The Board of Statutory Auditors has checked that the new articles comply with legal requirements and has agreed to all the changes made.

We also note that the Bank of Italy has stated that there are no objections from a supervisory standpoint to the draft new articles of association.

This said, we consider it unnecessary to discuss the numerous changes in detail, since most of them are required by law and because they are needed for reasons that are easy to justify and understand.

Sondrio, 23 March 2006

THE BOARD STATUTORY AUDITORS

Egidio Alessandri, Chairman

Pio Bersani, Auditor

Piergiuseppe Forni, Auditor

**RESOLUTIONS OF THE ORDINARY
AND EXTRAORDINARY
ANNUAL GENERAL MEETING
OF THE SHAREHOLDERS**

held on 8 April 2006 (at second calling)

AGENDA

Ordinary part

- 1) *Presentation of the financial statements as of 31 December 2005: 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 directors;*
- 4) *Appointment of acting and alternate statutory auditors and the chairman of the Board of Statutory Auditors for the three-year period 2006-2008; determination of annual emoluments.*

Extraordinary part

- 1) *Amendments to the following articles of association: 1 and 2 (formation, name and objects), 5, 6, 7, 8, 9, 10, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23 (shareholders' equity, shareholders, shares), 26, 27, 28, 29, 30 (shareholders' meetings), 34, 35, 36, 38, 41, 42 (board of directors), 43 (chairman's committee), 46, 47, 51 (board of statutory auditors), 52 (board of advisors), 56 (representation and official signature), 58 (allocation of profits), 59 (reserves). It is also proposed to amend and renumber article 61 (winding up and liquidation) as number 62, in order to make room for a new article 61 (audit).*

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.

For the ordinary part, the shareholders' meeting, having heard the report of the Board of Directors on the 2005 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 2005 with the results shown in the balance sheet and income statement and related explanatory notes, which show a net profit for the year of € 85,178,406. The shareholders also approved the allocation of the net profit of € 85,178,406 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	€ 8,517,841.00
– 30% to the statutory reserve	€ 25,553,522.00
- b) to pay a dividend of € 0.19 to each of the 220,105,703 shares in circulation at 31/12/2005 with dividend rights as from 1/1/2005, transferring to the statutory reserve the amount of the dividends due to the treasury 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

	€ 41,820,083.57
--	-----------------
- c) to allocate to the reserve for treasury shares

	€ 9,000,000.00
--	----------------
- d) to allocate the residual net profit:

– to the reserve for donations	€ 250,000.00
– to the legal reserve, a further	€ 36,959.43

The shareholders also set aside € 38,000,000 – booked to «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 Claudio Benedetti, Attilio Piero Ferrari, Giuseppe Fontana, Carlo Grassi and Renato Sozzani as members of the Board of Directors for the three-year period 2006-2008.
- 5) the appointment of Egidio Alessandri (chairman of the Board of Statutory Auditors), Pio Bersani and Piergiuseppe Forni as acting statutory auditors for the three-year period 2006-2008, and Marco Antonio Dell'Acqua and Mario Vitali as alternate statutory auditors, determining their annual emoluments.

For the extraordinary part, the shareholders' meeting, having heard the report of the Board of Directors and taken note of the report of the Board of Statutory Auditors,

resolved

- 1) – to approve the new wording of articles 1 and 2 (formation, name and objects), 5, 6, 7, 8, 9, 10, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23 (shareholders' equity, shareholders, shares), 26, 27, 28, 29, 30 (shareholders' meetings), 34, 35, 36, 38, 41, 42 (board of directors), 43 (chairman's committee), 46, 47, 51 (board of statutory auditors), 52 (board of advisors), 56 (representation and official signature), 58 (allocation of profits), 59

(reserves) of the articles of association as proposed by the Board of Directors;

- to amend and renumber article 61 (winding up and liquidation) as number 62, in order to make room for a new article 61 (audit), as proposed by the Board of Directors.

- 2) To delegate to the Chairman and to the Deputy Chairman, separately, the powers needed to obtain the necessary authorisation from the Bank of Italy and to render public and executive, in accordance with the law, the above shareholders' resolution; in addition, to make to this resolution any changes, eliminations or additions that may be required by the competent Authorities so that it can be approved, deposited, registered and published according to the law, all with promise of full ratification and approval».

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
2005	4,029,597,013	9,197,849,967	11,928,279,967	1,119,500,111	85,178,406	0.190

The figures for the years prior to 1993 have not been adjusted for consistency with those of subsequent years, which have been classified differently in accordance with Decree 87/92. Those prior to 2005 have not been adjusted for consistency with that year when IFRSs were adopted for the first time.

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