





Banca Popolare di Sondrio

Founded 1871

ORDINARY AND EXTRAORDINARY ANNUAL GENERAL MEETING OF THE SHAREHOLDERS HELD ON 3 MARCH 2001

Limited liability co-operative bank
Head office in Piazza Garibaldi 16, 23100 Sondrio, Italy
Tel. (0342) 528.111 - Fax (0342) 528.204 - Telex 341424 POPSOTE I
Internet address: <http://www.popso.it> - e-mail: popso@popso.it - international@popso.it

Sondrio Companies Register no. 00053810149 - Official List of Banks no. 842
Parent company of the Banca Popolare di Sondrio Group - Official List of Banking Groups no. 5696.0 -
Member of the Interbank Deposit Protection Fund
Fiscal code and VAT number: 00053810149
Share capital: L. 343,915,160,000 - Reserves: L. 805,461,019,832

BOARD OF DIRECTORS

Chairman and Chief Executive Officer

PIERO MELAZZINI*

Deputy Chairman

SALVATORE BONOMO*

Directors

ALDO BALGERA
GIANLUIGI BONISOLO*
ALBERTO CREDARO*
GIUSEPPE FONTANA
MARIO GALBUSERA
CARLO GRASSI**
NICOLÒ MELZI DI CUSANO
ALDO ROSSI
RENATO SOZZANI*
LINO ENRICO STOPPANI
MARIO TESTORELLI
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

PIERGIUSEPPE FORNI
ROBERTO SCHIANTARELLI

Substitute Auditors

GIULIANO ORSINI
MARIO VITALI

ADVISORY COMMITTEE

Advisors

ALBERTO CRESPI
GIUSEPPE GUARINO
ANDREA MONORCHIO

Substitute Advisors

SUSANNA AGNELLI
ETTORE GALLO

GENERAL MANAGEMENT

General Manager

MARIO ALBERTO PEDRANZINI

Deputy General Managers

GIOVANNI RUFFINI
GIOVANNI CARLO MASSERA
GIUSEPPE FRANCO PAGANONI

BRANCH NETWORK

MANAGEMENT AND HEAD OFFICE
SONDRIO, piazza Garibaldi 16

BRANCH OFFICES

• SERVICE CENTRE «F. Morani» - S. Pietro Berbenno So - loc. Ranée 542 • INTERNATIONAL - lungo Mallerò Cadorna 24, Sondrio • COMMERCIAL BANKING, PUBLIC ENTITIES & TREASURIES, SUPPLY OFFICE, TECHNICAL OFFICE, SAFETY & SECURITY - corso Vittorio Veneto 7, Sondrio

PROVINCE OF SONDRIO

Head office: SONDRIO, piazza Garibaldi 16

Ordinary branches: SONDRIO: • Agenzia n. 1, via Bernina 1 • Agenzia n. 2, via Nani 32 • Agenzia n. 3, Ospedale Civile, via Stelvio 25 • Agenzia n. 4, piazzale Bertacchi 57 - ang. via N. Sauro • Albosaggia • Aprica • Ardenno • Bormio • Chiavenna • Chiesa in Valmalenco • Delebio • Gordona • Grosio • Grosotto • Isolaccia Valdidentro • Lanzada • Livigno, via S. Antoni 33 • Livigno, Agenzia n. 1, via Saroch 160 • Madesimo • Madonna di Tirano • Mazzo di Valtellina • Montagna in Valtellina - loc. al Piano • Morbegno, piazza Caduti della Libertà 10 • 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 • S. Nicolò Valfurva • San Pietro Berbenno • Semogo • Sondalo • Talamona • Teglio • Tirano • Traona • Tresenda • Villa di Chiavenna • Villa di Tirano

PROVINCE OF BERGAMO

Ordinary branches: BERGAMO, via Broseta 64/b - ang. via Zandrini

• Carvico • Cisano Bergamasco • Gazzaniga • Osio Sotto • Romeno di Lombardia

PROVINCE OF BRESCIA

Ordinary branches: BRESCIA, via Benedetto Croce 22

BRESCIA: • Agenzia n. 1, via Crocifissa di Rosa 59 • Agenzia n. 2, via Solferino 61 • Bienno • Breno • Darfo Boario Terme • Edolo • Lumezzane • Ospitaletto • Palazzolo sull'Oglio • Pisogne • Ponte di Legno • Sale Marasino

PROVINCE OF COMO

Ordinary branches: COMO, via Asiago 25 (fraz. Tavernola)

COMO: • Agenzia n. 1, via Giulini 12 • Agenzia n. 2, via Statale per Lecco 70 (fraz. Lora) • Bregnano • Campione d'Italia • Carimate • Carlazzo • Domaso • Dongo • Gera Lario • Gravedona • Lurago d'Erba • Merone • Sala Comacina • San Fedele Intelvi • Santa Maria Rezzonico • Villa Guardia

PROVINCE OF CREMONA

Ordinary branch: PANDINO, via Umberto I 1/3

PROVINCE OF LECCO

Ordinary branches: LECCO, corso Martiri della Liberazione 65

LECCO: • Agenzia n. 1, viale F. Turati 103 • Agenzia n. 2, piazza XX Settembre 11 • Agenzia n. 3, corso E. Filiberto 91 (fraz. Maggianico) • Casatenovo • Colico • Dervio • Mandello del Lario • Pescate • Primaluna • Valmadrera

PROVINCE OF LODI

Ordinary branch: LODI, via Gabba 5

PROVINCE OF MILAN

Head office: MILAN, via S. Maria Fulcorina 1

Ordinary branches: MILAN: • Agenzia n. 1, via Porpora 104 • Agenzia n. 2, viale Faenza 22 • Agenzia n. 3, A.E.M., corso Porta Vittoria 4 • Agenzia n. 4, Ente Regione Lombardia, via F. Filzi 22 • Agenzia n. 5, via degli Imbriani 54 - ang. via Carnevali • Agenzia n. 6, via Marco d'Agiate 11 • Agenzia n. 7, via Principe Eugenio 1 • Agenzia n. 8, via Lessona - ang. via Trilussa 2 • Agenzia n. 9, ALER, viale Romegna 26 • Agenzia n. 10, via Solari 15 • Agenzia n. 11, Università Bocconi,

via F. Bocconi 8 • Agenzia n. 12, via delle Forze Armate 260 - ang. via Galilei • Agenzia n. 13, viale Monte Santo 8 • Agenzia n. 14, via privata Cesare Battisti 2 • Agenzia n. 15, via Gioacchino Murat 76 • Agenzia n. 16, Ortomercato, via Cesare Lombroso 54 • Agenzia n. 17, Uffici Finanziari, via Manin 29 • Agenzia n. 18, viale Belisario 1 - ang. via Tiziano • Agenzia n. 19, via Giambellino 39 - ang. via Vignoli • Agenzia n. 20, via Canova 39 - ang. corso Sempione • Albiate • Bernareggio • Cinisello Balsamo • Lissone • Monza • Segrate • Seregno • Villasanta

PROVINCE OF PAVIA

Ordinary branch: PAVIA, corso Strada Nuova 75

PROVINCE OF ROME

Head office: ROME, viale Cesare Pavese 336

Ordinary branches: ROME: • Agenzia n. 1, viale Val Padana 2 • Agenzia n. 2, via Silvestro Gherardi 45 • Agenzia n. 3, via Trionfale 22 • Agenzia n. 4, piazza Biagio Pace 1 • Agenzia n. 5, piazza S. 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, loc. Casal Palocco, piazzale Filippo il Macedone 75 • Agenzia n. 10, via Laurentina 617/619 • Agenzia n. 11, via Carlo Alberto 6/a • Agenzia n. 12, via Circonvallazione Cornelia 295 • Agenzia n. 13, via Foligno 51/a • Agenzia n. 14, largo delle Sette Chiese 6 - ang. via della Villa di Lucina • Agenzia n. 15, via della Farnesina 154 • Agenzia n. 16, via Nomentana 925/a - ang. via Trissino • Agenzia n. 17, piazza dei Sanniti 10/11 • Agenzia n. 18, loc. Infernetto, via W. Ferrari 348 - ang. via Franchetti

PROVINCE OF VARESE

Ordinary branches: VARESE, viale Belforte 151

VARESE: Agenzia n. 1, piazza Monte Grappa 6 • Bisuschio • Castellanza • Lavena Ponte Tresa • Luino • Malpensa 2000 • Marchirolo

PROVINCE OF VERBANO-CUSIO-OSSOLA

Ordinary branch: GRAVELLONA TOCE, corso Marconi 77

REPRESENTATIVE OFFICES

• GENEVA, rue du Cendrier 12/14 • HONG KONG* • LONDON* * With other banking partners

MOBILE BRANCH

Autobanca

FOREIGN SUBSIDIARY

BANCA POPOLARE DI SONDRIO (SUISSE) SA

Head office: LUGANO: • via Maggio 1

Ordinary branches: LUGANO - Cassarate, piazza E. Bossi 2 • CASTASEGNA, loc. Farzett • CELERINA, via Maistra 48 • CHIASSO, corso S. Gottardo 30 • CHUR, Bahnhofstrasse 9 • LOCARNO, piazza Muraccio • POSCHIAVO, strada S. Bartolomeo • ST. GALLEN, Teufenerstrasse 3 • ST. MORITZ, via Dal Bagn 9

Representative office: BASLE, Schiffplände 2

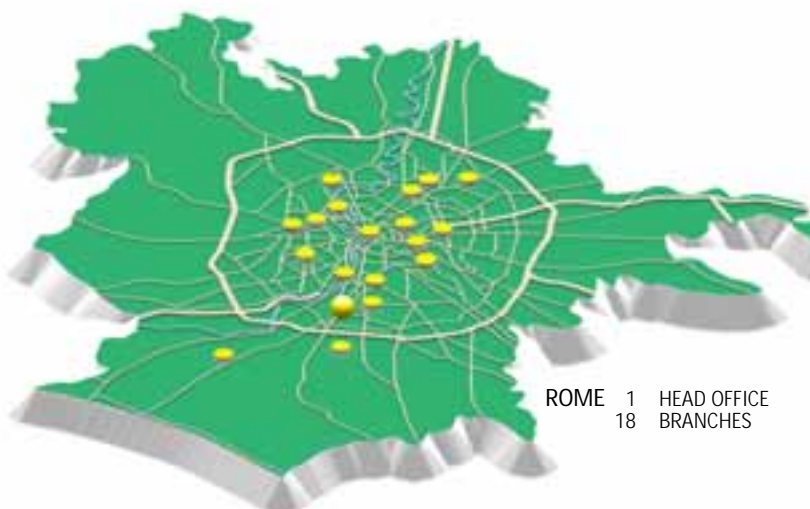
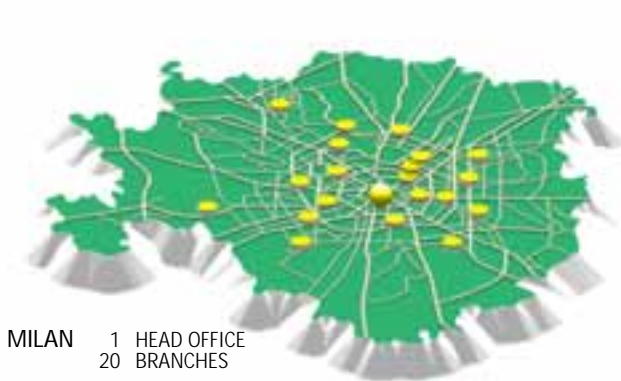
FIDUCIARY CONSULTANTS

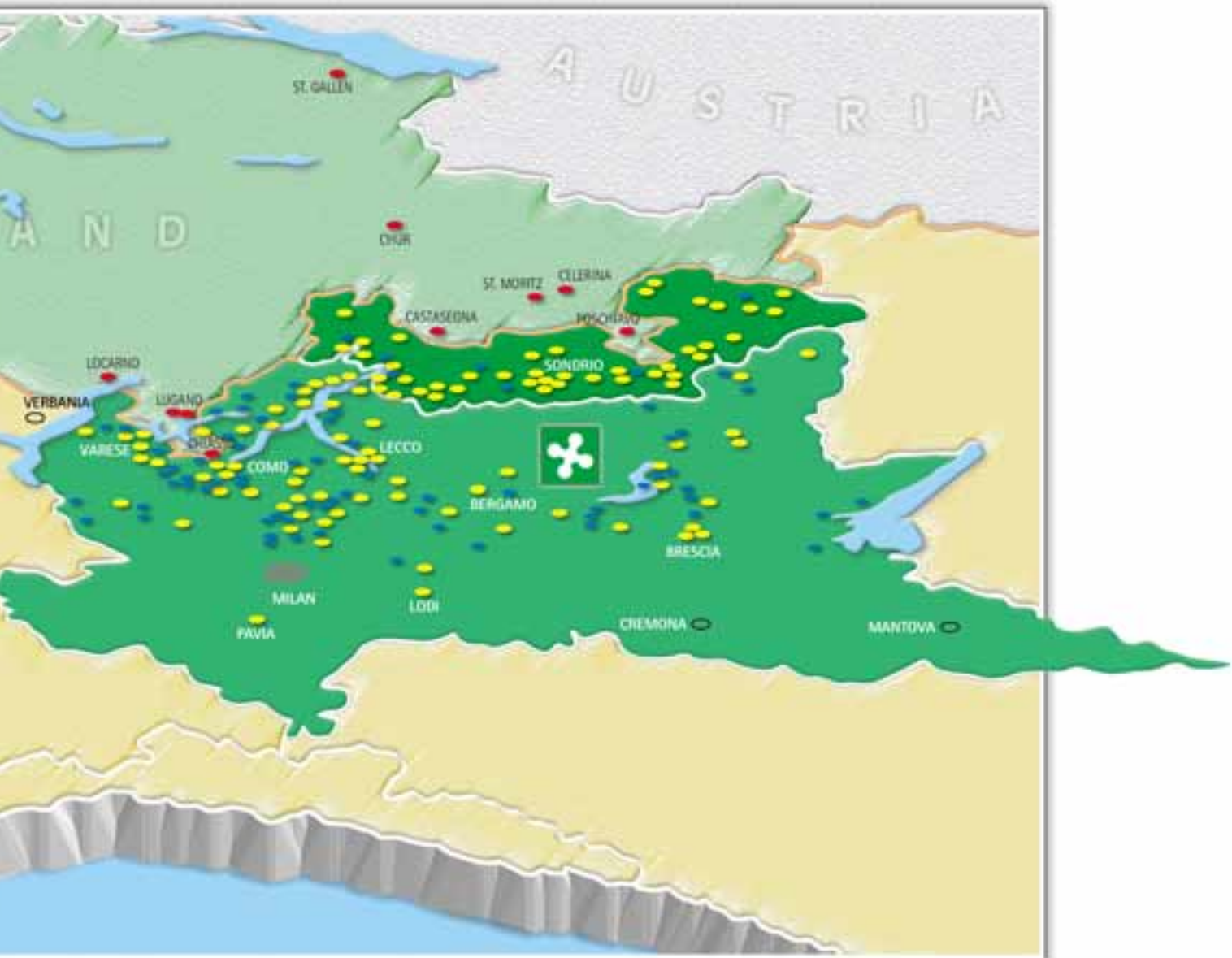
• Unione Fiduciaria s.p.a. (Milan) • Sofipo Fiduciaire SA (CH Lugano)

TREASURY OFFICES

• Abbadia Lariana (Lc) • Albano S. Alessandro (Bg) • Albiolo (Co) • Appiano Gentile (Co) • Arosio (Co) • Bariano (Bg) • Barzago (Lc) • Bellano (Lc) • Berzo Demo (Bs) • Binago (Co) • Bonate Sotto (Bg) • Bovisio Masciago (Mi) • Brembate (Bg) • Briosco (Mi) • Brusimpiano (Va) • Buglio in Monte (So) • Bulgarograsso (Co) • Canzo (Co) • Carate Urio (Co) • Carugo (Co) • Casnate con Bernate (Co) • Cassago Brianza (Lc) • Castellanza (Va) • Castelmarte (Co) • Cedrasco (So) • Coccaglio (Bs) • Colle Brianza (Lc) • Collebeato (Bs) • Como - Sportello A.C.S.M. • Corte Franca (Bs) • Cortenedolo (Bs) • Cugliate Fubiasco (Va) • Erbusco (Bs) • Fino Mornasco (Co) • Gardone Val Trompia (Bs) • Garzeno (Co) • Gianico (Bs) • Guanzate (Co) • Lanzo d'Intelvi (Co) • Lomagna (Lc) • Lonate Pozzolo (Va) • Lonato (Bs) • Macherio (Mi) • Malgrate (Lc) • Marone (Bs) • Maslianico (Co) • Monte Isola (Bs) • Monticello (Lc) • Montorfano (Co) • Nibionno (Lc) • Ossuccio (Co) • Pian Camuno (Bs) • Pianello del Lario (Co) • Piantedo (So) • Porlezza (Co) • Rivolta d'Adda (Cr) • Salò (Bs) • Samolaco (So) • San Nazzaro Val Cavargna (Co) • Sarezzo (Bs) • Schignano (Co) • Seregno - Sportello A.M.S.P. (Mi) • Seveso (Mi) • Solbiate Olona (Va) • Somma Lombardo (Va) • Toscolano Maderno (Bs) • Turate (Co) • Valdisotto (So) • Valsolda (Co) • Varenna (Lc) • Verceia (So) • Verdellino (Bg) • Viggìu (Va) • Vilminore di Scalve (Bg) • Zone (Bs)

The banking group in the heart of the Alps





BANCA POPOLARE di SONDRIO

- branches
- 43 IN THE PROVINCE OF SONDRIO
 - 6 IN THE PROVINCE OF BERGAMO
 - 13 IN THE PROVINCE OF BRESCIA
 - 17 IN THE PROVINCE OF COMO
 - 1 IN THE PROVINCE OF CREMONA
 - 11 IN THE PROVINCE OF LECCO
 - 1 IN THE PROVINCE OF LODI
 - 29 IN THE PROVINCE OF MILAN
 - 1 IN THE PROVINCE OF PAVIA
 - 8 IN THE PROVINCE OF VARESE
 - 1 IN THE PROVINCE OF VERBANO CUSIO OSSOLA
 - 19 IN ROME

representative offices

- GENEVA - HONG KONG* - LONDON*

trasury offices

* with other banking partners

BANCA POPOLARE di SONDRIO (SUISSE) SA

- branches
- LUGANO
 - LUGANO CASSARATE
 - CASTASEGNA
 - CELERINA
 - CHIASO
 - CHUR
 - LOCARNO
 - POSCHIAVO
 - ST. GALLEN
 - ST. MORITZ

representative office

- BASLE

SUMMARY OF THE BANK'S GROWTH

(1990/2000)

(in billions of lire)	1990	1995	2000
Customer deposits:			
direct	2,146	4,811	8,883
indirect	2,627	5,633	20,768
Shareholders' equity (excluding net profit for the year)	329	650	1,115
Customer loans:			
cash loans	1,588	3,686	8,605
overdraft facilities	438	1,038	2,166
Own securities	599	1,822	2,774
Income from banking activities	180	349	536
Operating profit	81	183	251
Net profit for the year	29	36	74
Number of branches	54	98	150
Personnel	751	1,172	1,687

NOTICE OF CALLING TO THE SHAREHOLDERS' MEETING

The shareholders of Banca Popolare di Sondrio are called to the annual general meeting (ordinary and extraordinary parts) at the head office in Piazza Garibaldi, 16, Sondrio, at 10.00 a.m. on Friday, 2 March 2001 and, if necessary, on second calling at the Cinema Teatro Pedretti in Piazza Garibaldi, 4, Sondrio, at 10.00 a.m. on Saturday, 3 March 2001 to discuss the following

AGENDA

Ordinary part

- 1) Presentation of the financial statements as of 31/12/2000: 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 substitute members of the Advisory Committee.

Extraordinary part

- 1) Redenomination of share capital and the par value of shares into euros, with a simultaneous bonus increase in the par value of every share to Euro 3, by transfer of the related amount from the «share premium reserve» to «share capital». Related amendment to article 6 of the by-laws;
- 2) Mixed-form capital increase involving:
 - a bonus issue of one new share of par value Euro 3, carrying dividend rights from 1 January 2001, for every two shares held, with a transfer of the amount required from the «share premium reserve» to «share capital»;
 - a simultaneous extraordinary rights issue of one new share of par value Euro 3, carrying dividend rights from 1 January 2001, for every two shares held prior to the above bonus issue, at the price of Euro 4, of which Euro 3 is to be allocated to «share capital» and Euro 1 to the «share premium reserve»;
 - correlated payment of an expense reimbursement, equal to Euro 0.04 for every new share subscribed under the rights issue, up to a maximum of Euro 80.
- 3) Related resolutions and conferment of powers.

The meeting can be attended by:

- Shareholders who lodge their shares at the head office or at branches of the bank at least five days before the date of the meeting;
- Shareholders who hold the appropriate certification issued by brokers who are members of the Monte Titoli S.p.A. centralized management system pursuant to article 85 of Legislative Decree 58 of 24 February 1998.

Shareholders have the right to vote at the meeting if they have been recorded in the shareholders' register for at least three months. Each shareholder has the right to only one vote, however many shares are held.

Shareholders with the right to vote may be represented at the meeting by another shareholder, by means of a proxy ballot drawn up in accordance with article 2372.4 of the Italian Civil Code. No shareholder can be a proxy for more than one other shareholder. Shareholders who are minors can be represented by whoever is their legal representative.

In accordance with article 76 of CONSOB Resolution 11971 of 14 May 1999, the documentation required by law will be available during the 15 days prior to the meeting at the bank's registered office and at Borsa Italiana S.p.A. All shareholders have the legal right to obtain a copy of these materials.

Sondrio, 30 January 2001

Piero Melazzini
CHAIRMAN OF THE
BOARD OF DIRECTORS

Note: The figures in this report are in Italian lire, and all changes expressed as percentages refer to comparable data from the end of 1999 unless otherwise specified. Because most figures in the text and tables are rounded to the nearest billion or million lire, the percentages may differ marginally from those that would result from a comparison of amounts expressed in different unit values.

ORDINARY PARTÄ

Annibale Caccia Dominioni



On the second of July, Count Annibale Caccia Dominioni, the bank's honorary chairman, died suddenly at the age of 80. For the Banca Popolare di Sondrio, Count Caccia Dominioni was an emblematic figure. During his 37-year "reign" as chairman, the longest in our history, BPS met with success after success that the Count had a generous habit of attributing to others. Indeed, his capacity to believe in the people he worked with was fundamental to the bank's achievements, of which he was first to be proud. Today's AGM is the first since 2 March 1947 to be held in the Count's absence. We remember him presiding over dozens of shareholders' meetings with the natural authority of a gentleman and with captivating, sometimes irrepressible enthusiasm. In more recent years, we picture him seated in the front rows of this theatre, participating vigilantly in the proceedings of a bank which never lost its place in his heart.

REPORT ON PERFORMANCE

ORDINARY PART

SUMMARY OF RESULTS

Shareholders,

Once again, without beating round the bush or further ado, we would like to tell you how our year was: it was a good one. As you surely

know, 2000 was not an easy year, and the omens for 2001 are just as poor. The daily dialectic between outside events and our business materializes in the form of the results, which are described in the report now submitted for your judgement.

RESULTS IN BRIEF

(in billions of lire)	2000	1999	% change
Balance sheet			
Customer loans	8,605	7,212	19.31
Loans to other banks	1,004	1,188	- 15.42
Own securities	2,774	2,507	10.64
Equity investments	178	165	7.45
Total assets	13,395	11,713	14.36
Direct customer deposits	8,883	7,888	12.61
Indirect customer deposits	20,768	20,253	2.54
Customer assets under administration	29,650	28,141	5.36
Other direct and indirect funding	8,509	9,466	- 10.11
Shareholders' equity (excluding net profit for the year)	1,115	1,080	3.31
Income statement			
Net interest income	326	281	16.02
Income from banking activities	536	441	21.34
Operating profit	251	182	37.74
Net profit for the year	74.41	59.16	25.77
Key ratios (%)			
Net interest income/total assets	2.44	2.40	
Operating profit/total assets	1.87	1.56	
Administrative expenses/income from banking activities	58.94	64.85	
Net profit/total assets	0.56	0.51	
Net profit/average shareholders' equity (excluding net profit)	6.78	5.59	
Net outstanding loans/customer loans	1.21	1.53	
Capital ratios			
Tier 1 capital/weighted assets	10.41%	11.40%	
Total capital/weighted assets	10.38%	11.22%	
Available margin (in billions of lire)	367	403	
Other information			
Number of employees	1,687	1,607	
Number of branches	150	139	
Number of treasury offices	69	57	



In the meantime, what better summary than net profit? Perhaps we should settle for mentioning a bottom line of L. 74.4 billion, an increase of 25.77% on the previous year, or perhaps a 14.36% rise in total assets, which grew from L. 11,713 to 13,395 billion.

The stream of direct deposits was a bit dry during the first six months, but began to flow adequately again, or even generously given the widespread scarcity of what is a bank's raw material. The growth of indirect funding, which had been scaling new heights for years, took an inevitable pause this year to settle down. Its star performer, asset management, continued to do well as befits a bank that knows how to give investors professional, well-balanced advice.

The lending side needed less push than restraint, so extensive was the demand for loans. We continued to support worthy initiatives, which were selected with care by skilful personnel using sophisticated methods and tools. The various forms of risk were monitored by specific departments and positions, but it was the entire bank, true to the principle of integrity, that provided our most important guarantee: honesty and sound professional ethics.

Income from services provided a generous supplement to lending, our traditional and primary source of revenue. The contribution from this business is growing, a sign that there are significant reserves to be tapped.

By limiting expenses, we achieved significant results. Resources were freed up for investments, and the quality of our service continued to improve, rather than paying the price for these cuts.

The fine work of our affiliates enabled us to expand and improve our sphere of operations. From BPS Suisse we have enjoyed a degree of cooperation and an economic contribution that have reinforced the whole group spirit.

Our net profit lets us propose a dividend of L. 580 per share, compared with L. 450 last year

(+28.89%). This is certainly a fair return, especially in tandem with the 14.87% rise in the value of our stock.

These are the foundations of our plans for growth, which all shareholders are asked to support by agreeing to the increase in capital.

For the results described above, we are grateful to you, our shareholders, who believe in BPS; to our customers, who value the bank's professionalism and good treatment; and to that small, trained army – now 1,704 people – who constitute the most important item on our balance sheet, our most precious asset by far, and the means for invigorating and enhancing that other great asset of ours, which goes by the name of goodwill.

GEOGRAPHICAL EXPANSION

In its 130 years of life, BPS has travelled a path of development that can be best traced out on a map. Cross Valtellina and Valchiavenna, the two expansive Alpine valleys that make up the Province of Sondrio, and head down the splendid banks of Lake Como as far as the broad, rich plain of Lombardy. These are the places where our branches, sown one by one, have grown permanent roots and now contribute to the progress of the bank.

We have grown parallel to the flow of our waters, which rush down from the mountains, give life to Lake Como, run serenely through the plains, and finally feed into the Po.

While our growth has taken a natural, almost spontaneous course, it is based on a rational design, with architecture playing a role second only to geography. Our directors have planned for the bank's innovative yet safe expansion, based on a desire to be present in important locations which happen to be far from our origins.



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This explains our choice of Milan, the first stop beyond the borders of our own province, and Rome, our first footing outside Lombardy. When these branches were built, they represented a break in the geographical continuity, one reason why they were defining moments in the life of BPS. They formed two hubs of expansion, each now consisting of about 20 branches that are strongly integrated within the local metropolis.

As in any construction, when expanding our peripheral network it is vital to preserve a balance. So we proceed by degrees, being careful to shore up each structure sufficiently, and especially to reinforce our staff - the real columns and beams of our «home».

When we speak of our branch network, our field of action, we are reminded of what Dumas

the Younger wrote in answer to where the people we meet in the street are going: they're going to ask someone for something. Which is exactly what we do, too.

Our efforts over the years have aimed to widen our sphere of activity, making it gradually more extensive and influential. Having an extensive presence is the only way to attain regional scope without losing the characteristics and strengths of the local bank. This is a choice that distinguishes BPS: to reconcile size and a local character to the benefit of economic and social progress in the areas where we operate. In short, to be a locally regional bank.

This task is made easier by the steady growth in our body of shareholders. Shareholders are our first and foremost customers, and they contribute greatly to the rapid proliferation of branches: they are the leavening agent of our progress. Thanks to our shareholders, the bank learns the local idioms rather fast, and we all know that those who speak the same language understand each other better and more readily.

To the casual observer, our growth strategy - which is still impressive, founded as it is on the repositioning of internal resources - may seem less dazzling than that of other banks, whose acquisitions get them headlines in the national papers only to then see their stock price drop. It is in the nature of the stock market that the more active and fast-moving it is, the better it can select and judge fairly, by producing what we call the right price.

In 2000 BPS opened 11 new branches, bringing the total to 150. The new openings are the result of an intense period of growth and serve as a prelude to similar efforts. Indeed, the milestone of 150 branches is just a rest stop on a longer trip, which we have been taking for several years accompanied by BPS (Suisse) SA.

Our Swiss subsidiary has also planted the seeds of a rapidly expanding network which, as part of the group-wide strategy, will bring to

New openings



ROME



ROME BR. 15
ROME BR. 16
ROME BR. 17
ROME BR. 18



VARESE



LODI

In 2000 BPS opened 11 new branches, bringing the total to 150. The new openings are the result of an intense period of growth and serve as a prelude to similar efforts. Rome was eventful this year, for BPS as well. In the Eternal City, more central to the world than ever in this Jubilee year, four new units have established us as one of the largest cooperative banks in the city as measured by the number of branches. The Farnesina, Monte Sacro Alto, San Lorenzo and Infernetto quarters can now rely on BPS and its services. With the branch we have opened in Lodi, our ninth Lombard provincial capital, and in Pandino, whose mighty fortress dominates the northern part of the Province of Cremona (the tenth on our map of accomplishments), we can cover more of the area south-east of Milan and add



MILAN

MILAN BR. 20



GAZZANIGA (BG)



BISUSCHIO (VA)



GRAVELLONA TOCE (VB)



PANDINO (CR)

weight to our status as a regional bank. The Gazzaniga branch has opened the doors of the Valle Seriana, near Bergamo. The new Varese branch, and the Bisuschio branch nearby, are a sign of our steady focus on this area; with Gravellona Toce, the bank has made its debut in industrious Piedmont. Milan branch no. 20, in the Sempione district, has tightened our network in the regional capital.





Switzerland a model of proven success in Italy. The model consists of a bank with strong local roots, which cares about the community's needs and is an eager supporter of enterprise.

This unified design in two countries will develop in a cooperative, complementary pattern, to the benefit of our network on both sides of the Alps.

Let's take a closer look at our new openings, which really do give the bank new fields of action of unquestionable strategic interest.

Rome was eventful in 2000, for BPS as well. In the Eternal City, more central to the world than ever in this Jubilee year, four new units have established us as one of the largest cooperative banks in the city – and what a city it is – as measured by the number of branches. The Farnesina, Monte Sacro Alto and San Lorenzo quarters, along with the Infernetto quarter where there was previously no bank at all, can now rely on BPS and its services. In any case, the call of Rome is constant. How apt is the saying that the capital is a marvellous Baroque shell inhabited by the whisper of the ocean.

Our family of branches raised on the banks of the Tiber has opened up some highly attractive opportunities, and given us the chance to work with large institutional names. This is an excuse to develop new skills and fields of expertise at our central branches as well, which we can then employ in a variety of settings. Such opportunities are an important aspect of our presence in Rome, which we would like to emphasize as proof that our expansion there is good for the bank as a whole.

Although Rome makes all comparison futile, another notable achievement in our process of expansion is the branch we have opened in Lodi, our ninth Lombard provincial capital. The city, founded by Barbarossa, is at the centre of a rich, industrious territory that has joined traditional farming activities – themselves a focus of innovation – with new sorts of enterprise. With

the branch in Lodi we can cover the area south-east of Milan, previously beyond our reach, and add more weight to our status as a regional bank.

This is also favoured by our branch in Pandino, whose mighty fortress dominates the northern part of the Province of Cremona, the tenth on our map of accomplishments. In addition to serving the town, the branch is able to reach far into its sprawling surroundings. Although we don't want to bite off more than we can chew, this is a good chance to test out the more interesting local towns, first and foremost the provincial capital.

The Gazzaniga branch has opened the doors of the Valle Seriana, near Bergamo. This area is known for its widespread economic growth, based on a myriad of small and medium-sized businesses. In many ways, including its solid inclination for savings, it reminds us of our earliest, most traditional outposts.

The new Varese branch, and the Bisuschio branch nearby, are a sign of our steady focus on this area which is also strategic because of its location near the border with Switzerland. One branch will enhance our coverage of Varese, where we also operate in Piazza Monte Grappa in the city centre, and the other will help us serve an area that stands out for its high concentration of solid, successful firms.

With Gravellona Toce, the bank has made its debut in industrious Piedmont. This little city, just past Lake Maggiore, lies along the Sempione international traffic route, in the midst of a very lively economic district boasting strong relations with Switzerland. Our arrival in Piedmont does not conflict with the bank's regional character; more simply, it demonstrates that the will to expand into areas of our liking cannot be limited by lines on the map. This is even more the case here, in a place strongly influenced by its closeness to Lombardy. The expansion of our horizons will also benefit customers interested in starting or increasing business in our neighbouring region.

Bancomat Cash Dispensers



Circuits that recharge cell phone calling accounts



(*) Opening soon

For a long while our branches have been equipped with automatic tellers, which are increasingly popular with customers for a growing variety of transactions: account queries, utility payments, and the recharging of cell phone calling cards. We now have 200 ATMs, an increase of 32 for the year.



On 29 December, in «Cesarini territory» as a soccer fan might say, we opened branch no. 20 in the Sempione district of Milan. The new branch has tightened our network in the city, which has given us the basis for carving out a significant market share in Italy's foremost banking centre. In Milan we have achieved the best possible combination of traditional values and the ability to offer efficient, quality services, a prerogative that some still attribute, mistakenly, to banks of a larger size.

We also have «new» branches in the other meaning of the term. A sense of success transpires from our renovation plans, our insistence on more functional premises with state-of-the-art IT systems. The gradual integration between the real and the virtual will be a way for peripheral branches to boost high-profile commercial and advisory services, as opposed to just administrative tasks. The latter will be increasingly automated, which will free up human resources. The physical part of the branch will retain its central role in contexts where the personal relationship is vital, but will be entirely reconceived as part of the reformulation of production and distribution strategies in keeping with the evolving needs of our customers.

For a long while our branches have been equipped with automatic tellers, which are increasingly popular with customers for a growing variety of transactions. We now have 200 ATMs, an increase of 32 for the year.

Twelve new treasury branches have tightened the peripheral network, bringing the total to 69. These demonstrate our commitment to the local community, enable us to test new waters, and publicize the bank's name.

We have already mentioned the spirit of emulation that guides our Swiss subsidiary, which is eager not only to expand its sphere of influence but also to help the group establish itself in the cross-border area between Italy and Switzerland. This makes us a convenient go-between for

anyone with business or economic interests on both sides of the border. Our representative office in Basle and our branches in Castasegna, Locarno and Chur, capital of the canton of Grisons, are the newcomers this year which have joined our seven existing branches. Our little Swiss gnomes are growing.

As the number of branches proliferates so do our staff, customers, shareholders and volumes. It is not an easy path, but we embrace it with love and enthusiasm: these are our wings for flying.

FUNDING

This was the year of raw materials. Navigators on the Web, travellers on the information highway, and users of virtual reality discovered that they still depended on dear old oil and other commodities, and «dear» is the operative word. The upward march of crude oil prices reminded us all that production processes are still founded on raw materials, for the moment still irreplaceable. Loathe to accept the rules of the new economy, which works to handle goods and services electronically, raw materials got their revenge. All they did was show their face, reminding us that to travel on the Internet we need black gold as much as silicon.

With demand on the rise thanks to the considerable progress of the world economy (not just virtual, but tangible and concrete), supply made its adjustment but at such high prices as to raise fears of a new oil crisis in the West.

Since the laws of the market are equal at every latitude and for every category of goods, something similar happened in the world of credit. There was a shortage of savings, the banker's raw material.

Remember when people used to say that «a little plus a little will soon make a lot»? Well, that



day is past. Or more precisely, the saying is still true, but savings as a value has taken a different turn and are playing hard to get. The horse – symbolizing the demand for loans – is back at the trough, but he may not get any food because there's just not as much as before. Although Italian households are still good at accumulating wealth and companies earn more than they used to – the result of a good economy expressed in 2.8% GDP growth – a number of banks have had to sell some financial holdings to meet this boom in the demand for credit.

Without going into the many, complex reasons for the savings crunch, especially in the form of direct deposits, one factor is certainly the direct contact that a growing number of companies – mostly large ones – have made with

small investors. We are talking not only about the major «privatizations» carried out in recent years, but about the sizeable requests for funds made through increases in capital and the issue of bonds.

This has convinced growing numbers of customers that they can, at least partially, do without the role of intermediary, traditionally filled by banks. Another consideration is the variety of tasks that savings must fulfil because of a likely retreat by the public sphere. In other words, households have reason to allocate growing portions of their resources to retirement and insurance schemes.

Bank deposits now account for just 13% of all financial assets held by families; since that portion is likely to drop further, we have very



good reason to worry. We must not forget that direct funding is crucial to a bank but just as vital, if not more so, to those companies – and in Italy they are definitely the majority – that are unable to raise the funds they need for their growth directly on the market.

As for BPS, when it comes to financial and insurance products, we don't want to become mere vendors, turning our branches into shops for goods and services produced elsewhere. A move like that would debase our traditional role as a mediator between customers with their various needs and the resources available on the market, erasing all distinction and lumping us together with many other operators. But in a market where large numbers rule, those who are content to fit in will be lost.

Once again, what we need is to ensure the proper balance between local roots and farsightedness, without shrinking into localism and without getting drunk on a uniformity imposed by false modernization.

We are not cut out for creating complete and competitive lines of products all by ourselves, but nor do we think that those produced by others – perhaps by virtue of their foreign names – are necessarily better than ours. Portfolio management, investment funds, fund-based asset management, SICAVs, insurance and retirement plans, open- and closed-end security and real estate funds, and much, much more are the instruments we can offer. In some cases we've created them ourselves, in others we have commissioned them from our affiliates, in others still we have bought them on the market through deals with international houses of finance. They are a diverse range of products that can meet very different needs, but we have chosen them with a single criterion: that they live up to our customers' expectations.

As of 31 December 2000 total funding had risen from L. 37,607 to 38,159 billion, an increase of L. 552 billion or 1.47%. Direct customer

deposits grew by 12.61%, to L. 8,883 billion, and indirect customer deposits gained 2.54% for a total of L. 20,768 billion. Deposits from other banks reached L. 2,405 billion (+26.13%), and securities under administration came to L. 6,103 billion.

An analysis of the separate components indicates rather different trends, with more liquid deposits leading the way. The solid increase in the number of current accounts, along with an encouraging rise in average balance, reflects the bank's geographical growth. Customers' ongoing preference for this form of savings is explained by its increasingly evident and structured service content, and by the slimmer gap with respect to the yields earned from other types of investment. By the end of December current accounts amounted to L. 5,334 billion, up 14.31% for the year.

Savings deposits, which are undergoing a structural decline, are nonetheless simple and immediate enough to meet what are still widespread needs among our customers. They came to L. 722 billion, a decrease of 1.77%.

Certificates of deposit decreased 22.17% to L. 78 billion, while repo transactions gained 24.46%, or an especially impressive L. 1,582 billion if expressed in absolute terms.

Bonds remained a popular source of funding. During the year, customers were especially inclined to buy zero-coupon issues. This item increased by 2.99%, to L. 1,017 billion.

Bank drafts did well, gaining 17.03% to total L. 150 billion.

Having described the makeup of genuine funding, we would like to specify that there are now 167,000 accounts, a substantial increase with respect to the previous year.

Indirect deposits grew to a fair degree. First they had to contend with customers disillusioned by asset management and bond funds, and then with the ups and downs – where the downs outweighed the ups – of the international stock

markets, which put a damper on investments in equities. As mentioned earlier, this aggregate rose to L. 20,768 billion, +2.54%.

The growth in asset management is proof that customers see the bank increasingly as an indispensable guide in the choice of investments. Such and so many are the opportunities now offered by the markets that it is crucial to have one's savings invested by professionals, who will take account of each person's financial profile and therefore his willingness to accept risk and his expectations for growth. We are pleased to note that our services are more and more popular with customers, who apparently agree with the saying that if we don't want to wonder where our money has gone, we have to tell it where to go.

The considerable investments we have made to train skilled professionals and acquire the right technological tools have paid off in a higher volume of work and in the healthy flow of income from this sector.

We cannot, however, ignore the increasingly fierce, indiscriminate competition. Beyond the pathological side – the upward sprint of interest rates – we have noticed that customers, when deciding where to place their savings, put a growing premium on the investment advice they receive from banks as long as it is based on prudence, reasonable returns and a personal relationship. And many of our depositors have done well, with a view to raising the average yield on their capital, by investing in BPS stock.

DIRECT CUSTOMER DEPOSITS

(in millions of lire)	2000	% of total	1999	% change
Savings deposits	722,409	8.13	735,405	- 1.77
Certificates of deposit	77,771	0.88	99,929	- 22.17
Bonds	1,016,709	11.45	987,170	2.99
Repo transactions	1,581,988	17.81	1,271,066	24.46
Bank drafts and similar	150,016	1.69	128,186	17.03
Current accounts in lire and EMU currencies	5,037,888	56.71	4,359,604	15.56
Current accounts in foreign currency	296,068	3.33	306,642	- 3.45
Total	8,882,849	100.00	7,888,002	12.61

TOTAL FUNDING

(in millions of lire)	2000	% of total	1999	% change
Total direct customer deposits	8,882,849	23.29	7,888,002	12.61
Total indirect customer deposits	20,767,521	54.42	20,252,804	2.54
Total	29,650,370	77.71	28,140,806	5.36
Due to other banks	2,405,113	6.30	1,906,875	26.13
Indirect funding from banks	6,103,220	15.99	7,558,485	- 19.25
Third-party funds under administration	301	0.00	637	- 52.75
Grand total	38,159,004	100.00	37,606,803	1.47



LOANS

Funding and loans are the weights traditionally set on the two sides of the scale which measures a bank's equilibrium. Neither can stand alone, without tipping operations on their side. After all, in everyday language, «bank» and «credit institution» are synonymous.

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But in technical language they are not. There are banks that don't lend money, or for which loans are marginal to their business. This is one effect of the profound changes on the financial markets which have taken place over the past few years, due in part to new legislation.

The equation is still valid at our bank, however, which is a full-fledged credit institution. The inarguable proof is the volume of loans disbursed, L. 8,605 billion, an increase of 19.31% for the year.

Since we are a cooperative bank first and foremost, it is natural for us to pay close attention to the communities where we operate and to the people and businesses that make up the socio-economic fabric. Our philosophy directs us mainly toward small and medium-sized companies, for which we have the right organizational structure and culture. From the vantage point of our extensive presence, we can better and more deeply grasp the worthiness of each initiative, its consistency with the demands of the market, and the competence and reliability of the people in charge.

This last aspect is of special importance. Not only has it raised the volume of loans, but it has helped maintain their quality.

While the ancients believed that human affairs were determined not by the quantity or quality of actions but by blind chance, we feel that our bank's growth and improvement depends on our ability to watch the evolution of the economic and financial system, working intensely on new business – services, brokerage, asset management, payments systems, etc. – without

forgetting that loans support a great many enterprises representing much of our national economy to survive and to grow.

These enterprises – with a capital «E», we might add, which are often grouped into real industrial districts where they have combined the agility and promptness of the small with the solidity and economies of scale of the large – are our natural counterparts. From them, and the pluck and tenacity of the people who run them, we have received a sizeable proportion of new loan applications, which we have satisfied to the proper extent. Incidentally, this is wholly consistent with general economic trends. Statistics confirm that nationwide, the fastest-growing category of credit was once again loans of under 500 million lire.

The rising number of new lenders on the market is a subject that deserves careful consideration. These parties are often subject to fewer restrictions than banks, and are ready to raise money and use it without a thought as to where it came from. They are creatures of finance for the sake of finance which the swelling of speculative bubbles over global stock markets has encouraged beyond all measure.

This is something entirely foreign to our bank. The basis of our relations with the communities we serve has always been an intention to help local economies grow, by reinvesting locally a good part of the financial resources we raise, in support of worthy initiatives. It is a relationship of mutually beneficial exchange, a cardinal point of our status as a cooperative bank in name and in deed. Otherwise, the areas from which financial resources are raised could become impoverished by actions that narrow their possibilities for growth to the benefit of others.

That said, we should add that lending money today is a profoundly different activity from what it was just a few years back. The scenario has changed, the needs of our customers are different, the technical forms of lending are

new, evaluation methods are more sophisticated and, above all, the nature of business with businesses has evolved. Companies see the bank not only as a source of extra funds, but as a supplier of essential services (payment handling, corporate finance, etc.) and above all as an advisor that can help it choose its strategic path.

In other words, the bank provides large-scale support in which lending is paralleled by an increasingly popular service component that sometimes takes on importance in its own right. So we are fully committed in this sense, both through specialist departments within the group and the contribution of numerous affiliates.

The demand was also high from households, who apparently wished to profit from the low interest rates and the favourable real estate market. Furthermore, a comparison between the low indebtedness of Italian households and the

average within Europe demonstrates that there is still ample room for growth.

In essence, then, both of the bank's preferred customer groups – small to medium-sized business and households – expressed a higher demand for loans. Evidently, all that talk in the recent past about the decline in the lending business was just the wrong answer to the changes taking place in the market. Those who managed to deal with the changes by acquiring the right resources can now enjoy these favourable times. Through the expansion of our network, the intensification of commercial efforts, and the improvement of lending packages, our bank can report that 19.31% growth in loans to a total of L. 8,605 billion. This is even more significant if we consider the average trend for the industry, and the fact that our growth in 1999 (+24.56%) and 1998 (+20.30%) was no less impressive.

LOANS

(in millions of lire)	2000	% of total	1999	% change
Current account overdrafts	3,579,979	41.61	3,024,779	18.36
Foreign currency loans	1,614,158	18.76	1,403,927	14.97
Advances	287,738	3.34	264,493	8.79
Advances subject to collection	130,922	1.52	114,220	14.62
Discounted portfolio	18,169	0.21	18,153	0.09
Artisan loans	85,410	0.99	78,454	8.87
Agricultural loans	5,455	0.06	2,649	105.93
Personal loans	104,602	1.22	88,387	18.35
Other unsecured loans	950,603	11.05	795,733	19.46
Mortgage loans	1,792,174	20.83	1,370,373	30.78
Net outstanding overdue loans	104,244	1.21	110,648	- 5.79
Items to be settled	2,052	0.02	1,518	35.18
- Writedowns	- 70,828	- 0.82	- 61,186	15.76
Total	8,604,678	100.00	7,212,148	19.31



One contributing factor was surely the course of interest rates, whose substantial decline was a boon to the areas we serve. Our highly competitive «prices» are the fruit of the greater efficiency we have achieved which, in keeping with the principle of cost saving, goes to the benefit of our customers. We should add that the industry-wide compression of margins, since the euro's debut, appears to be increasingly less transient as time goes by.

Investments and other efforts intended to manage credit risk are discussed fully in a separate section of this report. In brief, to satisfy the many requests generated by a newly dynamic economy, we were able to expand our lending activities while judging creditworthiness according to more selective criteria. The extent of the demand

allowed us to protect loan quality, in part through our ongoing commitment to a better diversification of risk.

Outstanding overdue loans at their net realizable value, i.e. after adjustments for provisions and losses, amounted to 1.21% of total customer loans, down from 1.53% in 1999. This is a figure well below the national average, which demonstrates our close surveillance of risk.

A review of the various types shows a boom in mortgage loans, which shot up by L. 422 billion (+30.78%). These totalled L. 1,792 billion and make up 20.83% of total loans disbursed, proving how much effort we have made to help families buy their own homes. The rise in unsecured loans was no less significant at 19.46%, bringing the total to L. 951 billion.

Current account overdrafts were up by 18.36%, to L. 3,580 billion, accounting for 41.61% of total loans. Foreign currency loans also did well, rising to L. 1,614 billion (+14.97%).

Personal loans, including consumer loans, leapt 18.35% to L. 105 billion, as proof of our devoted attention to our customers' smallest needs. Guarantees granted continued their steady ascent, reaching a remarkable L. 2,166 billion (+5.98%).

Excellent tools for financing small and medium-sized business, loans backed by guarantee consortiums and cooperatives are a tailor-made form of support that best express our interaction with the various sectors of the local economy. Through the lending arrangements established with their respective industry associations, artisans, merchants and small businesses are given access to low-interest loans without restrictions or miles of red tape.

Centrobanca also made a contribution to our very busy year in the area of medium- and long-term loans.

Our traditional partnership with Banca per il Leasing - Italease S.p.A. found a number of new outlets. Our firm hand in this sector strengthened our business relations and led to considerable

economic returns. The same can be said for our lively interest in factoring, which was enhanced by the service component of packages offered by our affiliate Factorit S.p.A.

The progress reported above has a lot to do with the good economic conditions that were enjoyed with particular intensity in the regions where the bank operates (areas acknowledged to be among the most active and dynamic in the country). They also owe to the concerted efforts of a bank where human determination is supported by quality tools and equipment. Much of the benefit goes to our customers, who are pleased with the range of options at their disposal as well as the terms under which they are offered.

We have a need to nurture and diversify the indirect forms of finance. This is important for a healthy, prudently run bank and is also a growing demand from businesses, whether small, medium or large. As we write this report, talks and proposals are underway with some leading institutions.

TREASURY AND TRADING OPERATIONS

Investing financial resources in securities is, to say the least, a complex and delicate affair. Caution and rationality are paramount, and we must remember that the market is a bit like the weather: it may not always be good, but it is always right.

In 2000 the stock markets were all over the charts, their movements faithfully recorded by their «barometers» – Dow Jones, NASDAQ, DAX, CAC, Nikkei and friends – which swung abruptly from fair to stormy and vice versa. Responsible for the mayhem were the TMT (technology, media and telecommunications) stocks, especially those of companies born and raised on the Internet.

We have no claims to analyzing why the markets decided to shun Internet stocks so brusquely,

causing serious harm to the investors who had put their faith in them. However, as we witness skyrocketing prices for the stocks of companies with inadequate fundamentals, we must be aware that they risk just as steep a plunge. Maybe the error was in ignoring the fundamentals which, as the word suggests, are the pillars of any business. Be that as it may, the stock market lives on expectations and emotional drive, which are sometimes overfuelled by the media and by hasty analyses.

As traders, embroiled like everyone else in daily problems of analysis, we don't like this situation much. Let us remark, though, that our traditional sense of balance and caution kept us far from the centre of the storm, if not outside it altogether.

One fact, in any case, deserves emphasis. Not only did the Milan Stock Exchange turn in the third best performance among the world's major markets (+5.3%, behind Zurich at +7.5% and Toronto at +6%), but it continued to grow and to fortify its structure. In 2000 it listed more new companies than ever before (49, bringing the total to 294), raised the average daily trading volume from less than Euro 2 billion to 3.3 billion, and reached a capitalization of Euro 818.4 billion (+12%). Such figures attest to the growing capacity of the stock market to represent and to finance the national economy.

Public offerings and increases in capital raised Euro 16.8 billion for listed companies, less than in 1999, but the level that year was extraordinary. Conversely, public takeover bids channelled Euro 12.2 billion back into the market.

The 15th of May marked the debut of the *after-hours* market (not to be confused with the similarly named – and certainly more famous and delicious – After Eight chocolate mints from England), which BPS duly joined. After a sluggish start, trading picked up speed during the last quarter of the year, reporting an average volume of Euro 31 million concentrated mostly in New Market securities and covered warrants.



Derivative trading on the IDEM reached a record volume: more than 13.3 million standard contracts worth Euro 1,384 billion nationwide.

Performance varied on the bond market, which was influenced by the rise in interest rates and an inflow of liquidity from the unstable equity market. In a phenomenon known as «flight to quality», investors rearranged their portfolios in favour of the safer categories of asset, in particular government bonds. A strict monetary policy had its effect on the interest rate curve, pushing short-term rates up and medium- and long-term rates down. All told, after an especially poor '99, the domestic and international bond markets enjoyed a solid revival of interest, especially in the fixed-interest component.

In this scenario, our Finance Department worked with skill and alacrity, achieving results of considerable benefit to our balance sheet and income statement.

Thanks to the high volatility of interest rates, our Treasury was able to handle the bank's liquidity in the best possible manner, by boosting our already considerable trading on the Market for Interbank Deposits (MID). No less than 5,932 trades were completed, worth L. 92,050 billion (+17.57%).

Our own securities portfolio ^{Own securities} grew by 10.65% to L. 2,774 billion.

Our trading philosophy was based on caution and equilibrium and on the constant monitoring of risks, including in relation to the later-confirmed expectations of a rise in interest rates. Therefore, while transactions on fixed-interest securities were frequent, especially for trading purposes, for the sake of prudence we focused more closely on the floating-rate variety.

The profit from trading, L. 21.2 billion compared with 33.4 billion in 1999, suffered mostly from the losses on the stock markets during the second half of the year. It should also be noted that the profit in '99 included the extensive sale of stocks and bonds harbouring significant profit margins.

Against capital losses of L. 12.2 billion (which have been fully written off), capital gains in the portfolio amounted to L. 13.2 billion at year end.

Trading on the MTS (the ^{Stock markets} government securities market) decreased to a slight degree, but still

came to a volume of over L. 46,000 billion. Our activity with institutional counterparts on the MTS/PCT (the electronic repo market) continued its steep upward climb with a volume of more than L. 25,000 billion, up from 16,000 billion the previous year (+56%).

The lack of promise by stock indices increased customers' demand for low-risk, short-term products and financial instruments. This led



to a sharp upturn in repo transactions, whose year-end balance amounted to L. 1,582 billion (+24.46%).

The stock market rally at the start of the year intensified the business of receiving and transmitting customer orders, with peaks of over 5,000 transactions per day that we handled with our trademark professionalism and helpfulness. This was a boon to commission income, which rose substantially for the year.

Our on-line trading service, which handles direct security trades through an Internet link with the Stock Exchange, completes the array of opportunities available to our customers. The service is accessed through our virtual portal *SCRIGNObps*, and has grown quite popular both for its ample information content – essential for

aware, informed trading – and for the efficiency and good functioning of the order transmission and verification system. Toward year end, about 10% of customers' stock market trades went through the on-line service.

It was an excellent year for trading in foreign securities, especially given the extension of trading and partnership agreements to major international counterparts. The electronic transmission of orders to the principal European and American markets was a genuine improvement in terms of speed, security and cost. After passing the test in Italy, the electronic system was promptly adopted by our Swiss subsidiary as well.

A new and thoroughly computerized procedure for derivative trades (options and futures) was immediately followed by a sharp

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... the difference

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increase in trades on behalf of customers, and therefore in commissions. Speaking of this delicate sector, we would like to mention the scrupulous, professional advice ensured to our branches by specialized head office personnel.

Bond placements – in large part by the companies awarded licences for UMTS telephone service – were not a huge hit with investors, who preferred stock offerings. Although the size of each operation was rather small compared with the privatization of large chunks of public entities in 1999, in sheer number they led to a substantial increase in commissions.

*Performance of
BPS stock*

In a market stamped by volatility – a nice euphemism for the drops and recoveries of stock market indices,

which act like electroshock therapy on small investors – BPS was caught up in the general turbulence during the spring and early summer, then resumed its steady progress thanks in part to the increase announced in share capital. Our shares closed the year at Euro18.15, up 14.87% from Euro15.80 at the end of '99 (in lire, from L. 30,593 to 35,143). This wholly satisfactory performance (far better than the 3.02% gained by the OTC market index) complements the stock's growth over the past few years, and is even more impressive in comparison with the general stock market trend and the performance of other bank stocks.

At year end we owned 9,740 of our own shares, worth about 343.4 million lire, against a reserve of L. 25 billion for the purchase of treasury stock. The following table summarizes trading during the year:

Value added to value is how we should interpret the 12,236 new shareholders who brought our total to 87,158 at the end of the year. The more shareholders we have, the more we spread our basis of ownership among households and businesses, and the closer we come to our short-term target of 100,000. And the more customers and shareholders overlap, the more gratifying is a relationship aimed at both economic returns and the efficacy of our products and services. These assumptions, for us a simple reality, make us firmly convinced that the cooperative bank model is both worthy and modern, and we are – as always – profoundly and solidly attached to its founding principles.

In closing this section on financial operations, last but not least comes asset management, to which we devoted our usual care and energy and which rewarded us with substantial economic returns. Generally speaking, it can easily be said that no other branch of the banking business has seen such dazzling growth as that of portfolio management and consulting.

As investors continued to reallocate their portfolios, there was still a general preference for equities, which caused a significant downsizing in bond-based products. Apparently, this reflects optimism with respect to the medium-range performance of the stock markets.

For our part, we focused on offering an expanded range of products: six new fund-based portfolio management schemes, of international scope, which entail different degrees of risk while investing in units of mutual funds and open-end

	No. shares	Par value	% of share capital	Amount of trade
Balance as of 31/12/1999	13,885	69,425,000	0.02	346,575,368
Purchases	1,189,532	5,947,660,000	1.73	37,351,280,299
Sales	1,193,677	5,968,385,000	1.74	37,978,109,973
Profit from trading				623,619,939
Balance as of 31/12/2000	9,740	48,700,000	0.01	343,365,633

Asset Management

ARCA
ICI Società di Gestione del Risparmio

Arca Funds

ArcaCinqueStelle

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

Popso (Suisse)
Investment Fund SICAV

The advertisement features a background of a clock face with Roman numerals. The text 'Arca Funds' is written vertically on the left. The list of funds is on the right, with horizontal lines connecting some of the fund names to the 'Arca Funds' text. At the bottom center, there is an inset image of a wooden floor with a diamond pattern, with the text 'Popso (Suisse) Investment Fund SICAV' overlaid.

Our asset management company has a range of products so diversified that we can satisfy the most discerning investors, whether they lean toward equity, bond, or balanced funds or the specialist sectors within those categories. Customers were especially interested in ArcaCinqueStelle, the first multi-asset, multi-style, multi-manager fund in Italy; we are pleased to report that no competitor has managed to replicate the fund so far, which gives the Arca network a significant competitive edge. But the company still exerts itself to come up with new forms of investment, such as the three funds launched at the start of 2001: Arca Bond Corporate, Arca Azioni Alta Crescita, and Arca Azioni Paesi Emergenti.

Portfolio Management



Generally speaking, it can easily be said that no other branch of the banking business has seen such dazzling growth as that of portfolio management and consulting. For our part, we focused on offering an expanded range of products: to our four lines of traditional portfolio management we added six new fund-based schemes, of international scope, which entail different degrees of risk while investing in units of mutual funds and open-end investment funds for the sake of flexibility and diversification.



investment funds for the sake of flexibility and diversification.

Our affiliate Arca SGR S.p.A. expanded its wide range of products by adding ArcaCinqueStelle, Italy's first fund of funds, which chooses from among the best fund managers in the world and alternates its selections depending on their performance. It then started to sell Italians units of the Popso (Suisse) Investment Fund SICAV, our Luxembourg-denominated open-end investment fund that enjoys the collaboration of Vontobel Asset Management AG, a major Swiss manager of portfolios and pension funds.

*Portfolio
management*

The slight decrease in assets under portfolio management contracts, from L. 1,952 to 1,929 billion (-1.2%), was caused mainly by customers' disillusionment with bond products. The quality of this aggregate actually improved, as significant amounts of funds were transferred from traditional portfolio management to the more innovative and popular type based on mutual funds.

The new opportunities mentioned above gave a significant boost to total funding attributable to asset management schemes, which gained 7.96% and rose from L. 4,129 to 4,458 billion. As for the sale of funds run by our affiliate Arca SGR S.p.A., we stood out among the distributor banks for achieving positive net subscriptions, which increased by over 14% to a total of L. 2,485 billion.

Our work as a custodian bank was intensive and profitable, acting on behalf of four of Arca's mutual funds and its pension fund Arca Previdenza.

In essence, we are pleased to report that to the extent possible, we correctly interpreted a year that challenged the financial markets, a year when rational thinking often slipped into emotional abandon. We tried to maintain balance and a steady hand, as well as our usual prudence. The Finance Department did its job with flair and brought the bank substantial and growing profit.

EQUITY INVESTMENTS

In logical sequence to our discussion of securities, we need to examine our equity investments. This is essential information in that equity investments represent the employment of risk capital in pursuit of a strategic goal.

The number of holdings increased by one. Having disposed of the no longer functional Immobiliare Banche Popolari, the company that owned the building once housing the cooperative banks association, we then acquired stakes in the Cassamercato Consortium and Sintesti 2000 S.r.l., which we shall describe below. In short, we can say that one expresses our desire to interact with business associations on issues of mutual interest, and the other represents our resolve not to squander the results of 25 years of hard work by the Arca Nordest Group.

Let us say that we are as pleased as ever with the work of our operating arms, whether they are the expression of cooperative banking as a category or of small groups of sister banks. But that may be redundant, if only because part of our success is down to them. No less importantly, the fact that our affiliates are at the pinnacle of their sectors owes in some degree to the shareholder banks that founded them, govern them and sustain them with steady work.

In other words, while our actions are taken as a polyfunctional group, those of our affiliates – our trade investments, we mean – draw nourishment from a dense organization of cooperative bank branches, an extensive, far-reaching network that is actually the largest in the nation.

The arrangement is simple and rational, inexpensive and profitable. Because it is so linear it is perhaps something from other times, which gives us an excuse to make this preamble a little longer.

We are all aware of how the cooperative movement is unravelling. Co-ops are not immune

from the transformation taking place throughout the national banking industry. This is cause for reflection about our affiliates, reflections that preoccupy and concern us, as we want our companies – all of them profitable – to continue to be so and to play their roles well. We care about the people who work there with such determination and passion, making sure their companies are part of the common wealth.

The departure of Italfondinario, which we will remember fondly for all its fine work, has enabled the historic medium-term lender Centrobanca to move ahead untethered. The same can be said for those companies which, with our eager cooperation, have created cohesive, harmonious and above all stable governing bodies.

With these thoughts, we invite our sister banks to unearth their traditional values; they are certainly less wasteful and are brimming with good sense. As always, we promise loyal cooperation, support and an inflow of work, without skimping on capital when it goes to a good cause.

As of 31 December 2000 our equity investments were worth L. 178 billion – L. 64 billion in our Swiss subsidiary and L. 114 billion in other holdings – with an increase of L. 13 billion for the year. All investments and additions, as described below, were carried out in accordance with the relevant laws.

Subsidiaries:

Banca Popolare di Sondrio (Suisse) SA (100%). A Swiss-regulated bank with its head office in Lugano.

Our subsidiary's fifth year of operations was marked by geographical expansion and the steady development of business. In a harmoniously symbiotic process, the bank continued to strengthen its logistical structure by adapting processes and procedures to the higher volume of work and to its plans for additional growth.

The increase in clientele – the top priority for a bank planning to penetrate the various layers of society, starting with Italian emigrants, households, and small and medium-sized companies – was favoured by some new branch openings, whose promising start bodes well for the future. In just over five years, BPS Suisse has opened up offices in four cantons (Ticino, Grisons, St. Gallen and Basle), and made a name for itself in each of their capital cities. Its varying presence in the individual regions reflects its policy of location, which gives preference to the cross-border area for the sake of geographical continuity with the parent bank. Its new representative office in Basle has helped it extend its sphere of action, not to spread itself more thinly but to test the land and evaluate its fertility, so that the bank can cultivate healthy, strongly rooted plants from these seeds. Metaphorically speaking, Castasegna and Chur in the canton of Grisons and Locarno in the canton of Ticino are the green shoots of the year 2000.


The growth of the various financial statement items was balanced and harmonious. The constant rise in interest income, thanks to the subsidiary's prudent lending policy and greater focus on retail banking, has improved the stability of its income statement. The prevalent component of income is commissions, a type of revenue which is certain but somewhat tied in with the performance of the financial markets.

It was a volatile year for those markets, of course, especially in the «new economy» sector, although the Zurich Stock Exchange stood out for its prudence and relative stability. Well aware of the trends incited by technology, in which it has taken part with sizeable investments in IT and Internet banking, BPS Suisse remained cautious in its management of security portfolios and came out a winner for such prudence.


There was an encouraging rise in the number of units sold of Popso (Suisse) Investment Fund SICAV. The parent bank has also been selling them in Italy for the past few months.

In Switzerland







Banca Popolare di Sondrio (SUISSE)




LUGANO Branch




CASTASEGNA




BASEL



CHUR



LOCARNO



New affiliate

Our subsidiary's fifth year of operations was marked by geographical expansion and the steady development of business. In just over five years, BPS Suisse has opened offices in four cantons (Ticino, Grisons, St. Gallen and Basle), and made a name for itself in each of their capital cities. Its varying presence in the individual regions reflects its policy of location, which gives preference to the cross-border area for the sake of geographical continuity with the parent bank. Its new representative office in Basle has helped it extend its sphere of action, not to spread itself more thinly but to test the land and evaluate its fertility, so that the bank can cultivate healthy, strongly rooted plants from these seeds. Metaphorically speaking, Castasegna and Chur in the canton of Grisons and Locarno in the canton of Ticino are the green shoots of the year 2000.

The net profit, up more than 21% on 1999, amounted to CHF 8,434,886. Shareholders' equity now totals CHF 64,102,307 (share capital of CHF 50,000,000 and reserves of CHF 14,102,307).

Business was good for the affiliate Sofipo Fiduciaire SA, which is making steady progress in a notoriously difficult market.

The «Suisse», as we call our subsidiary for short, is making good use of the opportunities given it by its model as a full-fledged bank and is gradually taking root in this country.

Pirovano Stelvio spa (98%). Better known as «Ski University» in the world of sports enthusiasts, this company reopened its doors on 27 May, and closed its season early – on 9 November – when the Stelvio Pass was closed for the year due to snow.

Skiing, of course, is a meteorologically dependent business. While July and especially August enjoyed the best snow cover the area had seen for years, the snowfall in October was so heavy as to block the road between Bormio and the Stelvio Pass, preventing guests from making the trip and forcing the company to cancel events from which it had every reason to expect good returns. We shall dwell no longer on what happened; as with all bad news, the situation was covered amply by the newspapers, radio and TV. We hope to receive just as much attention when it is time to tell the public about the joys of our Alpine setting.

The weather conditions were a shame, because there were many new infrastructures this year, which were certainly appreciated by the ski buffs who came to visit. In July we initiated the Payer ski lift and the technologically innovative cableway between Trincerone and Livrio, which can double its hourly capacity in case of need; both were a hit with skiers. So were the many complementary alternatives to skiing, that our subsidiary organised during the year.

As someone once remarked, «the Stelvio was born on a happy day for the gods of the

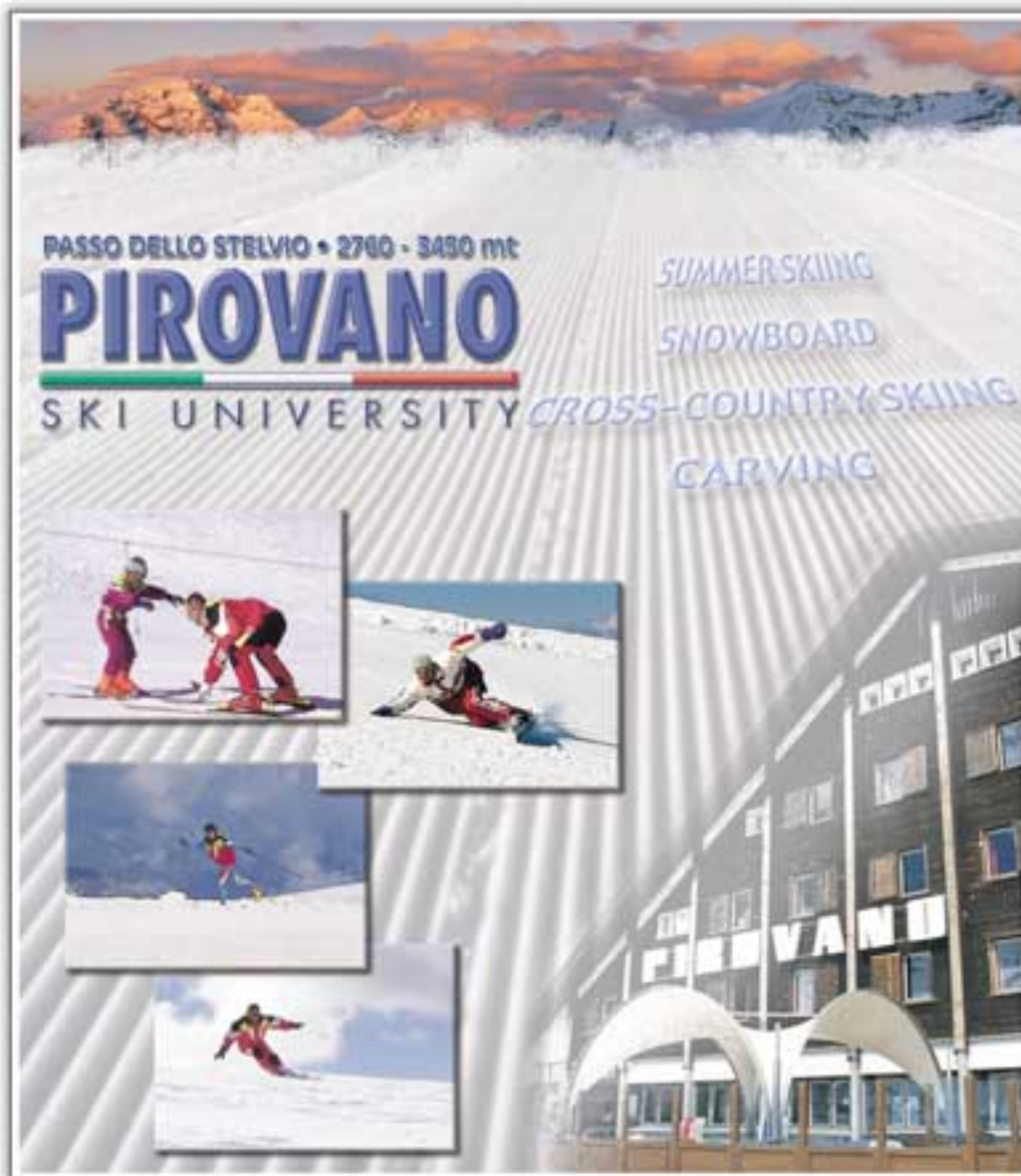
mountains.» The Stelvio stimulated the creative talents of Arthur Schnitzler, the Austrian author and playwright and a prominent naturalist; for others, it has evoked primordial sensations similar to those encountered in Africa, and for others still it is disconcerting. The Stelvio does not leave one indifferent. As we climb the road, we realize that every turn is a chance to lighten our backpacks of much of the ballast we've hauled from below. It's a feeling of liberation, for neophytes and devotees alike. Once more, however, our subsidiary had to contend with the gradual loss in popularity of summer skiing, which is suffering the pitiless competition rampant in the tourism business. Travels abroad, far-off seas, everything and more for a song: using the desire for the new as leverage, supply has the upper hand.

The income statement of Pirovano Stelvio continued to reflect the declining state of affairs, a situation that has affected similar locations in Italy and other countries for a number of years.

In the spirit that guides us and motivates us to keep this challenging business alive, we have taken steps to publicize the Stelvio region outside the world of skiing, by focusing on diversifying and enhancing what the company offers. But our good intentions are not enough, if only because «Stelvy» – our mascot – lives three thousand metres above sea level and we have no control over the conditions of local roads, an aspect vital to all development. Who should we ask for help? Do we have to wait for it to be registered among the most important high roads in Europe?

We shall never tire of repeating that Pirovano, on whose recovery we have spent good money, is the bank's direct contribution to the most well-known component of the provincial economy. We are confident, therefore, that in the future our intense promotional and other efforts will provide bigger and better rewards. This will be fair compensation to those who work for the company with such passion, who are committed to saving and developing an important part of

Ski university



PIROVANO
3000
MEETING

QUOTA
3000
Trekking

QUOTA
3000
SCUOLA

LA TERRAZZA
del PIROVANO

SALA VENOSTA

We shall never tire of repeating that Pirovano, on whose recovery we have spent good money, is the bank's direct contribution to the most well-known component of the provincial economy. In the spirit that guides us and motivates us to keep this challenging business alive during a difficult time for summer skiing, we have taken steps to publicize the Stelvio region outside of that realm, by focusing on diversifying and enhancing what the company offers. At the schools, for example, the programmes "Quota 3000 Scuola" and "Quota 3000 Trekking" are opportunities to study the science, nature, history and sports activities of the Stelvio Pass and Stelvio National Park. We are confident that in the future our intense promotional and other efforts will provide bigger and better rewards. This will be fair compensation to those who work for the company with such passion, who are committed to saving and developing an important part of local tourism and who, by doing so, help create jobs in Valtellina.

local tourism and who, by doing so, help create jobs in Valtellina.

Sinergia Seconda srl (100%). This real estate company owns properties in Milan and Rome. Its purpose is to manage its own properties in order to make them more profitable, while setting the stage for their possible future sale. It has made significant progress in its goal of leasing the vacant portions of its buildings.

During the year in review, Sinergia Seconda established two wholly owned subsidiaries with its same purposes: Immobiliare San Paolo S.r.l. and Immobiliare Borgo Palazzo S.r.l. Respectively, they have acquired properties in Azzano San Paolo (BG) and in Bergamo, as part of a loan settlement agreement.

The purpose of splitting this business into a number of separate companies is to make the eventual disposal of the assets as simple and easy as possible.

Sinergia Seconda S.r.l. closed the year with a modest profit, and its two subsidiaries with a slight loss.

Associated companies:

Ripoval spa (50%). Ripoval, owned jointly with Credito Valtellinese, works in the field of tax collection.

The year closed with a profit, as always, as the Finance Ministry extended its safeguard mechanism to the year 2000. The safeguard will also be valid in 2001, but no contribution is planned for 2002. The change in orientation falls within the scheduled or completed measures on the subject of tax collection, measures that are changing the object of tax collection companies by expanding their possible spheres of business as autonomous entities. Ripoval, therefore, is seeking new, non-institutional opportunities that can increase its revenues and guarantee its future, moves that involve both of its joint owners.

The tax collection business was normal, despite the downturn in the first eight months

in volumes and related revenues due to technical delays in the issue of tax rolls. In fact, this delay was due to the authorities' failure to set the related remuneration, being finalized only in August.

In the business of local taxation, 77 of the 78 municipalities in the Province of Sondrio have hired Ripoval to collect the local property tax (ICI) and the waste disposal tax. The company has set up a Web site by which it can extend its services to local public entities, particularly town governments, which will have direct access to Ripoval's archives. The site will also provide general information to taxpayers.

Toward year end, the company completed the increase in share capital from L. 2 to 5 billion, as resolved by the extraordinary shareholders' meeting of 22 September 1999.

In early January 2000, the tax collection window for Sondrio – previously at BPS headquarters – was moved to the company's new premises. This completes the move to a larger, more functional location that unites all of its offices, including those open to the public, within a single building owned by Ripoval itself.

Relations with Credito Valtellinese are based on fairness, honesty, and the sharing of programmes and strategies. Staff members fulfil their responsibilities with professionalism and a cooperative spirit.

Servizi Internazionali e Strutture Integrate 2000 srl - Sintesi 2000 srl (33.333%). Founded on 2 February 2000 at the convinced initiative of BPS, Banca Popolare dell'Emilia Romagna and Veneto Banca, this company has taken over the activities of the defunct Arca Nordest Group. We are pleased that our principles and vision are shared by our two sister banks in Emilia and the Veneto.

Sintesi 2000 S.r.l. – an acronym for Servizi Internazionali e Strutture Integrate – was established with share capital of Euro 75,000 distributed equally among its three shareholders.



It has acquired all of the group's activities except for those in Beijing. Still up and running are the London office (which handles various financial transactions and acts as an observatory for a vitally important market, as well as a reference point for foreign correspondents); the Hong Kong office, which now does the work of the former Beijing branch as well because of the political changes in the area, and which serves businesses and other customers with ties to these fast-moving parts of Asia; and the «Servizio Analisi Rischi Cabra», which analyzes countries, banking systems and banks in general and studies the creditworthiness of loan applicants. Sintesi 2000 S.r.l., whose registered office is now in Milan, does not have an exclusive service arrangement with its shareholders; other banks or financial institutions may contract its services at any time.

The company operated for just six months in 2000, and it closed the year with a loss, although a smaller one than forecast in the budget.

CBE-Service sprl (20%). Founded in 1998 by the banks belonging to the Coopération Bancaire pour l'Europe CBE-GEIE in Brussels, which is headed by the prestigious San Paolo-IMI and of which we are proud to be a part, CBE-Service helps companies and other parties attain financing from the European Union and learn about national and international calls for tenders.

«ImpresaEuropa» is a range of information, assistance and consulting services on the EU's policies, programmes and funding, designed especially for small to midsize companies. «GarEuropa» offers specific, thorough information in real time and provides personalized advice and services to help client companies gain access to domestic and international calls for bidding.

Many of the bank's customers and internal units, to their complete satisfaction, have turned to CBE-Service for assistance and advice.

The year closed with a moderate profit.

Trade investments:

Centrobanca spa (1.60%). For Centrobanca, the year 2000 meant the disposal of Italfondionario, the increase in capital, and the arrival of Banca Popolare di Bergamo - Credito Varesino as the new majority owner.

Regarding Italfondionario, the reorganization which we spoke about in last year's report was completed with the factoring of receivables and the sale of bonds held in the portfolio, a prerequisite for turning the bank into a simple financial house and for transferring control to Ieffe Acquisition, a company owned by an alliance of members from the business community in Bologna.

Centrobanca did well with its ordinary operations, but results for the year were hurt by the cost of carrying out the reorganization for its former subsidiary, Italfondionario. The consequent reduction in capital led Centrobanca's Board of Directors to increase share capital in order to re-establish its capital ratios.

With the liquidity brought in by that operation, Centrobanca will have a solid basis for moving on with its ordinary activities. Corporate governance, and therefore management, should be improved with the new shareholding arrangement; after recently taking over interests held by other shareholders, Banca Popolare di Bergamo - Credito Varesino now owns an absolute majority of Centrobanca. The intention of our sister bank from Bergamo is to uphold the participation of the other shareholder banks, and to confirm Centrobanca's role in the field of medium- and long-term loans to the benefit of the entire category.

Our attitude toward Centrobanca, in word and in deed, has always been one of support. While openly disapproving of flighty ideas about operations of a vague financial and industrial slant, we have channelled work to the company and performed consistent acts of faith, in the belief that Centrobanca must continue to serve as

a leader, taking account of trends in demand. Looking to the future, therefore, we have not missed an occasion to express our hopes that Centrobanca will add merchant banking to its traditional activities. This would give it an important position in business with medium-sized companies, making it an alternative and a complement to the successful Mediobanca. Unfortunately, our dreams have been realized, but by others.

Convinced of the merits of our affiliate, we have always argued that Centrobanca's shareholders should give the company the capital it needs. As far as we are concerned, we have always responded to that need. When the shareholders abandoned their united front, our sense of pride at being a cooperative bank led us to declare our position officially; in a letter dated 18 January 2000 we asked the then chairman of the National Association of Cooperative Banks to consider taking up the question in the interests of the association's members.

The rest is history, and in taking stock of events we are encouraged by the fact that a prestigious fellow co-op like Bergamo believed in Centrobanca. It is a company with solid foundations, and above all with solid prospects.

We are sure Centrobanca will recover, partly because we know how good and devoted is its management. In our capacity as shareholder, we guarantee the support and forthright collaboration that we have always assured.

Let us turn, now, to Centrobanca's operations during the year, in its traditional and institutional role as a bank specialized in the medium- and long-term financing of the healthiest components of the national economy. Although forced to compete against the very shareholder banks which originally offered short-term loans only, but which are now very active in the long-term segment as well, Centrobanca assumed a significant role in the lending market with products for a wide range of sectors.

Securities and property loans, agriculture and sea transport loans, project financing and merchant banking were all a part of its work. It was also busy with the procedures for obtaining low-interest loans under Law 488/92, which are earmarked for the growth of industrial activities in general, of tourist and hotel services, and of scientific and technological research, all areas in which Centrobanca operates as a technical and advisory body responsible for evaluating investment plans. This is a role it also fills for initiatives related to the «territorial agreements».

On the funding side, we need to distinguish between the traditional forms (bonds and certificates of deposit) and the more recent issue of «atypical» short-term securities.

Our work with Banca Centrale di Credito Popolare concerned the company's standard operations, and suffered from the expiration of Law 102/90, the «Valtellina Law».

Once again this year, Centrobanca's bottom line was hurt by the cost of reorganizing the former subsidiary Italfondario. Having left behind the problems that have been so detrimental to its results over the past few years, Centrobanca can now raise its head high and maintain its position at the top of the market.

Unione Fiduciaria spa (4.072%). This company had an excellent year, growing steadily in all areas of business and closing 2000 with a profit. Its business is an art: the art of infinite privacy.

Unione Fiduciaria acts according to its nature, but tirelessly and with a steady eye on the evolution of the market. Taking special care of its traditional activities, it developed contacts with the shareholder banks and the professional business world and stepped up its efforts throughout the country, with a particular emphasis on Central and Southern Italy.

In consequence, funds under management increased. The company took charge of complex operations such as the administration of voting



syndicate agreements; the issue of stock for employee purchase; guarantee operations, where it served as guarantor of contractual agreements and arbitrator of their proper execution; the fiduciary registration of portfolios managed by the shareholder banks and by financial brokers in general; the planning of generational transfer for companies; and the establishment of new business initiatives. All in all, its activities were intense and vital, proving its deep connection to the world of business.

By integrating «fiduciary administration» with these other fields of work, the company was able to continue providing its clients with a complete consulting service. The aspects described below, just some of its many activities, give an idea of the comprehensive scope of this company.

In tax consulting and corporate services, together with the professionals working on behalf of its client companies, it helped plan, research and execute a wide range of extraordinary operations conducive to business growth. For the international aspects of such work it turned to Sofipo Fiduciaire, a Swiss fiduciary company and affiliate of BPS Suisse, which served as a liaison with foreign legal systems and the operating instruments offered by markets outside the country.

The banks and brokers division continued to help clients interpret and apply the law on investment services (the Draghi Decree), in what has grown into a solid and successful business. It also provided assistance on internal auditing matters.

The finance and special projects division managed to build on its previous years' success in the field of mergers & acquisitions, and in helping companies list on official markets in Italy and abroad.

Lastly, the computer services division had a profitable year furnishing products and services, including under outsourcing arrangements, primarily for the sector of mutual funds, pension funds and portfolio management.

The company continued to operate as a financial broker as well, through its subsidiary Unione Gestioni SIM.

Some of the credit for these achievements goes to the company's shareholder banks, which direct clients to its services, unfortunately not in great numbers. Most of the credit goes to its staff, a team of discreet men of class.

Società di Gestione del Risparmio in Fondi Immobiliari Chiusi di Banche Popolari spa (7%). This company was founded by Unione Fiduciaria and 14 cooperative banks. After spending its first year preparing for the launch of the first closed-end real estate fund to be offered through cooperative banks, in 2000 it finally got down to business.

In mid-February it started to sell units of Polis through the 2,500 branches of its shareholder banks. The placement ended in May after some 16,000 investors had subscribed. Just three months from its launch the fund was sent «shopping», and quite a spree it was considering its total assets of L. 500 billion.

As one might imagine, this was a complex and delicate operation. As such, it was subject to codified procedures designed to ensure the merit and transparency of investments. Having completed its first purchase, a commercial building in Milan, the fund is now sifting through other properties it might want in its portfolio and should soon make more acquisitions.

In accordance with fund regulations, within six months of the end of the placement phase the company applied for a listing on the Stock Exchange. The listing should be granted in early 2001.

During the year in review, which closed with a net profit, the company converted its share capital into euro following the simplified procedure.

Banca per il Leasing - Italease spa (3.558%, formerly 3.535%). The leasing business in Italy has continued its exemplary growth,

becoming increasingly popular as a means of flexible corporate finance.

Our affiliate Italease enjoyed similarly good performance, reaching second place in the sector classification and reporting a 9% increase in the value of leasing contracts. As always, it closed the year with a stronger balance sheet and a positive economic result. Considering its exploits in 1999, over the past two years Italease has grown by almost 25%, proving its competitiveness within the sector and the public's interest in this type of financing. Driving its progress was the instrumental leasing of plant, machinery and industrial equipment, which grew faster than the market average in a pattern that can now be called standard. The leasing of cars and real estate suffered a slight decline.

The year was full of news and important changes in the company's structure, as a series of operations led to the outsourcing of several activities in order to respond more effectively to the future challenges of the market. In chronological order, the first-born was named Focus Leasing.it and works directly with the builders, merchants and dealers of plant, machinery and industrial equipment, giving their customers access to personalized leasing plans. Next came Itaca Service, a joint venture with Accenture (formerly Andersen Consulting), which oversees the parent company's IT systems and also manages, maintains and upgrades software for other members of the financial community.

During the year, Banca Popolare di Sondrio continued its fruitful collaboration with Italease and boosted an already high volume of business. This is the reward for a steady relationship, based on the sharing of those fundamental values which allow two companies to work closely with each other on a day-to-day basis.

Its goals for 2001? To consolidate and improve on its performance of the last few years, with the help of some new activities and projects.

These include a Web site, which promises to be one of the most original and innovative in the field, and the birth of a new company specialized in the long-term rental of cars and commercial vehicles.

Our investment in the company is a way to offer an efficient, high-quality service to our customers, which creates value for Italease and hence for ourselves. Not all shareholder banks have kept their faith in the company, however, and so it has become imperative to establish a solid core that can assure the necessary peace of mind to Italease and its talented staff.

We increased our holding by exercising our right of pre-emption when a sister company left the body of shareholders. Our decision to do so was based on the company's health and prospects and on the extent and importance of our ties to it.

Factorit spa (2.741%, formerly 2.726%). The factoring market continued to expand in the year under review. Our affiliate in this field is now firmly entrenched as the third largest factoring company in Italy, with about 9% of the market. Its quality products, technological prowess, and distinctive expertise in a number of crucial market sectors are some of the reasons for its success.

All operating sectors did their part to ensure the constant growth in volumes. Turnover was especially high in the tourism and motor vehicle sectors, which also provided momentum for an improved quality of service. The year closed with a profit.

Factorit's results stem from its partnership with the cooperative banks, a mutually beneficial arrangement. Factorit can sell its products through a network of over 6,000 branches throughout the country; and the banks can offer customers a more extensive range of corporate services while cutting out competitors.

Factorit already offers products with a high service content, thanks to a sophisticated IT system that it keeps constantly up to date. Therefore, its efforts are mainly directed toward



developing its client portfolio and strengthening the partnership with its shareholders.

«Factorit Old Line» provides factoring in its most typical, traditional form. «D-Day» stands out for its high flexibility and its positive effects on administration and finance. «Safe» means guaranteed collection, and «Export Factorit» is designed for companies with international business. «Rateale» sets up instalment plans for amounts due from companies and private parties; «Tandem» gives those in the tourism sector a means of settling receivables and payables in a transparent, economical, synchronized manner that respects each party's needs. These are just some of the products that our affiliate works hard to make as attractive and competitive as possible. It certainly has the right facilities and staff to do so.

In an effort to strengthen its hold on the factoring market, the company has taken over 100% of In Factor S.p.A., in which it previously held an investment. The two companies were subsequently merged.

Business with BPS developed well during the year, and in our opinion, the path is clear for further growth.

We increased our holding by exercising our right of pre-emption when a sister company left the body of shareholders.

Centrosim spa (2%). Centrosim was founded in 1991, soon after the enactment of Law 1/91, to provide the cooperative banks with an ad hoc facility for securities trading. It has grown steadily since then and is now the fifth largest brokerage house in the country.

An intense, fruitful partnership, developed over the years with the shareholder banks, generated a notable increase in volumes, which set the stage for a policy of declining commission rates. Commissions have stayed highly competitive, as part of a virtuous cycle that benefits Centrosim, the banks and their clientele.

Since the company's activities are closely correlated to trends on the financial markets, in

2000 Centrosim took full advantage of the boom in trading volumes on the Stock Exchange. In equity trading, where the company is most active, the volume of transactions during the first half of the year topped the figure for all of 1999, and the net profit for the period was well above the target for the entire year.

Centrosim offers a range of complementary services that make its income statement more stable and generate some important synergies. Portfolio management built on its good prior year performance; the safe custody and administration of securities saw a significant rise in volume; security placements did well despite the lack of large-scale public offerings; and the consulting business expanded. Projects now in the works include the publication of Centrosim analyses using the computer supports of the banks' on-line trading procedures, and the electronic collection of orders for foreign securities, which will be transmitted to the markets through a link to one of the major international circuits.

To strengthen the role it has carved out in the brokerage sector, Centrosim wants to develop the «retail» work it receives from the co-ops, and to expand and diversify its range of customers and services. We have no doubt that the investments needed to shore up the operating structure will be quickly repaid in the form of a better, more efficient service. It is our pleasure to note that Centrosim has not only grown but decided to cultivate its place in the market, by exploiting not just the fidelity of its shareholders, but its own inherent attractiveness and its ability to offer them the best. The prerequisites are in place: an expert management team and a professional, devoted staff.

Cilme spa (7.788%). The Consorzio Interbancario Lombardo per la Moneta Elettronica, founded in 1987 to provide high-quality services in the field of payment systems, has extended its activities to include electronic money, on-line banking and e-commerce.

Equity Investments

SOCIETÀ DI GESTIONE
DEL RISPARMIO IN FONDI
IMMOBILIARI CHIUSI DI
BANCHE POPOLARI SPA

CENTROBANCA SPA

UNIONE FIDUCIARIA SPA

BANCA PER IL LEASING
ITALEASE SPA

FACTORIT SPA

CENTROSIM SPA

CILME SPA

CONSORZIO
CASSAMERCATO

SOCIETÀ PER IL MERCATO
DEI TITOLI DI STATO -
MTS SPA

e-MID SPA

BORSA ITALIANA SPA

CBE - SERVICE SPRL

FINLOMBARDA SPA

BANCA POPOLARE
ETICA SCARL

AVIOVALTELLINA SPA

SPLUGA DOMANI SPA

SOCIETÀ DI SVILUPPO
LOCALE SPA

AEM-AZIENDA
ENERGETICA
MUNICIPALE SPA

TELERISCALDAMENTO-
COGENERAZIONE
VALCAMONICA-
VALTELLINA-
VALCHIAVENNA SPA

SINTESI 2000 SRL

RIPOVAL SPA

SINERGIA SECONDA SRL

PIROVANO STELVIO SPA

BANCA POPOLARE
DI SONDRIO (SUISSE) SA



ARCA SGR SPA

ARCA MERCHANT SPA

ARCA VITA SPA

ARCA ASSICURAZIONI SPA

B. & A. BROKER SPA



Compared with its original purpose, Cilme's activities have changed, and keep evolving year after year. This is only natural, of course, for a company whose top priority is to support the strategies and demands of its founding banks, which in turn condition and are conditioned by the market in which they operate.

Cilme's traditional POS and remote banking services were gradually joined by work in microchip and «PagoBancomat» cards, fidelity cards for chain stores, payment instruments for the public administration, «Multibanca» Internet banking, e-commerce sites and, most recently, on-line payments using international security standards that are recognized and accepted by the principal credit card circuits. The total volume generated by these activities have made Cilme one of the top interbank organizations in the sector.

The decision to abandon its original consortium structure (offering the same products and services to all its shareholder banks) in favour of a highly personalized approach, tailored to the needs of the individual banks, has already proved a success. Results for the year were very good.

Borsa Italiana spa (0.25%). This was the third year of operations for Borsa Italiana S.p.A., which opened on 2 January 1998. The company organizes and runs Italy's domestic securities markets: the Stock Exchange, the Over-the-Counter Market, the bond market (MOT), the market for European government bonds (EuroMOT, which opened on 17 January 2000), the derivatives market (IDEM), the futures market (MIF), the electronic equities market (MTA) and the premiums market (MPR). It also runs the «New Market», part of Europe's Euro.NM circuit, which is designed for small to medium-sized Italian companies with high growth potential.

Aside from making sure these markets function as they should, Borsa Italiana tries to develop them and make them more efficient, to create value for the system as a whole, and to

improve organizational and managerial aspects on an ongoing basis. Thus far, thanks to its staff, it has reached every target set. Its medium-term objective of having the fourth largest capitalization and trading volume in Europe was reached in just two years.

The more important events during the year include the start of after-hours trading on 15 May, which put Borsa Italiana at the forefront of the European scene, as it was the first to embark on such a project. Forty-nine new listings is also an impressive tally for the year. As of 31 December 2000, the principal Stock Exchange, the OTC market and the New Market had a total of 294 listed stocks.

The year closed with a profit.

Società per il Mercato dei Titoli di Stato - MTS spa (0.075%). This company runs Italy's wholesale government securities market, the MTS, one of the chief international centres on which this type of security is traded. It is also authorized to run the wholesale market for securities issued by state-owned international organisms.

Much of its success owes to the quality contributions of its staff, who served as both players and managers with great professional skill. They were key factors in the decisions that guide changes in the way we operate on the financial markets.

In 1998, a pan-European system for the wholesale trading of government bonds was created in the form of the EuroMTS. This was followed by «domestic» markets such as MTS Amsterdam N.V., MTS France s.a.s. and MTS Japan K.K. In spite of these important developments, MTS S.p.A. has never lost sight of its internal framework, and continues to devote its efforts to making the system more efficient and coordinating the design and realization of new technological functions.

To further the process of reorganization and growth within a continental vision, in view of agreements with European governments that

might consider the company for the management of local bond markets, in October 1998 the extraordinary shareholders' meeting of MTS S.p.A. voted to raise share capital from L. 12 to 27 billion in two tranches. BPS agreed to pay in its share; the first tranche was completed in 1999, and the second during the year in review.

The company closed the year with a profit. e-MID spa (1%). This company was established in 1999 to give the Market for Interbank Deposits (MID) a central role within the new European liquidity market spawned by the «third phase» of European Union.

In this capacity, the company immediately launched an intensive promotional campaign abroad, including technical innovations and new products, in order to consolidate onto its own IT platform most of the interbank deposit trading that takes place among banks in EU countries. About 20 non-resident banks have signed up for e-MID's services, attracted by the wholesale trading pages and the chance to negotiate in amounts defined by each individual member.

The average daily cash trading volume has reached Euro 15 billion. In its role as observer, the European Central Bank monitors trades closely and draws useful indications about the course of interbank rates.

In late November trading began on the e-MIDER, the organized market for Eonia swaps. Through this market e-MID hopes to attract large international investment banks interested in electronic trading, while indirectly raising the size of trades and the liquidity of the cash market.

e-MID is a young company with good potential, making all the right moves. Its start-up phase now over, it is finding an economic balance and its place in the world of supranational electronic markets.

Finlombarda spa (0.405%). Finlombarda's mission is to develop economically viable initiatives within the context of economic, social and territorial planning for the Region of Lombardy.

To do so, it lends money to small and midsize companies wishing to create new entities, innovate, and expand and develop their operations, especially by spreading their reach abroad. It also gives financial support to local projects in the fields of transport, the environment, energy, industrial hubs and related services.

Specifically, Finlombarda – Finanziaria per lo Sviluppo della Lombardia S.p.A. – manages rotating funds earmarked by regional laws for the support of Lombard production; it arranges and signs agreements with banks for the granting of low-interest loans in accordance with regional and European laws; and it provides advice and financial support to companies.

The decision to assume an interest in Finlombarda – albeit a modest one – relates to the company's important role of developing the economic system of the Region of Lombardy, where BPS is firmly rooted through 130 branches (with the prospect of many more). The investment represents our support of Finlombarda's efforts to help small and midsize concerns, a category that has always been close to our heart.

Three agreements have been signed with Finlombarda, for implementation of the following regional laws: Law 1/1999, «Regional policies for labour and employment services», which has replaced Law 68/1986, «Intervention in support of new business ventures by the young»; Law 35/1996, «Measures for small business development»; and Law 34/1996, «Measures to facilitate loan access by artisan concerns». The latter has been amended to simplify application procedures.

During the year, the company helped implement the general planning agreement for transport – concerning Malpensa 2000 Intercontinental Airport – which was negotiated by the region, the Environment and Transport Ministries, and the sub-regional entities involved. Finlombarda's role was to provide technical support in drawing up the plans and in the management of related funds.



Our investment is also proof of our commitment to Finlombarda's principal shareholder, the Region of Lombardy. We serve as co-treasurer of the region and have a branch at its premises in Milan.

Finlombarda closed the year with a profit.

Banca Popolare Etica scarl (0.289%). The first Italian bank to offer its resources solely to customers committed to social welfare, and to the dignity of humankind and nature, has closed its second year of business. In our opinion, its shareholders can be more than satisfied with its funding and lending results.

The basic strategy of Banca Etica – a cooperative bank, like ourselves – is to grow slowly but steadily while maintaining the flexibility it needs to be modern and innovative despite the constant evolution of the socio-economic context. In doing so, it sees recruitment as a highly important and delicate task, and is especially conscientious in building its IT structure. The bank is virtual to some degree, but has been conceived and developed without neglecting its relationship with the community, the shareholders and its customers. This philosophy is expressed in the creation of a modest branch network and in the profitable work of its local partnerships.

Banca Etica currently has a head office in Padua, four branches, one advisory office, two information points and a «commercial network» consisting of the branches of some cooperative banks. By special agreement, at those branches customers can sign up for Banca Etica's bonds and certificates of deposit.

We, too, are a co-op bank, inspired by the same principles of aid and cooperation, and have become Banca Etica's regular contact in Valtellina and Valchiavenna. At our branches we will be distributing its literature and offering subscriptions to its investment products.

The bank's diligent lending policy and careful management rewarded it with a net profit in 2000, a year earlier than expected.

In current usage, the word «ethical» can mean many things and is bandied about quite liberally. Our affiliate is ethical in name and in deed: it helps its neighbours by making proper use of what belongs to other neighbours, and unites all the parties in a noble spirit of solidarity.

Consorzio Cassamerco (6.286%, new). Founded by SO.GE.MI. spa – Società per l'impianto e l'esercizio dei mercati annonari all'ingrosso di Milano, which runs the wholesale produce market (Ortomercato), among other things – this consortium includes the associations of wholesale produce and fish merchants as well as the banks that operate at the market. BPS has had a branch at the Ortomercato since June 1996.

The purpose of the consortium is to computerize all commercial transactions by making prepaid or fiduciary cards the only accepted means of payment. This will guarantee wholesalers the recoverability of the amounts due from their buyers. The medium-term objective is to develop remote access involving an electronic market, electronic data interchange and e-commerce.

Our Board of Directors feels that this investment is important to the work of our Ortomercato branch, and has thus voted to join the consortium.

The Arca Group

Arca SGR spa (4.815%, formerly 4.712%). Still the fourth largest asset management company in Italy, Arca SGR's performance was in tandem with the rest of the market.

The mutual fund business slowed down this year, and fund managers found themselves again in the line of fire. After 1999 went down in history as a terrible year for bond funds, whose misadventures led tens of thousands of households to convert their savings hastily to



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equities, in 2000 the tables were turned, as bonds recovered (somewhat) and equities faltered toward the end of the year. As the indices saw-sawed, many investors – dubious about the future direction of the markets – decided to watch from the sidelines. They moved away from stocks and into short-term investments, with a preference for liquid funds.

Arca SGR was also swept up by the trend. It continued to sell units in all sectors – equity, bond and balanced funds, with their respective specializations. Customers were especially interested in ArcaCinqueStelle, the first multi-asset, multi-style, multi-manager fund in Italy, the product of a deal between Arca and the Frank Russell Company; we are pleased to report that no competitor has managed to replicate the fund so far, which gives the Arca network a significant competitive edge. We should also point out that Arca's range of products is so diversified that we can satisfy the most discerning investor. But the company still exerts itself to come up with new forms of investment, such as the three funds launched at the start of 2001: Arca Bond Corporate, Arca Azioni Alta Crescita, and Arca Azioni Paesi Emergenti.

As for Arca Previdenza, the open-end, complementary pension fund, during the last few months of the year there was an acceleration in new subscriptions. This was triggered in part by the legislative changes that took effect as from 2001.

Arca SGR is one of the top-rated companies in terms of its risk-weighted performance. This is welcome recognition for its policy of viewing performance not as an end in itself, but in combination with the high liquidity of positions and with the quality of the balance sheet and income statement data of the companies in which it invests. A prize for Ferrari's team, winners in every respect.

These comments demonstrate once more that the average small investor wants to maximize

his earnings, of course, but also to sleep tight at night. Therefore, he is increasingly drawn to asset managers who can ensure more stable results over time, through less risky strategies of asset allocation.

As always, results for the year were good.

We increased our holding by exercising our right of pre-emption when a sister company left the body of shareholders. Our decision to do so was based on the extent and importance of our ties to Arca SGR.

We confirm our exclusive relationship to our affiliate in recognition of its quality staff and as a statement of unity with a company that's a shining star in the Arca constellation.

Arca Merchant spa (10.239%). Italy's venture capital business has been growing for several years, gradually closing the gap on the more advanced markets abroad.

The structural increase in mergers and acquisitions, the privatization of the Italian Stock Exchange (Borsa Italiana) and its consequent «modernization» in terms of regulatory and operational aspects, and the birth of the New Market – which lists small and medium-sized companies with high growth potential – continue to expand the opportunities for investors and to help merchant banks find the most profitable way to dispose of their holdings.

Momentum is also coming from the new culture of the small to mid-size business sector with its growing percentage of young professionals, who are more sensitive to financial issues and better informed about the mechanisms and tools offered by the market. More new opportunities are being created by the privatization trend, which is bringing many public-sector companies into the private orbit, and by the need of Italian «family» businesses to grow, go international, and enact a smooth generational transition.

In this panorama, Arca Merchant decided to concentrate its efforts on private equity (the



taking on of investments in private companies, including through the Arca Impresa fund and the subsidiary Arca Merchant International), delegating its other activities to subsidiaries.

Arca SIM is a brokerage house with a focus on the capital market and portfolio management; for a couple of years it has also worked in corporate finance, i.e. consulting services for mergers and acquisitions, listings, etc. Arca Merchant International SA, its head office in Brussels, is a vehicle for the group's foreign investments in high-tech and biotechnology firms. Arca Impresa Gestioni SGR manages the closed-end mutual funds, Arca Impresa and the new Arca Impresa 2000. The latter was launched during the year and closed its subscription phase early, after netting some major institutional investors. Its investment target is the medium-sized manufacturing company, and as a general rule it will shun more speculative operations in new economy firms.

Our affiliate, which closed the year with a profit, is considering a reorganization of its structure in the very near future. If this occurs, it will become a bank and apply for a listing on the Stock Exchange, which will raise the group's standing in the eyes of its clientele.

We are confident that Arca Merchant will carve out a growing position on the market. The land is fertile, the staff is qualified, and our businesses await options and proposals.

Arca Vita spa (16%, formerly 15.289%). Arca Vita is one of the leading «bancassurance» companies, a term that aptly expresses the transformation underway in the banking industry. The sale through banks of insurance and retirement products, at one with the expansion in asset management, is both a cause and effect of that trend. Fundamental to success is the banks' familiarity with their customers and our insurance group's skill at developing personalized products. Our affiliate, ever vital, hard-working and creative, acts in synergy with the new companies established ad hoc.

Unit Team is a new product created together with Arca Vita International Ltd. in Dublin, which opened for business in April. Inventing a product is not enough, however – it has to be sold and then backed up by good service. So Arca Vita and its primary sales channel, the branches of its shareholder banks, came up with Arca Direct to sell policies over the telephone and the Internet, and Arca Inlinea to serve as a call center for agents and customers.

Arca Network SIM, active since September with the opening of its first «financial store», has also started to sell Arca SGR's products and will soon enrich its catalogue with a fund-based portfolio management scheme run by Arca SIM. Its objective is to grow with the addition of other financial stores.

In 2000 Arca Vita increased the share capital of Arca Assicurazioni, raising Arca Vita's interest from 29.0157% to a majority 50.8570%. The purpose of the increase, in addition to reinforcing Arca Assicurazioni's capital, was to create a formal insurance group under Arca Vita's control, which will also enable the use of tax benefits reserved to the companies in that group.

Results for the year were slightly short of forecasts, due to market circumstances which penalized the life insurance business. As a result of these circumstances, the bancassurance sector reported a general slowdown in estimated growth. Arca Vita closed the year with a profit.

We increased our holding by subscribing to unopted shares during the latest increase in capital, and by exercising our right of pre-emption when a sister company left the body of shareholders. This was an additional act of faith in Arca Vita, a company governed with intelligent vigour and unfailing determination, which is now a parent company itself and the expression of a strong, cohesive core of shareholders.

Arca Assicurazioni spa (7.043%, formerly 9.478%). Born on the strength of Arca Vita's success, this company pursues its goal of

providing an array of products through bank branches that can satisfy customers' needs for non-life insurance.

«In Auto», a motor insurance policy with simple coverage and a good price/quality ratio, has surpassed all expectations. However, since an insurer needs a balanced, extensive portfolio and since customers' needs are varied, the company introduced «In Casa», «In Famiglia» and «In Salute» which guarantee a peace of mind and hence a better quality of life.

These new products – a protective «umbrella» over people and their belongings – are designed to offer complete coverage at a competitive price. We have no doubt that they will be successful, perhaps replicating the performance of «In Auto».

The result for the year improved, but has yet to break out of the red. The lower incidence of overheads and the better selection of portfolios, which has reduced the frequency of claims, did compensate for the government-ordered premium freeze and enabled the company to limit its losses and look to the coming year with cautious optimism.

Our percent ownership was lowered because of the increase in capital reserved to Arca Vita S.p.A., now the majority shareholder. This was partially offset by the purchase of unopted shares produced by a bonus increase in capital, and by the exercise of our statutory pre-emption right on those left behind by two shareholders as part of a deliberate rearrangement of their holdings.

B. & A. Broker spa (14.286%). B. & A. Broker provides insurance consulting services that optimize risk coverage for companies and public and private organizations. It is now fully broken in, and even transferred its registered office and headquarters from Verona to Milan during the year, making it more centrally located within its sphere of business and closer to important financial interests.

In its new location, the company worked to its full potential and closed its third year of

operations with a modest but significant profit.

The premium portfolio is growing larger all the time, thanks to the company's qualified professional staff. These are the company's own employees, who operate within the areas covered by the shareholder banks to support the sales efforts of branch personnel.

The company offers a well-regarded product and its outlook for the future is promising.

Non-trade investments:

AvioValtellina spa (11.029%). The problem is well known: in the Province of Sondrio, the shortcomings of rail and road connections hurt the local economy, especially the manufacturing and tourism sectors. Over time, what was once defined as «splendid isolation» has become a mere bottleneck. When the airstrip was built in 1985, some began to dream of its becoming an actual airport, but for over 15 years the dream has remained just that. The Caiolo base is stuck in its world of daytime helicopter rescue, gliders and lightweight planes.

The disastrous events of November 2000 were just the latest exposé of the fragility and flimsiness of our road system. Now it seems as if the turning point is near for the construction of a commercial flying port. The first steps have been taken, and we are encouraged by the publication of official bidding calls for the jobs of widening the runway and building a helipad for night-time helicopter flights.

Meanwhile, AvioValtellina has continued its ordinary work with helicopters and tourist and sporting planes, including the usual contingent of glider pilots. Valtellina's physical geography and weather conditions make it especially conducive to gliding, and foreign enthusiasts, mostly Swiss and German, discovered before we did that the flying zone around our airstrip is a sort of paradise on earth, perhaps better than the one in the skies.

The year closed with a profit.



BPS, a geographical accomplice, has supported this initiative since the start. We know how important the Caiolo airstrip is to the region's economic and social development, as a basic infrastructure and a fundamental part of our valleys' transport and emergency rescue system.

Spluga Domani spa (1.621%). This company, first known for having built the Sky Express – the underground cable car connecting Campodolcino to Motta – has become a key figure in the business of ski lifts for the Spluga Valley.

Its accomplishments and plans focus on upgrading the Madesimo ski area by building new lifts, modernizing existing ones, and adding more accommodation facilities. In short, it hopes to raise Madesimo to the status of the most renowned winter resorts.

The company's performance in 2000 was heavily conditioned by the weather. A shortage of snow followed by frequent high winds, which shut down the lifts for fifty days out of a 150-day season, took their toll on the income statement which closed with a loss as of 30 June 2000. On the other hand, the new season started under the best of conditions, with most lifts re-opened on the 18th of November. This was quite an event, as it had been years since the lifts had been opened so early. We mustn't get carried away, but the abundant snowfall was certainly cause for hope.

It is really a shame that those who have believed in the company and sustained it with financial and other support – BPS was one of the first – have not yet seen an economic reward for their efforts in developing the region. Hope is of the essence, although we know it's a risk to run. After all, that is the mission of enterprise.

The company is administered and run with uncommon professionalism, determination and enthusiasm. Its achievements are there for the seeing. The Spluga Valley, or perhaps we should say the Valchiavenna as a whole, is certainly benefiting. It's a valley affair, so we hope that the local businesses, the first beneficiaries of the

company's tourist developments, will soon close ranks around this important initiative.

Società di Sviluppo Locale spa (5.714%). Founded to promote the growth of the Province of Sondrio's economic and territorial standing without compromising its environmental values, this company has not really left its starting gate yet. It has been held back first by the lengthy process of reaching an agreement with the Region of Lombardy, and then by differences of opinion regarding exactly how it should pursue its aims.

The majority shareholder, the Province of Sondrio, has now expressed its point of view. It sees So.Svi.Loc. mainly as a survey point, an observatory at the service of local entities.

As one of the company's shareholders, we hope that its activities will evolve in the best interests of Valtellina and Valchiavenna.

AEM - Azienda Energetica Municipale spa (0.333%). Ask a Valtellina native about AEM, and he will surely associate the name with the town of Grosio and its seven hydroelectric power stations, as well as the four reservoirs scattered throughout the valley, by which AEM lights and powers the Lombard capital.

Second only to ENEL as the country's largest electric company, AEM has a much broader, more complex mission that goes beyond electricity to gas, district heating, lighting and traffic lights, and telecommunications. To become a significant force, to cover all corners of the market and compete with the top Italian and foreign competitors, it has abandoned its status as a municipal concern and become a multi-utility industrial group consisting of several companies, partnerships and alliances.

AEM's shares have been listed on the Stock Exchange since July 1998. During the year they profited from investor optimism about the company's strategic initiatives, but later suffered as technology stocks round the world took their losses.

Regardless of the stock's performance, which in no way reflects internal difficulties or poor results (the reality is quite the opposite), the company remains solid. It aims to play a leading role in the deregulation of the market, pursuant to the Bersani Decree as concerns electricity and the Letta Decree for gas. Meanwhile, for 2001 it aims to achieve at least three important goals: to buy Milan's electricity distribution network from ENEL, to remain one of Italy's leading gas companies, and to win the bidding war for the Gencos (Generation Companies) – which in the case of our province means the hydroelectric power station at Mese in Valchiavenna.

We have already mentioned the ties between AEM and Valtellina. We would just like to add, out of a sense of duty, that AEM also means jobs: many Valtellina natives have found lasting employment with the company. Its important contribution to the provincial economy was recently illustrated by AEM itself in its publication «Le acque e gli uomini: Il dovere della memoria» (Water and man: the duty of memory).

BPS has always maintained strong ties with AEM, for whom it has acted as treasurer for many years. Relations are so good that one of our 21 Milan branches has been located for over 20 years at AEM's headquarters in Corso di Porta Vittoria. Our investment demonstrates our affection and appreciation of a well governed, efficient, and profitable company which, if you will, is a little bit our own in our capacity as *Valtellinesi* by birth and *Milanesi* by adoption. Last but not least, it is a reason to consolidate and develop our long-standing relationship in this age of the new economy.

AEM closed the year with a profit.

Teleriscaldamento - Coogenerazione Valcamonica, Valtellina-Valchiavenna spa (1.998%). This company was founded to build district heating systems with the use of biomass fuel obtained from cleaning out woods and from

the scraps produced by sawmills, and is now fully up and running. The power stations at Tirano and Sondalo are open, and the number of new utility contracts has surpassed all expectations, proving the worthiness of this idea.

The pipe-laying phase inconvenienced residents, as unforeseen events caused a number of delays. One hopes that the residents will soon be repaid in terms of good service, in addition to the environmental benefits for all.

On 29 September 2000, Gestione Calore Valtellina S.r.l. was founded, a trade investment of which our affiliate owns one third. It will work directly in the production, distribution and marketing of thermal energy and products for district heating.

BPS, which has always taken the problems of its community to heart, took an investment in the company to support its aims of making use of local resources, disposing of waste and paper materials, encouraging the care and maintenance of woodlands and thus of the territory as a whole, and reducing dependence on energy from outside the region.

Naturally, given the nature of such investments, we will have to wait a little while to see the company turn a profit.

The required information on intercompany transactions can be found in the notes. More specifically, the table entitled «Intercompany assets and liabilities with group companies» shows assets of L. 32.6 billion and liabilities of L. 33.8 billion with Banca Popolare di Sondrio (Suisse) SA, as well as L. 179 billion in guarantees given to the subsidiary.

Intercompany transactions fall under the bank's ordinary operations and concern correspondence relationships for services rendered, deposit accounts, or financial support for the activities carried out by the various companies concerned.

Of L. 223 billion in receivables, L. 28 billion is due from the companies Immobiliare San Paolo



S.r.l. and Immobiliare Borgo Palazzo S.r.l., which used the funds to buy real estate securing a loan position that was previously classified as non-performing.

There were no atypical or unusual transactions during the year.

INTERNATIONAL UNIT

A review of the work performed by this unit gives us a breath of international air and an opportunity to cast our glance beyond the hedge, onto events that only seem distant from the everyday activities of our bank and clientele.

A butterfly beating its wings in the Amazon Forest can help originate a tornado in the United States. We've added this for effect; in exaggerated fashion, it represents the interdependence of the world's financial markets, and the ties among economic regions. We also realize that such a statement does not have the same merit if uttered by us or some illustrious personage. But for our purposes, it will do!

The word «international» brings us straight to the subject of the euro, which will soon be in the pockets of European Union residents and already represents them in dealings with other countries. The common currency has had a troubled debut, and kept our foreign exchange centre busy as it tries to find the best opportunities and to reconcile the bank's and its customers' interests.

Until the euro embraces its role as a strong, autonomous currency, our international unit – having revised its market strategies in time and adopted the European currency unit for its accounts – has drawn a healthy competitive edge from its prompt and efficient adaptation of computerized and organizational processes. As a matter of fact, several foreign institutions of all sizes have routinely sent their Italian assignments

to BPS. This is an important sign – or rather, additional proof – of the professionalism attributed to our bank by international financial dealers.

Qualified personnel and cutting-edge technologies, ideas and the ability to act, a global vision and concern for details are the components of our success. They are acknowledged in the quality certification we were granted several years ago, which is repeatedly confirmed by quality inspectors and by the most directly interested parties: who else but our customers.

The flattering results from the four surveys conducted over the last two years, which track the degree of satisfaction of international institutional dealers, companies requiring the management of documentary credit, and beneficiaries of foreign pensions, attest to our healthy style of business. Quality is of the essence – far-reaching quality that benefits a wider and wider audience, and above all, quality that is sustained over time by outdoing an increasingly competitive competition.

The challenge is to grow, to approach new markets, to travel the world, to see how we relate to people of different languages and traditions. All the while, in our rucksack – our indispensable exploring companion, and the subject of a *Notiziario* article full of reflections for that journey we call life – we should carry our culture as mountain folk, as people used to dealing with each and every problem with humility but also with tenacity and resolve.

We feel this first and foremost with regard to the European states, especially those now minting the common currency. With EU states, cooperation is in some cases an ancient, intense tradition, and in all cases requires an effort to dismantle residual traces of resistance and obstruction. We need to aim for the convergence of all currents that are favourable to widening the market.

The past year saw the proliferation of new and innovative corporate services, completing our

International Unit



The International Unit in Sondrio,
at Via Lungo Mallero Cadorna 24



Accompanying and assisting companies on the international markets is part of our job. The strong business relationships that have been forged and developed are proof of our good work in this field, and our international service is lively and profitable. The confident professionalism of its staff - a close, complementary group whose members receive constant training and experience in the field (i.e. abroad) - is the main reason why we find appreciation and recognition (i.e. work) in other countries. And why we are known for what we are: solid at our roots, flexible in our action, and modest in our success, at least so as not to awaken slumbering competitive appetites.



traditional range of commercial and financial assistance, which constitute the real mainstay of this business. Helping us work toward this vision is the newly founded Sintesi 2000 S.r.l., which we discussed in the equity investments section. With representative offices in London and Hong Kong, serving as excellent vantage points onto these world-class commercial and financial cities, Sintesi 2000 assists customers interested in such areas. We thank the staff of those offices for their much appreciated collaboration.

Having focused on the business customer, we then extended our field of vision in a quest for new opportunities. In one encouraging turn of events, the European Commission gave us the coveted title of «accredited financial intermediary» for the Joint European Venture (JEV), a programme that helps small and medium-sized enterprises.

Previously, the European Commission also qualified BPS as principal bank for Italy's incoming euro payments, as we had filled that position regarding lira payments since 1 April 1998. In our own small way, we dare call ourselves «the Italian bank of the European Community», a title that honours us because of the prestige of the counterparty and because it recognizes the efficiency of our unit for mass payments within Italy and abroad.

Coming back to commercial news, we are pleased to report a new partnership with SIMEST spa - Società Italiana per le Imprese all'Estero. SIMEST is an institution run by the Ministry of Foreign Trade which helps Italian companies go international, in part by funding investments outside our borders and developing transnational trade.

The agreement struck with the group of the 30 largest regional savings banks in Germany, with a combined total of over 2,700 branches, makes us no less proud. The purpose of the deal is to provide reciprocal benefits to customers with even occasional interests in the other country.

This way, our customers will be treated in Germany in the same way they are treated at home, and vice versa for the customers of the German banks.

In this era of information highways, we are so overwhelmed by information that it is easier to get caught in the flow than to control it for our own purposes. It's like finding ourselves stuck in a traffic jam on a «conventional» highway, forced to drive powerful cars at a pace slower than walking. Helping to unclog bottlenecks and cut Gordian knots are our affiliates *Coopération Bancaire pour l'Europe - GEIE* and *CBE Service S.p.r.l.* Skilled and devoted personnel using innovative computerized tools compile a select list of EU funding programmes, market studies and international calls for tenders. These are used by a number of parties, including Lombard chambers of commerce and professional associations, as well as large business concerns.

Accompanying and assisting companies on the international markets is part of our job. The strong business relationships that have been forged and developed are proof of our good work in this field. Of many, we would like to mention the trade mission in Linz, Austria and its teamwork with the *Valtellina Wine Consortium*, in collaboration with a large Austrian correspondent bank: a success for 13 local winemakers who presented their creations to a large and influential group of local dealers.

We conclude our section on international services with a note about *Western Union*. Under an agreement with *Angelo Costa S.p.A.*, *Western Union's* sole agent in Italy, we can now offer money transfers at all of our branches, and on an exclusive basis for Lombardy. Money transfers let customers send up to L. 20 million, anywhere in the world, in a matter of minutes. This is a service that puts us into contact with new kinds of clientele. We should add that *Western Union*, an American multinational founded in 1871 and a member of the *First Data Corporation Group*, is

the world leader in this service with over 60,000 correspondents in more than 200 countries.

Payment systems, permitting the management of large flows of money, are an increasingly strategic business. Inevitably, staying on the sidelines means limiting the overall quality of one's service, to the benefit of those who focus on this activity and thus know how to do their jobs well. Our volume of work in this area makes us confident that our service is competitive, and this is confirmed by the numbers of Italian pension payment orders sent to us by social security institutions abroad.

We participate in all of the major payment systems, so that we can offer the right response to any type of request. But we are also ready to take up new opportunities; along with a small group of European banks, we helped found EBA STEP1 – the Euro Banking Association Straight Through Euro Payment System, an innovative electronic system for cross-border payments in euro. Completely automated procedures, quick processing times, compliance with European standards, and low costs are the main characteristics of this structure, which is fully approved by the European Central Bank.

Through our own home banking system, SCRIGNObps, we have also made it possible to order international transfers through an effective, user-friendly process.

Getting down to the numbers, our international unit now serves close to 10,000 customers, an increase of over 10% for the year. Our correspondent banking network consists of 1,195 institutions in 97 countries, compared with 1,029 in 89 countries at the end of 1999. Selected for their solidity and efficiency, they cover every need of our customers and of the Italian banks that use our services for international operations. At the foreign banks we have credit lines that far exceed our requirements: drawdowns amount to just over a third of what we have been granted, affording us the best possible treatment each time we ask for funds.

More customers and more institutional partners ought to mean more work, and so it does. The number of transactions handled by the international unit came to 1,252,602, almost a 16% rise on '99. Likewise, there was nearly a 30% jump in messages sent and received via SWIFT, the main international transmission channel, whose members include some 6,800 financial institutions – 180 of them Italian – in 189 countries.

The volume of foreign currency trades cannot be compared with previous years because of the new reporting criteria introduced by the Italian Exchange Office, but reached L. 117,000 billion with an approximately 9% increase in current accounts in the merchandise and service compartments. There was also a considerable volume of work in foreign exchange, derivatives and precious metals, which generated significantly more income than before.

On the balance sheet, foreign currency customer deposits came to L. 296 billion, a decrease of 3.45% on the previous year. This is still an impressive result considering the loss of the tax exemption on interest for certain important types of account, such as those held by cross-border workers and non-residents, and the conversion into euro – i.e. domestic currency – of some sizeable balances. Foreign currency deposits by other banks rose 24.52%, from L. 1,361 to 1,694 billion. As for loans in foreign currency, those to customers rose from L. 1,404 to 1,614 billion, +14.97%.

In closing, we remind readers of our useful and interesting publication on exchange and interest rates, «Cambi e Tassi 2000», which has been available since the first working day of the new year and has been very successful with businesspeople and firms.

Our international service is lively and profitable. The confident professionalism of its staff – a close, complementary group whose members receive constant training and experience



in the field (i.e. abroad) – is the main reason why we find appreciation and recognition (i.e. work) in other countries. And why we are known for what we are: solid at our roots, flexible in our action, and modest in our success, at least so as not to awaken slumbering competitive appetites.

SERVICES, PROJECTS AND STRUCTURE

Sales, Marketing, Public Entities and Treasuries

This section, new to our report this year, discusses our sales and marketing division and our unit for public entities and treasuries, which serve business customers alongside the lending, finance and international units. We will then discuss each of our units and central services that ensure the proper functioning of our business, including a separate section on human resources.

The sales & marketing division is responsible for organizing the bank's products and services, hence for making sure that our «catalogue» – which can also be consulted via intranet by branch personnel – stays in line with market demands. Once it has pinpointed what customers need, the division follows the entire process of taking raw materials, turning them into products and services, and presenting them to the public in neat, ready-to-use packages.

Of key importance are its efforts to promote targeted initiatives and its everyday work of assisting, advising and encouraging the peripheral network.

The launch of a new product is a bit like the debut of an A-league footballer: the adversaries are grim, the public is critical, and if something goes wrong there are no second chances. Preparation has to be flawless, and enthusiasm sustained by the necessary technical qualities. In other words, we have to care for our marketing

strategies, personnel training, and sales techniques, while keeping a watchful eye on our budget. It's a long uphill climb, and at the peak, by definition, there's not a lot of room. The few existing spaces are coveted like positions on the major league team. That's the price of success: dear but worth the trouble.

In essence, an orientation toward the market – or more precisely, toward the customer – involves progressive systems for the organization, analysis and use of market and client information. This must be followed by the active seeking of potential customers who will increase the bank's market share and profitability.

The growth that BPS has enjoyed for several years and in every sector – above all services, and the revenues they produce – is a welcome indication that we have taken the right paths and are able to create business and profits. It is a sign that our efforts in various departments, our increasingly vivid focus on the demographic expansion of our body of shareholders and on achieving as much overlap as possible between shareholders and customers – are indeed paying off.

We work hard to diversify our range, with one obsession outweighing the rest: bancassurance, in its life and non-life configurations. We have taken giant steps in this sector. Not born as an insurer, BPS is certainly becoming one, thanks largely to our talented commercial staff whose abilities are proven by each customer with faith in the BPS logo. At one with our successful affiliates Arca Vita and Arca Assicurazioni, which handle marketing strategies and individual products with an unerring professional eye, we have achieved some excellent results.

In the life insurance business, where we already had a complete, competitive range, we have added new-generation products in which the financial, insurance, and retirement components have been combined for greater effect.

Unit Team Unit Team, by Arca Vita International, is unique to the Italian market. Investments are managed by the world's top brokers, selected by a leading multi-management firm in Ireland that also oversees results. There are three investment lines, each with a different equity weighting.

Unit Linked Z10
Unit Linked
Junior 1.5 Arca Vita Unit Linked Z10, an investment/retirement product, provides a choice among five investment profiles matching different medium- and long-term objectives. Arca Vita Unit Linked Junior 1.5, a new policy tailor-made for minors, is ideal for building a nest egg that can later go toward a young person's studies or other needs.

Noteworthy promotional campaigns included the operation «maturities and redemptions», which encouraged the re-investment of funds from maturing contracts, and the «tax bonus» initiative, which provided a head start on benefits introduced by the new tax laws on life insurance policies stipulated as from 2001. In addition to eliminating the initial 2.5% withholding tax on funds invested, the new laws offer significant advantages to lifetime annuities for retirement purposes.

In AUTO
In CASA
In FAMIGLIA-
In SALUTE
Diaria Ricovero The non-life business had a healthy phase of blossoming and is now providing an abundant harvest. It has become so common for our customers to take out car insurance at the bank that there are now tens of thousands of such policies. Flexible, speedy sign-up procedures and competitive prices are always appreciated, as are the policies In CASA, In FAMIGLIA and In SALUTE Diaria Ricovero, among the best on the market in terms of competitiveness and content.

Insurance
brokerage The insurance brokerage business, run by our affiliate B. & A. Broker S.p.A., is livelier than ever and very successful in terms of the volume of policies acquired.

Let us leave the insurance business now for the other stalwarts of the sales division. First on the agenda is the fine work carried out by our network of financial advisors, especially on behalf of our newer branches. Ideally, of course, the term «advisor» should apply to every person employed by the bank. Which reminds us of another assertion, a solemn, evangelical teaching: the letter by St. Paul about the body and its limbs.

New energies were devoted to the supplementary pension business, where we are one of the top sellers of units in the Arca Previdenza Open-End Pension Fund. We also entered negotiations that should provide personnel from some major companies and institutions with group coverage under our fund.

The accounts 1° Conto POPSOWeb and Conto Student POPSOWeb are designed for young people, and also provide a zero-interest loan for the purchase of a computer to account holders resident in the Province of Sondrio. Our multimedia educational tool «Magister» was used enthusiastically by many upper schools and by students learning on their own.

Among our financial products, we would like to mention the successful placement of the Polis Closed-End Real Estate Fund and the Arca Impresa 2000 Closed-End Investment Fund.

The sales division also handled the launch and marketing of the new fund-based portfolio management schemes, of ArcaCinqueStelle (the first fund of funds in Italy), and of units in «our» Popso (Suisse) Investment Fund SICAV.

Electronic products and credit cards of all persuasions complete this overview of the sales division with special mention going to the excellent results of the campaign to market CartaSi BancaFamiglia,

Bancassurance

ARCA VITA

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FUND

ARCA
UnitTeam

ARCA VITA
UNIT LINKED
GT10

ARCA VITA
UNIT LINKED
Z 10

ARCA VITA
UNIT LINKED
SR3.6

ARCA VITA
UNIT LINKED
JUNIOR 1.5


ARCA
PER LORO

ARCA
UNICA *Cent%*



We work hard to diversify our range, with one obsession outweighing the rest: bancassurance, in its life and non-life configurations. We have taken giant steps in this sector. Thanks largely to our talented commercial staff, whose abilities are proven by each customer with faith in the BPS logo, and at one with our successful affiliates Arca Vita and Arca Assicurazioni - which handle marketing strategies and individual products with an unerring professional eye - we have achieved some excellent results.


ARCA ASSICURAZIONI



Hospitalization
multiplies expenses...
... eliminate them with


“In SALUTE”

o




Give your family
a safe shelter from
all unexpected events...

“In FAMIGLIA”




You don't have
to lock yourself in your
house to protect it...

“In CASA”



In AUTO



The first car insurance policy
that can be signed at your bank.
It's reliable, easy,
quick and cheap.

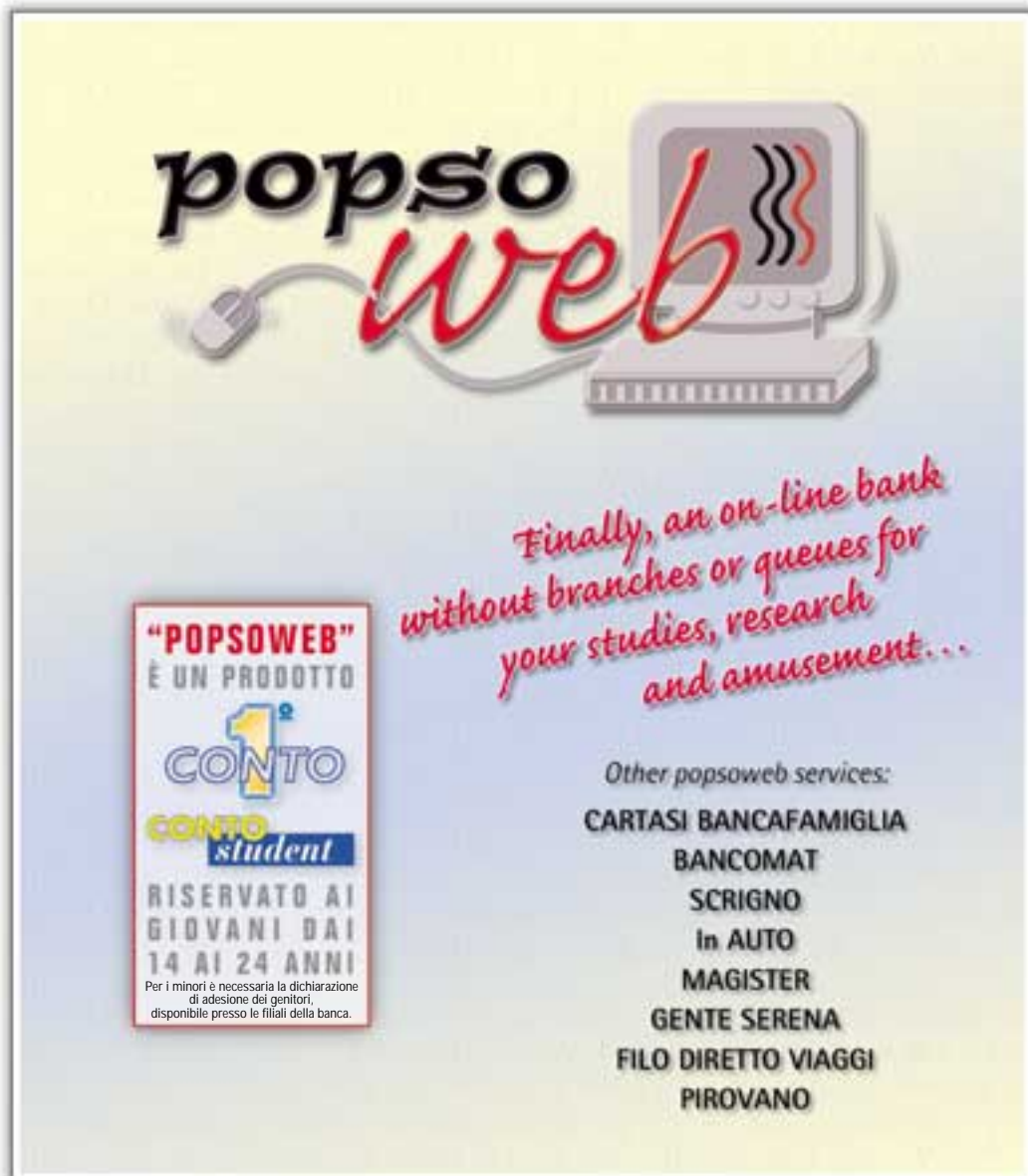
In the life insurance business, where we already had a complete, competitive range, we have added new-generation products in which the financial, insurance, and retirement components have been combined for greater effect. The non-life business had a healthy phase of blossoming and is now providing an abundant harvest. It has become so common for our customers to take out car insurance at the bank that there are now tens of thousands of such policies.

Arca Previdenza FPA



**Less
Taxes
more
pension**

New energies were devoted to the supplementary pension business, where we are one of the top sellers of units in the Arca Previdenza Open-End Pension Fund. We also entered negotiations that should provide personnel from some major companies and institutions with group coverage under our fund. During the last few months of the year there was an acceleration in new subscriptions, triggered in part by the legislative changes that took effect as from 2001.



popso
web

*Finally, an on-line bank
without branches or queues for
your studies, research
and amusement...*

"POPSOWEB"
È UN PRODOTTO
1°
CONTO
CONTO
student
RISERVATO AI
GIOVANI DAI
14 AI 24 ANNI
Per i minori è necessaria la dichiarazione
di adesione dei genitori,
disponibile presso le filiali della banca.

Other popsoweb services:
CARTASI BANCAFAMIGLIA
BANCOMAT
SCRIGNO
In AUTO
MAGISTER
GENTE SERENA
FILO DIRETTO VIAGGI
PIROVANO

The accounts 1° Conto POPSOWeb and Conto Student POPSOWeb are designed for young people, and also provide a zero-interest loan for the purchase of a computer to account holders resident in the Province of Sondrio. Our multimedia educational tool "Magister" was used enthusiastically by many upper schools and by students learning on their own.



allowing debts to be repaid in instalments. This area was marked by the spread of POS machines for payment by credit card or immediate electronic debit (Bancomat) – of which we had 4,220 at year end, an increase of 848 for the year – and of remote banking machines set up at corporations.

All of these products are the result of thought, action, and market research. Research is like driving forward while watching in the rear-view mirror what has already gone by.

Treasury services

Turning to our service for public entities, as of 31 December 2000 a total of 397 institutions had hired us to run their treasuries, an increase of about 12% for the year. New contracts since then have brought the total close to 400. These are substantial numbers, and alongside the calibre of the institutions concerned, they are an eloquent expression of our professionalism throughout the years. National social security agencies, universities, chambers of commerce, municipal utilities, towns, schools of all kinds, and more: our clients vary in size, prestige and requirements, but they all share a faith in BPS.

What this means is a huge flow of traffic: hundreds of thousands of incoming and outgoing payments in every form, efficiently handled, which have spread our name throughout Italy. Over one million, two hundred thousand MAVs (payments with advice) bearing the BPS logo – that's no small kettle of fish.

Some of our new treasury contracts, won against tough competition, include the Ente Nazionale di Previdenza e Assistenza dei Veterinari, the Cassa Nazionale di Previdenza e Assistenza IP.AS.VI. – where IP.AS.VI. stands for Infermieri Professionali, Assistenti Sanitari e Vigliatrici d'Infanzia – and the Istituto Nazionale per la Ricerca Scientifica sulla Montagna. The fact that these are all based in Rome attests to our growing influence in the capital.

We will also be running the treasuries of the Varese Chamber of Commerce, the Tourism

Department for Sondrio and Campione d'Italia, and 17 municipalities, including five in our home province. Of special note is the town of Morbegno, the industrious capital of the lower valley.

Twelve new treasury branches – called for by contract, for the sake of a comprehensive service to citizens that we are all too happy to provide – had expanded that network to 69 by the end of the year. The new branches are in Bonate Sotto (Bergamo); Corte Franca and Sarezzo (Brescia); Bulgarograsso, Carugo and Turate (Como); Rivolta d'Adda (Cremona); Abbadia Lariana and Bellano (Lecce); Briosco and Seveso (Milan); and Viggìù (Varese). Those resulting from the contracts awarded at year end are mentioned in the section on subsequent events.

There is no doubt that the rising number of cash and treasury services run by the bank constitutes a significant asset. It is easy to appreciate the direct and induced profits generated by this service, thanks to the dedication of our staff and to the technology which supports them in their everyday activities.

To conclude this cross-section, whose leitmotif is the *naturalis sollertia* typical of the trader (which is what we are, as credit is our trade), the department in charge of services has confirmed through its actions that it believes in what it says and what it does.

Quantity is nothing without quality, but this is so obvious that we feel silly even mentioning it. We also know that excellent service does not mean the 1,000 percent improvement of one thing, but the 1% improvement of a thousand things. Which is what we hope for BPS.

Administration

The factors that contribute to a bank's success are many and diverse. Among them, necessarily, is an efficient organizational structure. It has the challenging task of packaging in the best manner whatever product is bound for sale,

Credit cards



Electronic products and credit cards of all persuasions complete this overview of the sales division with special mention going to the excellent results of the campaign to market CartaSi BancaFamiglia, allowing debts to be repaid in instalments. This area was marked by the spread of POS machines for payment by credit card or immediate electronic debit (Bancomat) - of which we had 4,220 at year end, an increase of 848 for the year - and of remote banking machines set up at corporations.



while keeping costs down. This is an exercise of balance that we entrust to our administration units, which handle a large quantity of work, often complex and obscure, without taking too much from our profits.

SOSI Let's start with SOSI, our Organization and Information Systems Department, which seems to have St. Vitus's dance so busy it is meeting the bank's many, complex needs. Its pace is so hectic because it doesn't have the chance to rest, but mainly because its staff is able and determined to work hard. While the «network» churns out demands by the dozen, all of them urgent of course, SOSI has to deal with them one by one so it can give replies that are also solutions. The hardest part is setting priorities.

SOSI takes care of the old BPS and the new one – that is, the traditional and the virtual bank. Here, in fact, innovative systems live alongside the entire corporate structure, although with the necessary autonomy. Therefore, in one wing of our service centre it might be working on computer procedures for branch operations with customers, and in another, implementing programs to furnish services over the Web.

The most significant project of the year – although we hesitate to say that, given the number and extent of SOSI's achievements – was to revise the procedures governing the entire financial department, that vast world of securities. Many were the benefits, especially for customers who have been treated to faster transactions and clearer information.

To give an idea of SOSI's work during the year, we can mention the procedure for handling the cash and treasury service for public entities and for the related payment systems; the process of generating, printing and sending letters of account, now entirely centralized; and the modularization of international services in order to increase their flexibility. In the area of telecommunications, it completely overhauled

the bank's network, making it faster, cheaper to run and more efficient.

Lastly, we would like to mention our agreement with Wind, currently the only telephone company that can offer Italy the complete convergence of fixed and mobile phone service, plus Internet. Under the agreement, Wind will provide us with telecommunications services in exchange for loans and other benefits from BPS. The partnership will affect access to on-line services at our Web site and will add our logo to the «inWind» portal; it will also involve the use of WAP and SMS technologies for particular mobile phone services.

Predicting the future of *Planning and Control* business, translating expectations into specific plans, deciding which resources to commit to those plans, and monitoring their progress and results are the jobs of the planning and control department.

Using specific techniques and methodologies, the department first assesses the economic return of activities, units and branches, and then goes into detail for individual products and business contacts. It efficiently measures the risk associated with lending and with trading in securities or currency, an activity we shall discuss separately below.

Its ultimate goal is to unite analyses of profitability and risk, so as to permit comprehensive reflection about how well the bank is performing.

While our results for the year *Technical, Prevention and Safety Office* demonstrate how fast we are growing, the list of works that have been completed, initiated and/or planned by the Technical, Prevention and Safety Office confirms that our future paths are already well mapped out. A tight calendar of projects involved a total of 23 new branches and treasury offices during the year. Then there were expansions, upgrades, maintenance of all varieties, consulting projects and more.

The addition of tiresome bureaucratic procedures, which grow ever more complex and intense – never mind all that talk about «administrative simplification» – suggests just how busy the unit was. On the assumption that a functional, comfortable setting eases relations between the bank and its customers and improves overall service, and more importantly helps staff members work to their best capacity, we can assert that the achievements of the technical office have met such expectations in full. This aspect, alongside orderliness and cleanliness, is an important part of our style.

The bank's properties together cover a surface area of 110,319 m², equal to a volume of 326,317 m³. Land owned by the bank extends for 82,245 m². The net book value as shown in the balance sheet, after depreciation, is L. 115.2 billion. Additions during the year came to L. 5.5 billion, with deductions (for depreciation only) of L. 5.6 billion. Of course, the market value of these holdings is far higher than their book value.

We own 40 whole buildings, while another 34 properties are located in condominium buildings. The bank's activities are carried on in 49 buildings that are in our name and in 176 rented properties, of which 12 are being leased.

Law 342 of 21 November 2000, the «Fiscal Appendix to the 2000 Financial Act», gave companies the opportunity to revalue tangible and intangible assets as well as equity investments in subsidiaries and associated companies. The revaluation involves payment of a reduced-rate substitute tax and requires the company to set up a specific equity reserve. It is voluntary, unlike the previous revaluation required by Law 413 of 30 December 1991.

This operation has definite advantages for companies planning to dispose of properties or equity investments. In our case, the simulations conducted by experts at BPS have shown that the tax charge would be offset by tax savings for higher depreciation and the effect of «Dual

Income Tax» (DIT) that would be certain only in part, including in relation to the additional tax bracket reductions that have been approved or at least proposed. Therefore, the operation does not seem worthwhile, meaning that we have decided not to revalue our assets.

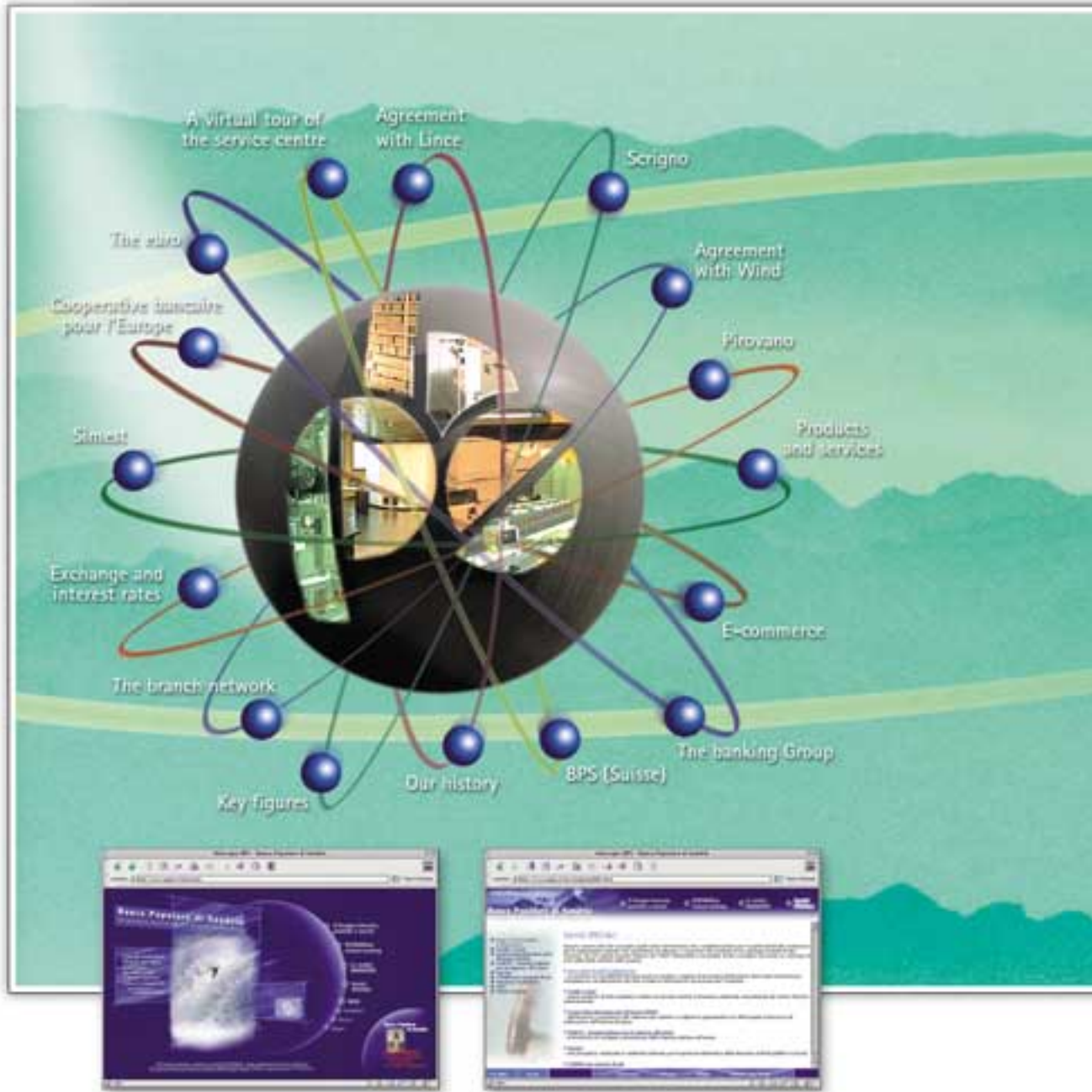
The sub-item «furniture and fittings», included in tangible fixed assets, amounts to L. 21.8 billion. Additions came to L. 15.6 billion, offset by L. 11.7 billion in charges almost exclusively for depreciation.

Growth, technological Security
innovations, and the industry-wide rise in criminal attempts and crime have led BPS to establish a new security unit, to provide an effective, united front against breaches of all kinds. After mapping out the risks, the unit is now taking steps to improve the security of our IT systems as well as physical and logical security at all of the bank's premises. The new unit should also contribute to an overall improvement in safety standards.

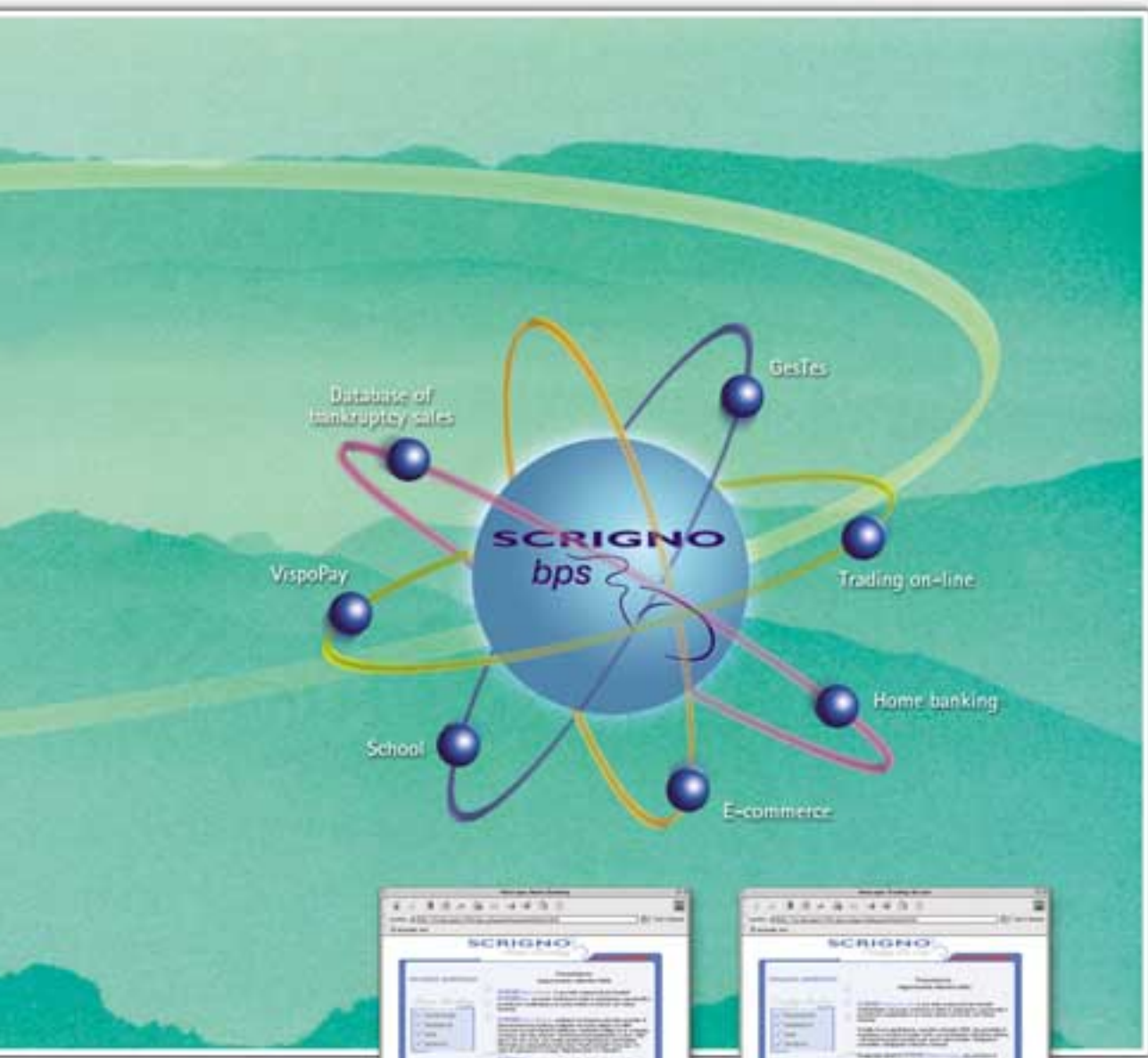
Every outlay required for the Supply office
bank's running is governed by the supply office, whose role as the handler of payments is summarized in the 22,388 invoices it processed during the year, a slight increase on '99. While payment itself is the essential accounting procedure, the work that precedes it demonstrates the supply officer's bravura. Finding the right ratio between quality and price, moving fairly among competing suppliers, and negotiating with skill are everyday tasks for the people in charge of procurement and of keeping the purse strings tight.

The supply office does not deal with just invoices and bills; it has several other responsibilities related to tax compliance and supply contracts, including with regard to the many assets rented to and by the bank. In short, it handles an array of regulatory and contractual issues, each requiring care and common sense in view of the bank's best interests.

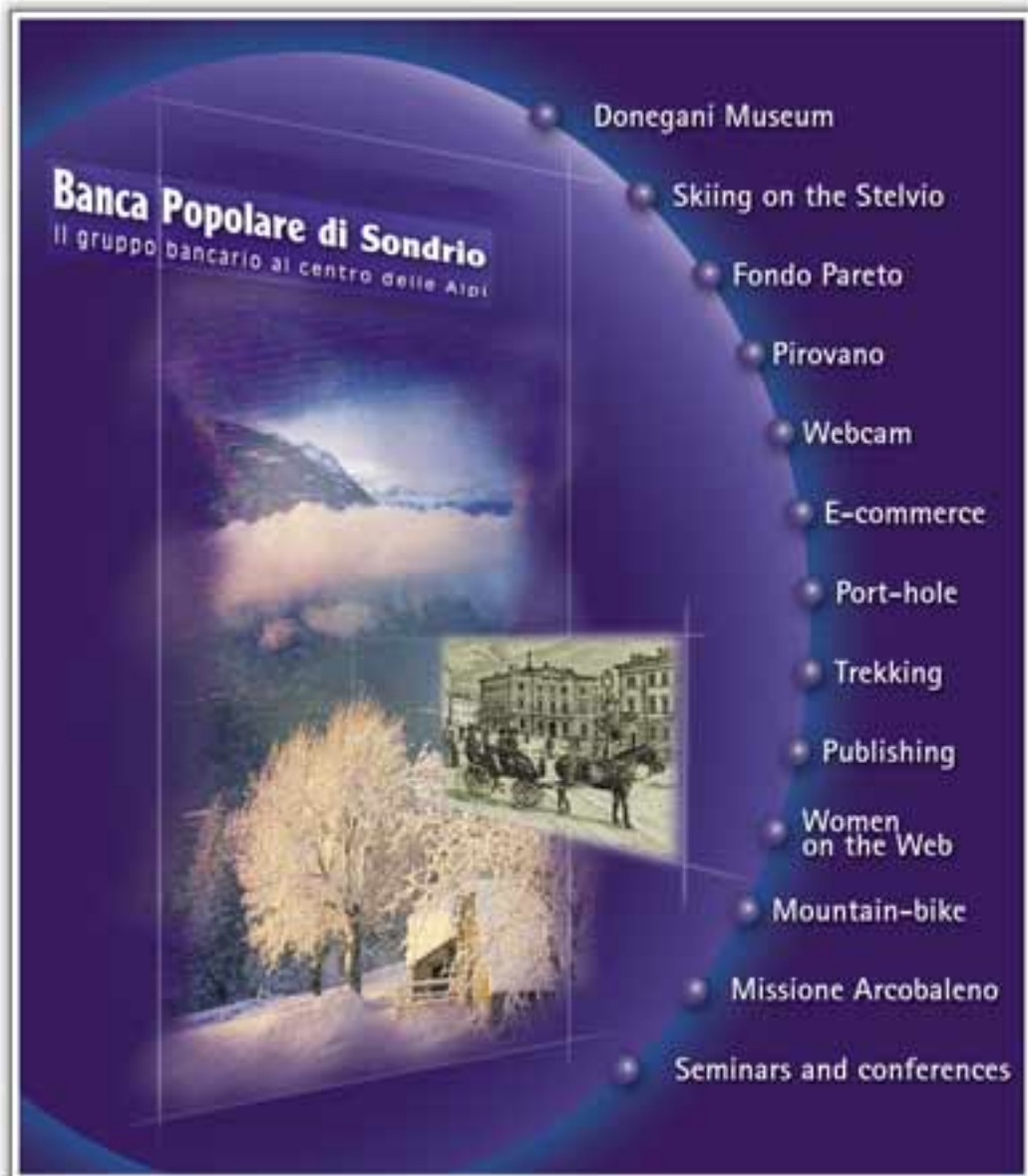
Virtual bank



With the Internet, the banking business is growing more virtual all the time. This illustration symbolizes the "virtuous" synergy that is binding the two worlds forever, exalting the certainties of the old and the creativity of the new.



Our Website



We make extensive use of the opportunities offered by new tools. Internet is our window on the world. Our Website not only presents the bank, its products and services, but also enticing opportunities for surfers interested in exploring our territory. Webcam technology lets the world watch our valley, including the renowned Stelvio Pass. For those who are not content with images, there are also itineraries to follow not only in the virtual world, but also on foot and mountain bike. It is an invitation to the tourist to discover the many aspects of Valtellina and Valchiavenna, from their scenery to their history, food and wine.

Agreement with Wind



BPS has struck an important agreement with Wind, currently the only telephone company that can offer Italy the complete convergence of fixed and mobile phone service, plus Internet. Under the agreement, Wind will provide us with telecommunications services to support loans and other products disbursed by BPS. The partnership will affect access to on-line services at our Web site and will add our logo to the "inWind" portal; it will also involve the use of WAP and SMS technologies for particular mobile phone services. The agreement will also entail co-marketing and the joint distribution of services. The first concrete achievement is a CD-ROM, packaged with the December 2000 issue of the Notiziario, and containing a section on Wind and another on BPS.



*Legal
department*

While our legal department itself has always been fast and efficient, each year we have the illusion that the many tasks it is called to perform can somehow become less ponderous. This year, something did move in that direction when the Brescia authorities gave notaries some power in matters of compulsory execution, which sped things up considerably. In other locations, including home, there are similarly encouraging signs, while in others still we have seen little or nothing so far.

Meanwhile, the legal department continues its careful and competent handling of loans that are non-performing, or perhaps just a little bit sluggish. Where appropriate, it seeks and accepts out-of-court settlements as well. This is a delicate, complex task in which mercantile skills and good judgement often get the better of pure legal expertise.

While the advice the department provides throughout the bank makes the most of its qualifications, its paperwork duties, if we may be blunt, are really a waste of time. This back and forth with requests and replies, while mountains of paper are built, often have the upper hand over more productive activities. Let it be clear, however, that we are diligent about doing our part. As for complaints, they arrive in the minimum quantities that any bank would call inevitable, and the legal department replies to them so promptly and thoroughly that they are settled without ado.

*Internal audit
department*

The internal audit department closes our discussion of the bank's administration. We have left it until the end not because it is unimportant, of course, but because it deserves an extra word, this unit that watches over all others. It's a bit like teachers used to be, supervising all their pupils from the back of the classroom.

Indeed, while internal auditing cannot be separated from the detection and necessary correction of irregularities, just as important a task

is prevention, through the constant monitoring of actions and operating procedures. In short, the internal audit department provides the best possible combination of vigilance and cooperation.

The department made 436 audit visits during the year, with a substantial increase at the head office, whose size and complexity required levels of dedication and training that are in no short supply in the department's personnel.

Particular attention was paid to the securities brokerage unit where, in a spirit of open collaboration, the internal auditors ensure constant respect for regulations and foster the ethical growth of personnel. In this area, the new procedure governing the financial department (as discussed earlier) will facilitate regularity; where possible, it requires proper conduct with regard to traditional activities in securities and derivatives as well as innovative ones such as on-line trading.

At our branches, the internal auditors took steps to extend their range of supervision to organizational aspects, while maintaining, and in fact developing, their watch over the various operations. Their aim is to achieve as comprehensive a view as possible, since the fine-tuning of processes cannot help but have a good influence on regulatory compliance.

All of the internal audit department's findings are duly reported to top management, who periodically report to the Board of Directors.

In closing, we confirm that the audit department cooperates to the utmost with the Board of Statutory Auditors, in return receiving encouragement and drive that are beneficial to its functions and to the bank as a whole.

YEAR 2000 AND THE EURO

As we discussed fully in last year's report, the year 2000 arrived with no major disruptions or malfunctions. Having turned the bend and

The euro

Let's make friends with the Euro

Banknote / Coin	Value in Lira
5 Euro	= 9.681,31 Lira
10 Euro	= 19.362,70 Lira
20 Euro	= 38.725,40 Lira
50 Euro	= 96.813,50 Lira
100 Euro	= 193.627 Lira
200 Euro	= 387.254 Lira
500 Euro	= 968.135 Lira
1 Euro	= 193,63 Lira
2 Euro	= 387,26 Lira
5 Euro	= 968,14 Lira
10 Euro	= 1.936,27 Lira
20 Euro	= 3.872,54 Lira
50 Euro	= 9.681,35 Lira
1 Euro	= 193,63 Lira
2 Euro	= 387,26 Lira
5 Euro	= 968,14 Lira
10 Euro	= 1.936,27 Lira
20 Euro	= 3.872,54 Lira
50 Euro	= 9.681,35 Lira

Banca Popolare di Sondrio

Euro facciamo amicizia

Banca Popolare di Sondrio

The imminent end of the transition period, and the arrival with 2002 of banknotes and jingling coins, will help us all understand the merits of the euro. It will foster a balanced, stable relationship between the "old dollar" - the expression of states united for over two centuries - and the "new euro", the vehicle of integration chosen by the EU not for economic reasons only but also to ease political unity. Unfortunately, less than a year before euro notes and coins are to be put in circulation, surveys have shown that the issue is still a mystery to the public. To encourage familiarity, the bank has printed a poster and a brochure called "Euro, facciamo amicizia" ("Let's make friends with the euro"). They illustrate the range of euro notes and coins and are distributed throughout the country.



headed back down the promontory, we continued to monitor our systems for a time and completed some checks and inspections.

We then dismantled the scaffolding and returned to the euro, a job we had left on hold. The organizational and computer procedures work fine, although they have not been tested very much. Aside from those obliged to do so, in fact, the companies that have adopted the single currency for their accounts are few and far between. This is true throughout Europe, and the authorities are growing concerned. In 2001 we should see such preparations snowball, which will put our readiness to a harsher test.

We have resumed our information campaign addressed to customers and institutions, especially schools and businesses, in a concerted effort with the banking associations.

OLD AND NEW: CONFLICT OR HARMONY?

This is not an idle question.

Our bank, like others, is the product of its history, with its characteristics reflecting its own particular genetic make up: its history has not been and is not seen as a drawback, but as a safe, established, solid foundation, the sum of learning experiences but also errors that have gradually improved our operations, transforming many intuitions into certainties, realities and measurable achievements.

We are and we seek to be in harmony with the needs of our user: we support his established habits, or rather his «culture». Similarly we don't ignore the multiple requirements created as a result of greater demands for information dictated by the media and competition.

Our job, however, also involves anticipating new requirements or needs that often arise from the availability or use of «new instruments» and

the resulting opportunities deriving from the extraordinary technological change in progress: these are instruments and opportunities with a far-reaching effect on existing procedures and behaviour, radically changing – if not actually destroying – previously held «economic tenets», impoverishing certain types of relationship and marginalizing professions that until yesterday represented the fulcrum of important business operations.

We are therefore paying attention to what is happening, investing in a «physical» geographical presence since this is the fundamental/historic point of departure for developing and establishing certain types of relationship and service and responding to the every need of established and potential customers; we are also investing in technology with the establishment of the so-called «virtual bank» which has produced truly surprising results in terms of the number of users and transactions performed.

We refer to two pieces of evidence testifying to our efforts in these areas:

- the first concerns the expansion of our branch network, which in the last five years, has added 97 new outlets, rising from 122 to 219;
- the second concerns the bank's attention to technological change, firstly with the pioneering introduction as early as 1987 of applications which are now widely used (CDs – Expert systems – automatic control and decision-making systems); and then with its venture onto the Internet in the «distant» days of 1995, marking our bank as the third in Italy to go on-line.

The current environment is fundamentally characterized by the speed of change affecting everything across the board. If we ignore or underestimate this concept, we risk being marginalized or excluded from various types of social and economic platform.

However, we don't believe that the «electronic» will predominate over the «human»



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in a victory of the «New» over the «Old»; we are soon likely to see a mediated co-existence of the two styles. Such a co-existence will be based on the requirements, needs, culture, habits, and willingness of us all to change personally and to transmit this in some way to others: this is why we are paying just as much attention to those customers who do not intend to make use of «technological opportunities» as to those who prefer the functional pragmatism of the electronic world.

So, our efforts, as measured by our daily actions, are basically aimed at satisfying the most varied of possible requirements. Our strategy is to pursue a virtuous synergy between the virtual and physical, between humanity and technology, giving the right degree of importance to more advanced instruments, as and when they emerge, to Internet and anything else. We are therefore seeking to complement tried and tested means of communication with those that have the transparent inconsistency of air or the physical consistency of fibre optic and telephone cable. This is the same degree of importance that we give to a smile, a reassuring face, a «good day» that seals a solid relationship.

We have learned from the past, are aware of the present and are projected into the future. We are therefore applying a simple rule, lying at the foundation of civilization's history, in the knowledge that basically the elements dictating progress have changed little since man, having overcome chaos and insecurity, has started to release his creative talents, moving by natural impulse to acquire knowledge and embellish life.

Certainly the «knowledge» that every generation transfers to the next is different, but the ends of the «processes» are still the same, even if new, indeed at times extraordinarily new and today all the more so: they are the «means» which remodel the design, often with dramatic effects. The language used to define old «objects», «environments» and «relationships» are

insidiously new: why shouldn't the «Internet» phenomenon be treated like the current-day equivalent of the «wheel», the «Egyptian papyrus», «Gutenberg's book», the «mechanical loom», the «steam engine» or the «personal computer»?

Why should its intrusiveness, which surprises, overwhelms and disturbs us, be any different to those things which surprised, overwhelmed and disturbed our ancestors? It's a question of time and a little patience before the cloud disperses, and the beat of «speculative» drums dies down...Just a question of time.

However, we agree with Voltaire: we cultivate and examine the everyday, mediate between the old and the new, gather synergies and opportunities, unite – in a chain of ideal continuity – the «old» in a culture still our own with the imagination and freshness of a world of infinite stimuli, and are aware that *«it is necessary to act immediately: he who does not live the spirit of his times, only experiences the worst of those times»*.

RISK MANAGEMENT

In last year's report on performance we described the general features of the bank's Risk Management system. Growing attention has been dedicated to this system in the belief that if a good standard is achieved in this area, it will help produce an optimal allocation of the bank's resources.

We shall now describe the improvements introduced in 2000 and those which are being completed.

As regards financial risks, work continued on developing the VAR (Value at Risk) model for the own securities portfolio and interbank deposits, improving its operation and hence the quality of results.

For the sake of transparency, in addition to the compulsory disclosures, we shall now provide



internal management data aimed at representing the degree of financial risk relating to the securities portfolio and interbank deposits.

The risk is expressed in terms of VAR calculated over a period of one day with a 99% confidence level.

RISK FACTORS

(in millions of lire)	At 29/12/00	Average	Minimum	Maximum
Interest rate	725	1,303	725	2,226
Equities	2,385	2,121	1,505	2,683
Total	2,062	2,434	1,984	3,552

The average value of total VAR is just over L. 2.4 billion, implying a potential loss over the year of around L. 39 billion. While this is not an immaterial sum, it is nonetheless less than 1.5% of the portfolio's total value and under 4% of BPS's total capital. This confirms the prudent approach relentlessly adopted by the bank.

Compared with 1999, total VAR has fallen significantly, both in terms of the average value for the year and the year-end figure. There has also been an important shift between the two risk factors in question: exposure to interest rates has more than halved on average thanks to the shorter average duration of the bond portfolio; in contrast, exposure to equity risks has more than doubled, mainly as a result of the higher number of investments, partly due to the inclusion of units in specialized equity-based mutual funds.

The reporting of VAR not only provides an important source of information, it also represents the centrepiece of new regulations concerning operating and management limits, which are in the process of completion and formalization. These regulations establish maximum limits for exposure in terms of overall VAR as well as a specific VAR for interest rate, exchange rate and share price risks. Such limits will be updated regularly.

In order to assist the departments which do not have real-time measurements of VAR for the transactions undertaken, the above-mentioned VAR limits must be translated into operating limits, which are updated over time to reflect changes in financial markets.

The purpose is to regulate discretionary financial activities, arising from the independent behaviour of operating units, in order to ensure that the risks taken on are consistent with the limits set by BPS's top management.

Structural risks, originating from a combination of financial and commercial activities, are overseen by a special Risk Management Committee, which is responsible for establishing the composition of assets and liabilities and putting in place any hedging operations that may be required. Amongst other things, this committee makes use of the results of the Asset & Liability Management system, which consistently reported a reduced exposure to interest rate risk over the year. More specifically, the position at the end of December 2000 showed that a one percent increase in interest rates would produce a potential loss of around L. 6 billion in terms of reducing the net value of assets and liabilities, corresponding to approximately 0.5% of the bank's capital.

As regards lending activities, it is planned to introduce a new system for monitoring issuer risk and counterparty risk referring to financial transactions.

One of the first changes concerns the evaluation process and involves attributing a credit rating to each position.

The procedures for calculating the utilization of credit lines are also being revised in order to identify this by type of financial instrument and related maturity. All these changes are consistent with the new reporting procedures required by the supervisory authorities.

These measures represent an initial, simplified outline of a system for credit risk

management using the most up-to-date methodologies. Starting with these initial changes, the huge «Credit Risk Management» project will evolve in two directions: firstly, it will be extended to all customers and secondly, risk measurement will be perfected using a Value at Risk approach similar to that adopted for financial risks.

The first prime objective is to assign an internal rating to the bank's customers, while only later will we move towards adopting a portfolio model. A specific feasibility study has been performed in this regard with the assistance of a leading firm of consultants.

In general, the assignment of a credit rating amounts to none other than formalizing the process of evaluating customers on the basis of all the necessary information. Banks have always performed such a process, albeit not in such a codified and documented fashion. The bank can be likened to a «judge» who passes sentence on the customer's creditworthiness. The purpose of this judgement is obvious: to decide whether and how much credit to grant to borrowers and to establish the rate to be charged if the related risk is to generate an acceptable return.

These proposals do not involve «reinventing» the bank. They are simply a refinement of the credit evaluation process, making it more precise, scientific, standardized and objective, with the aid of mathematical and statistical tools, which support but do not replace the credit analyst and his intuition.

All this is going ahead in a mindset that the bank isn't just a business that has to live with risks: rather, it is the ultimate risk-taking business.

Risk is an inherent part of the lending process, without which banking activities would not exist.

Credit evaluation methods

The quality of credit is constantly monitored in terms of its concentration by economic sector and industrial districts, by similar types of

customer, and by geographic area of business. In addition to this macro level of analysis, individual positions are monitored, partly on the basis of regular reporting indicating particular anomalies.

Outstanding overdue, non-performing, and restructured loans are valued on an individual basis, applying the utmost prudence when writing down each position.

The irrecoverable portion of loans to customers undergoing bankruptcy proceedings is written off.

As regards performing loans, the provisions covering the so-called natural risk are calculated taking account of the proportion of write-offs statistically made to loans in the past. These provisions amount to L. 37,697 million, of which L. 6,398 million was booked in 2000.

The amount of loans exposed to country risk is insignificant.

The above methods have been applied to produce the position set out below, expressed in millions of lire:

	Gross exposure	Total writedowns	Net exposure
Doubtful loans			
Outstanding overdue loans	180,258	76,014	104,244
Non-performing loans	131,806	20,286	111,520
Restructured loans	61,692	12,774	48,918
Loans exposed to country risk	589	71	518
Performing loans	8,377,175	37,697	8,339,478

In addition, the liabilities side of the balance sheet includes a «reserve for possible loan losses» totalling L. 28,451 million.

The bank's risk monitoring measures are particularly focused on credit risks. BPS acts with the utmost prudence when managing this risk; even though its policy is to provide significant support to the local economy, it maintains a very low ratio of non-performing to total loans.



HUMAN RESOURCES

There is no doubt that the new is the focal point around which the entire economic and financial system bases its development. This has always been the case and is even more true in the current day and age. Change is an inherent part of human nature. A simple but striking example can be found in this report: among the most frequently words used are the terms new, innovation and such like.

Thus it is a general phenomenon, involving society at large and which, together with the positive aspects, presents others that are somewhat less pleasant. The growing pace of change within the economy and society is in itself a factor involving far-reaching consequences. The current situation requires us to rethink and alter our relationships with fellow men, objects and the environment.

As a participant in this process, BPS has extensively overhauled its organizational structure in recent years whilst growing without precedent.

The strategy decided by the Board of Directors has been implemented with conviction and boldness by the bank's staff. Thanks to the larger number of personnel, this strategy has mainly provided resources and skills to create new opportunities for business which are now generating revenues (for example, the considerable expansion of the foreign sector, payment services used by international customers, the one hundred different types of product and the thousand different types of investment available to customers). This is not to mention the new branches, which have extended their sphere of influence to areas and regions from which we were precluded not so long ago.

These simple, brief observations suffice to understand the importance the bank attaches to the careful selection of new recruits and the ongoing development of its personnel. There are

two sides to the process of growth based on investing in its internal resources. On the one hand, it offers employees the chance to aspire to ever more skilled roles and functions, while on the other it requires them to make a big effort to constantly improve their individual and collective knowledge and abilities.

The main task of managers of operating units and branches has always been to enhance the professional growth of their staff, whilst instilling in them a sense of the bank's founding principles, namely love and pride in membership.

In this spirit we continued to hire people in 2000, adding 80 new staff (+4.98%), to make a total of 1,687. This expansion was in line with the bank's development, although its extent, being the object of careful control, benefited from increasingly important economies of scale.

Average age and period of service were slightly higher than at the end of '99, at 33 years and 9 months and 9 years and 6 months respectively.

A great deal of attention is dedicated to the difficult and delicate task of selecting candidates, opinions on whom are formed on the basis of detailed interviews at the various levels. Priority is given to screening the large number of applications received each day, taking into account – and it couldn't be any other way – of the type of education received, the grades achieved, and any professional experience gained. This task is performed by a team of staff with significant experience in the sector. It is essential for the world of education to meet the constantly evolving one of business.

Our organization also includes 65 temporary staff, hired to meet extraordinary, temporary needs especially in those units having to deal with our extensive data processing activities. We can confirm that this mode of employment, representing a form of much desired flexibility, allows young people to enter the labour market, giving them the chance, perhaps whilst



waiting to do military service, to gain experience and get themselves known and appreciated.

We are firmly committed towards professional growth: some 6,287 man-days were spent this year on training and educational activities, a figure that speaks for itself. Two areas have been given priority: these are basic and specialized technical and professional skills and the ability to handle interpersonal and customer relationships. In the case of new recruits, the main aim of training is to introduce them to the business, providing them with key pointers. These are helpful in allowing them to perform effectively the initial roles to which they have been assigned and also permit the bank to carry out a preliminary assessment regarding the career paths most suited to their personal aptitudes.

Specialized training activities particularly focused on securities, foreign and lending activities.

In the belief that the transfer of knowledge is one of our corporate duties, we continued to use our staff as teachers, with the assistance, in certain specific instances, of outside professional firms. Other training activities involved branch managers. The aim in this case was to put forward ideas and initiatives geared to improving staff involvement and providing valid tools for stimulating their professional development, whilst at the same time instilling uniform styles of management.

Given the key role of human relationships in enhancing the bank's image, resulting in an effective, penetrating, commercial reach, we have paid particular attention to those members of staff who are in direct contact with the public. This has involved the provision of training in communications-related matters. As far as the bank is concerned, politeness, courtesy and expertise form part and parcel of the same dimension.

In order to increase the number of participants in training courses and keep down the direct and indirect costs, we also used multi-media tools and intend to extend their use in the future.

Overall, a huge commitment has been dedicated to training, an activity that the training department has carried out with enthusiasm and conviction to satisfy as best possible the training requirements emerging from the changing market situation. The ability to innovate and the level of training are fundamental pre-conditions for improved and greater competitiveness.

We would be guilty of naivety if we thought that corporate values could be instilled through training. Rather, this is something that is created over time and for this reason acquires particular value, identifying itself in the bank's very genetic make-up.



An increasingly widespread «fashion» warrants a brief mention, even if many people disparage it at least apparently. We refer to the practice adopted by certain businesses to turn systematically to competitors to repopulate their headcount, perhaps to fill in the gaps left by those, in turn themselves recent arrivals, who have already been lured away by new temptations. The labour market exists and staff mobility forms part of the natural order of things, but for this reason there should be a boundary dictated by good taste and professional ethics. We fully share the position recently adopted by the National Association of Co-operative Banks in labelling as ethically incorrect the luring of staff from competitors through the use of questionable incentives and reasons, at times just empty promises.

The sense of propriety is changing. This is the era of dissipation, meaning that people are less attached to things than in the past. Technological innovation, heralding greater convenience, reduces the sense of responsibility for what people have, while the value of experience diminishes relative to knowledge. But even knowledge succumbs to rapid obsolescence, to the extent that youthful «experts» are ever more in evidence. Often these specialists are faithful to their sector of business, rather than to the firm. Knowledgeable, avaricious nomads, they move from one company to another.

In keeping with section II, point 1 of the national labour contract for the banking industry signed on 11 July 1999, we started procedures in conjunction with the trade unions for defining the criteria for promotion into the new grade of managerial-level supervisor.

The first national labour contract for banking industry managers was signed on 1 December 2000, being the last outstanding issue relating to the heads of agreement dated 28 February 1998. The process of restructuring the regulatory framework for this category of employee – including the introduction of managerial-level

supervisors and the disappearance of the historic grade of official – provides greater flexibility and gives us some grounds for optimism in a future reduction in payroll costs.

A mention should go to the evolution of the banking industry and the consequent shift from acting like banks to companies. This is the main effect of the new labour contract which is based on the following new rules for corporate behaviour: improved professional ethics, a more open attitude, an appreciation of individual work and a shared participation in harmonious company growth. If organizations wish to keep up with the dynamism of competitors and the market, whilst protecting their independence, they must think and act in an entrepreneurial fashion. Without this entrepreneurial input, work and capital would lose most of their meaning.

The relations with our trade union representatives are continuous and mutually respectful of our respective roles. The renewal of the bank's supplementary labour contract will be the object of discussion during the course of the current year.

When we talk and write about personnel, we know that we refer to a factor that – critically and above all else – makes our bank stand out in the banking world. This is because our employees perform their work in the proud knowledge of being useful and not with the humiliating feeling of possessing a privilege perhaps granted by fate. This is an immensely valuable factor which characterizes the bank's history and represents a certainty for the future.

PROMOTIONAL AND CULTURAL ACTIVITIES

It is not possible to beat someone by simply following their example. This means that as regards the promotion of our business we choose



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innovative solutions since we are convinced that it is virtually useless to add to the «bombardment» of advertising fed daily to an indifferent public, which at times is actually resentful of the intrusiveness of advertisements, claims, promotions and anything else that the imagination of marketing men manages to churn out. We prefer that our customers remember us not for the promises made in an advertising commercial, but for something that others do not offer in terms of a quality, complete and personalized service. In other words, not for what we say, but for what we do.

In terms of traditional advertising we act at a local level, where we are market players and can deliver our message with clarity, in a measured and courteous fashion. More in general, our promotional activities are focused on cultural initiatives. We cultivate them with enthusiasm despite our already heavy involvement, which is not exclusive and does not change the ground rules. In fact, it is with pleasure that we note that banks are dedicating growing attention to this type of activity.

We make extensive use of the opportunities offered by new tools. Internet is our window on the world. Our website not only presents the bank, its products and services, but also stimulating proposals dedicated to surfers interested in exploring our territory. Webcam technology allows the world to see images of our valley, including the highly renowned Stelvio Pass. For those who are not content with images, there are also itineraries to follow not only in the virtual world, but also on foot and mountain bike. It is an invitation to the tourist to come and know all aspects of the Valtellina and Valchiavenna, from their scenery to their history, food and wine.

Among the cultural initiatives, this year we celebrated an important anniversary: thirty years of conferences since the first one held on 13 February 1971 by the late lamented Professor Libero Lenti on «Monetary problems of yesteryear

and tomorrow», an issue that is still valid today in light of the forthcoming transition to the euro. Since then – and with similar success – there have been one hundred and fifty-two meetings. To name some of them, being impossible to cite them all, would do injustice to the others. Instead we shall recall those taking place in 2000.

Monsignor Professor Gianfranco Ravasi, rector of the Ambrosiana Library and Picture Gallery in Milan, opened the season, speaking authoritatively on «The book of the Apocalypse: terror or hope?». Monsignor Ravasi, an acknowledged biblical scholar, is also the author of detailed works on the Commandments, which are in the process of being published in our Notiziario.

It was then the turn of Professor Claudio Magris, a university teacher, writer and German language expert, and Alfonso Desiata, chairman of Assicurazioni Generali SpA, who keenly debated the subject of «Capitalism and language». Alfredo Diana, a knight of labour, chairman of the National Federation of Knights of Labour and agricultural expert, delivered a speech on the subject of «The Green Revolution» as part of an initiative to which Lombard and Roman members of this prestigious order were invited.

In the autumn, two leading managers closed the conference season. Corrado Passera, chief executive of Poste Italiane SpA, spoke on the «Restructuring and relaunch of Poste Italiane», recounting the zeal and boldness with which he is performing this difficult, laborious task. Lastly, Professor Eolo Parodi, chairman of the National Social Security Institute for Doctors and Orthodontists, spoke clearly and compassionately on «Society and health on the eve of the third millennium».

Thanks to its prestigious contributors and interesting articles, our Notiziario (magazine) has become one of the best cultural publications in the Italian banking sector. Its extensive readership, numbering over one hundred thousand, also

Publications

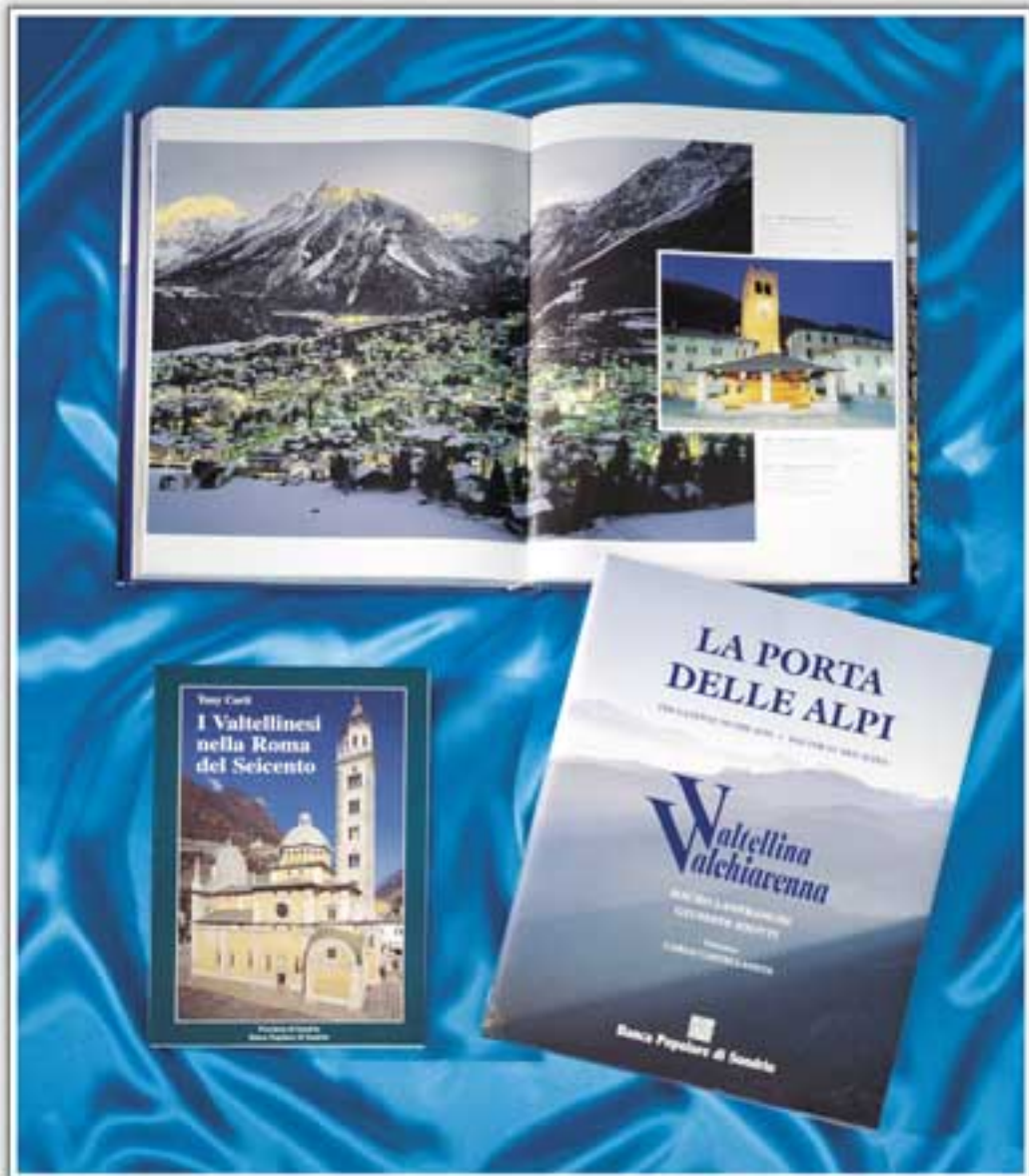


Thanks to its prestigious contributors and interesting articles, our Notiziario (magazine) has become one of the best cultural publications in the Italian banking sector. Its extensive readership, numbering over one hundred thousand, also appreciates the magazine's beautiful, expressive photos. The fourth



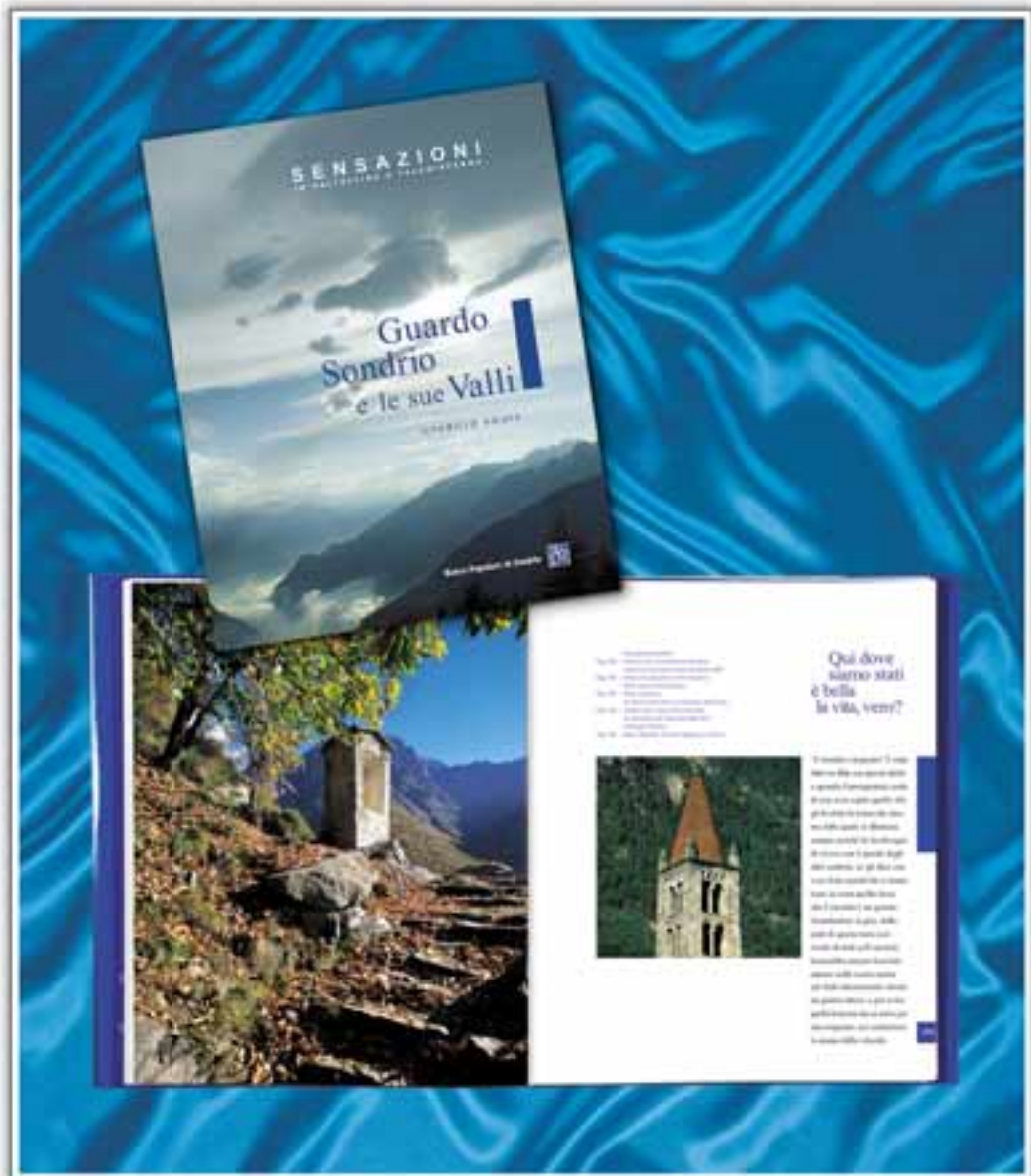
edition of our diary entitled "I giorni del 2001" (Days of 2001) warrants a special mention. This was prepared by the writer and journalist Gigliola Magrini, whose witty combination of curiosities, anecdotes and fragments of culture provide a pleasurable and knowledgeable accompaniment to each day.

Publications



Our pièce de résistance in the publishing area this year was "La Porta delle Alpi" (The Door to the Alps), a volume that was given to shareholders attending the AGM on 4 March 2000. The radiant photographs by Mauro Lanfranchi were accompanied by Giuseppe Miotti's interesting text, which was translated into English and German. Together with the authoritative forward by Carlo Castellaneta, these make it a highly prized work. At the "Jubilee Festival of the Emigrant and September in Valtellina", we jointly promoted with Sondrio's provincial authorities the publication of the book "I Valtellinesi nella Roma del Seicento" (The people of Valtellina in Seventeenth Century Rome), by native son Tony Corti.

Guardo Sondrio e le sue Valli



Is there anything left to say about Valtellina and Valchiavenna that hasn't been written in the numerous volumes about our province? Of course there is; we just have to change perspective, to see our land as a visitor sees it, a newcomer to our valleys. Hence the collection Sensazioni (Sensations) which, as the chairman writes in his foreword, should be interpreted in its classic sense of "a more or less vivid impression that the soul receives from an external source". The volume Guardo Sondrio e le sue Valli (I Look at Sondrio and its Valleys) is the work of journalist, poet and novelist Giorgio Soavi and is illustrated by extraordinary photographs taken by the best photographers in our region.

Conferences



MONS.
GIANFRANCO RAVASI
24 March 2000

ALFONSO DESIATA
CLAUDIO MAGRIS
14 April 2000

ALFREDO DIANA
12 May 2000

CORRADO PASSERA
29 September 2000

EOLO PARODI
30 October 2000

MONS. ANGELO SCOLA
19 January 2001

Among our cultural initiatives, this year we celebrated an important anniversary: thirty years of conferences since the first one held on 13 February 1971 by the late lamented Professor Libero Lenti. Since then – and with similar success – there have been one hundred and fifty-two meetings. Let us recall those taking place in 2000. The season was opened by Monsignor Professor Gianfranco Ravasi, rector of the Ambrosiana Library and Picture Gallery in Milan. Next came Professor Claudio Magris, a university teacher, writer and German language expert; Alfonso Desiata, chairman of Assicurazioni Generali S.p.A.; and Alfredo Diana, agricultural expert and chairman of the National Federation of Knights of Labour. In the autumn, two prominent managers - Corrado Passera, chief executive of Poste Italiane S.p.A., and Eolo Parodi, chairman of the National Social Security Institute for Doctors and Orthodontists - closed the conference season. The first speaker of 2001 was Monsignor Professor Angelo Scola, rector of Pontifical Lateran University.

appreciates the suggestive photographic images. We are pleased to report that «L'Osservatore Romano» reproduced in its issue of 27 July 2000 an article appearing in the magazine's 82nd edition. The piece, entitled «The great embrace» by the journalist and writer Franco Monteforte, was dedicated to the suggestive wooden Via Crucis created by the artist Mauro Bernardi at Forno Allione in Valcamonica.

Our pièce de résistance in the publishing area this year was «La Porta delle Alpi» (The Door to the Alps), a volume that was given to shareholders attending the AGM on 4 March 2000. The bright photographic images by Mauro Lanfranchi were accompanied by Giuseppe Miotti's interesting text, which was translated into English and German. Together with the authoritative forward by Carlo Castellaneta, these make it a highly prized work, filling a gap in the local publishing scene since it is the only volume that fully presents the province of Sondrio in all its splendour.

At the «Jubilee Festival of the Emigrant and September in Valtellina», we jointly promoted with Sondrio's provincial authorities, the publication of the book «I Valtellinesi nella Roma del Seicento» (The people of Valtellina in Seventeenth Century Rome). The book's Valtellina-born author, Tony Corti, describes the emigration from Valtellina and Valchiavenna to the capital city, treating the subject with devotion and providing a wealth of details.

The '99 annual report of Banca Popolare di Sondrio (Suisse) SA contained the essay «L'Uomo e la Nuvola» (The Man and the Cloud) by Giuseppe Prezzolini, a gifted literary personality who spent part of his childhood in Sondrio. We recall Prezzolini's collaboration with our Notiziario and the friendship which, during his long stay in Lugano, was sealed with our chairman.

The fourth edition of our diary entitled «I giorni del 2001» (Days of 2001) warrants a special

mention. This was prepared by the writer and journalist Gigliola Magrini, now considered to be BPS's in-house writing talent. Her witty combination of curiosities, anecdotes and fragments of culture provide a pleasurable and knowledgeable accompaniment to each day.

Work continues on reorganizing and cataloguing the archives managed by the Fondo Pareto belonging to the bank and to which a special section of the Notiziario is dedicated. Our efforts to boost appreciation and knowledge of these works have made great strides forward: it is now possible to consult the catalogue listing all the papers via our website using appropriate search tools. Work also continued on publishing a book which will systematically make the thinking of the great economist and sociologist accessible to a wider public.

In this same spirit we bought the archives of Battista Leoni, the recently deceased Sondrio-born academic and man of culture, who worked on several publications produced by the bank. The Fund, comprising several thousand volumes from various eras, parchments and original manuscripts will be rearranged and catalogued.

In conjunction with the Museum of Caporetto (Kobarid in Slovenian) in the upper Isonzo valley, we organized the exhibition «Caporetto and its mountains» at the Carlo Donegani Museum located at our Stelvio Pass branch. Still in Stelvio, Italian, Slovene, Swiss and Austrian soldiers solemnly commemorated the Dead of the Great War under leaden skies on 30 September 2000.

The 76th World Savings Day saw us participate in *Cartolandia*, an initiative by La Provincia, a daily newspaper. This was a prize competition on the theme of peace, open to children at nursery, primary and junior schools. Still in the area of education, together with Pirovano Stelvio SpA, we created «Quota 3000 Scuola» (Altitude 3000 school) and «Quota 3000 Trekking» (Altitude 3000 Trekking). These are

The Vilfredo Pareto fund
of the Banca Popolare di Sondrio

Foreword by Giovanni Busino

The fund and the catalogue

Pareto and his letters

Pareto in the BPS Notiziario

Pareto on the Web

Bibliography

Iconography

On-line discussion of Pareto

News

Vilfredo Pareto

Collezione 9-Settembre 1902

Collezione 21-Settembre 1913

Collezione 21-Dicembre 1900

Collezione 21-Settembre 1913

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Donegani Museum



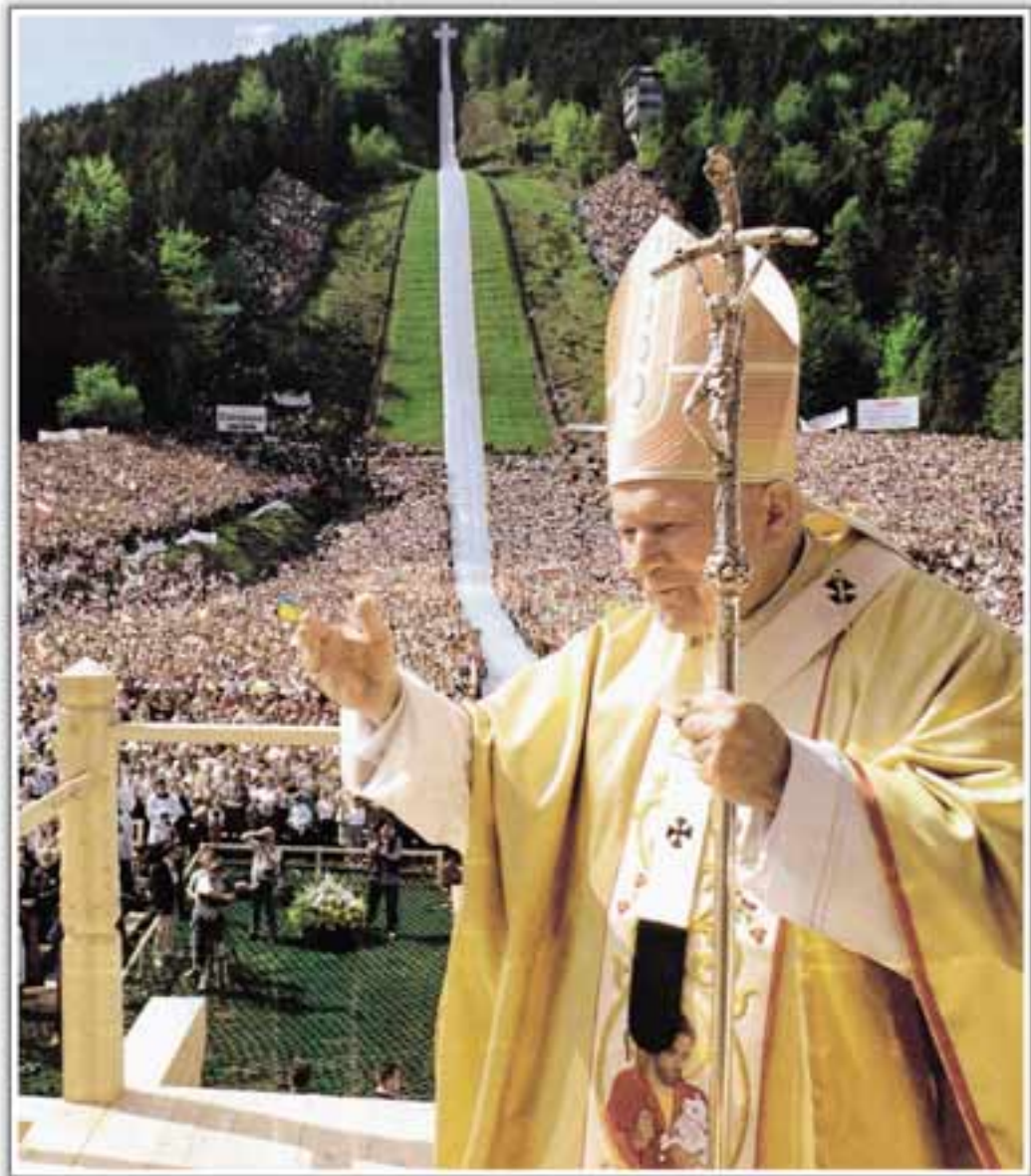
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Here's to Stelvio!



Recreational and sporting activities provided much-needed relaxation. Events included the interbank ski meeting with Unicredito and Deutsche Bank, in which competition and friendship blended harmoniously. There was also the reception organized for the arrival in Bormio of the Giro d'Italia (cycle-tour of Italy), when distinguished commentators used old films and documents to recall legendary enterprises under the title "Stelvio: the myth continues".

Centesimus Annus Pro Pontifice



The "Centesimus Annus Pro Pontifice" Foundation, of which we are founding members, confirmed our appointment to collect donations throughout Italy for the charitable activities of the Holy Father.



courses, held in the Stelvio Pass area and the Stelvio National Park, combining the study of science, the environment and history with sport. By way of promotion and culture we offered interest-free loans in our province to purchase personal computers, disbursing almost one billion lire to 230 young people. These youngsters now have the tools, now all they have to do is start.

Recreational and sporting activities – primarily by our active company staff club – provided important moments of relaxation. Events included the interbank ski meeting with Unicredito and Deutsche Bank, in which competition and friendship blended harmoniously. There was also the reception organized for the arrival in Bormio of the Giro d'Italia (cycle-tour of Italy), with authoritative commentators re-evoking through old films and documents, legendary enterprises under the title «Stelvio: the myth continues».

Amongst the various social initiatives mention should go to the collection of donations for flood victims in the North of Italy and the building of a hospital in Tirana, as wished by Mother Theresa of Calcutta. The «Centesimus Annus Pro Pontifice» Foundation, of which we are founding members, confirmed our appointment to collect donations throughout Italy for the charitable activities of the Holy Father.

This concludes our summary of our concept of promotion, both in theory and in practice. It is a significant undertaking, which we hope is appreciated and fruitful, and a tradition which we intend to continue whilst remaining open to the new.

EQUITY

The bank's equity is the item to which all others in the financial statements respond like the voices in a chorus under the conductor's

direction. This year it is particularly important in view of the proposed increase in share capital.

The current and expected process of general change in the economic and financial system raises the classic question for the banker concerning the ideal size of his own funds. As regards BPS, the answer to this question is found in the Report of the directors to the Extraordinary General Meeting. This illustrates the reasons and the purposes of the capital increase, whose aim is to raise new funds needed not only to equip the bank with the tools and personnel for achieving its growth plans but also to provide it with ample coverage against risks.

Adequate equity responds to the fundamental, inexorable need for every bank always to be able to honour its commitments. An ample endowment of own funds allows a bank to handle the disgraceful possibility of a reduction in balance sheet values, whilst not affecting the rights of creditors, in particular those of deposit-holders.

In its everyday activities the bank is exposed to a number of risks, which must be the object of careful qualitative and quantitative analysis. In addition to the existing risks, it is necessary to take account of both potential and future risks, related to future business growth but also to changes associated with outside events that might affect the bank's position.

We shall restrict ourselves to adding a few brief remarks on the role of equity in businesses. Equity is the company's very essence, serving a multitude of purposes with the goal of earning an adequate return.

Over time a well-devised investment earns consistent returns relative to both the resources employed and the risks involved. This is the very purpose of entrepreneurial activity: investing to produce and to gain, whilst being aware that the two remain inevitably out of step in terms of timing. First, money is invested to establish the company and cope with the risks involved,



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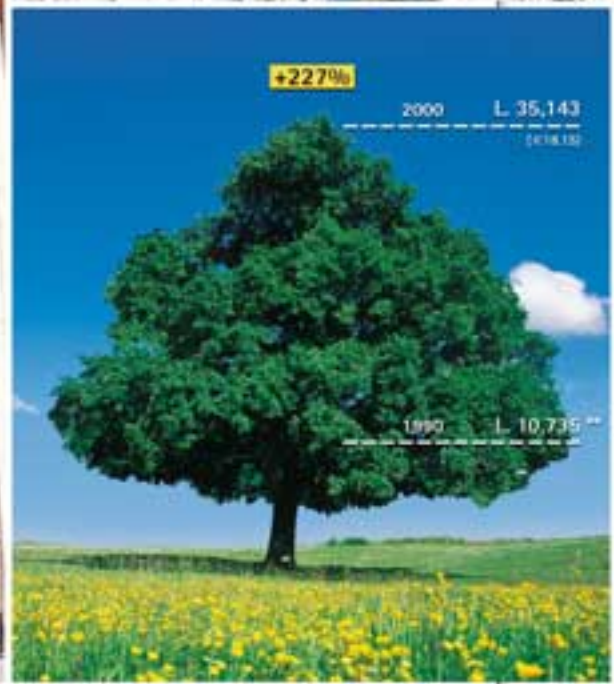
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Shares and shareholders



(*) FROM 31 DECEMBER 1990 TO 29 DECEMBER 2000 : +227.37% - N.B.: THERE IS NO GUARANTEE THAT A SIMILAR PERFORMANCE WILL BE ACHIEVED IN THE FUTURE

(**) STOCK VALUE, CORRESPONDING TO THE PRICE OF L. 66,500 OF 31 DECEMBER 1990 ADJUSTED TO REFLECT THE SUBSEQUENT OPERATIONS ON SHARE CAPITAL

A well planned investment leads, over time, to returns that reflect the amount of money employed and the related degree of risk. In a market stamped by volatility, BPS stock was caught up in the general turbulence during the spring and early summer, then resumed its steady progress to close the year with a gain of 14.87%. This wholly satisfactory performance (far better than the 3.02% gained by the OTC market index) complements the stock's growth over the past few years, and is even more impressive in comparison with the general stock market trend and the performance of other bank stocks. Value added to value is how we should interpret the 12,236 new shareholders who brought our total to 87,158 at the end of the year. The more shareholders we have, the more we spread our basis of ownership among households and businesses, and the closer we come to our short-term target of 100,000. And the more customers and shareholders overlap, the more gratifying is a relationship aimed at both economic returns and the efficacy of our products and services.



whilst only later does the income arrive, or so one hopes. At the risk of stating the obvious, as in nature, it is necessary to sow before you can reap.

As in nature, if not more so, a bank's life cycle is continuous since it requires a constant dedication of work and resources, especially if the goal, like ours, is a steady increase in the area under cultivation. This means that new enterprises start with every season, bearing fruit only later.

As for ROE, this is not just a simple accounting ratio that identifies figurative returns for our shareholders, adding substantially to their wealth. Rather, when assessing this overall indicator of profitability shown in the annual financial statements, account should also be taken

of the prospective trend in results arising from development plans, both implemented and in progress.

The market understands this well. It forms its opinions, duly reflected in the stock price, on the basis of actual results but particularly on its realistic expectations for the business. Apart from the simple mathematical calculation of ROE, which inevitably tends to be penalized in the short term by a capital increase, this explains why our bank's stock price has always performed well: in the past the bank has demonstrated that it knows its business well, whilst displaying undoubted potential for the future.

We summarize below the ratios between capital and the main balance sheet items, highlighting that the relative trends reflect the constant growth of the business and, consequently, the need to boost the bank's equity:

- *capital/direct customer deposits*
12.56% v 13.69%
- *capital/customer loans*
12.96% v 14.97%
- *capital/financial investments*
28.19% v 27.97%
- *capital/total assets*
8.33% v 9.22%

For the purposes of calculating our capital for supervisory purposes, and in compliance with regulatory instructions, we have had the half-yearly results to 30 June 2000 checked by the independent auditors.

In absolute terms, our equity has grown from last year's figure of L. 1,080 billion to L. 1,115 billion, split as follows: share capital, L. 344 billion fully paid in and represented by 68,783,032 shares of par value 5,000 lire each; share premium reserve, L. 452 billion; other reserves, including the reserve for general banking risks, L. 319 billion; without considering the net profit for the year of L. 74.4 billion.

INCOME STATEMENT

The income statement is the economic part of the financial statements. It summarizes the results of all the transactions carried out during the year. The figures shown therein are none other than the external manifestation of the underlying results.

The half-yearly report to 30 June 2000 explained that earnings were on the rise relative to the corresponding prior period. This situation is confirmed in the final results for the year, which report net profit of L. 74,408 million, an increase of 25.77%.

This is another good result, effectively reflecting our ability to do business and hence operate on the market, successfully interpreting its changing trends.

The steady growth in the bank's profitability testifies to the validity of the ongoing strategy of expansion, and the prudence with which inflows have been matched to outflows i.e. revenues to costs.

*Net interest
income*

Following the order shown in the reclassified income statement, the first major aggregate contributing to the bottom line is net interest income. At the end of the year it came to L. 326,400 million. This was an increase of 16.02% relative to 1999, reflecting robust growth in the volumes intermediated despite the slight reduction in interest rate spreads.

The contraction in unit profit margin could only be offset by expanding the operating base: we earn less for every 1,000 lire handled, but ultimately we earn more through applying this lower unit profit to a higher volume of business.

The decline in the margin is the result of a smaller increase in the average return on loans relative to the rise in the average cost of deposits. This is not a new phenomenon and partly reflects our policy of containing prices to fund development of the local economies where we operate on the best possible terms; this policy was also dictated by our desire to draw closer to businesses in areas where we intend to make

ourselves known, be appreciated and hence put down roots. Tiptoeing, but only so as to make no noise, we have taken steps to give, in accordance with the doctrine that teaches us to give before you can receive. This is a golden rule, currently somewhat in disuse, under which duty comes before entitlement. In short, goodwill comes at a price.

The key factor, however, is the «hammer» of competitors. This is striking with growing force, inexorably crushing profits against the «anvil» of funding costs.

Net income from services made good progress, with net commissions jumping 26.28% to L. 179,531 million. These benefited from a particularly large contribution of income from collective forms of asset management, the healthy flow of stockmarket orders and strong synergies between the bank and insurance companies.

The significant level of profits in the service sector, albeit suffering from a decline in unit revenue, is the best witness to the bank's support of its customers, the validity of its products and the astute pricing policy adopted. The goal is to increase the proportion of service income in order to free ourselves gradually from the overriding need to increase the volume of lending. This does not mean we wish to forsake growth, but rather to maintain a steady pace of expansion.

Profits from financial transactions climbed 65.49% to L. 29,773 million, suffering from significant losses resulting from factors foreign to banking activities that were not easily foreseeable.

Income from banking activities, *Income from banking activities* being the sum of the components discussed above, came in at L. 535,704 million, an increase of 21.34%.

Similarly there was also a rise in administrative expenses, which climbed 10.28% to L. 315,748 million. Without wishing to be misunderstood, in some respects there is a positive aspect to this increase, since it reflects the bank's policy of expansion and development.



RECLASSIFIED INCOME STATEMENT

(in millions of lire)	2000	1999	% change
Interest income and similar revenues	672,456	489,259	37.44
Interest expense and similar charges	(353,506)	(213,989)	65.20
Dividends and other revenues	7,450	6,052	23.10
NET INTEREST INCOME	326,400	281,322	16.02
Net commission income	179,531	142,166	26.28
Profits from financial transactions	29,773	17,991	65.49
– profit from trading securities and derivatives on securities	21,158	33,382	– 36.62
– profit from trading currency and derivatives on currency	18,871	16,138	16.94
– profit from trading other derivatives	89	46	93.48
– gain (loss) on valuing securities	(10,345)	(31,575)	– 67.24
INCOME FROM BANKING ACTIVITIES	535,704	441,479	21.34
Other operating income	37,146	34,002	9.25
Administrative expenses	(315,748)	(286,316)	10.28
– personnel expenses	(165,217)	(152,527)	8.32
– other administrative expenses	(107,367)	(95,372)	12.58
– indirect taxes and duties	(43,164)	(38,417)	12.36
Other operating expenses	(6,106)	(6,934)	– 11.94
OPERATING PROFIT	250,996	182,231	37.74
Adjustments to intangible and fixed assets	(28,046)	(24,688)	13.60
Provisions for risks and charges	(2,000)	0	
Loan write-downs and provisions for guarantees and commitments			
– loan write-downs	(80,671)	(64,017)	26.01
– provisions for guarantees and commitments	(1,000)	0	
Write-backs to loans and provisions for guarantees and commitments	19,680	23,081	– 14.74
Provisions to reserves for possible loan losses	(12,866)	(4,786)	168.83
Adjustments to the value of long-term financial assets	(824)	(513)	60.62
PROFIT FROM ORDINARY OPERATIONS	145,269	111,308	30.51
Extraordinary income	2,502	23,508	– 89.36
Extraordinary charges	(2,219)	(1,152)	92.62
PROFIT BEFORE TAX	145,552	133,664	8.89
Provision to the reserve for general banking risks	(8,000)	(22,000)	– 63.64
Income and equity taxes	(63,144)	(52,500)	20.27
NET PROFIT FOR THE YEAR	74,408	59,164	25.77

Furthermore, this expenditure represented an investment, which was handled carefully whilst avoiding wastage.

People and tools are allocated to the production process in suitable quantities and qualities «just in time», as modern procurement theory would term it, i.e. only at the «time required».

Continuous monitoring of trends in costs and productivity guards against useless expenditure and surplus production capacity, both of which are constant threats to efficient management. Unfortunately, despite our best efforts, we can do nothing about the mass of indirect charges arising from the inefficiencies besetting the country itself.

Operating profit

Trends in income from banking activities together with those in other operating income and costs, as well as in administrative expenses, caused operating profit to rise by 37.74% to L. 250,996 million.

Profit from ordinary operations rose 30.51% to L. 145,269 million, allowing us to implement policies based on prudence and caution when making compulsory and voluntary provisions and adjustments.

Without wishing to demean the purpose of the notes to the financial statements in serving to provide a better understanding of the summarized figures shown in the balance sheet and income statement, we wish to add a few clarifications. The reader is, in any case, referred to these notes in all those cases where the figures on their own are not sufficient for a clear understanding of the underlying situation.

During the year under review, in addition to overdue interest, which is believed to be reasonably recoverable, a figure of L. 8,000 million was provided to the reserves for possible loan losses. The purpose of this provision was to obtain the maximum allowable tax deduction, which has risen from 0.50% of total loans to 0.60%.

The section relating to regulations and legislative matters referred to fixed-interest rate



mortgages and interest payable on interest. As regards the former, after making due assessments we decided not to make specific provisions against any future charges since the impact on the income statement should be very small. As for interest payable on interest, there are objective difficulties in making forecasts, partly due to the expected revision of the applicable legislation.

During the year deferred taxation was recalculated using new average expected rates, which had been reduced following the application to banks of the DIT (Dual Income Tax) regime and the extension of the benefits under the so called «Visco Law». The effect was to decrease deferred tax assets by L. 2,644 million. This amount is reflected in the overall tax charge, which totalled L. 63,144 million.

In 1999 we booked extraordinary income relating to the recognition of deferred tax assets, an entry that was offset by making a corresponding provision to the reserve for general banking risks. It was decided to neutralize the above-mentioned decrease in deferred tax assets booked in 2000 by releasing L. 2,000 million from the reserve for general banking risks.



As a result, the «change in the reserve for general banking risks» shown in the income statement reports a charge of L. 8,000 million, being the difference between the provision of L.10,000 million and the amount released of L. 2,000 million.

The high degree of tax pressure, albeit in slight diminution, and the above-mentioned mass of external diseconomies not experienced in other European countries, depress our profits and those of other Italian banks, lowering ROE by several percentage points. We wish to stress that the fundamental goal of our management is to monitor the degree of rigidity, or worse, tendency to inflate of all areas of cost.

Net profit for the year and Dividends

The 25.77% rise in net profit has persuaded the Board of Directors to propose a dividend of 580 lire per share, 130 lire or 28.89% more than last year.

The proposed dividend, combined with the sizeable capital gains reported by the bank's shares, represents what we consider to be a very satisfactory return on shareholders' investment. However, we shall leave it up to the shareholder to seek a suitable adjective, which will certainly be an agreeable task.

The results are the product of intense, well directed efforts. They are even more impressive since they were achieved against a fiercely competitive background, which has certainly not lacked some degree of risk.

In summary, like the hardworking farmer, we have hoed every square metre of the field and having sown all the furrows, helped by good fortune, we have reaped a good harvest.

SUBSEQUENT EVENTS

As required by article 3.d of Legislative Decree 87 of 27 January 1992, information on significant events that took place after the year end is provided below.

Greece joined the European Monetary Union at the start of 2001. After long and arduous efforts to meet the required convergence criteria, it became the twelfth member nation of Euroland.

This is a good auspice for the much hoped for recovery by the euro, which is slowly attempting to head back towards parity with the dollar.

While the reduction in the cost of raw materials and oil was greeted with satisfaction, pessimists have been talking about a possible decline in competitiveness by European companies on international markets. Isn't it better if a middle way is reached?

Amongst the legislative changes, we should mention the rise in the legal rate of interest, after remaining unchanged for a long time at 2.5%. The new rate is 3.5% as from 1 January 2001.

With regard to the bank's affairs, we are able to report that early 2001 saw the opening of several new treasury and cash services operating on behalf of municipalities and various other entities, bringing the total number of such operations to just under four hundred.

There are seven new treasury branches that have already been opened or which are about to be inaugurated: Bianzone in the province of Sondrio; Cassago Brianza (Lecco), Fino Mornasco and Ossuccio (Como), Lonate Pozzolo (Varese) and lastly Lonato and Pian Camuno (Brescia).

As regards the group, our affiliate Banca Popolare di Sondrio (Suisse) SA has approved its 2000 financial statements, reporting very satisfactory results both in terms of its balance sheet and income statement.

Lastly, we are able to report that our bank has obtained recognition as a «qualified intermediary» from the tax authorities in the United States. This will allow us to apply to customers' US-sourced capital income (dividends and interest) lower tax rates than the previous withholding of 30%.

After preparing this report, the US Federal Reserve cut rates by 0.5% in response to economic

slowdown in this country, which acts as a leader for the rest of the world: could this be the start of a recession?

BUSINESS PROSPECTS

The interest and confidence that economic operators accord forecasts by specialized institutions is such that at times the latter seem capable of being self-fulfilling. In fact, those reading them tend to behave accordingly, thereby helping the predictions to occur, whilst making the life of analysts easier. However, when the forecast is negative, there is a good deal of self-inflicted damage.

So let's try and put this to the test, using the indications provided by the modern soothsayers, to interpret the current situation. We shall take care to avoid becoming too influenced by the increasingly apparent climate of pessimism. If for no other purpose, our aim is to stop adding to it.

The European economy progressed throughout 2000 although it never managed to reach its full potential. It is now showing signs of slowing, just when the world is looking to Europe for a strong economic performance. The monetary authorities have realized this. Having fought the plague of inflation by raising interest rates, they now seem to be concerned about maintaining the current fragile state of growth. This all depends on hopes for a reduction in oil prices and the euro's as yet uncertain prospects for recovery. The domestic situation is not very different to that in the European Union in general, and if anything, is marked by its continued lag behind its more dynamic partners.

We said above that the world is hoping for a robust recovery in Europe because it seems that the dollar's strength, reflecting that of the US economy, is diminishing.

In such a situation the banking industry does not appear to have room to manoeuvre to increase the spread between lending and funding rates, with the latter affected by the persistent scarcity of funds. Improvements in operating profits will therefore depend on boosting the volumes handled. This should be accompanied by a higher contribution from service income, which is still benefiting, albeit to a lesser extent, from asset management activities.

In contrast, costs are expected to rise, not so much in the area of personnel but rather in the area of operating expenses and depreciation. The reasons for this include the huge investment relating to virtual distribution channels, which everyone is planning to have despite the uncertainties surrounding the associated future revenues.

The ability to improve the quality of credit in a situation of prolonged expansion of demand will be essential for boosting the profitability of the Italian banking industry.

We cannot act very differently from the general guidelines indicated above. However, our behaviour must stand out for its intensity, in keeping with our tradition of acting more rapidly than the rest of the industry. The new resources, raised from the proposed capital increase, will be important for achieving our far-reaching expansion plans, which have already been put in place and started.

The branch network's hold will be strengthened still further in the areas where we already operate, while we plan to enter new districts to complete our coverage of all the provinces in Lombardy. We shall also continue to expand in the City of Rome.

Our commercial efforts will benefit as a result, with a significant boost expected in terms of customers served, volumes intermediated and managed. As regards lending, we plan to continue to provide adequate support to the economy and



increase still further the number of borrowers, partly in order to diversify the risk.

We plan to expand the sector of merchant banking activities, together with providing improved assistance to small and medium-sized businesses in the area of medium-term lending.

Growing in size means investing in human resources, technology and computerized tools.

The virtual bank will undoubtedly enjoy a high profile in this sense, being a special channel for dealing with particular categories of customer, at whom specific products are «directed». Even the traditional branches will undergo extensive reorganization with the aim of making processes leaner and more efficient whilst improving customer service.

We consider it essential to strengthen ties with fellow shareholders in equity investments in order to improve the range of products we offer. This will also be achieved by increasing the equity interests that we hold. We expect to generate an important contribution to income by offering a wider range of products and services, including those containing higher value-added.

The special relationships established with Italian and foreign institutional customers will be constantly nurtured: we shall perfect our services in relation to portfolio management, treasury and mass payment systems, all of which often give us an important competitive edge. We are intending to ask the finance area to make a larger contribution to overall profitability.

In terms of measures to improve our banking processes, particular efforts will be dedicated to the «Credit Risk Management» project in order to achieve increasingly efficient management of credit risk.

The sum of these measures, together with careful control over costs and efficient allocation of the new resources raised from the capital increase, seems to offer sufficient guarantees concerning our ability to marry profitability with expansion.

One particular gene – the growth one – has been passed on to our Swiss subsidiary, Banca Popolare di Sondrio (Suisse) SA. This subsidiary emulates the parent bank's progress in terms of the trends in its financial statements and its geographical reach, making a significant contribution to the group's results.

So, the bank is steadily growing, whilst becoming increasingly «cooperative», meaning that it is at the service of everyone. Our preference is for smaller customers such as the myriad of households and small and medium-sized companies that drive the areas where we operate, hoping to be co-protagonists in their development. This underlies our continuing, determined efforts to open our doors to new shareholders, provided they meet the requirements set out in our by-laws.

All these goals are being pursued in harmony with those contained in the bank's 2001 budget, whose figures reflect our proposed plans.

* * *

Shareholders,

Once again this year, in anticipation of the major change involving the expression of the bank's results in the new currency, we have prepared our annual financial statements in euro, based on the irrevocable exchange rate of L. 1,936.27 per euro as set on 31 December 1998. These statements – a balance sheet and income statement – are included with the others at the end of this report.

*Financial
statements
in euro*

We now submit for your examination and approval the 2000 financial statements in the form of the balance sheet and income statement, together with the attachments which are an integral part of them. The financial statements, which close with a net profit of L. 74,408,471,259, have been audited by Arthur Andersen SpA and their audit report is duly attached.

Auditing

BALANCE SHEET

Total assets		L. 13,394,856,967,148
Liabilities	L. 12,205,086,628,756	
Reserve for general banking risks	L. 75,000,000,000	
Share capital	L. 343,915,160,000	
Share premium reserve	L. 451,927,362,751	
Reserves	L. 244,519,344,382	L. 13,320,448,495,889
Net profit for the year		L. 74,408,471,259
Guarantees granted		L. 2,165,922,672,239
Commitments		L. 392,129,758,732

ALLOCATION OF NET PROFIT FOR THE YEAR

In compliance with the law and the company's by-laws, we hereby propose the following allocation of net profit for the year:

- to the legal reserve 10%	L. 7,440,847,126
- to the statutory reserve 30%	L. 22,322,541,378
- to the shareholders L. 580 per share	L. 39,894,158,560
- to the reserve for own shares	L. 4,000,000,000
- to the charity fund	L. 500,000,000
- to the reserve as per art. 13 Legislative Decree 124/93	L. 50,027,279
- to the legal reserve, an additional	L. 200,896,916
Total	L. 74,408,471,259

CAPITAL AND RESERVES

If you accept our proposals, the breakdown of capital and reserves will be as follows:

- Reserve for general banking risks	L. 75,000,000,000
- Share capital, made up of 68,783,032 shares of par value L. 5,000 each	L. 343,915,160,000
- Share premium reserve	L. 451,927,362,751
- Reserves:	
a) Legal reserve	L. 74,626,959,444
b) Reserve for own shares	L. 343,365,633
c) Statutory reserve	L. 162,320,734,443
d) Other reserves	L. 41,242,597,561
Total	L. 1,149,376,179,832

Shareholders,

Having reached the end of the report on performance in a year of intense and earnest activity, our thoughts go to all our fellow travellers, who, by supporting BPS and placing their trust and confidence in us, have helped us to report another positive set of results and prepare plans for the future. Our thanks therefore go to our shareholders and customers and especially to all those who are both.

Our very warm thanks go to the Board of Statutory Auditors, which, under Egidio Alessandri's expert guidance, performed their delicate, wider mandate with praiseworthy dedication and a high degree of professionalism. Our thanks also go to the Advisory Committee for their disinterested accessibility and concrete support. We extend similar sentiments to the members of the Supervisory and Discount Committees for their precious contribution, especially those who provide the Milan office with their wide, diversified professional experience.

We would also like to thank our branch and departmental managers and the directors, statutory auditors and staff of our affiliates, with a special mention going to Banca Popolare di Sondrio (Suisse) SA. We extend feelings of fellowship to our sister cooperative banks, and our foreign and Italian correspondent banks, which have supported the work of our various



offices. Particular thanks must go to the Banca Popolare di Fondi for its fellowship and cooperation. We renew our gratitude to the Italian Banking Association, which has been particularly active, and the National Association of Co-operative Banks for their ongoing commitment to the industry and sector.

Not as a matter of ritual but rather to fulfil a pleasurable duty, we must thank the Bank of Italy, to whom we are indebted for its authoritative guidance, precious advice and the wisdom and singularity of its actions.

The defender of these values is Antonio Fazio, the Bank of Italy's Governor, a central banker who combines science and conscience whilst never failing to recall civic and moral principles. Our gratitude also goes to all members of the directorate, the head of the supervisory body and his colleagues, the other general officers, and the Central Bank's branch managers in the provinces where we operate. And a special thought for Giulio Lanciotti, the manager of the Bank of Italy's Milan office, for Gabriele Frascadore, manager of the Rome office and for Luigi Gimma, manager of the Sondrio branch.

We would also thank the managers and staff of the Italian Foreign Exchange Office, of Consob and the Italian Stock Exchange which also runs the Restricted (OTC) Market where our shares are traded.

A special and respectful thanks to the Federal Bank Commission in Bern which oversees the operations of our Swiss subsidiary with authority and understanding, facilitating its particular growth plans.

If Banca Popolare di Sondrio is what it is – a dynamic, swiftly expanding bank – this is the merit of its staff, who consider the bank to be like their own family and work diligently, honestly and intelligently. We therefore thank our staff, including those who have retired during the year, namely Eligio Dell'Ava, Nicola Martelli, Bruno

Schiavoni, Nello Spallaci and Luigi Testini, to whom we wish a long life in health and serenity, full of new interests.

When remembering the war dead, the recollection of the «unknown soldier» is perhaps the most intense. Accordingly, we apologize if, albeit involuntarily, our list of thanks has omitted anyone who has supported us with their advice, information and anything else: our special and heartfelt thanks goes to them as well.

Shareholders,

In submitting the 2000 financial statements for your approval, the Board of Directors invites the shareholders' meeting to pass the following resolution, after reading the report of the Board of Statutory Auditors:

«The ordinary meeting of the shareholders of Banca Popolare di Sondrio, having heard the report of the Board of Directors on the 2000 results and the proposed allocation of net profit for the year, which provides for the payment of a dividend of L. 580 per share; 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,

approves:

- the report of the Board of Directors;Ä
- the financial statements as of 31 December 2000Ä with the results shown in the balance sheet and income statement and related explanatory notes, which show a net profit for the year of L. 74,408,471,259. The shareholders therefore specifically approve the allocation of the net profit of L. 74,408,471,259 as proposed by the

Board of Directors in accordance with the requirements of law and the bank's by-laws, and more precisely resolve:

- a) to allocate:Ä
- 10% to the legal reserve L. 7,440,847,126Ä
 - 30% to the statutory reserve L. 22,322,541,378Ä
- b) to pay a dividend of L. 580 to each of the 68,783,032 shares in circulation at 31/12/2000 with dividend rights as from 1/1/2000, transferring to the statutory reserve the amount of the dividends due to the own shares that the bank may be holding on the day prior to the day that the shares go ex-coupon, for a total amount of L. 39,894,158,560
- c) to allocate to the reserve for own shares L. 4,000,000,000
- d) to allocate the residual profit:
- to the charity fund L. 500,000,000
 - to the reserve as per art. 13 Legislative Decree 124/93 L. 50,027,279
 - to the legal reserve, an additional L. 200,896,916

Lastly, the shareholders set aside L. 29 billion – booked under «Reserve for own shares» for L. 343.4 million and «Other reserves» for the remainder – as the amount to be made available to the Board of Directors to buy and sell own shares at market conditions, pursuant to art. 21 of the by-laws, 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.»

The dividend distributed will entitle shareholders to the full tax credit at the rate of 58.73%.

RELEVANCE OF THE COOPERATIVE BANKING MODEL

Shareholders,

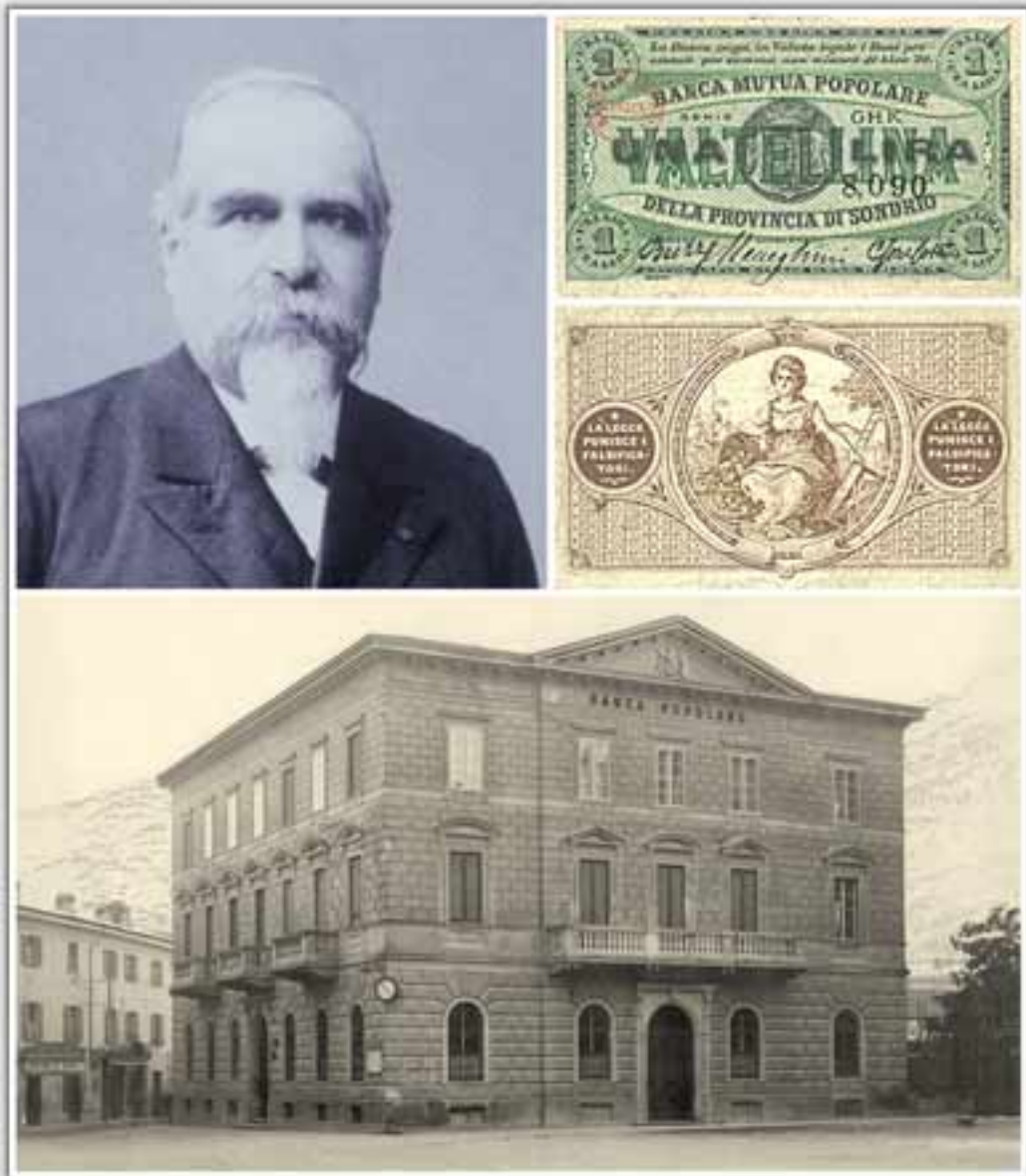
Various places in this report contain references to the founding principles of our type of bank. We have made such references freely, without being prompted and almost without noticing it, perhaps in the unconscious desire to see whether and to what extent our business continues to express the original values of the cooperative credit movement.

Taking the cue from these various observations and, revisiting what was said on the World of Cooperative Banks in our 1994 annual report, we take up the theme again to offer some reflections on the relevance of the «Cooperative Banking» model and BPS's own particular interpretation of it.

In the last six years some of our fellow cooperative banks have changed status, transforming themselves into public limited companies. Each one has its reason, which we do not wish to dispute. Certain other fellows have not changed their status but demonstrate impatience, while there are others who, using ingenuity, want to innovate without reforming, thereby corrupting some of the typical principles of a cooperative bank. As for us, our underlying principles are, as always, anchored in the cooperative credit movement, which is still alive and well. This movement was started in Italy in the second half of the nineteenth century and its convinced and unrelenting proponent was Luigi Luzzatti. On this solemn occasion, it is appropriate that we should make our voice heard, together with other cooperative banks like ourselves who intend to continue an experience rich in history but also with a future. Such a voice echoes a chorus representing a significant part of the Italian banking industry.

Fellow cooperative banks

LUIGI
LUZZATTI



In the last few years some of our fellow cooperative banks have changed status, transforming themselves into public limited companies. Each one has its reason, which we do not wish to dispute. Certain other fellows have not changed their status but demonstrate impatience, while there are others who, using ingenuity, want to innovate without reforming, thereby corrupting some of the principles of cooperative banking. As for us, our underlying principles are, as always, anchored in the cooperative credit movement, which is still alive and well. This movement was started in Italy in the second half of the nineteenth century and its convinced and unrelenting proponent was Luigi Luzzatti. On this solemn occasion, it is appropriate that we should make our voice heard, together with other cooperative banks like ourselves who intend to continue an experience rich in history but also with a future. Such a voice echoes a chorus representing a significant part of the Italian banking industry.

We are clearly aware of the distance, not just in terms of generation and size, which separates us from that small provincial bank founded in Sondrio on 4 March 1871 thanks to the enterprise and enthusiasm of our great-great-grandparents. In 130 years of business we have always dealt positively with the changes in the national economic and financial system, seeking to do our best to advance the social and economic development of our communities. We have adapted to new conditions arising from industrial development and the major reforms to banking law; we have become active players on an ever-larger and increasingly competitive credit market; we have opened up to new situations and experiences, including that of flotation. We have ridden the process of change whilst staying what we were.

The different, abundant experiences involved in change, especially in recent years, have strengthened BPS's entire organization, enabling it to stay and compete on the market. The bank's strategy has expressed new energy, enhanced its progress and encouraged corporate profitability. Despite this, or rather because of this, we have grown without forsaking our forefathers.

Our relationship with shareholders comes above all else. In order to achieve independent growth, we have adopted a policy of constantly extending our shareholder base, which, not only has raised fresh financial resources, but also represents the central, stable core of our customers. Our nature is expressed above all through our extensive participation in the communities where we operate. Farmers, craftsmen, retailers, employees, entrepreneurs and professionals are all able to confirm their support for the bank and their participation in its key decisions, giving meaning to the term «cooperative». Over 88,000 shareholders, most of whom are customers, offer an interpretation of Luzzatti's Sondrio-style recipe. Without

referring to the «public company», the cooperative ownership structure is extremely widespread. Within it there is no person or organized group who exercises power over another and everyone has the chance to affect decisions.

Our relationship with the local area is also fundamental. The cooperative bank is by definition a local bank. So it is and so it remains even when it leaves its native territory and migrates to other areas, since it maintains its economic strategy aimed at favouring certain geographic regions. It is therefore a bank of the people, which enjoys general goodwill and liking and is well-known and widespread. It is a bank which stands out for its willingness to be an engine for economic and social growth in the areas where it operates.

We are proud to say that many of our branches have contributed to the growth of economically backward areas, which are now repaying us with appreciable volumes of business. This is giving to reap rewards, with benefits for both parties. The logic behind locating in a particular area is the same as it always was. This is demonstrated by the fact that even in the cities of Rome and Milan, with a few exceptions, we have deliberately preferred to set up in suburban areas, which often still lack the necessary banking services. An entrepreneur amongst entrepreneurs, we offer companies the resources and services which are essential for their progress. We feel it our duty to employ in the areas where we operate most of the funds that these areas entrust to us. It is a way, and perhaps the most important one, of reaffirming our bank as a local one in an area that is constantly expanding. It is not however the only one – think of the important and above all quality contribution that the bank makes to employment in its province of origin, which has also extended to other sectors. In this vein, we have frequently provided our direct support to



initiatives in the public interest, including by making equity investments. We have always been known for our commitment to promoting knowledge of our area, implying concrete assistance to tourism as well as support for local values.

Lastly, a word about the fortunate recipients of our enterprise: households and small and medium-sized companies. The banking tradition of which we are the heirs is directed at them, with attention also being paid to the customer's smallest needs.

We offer households an extremely wide range of competitive, economic products and services, from home mortgages and personal loans to investment, insurance, and retirement schemes to manage their savings; all this is enriched by customized advice.

Small and medium-sized companies, a distinguishing feature of the Italian economy, know that we not only offer financial and financing assistance but are also able to help them in their process of growth, paying them greater attention than large banking groups. They choose BPS because of its similarity to them as regards creativity, willingness, skill, and speed of action.

Furthermore, customers of the cooperative bank are drawn by those people they have known for years, many of whom have become friends and whose material and moral fibre they have come to appreciate. We could say that the cooperative bank is a family for families. According to James Heckman, the 2000 Nobel prize winner for economics, «human capital» is built in the family.

These are the values and actions characterizing our way of doing business, which give content and depth to the institutional nature of the cooperative bank. It is a cooperative of members who find the answer to their needs in the products and services offered by their bank and who earn a suitable return on the resources

invested. In short, it is a virtuous circle for the creation of value.

Herein lies the reason for the particular regulations governing cooperative banks, which safeguard a corporate form valuing the personal contribution of each shareholder regardless of how much they have invested. This type of voting principle is also protected by the rules that limit individual ownership to 0.50% of capital and prevent the formation of controlling majorities.

The facts speak for themselves when answering those who, obsessed with globalization and profit maximization, do not miss the chance to attack this system for their own ends. In terms of the industry, cooperative banks have distinguished themselves for their efficiency and profitability, as demonstrated by their market share – one-fifth of the total – and their growing and continuous expansion. The validity of their legal form is reflected in their actions and is vindicated in the equal and perhaps even greater success achieved on a Europe-wide scale. Since the world is made up of many different situations, we believe there is room for everyone.

Consistent behaviour and efficient management are fundamental, and will be judged accordingly by the market.

The virtuous circle of shareholder-customer, the ability to select valid economic opportunities and entrepreneurs, the motivation of employees actively involved in their relationship with their employer and management stability all underlie the solid capital base and earnings ability of every cooperative bank, the purpose of whose actions is determined by the very adjective describing them.

As for us, our history demonstrates our thirst for new goals.

This is the only real way in which the confidence of customers and shareholders is established.

On this, the 130th anniversary since our foundation, BPS continues to be illumined by this confidence.

Point 2) on the agenda: determination of the directors' emoluments.

Shareholders,

It is up to you to decide on the directors' emoluments. The Board intends to confirm the amount.

Point 3) on the agenda: appointment of directors.

Shareholders,

In accordance with the by-laws, the shareholders' meeting is called upon to appoint certain members of the board. The directors whose term of office has expired are Messrs. Mario Galbusera, Nicolò Melzi di Cusano, Mario Testorelli, Bruno Vanossi and Francesco Venosta.

Point 4) on the agenda: appointment of acting and alternate members of the Advisory Committee.

Shareholders,

In accordance with the by-laws, the shareholders' meeting is called upon to renew the appointment of the Advisory Committee.

The acting advisors whose term of office has expired are Messrs. Alberto Crespi, Giuseppe Guarino and Andrea Monorchio, as well as that of the alternate advisors, Susanna Agnelli and Ettore Gallo.

Sondrio, 30 January 2001

THE BOARD OF DIRECTORS

REPORT OF THE BOARD OF STATUTORY AUDITORS

in accordance with Art. 153 of Legislative Decree 58/98 and Art. 2429.2 of the Italian Civil Code
ORDINARY PART

Shareholders,

Firstly, we too would like to honour the memory of the late lamented Count Annibale Caccia Dominioni, the bank's illumined and ardent leader for many years.

Before describing our activities during the year we would like to follow our usual pattern and present the results for this the bank's 130th year, which Board of Directors are submitting for your examination and approval:

BALANCE SHEET

Total assets		L. 13,394,856,967,148
Liabilities	L. 12,205,086,628,756	
Reserve for general banking risks	L. 75,000,000,000	
Capital	L. 343,915,160,000	
Share premium reserve	L. 451,927,362,751	
Reserves	L. 244,519,344,382	L. 13,320,448,495,889
Net profit for the year		L. 74,408,471,259
Guarantees given		L. 2,165,922,672,239
Commitments		L. 392,129,758,732

Detailed analyses of the contents of the 2000 financial statements, together with prior year comparative figures, are exhaustively given in the report of the Board of Directors, accompanied by additional explanations in the explanatory notes.

Since the financial statements reflect the bank's operations and business decisions, we have been able to observe therein the growth in its volumes and related revenues, bearing witness to the bank's dynamism in seeking year after year ever better results in terms of its balance sheet aggregates and net profit.

With regard to the financial statements and their preparation, and partly basing our opinion on information obtained from the external auditing firm Arthur Andersen S.p.A., we have ascertained that:

- the bank has observed all regulations concerning

their preparation, filing and publication;

- the format and accounting policies adopted comply with legal requirements;
- the individual items correspond to the underlying accounting records;
- the results are adequate in relation to the bank's operating capacity.

We can also confirm that the bank has observed the regulations concerning the compulsory contents of the financial statements. We also checked, partly through contact and

exchange of information with Arthur Andersen, the reliability of the accounting and administrative systems in presenting the results of operations. We can therefore declare the financial statements to be thorough and clear, in accordance with the legal obligations of truthfulness and fairness.

The statements made above are not dictated by matter of simple habit, but derive from beliefs arising as a result of our careful observations and reviews during the year.

We have fulfilled the supervisory duties and powers of inspection and control required by law, acting with due diligence, objectivity and independence of judgement.

Our constant, active attendance at the meetings of the Board of Directors (7) and the Chairman's Committee (97), as well as our frequent contacts with top management allowed



us to monitor operational decisions and measures from close quarters, considering them to have been taken in an orthodox manner. Without wishing to go into the merits of management, we consider that these administrative acts have always had the bank's best interests at heart.

As part of the quarterly inspections required of us, we reviewed the current position, summarizing data and information on the bank's performance and for the sectors specifically examined. We never had the unpleasant task of having to disclose any serious malfunctions. The consolidated interim report as of 30 June 2000 contains information on the results of our activities in the first six months of the year.

We also performed inspections at 7 head office departments, and at 89 of the bank's branches. As in the past, this work was conducted together with the internal audit department. This work provided us with practical information needed for forming an objective opinion on the structure, organization and efficiency of the head office departments and local branches.

Going into the merits of our inspections, we can declare that, despite the existence of a few formal irregularities, which are to be expected given the bank's rapid geographical expansion and accompanying increase in its branches and business, there has been no relaxation of the priorities that make the bank a healthy and profitable organization.

Lastly, our duties also require us to comment on the systems of control established by the bank.

The bank has developed and is developing many sophisticated techniques and instruments involving both organizational structure and computer systems to help monitor the risks arising from its financial and lending activities, as well as those relating to its day-to-day operations. This is a complex system, requiring huge investments of both financial and human resources. We have closely monitored these activities – partly through

regular meetings with the persons in charge – checking that the overall system meets the requirements laid down by the supervisory authorities and that it is consistent with the bank's operations and the market segments in which it works.

The direct work of the internal audit department, which covers the entire scope of operations, offers an effective protective shield against any digressions from the regulatory framework. At the same time, the auditors provide us with appropriate suggestions and recommendations for improvement.

All aspects of the bank's business are systematically analyzed by the planning and control department, to identify the related strengths and weaknesses. Attention is then focused on the strengths, while corrective measures are taken as regards the weaknesses in order to improve overall operations; nothing is left to chance.

Last but not least, the bank's activities are based on respecting principles of professional ethics and encouraging, even and especially amongst its younger members of staff, the sharing of corporate values and proper business practice.

Shareholders,

The results shown in the financial statements clearly demonstrate the bank's steady development. This is the fruit of correct management policies and intense efforts focusing on its traditional business of intermediation, without ignoring but rather giving greater attention to the profitable services sector.

They reflect the appropriateness of the decisions taken and strategies adopted, which deserve to have your continuing support.

Sondrio, 15 February 2001

THE STATUTORY AUDITORS
Egidio Alessandri, chairman
Piergiuseppe Forni
Roberto Schiantarelli

FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2000

BALANCE SHEET

(in lire)

ASSETS		31-12-2000	31-12-1999
10.	CASH ON HAND AT CENTRAL BANKS AND POST OFFICES	94,888,651,408	71,648,671,250
20.	TREASURY AND SIMILAR BILLS ELIGIBLE FOR REFINANCING WITH CENTRAL BANKS	909,139,181,913	972,668,364,333
30.	DUE FROM OTHER BANKS:	1,004,467,084,886	1,187,583,752,826
	a) sight	222,359,961,394	348,947,138,687
	b) others	782,107,123,492	838,636,614,139
40.	CUSTOMER LOANS	8,604,678,323,034	7,212,148,295,916
	of which:		
	– from third-party funds under administration	261,564,880	595,097,971
50.	BONDS AND OTHER FIXED-YIELD SECURITIES:	1,766,007,361,737	1,491,043,517,019
	a) from public issuers	1,586,473,535,422	1,307,843,880,446
	b) from banks	135,342,443,279	137,715,392,074
	of which:		
	– own securities	5,576,367,331	3,206,135,356
	c) from financial institutions	2,325,318,670	26,659,671,122
	d) from other issuers	41,866,064,366	18,824,573,377
60.	SHARES, QUOTAS AND OTHER VARIABLE-YIELD SECURITIES	98,545,943,716	43,104,101,448
70.	EQUITY INVESTMENTS	113,812,550,134	101,506,005,922
80.	EQUITY INVESTMENTS IN GROUP COMPANIES	63,758,300,679	63,758,300,677
90.	INTANGIBLE ASSETS	18,199,543,076	17,104,551,511
100.	FIXED ASSETS	136,994,992,929	133,237,492,473
120.	OWN SHARES (par value 48,700,000)	343,365,633	346,575,368
130.	OTHER ASSETS	495,553,236,936	356,590,736,111
140.	ACCRUED INCOME AND PREPAYMENTS:	88,468,431,067	62,220,962,901
	a) accrued income	85,070,315,472	58,675,304,589
	b) prepayments	3,398,115,595	3,545,658,312
TOTAL ASSETS		13,394,856,967,148	11,712,961,327,755

LIABILITIES

31-12-2000

31-12-1999

10.	DUE TO OTHER BANKS:	2,405,113,094,883	1,906,875,512,384
	a) sight	515,457,763,416	314,744,146,217
	b) time or with notice	1,889,655,331,467	1,592,131,366,167
20.	CUSTOMER DEPOSITS:	7,638,352,404,246	6,672,715,917,985
	a) sight	5,941,034,978,400	5,251,801,721,717
	b) time or with notice	1,697,317,425,846	1,420,914,196,268
30.	SECURITIES ISSUED:	1,244,496,459,025	1,215,285,875,194
	a) bonds	1,016,709,178,171	987,170,172,155
	b) certificates of deposit	77,771,250,658	99,929,248,614
	c) other securities	150,016,030,196	128,186,454,425
40.	THIRD-PARTY FUNDS UNDER ADMINISTRATION	300,518,417	636,547,427
50.	OTHER LIABILITIES	603,015,812,255	515,350,953,923
60.	ACCRUED LIABILITIES AND DEFERRED INCOME:	44,960,080,097	28,510,595,287
	a) accrued liabilities	40,911,186,952	25,055,676,762
	b) deferred income	4,048,893,145	3,454,918,525
70.	RESERVE FOR SEVERANCE INDEMNITIES	58,929,871,067	52,923,071,571
80.	RESERVES FOR RISKS AND CHARGES:	181,467,579,226	163,669,071,914
	a) staff pension fund	89,560,161,950	83,031,383,726
	b) taxation reserve	71,840,077,778	63,308,998,690
	c) other reserves	20,067,339,498	17,328,689,498
90.	RESERVES FOR POSSIBLE LOAN LOSSES	28,450,809,540	18,251,655,567
100.	RESERVE FOR GENERAL BANKING RISKS	75,000,000,000	67,000,000,000
120.	SHARE CAPITAL	343,915,160,000	343,915,160,000
130.	SHARE PREMIUM RESERVE	451,927,362,751	451,927,362,751
140.	RESERVES:	244,519,344,382	216,735,844,531
	a) legal reserve	66,985,215,402	61,058,884,262
	b) reserve for own shares	343,365,633	346,575,368
	c) statutory reserves	139,998,193,065	122,176,960,269
	d) other reserves	37,192,570,282	33,153,424,632
170.	NET PROFIT FOR THE YEAR	74,408,471,259	59,163,759,221
TOTAL LIABILITIES		13,394,856,967,148	11,712,961,327,755



GUARANTEES AND COMMITMENTS		31-12-2000	31-12-1999
10.	GUARANTEES GRANTED	2,165,922,672,239	2,043,688,713,268
	of which:		
	- acceptances	8,773,000,000	24,923,000,000
	- other guarantees	2,157,149,672,239	2,018,765,713,268
20.	COMMITMENTS	392,129,758,732	691,284,096,727

INCOME STATEMENT

(in lire)

	2000	1999
10. INTEREST INCOME AND SIMILAR REVENUES	672,456,387,328	489,259,014,029
of which:		
– on customer loans	516,875,901,364	368,613,806,222
– on fixed-yield securities	112,518,011,187	91,854,601,518
20. INTEREST EXPENSE AND SIMILAR CHARGES	(353,506,126,271)	(213,989,363,768)
of which:		
– on customer deposits	(200,053,392,443)	(118,509,190,244)
– on securities issued	(35,153,795,729)	(29,580,382,552)
30. DIVIDENDS AND OTHER INCOME:	7,450,380,213	6,051,552,449
a) from shares, quotas and other variable-yield securities	1,127,809,569	344,419,259
b) from equity investments	6,322,570,644	5,707,133,190
40. COMMISSION INCOME	190,027,076,723	149,488,758,117
50. COMMISSION EXPENSE	(10,495,603,323)	(7,323,252,834)
60. PROFITS FROM FINANCIAL TRANSACTIONS	29,772,804,394	17,990,965,027
70. OTHER OPERATING INCOME	37,146,355,607	34,002,233,723
80. ADMINISTRATIVE EXPENSES:	(315,748,578,303)	(286,315,687,711)
a) Personnel expenses	(165,217,413,550)	(152,527,052,116)
of which:		
– wages and salaries	(108,815,831,917)	(99,888,052,260)
– social security contributions	(30,889,501,589)	(28,935,332,512)
– severance indemnities	(9,843,052,427)	(7,903,319,001)
– pensions	(9,931,196,651)	(8,568,243,364)
b) Other administrative expenses	(150,531,164,753)	(133,788,635,595)
90. ADJUSTMENTS TO INTANGIBLE AND FIXED ASSETS	(28,045,850,800)	(24,688,031,185)
100. PROVISIONS FOR RISKS AND CHARGES	(2,000,000,000)	0
110. OTHER OPERATING EXPENSES	(6,106,341,595)	(6,934,432,509)
120. ADJUSTMENTS TO LOANS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS	(81,671,176,322)	(64,017,556,837)
130. WRITE-BACKS TO LOANS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS	19,679,538,458	23,081,077,348
140. PROVISIONS TO RESERVES FOR POSSIBLE LOAN LOSSES	(12,865,530,089)	(4,785,545,643)
150. ADJUSTMENT TO THE VALUE OF LONG-TERM FINANCIAL ASSETS	(823,827,972)	(512,609,019)
170. PROFIT FROM ORDINARY OPERATIONS	145,269,508,048	111,307,121,187
180. EXTRAORDINARY INCOME	2,501,900,633	23,508,398,707
190. EXTRAORDINARY CHARGES	(2,219,071,099)	(1,151,760,673)
200. NET EXTRAORDINARY ITEMS	282,829,534	22,356,638,034
210. CHANGE IN THE RESERVE FOR GENERAL BANKING RISKS	(8,000,000,000)	(22,000,000,000)
220. INCOME TAXES FOR THE YEAR	(63,143,866,323)	(52,500,000,000)
230. NET PROFIT FOR THE YEAR	74,408,471,259	59,163,759,221

NOTES TO THE FINANCIAL STATEMENTS

FORM AND CONTENT OF THE FINANCIAL STATEMENTS

The financial statements consist of the balance sheet, income statement and these notes, and are accompanied by the report of the Board of Directors, in accordance with Legislative Decree 87/92, which regulates the annual and consolidated financial statements of banks, implementing EEC Directives 86/635 and 89/117. In preparing the above, account has been taken of the Bank of Italy's Instructions of 3 August 1999 on «Deferred tax assets and liabilities and changes in accounting policies» and of Decree 213/98.

The notes comment on the data in the financial statements, and contain the information required by Legislative Decree 87/1992, Bank of Italy Instruction 100 of 15 July 1992 as updated on 16 January 1995 and 7 August 1998, and other laws. They also provide all additional information deemed necessary for a true and fair presentation, even if not specifically required by law. The following appendices are therefore attached to these notes:

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

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

OTHER INFORMATION

The financial statements are audited by Arthur Andersen SpA in accordance with the resolution of 6 March 1999 appointing them as external auditors for the 3-year period 1999 – 2000 – 2001.

PART A *Accounting policies*

The policy used for valuing securities has changed with respect to the prior year. The other policies are unchanged.

Change in accounting policies

The bank has decided to adopt the consistency principle and apply articles 7.3 and 15.1 of Legislative Decree 87/92 in order to improve the representation of its dealings in securities. As a result, the bank has adopted the method of weighted average cost for determining the cost of securities, instead of the LIFO method using annual layers. This change in accounting policy has resulted in additional gains of L. 1,879 million, reflected in the balance sheet and income statement accordingly. The post-tax effect of this change has been to increase shareholders' equity and net profit by L. 1,082 million. Given the insignificant size of this change, the amount attributable to prior years has not been identified separately nor have comparative pro-forma financial statements been prepared.



Section 1 *Description of accounting principles*

1. *Receivables, guarantees and commitments*

Due from banks and customer loans

The amount of the loans shown in the financial statements reflects their estimated realizable value. This value is obtained by subtracting from the total amount disbursed the estimated losses of capital and interest, calculated on the basis of specific analyses of outstanding overdue loans, non-performing loans, loans being restructured and consolidated, and of the generic risk of losses – calculated on a forfeit basis and attributed proportionally to the individual positions – that could occur on other loans in the future. Write-downs and write-ups are calculated by comparing the prior year value of each position with the current year value. The original value of a loan is duly restored in subsequent years if the reasons for the write-down no longer exist.

Loans are classified as outstanding overdue loans when the borrowers are in a state of insolvency or similar, independent of any estimated losses.

Non-performing loans are loans to borrowers in temporary difficulties.

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

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

Other receivables

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

Guarantees and commitments

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

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

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

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

2.2 Trading securities

The securities in the financial statements are valued at the lower of cost (determined using the method of weighted average cost) or the value indicated in the latest approved financial statements, and the market price derived as follows:

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

Units in mutual funds are valued on the basis of the period-end value of the securities.

Original values are duly restored in subsequent years if the reasons for the write-down no longer exist.

Commitments for the purchase and sale of futures are valued at the lower of the forward purchase/sale price and the corresponding book and/or market values.

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

3. Equity investments

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

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

Dividends and the related tax credits are accounted for in the year in which they are collected in cash.

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

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

Assets, liabilities and off-balance sheet transactions in foreign currency of EMU participating member states are converted into the reporting currency by applying the pertinent conversion rates in compliance with articles 4 and 5 of EC regulation 1103/97.

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

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

5. Fixed assets

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

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

Moreover, within the limits of the law, accelerated depreciation has been charged in order to take advantage of the tax benefit on property, as well as to counter the obsolescence of high-tech goods shown under machines and equipment.

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



6. Intangible assets

These are booked at purchase cost, inclusive of ancillary charges, and are written off systematically over their estimated useful life. They consist of costs for setting-up and refurbishing branches in rented buildings and costs for the purchase of software utilization rights.

7. Others

Payables

These are reported at their nominal value, except for those represented by zero coupon securities, which are booked net of unaccrued interest.

Accruals and deferrals

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

Reserve for severance indemnities

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

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

Reserves for risks and charges

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

The taxation reserve provides for income tax on the basis of a reasonable forecast of current and deferred tax charges in accordance with current fiscal laws, taking into consideration any exemptions and tax credits due.

The prudence principle dictates that deferred tax assets should only be recognised if it is reasonably certain they will be recovered. Accordingly, account has been taken of only those timing differences between the statutory and fiscal results giving rise to deferred tax assets, that are certain to reverse; accordingly no such timing differences have been recognised on provisions with an unspecified date of reversal.

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

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

Reserves for possible loan losses

These are part of the reserves created during the current and previous years in accordance with fiscal laws.

They are not of a corrective nature.

Reserve for general banking risks

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

Derivative contracts

Differentials accrued on derivative contracts are debited or credited to the income statement in the following manner:

- hedging contracts: the asset and liability elements and related contracts are valued separately. The differentials are booked to the appropriate asset and liability items on an accruals basis in the same way as the costs and revenues generated by the items being hedged;
- trading contracts: differentials, which are recognised at the time of settlement, are recorded under profits/losses from financial transactions.

Section 2 *Tax adjustments and provisions*

2.1 Adjustments made exclusively for tax purposes

Adjustments consist of accelerated depreciation on buildings, during the current and previous years, for L. 17,313 million (L. 177 million charged to the year) in accordance with article 67.3 of Presidential Decree 917/86. They have been charged to the maximum extent allowed by tax laws, in order to receive a tax benefit that was not otherwise obtainable.

The potential deferred tax liability amounts to L. 6,138 million (L. 63 million relating to 2000) and is calculated using the expected average tax rate.

2.2 Provisions made exclusively for tax purposes

Provisions consist of the reserve for possible loan losses, totalling L. 28,451 million (an increase of L. 10,199 million, net of utilizations). The reserve includes L. 20,451 million for overdue interest in accordance with article 71.6 of Presidential Decree 917/86 and L. 8,000 million for general provisions in accordance with article 71.3 of the same Decree. These reserves have not been deducted from assets, but booked as separate items under liabilities.

These provisions were made in order to receive a tax benefit that was not otherwise obtainable.

The potential deferred tax liability amounts to L. 10,086 million (L. 3,616 million relating to 2000) and is calculated using the expected average tax rate.

PART B *Information on the balance sheet*

Section 1 *Receivables*

1.1 Breakdown of item 30 «Due from other banks»

	31/12/2000	31/12/1999
a) deposits with central banks	29,604	53,344
b) assets eligible for refinancing at central banks	–	–
c) repo transactions	–	–
d) securities lent	–	–



This item amounts to L. 1,004,467 million, a decrease of L. 183,117 million (– 15.42%).

During the year, activity on the interbank market actually went up quite considerably; the decrease shown here is merely the position at the year end.

Deposits with central banks consist of the compulsory reserve at the Bank of Italy. The year's average rate of return on this reserve was 4.03%, with a maximum of 4.81% and a minimum of 3%.

1.2 Breakdown of item 40 «Customer loans»

	31/12/2000	31/12/1999
a) assets eligible for refinancing at central banks	1,330	1,259
b) repo transactions	–	–
c) securities lent	–	–

This item comes to L. 8,604,678 million, an increase of L. 1,392,530 million (+19.31%).

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

Customer loans are booked net of write-downs totalling L. 146,842 million, of which: L. 109,145 million related to outstanding doubtful loans, non-performing loans and loans being restructured and consolidated resulting from a detailed analysis of potential losses and taking into account country risk; L. 37,697 million, deriving from historical, statistical analysis in order to take into account losses that might occur in the future as part of normal banking activities, and booked analytically to each individual item.

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

The following table illustrates the loan situation:

Categories	31/12/2000			31/12/1999		
	Gross exposure	Total writedowns	Net exposure	Gross exposure	Total writedowns	Net exposure
A. Doubtful loans	374,345	109,145	265,200	399,383	111,257	288,126
A.1. Outstanding	180,258	76,014	104,244	192,018	81,370	110,648
A.2. Non-performing	131,806	20,286	111,520	120,246	17,205	103,041
A.3. Loans being restructured	–	–	–	85,843	12,183	73,660
A.4. Restructured loans	61,692	12,774	48,918	892	384	508
A.5. Unsecured loans exposed to country risk	589	71	518	384	115	269
B. Performing loans	8,377,175	37,697	8,339,478	6,955,321	31,299	6,924,022
Total	8,751,520	146,842	8,604,678	7,354,704	142,556	7,212,148

Movements in doubtful loans

Categories	31/12/2000				
	Out-standing loans	Non-performing loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk
A. Gross exposure as of 31/12/99	192,018	120,246	85,843	892	384
A.1. of which: overdue interest	22,100	–	–	–	–
B. Increases	105,583	82,488	0	63,907	226
B.1. transfers from performing loans	53,085	44,437	–	204	–
B.2. overdue interest	7,016	–	–	–	–
B.3. transfers from other categories of doubtful loans	42,191	27,152	–	63,099	–
B.4. other increases	3,291	10,899	–	604	226
C. Decreases	117,343	70,928	85,843	3,107	21
C.1. transfers to performing loans	326	14,925	2,424	–	–
C.2. write-offs	65,418	–	–	–	–
C.3. collections	39,387	14,464	5,380	240	21
C.4. proceeds from factored loans	–	–	–	–	–
C.5. transfers to other categories of doubtful loans	12,212	41,539	78,039	652	–
C.6. other decreases	–	–	–	2,215	–
D. Gross exposure as of 31/12/00	180,258	131,806	0	61,692	589
D.1. of which: overdue interest	25,288	–	–	–	–

Categories	31/12/1999				
	Out-standing loans	Non-performing loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk
A. Gross exposure as of 31/12/98	143,813	149,322	103,217	6,070	126
A.1. of which: overdue interest	21,191	–	–	–	–
B. Increases	109,304	69,497	11,597	847	383
B.1. transfers from performing loans	18,187	49,962	7,643	652	3
B.2. overdue interest	5,799	–	–	–	–
B.3. transfers from other categories of doubtful loans	82,782	3,884	–	–	–
B.4. other increases	2,536	15,651	3,954	195	380
C. Decreases	61,099	98,573	28,971	6,025	125
C.1. transfers to performing loans	305	3,757	24,596	–	50
C.2. write-offs	42,660	–	–	–	–
C.3. collections	18,134	13,219	3,202	611	75
C.4. proceeds from factored loans	–	–	–	–	–
C.5. transfers to other categories of doubtful loans	–	81,597	1,173	5,414	–
C.6. other decreases	–	–	–	–	–
D. Gross exposure as of 31/12/99	192,018	120,246	85,843	892	384
D.1. of which: overdue interest	22,100	–	–	–	–



Movements in total adjustments

Categories	31/12/2000					
	Out-standing loans	Non-performing loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk	Performing loans
A. Opening total adjustments as of 31/12/99	81,370	17,205	12,183	384	115	31,299
A.1. of which: overdue interest	3,846	–	–	–	–	–
B. Increases	31,159	15,573	0	12,774	57	14,566
B.1. adjustments	20,436	9,991	–	1,588	51	6,411
B.1.1. of which: overdue interest	2,020	–	–	–	–	–
B.2. use of the reserve for possible loan losses	–	–	–	–	–	–
B.3. transfers from other categories of loans	9,136	4,525	–	6,729	–	12
B.4. other increases	1,587	1,057	–	4,457	6	8,143
C. Decreases	36,515	12,492	12,183	384	101	8,168
C.1. write-backs on valuation	2,620	–	–	–	–	–
C.1.1. of which: overdue interest	231	–	–	–	–	–
C.2. write-backs due to collections	533	3,721	929	7	101	8,017
C.2.1. of which: overdue interest	160	–	–	–	–	–
C.3. write-offs	33,362	–	–	–	–	–
C.4. transfers to other categories of loans	–	8,771	11,254	377	–	–
C.5. other decreases	–	–	–	–	–	151
D. Closing total adjustments as of 31/12/00	76,014	20,286	0	12,774	71	37,697
D.1. of which: overdue interest	4,838	–	–	–	–	–

Categories	31/12/1999					
	Out-standing loans	Non-performing loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk	Performing loans
A. Opening total adjustments as of 31/12/98	66,282	33,360	8,576	333	38	24,699
A.1. of which: overdue interest	4,624	–	–	–	–	–
B. Increases	42,711	12,188	5,702	377	114	14,105
B.1. adjustments	13,878	11,646	5,322	–	1	6,065
B.1.1. of which: overdue interest	952	–	–	–	–	–
B.2. use of the reserve for possible loan losses	–	–	–	–	–	–
B.3. transfers from other categories of loans	24,092	542	380	377	–	116
B.4. other increases	4,741	–	–	–	113	7,924
C. Decreases	27,623	28,343	2,095	326	37	7,505
C.1. write-backs on valuation	1,161	–	2,000	–	–	–
C.1.1. of which: overdue interest	183	–	–	–	–	–
C.2. write-backs due to collections	2,806	607	–	33	36	7,323
C.2.1. of which: overdue interest	196	–	–	–	–	–
C.3. write-offs	22,882	–	–	–	1	56
C.4. transfers to other categories of loans	–	27,736	95	293	–	125
C.5. other decreases	774	–	–	–	–	1
D. Closing total adjustments as of 31/12/99	81,370	17,205	12,183	384	115	31,299
D.1. of which: overdue interest	3,846	–	–	–	–	–

1.3 Secured customer loans

	31/12/2000	31/12/1999
a) by mortgages	2,497,877	1,950,101
b) by liens on:	316,796	261,538
1. cash deposits	86	4,066
2. securities	316,710	257,472
3. other assets	–	–
c) by guarantees from:	3,097,316	2,294,182
1. governments	–	–
2. other public entities	–	–
3. banks	6,159	6,470
4. other operators	3,091,157	2,287,712
Total	5,911,989	4,505,821

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

1.4 Doubtful loans (including overdue interest)

	31/12/2000	31/12/1999
Doubtful loans (including overdue interest)	104,244	110,648

Doubtful loans, expressed at their estimated realizable value, have decreased by L. 6,404 million, – 5.79% in comparison with the end of last year.

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

1.5 Receivables for overdue interest

	31/12/2000	31/12/1999
a) doubtful loans	20,451	18,252
b) other loans	–	–

Receivables for overdue interest are stated at their estimated realizable value, in other words net of write-downs for L. 4,838 million. These receivables have increased by L. 2,199 million, +12.05% in comparison with the end of last year.

Section 2 *Securities*

Securities owned by the bank, which are held for trading purposes, amount to L. 2,773,692 million and have increased by L. 266,876 million (+10.65%). They are classified in the financial statements under item 20, «Treasury and similar bills eligible for refinancing with central banks» for L. 909,139 million, under item 50, «Bonds and other fixed-yield securities» for L. 1,766,007 million, and under item 60, «Shares, quotas and other variable-yield securities» for L. 98,546 million. The items take into account write-downs to both listed and unlisted securities for L. 12,181 million and write-backs for L. 1,836 million, charged in full to the income statement.



2.3 Trading securities

	31/12/2000		31/12/1999	
	Book value	Market value	Book value	Market value
1. Fixed-yield securities	2,675,146	2,676,746	2,463,712	2,468,577
1.1 Government securities	2,492,403	2,493,661	2,269,298	2,273,803
– listed	2,492,403	2,493,661	2,269,298	2,273,803
– unlisted	–	–	–	–
1.2 Other securities	182,743	183,085	194,414	194,774
– listed	50,316	50,637	44,993	45,353
– unlisted	132,427	132,448	149,421	149,421
2. Variable-yield securities	98,546	110,171	43,104	55,020
– listed	38,912	50,537	32,510	44,426
– unlisted	59,634	59,634	10,594	10,594
Total	2,773,692	2,786,917	2,506,816	2,523,597

2.4 Change for the year in trading securities

	31/12/2000	31/12/1999
A. Opening balance	2,506,816	2,485,681
B. Increases	23,206,899	25,949,192
B1. Purchases	23,181,999	25,915,026
– Fixed-yield securities	22,335,206	25,394,871
government securities	20,992,004	23,589,558
other securities	1,343,202	1,805,313
– Variable-yield securities	846,793	520,155
B2. Write-backs and revaluations	1,836	251
B3. Transfers from investment portfolio	–	–
B4. Other changes	23,064	33,915
C. Decreases	22,940,023	25,928,057
C1. Sales and reimbursements	22,927,842	25,896,148
– Fixed-yield securities	22,138,180	25,392,383
government securities	20,779,798	23,605,900
other securities	1,358,382	1,786,483
– Variable-yield securities	789,662	503,765
C2. Write-downs	12,181	31,826
C3. Transfers to investment portfolio	–	–
C5. Other changes	–	83
D. Closing balance	2,773,692	2,506,816

Section 3 Equity investments

Items 70 and 80 report balances of L. 113,813 million and L. 63,758 million respectively, an overall increase of L. 12,307 million, +7.45% with respect to 31 December 1999.

3.1 Main equity investments

	Location	Shareholders' equity	Profit/loss	% held	Book value
A. Subsidiaries					
1. Banca Popolare di Sondrio (Suisse) SA	Lugano	92,209	10,722	100	63,758
2. Pirovano Stelvio spa	Tirano	3,539	- 841	98	8,257
3. Sinergia Seconda srl	Milan	20,025	41	100	20,000
B. Subject to significant influence					
1. Ripoval spa	Sondrio	2,875	488	50	2,500

During the year Ripoval spa increased its share capital by L. 3,000 million, of which the bank subscribed L. 1,500 million.

With regard to the difference between the book value and the bank's share of net equity in the subsidiary Pirovano Stelvio SpA, which operates in the tourist hotel sector, the book value at year end is L. 1,896 million higher than the value calculated using the net equity method. This difference is due to the depreciation of the higher value of the subsidiary's buildings paid upon the subsidiary's acquisition. However, in the group consolidated financial statements, this investment has been valued using the net equity method.

3.2 Assets and liabilities due to and from Group companies

	31/12/2000	31/12/1999
a) Assets	32,604	24,246
1. due from other banks	32,604	24,246
of which:		
- subordinated	-	-
2. due from financial institutions	-	-
of which:		
- subordinated	-	-
3. customer loans	-	-
of which:		
- subordinated	-	-
4. bonds and other fixed-yield securities	-	-
of which:		
- subordinated	-	-
b) Liabilities	33,787	36,368
1. due to other banks	33,787	36,368
2. due to financial institutions	-	-
3. customer deposits	-	-
4. securities issued	-	-
5. subordinated liabilities	-	-
c) Guarantees and commitments	178,956	168,885
1. guarantees granted	178,956	168,885
2. commitments	-	-



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

	31/12/2000	31/12/1999
a) Assets	222,964	223,274
1. due from other banks	175,920	155,883
of which:		
– subordinated	–	–
2. due from financial institutions	36,745	52,939
of which:		
– subordinated	–	–
3. customer loans	10,299	14,452
of which:		
– subordinated	271	–
4. bonds and other fixed-yield securities	–	–
of which:		
– subordinated	–	–
b) Liabilities	183,154	452,869
1. due to other banks	7,757	3,275
2. due to financial institutions	166,366	407,935
3. customer deposits	9,031	41,659
4. securities issued	–	–
5. subordinated liabilities	–	–
c) Guarantees and commitments	112,996	66,211
1. guarantees granted	112,996	66,211
2. commitments	–	–

3.4 Breakdown of item 70 «Equity investments»

	31/12/2000	31/12/1999
a) in banks	19,871	14,367
1. listed	587	588
2. unlisted	19,284	13,779
b) in financial institutions	54,529	46,750
1. listed	1	–
2. unlisted	54,528	46,750
c) others	39,413	40,389
1. listed	10,020	10,020
2. unlisted	29,393	30,369
Total	113,813	101,506

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

	31/12/2000	31/12/1999
a) in banks	63,758	63,758
1. listed	–	–
2. unlisted	63,758	63,758
b) in financial institutions	–	–
1. listed	–	–
2. unlisted	–	–
c) others	–	–
1. listed	–	–
2. unlisted	–	–
Total	63,758	63,758

3.6 Changes for the year in equity investments

3.6.1 Equity investments in Group companies

	31/12/2000	31/12/1999
A. Opening balance	63,758	39,504
B. Increases	–	24,254
B1. Purchases	–	24,254
B2. Write-backs	–	–
B3. Revaluations	–	–
B4. Other changes	–	–
C. Decreases	–	–
C1. Sales	–	–
C2. Write-downs	–	–
of which:		
– permanent write-downs	–	–
C3. Other changes	–	–
D. Closing balance	63,758	63,758
E. Total revaluations	–	–
F. Total write-downs	–	–

3.6.2 Other equity investments

	31/12/2000	31/12/1999
A. Opening balance	101,506	75,714
B. Increases	13,168	26,819
B1. Purchases	13,168	26,819
B2. Write-backs	–	–
B3. Revaluations	–	–
B4. Other changes	–	–
C. Decreases	861	1,027
C1. Sales	37	–
C2. Write-downs	824	513
of which:		
– permanent write-downs	824	513
C3. Other changes	–	514
D. Closing balance	113,813	101,506
E. Total revaluations	–	–
F. Total write-downs	6,008	5,184

The most significant increases during the year relate to the investment in Centrobanca for L. 5,453 million and the taking of larger equity stakes in the following companies: L. 3,188 million in Arca Vita S.p.A., of which L. 1,760 million related to purchases and Lire 1,428 million to an increase in share capital; L. 1,789 million in Arca Assicurazioni S.p.A.; L. 1,500 million in Ripoval S.p.A.; L. 278 million in Arca SGR S.p.A.; L. 824 million in Pirovano Stelvio S.p.A.; L. 52 million in Banca per il Leasing – Italease S.p.A.; L. 49 million in Sintesi 2000 srl; L. 12 million in MTS S.p.A.; L. 13 million in Consorzio Cassamerco; and L. 10 million in Factorit S.p.A.

The decreases relate to coverage of the loss of L. 824 million reported in 2000 by Pirovano Stelvio S.p.A.; in addition there was a decrease of L. 37 million relating to the disposal of the interest held in Immobiliare Banche Popolari S.p.A., which generated a gain of L. 82 million.



Section 4 Fixed and intangible assets

4.1 Changes for the year in fixed assets

	31/12/2000				
	Buildings	Furniture and fittings	Machines and equipment	Other	Total
A. Opening balance	115,346	6,398	8,325	3,168	133,237
B. Increases	5,454	4,344	10,205	1,080	21,083
B1. Purchases	5,454	4,344	10,205	1,080	21,083
B2. Write-backs	-	-	-	-	-
B3. Revaluations	-	-	-	-	-
B4. Other changes	-	-	-	-	-
C. Decreases	5,617	2,951	7,507	1,250	17,325
C1. Sales	-	-	-	-	-
C2. Write-downs:	5,617	2,951	7,507	1,250	17,325
a) Depreciation	5,617	2,951	7,507	1,250	17,325
b) Permanent write-downs	-	-	-	-	-
C3. Other changes	-	-	-	-	-
D. Closing balance	115,183	7,791	11,023	2,998	136,995
E. Total revaluations	82,048	-	-	-	82,048
F. Total write-downs:	88,625	20,405	55,102	9,576	173,708
a) Depreciation	88,625	20,405	55,102	9,576	173,708
b) Permanent write-downs	-	-	-	-	-

	31/12/1999				
	Buildings	Furniture and fittings	Machines and equipment	Other	Total
A. Opening balance	118,984	6,146	6,293	3,079	134,502
B. Increases	1,784	2,620	7,721	1,426	13,551
B1. Purchases	1,784	2,620	7,721	1,426	13,551
B2. Write-backs	-	-	-	-	-
B3. Revaluations	-	-	-	-	-
B4. Other changes	-	-	-	-	-
C. Decreases	5,422	2,368	5,689	1,337	14,816
C1. Sales	-	-	29	1	30
C2. Write-downs:	5,422	2,368	5,660	1,336	14,786
a) Depreciation	5,422	2,368	5,660	1,336	14,786
b) Permanent write-downs	-	-	-	-	-
C3. Other changes	-	-	-	-	-
D. Closing balance	115,346	6,398	8,325	3,168	133,237
E. Total revaluations	82,048	-	-	-	82,048
F. Total write-downs:	83,008	17,454	52,003	8,534	160,999
a) Depreciation	83,008	17,454	52,003	8,534	160,999
b) Permanent write-downs	-	-	-	-	-

This item comes to L. 136,995 million, an increase of L. 3,758 million (+2.82%).

The main changes for the year concerned:

- for buildings:
purchase of a building in Livigno neighbouring the current branch; increases for works undertaken at the service centre in Berbenno di Valtellina, at Via V. Veneto and Via Cesura in Sondrio and at Via Morigi in Milan;
- for furniture, machines and installations:
increases for head office and branch EDP equipment, furniture and fittings for the newly opened branches.

Depreciation has been calculated on the basis of rates deemed to represent the residual useful life of the assets. Accelerated depreciation on buildings has been charged so as to take advantage of the tax benefit, which would not otherwise be obtainable.

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

Buildings used for business purposes are worth L. 93,512 million.

Pursuant to the new regulations regarding pension funds, introduced by Legislative Decree 47/2000, buildings previously recorded in the pension fund have been recorded among buildings not used for business purposes.

4.2 Changes for the year in intangible assets

	31/12/2000		
	Software purchases	Leasehold improvements	Total
A. Opening balance	5,196	11,908	17,104
B. Increases	3,709	8,107	11,816
B1. Purchases	3,709	8,107	11,816
B2. Write-backs	–	–	–
B3. Revaluations	–	–	–
B4. Other changes	–	–	–
C. Decreases	4,538	6,183	10,721
C1. Sales	–	–	–
C2. Write-downs:	4,538	6,183	10,721
<i>a)</i> amortization	4,538	6,183	10,721
<i>b)</i> permanent write-downs	–	–	–
C3. Other changes	–	–	–
D. Closing balance	4,367	13,832	18,199
E. Total revaluations	–	–	–
F. Total write-downs:	28,033	33,567	61,600
<i>a)</i> amortization	28,033	33,567	61,600
<i>b)</i> permanent write-downs	–	–	–



	31/12/1999		
	Software purchases	Leasehold improvements	Total
A. Opening balance	3,941	11,424	15,365
B. Increases	5,716	5,925	11,641
B1. Purchases	5,716	5,925	11,641
B2. Write-backs	-	-	-
B3. Revaluations	-	-	-
B4. Other changes	-	-	-
C. Decreases	4,461	5,441	9,902
C1. Sales	-	-	-
C2. Write-downs:	4,461	5,441	9,902
a) amortization	4,461	5,441	9,902
b) permanent write-downs	-	-	-
C3. Other changes	-	-	-
D. Closing balance	5,196	11,908	17,104
E. Total revaluations	-	-	-
F. Total write-downs:	26,568	27,384	53,952
a) amortization	26,568	27,384	53,952
b) permanent write-downs	-	-	-

Intangible assets affecting various years amount to L. 18,199 million, an increase of L. 1,095 million (+6.40%).

Costs for the purchase of software are amortized at 86.52%.

Costs for leasehold improvements are amortized at 70.82%.

Section 5 *Other asset items*

5.1 Breakdown of item 130 «Other assets»

	31/12/2000	31/12/1999
Deferred tax assets	13,274	19,022
Taxes withheld	387	245
Tax credits on dividends	2,400	1,941
Advances paid to tax authorities	44,958	53,510
Withholdings on interest due to customers	248	332
Tax credits and related interest	4,578	15,002
Bills and credit instruments with the cashier	254	125
Outstanding cheques and bills	6,134	3,238
Current account cheques drawn on third parties	75,742	97,284
Current account cheques drawn on the bank	29,083	4,572
Other assets re «postal service»	-	18,846
Securities transactions	27,023	14,941
Transit account for Arca funds	1,937	9,321
Contra-item for valuation of off-balance sheet transactions	146,276	63,621
Costs pertaining to 2001	648	308
Advances to suppliers	18,985	14,244
Advances to customers on loans	46,644	-
Value date differentials on portfolio transactions	12,656	-
Inventories	1,819	-
Miscellaneous debits in transit	41,185	26,073
Premiums for exchange and securities options to be exercised	5,022	6,116
Residual items	16,300	7,850
Total	495,553	356,591

This item increased by L. 138,962 million (+ 38.97%).

The increase is connected with the acquisition of new services and a general increase in business volumes, in particularly involving the revaluation of off-balance sheet transactions, which have risen 129.92% from L. 63,621 million to L. 146,276 million. This revaluation is basically counterbalanced by the corresponding item recorded under «other liabilities».

These receivables are all collectable and have therefore not been subject to adjustments.

Deferred tax assets

	31/12/2000	31/12/1999
1. Opening balance	19,022	0
2. Increases	1,216	23,609
2.1. Deferred tax assets arising during the year	1,216	795
2.2. Other increases	–	22,814
3. Decreases	6,964	4,587
3.1. Deferred tax assets reversing during the year	4,320	4,587
3.2. Other decreases	2,644	–
4. Closing balance	13,274	19,022

The amount of L. 1,216 million refers to provisions and costs which have been disallowed for current tax purposes but which will reverse over a fixed period of time. The amount of liabilities, on which deferred tax assets have not been calculated, since the timing of their reversal is not foreseeable, totals L. 17,324 million. The figure of L. 2,644 million, shown under «other decreases», relates to the use of a lower IRPEG (corporate income tax) rate when valuing the deferred tax assets, due to the revision to this rate as a result of applying the rules on DIT (Dual Income Tax).

5.2 Breakdown of item 140 «Accrued income and prepayments»

	31/12/2000	31/12/1999
a) Accrued income	85,070	58,675
Interest receivable on securities	32,954	22,518
Interest on lire and foreign currency deposits and loans to customers	16,193	11,906
Interest on lire and foreign currency deposits and loans to other banks	3,040	1,417
Interest on customer mortgages and loans	20,398	13,410
Commissions receivable	10,535	8,525
Other accrued income	1,950	899
b) Prepayments	3,398	3,546
Invoices received not pertaining to this financial year	3,398	3,546
Total	88,468	62,221

This item has increased by L. 26,247 million, +42.18% with respect to the prior year, mainly due to the higher amount of accrued income reflecting the rise in interest rates.

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

5.4 Distribution of subordinated assets

	31/12/2000	31/12/1999
a) due from other banks	–	–
b) customer loans	271	–
c) bonds and other fixed-yield securities	6,592	8,729



Section 6 *Payables*

6.1 Breakdown of the item «Due to other banks»

	31/12/2000	31/12/1999
a) repo transactions	–	–
b) securities lent	–	–

This item amounts to L. 2,405,113 million, an increase of L. 498,238 million (+26.13%).
The increase relates to the increase in customer loans denominated in foreign currency.

6.2 Breakdown of the item «Customer deposits»

	31/12/2000	31/12/1999
a) repo transactions	1,581,988	1,271,065
b) securities lent	–	–

Item 20 totals L. 7,638,352 million, with an increase of L. 965,636 million (+14.47%).

Item 30 «securities issued» has increased by L. 29,211 million (+2.40%), rising from L. 1,215,285 million to L. 1,244,496 million. This is due to an increase of L. 29,539 million in «bonds» (+2.99%), an increase of L. 21,830 million (+17.03%) in «other securities» and a decrease of L. 22,158 million (–22.17%) in «certificates of deposit».

The sub-item «bonds» is made up of:

	Nominal value	Book value
Floating-rate bond issues	506,207	481,081
Fixed-rate bond issues	135,201	134,239
Zero-coupon bond issues	425,224	401,389
Total	1,066,632	1,016,709

Floating-rate bond issues also include structured bonds with a nominal value of L. 152,304 million.

The sub-item «certificates of deposit» totals L. 77,771 million and consists of L. 68,535 million in short-term fixed-rate certificates, L. 5,535 million in medium-term fixed-rate certificates, L. 3,410 million in medium-term floating-rate certificates and L. 291 million in zero-coupon certificates.

The contrasting trends in «bonds» and «certificates of deposit» are the result of the changes in the last few years to the tax regime applying to the related returns.

Item 40 «Third party funds under administration» consists of public funds to be used for assisted loans. This item reports a balance of L. 301 million, a decrease of L. 336 million (–52.75%).

Section 7 *Reserves*

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

These reserves amount to L. 28,451 million, an increase of L. 10,199 million (+55.88%). They comprise L. 20,451 million in reserves against the portion of overdue interest deemed recoverable (article 71.6 of Presidential Decree 917/86) and L. 8,000 million in general provisions, pursuant to article 71.3 of the same Decree.

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

	31/12/2000	31/12/1999
A. Opening balance	18,252	16,567
B. Increases	13,097	5,218
B1. Provisions	12,866	4,786
B2. Other changes	231	432
C. Decreases	2,898	3,533
C1. Utilizations	758	1,200
C2. Other changes	2,140	2,333
D. Closing balance	28,451	18,252

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

	31/12/2000	31/12/1999
a Charity fund	743	674
b Reserve for guarantees granted	6,000	5,000
c Reserve for personnel expenses	6,286	6,617
d Reserve for litigation costs	7,038	5,038
Total	20,067	17,329

This sub-item reports an increase of L. 2,738 million (+15.80%).

The charity fund shows a balance of L. 743 million, the result of an increase of L. 500 million through the allocation of the 1999 net profit and a decrease of L. 431 million for donations made during the year.

The reserve for guarantees granted amounts to L. 6,000 million, an increase of L. 1,000 million (+20%).

The reserve for personnel expenses shows a balance of L. 6,286 million, a decrease of L. 331 million with respect to the prior year. The decrease is the result of provisions for the year of L. 169 million and utilizations of L. 500 million.

The reserve for litigation costs amounts to L. 7,038 million, an increase of L. 2,000 million.

7.4 Breakdown of item 70 and sub-items 80a) and 80b)

The following paragraphs describe the reserves included under items 70 and 80 for which no tables have been prepared.

Reserve for severance indemnities

This reserve totals L. 58,930 million, having risen by L. 6,007 million (+11.35%); this increase consists of L. 9,843 million in provisions for the year less L. 2,168 million in utilizations due to amounts paid out during the year and less L. 1,668 million in amounts transferred to Arca Previdenza F.P.A.

Staff pension fund

This fund does not have a separate legal status and is supplementary to the state pension scheme. Its assets are invested in the bank's activities; a statement of changes in its composition is provided in an appendix.

Actuarial checks of adequacy are made, in accordance with the law, every three years. The most recent one was carried out during the 1998 year-end closing, which confirmed that the fund is adequate, considering the closed group of 777 employees and 117 pensioners as of 28 April 1993. Pursuant to current internal agreements, employees hired after that date have been given the choice to



enroll in a supplementary pension fund, Arca Previdenza F.P.A. A total of 632 employees have opted to enroll.

Taxation reserve

This reserve amounts to L. 71,840 million, an increase of L. 8,531 million (+13.48%) and includes the amounts due for the year for corporate income tax (IRPEG) and the regional tax on business activities (IRAP), gross of advances paid, withholding tax and the tax credit.

When calculating deferred tax, a rate of 31.20% has been used for IRPEG (corporate income tax), reflecting the new corporate income tax rate and the provisions of the Dual Income Tax regime. The rate used for IRAP is the one applicable to the years affected. Last year the current rates were applied. The recalculation using the new rates has determined a negative difference, involving a higher provision, as explained under item 220 of the income statement.

The following table provides details of the deferred tax liabilities.

Deferred tax liabilities

	31/12/2000	31/12/1999
1. Opening balance	156	200
2. Increases	48	26
2.1 Deferred tax liabilities arising during the year	48	26
2.2 Other increases	–	–
3. Decreases	71	70
3.1 Deferred tax liabilities reversing during the year	49	70
3.2 Other decreases	22	–
4. Closing balance	133	156

No deferred taxes have been booked for reserves in suspense for tax purposes.

With reference to the bank's tax situation, it should be noted that fiscal years 1979 to 1988 have not yet been agreed with the tax authorities; the bank has received assessment notices for these years and has appealed to the appropriate authorities. The dispute regards the calculation of taxable income and withholdings on foreign deposits. Fiscal years from 1995 to date also remain open.

The outcome of litigation has so far been favourable, as all of the bank's appeals for the years 1979-1987 have been accepted in their entirety in both first and second degree, and for the year 1988 in first degree.

Section 8 *Share capital, reserves, reserve for general banking risks, and subordinated liabilities*

The following table shows the breakdown and respective amounts of items comprising the bank's shareholders' equity.

	31/12/2000	31/12/1999
A. Reserve for general banking risks	75,000	67,000
B. Share capital	343,915	343,915
C. Share premium reserve	451,927	451,927
D. Reserves:	244,520	216,736
D1. Legal reserve	66,986	61,059
D2. Reserve for own shares	343	346
D3. Statutory reserves	139,998	122,177
D4. Others	37,193	33,154
E. Net profit for the year	74,408	59,164
Total	1,189,770	1,138,742

Shareholders' equity

Movements in the items making up shareholders' equity are provided in an appendix.

The following is mentioned with regard to individual items:

- *Reserve for general banking risks*: up by L. 8,000 million (+11.94%) due to the provision for the year of L. 10,000 million and the utilization of L. 2,000 million for partially absorbing the effect of recalculating deferred tax assets.
- *Share capital*: unchanged from the prior year, is fully subscribed and paid in, consisting of 68,783,032 ordinary shares with a par value of 5,000 lire each, for a total value of L. 343,915 million.
- *Share premium reserve*: unchanged from the prior year.
- *Legal reserve*: up by L. 5,926 million (+9.71%) as a result of the allocation of 1999 profits.
- *Reserve for own shares*: shows a balance of L. 343 million, being the portion of the restricted reserve for the purchase of own shares to cover shares in portfolio.
- *Statutory reserves*: up by L. 17,821 million (+14.59%) due to the allocation of 1999 profits of L. 17,749 million, to the transfer of L. 63 million in dividends on own shares and the transfer of L. 9 million in dividends that have fallen into prescription, in accordance with the bank's by-laws.
- *Other reserves*: shows a balance of L. 37,193 million, with an increase of L. 4,039 million (+12.18%) and consists of the following:
 - L. 12,500 million for the reserve required by article 11.2 of the Valtellina Law – created in 1990 with regard to Law 102 of 2 May 1990 and increased in 1991 – made up of profits;
 - L. 24,657 million for the unrestricted portion of the reserve covering the potential purchase of own shares. The reserve has increased by L. 4,000 million due to allocation of the net profit for 1999.
 - L. 36 million for the reserve required by Legislative Decree 124/93, established with net profit for 1999.

Capital ratios: solvency ratio as of 31 December 2000

Categories	31/12/2000	31/12/1999
A. Capital for supervisory purposes		
A.1 Basic capital (tier 1)	1,130,833	1,089,839
A.2 Supplementary capital (tier 2)	40,615	23,445
A.3 Amounts to be subtracted	43,769	40,581
A.4 Capital for supervisory purposes	1,127,679	1,072,703
B. Precautionary requirements for supervisory purposes		
B.1 Credit risks	722,926	621,763
B.2 Market risks	23,446	34,596
of which:		
– risks to the trading securities portfolio	23,446	34,596
– exchange risks	–	–
B.3 Other precautionary requirements	14,113	13,078
B.4 Total precautionary requirements	760,485	669,437
C. Risk assets and capital ratios		
C.1 Risk-weighted assets	10,864,071	9,563,386
C.2 Tier 1 capital / Risk-weighted assets	10.41%	11.40%
C.3 Capital for supervisory purposes / Risk-weighted assets	10.38%	11.22%

This is the minimum capital ratio requirement which banks and banking groups must constantly meet to cover counterparty solvency risk.

The minimum prescribed level for the solvency ratio (total capital for supervisory purposes to risk-weighted assets) for banks belonging to banking groups is 7%.



Compared with the above minimum prescribed level, our bank's ratio was 10.38% as of 31 December 2000, compared with 11.22% at the beginning of the year.

Section 9 *Other liability items*

9.1 Breakdown of item 50 «Other liabilities»

	31/12/2000	31/12/1999
Amounts at the disposal of third parties	62,936	36,022
Taxes to be paid	52,844	21,067
Employee salaries and contributions	17,399	30,844
Trade payables	14,971	12,053
Transit accounts for sundry entities	46,585	14,589
Invoices receivable	11,623	4,953
Other liabilities re «postal service»	–	11,705
Securities transactions	29,317	1,234
Transit accounts for agent bank banker's drafts	–	1,554
Transit accounts for Arca funds	52,819	71,586
Value date differentials on portfolio transactions	–	80,998
Directors' and statutory auditors' emoluments	1,477	1,291
Loans disbursed to customers to be finalized	18,631	30,797
Miscellaneous credit items being settled	139,652	117,943
Premiums for exchange and securities options sold and not exercised	5,168	6,238
Contra-item of valuation of off-balance sheet transactions	143,098	64,174
Residual items	6,496	8,303
Total	603,016	515,351

This item has risen by L. 87,665 million (+17.01%), mainly due to the increase of L. 78,924 million (+122.98%) in the «Contra-item of valuation of off-balance sheet transactions», which went from L. 64,174 million to L. 143,098 million. This amount is basically counterbalanced by the corresponding item recorded under «other assets».

The sub-item «Miscellaneous credit items being settled» refers to transactions which were settled at the beginning of the year.

9.2 Breakdown of item 60 «Accrued liabilities and deferred income»

	31/12/2000	31/12/1999
a) Accrued liabilities	40,911	25,056
Interest on bonds	14,303	9,310
Interest on certificates of deposit	1,618	2,707
Interest on customer deposits in lire and foreign currency	135	93
Interest on deposits from other banks in lire and foreign currency	14,366	7,026
Repo transactions	7,855	4,411
Other accrued liabilities	2,634	1,509
b) Deferred income	4,049	3,455
Interest on portfolio, mortgages and loans	1,053	594
Commission on sureties	2,996	2,806
Other deferred income	–	55
Total	44,960	28,511

This item has increased by L. 16,449 million (+ 57.69%), mainly due to the rise in interest rates.

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

Section 10 Guarantees and commitments

10.1 Breakdown of item 10 «Guarantees granted»

	31/12/2000	31/12/1999
a) commercial endorsement credits	1,133,424	1,073,707
b) financial endorsement credits	1,016,574	959,557
c) assets given in guarantee	15,925	10,425
Total	2,165,923	2,043,689

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10.2 Breakdown of item 20 «Commitments»

	31/12/2000	31/12/1999
a) commitments to disburse funds (certain to be called on)	345,181	269,195
b) commitments to disburse funds (not certain to be called on)	46,949	422,089
Total	392,130	691,284

The risk related to guarantees granted and to commitments to disburse funds is valued in the same way as for loans and is adjusted indirectly, for the part deemed to be of doubtful collection, by booking an appropriate reserve for risks and charges under liabilities.

Estimated losses are covered by L. 6,000 million in the reserve for guarantees granted booked under sub-item 80c) «Other reserves», and have been valued on a forfeit basis to take account of losses that could occur in the future during normal lending activities.

10.3 Collateral given for own payables

The collateral provided by the bank against its own liabilities consists of government securities: L. 1,572,266 million relates to securities given to customers for repo transactions, L. 14,292 million is for the deposit paid against the issuing of banker's cheques, while L. 1,484 million concerns treasury and other services.

10.4 Margins usable on credit lines

	31/12/2000	31/12/1999
a) central banks	29,604	53,344
b) other banks	–	5,000



10.5 Forward transactions

Type of transaction	31/12/2000			31/12/1999		
	For hedging	For trading	Other	For hedging	For trading	Other
1. Buying and selling						
1.1 Securities						
– purchases	–	224,788	–	–	191,757	–
– sales	–	206,683	–	–	192,169	–
1.2 Foreign currency						
– currency against currency	–	874	–	–	2,261	–
– purchases against lire	–	2,834,829	–	–	2,422,442	–
– sales against lire	–	2,994,397	–	–	2,362,314	–
2. Deposits and loans						
– to be disbursed	–	–	117,300	–	–	75,963
– to be received	–	–	150,797	–	–	30,764
3. Derivative contracts						
3.1 With exchange of capital						
a) securities						
– purchases	–	–	–	–	–	–
– sales	–	–	–	–	–	–
b) foreign currency						
– currency against currency	–	–	–	–	–	–
– purchases against lire	–	–	–	–	–	–
– sales against lire	–	–	–	–	–	–
c) other instruments						
– purchases	–	–	–	–	–	–
– sales	–	–	–	–	–	–
3.2 Without exchange of capital						
a) foreign currency						
– currency against currency	–	–	–	–	10,986	–
– purchases against lire	–	32,439	–	–	29,831	–
– sales against lire	–	32,439	–	–	29,831	–
b) other instruments						
– purchases	149,381	445,701	–	130,018	546,364	–
– sales	152,304	445,701	–	132,941	546,364	–

The transactions for buying and selling securities, foreign currency and derivative contracts with exchange of capital (or other assets) are recorded at the amount to be disbursed or to be received.

Off-balance sheet transactions without exchange of capital are recorded at their nominal value.

Derivative contracts, recorded under point 3.2, refer to basic swaps hedging the interest rate risk on bond issues.

Section 11 Concentration and distribution of assets and liabilities

11.1 Significant risk accounts

	31/12/2000	31/12/1999
a) amount	550,315	232,471
b) number	4	2

11.2 Breakdown of customer loans by main borrower categories

	31/12/2000	31/12/1999
a) governments	–	–
b) other public entities	132,640	97,950
c) non-financial businesses	5,479,843	4,595,935
d) financial businesses	352,211	376,389
e) family businesses	527,179	448,608
f) other businesses	2,112,805	1,693,266
Total	8,604,678	7,212,148

11.3 Breakdown of loans to resident non-financial companies and family businesses

	31/12/2000	31/12/1999
a) other services for sale	1,627,113	1,370,876
b) wholesale and retail services, recoveries and repairs	967,887	886,872
c) construction and public works	603,448	474,302
d) metal products excluding cars and transportation	370,813	315,771
e) textiles, leather and clothing	261,909	226,303
f) other sectors	1,957,703	1,569,516
Total	5,788,873	4,843,640

11.4 Distribution of guarantees granted by main categories of counterparty

	31/12/2000	31/12/1999
a) Governments	–	–
b) other public entities	169,606	200,073
c) Banks	203,352	185,715
d) non-financial businesses	1,461,521	1,331,567
e) financial businesses	134,238	142,536
f) family businesses	37,240	35,708
g) other businesses	159,966	148,090
Total	2,165,923	2,043,689

11.5 Geographical breakdown of assets and liabilities

Item	31/12/2000			31/12/1999		
	Italy	Other EU countries	Other countries	Italy	Other EU countries	Other countries
1. Assets	11,931,746	270,045	181,046	10,496,388	249,396	160,764
1.1 Due from other banks	892,386	50,940	61,141	1,053,346	54,182	80,056
1.2 Customer loans	8,289,715	197,156	117,807	6,977,040	154,522	80,586
1.3 Securities	2,749,645	21,949	2,098	2,466,002	40,692	122
2. Liabilities	9,439,876	948,509	899,877	8,271,268	715,654	808,591
2.1 Due to other banks	743,416	911,701	749,996	633,697	621,769	651,409
2.2 Customer deposits	7,452,561	36,501	149,290	6,422,198	93,885	156,633
2.3 Securities issued	1,243,598	307	591	1,214,736	–	549
2.4 Others	301	–	–	637	–	–
3. Guarantees and commitments	2,262,866	110,091	185,095	2,513,872	48,502	172,599

11.7 Foreign currency assets and liabilities

	31/12/2000	31/12/1999
a) Assets	2,109,171	1,775,316
1. due from other banks	417,404	299,020
2. customer loans	1,614,158	1,403,927
3. securities	–	–
4. equity investments	63,758	63,758
5. others	13,851	8,611
b) Liabilities	1,990,259	1,667,165
1. due to other banks	1,694,191	1,360,523
2. customer deposits	296,068	306,642
3. securities issued	–	–
4. others	–	–

The amounts above are shown at face value.

The major foreign currencies involved in the above items are, for assets, U.S. dollars (61.28%), Swiss francs (18.56%), Yen (14.67%), GBP (1.85%) and others (3.64%); for liabilities they are U.S. dollars (61.92%), Swiss francs (19.48%), Yen (15.88%), GBP (2.18%) and others (0.54%).

Section 12 Management and intermediation for third parties

12.2 Portfolio management

	31/12/2000	31/12/1999
1. securities issued by the bank drawing up the financial statements	–	–
2. other securities	1,838,645	1,952,331

The total amount of cash held in relation to portfolio management contracts is L. 90,069 million.

12.3 Securities custody and administration

	31/12/2000	31/12/1999
a) third-party securities on deposit	26,646,786	27,286,002
1. securities issued by the bank drawing up the financial statements	1,409,848	1,388,948
2. other securities	25,236,938	25,897,054
b) third-party securities on deposit with third parties	20,088,472	20,761,315
c) own securities on deposit with third parties	1,228,046	1,369,823

«Third-party securities on deposit with third parties» include L. 8,766,499 million in Arca funds, for which the bank provides custody services.

12.4 Collection orders for third parties: debit and credit adjustments

	31/12/2000	31/12/1999
a) debit adjustments	2,103,794	1,663,605
1. current accounts	12,648	5,103
2. central portfolio	1,629,615	1,274,293
3. cash	–	–
4. others	461,531	384,209
b) credit adjustments	2,091,137	1,744,603
1. current accounts	– 3,483	– 2,075
2. transferor of bills and documents	2,092,009	1,744,080
3. others	2,611	2,598



PART C *Information on the income statement*

Section 1 *Interest*

1.1 Breakdown of item 10 «Interest income and similar revenues»

	31/12/2000	31/12/1999
a) on amounts due from other banks	42,817	28,707
of which:		
– on amounts due from central banks	5,560	3,143
b) on customer loans	516,876	368,614
of which:		
– on third-party funds under administration	–	–
c) on fixed-yield securities	112,518	91,855
d) other interest income	245	83
e) positive balance of spreads on hedging transactions	–	–
Total	672,456	489,259

This item has gone up by L. 183,197 million (+ 37.44%) mainly due to the increase in interest rates and the positive trend in funds under administration.

Interest on customer loans includes overdue interest of L. 4,866 million.

As regards the recent legal pronouncements concerning fixed-interest mortgage loans, the bank does not expect a significant amount of related future charges or other effects.

1.2 Breakdown of item 20 «Interest expense and similar charges»

	31/12/2000	31/12/1999
a) on amounts due to other banks	118,299	65,900
b) on customer deposits	200,053	118,509
c) on securities issued	35,154	29,580
of which:		
– certificates of deposit	2,634	3,595
d) on third-party funds under administration	–	–
e) on subordinated liabilities	–	–
f) negative balance of spreads on hedging transactions	–	–
Total	353,506	213,989

This item has increased by L. 139,517 million (+ 65.20%), due to the upward trend in interest rates.

Interest income and interest expense relating to balances with subsidiary companies and those under significant influence amount to L. 2,874 million and L. 1,172 million, respectively.

1.3 Detail of item 10 «Interest income and similar revenues»

	31/12/2000	31/12/1999
a) on assets in foreign currency	116,607	70,555

This item has risen by L. 46,052 million (+65.27%) due to the increase in loans in foreign currency. These loans are all expressed in the currencies of non-EMU member states.

1.4 Detail of item 20 «Interest expense and similar charges»

	31/12/2000	31/12/1999
a) on liabilities in foreign currency	102,295	55,364

This item has risen by L. 46,931 million (+84.76%) due to the increase in foreign currency funding required to finance loans granted in foreign currency. These loans are all expressed in the currencies of non-EMU member states.

Section 2 Commissions

2.1 Breakdown of item 40 «Commission income»

	31/12/2000	31/12/1999
a) guarantees granted	8,843	8,011
b) collection and payment services	29,332	25,075
c) Management, intermediation and consultancy services:	91,054	64,896
1. securities trading	–	–
2. foreign currency trading	8,597	7,184
3. portfolio management	10,446	10,868
4. securities custody and administration	2,892	1,512
5. securities placement	37,209	24,968
6. consultancy	–	–
7. door-to-door sales of securities, products and services	–	–
8. collection of orders	31,910	20,364
d) tax collection services	–	–
e) other services	60,798	51,507
Total	190,027	149,489

Commission income has increased by L. 40,538 million (+ 27.12%).

The largest increases relate to Arca fund commissions, commissions on portfolio management, collection of orders, bancassurance services, credit cards and collection and payment services.

2.2 Breakdown of item 50 «Commission expense»

	31/12/2000	31/12/1999
a) collection and payment services	5,596	4,590
b) management and intermediation services:	2,392	870
1. securities trading	–	–
2. foreign currency trading	–	–
3. portfolio management	–	–
4. securities custody and administration	2,392	870
5. securities placement	–	–
6. door-to-door sales of securities, products and services	–	–
c) other services	2,508	1,863
Total	10,496	7,323

This item has increased by L. 3,173 million (+ 43.33%).



Section 3 Profits and losses from financial transactions

3.1 Breakdown of item 60 «Profits/losses from financial transactions»

Item	31/12/2000			31/12/1999		
	Securities transactions	Foreign currency transactions	Other transactions	Securities transactions	Foreign currency transactions	Other transactions
A.1 Revaluations	1,836	–	–	251	–	–
A.2 Write-downs	12,181	–	–	31,826	–	–
B. Other profits/losses	21,158	18,871	89	33,382	16,138	46
Total	10,813	18,871	89	1,807	16,138	46
1. Government securities	9,603			– 6,937		
2. Other fixed-yield securities	1,657			– 4,956		
3. Variable-yield securities	– 1,066			13,509		
4. Derivative contracts on securities	619			191		

This item comes to L. 29,773 million, an increase of L. 11,782 million (+65.49%).

Section 4 Administrative expenses

This item shows a balance of L. 315,748 million, an increase of L. 29,432 million (+10.28%) over the 1999 figure of L. 286,316 million.

The sub-item «personnel expenses» amounts to L. 165,217 million, an increase of L. 12,690 million (+8.32%), reflecting the higher number of employees. The breakdown of this cost is as follows:

Wages and salaries	L. 108,816
Social security contributions	L. 30,889
Severance indemnities	L. 9,843
Pensions	L. 9,931
Other expenses	L. 5,738

The sub-item «other administrative expenses» has increased by L. 16,742 million (+ 12.51%). It consists of the following:

	31/12/2000	31/12/1999
telephone, post and data transmission	14,679	13,295
maintenance of fixed assets	5,469	5,141
rent paid on buildings	13,488	12,477
surveillance	4,554	4,477
transportation	2,541	3,402
professional fees	9,002	9,241
office materials	3,827	3,590
electricity, heating and water	3,581	3,111
advertising and entertainment	4,652	4,961
legal and judicial expenses for debt collection	2,641	2,246
insurance	3,125	3,091
corporate survey and information	2,692	2,131
indirect taxes and dues	43,164	38,417
hardware rental and maintenance	7,738	6,082
software rental and maintenance	5,918	5,189
data registration with third parties	965	785
cleaning	3,390	3,171
membership fees	1,118	995
services received from third parties	3,679	3,143
directors' and statutory auditors' emoluments	2,356	2,150
temporary workers	4,053	388
other	7,899	6,306
Total	150,531	133,789

The amounts relating to 1999 have been adjusted for comparison purposes.

4.1 Average number of employees by category

	31/12/2000	31/12/1999
a) managers	5	5
b) supervisors	127	108
c) other personnel	1,515	1,436
Total	1,647	1,549

The number of employees by category is a simple average of the figures at the end of 1999 and 2000. There were 1,687 employees at the end of the year.

Section 5 *Adjustments, write-backs and provisions*

Depreciation and amortization charged for the year on fixed and intangible assets (item 90) amount to L. 28,046 million, an increase of L. 3,358 million (+13.60%), and are shown in separate tables to illustrate the movements in these items.

5.1 Breakdown of item 120 «Adjustments to loans and provisions for guarantees and commitments»

	31/12/2000	31/12/1999
a) adjustments to loans	80,671	64,017
of which:		
– forfeit write-downs for country risk	–	–
– other forfeit write-downs	6,398	6,600
b) provisions for guarantees and commitments	1,000	–
of which:		
– forfeit provisions for country risk	–	–
– other forfeit provisions	1,000	–
Total	81,671	64,017

This item has increased by L. 17,654 million (+27.58%).

Write-backs to loans and to provisions for guarantees and commitments (item 130), amounting to L. 19,680 million, decreased by L. 3,401 million (-14.74%) and consist of the collection of L. 4,334 million in loans written off in previous years, the recovery of L. 1,993 million in overdue interest, write-backs to loans of L. 7,449 million upon valuation, and L. 5,904 million in extraordinary income on loans outstanding at the end of the prior year.

Provisions to reserves for possible loan losses (item 140), totalling L. 12,866 million, have increased by L. 8,080 million (+168.83%). They include L. 4,866 million in respect of overdue interest pursuant to article 71.6 of Presidential Decree 917/86 and L. 8,000 million in general provisions, pursuant to article 71.3 of the same Decree. Both amounts have been provided in order to gain the related tax benefit.

Section 6 *Other items in the income statement*

6.1 Breakdown of item 70 «Other operating income»

	31/12/2000	31/12/1999
Recovery of charges on deposits and overdrafts	8,776	6,603
Rent received for buildings	1,477	1,462
Recovery of customer insurance	697	652
Recovery of taxes	20,063	18,592
Recovery of «Postal Service» costs	1,465	4,370
Other	4,668	2,323
Total	37,146	34,002

This item has increased by L. 3,144 million (+ 9.25%).



The sub-item «Other» includes financial recoveries from other banks in connection with the monetary settlement of bank transfers and trade collections.

The decrease in sub-item «recovery of Postal Service costs» is due to the termination of this service during the year.

6.2 Breakdown of item 110 «Other operating expenses»

	31/12/2000	31/12/1999
Leasing and ancillary costs	1,555	1,368
Transportation costs for the «Postal Service»	1,343	4,013
Other	3,208	1,553
Total	6,106	6,934

This item has decreased by L. 828 million (– 11.94%).

Leasing costs refer to contracts for buildings used as branch offices.

The sub-item «Other» relates almost entirely to financial charges payable to banks in connection with the monetary settlement of bank transfers and trade collections.

The decrease in sub-item « transportation costs for the Postal Service» is due to the termination of this service during the year.

6.3 Breakdown of item 180 «Extraordinary income»

	31/12/2000	31/12/1999
a) Miscellaneous gains	2,298	23,390
b) Overprovisions	38	38
c) Gains on disposals	166	80
of fixed assets	84	80
of long-term investments	82	–
Total	2,502	23,508

This item has decreased by L. 21,006 million (– 89.36%). The prior year figure included L. 22,814 million due to the recognition of deferred tax assets.

6.4 Breakdown of item 190 «Extraordinary charges»

	31/12/2000	31/12/1999
a) Miscellaneous losses	1,227	369
b) Underprovisions	992	782
c) Losses on disposals	–	1
of fixed assets	–	–
of long-term investments	–	1
Total	2,219	1,152

This item has increased by L. 1,067 million (+ 92.62%).

6.5 Breakdown of item 220 «Income taxes for the year»

	31/12/2000	31/12/1999
1. Current taxes	57,420	48,752
2. Change in deferred tax assets	5,747	3,792
3. Change in deferred tax liabilities	– 23	– 44
4. Income taxes for the year	63,144	52,500

Changes in deferred tax assets mainly relate to the portion of loan write-downs which exceeds the amount allowed for tax purposes, while L. 2,644 million of this charge refers to the change in tax rates, as required by Bank of Italy instructions.

The change in deferred tax liabilities relates to gains on the disposal of assets and long-term investments.

Section 7 Other information on the income statement

7.1 Geographical breakdown of income

The total income of L. 936,852 million relates to business activities mainly in Lombardy, with a significant presence in Milan, as well as in Rome. These are areas without major differences from a banking point of view.

PART D *Other information*

Section 1 Directors and statutory auditors

1.1 Emoluments

	31/12/2000	31/12/1999
a) directors	2,057	1,869
b) statutory auditors	299	281

1.2 Loans and guarantees granted

	31/12/2000	31/12/1999
a) directors	6,135	5,428
b) statutory auditors	822	900

Loans have been granted in accordance with article 136, Legislative Decree 385 of 1 September 1993.

Section 2 Parent company or EEC controlling bank

2.1 Name

Banca Popolare di Sondrio Società Cooperativa a.r.l.

Banca Popolare di Sondrio, listed in the bank register at number 842 and in the banking group register at number 5696.0, is the parent company of the «Banca Popolare di Sondrio Banking Group».

2.2 Head office

Piazza Garibaldi 16, Sondrio.

APPENDICES

The appendices listed below contain additional information to the notes of which they form an integral part:

- statement of changes in financial position;
- statement of changes in shareholders' equity for the years ended 31 December 1999 and 31 December 2000;
- statement of changes in the staff pension fund;
- list of equity investments;
- list of significant equity investments;
- list of revalued assets still owned by the bank (article 10, Law 72/1983);
- financial statements of the subsidiaries Banca Popolare di Sondrio (Suisse) SA, Pirovano Stelvio SpA and Sinergia Seconda Srl, and of Ripoval SpA, an associated company subject to significant influence.

STATEMENT OF CHANGES IN FINANCIAL POSITION

(in millions of lire)

	31-12-2000		31-12-1999	
SOURCES OF FUNDS				
Funds generated by operations:				
- Net profit for the year	74,408		59,164	
- Adjustments:				
- loan write-downs and write-backs and provisions for guarantees and commitments	61,991		40,936	
- losses on securities and equity investments	13,005		32,339	
- amortization and depreciation	28,046		24,688	
- Provisions:				
- staff pension fund	10,030		8,592	
- reserve for severance indemnities	9,843		7,903	
- risks and charges	2,000		0	
- possible loan losses	12,866		4,786	
- general banking risks	8,000		22,000	
- personnel charges	169	220,358	4,837	205,245
Increase in shareholders' equity:				
- subscription to own shares	0		0	
- dividends in prescription and relating to own shares and unexercised rights	72	72	7	7
Increase in funding:				
- customer deposits	965,636		1,025,888	
- deposits from other banks	498,237		285,299	
- securities issued	29,210	1,493,083	75,030	1,386,217
Change in other liability items:				
- third-party funds under administration	(336)		(318)	
- other liabilities	87,665		64,091	
- accrued liabilities and deferred income	16,449		(2,886)	
- taxation reserve	8,531	112,309	(9,600)	51,287
		1,825,822		1,642,756
APPLICATION OF FUNDS				
Use of funds generated by operations:				
- staff pension fund	3,501		3,447	
- reserve for severance indemnities	3,836		3,384	
- reserves for possible loan losses	2,667		3,101	
- reserves for risks and charges	500	10,504	2,607	12,539
Decrease in shareholders' equity:				
- dividends	30,952		26,138	
- charity fund	430	31,382	467	26,605
Increase in application of funds:				
- customer loans	1,453,520		1,462,993	
- cash on hand	23,240		2,466	
- due from other banks	(183,117)		(93,990)	
- trading securities	279,057	1,572,700	52,961	1,424,430
Change in other asset items:				
- other assets	138,962		106,930	
- accrued income and prepayments	26,247		(3,676)	
- equity investments and own shares	13,128		50,765	
- intangible assets	11,816		11,642	
- fixed assets	21,083	211,236	13,521	179,182
		1,825,822		1,642,756

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDING 31 DECEMBER 1999 AND 2000**
(in millions of lire)

	Share capital	Reserve for general banking risks	Share premium reserve
BALANCE AS OF 31 DECEMBER 1998	343,915	45,000	451,927
ALLOCATION OF PROFITS, as resolved by the AGM of 6 March 1999:			
To the legal reserve			
To the statutory reserves			
Dividend of L. 380 per share			
Charity fund			
DIVIDEND ON OWN SHARES			
RESERVE FOR GENERAL BANKING RISKS		22,000	
RESERVE FOR OWN SHARES			
NET PROFIT FOR 1999			
BALANCE AS OF 31 DECEMBER 1999	343,915	67,000	451,927
ALLOCATION OF PROFITS, as resolved by the AGM of 4 March 2000:			
To the legal reserve			
To the statutory reserves			
Dividend of L. 450 per share			
Charity fund			
DIVIDEND ON OWN SHARES			
RESERVE FOR GENERAL BANKING RISKS		8,000	
RESERVE FOR OWN SHARES			
RESERVE AS PER ART. 13 OF LEGISLATIVE DECREE 124/93			
NET PROFIT FOR 2000			
BALANCE AS OF 31 DECEMBER 2000	343,915	75,000	451,927

Legal reserve	Restricted reserve for own shares	Statutory reserves	Other reserves	Net profit for the year	Total shareholders' equity
56,104	140	107,773	31,360	47,990	1,084,209
4,955				(4,955)	0
		14,397		(14,397)	0
				(26,138)	(26,138)
				(500)	(500)
		7			7
					22,000
	206		1,794	(2,000)	0
				59,164	59,164
61,059	346	122,177	33,154	59,164	1,138,742
5,927				(5,927)	0
		17,749		(17,749)	0
				(30,952)	(30,952)
				(500)	(500)
		72			72
					8,000
	(3)		4,003	(4,000)	0
			36	(36)	0
				74,408	74,408
66,986	343	139,998	37,193	74,408	1,189,770

STATEMENT OF CHANGES IN THE STAFF PENSION FUND

(in millions of lire)

	31/12/2000	31/12/1999
Opening balance	83,031	77,886
Contribution by the bank equal to 8% of total salaries for the period	4,789	4,710
Supplement as required by fund regulations	4,573	3,281
Contribution by employees equal to 1% of salaries paid	668	601
Reimbursements to outgoing staff	(136)	(149)
Pensions paid during the year	(3,365)	(3,298)
Closing balance	89,560	83,031

LIST OF EQUITY INVESTMENTS

N A M E	NUMBER OF SHARES OR QUOTAS	BOOK VALUE (in millions of lire)	PAR VALUE (in millions of lire)	% HELD
ISTITUTO ITALIANO DI CREDITO FONDIARIO SPA	202	1	2	0.002
SAN PAOLO - IMI SPA	627,000	587	3,399	0.045
I.C.B.P.I. SPA	125,400	64	727	1.135
MEDIOCREDITO TOSCANO SPA	11,913	9	6	0.005
CENTROBANCA SPA	5,376,000	12,251	10,410	1.600
MEDIOCREDITO LOMBARDO SPA	94,000	176	94	0.041
BANCA POPOLARE DI SONDRIO (SUISSE) SA	500,000	63,758	63,559	100.000
BANCA POPOLARE ETICA S.C. a R.L.	500	50	50	0.289
BANCA PER IL LEASING - ITALEASE SPA	1,084,534	6,734	10,846	3.558
UNIONE FIDUCIARIA SPA	43,981	375	440	4.072
ARCA SGR SPA	1,926	802	1,926	4.815
INTESA LEASING SPA	16,000	16	16	0.025
FACTORIT SPA	1,746,231	1,380	1,746	2.741
CENTROSIM SPA	4,000	400	400	2.000
ARCA MERCHANT SPA	13,873,732	17,720	13,969	10.239
ARCA VITA SPA	1,136,000	25,849	11,360	16.000
ARCA ASSICURAZIONI SPA	352,155	4,122	3,522	7.043
BORSA ITALIANA SPA	35,000	223	35	0.250
B. & A. BROKER SPA	20,000	200	200	14.286
M.T.S. SPA	202	27	20	0.075
FINLOMBARDA SPA	162	97	81	0.405
SOCIETÀ DI GESTIONE DEL RISPARMIO IN FONDI IMMOBILIARI CHIUSI DI BANCHE POPOLARI SPA	700	700	700	7.000
RIPOVAL SPA	2,500	2,500	2,500	50.000
e-M.I.D. SPA	1,200	117	116	1.000
AZIENDA ENERGETICA MUNICIPALE SPA	6,000,000	10,020	6,000	0.333
CILME SPA	111,363	101	111	7.788
EUROS SPA	47,367	50	47	0.241
S.I.A. SPA	5,753	7	6	0.017
SWIFT S.C.	32	27	8	0.036
SOCIETÀ PER I SERVIZI BANCARI - S.S.B. SPA	17,259	2	4	0.027
AVIOVALTELLINA SPA	300	300	300	11.029
SPLUGA DOMANI SPA	42,857	429	214	1.621
PIROVANO STELVIO SPA	392,000	8,257	3,920	98.000
SOCIETÀ DI SVILUPPO LOCALE SPA	200	40	40	5.714
CBE SERVICE SPRL	200	10	10	20.000
SITEBA SPA	9,032	9	9	0.181
SINERGIA SECONDA SRL	20,000,000	20,000	20,000	100.000
SINTESI 2000 SRL	25,000	48	48	33.333
TELERISCALDAMENTO - COOGENERAZIONE VALCAMONICA.VALTELLINA-VALCHIAVENNA SPA	10,000	100	100	1.998
CONSORZIO CASSAMERCATO	132	13	13	6.286
		177,571	156,954	

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.

Company name	% held	Notes
- Acquedotto dello Stelvio srl	27%	Indirectly held through Pirovano Stelvio spa
- Arca Merchant spa	10.239%	
- Arca Vita spa	16%	
- Aviovaltellina spa	11.029%	
- B. & A. Broker spa	14.286%	
- Banca Popolare di Sondrio (Suisse) SA	100%	
- CBE Service sprl	20%	
- Immobiliare Borgo Palazzo srl	100%	Indirectly held through Sinergia Seconda srl
- Immobiliare S. Paolo srl	100%	Indirectly held through Sinergia Seconda srl
- Pirovano Stelvio spa	98%	
- Popso (Suisse) Advisory Holding SA	100%	Indirectly held through Banca Popolare di Sondrio (Suisse) SA
- Ripoval spa	50%	
- Sifas spa	21.53%	Indirectly held through Pirovano Stelvio spa
- Sinergia Seconda srl	100%	
- Sintesi 2000 srl	33.333%	
- Sofipo Fiduciaire SA	30%	Indirectly held through Banca Popolare di Sondrio (Suisse) SA

LIST OF REVALUED ASSETS STILL OWNED BY THE BANK

(art. 10 of Law 72 dated 19/3/1983)

(in millions of lire)

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 31/12/2000	Net book value as of 31/12/2000
APRICA - Corso Roma, 140	150	–	690	284	1,124	539	585
BERBENNO DI VALTELLINA - Via Nazionale	22,958	–	–	192	23,150	5,907	17,243
BORMIO - Via Roma, 64	–	90	1,110	264	1,464	527	937
BORMIO - Via Roma, angolo Via Don Peccedi	5,744	–	700	584	7,028	2,223	4,805
BRENO - Piazza Ronchi, 4	1,291	–	–	169	1,460	633	827
CHIAVENNA - Via Dolzino, 67	2,055	90	2,225	2,064	6,434	4,227	2,207
CHIESA IN VALMALENCO - Via Roma, 138	69	34	1,287	258	1,648	533	1,115
COLICO - Piazza Cavour, 11	344	–	–	187	531	401	130
DELEBIO - Piazza S, Carpofo, 7/9	1,635	45	1,250	1,334	4,264	2,963	1,301
DERVIO - Via Don Invernizzi, 2	2,459	–	–	638	3,097	1,582	1,515
DOMASO - Via Statale Regina, 71	215	–	–	104	319	241	78
DONGO - Piazza V, Matteri, 14	3,036	–	–	805	3,841	2,323	1,518
EDOLO - Piazza Martiri della Libertà, 16	2,050	–	–	986	3,036	1,975	1,061
GERA LARIO - Via Statale Regina, 14	567	–	254	441	1,262	932	330
GRAVEDONA - Piazza Garibaldi, 10/12	1,750	–	–	434	2,184	1,126	1,058
GROSIO - Via Roma, 67	51	14	445	100	610	214	396
GROSIO - Via Vanoni, 5	205	–	–	22	227	100	127
GROSOTTO - Via Statale, 73	30	25	285	82	422	167	255
ISOLACCIA DI VALDIDENTRO - Via Nazionale, 31	782	–	562	528	1,872	1,268	604
LECCO - Corso Martiri della Liberazione, 63/65	18,538	–	680	4,113	23,331	10,325	13,006
LECCO - Via Galandra, 28	327	–	–	81	408	–	408
LIVIGNO - Via Prestefan	4,086	–	–	–	4,086	122	3,964
LIVIGNO - Via S, Antoni, 33	911	–	669	695	2,275	1,551	724
MADESIMO - Via Carducci, 3	956	–	–	394	1,350	851	499
MARCHIROLO - Via Cav, Emilio Buseti, 7/A	2,109	–	–	–	2,109	593	1,516
MAZZO DI VALTELLINA - Via S, Stefano, 18	22	31	317	94	464	199	265
MILAN - Piazza Borromeo, 1	74	–	–	414	488	134	354
MILAN - Via Compagnoni, 9	99	–	–	13	112	–	112
MILAN - Via Lippi, 25	105	–	–	3	108	–	108
MILAN - Via Morigi, 2/A	142	–	–	240	382	–	382
MILAN - Via Porpora, 104	6,680	–	–	320	7,000	2,206	4,794
MILAN - Via S, Maria Fulcorina, 1	21,043	309	5,900	4,767	32,019	13,123	18,896
MILAN - Via S, Maria Fulcorina, 11	955	–	–	–	955	–	955
MILAN - Via Sangallo, 16	9	–	–	23	32	–	32
MONTAGNA IN VALTELLINA - Via Stelvio, 30	914	–	636	771	2,321	1,553	768
MORBEGNO - Piazza Caduti della Libertà, 6	3,664	–	2,108	1,364	7,136	3,132	4,004
MORBEGNO - Via Garibaldi, 81	1,141	50	–	109	1,300	521	779



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 31/12/2000	Net book value as of 31/12/2000
MORBEGNO - Via Nani, 13	106	-	-	34	140	-	140
MOZZO - Via Gabriele D'Annunzio, 4	51	-	-	28	79	-	79
NOVATE MEZZOLA - Via Roma, 1	88	-	487	173	748	351	397
PASSO DELLO STELVIO	1,221	-	-	573	1,794	1,325	469
PONTE IN VALTELLINA - Piazza della Vittoria, 1	35	25	500	168	728	331	397
REGOLEDO DI COSIO VALTELLINO - Via Roma, 7	261	-	-	152	413	196	217
ROME - Via Di Propaganda, 27	301	-	679	172	1,152	747	405
ROME - Viale Appio Claudio - Via Siderno	16	-	-	-	16	-	16
S, CASSIANO DI PRATA CAMPORTACCIO - Via Spluga, 108	770	-	-	200	970	440	530
S, PIETRO DI BERBENNO - Via Nazionale Ovest, 110	132	43	635	238	1,048	496	552
S, MARIA REZZONICO - Via Statale Regina	906	-	-	-	906	224	682
SEREGNO - Via Wagner, 137/A	240	-	-	26	266	-	266
SONDALO - Via Zubiani, 2/4/6/8/10	42	50	605	305	1,002	305	697
SONDRIO - Corso Vittorio Veneto, 7	600	-	-	2,306	2,906	584	2,322
SONDRIO - Largo Pedrini, 8	388	-	-	44	432	350	82
SONDRIO - Piazza Garibaldi, 16 - Via Ragazzi del '99, 6	1,773	680	15,122	6,085	23,660	11,956	11,704
SONDRIO - Via Bernina, 1	435	-	160	89	684	239	445
SONDRIO - Via Caimi, 29	693	-	-	90	783	731	52
SONDRIO - Via Cesura, 4	150	-	-	124	274	-	274
SONDRIO - Via delle Prese - Piazzale Toccalli	675	-	-	-	675	263	412
SONDRIO - Via Lungomallero Cadorna, 24	1,941	-	380	874	3,195	2,297	898
SONDRIO - Via Lusardi, 53	479	-	-	-	479	-	479
SONDRIO - Via Pio Rajna, 1	31	-	-	78	109	-	109
SONDRIO - Via Tonale, 6	109	-	471	106	686	417	269
TALAMONA - Via Cusini, 29	433	-	607	394	1,434	849	585
TEGLIO - Piazza S, Eufemia, 2	78	27	1,059	287	1,451	583	868
TIRANO - Località Valchiosa	270	-	-	-	270	-	270
TIRANO - Piazza Cavour, 20	760	-	3,362	1,391	5,513	2,809	2,704
TRESENTA DI TEGLIO - Via Nazionale, 57	373	-	375	131	879	366	513
VILLA DI CHIAVENNA - Via Roma, 39	383	-	-	15	398	392	6
VILLA DI TIRANO - Traversa Foppa, 25	854	-	-	15	869	183	686
	121,760	1,513	43,560	36,975	203,808	88,625	115,183

Revaluations have been depreciated as follows: entirely for the 1975 revaluation, by L. 22,440 million for that of 1983 and by L. 9,466 million for the one made in accordance with Law 413 of 30/12/1991.

**FINANCIAL STATEMENTS OF SUBSIDIARY
AND ASSOCIATED COMPANIES:**

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

BANCA POPOLARE DI SONDRIO (SUISSE) SA
FINANCIAL STATEMENTS AS OF 31 DECEMBER 2000
(in Swiss francs)

ASSETS	2000	1999
Liquidity	13 367 495	21 149 570
Due from other banks	106 860 419	136 996 207
Customer loans	134 818 047	101 720 438
Mortgage loans	80 314 339	50 065 202
Trading securities	994 332	306 652
Investment securities	51 286 015	24 780 450
Equity investments	853 225	299 361
Fixed assets	5 843 007	4 038 627
Accrued income and prepayments	1 977 232	713 012
Other assets	11 470 644	21 719 554
Total assets	407 784 755	361 789 073
Total deferred loans	300 722	357 143
Total amounts due from holders of qualifying equity investments	26 276 871	26 236 025

LIABILITIES	2000	1999
Money market securities	2 487	27 500
Deposits with other banks	55 723 228	32 205 814
Customer deposits - savings and investments	39 242 191	29 612 138
Other customer deposits	187 708 919	182 937 594
Cash liabilities	15 472 000	12 093 000
Accrued liabilities and deferred income	4 082 121	847 285
Other liabilities	13 195 397	24 223 691
Adjustments and provisions	19 821 219	15 739 743
Share capital	50 000 000	50 000 000
General legal reserve	14 102 307	7 160 498
Net profit for the year	8 434 886	6 941 810
Total liabilities	407 784 755	361 789 073
Total amounts due to holders of qualifying equity investments	26 035 371	20 073 000

OFF-BALANCE SHEET TRANSACTIONS	2000	1999
Commitments to disburse funds for uncertain use	27 666 937	32 622 628
Derivative products		
– Trading volume	426 084 625	692 039 500
– Gross positive replacement value	8 511 578	20 148 316
– Gross negative replacement value	8 667 334	19 377 044
Fiduciary transactions	411 021 826	307 219 079

INCOME STATEMENTÄ
AS OF 31 DECEMBER 2000Ä
(in Swiss francs)

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INCOME STATEMENT	2000	1999
PROFITS AND LOSSES FROM ORDINARY BANKING OPERATIONS		
– Interest income and discounts	14 347 387	6 867 897
– Interest income and dividends from trading securities	3 084	2 835
– Interest income and dividends from investment securities	949 795	548 139
– Interest expense	(6 331 408)	(3 598 857)
Net interest income	8 968 858	3 820 014
– Commissions on lending transactions	1 162 685	773 658
– Commissions on securities trading and investments	33 148 060	24 685 758
– Commissions on services	1 560 005	1 124 202
– Commission expense	(5 519 670)	(3 218 119)
Net commission income and income from services	30 351 080	23 365 499
Profits from financial transactions	3 458 010	5 286 095
– Profit (loss) on the disposal of investment securities	74 316	6 413
– Other ordinary income	48 887	
– Other ordinary charges	(256 035)	(347 426)
Total other ordinary income (charges)	(132 832)	(341 013)
Net income from ordinary banking operations	42 645 116	32 130 595
– Personnel costs	(11 850 077)	(7 865 171)
– Other operating expenses	(8 972 275)	(6 763 594)
Operating expenses	(20 822 352)	(14 628 765)
Gross profit	21 822 764	17 501 830

INCOME STATEMENT	2000	1999
Depreciation and amortization	(6 140 000)	(4 500 000)
Adjustments, provisions and losses	(4 500 000)	(3 400 020)
Extraordinary income	90 539	–
Extraordinary charges	(42 417)	–
Income taxes	(2 796 000)	(2 660 000)
Net profit for the year	8 434 886	6 941 810
ALLOCATION OF NET PROFIT		
Retained earnings	–	–
Net profit for the year	8 434 886	6 941 810
Net profit declared	8 434 886	6 941 810
Proposal of the Board of Directors for the allocation of net profit		
– To general legal reserve	8 434 886	6 941 810
Balance carried forward	–	–

PIROVANO STELVIO SPA

FINANCIAL STATEMENTS AS OF 31 OCTOBER 2000 (in lire)

BALANCE SHEET

ASSETS	31-10-2000	31-10-1999
B NON-CURRENT ASSETS		
I INTANGIBLE ASSETS		
02 Costs for research, development and advertising	31,502,320	104,890,647
03 Industrial patent rights and use of original works	77,157,542	80,887,800
07 OTHER INTANGIBLE ASSETS	41,033,603	46,162,804
TOTAL I	149,693,465	231,941,251
II FIXED ASSETS		
01 Land and buildings	5,562,854,672	5,635,981,633
02 Equipment and machinery	341,556,083	380,929,000
03 Industrial and commercial equipment	199,752,021	239,324,041
04 Other fixed assets	23,693,135	26,240,905
TOTAL II	6,127,855,911	6,282,475,579
III FINANCIAL ASSETS		
01 Equity investments		
b in associated companies	1,484,457,000	1,484,457,000
d in other companies	580,000	580,000
TOTAL 01	1,485,037,000	1,485,037,000
02 Loans		
d to others		
due beyond 12 months	26,067,499	25,752,406
TOTAL 02	26,067,499	25,752,406
TOTAL III	1,511,104,499	1,510,789,406
TOTAL NON-CURRENT ASSETS	7,788,653,875	8,025,206,236
C CURRENT ASSETS		
I INVENTORIES		
04 Finished products and merchandise	119,610,608	55,476,921
TOTAL I	119,610,608	55,476,921
II RECEIVABLES		
01 Due from customers		
a due within 12 months	328,706,360	211,779,568
TOTAL 01	328,706,360	211,779,568
05 Due from others		
a due within 12 months	62,237,076	151,730,235
TOTAL 05	62,237,076	151,730,235
TOTAL II	390,943,436	363,509,803
IV CASH AND BANKS		
03 Cash and equivalents on hand	3,265,840	2,717,550
TOTAL IV	3,265,840	2,717,550
TOTAL CURRENT ASSETS	513,819,884	421,704,274
D ACCRUED INCOME AND PREPAYMENTS		
02 Other accrued income and prepayments	33,746,157	86,497,652
TOTAL ACCRUED INCOME AND PREPAYMENTS	33,746,157	86,497,652
TOTAL ASSETS	8,336,219,916	8,533,408,162

LIABILITIES	31-10-2000	31-10-1999
A SHAREHOLDERS' EQUITY		
I SHARE CAPITAL	4,000,000,000	4,000,000,000
III REVALUATION RESERVES	371,965,952	371,965,952
IV LEGAL RESERVE	8,000,000	8,000,000
VII OTHER RESERVES		
01 Extraordinary reserve		19,348,888
TOTAL VII	0	19,348,888
IX PROFIT (LOSS) FOR THE YEAR	(840,640,798)	(542,419,316)
TOTAL SHAREHOLDERS' EQUITY	3,539,325,154	3,856,895,524
C RESERVE FOR SEVERANCE INDEMNITIES	91,368,135	77,889,288
TOTAL RESERVE FOR SEVERANCE INDEMNITIES	91,368,135	77,889,288
D PAYABLES		
03 DUE TO BANKS		
a due within 12 months	45,731,346	42,216,227
b due beyond 12 months	328,733,622	374,464,968
TOTAL 03	374,464,968	416,681,195
05 ADVANCE PAYMENTS		
a due within 12 months	3,609,231	1,365,000
TOTAL 05	3,609,231	1,365,000
06 DUE TO SUPPLIERS		
a due within 12 months	594,590,279	410,944,783
TOTAL 06	594,590,279	410,944,783
10 DUE TO PARENT COMPANY		
a due within 12 months	3,180,149,173	3,276,004,329
TOTAL 10	3,180,149,173	3,276,004,329
11 TAXES PAYABLE		
a due within 12 months	91,040,159	50,241,758
TOTAL 11	91,040,159	50,241,758
12 DUE TO SOCIAL SECURITY INSTITUTIONS		
a due within 12 months	56,689,000	55,774,000
TOTAL 12	56,689,000	55,774,000
13 OTHER PAYABLES		
a due within 12 months	114,442,649	119,780,507
TOTAL 13	114,442,649	119,780,507
TOTAL PAYABLES	4,414,985,459	4,330,791,572
E ACCRUED LIABILITIES AND DEFERRED INCOME		
02 Other accrued liabilities and deferred income	290,541,168	267,831,778
TOTAL ACCRUED LIABILITIES AND DEFERRED INCOME	290,541,168	267,831,778
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	8,336,219,916	8,533,408,162



MEMORANDUM ACCOUNTS	31-10-2000	31-10-1999
01 PERSONAL GUARANTEES RECEIVED		
d Sureties received from third parties	436,865,084	479,081,311
TOTAL 01	436,865,084	479,081,311
TOTAL MEMORANDUM ACCOUNTS	436,865,084	479,081,311

**INCOME
STATEMENT**

	31-10-2000	31-10-1999
A PRODUCTION VALUE		
01 REVENUES FROM SALES AND SERVICES	3,558,893,041	3,743,480,039
05 OTHER REVENUES AND INCOME		
a Other revenues and income	213,598,234	75,457,505
TOTAL 05	213,598,234	75,457,505
TOTAL PRODUCTION VALUE	3,772,491,275	3,818,937,544
B PRODUCTION COSTS		
06 FOR RAW MATERIALS, CONSUMABLES AND GOODS	(776,255,125)	(651,112,541)
07 FOR SERVICES	(1,489,941,938)	(1,404,715,155)
09 FOR PERSONNEL		
a Wages and salaries	(1,217,621,605)	(1,135,728,132)
b Social contributions	(412,684,161)	(386,481,148)
c Severance indemnities	(65,392,946)	(67,323,386)
e Other costs	(484,300)	(1,080,250)
TOTAL 09	(1,696,183,012)	(1,590,612,916)
10 DEPRECIATION, AMORTIZATION AND WRITE-DOWNS		
a Amortization of intangible assets	(106,728,326)	(101,832,219)
b Depreciation of fixed assets	(273,786,986)	(277,436,099)
TOTAL 10	(380,515,312)	(379,268,318)
11 CHANGE IN INVENTORIES OF RAW MATERIALS, CONSUMABLES AND GOODS	64,133,687	(15,018,277)
14 SUNDRY OPERATING COSTS	(191,345,640)	(187,290,571)
TOTAL PRODUCTION COSTS	(4,470,107,340)	(4,228,017,778)
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS (A-B)	(697,616,065)	(409,080,234)
C FINANCIAL INCOME AND CHARGES		
16 OTHER FINANCIAL INCOME		
a from loans recorded among non-current assets		
a4 From third parties	315,093	353,799
TOTAL a	315,093	353,799
d Income other than above		
d4 From third parties	17,738,217	25,295,781
TOTAL d	17,738,217	25,295,781
TOTAL 16	18,053,310	25,649,580
17 INTEREST AND OTHER FINANCIAL CHARGES		
c To parent company	(86,671,875)	(85,431,045)
d To third parties	(32,850,280)	(35,956,322)
TOTAL 17	(119,522,155)	(121,387,367)
TOTAL FINANCIAL INCOME AND CHARGES	(101,468,845)	(95,737,787)
E EXTRAORDINARY ITEMS		
20 INCOME		
b Other extraordinary income	3,547,190	16,167,500
TOTAL 20	3,547,190	16,167,500
21 CHARGES		
c Other extraordinary charges	(1,620,078)	(3,258,795)
TOTAL 21	(1,620,078)	(3,258,795)
TOTAL EXTRAORDINARY ITEMS PRE-TAX PROFIT (LOSS) (A-B+-C+-D+-E)	1,927,112	12,908,705
22 INCOME TAXES FOR THE YEAR	(797,157,798)	(491,909,316)
26 NET PROFIT (LOSS) FOR THE YEAR	(43,483,000)	(50,510,000)
	(840,640,798)	(542,419,316)

SINERGIA SECONDA SRL

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2000 (in lire)

BALANCE SHEET

ASSETS	31-12-2000	31-12-1999
A) AMOUNTS RECEIVABLE FROM SHAREHOLDERS	0	0
B) NON-CURRENT ASSETS		
I - Intangible assets		
1) set-up and expansion costs	122,708,880	163,611,840
7) other	8,235,240	
<i>Total intangible assets</i>	130,944,120	163,611,840
II - Fixed assets	0	0
III - Financial assets		
1) equity investments in		
a) subsidiary companies	38,725,400	0
<i>Total financial assets</i>	38,725,400	0
TOTAL NON-CURRENT ASSETS	169,669,520	163,611,840
C) CURRENT ASSETS		
I - Inventories		
4) finished products and merchandise	19,534,941,912	19,534,941,912
<i>Total inventories</i>	19,534,941,912	19,534,941,912
II - Receivables		
1) due from customers		
a - due within 12 months	0	173,155,694
5) due from others		
a - due within 12 months	30,932,420	27,691,282
<i>Total receivables</i>	30,932,420	200,846,976
III - Financial assets not held as non-current assets	0	0
IV - Cash and banks		
1) bank and postal deposits	400,253,211	260,014,004
<i>Total cash and banks</i>	400,253,211	260,014,004
TOTAL CURRENT ASSETS	19,966,127,543	19,995,802,892
D) ACCRUED INCOME AND PREPAYMENTS		
1) accrued income and prepayments	16,997,553	42,004,518
TOTAL ACCRUED INCOME AND PREPAYMENTS	16,997,553	42,004,518
TOTAL ASSETS	20,152,794,616	20,201,419,250

LIABILITIES AND SHAREHOLDERS' EQUITY	31-12-2000	31-12-1999
A) SHAREHOLDERS' EQUITY		
I - Share capital	20,000,000,000	20,000,000,000
II - Share premium reserve	0	0
III - Revaluation reserves	0	0
IV - Legal reserve	0	0
V - Reserve for own shares	0	0
VI - Statutory reserves	0	0
VII - Other reserves		
a) Capital due from shareholders	0	4,614,279
VIII - Profit (loss) carried forward	(16,010,043)	0
IX - Net profit (loss) for the year	40,901,743	(20,624,322)
TOTAL SHAREHOLDERS' EQUITY	20,024,891,700	19,983,989,957
B) RESERVES FOR RISKS AND CHARGES		
2) for taxation	2,880,000	2,880,000
TOTAL RESERVES FOR RISKS AND CHARGES	2,880,000	2,880,000
C) RESERVES FOR SEVERANCE INDEMNITIES		
TOTAL RESERVES FOR SEVERANCE INDEMNITIES	0	0
D) PAYABLES		
6) due from suppliers		
a - due within 12 months	63,351,545	171,804,886
11) taxes payable		
a - due within 12 months	29,186,000	12,878,000
13) other payables		
a - due within 12 months	27,300,000	26,650,000
TOTAL PAYABLES	119,837,545	211,332,886
E) ACCRUED LIABILITIES AND DEFERRED INCOME		
1) accrued liabilities and deferred income	5,185,371	3,216,407
TOTAL ACCRUED LIABILITIES AND DEFERRED INCOME	5,185,371	3,216,407
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	20,152,794,616	20,201,419,250



MEMORANDUM ACCOUNTS	31-12-2000	31-12-1999
b) Tenant guarantees	121,875,000	41,875,000
<i>TOTAL MEMORANDUM ACCOUNTS</i>	121,875,000	41,875,000

**INCOME
STATEMENT**

	31-12-2000	31-12-1999
A) PRODUCTION VALUE		
1) revenues from sales and services	685,350,378	724,114,892
5) other revenues and income		
c) other income	27,722	39,347
TOTAL PRODUCTION VALUE	685,378,100	724,154,239
B) PRODUCTION COSTS		
7) for services	503,778,247	422,471,886
10) depreciation, amortization and write-downs		
a) amortization of intangible assets	42,961,770	40,902,960
14) sundry operating costs		
a) other operating costs and charges	3,349,601	207,877,006
b) non-deductible charges	68,497,000	74,706,124
TOTAL PRODUCTION COSTS	618,586,618	745,957,976
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	66,791,482	(21,803,737)
C) FINANCIAL INCOME AND CHARGES		
16) other financial income		
d) other financial income		
3) from third parties	10,940,461	6,518,303
17) interest and other financial charges		
c) payable to third parties	769,200	1,191,500
TOTAL FINANCIAL INCOME AND CHARGES	10,171,261	5,326,803
D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS		
TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS	0	0
E) EXTRAORDINARY ITEMS		
20) income		
b) other extraordinary income	0	4,142,412
21) charges		
c) other non-deductible extraordinary charges	0	11,800
TOTAL EXTRAORDINARY ITEMS	0	4,130,612
PRE-TAX PROFIT (LOSS)	76,962,743	(12,346,322)
22) income taxes for the year		
b) IRPEG (corporate income tax)	33,171,000	
c) IRAP (regional business tax)	2,890,000	8,278,000
26) Net profit (loss) for the year	40,901,743	(20,624,322)

RIPOVAL SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 1999 (in lire)

BALANCE SHEET

Assets		31-12-1999	31-12-1998
10.	CASH AND BANKS	163,698,019	90,174,385
20.	DUE FROM BANKS	2,366,060	3,072,207,582
	a) Sight	2,366,060	
40.	DUE FROM CUSTOMERS	28,884,588,736	19,831,554,412
	a) From taxpayers	0	
	b) From entities for ordinary tax rolls	4,388,905,913	
	of which:		
	for instalments paid in advance to tax authorities	4,207,653,877	
	c) From other entities for tax collection	24,495,682,823	
90.	INTANGIBLE ASSETS	45,009,018	25,460,123
	of which:		
	set-up costs	5,845,600	
100.	FIXED ASSETS	3,384,224,010	1,927,088,058
	a) Land and buildings	2,666,556,750	
	b) Equipment and machinery	396,575,055	
	c) Furniture and office machines	315,779,705	
	d) Other fixed assets	5,312,500	
130.	OTHER ASSETS	1,108,264,547	3,280,086,064
	of which:		
	Post office account for direct tax payments	7,288,141	
	Post office account for local property tax	137,437,210	
140.	ACCRUED INCOME AND PREPAYMENTS	37,148,676	33,116,584
	a) Prepayments	37,148,676	
Total assets		33,625,299,066	28,259,687,208

Liabilities		31-12-1999	31-12-1998
10.	DUE TO BANKS	19,977,577,429	190,267,117
	a) sight	19,977,577,429	
30.	DUE TO CUSTOMERS	7,344,886,841	22,566,350,074
	a) Due to entities for ordinary tax rolls	796,876,986	
	b) Other amounts due to entities	6,479,063,671	
	c) Due to taxpayers	68,946,184	
50.	OTHER LIABILITIES	2,341,111,478	1,219,272,351
	a) Trade payables	1,195,552,261	
	b) Taxes payable	97,691,000	
	c) Other payables	1,047,868,217	
80.	RESERVE FOR RISKS AND CHARGES	1,086,444,960	1,296,492,558
	a) Taxation reserve	699,241,000	
	b) Other reserves	387,203,960	
120.	SHARE CAPITAL	2,000,000,000	2,000,000,000
140.	RESERVES	387,305,108	341,600,703
	a) Legal reserve	89,131,204	
	b) Extraordinary reserve	298,173,904	
170.	NET PROFIT (LOSS) FOR THE YEAR	487,973,250	645,704,405
Total liabilities		33,625,299,066	28,259,687,208

Guarantees and commitments		31-12-1999	31-12-1998
20.	COMMITMENTS	0	3,431,937,525



INCOME STATEMENT

Costs		1999	1998
10.	INTEREST EXPENSE AND SIMILAR CHARGES	150,443,394	17,203,979
	of which:		
	Interest on bank loans	150,443,394	
20.	COMMISSIONS AND FEES FOR COLLECTION SERVICES	706,712,316	760,811,193
	a) For collection services	421,684,849	
	b) For other services	285,027,467	
40.	ADMINISTRATIVE EXPENSES	4,604,724,771	4,500,523,759
	a) Personnel expenses	2,771,053,160	
	of which:		
	Wages and salaries	1,864,747,827	
	Social security contributions	671,020,148	
	Contribution for capital	130,397,088	
	b) Expenses for professional services	600,100,550	
	c) Consumables and miscellaneous office costs	472,147,114	
	d) Expenses for non-professional services	149,357,355	
	e) Expenses for the use of third-party assets	142,540,543	
	f) Indirect taxes and duties	469,526,049	
50.	ADJUSTMENTS TO INTANGIBLE AND FIXED ASSETS	299,859,937	69,490,123
	a) Amortization of intangible assets	37,037,105	
	b) Depreciation of fixed assets	262,822,832	
60.	ADJUSTMENTS TO EMOLUMENTS	20,080,158	56,116,171
70.	PROVISIONS FOR RISKS AND CHARGES	100,000,000	220,000,000
110.	EXTRAORDINARY CHARGES	6,720,689	7,609,365
130.	INCOME TAXES FOR THE YEAR	665,000,000	896,000,000
140.	NET PROFIT FOR THE YEAR	487,973,250	645,704,405
Total		7,041,514,515	7,173,458,995

Income		1999	1998
10.	INTEREST INCOME AND SIMILAR REVENUES	147,558,792	405,943,765
	a) From amounts due from customers	94,555,090	
	b) Other interest income	53,003,702	
30.	INCOME FROM TAX COLLECTION	6,879,443,794	6,691,418,446
	a) Primary income from rolls	894,199,501	
	b) Supplementary income from rolls	243,293,190	
	c) Income from direct payments	1,886,201,418	
	d) Other income from tax collection	3,855,749,685	
70.	OTHER OPERATING INCOME	8,439,378	26,680,494
	a) Income from capital	8,439,378	
80.	EXTRAORDINARY INCOME	6,072,551	49,416,290
Total		7,041,514,515	7,173,458,995


Report of the Independent Auditors pursuant to art. 156 of Legislative Decree no. 58 of February 24, 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 of Banca Popolare di Sondrio S.c. a r.l. as of and for the year ended December 31, 2000. These financial statements are the responsibility of the Bank's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with generally accepted auditing standards in Italy as recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob"). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the adequacy and the fairness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion. For our opinion on the prior year's financial statements, which are presented for comparative purposes as required by law, reference should be made to our auditors' report dated February 15, 2000.
3. In our opinion, the financial statements of Banca Popolare di Sondrio S.c. a r.l. as of and for the year ended December 31, 2000 comply with the Italian statutory provisions related to financial statements; therefore they give a true and fair view of the financial position and results of operations of the Bank.

Milan, February 15, 2001

ARTHUR ANDERSEN S.p.A.

Riccardo Azzali
(Partner)

FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2000
IN EURO

Figures have been converted into euros using the irrevocable exchange rate of L. 1,936.27 to the euro.

BALANCE SHEET

ASSETS		31-12-2000	31-12-1999
10.	CASH ON HAND AT CENTRAL BANKS AND POST OFFICES	49,005,899	37,003,451
20.	TREASURY AND SIMILAR BILLS ELIGIBLE FOR REFINANCING WITH CENTRAL BANKS	469,531,203	502,341,287
30.	DUE FROM OTHER BANKS:	518,763,956	613,335,822
	a) sight	114,839,336	180,216,157
	b) others	403,924,620	433,119,665
40.	CUSTOMER LOANS	4,443,945,484	3,724,763,745
	of which:		
	- from third-party funds under administration	135,087	307,342
50.	BONDS AND OTHER FIXED-YIELD SECURITIES:	912,066,686	770,059,711
	a) from public issuers	819,345,202	675,444,995
	b) from banks	69,898,539	71,124,064
	of which:		
	- own securities	2,879,953	1,655,831
	c) from financial institutions	1,200,927	13,768,571
	d) from other issuers	21,622,018	9,722,081
60.	SHARES, QUOTAS AND OTHER VARIABLE-YIELD SECURITIES	50,894,732	22,261,410
70.	EQUITY INVESTMENTS	58,779,277	52,423,477
80.	EQUITY INVESTMENTS IN GROUP COMPANIES	32,928,414	32,928,414
90.	INTANGIBLE ASSETS	9,399,280	8,833,764
100.	FIXED ASSETS	70,752,009	68,811,422
120.	OWN SHARES (par value 25,151.45)	177,334	178,991
130.	OTHER ASSETS	255,931,888	184,163,746
140.	ACCRUED INCOME AND PREPAYMENTS:	45,690,131	32,134,446
	a) accrued income	43,935,151	30,303,266
	b) prepayments	1,754,980	1,831,180
TOTAL ASSETS		6,917,866,293	6,049,239,686

LIABILITIES		31-12-2000	31-12-1999
10.	DUE TO OTHER BANKS:	1,242,137,251	984,819,014
	a) sight	266,211,718	162,551,786
	b) time or with notice	975,925,533	822,267,228
20.	CUSTOMER DEPOSITS:	3,944,879,797	3,446,170,172
	a) sight	3,068,288,502	2,712,329,232
	b) time or with notice	876,591,295	733,840,940
30.	SECURITIES ISSUED:	642,728,782	627,642,775
	a) bonds	525,086,469	509,830,846
	b) certificates of deposit	40,165,499	51,609,150
	c) other securities	77,476,814	66,202,779
40.	THIRD-PARTY FUNDS UNDER ADMINISTRATION	155,205	328,749
50.	OTHER LIABILITIES	311,431,676	266,156,556
60.	ACCRUED LIABILITIES AND DEFERRED INCOME:	23,219,944	14,724,494
	a) accrued liabilities	21,128,865	12,940,177
	b) deferred income	2,091,079	1,784,317
70.	RESERVE FOR SEVERANCE INDEMNITIES	30,434,739	27,332,485
80.	RESERVES FOR RISKS AND CHARGES:	93,720,183	84,528,021
	a) staff pension fund	46,253,964	42,882,131
	b) taxation reserve	37,102,304	32,696,369
	c) other reserves	10,363,915	8,949,521
90.	RESERVES FOR POSSIBLE LOAN LOSSES	14,693,617	9,426,193
100.	RESERVE FOR GENERAL BANKING RISKS	38,734,268	34,602,612
120.	SHARE CAPITAL	177,617,357	177,617,357
130.	SHARE PREMIUM RESERVE	233,401,004	233,401,004
140.	RESERVES:	126,283,702	111,934,722
	a) legal reserve	34,594,976	31,534,282
	b) reserve for own shares	177,334	178,991
	c) statutory reserves	72,303,032	63,099,134
	d) other reserves	19,208,360	17,122,315
170.	NET PROFIT FOR THE YEAR	38,428,768	30,555,532
TOTAL LIABILITIES		6,917,866,293	6,049,239,686



GUARANTEES AND COMMITMENTS		31-12-2000	31-12-1999
10.	GUARANTEES GRANTED	1,118,605,707	1,055,477,136
	of which:		
	- acceptances	4,530,876	12,871,656
	- other guarantees	1,114,074,831	1,042,605,480
20.	COMMITMENTS	202,518,119	357,018,441

INCOME STATEMENT

		2000	1999
10.	INTEREST INCOME AND SIMILAR REVENUES	347,294,741	252,681,193
	of which:		
	– on customer loans	266,944,125	190,373,143
	– on fixed-yield securities	58,110,703	47,438,943
20.	INTEREST EXPENSE AND SIMILAR CHARGES	(182,570,678)	(110,516,283)
	of which:		
	– on customer deposits	(103,318,955)	(61,204,889)
	– on securities issued	(18,155,420)	(15,276,993)
30.	DIVIDENDS AND OTHER INCOME:	3,847,800	3,125,366
	a) from shares, quotas and other variable-yield securities	582,465	177,878
	b) from equity investments	3,265,335	2,947,488
40.	COMMISSION INCOME	98,140,795	77,204,500
50.	COMMISSION EXPENSE	(5,420,527)	(3,782,144)
60.	PROFITS FROM FINANCIAL TRANSACTIONS	15,376,370	9,291,558
70.	OTHER OPERATING INCOME	19,184,492	17,560,688
80.	ADMINISTRATIVE EXPENSES:	(163,070,532)	(147,869,712)
	a) Personnel expenses	(85,327,673)	(78,773,648)
	of which:		
	– wages and salaries	(56,198,687)	(51,587,874)
	– social security contributions	(15,953,096)	(14,943,852)
	– severance indemnities	(5,083,512)	(4,081,724)
	– pensions	(5,129,035)	(4,425,128)
	b) Other administrative expenses	(77,742,859)	(69,096,064)
90.	ADJUSTMENTS TO INTANGIBLE AND FIXED ASSETS	(14,484,473)	(12,750,304)
100.	PROVISIONS FOR RISKS AND CHARGES	(1,032,914)	
110.	OTHER OPERATING EXPENSES	(3,153,662)	(3,581,336)
120.	ADJUSTMENTS TO LOANS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS	(42,179,642)	(33,062,309)
130.	WRITE-BACKS TO LOANS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS	10,163,633	11,920,382
140.	PROVISIONS TO RESERVES FOR POSSIBLE LOAN LOSSES	(6,644,492)	(2,471,528)
150.	ADJUSTMENT TO THE VALUE OF LONG-TERM FINANCIAL ASSETS	(425,472)	(264,740)
170.	PROFIT FROM ORDINARY OPERATIONS	75,025,439	57,485,331
180.	EXTRAORDINARY INCOME	1,292,124	12,141,075
190.	EXTRAORDINARY CHARGES	(1,146,055)	(594,835)
200.	NET EXTRAORDINARY ITEMS	146,069	11,546,240
210.	CHANGE IN THE RESERVE FOR GENERAL BANKING RISKS	(4,131,655)	(11,362,052)
220.	INCOME TAXES FOR THE YEAR	(32,611,085)	(27,113,987)
230.	NET PROFIT FOR THE YEAR	38,428,768	30,555,532



Banca Popolare di Sondrio

CONSOLIDATED
FINANCIAL STATEMENTS OF THE
BANCA POPOLARE DI SONDRIO
GROUP

REPORT ON PERFORMANCE

Shareholders,

As parent company of the Banca Popolare di Sondrio Banking Group, registration no. 5696.0, we are obliged to present consolidated financial statements.

COMPOSITION OF THE BANKING GROUP

The Banca Popolare di Sondrio Banking Group is made up as follows:

Parent bank:

Banca Popolare di Sondrio S.c. a r.l. - Sondrio, Italy

Group companies:

Banca Popolare di Sondrio (Suisse) S.A. - Lugano, Switzerland

Popso (Suisse) Advisory Holding S.A. - Luxembourg

The parent bank owns the entire share capital of Banca Popolare di Sondrio (Suisse) S.A., which amounts to 50,000,000 Swiss francs and is fully paid in. Banca Popolare di Sondrio (Suisse) S.A. owns the entire share capital of Popso (Suisse) Advisory Holding S.A., which amounts to 3,000,000 Luxembourg francs and is fully paid in.

The scope of consolidation and the consolidation methods are specified in the notes to these consolidated financial statements.

GENERAL ECONOMIC CONTEXT

The report on performance accompanying the parent bank's financial statements contains information on the international and Italian economic situation during the year. We would, however, like to add a few comments regarding

economic trends in Switzerland, even if based on indices and information which are not yet official and definitive.

After a decade of basically stagnating, the Swiss economy performed well in 2000. GDP is expected to have grown at an annual rate of around 3.3%, despite slowing in the final quarter, reflecting the worldwide downturn. The situation on the labour market was very encouraging with unemployment expected to fall to 1.9% at year end. The Swiss inflation rate was affected by the rise in oil prices but the year-end rate of 1.6% is not a cause for concern.

The Swiss financial market had an excellent year, with the Zurich Stock Exchange gaining 7.4% despite the global context which did little to favour stockmarket performance.

The banking sector has seen the arrival of many new foreign banks, particularly in Lugano. The increase in its profitability was considerably better-than-expected.

Conditions in the cantons where the subsidiary Banca Popolare di Sondrio (Suisse) S.A. is active, were much like in the rest of the country.

GEOGRAPHICAL EXPANSION

The banking group continues to expand its local network apace. It has opened branches in new areas, thereby implementing its expansion plans geared to extending but also intensifying its sphere of action. The report on performance accompanying the parent bank's financial statements contains information on the new initiatives undertaken in this area. In this report, we would like to draw attention to the strategy of focusing on the border areas between Italy and Switzerland, which took an important step forward during the year: on the Italian side, new branches were opened in Bisuchio (Varese) and Gravellona Toce (Verbania), while on the Swiss



side of the border new branches were established in Castasegna and Locarno.

The parent company also transferred its representative office in St. Gallen to Geneva, acquiring its own observation post on this international financial market. Lastly, in addition to those already mentioned, Banca Popolare di Sondrio (Suisse) S.A. inaugurated a branch in Coira and a representative office in Basle.

GROUP PERFORMANCE

Funding

Like the parent bank, the performance at group level was also positive.

Direct customer deposits came to L. 9,191 billion, an increase of 12.65%. Deposits received from other banks climbed 27.79% to L. 2,409 billion.

CONSOLIDATED DIRECT CUSTOMER DEPOSITS

(in millions of lire)	2000	% of total	1999	% change
Savings deposits	725,766	7.90	737,118	- 1.54
Certificates of deposit	77,771	0.85	99,929	- 22.17
Bonds	1,036,377	11.28	1,001,758	3.46
Repo transactions	1,581,988	17.21	1,271,066	24.46
Bank drafts and similar	150,019	1.63	128,219	17.00
Current accounts in lire and EMU currencies	5,179,836	56.35	4,479,376	15.64
Current accounts in foreign currency	439,260	4.78	441,560	- 0.52
Total	9,191,017	100.00	8,159,026	12.65

TOTAL CONSOLIDATED FUNDING

(in millions of lire)	2000	% of total	1999	% change
Total direct customer deposits	9,191,017	22.32	8,159,026	12.65
Total indirect customer deposits	23,482,746	57.01	22,245,030	5.56
Total	32,673,763	79.33	30,404,056	7.47
Due to other banks	2,409,065	5.85	1,885,143	27.79
Indirect deposits from banks	6,103,220	14.82	7,558,485	- 19.25
Third-party funds under administration	301	0.00	637	- 52.75
Grand total	41,186,349	100.00	39,848,321	3.36

Indirect customer deposits totalled L. 23,483 billion, up 5.56% for the year, while indirect deposits from banks fell 19.25% to L. 6,103 billion.

It should be stressed that the growth in direct deposits was considerably better than for the banking sector as a whole. This demonstrates the group's ability not only to respond appropriately to its customers' needs, but also to win new business, partly thanks to its continued geographic expansion.

Analyzing the components of direct deposits, current accounts grew by 14.19% to L. 5,619 billion. Savings deposits were basically unchanged, edging down 1.54% to L. 726 billion, while the other components made progress with bonds up 3.46% at L. 1,036 billion and repo transactions 24.46% higher at L. 1,582 billion.

Although asset management activities had to contend with customer disaffection for bond

funds, the results were positive thanks to the launch of new products and the hard work of our staff. The funds under management increased by 11.39% to L. 5,407 billion.

Loans

The economic recovery, combined with the lower level of interest rates, has helped boost investment by companies and borrowings by households. In addition to the rosy economic situation, our group was able to benefit from the continued growth of its branch network and escalation of its commercial efforts. These factors are behind the robust increase in loans, up 20.06% to L. 8,878 billion.

Amongst the various technical forms, of particular note is the growth in mortgage loans, up L. 422 billion (+30.78%) at L. 1,792 billion, a figure which represents 20.19% of total lending.

The increase in current account overdrafts

CONSOLIDATED CUSTOMER LOANS

(in millions of lire)	2000	% of total	1999	% change
Current account overdrafts	3,599,190	40.55	3,040,678	18.37
Foreign currency loans	1,853,409	20.88	1,548,618	19.68
Advances	302,749	3.41	286,574	5.64
Advances subject to collection	130,922	1.47	114,220	14.62
Discounted portfolio	18,169	0.20	18,153	0.09
Artisan loans	85,410	0.96	78,454	8.87
Agricultural loans	5,455	0.06	2,649	105.93
Personal loans	104,602	1.18	88,387	18.35
Other unsecured loans	950,603	10.71	795,733	19.46
Mortgage loans	1,792,174	20.19	1,370,373	30.78
Net outstanding overdue loans	104,244	1.17	110,648	- 5.79
Items to be settled	2,052	0.02	1,518	35.18
- Writedowns	- 70,828	- 0.80	- 61,186	15.76
Total	8,878,151	100.00	7,394,819	20.06



and foreign currency loans was also notable, climbing 18.37% to L. 3,599 billion and 19.68% to L. 1,853 billion respectively. Personal loans also made good progress, up 18.35% to L. 105 billion. The quality of loans improved as demonstrated by the trend in outstanding overdue loans, which fell from 1.50% of total customer loans at the end of 1999 to 1.17% at the end of 2000. They continue to remain at a very low level, reflecting the group's careful management of credit risk.

Securities portfolio

The securities portfolio grew 11.95% to L. 2,840 billion. Movements in the portfolio are detailed in table 2.4 of the notes to the consolidated financial statements. Given the overall importance of the parent bank's portfolio relative to the total, the reader is referred to the report on performance accompanying its financial statements for information on investment policies.

The value of Banca Popolare di Sondrio's stock grew 14.87% over the year, considerably outperforming the index for the Over-the-Counter market, which climbed just 3.02%.

As of 31 December 1999 the parent bank owned 9,740 of its own shares, worth around L. 343 million, against an overall reserve for the purchase of own shares of L. 25 billion.

In 2000, own shares underwent the following movements:

The purpose of the transactions was to facilitate trading within the parent bank's body of shareholders. Banca Popolare di Sondrio (Suisse) S.A. and Popso (Suisse) Advisory Holding S.A. carried out no transactions in their own shares or in those of the parent bank.

The other consolidated companies - Pirovano Stelvio S.p.A., Ripoval S.p.A., Sofipo Fiduciare S.A., Sinergia Seconda S.r.l., Immobiliare San Paolo S.r.l. and Immobiliare Borgo Palazzo S.r.l. - also carried out no transactions in their own or the parent bank's shares.

There are no cross-holdings among the companies included within the scope of consolidation.

EQUITY INVESTMENTS

Equity investments amounted to L. 112 billion as of 31 December 2000, having increased by L. 12 billion over the year.

The report on performance accompanying the parent bank's financial statements contains information on the equity investments held by the parent bank.

As for Sofipo Fiduciare S.A., in which Banca Popolare di Sondrio (Suisse) S.A. holds a 30% interest, this company has established its presence on the difficult Swiss market. Now in its third year of business, Sofipo Fiduciare S.A., has almost reached break-even, thanks to the steady expansion of its customer portfolio. It has significantly

	No. of shares	Par value	% of capital	Amount of trades
Balance as of 31/12/1999	13,885	69,425,000	0.02	346,575,368
Purchases	1,189,532	5,947,660,000	1.73	37,351,280,299
Sales	1,193,677	5,968,385,000	1.74	37,978,109,973
Profit from trading				623,619,939
Balance as of 31/12/2000	9,740	48,700,000	0.01	343,365,633

boosted revenues, particular in the area of company administration services and legal and tax advice.

The table below sets out the balances with subsidiary companies, excluded from consolidation, and associated companies:

suitable resources and developing their knowledge and expertise.

As of 31 December 2000, the group's headcount came to 1,818, up 7.3% on the figure of 1,695 reported a year earlier.

BALANCES WITH SUBSIDIARY AND ASSOCIATED COMPANIES EXCLUDED FROM THE CONSOLIDATION AREA AS OF 31 DECEMBER 2000

(in millions of lire)

	Subsidiary company balances with parent bank		Subsidiary company balance with other subsidiaries		Associated company balances with parent bank		Associated company balances with subsidiary companies	
	2000	1999	2000	1999	2000	1999	2000	1999
ASSETS								
Due from other banks	-	-	-	-	-	-	-	-
Customer loans	3,232	3,571	27,756	-	7,113	10,946	3,992	1,521
Securities	-	-	-	-	-	-	-	-
LIABILITIES								
Due to other banks	-	-	-	-	-	-	-	-
Customer deposits	400	264	-	-	268	3	262	550
GUARANTEES AND COMMITMENTS								
Guarantees granted	437	479	-	-	12,517	12,508	3,271	2,986
Commitments	-	-	-	-	-	-	-	-

Intercompany and related party transactions form part of the group's ordinary operations and concern correspondence relationships for services rendered, deposit accounts, or financial support for the activities carried out by the various companies concerned. There were no atypical or unusual transactions during the year.

HUMAN RESOURCES

The group's development is based on its continued increase in size and above all the professionalism of its personnel. As a result, it dedicates considerable efforts to recruiting

EQUITY

Consolidated shareholder's equity came to L. 1,132 billion as of 31 December 2000, an increase of 4.52% over the year, reflecting the provisions booked in the financial statements to the reserve for general banking risks and those booked upon allocating the net profit for 1999.

The ratios between capital and the main balance sheet items are summarised below:

- *capital/direct customer deposits*
12.32% v 13.28%
- *capital/customer loans*
12.75% v 14.65%
- *capital/financial investments*
28.10% v 27.53%
- *capital/total assets*
8.21% v 9.02%



RECONCILIATION BETWEEN THE PARENT BANK'S AND THE CONSOLIDATED FINANCIAL STATEMENTS

Because of the difference in size between the consolidating company Banca Popolare di Sondrio and the other companies in the consolidation area, the individual contributions of the latter are not very significant, although certainly not negligible either. The following table reconciles the items "net profit for the year" and "shareholders' equity" as shown in the parent bank's and in the consolidated financial statements.

Trends in the consolidated income statement aggregates mostly reflect those reported by the parent bank.

At L. 337,950 million, net interest income was 18.19% higher, particularly thanks to the growth in the volumes handled. Income from customer loans rose 38.64% to L. 688,338 million, while the cost of funding shot up 65.20% to L. 357,838 million.

Net commission income made strong headway, up 29.55% to L. 218,964 million. Commissions earned from intermediation in securities performed particularly well, with collection of orders accounting for L. 31,910

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RECONCILIATION BETWEEN SHAREHOLDERS' EQUITY AND NET PROFIT FOR THE YEAR AS SHOWN IN THE PARENT BANK'S AND THE CONSOLIDATED FINANCIAL STATEMENTS

(in millions of lire)

	Shareholders' equity	of which: net profit for the year
Shareholders' equity of the parent bank as of 31/12/2000	1,189,770	74,408
Difference with respect to carrying values of equity investments in:		
- companies consolidated on a line-by-line basis	31,345	12,868
- companies valued at net equity	(1,761)	(242)
Balance as of 31/12/2000, as shown in the consolidated financial statements	1,219,354	87,034

Consolidated shareholders' equity, including the reserve for possible loan losses, amounts to L. 1,263,105 million, while the parent bank's shareholders' equity, including the reserve for possible loan losses, amounts to L. 1,218,221 million.

million in income, up 56.70%; securities placement L. 37,209 million, up 49.03%; and trading L. 28,827 million, up 41.45%.

Profits from financial transactions improved 41.96% to L. 33,997 million, despite lower gains on securities, which fell from L. 33,450 to 21,252 million.

Capital losses on securities totalled L. 12,449 million, a deterioration of 66.39%, while write-backs relating to prior year write-downs, came to L. 1,836 million compared with L. 251 million in the prior year. As already fully explained in the notes to the financial statements, the securities portfolio has no longer been valued

INCOME STATEMENT

The group reported a 29.09% increase in consolidated net profit for the year, coming in at L. 87,034 million.

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(in millions of lire)	2000	1999	% change
Interest income and similar revenues	688,338	496,484	38.64
Interest expense and similar charges	(357,838)	(216,605)	65.20
Dividends and other revenues	7,450	6,052	23.10
NET INTEREST INCOME	337,950	285,931	18.19
Net commission income	218,964	169,021	29.55
Profits from financial transactions	33,997	23,948	41.96
– profit from trading securities and derivatives on securities	21,252	33,450	– 36.46
– profit from trading currency and derivatives on currency	23,269	22,446	3.66
– profit from trading other derivatives	89	46	93.48
– gain (loss) on valuing securities	(10,613)	(31,994)	– 66.83
INCOME FROM BANKING ACTIVITIES	590,911	478,900	23.39
Other operating income	39,129	35,341	10.72
Administrative expenses	(342,893)	(303,963)	12.81
– personnel expenses	(179,992)	(161,871)	11.19
– other administrative expenses	(118,838)	(102,944)	15.44
– indirect taxes and duties	(44,063)	(39,148)	12.55
Other operating expenses	(6,149)	(6,934)	– 11.32
OPERATING PROFIT	280,998	203,344	38.19
Adjustments to intangible and fixed assets	(35,851)	(30,117)	19.04
Provisions for risks and charges	(4,021)	(1,363)	195.01
Loan write-downs and provisions for guarantees and commitments			
– loan write-downs	(80,725)	(64,017)	26.10
– provisions for guarantees and commitments	(1,000)	0	
Write-backs to loans and provisions for guarantees and commitments	19,751	23,089	– 14.46
Provisions to reserves for possible loan losses	(16,316)	(7,387)	120.87
Adjustments to the value of long-term financial assets	(1,091)	(657)	66.06
Losses on investments valued at net equity	(242)	(119)	103.36
PROFIT FROM ORDINARY OPERATIONS	161,503	122,773	31.55
Extraordinary income	2,617	23,508	– 88.87
Extraordinary charges	(2,388)	(1,153)	107.11
PROFIT BEFORE TAX	161,732	145,128	11.44
Provision to the reserve for general banking risks	(8,000)	(22,000)	– 63.64
Income and equity taxes	(66,698)	(55,709)	19.73
NET PROFIT FOR THE YEAR	87,034	67,419	29.09



using the method of “Lifo with annual layers”, but rather the “weighted-average cost” method. This change allows the book value of securities to correspond more closely to their market value.

Profits from currency trading were 3.66% higher at L. 23,269 million.

The above increases were reflected in income from banking activities, which rose 23.39% to L. 590,911 million. Income from services continued to improve, accounting for 42.81% of total income from banking activities compared with 40.29% in 1999.

Other operating income climbed 10.72% to L. 39,129 million.

Administrative expenses reached L. 342,893 million (+12.81%). Personnel expenses were 11.19% higher at L. 179,992 million, reflecting the new hires required due to expansion of the branch network. However, as a proportion of total administrative expenses, personnel costs fell from 53.25% to 52.49%.

Other administrative expenses rose 14.64% to L. 162,901 million, reflecting the group's expansion. Total administrative expenses accounted for 58.03% of income from banking activities, down from last year's figure of 63.47%.

Other operating expenses fell 11.32% to L. 6,149 million.

Operating profit climbed 38.19% from L. 203,344 million to L. 280,998 million.

The following items have been deducted from operating profit to arrive at the profit before tax of L. 161,732 million (+11.44%):

- adjustments to intangible and fixed assets, totalling L. 35,851 million (+19.04%);
- provisions for risks and charges, totalling L. 4,021 million (+195.01%);
- loan write-downs and provisions for guarantees and commitments, totalling L. 81,725 million (+27.66%). The write-downs are based on a reasonable forecast of the possible write-offs arising from any loan classified as outstanding, non-performing and restructured. The write-downs

also include a forfeit provision against the risk that performing loans might turn bad;

- write-backs to loans and provisions for guarantees and commitments, totalling L. 19,751 million (+14.46%);
- provisions to reserves for possible loan losses, totalling L. 16,316 million (+120.87%); these partly refer to overdue interest which is expected to be recovered, but which is provided against for the sake of prudence and to obtain the related tax benefits;
- adjustments to the value of long-term financial assets and losses on investments valued at net equity, totalling L. 1,091 million (+66.06%) and L. 242 million (+103.36%) respectively;
- extraordinary income, totalling L. 2,617 million and extraordinary charges, totalling L. 2,388 million.

After deducting from profit before taxes a total of L. 66,698 million (+19.73%) for taxes on income and business activities, and L. 8,000 million in provisions for general banking risks, net profit for the year came to L. 87,034 million.

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 2000. As regards Switzerland, there is nothing to report that may significantly change the context in which Banca Popolare di Sondrio (Suisse) S.A. operates.

In terms of the business prospects for 2001, we expect volumes to carry on increasing, generating a beneficial effect on the group's profitability.

Sondrio, 30 January 2001

THE BOARD OF DIRECTORS

REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS

Shareholders,

The 2000 consolidated financial statements, which the Board of Directors of the parent company, Banca Popolare di Sondrio, made available to us within the legal deadline, consist of the balance sheet, income statement and the notes, and are accompanied by the report of the Board of Directors. All these documents are available for your viewing.

We have examined these documents and acknowledge that they comply with the information provided by the companies included in the consolidation area. This is confirmed by the independent auditing firm Arthur Andersen, which has performed the checks required of it in accordance with the standards and principles established by current legislation.

The directors have provided us with frequent information regarding the relationship between the parent company and its associated and subsidiary companies, demonstrating their interest in monitoring and assessing the operations and activities of these companies.

Particular attention has been given to the subsidiary Banca Popolare di Sondrio (Suisse) SA, which operates in Switzerland and whose results and business have been in constant expansion. This company also owns 100% of Popso (Suisse) Advisory Holding SA (Luxembourg) and 30% of Sofipo Fiduciaire SA, located in Lugano.

The consolidation area also includes Immobiliare San Paolo srl and Immobiliare Borgo Palazzo srl, both of which are wholly owned by Sinergia Seconda srl, in turn a wholly-owned real-estate subsidiary of the bank with its registered office in Milan.

The consolidation methods, as explained in the notes, comply with current regulations, with cross shareholdings excluded and balances and transactions between consolidated companies eliminated.

Sondrio, 15 February 2001

THE STATUTORY AUDITORS
Egidio Alessandri, chairman
Piergiuseppe Forni
Roberto Schiantarelli

CONSOLIDATED
FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2000

CONSOLIDATED BALANCE SHEET

(in millions of lire)

ASSETS

31-12-2000

31-12-1999

10.	CASH ON HAND AT CENTRAL BANKS AND POST OFFICES	111,980		97,162
20.	TREASURY AND SIMILAR BILLS ELIGIBLE FOR REFINANCING WITH CENTRAL BANKS	909,139		972,668
30.	DUE FROM OTHER BANKS:	1,076,631		1,297,011
	a) sight	242,108	387,202	
	b) others	834,523	909,809	
40.	CUSTOMER LOANS	8,878,151		7,394,819
	of which:			
	– from third-party funds under administration	262	595	
50.	BONDS AND OTHER FIXED-YIELD SECURITIES:	1,813,727		1,512,676
	a) from public issuers	1,592,229	1,309,052	
	b) from banks	166,956	157,203	
	of which:			
	– own securities	5,576	3,206	
	c) from financial institutions	3,256	26,660	
	d) from other issuers	51,286	19,761	
60.	SHARES, QUOTAS AND OTHER VARIABLE-YIELD SECURITIES	117,285		51,735
70.	EQUITY INVESTMENTS:	112,115		99,922
	a) valued at net equity	28,996	7,673	
	b) others	83,119	92,249	
80.	EQUITY INVESTMENTS IN GROUP COMPANIES:	0		144
	a) valued at net equity	0	0	
	b) others	0	144	
110.	INTANGIBLE ASSETS	23,236		20,787
	of which:			
	– set-up costs			
120.	FIXED ASSETS	139,386		134,427
140.	OWN SHARES (par value 48.7)	343		346
150.	OTHER ASSETS	510,911		359,417
160.	ACCRUED INCOME AND PREPAYMENTS:	90,780		62,958
	a) accrued income	87,382	59,409	
	b) prepayments	3,398	3,549	
TOTAL ASSETS		13,783,684		12,004,072

THE CHAIRMAN
AND CHIEF EXECUTIVE OFFICER
Piero Melazzini

THE STATUTORY AUDITORS
Egidio Alessandri, Chairman
Piergiuseppe Forni - Roberto Schiantarelli

LIABILITIES

31-12-2000

31-12-1999

10.	DUE TO OTHER BANKS:		2,409,065		1,885,144
	a) sight	520,253		307,446	
	b) time or with notice	1,888,812		1,577,698	
20.	CUSTOMER DEPOSITS:		7,926,850		6,929,119
	a) sight	6,215,485		5,470,070	
	b) time or with notice	1,711,365		1,459,049	
30.	SECURITIES ISSUED:		1,264,167		1,229,907
	a) bonds	1,036,377		1,001,758	
	b) certificates of deposit	77,771		99,929	
	c) other securities	150,019		128,220	
40.	THIRD-PARTY FUNDS UNDER ADMINISTRATION		301		637
50.	OTHER LIABILITIES		620,833		525,946
60.	ACCRUED LIABILITIES AND DEFERRED INCOME:		49,947		29,410
	a) accrued liabilities	45,884		25,413	
	b) deferred income	4,063		3,997	
70.	RESERVE FOR SEVERANCE INDEMNITIES		58,930		52,923
80.	RESERVES FOR RISKS AND CHARGES:		190,486		170,653
	a) staff pension fund	89,560		83,031	
	b) taxation reserve	75,125		66,771	
	d) other reserves	25,801		20,851	
90.	RESERVES FOR POSSIBLE LOAN LOSSES		43,751		29,606
100.	RESERVE FOR GENERAL BANKING RISKS		75,000		67,000
130.	NEGATIVE DIFFERENCES ARISING ON APPLICATION OF NET EQUITY METHOD		259		194
150.	SHARE CAPITAL		343,915		343,915
160.	SHARE PREMIUM RESERVE		451,927		451,927
170.	RESERVES:		260,514		220,272
	a) legal reserve	84,949		69,697	
	b) reserve for own shares	343		346	
	c) statutory reserves	139,998		122,177	
	d) other reserves	35,224		28,052	
190.	RETAINED EARNINGS		705		
200.	NET PROFIT FOR THE YEAR		87,034		67,419
TOTAL LIABILITIES			13,783,684		12,004,072

THE GENERAL MANAGER
Mario Alberto Pedranzini

THE CHIEF ACCOUNTANT
Maurizio Bertolotti



GUARANTEES AND COMMITMENTS		31-12-2000	31-12-1999
10.	GUARANTEES GRANTED	2,020,252	1,895,745
	of which:		
	- acceptances	8,773	24,923
	- other guarantees	2,011,479	1,870,822
20.	COMMITMENTS	465,247	732,775

CONSOLIDATED INCOME STATEMENT

(in millions of lire)

		2000	1999
10.	INTEREST INCOME AND SIMILAR REVENUES	688,338	496,484
	of which:		
	– on customer loans	528,374	374,280
	– on fixed-yield securities	113,729	92,519
20.	INTEREST EXPENSE AND SIMILAR CHARGES	(357,838)	(216,605)
	of which:		
	– on customer deposits	201,704	119,403
	– on securities issued	35,562	29,812
30.	DIVIDENDS AND OTHER INCOME:	7,450	6,052
	a) from shares, quotas and other variable-yield securities	1,128	345
	b) from equity investments	6,322	5,707
40.	COMMISSION INCOME	236,476	180,226
50.	COMMISSION EXPENSE	(17,512)	(11,205)
60.	PROFITS FROM FINANCIAL TRANSACTIONS	33,997	23,948
70.	OTHER OPERATING INCOME	39,129	35,341
80.	ADMINISTRATIVE EXPENSES:	(342,893)	(303,963)
	a) Personnel expenses	179,992	161,871
	of which:		
	– wages and salaries	121,427	107,743
	– social security contributions	33,053	30,424
	– severance indemnities	9,843	7,903
	– pensions	9,931	8,568
	b) Other administrative expenses	162,901	142,092
90.	ADJUSTMENTS TO INTANGIBLE AND FIXED ASSETS	(35,851)	(30,117)
100.	PROVISIONS FOR RISKS AND CHARGES	(4,021)	(1,363)
110.	OTHER OPERATING EXPENSES	(6,149)	(6,934)
120.	ADJUSTMENTS TO LOANS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS	(81,725)	(64,017)
130.	WRITE-BACKS TO LOANS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS	19,751	23,089
140.	PROVISIONS TO RESERVES FOR POSSIBLE LOAN LOSSES	(16,316)	(7,387)
150.	ADJUSTMENTS TO THE VALUE OF LONG-TERM FINANCIAL ASSETS	(1,091)	(657)
170.	LOSS ON INVESTMENTS VALUED AT NET EQUITY	(242)	(119)
180.	PROFIT FROM ORDINARY OPERATIONS	161,503	122,773
190.	EXTRAORDINARY INCOME	2,617	23,508
200.	EXTRAORDINARY CHARGES	(2,388)	(1,153)
210.	NET EXTRAORDINARY ITEMS	229	22,355
230.	CHANGE IN THE RESERVE FOR GENERAL BANKING RISKS	(8,000)	(22,000)
240.	INCOME TAXES FOR THE YEAR	(66,698)	(55,709)
260.	NET PROFIT FOR THE YEAR	87,034	67,419

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements consist of the balance sheet, income statement and these notes, and are accompanied by the report of the Board of Directors, in accordance with Legislative Decree 87/92, which regulates the annual and consolidated financial statements of banks, implementing EEC Directives 86/635 and 89/117. In preparing the above, account has been taken of the Bank of Italy's Instructions of 3 August 1999 and of Decree 213/98.

The notes comment on the data in the financial statements, and contain the information required by current legislation.

All figures contained in the notes are in millions of lire.

The consolidated financial statements, as well as the bank's statutory financial statements, have been audited by Arthur Andersen S.p.A.

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CONSOLIDATION AREA

The consolidated financial statements include the data of the Banca Popolare di Sondrio S.c.a.r.l. and of the Banca Popolare di Sondrio (Suisse) SA, the latter operating in the area of credit and loans. Banca Popolare di Sondrio holds 100% of its share capital. The consolidated financial statements also include the data of Popso (Suisse) Advisory Holding SA, which is wholly-owned by Banca Popolare di Sondrio (Suisse) SA.

The consolidation is made on the basis of the annual accounts as of 31 December 2000 as approved by the respective Boards of Directors.

The subsidiary Sinergia Seconda Srl, a real estate company headquartered in Milan and wholly-owned by the bank, has been excluded from full consolidation and valued at cost, as it does not meet the requirements of article 28 of Legislative Decree 87/92. The company owns 100% of Immobiliare San Paolo srl and Immobiliare Borgo Palazzo srl, both of which were formed on 14 April 2000 and have been stated under the net equity method.

The associated company Ripoval S.p.A., a company over which the bank exercises considerable influence because of its 50% ownership, has been valued under the net equity method on the basis of its latest approved financial statements, which are those for the year ended on 31 December 1999, and taking account of the capital increase taking place during the year.

The subsidiary Pirovano Stelvio S.p.A. has been excluded from full consolidation as it does not meet the requirements of article 28 of Legislative Decree 87/92, not being a credit or financial institution; nor is its business instrumental to the activity of the banking group. It has therefore also been valued under the net equity method on the basis of its financial statements for the year ended 31 October 2000.

Sofipo Fiduciaire SA, an indirectly held associated company of Banca Popolare di Sondrio (Suisse) SA, which owns 30% of the share capital, has been written down to zero as it closed its first 3 years of operation with a loss.

CBE Service sprl and Sintesi 2000 srl, the associated companies in which the bank holds interests of 20% and 33.33% respectively, have been valued at cost, in accordance with article 36.4 of Legislative Decree 87/92, as they are not considered significant.

CONSOLIDATION POLICIES

The book value of the investments in Banca Popolare Sondrio (Suisse) SA and Popso (Suisse) Advisory Holding SA is eliminated against their net equity.

Intercompany balances and transactions are eliminated.

Insignificant income and charges pertaining to transactions carried out at normal market conditions have not been eliminated.



OTHER CONSOLIDATION OPERATIONS

The valuation in lire of the figures in the financial statements of Banca Popolare di Sondrio (Suisse) SA and Popso (Suisse) Advisory Holding SA has been made applying the official exchange rate ruling at the year end. Their financial statements have been duly reclassified and adjusted, where necessary, to bring them into line with the accounting principles of the Group. The same format is used as for the financial statements of Banca Popolare di Sondrio S.c. a.r.l..

PART A *Accounting policies*

The policy used for valuing securities has changed with respect to the prior year. The other policies are unchanged.

Change in accounting policies

The bank has decided to adopt the consistency principle and apply articles 7.3 and 15.1 of Legislative Decree 87/92 in order to improve the representation of its dealings in securities. As a result, the bank has adopted the method of weighted average cost for determining the cost of securities, instead of the LIFO method using annual layers. This change in accounting policy has resulted in additional gains of L. 1,879 million, reflected in the balance sheet and income statement accordingly. The post-tax effect of this change has been to increase shareholders' equity and net profit by L. 1,082 million. Given the insignificant size of this change, the amount attributable to prior years has not been identified separately nor have comparative pro-forma financial statements been prepared.

Section 1 Description of accounting principles

1. Receivables, guarantees and commitments

Due from other banks and customer loans

The amount of the loans shown in the financial statements reflects their estimated realizable value. This value is obtained by subtracting from the total amount disbursed the estimated losses of capital and interest, calculated on the basis of specific analyses of outstanding overdue loans, non-performing loans, loans being restructured and consolidated, and of the generic risk of losses - calculated on a forfeit basis and attributed proportionally to the individual positions - that could occur on other loans in the future. Write-downs and write-ups are calculated by comparing the prior year value of each position with the current year value. The original value of a loan is duly restored in subsequent years if the reasons for the write-down no longer exist.

Loans are classified as outstanding overdue loans when the borrowers are in a state of insolvency or similar, independent of any estimated losses.

Non-performing loans are loans to borrowers in temporary difficulties.

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

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

Other receivables

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

Guarantees and commitments

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

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

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

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

2.2 Trading securities

The securities in the financial statements are valued at the lower of cost (determined using the method of weighted average cost) or the value indicated in the latest approved financial statements, and the market price derived as follows:

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

Units in mutual funds are valued on the basis of the period-end value of the securities.

Original values are duly restored in subsequent years if the reasons for the write-down no longer exist.

Commitments for the purchase and sale of futures are valued at the lower of the forward purchase/sale price and the corresponding book and/or market values.

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

3. Equity investments

Item 70 includes:

under sub-item a) equity investments valued under the net equity method, namely Pirovano Stelvio S.p.A., Ripoval S.p.A., Sinergia Seconda s.r.l., Immobiliare San Paolo s.r.l. and Immobiliare Borgo Palazzo s.r.l., to which the value attributed is determined according to article 19 of Legislative Decree 87/92;

under sub-item b) others; the remaining equity investments are valued using the methods indicated below:

investments in unlisted companies are valued at cost, as determined on the basis of the purchase or subscription price, or else at the value indicated in the latest approved financial statements. The cost is reduced for permanent losses in value, when sufficient profits to absorb these losses are not immediately foreseeable for the affiliate that incurred them.

Equity investments in listed companies are valued at the lower of purchase or subscription price and market value, defined as the average quoted price in the second half of the year.

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

Dividends and the related tax credits are accounted for in the year they are collected in cash.



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

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

Assets, liabilities and off-balance sheet transactions in foreign currency of EMU participating member states are converted into the reporting currency by applying the pertinent conversion rates in compliance with articles 4 and 5 of EC regulation 1103/97.

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

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

5. Fixed assets

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

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

Moreover, within the limits of the law, accelerated depreciation has been charged in order to take advantage of the tax benefit on property, as well as to counter the obsolescence of high-tech goods shown under machines and equipment.

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

6. Intangible assets

These are booked at purchase cost, inclusive of ancillary charges, and are written off systematically over their estimated useful life. They consist of costs for setting-up and refurbishing branches in rented buildings and costs for the purchase of software utilization rights.

7. Others

Payables

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

Accruals and deferrals

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

Reserve for severance indemnities

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

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

Reserves for risks and charges

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

The taxation reserve provides for income tax on the basis of a reasonable forecast of current and deferred tax charges in accordance with current fiscal laws, taking into consideration any exemptions and tax credits due.

The prudence principle dictates that deferred tax assets should only be recognized if it is reasonably certain they will be recovered. Accordingly, account has been taken of only those timing differences between the statutory and fiscal results giving rise to deferred tax assets, that are certain to reverse; accordingly no such timing differences have been recognized on provisions with an unspecified date of reversal.

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

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

Reserves for possible loan losses

These are part of the reserves created during the current and previous years in accordance with fiscal laws. They are not of a corrective nature.

Reserve for general banking risks

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

Derivative contracts

Differentials accrued on derivative contracts are debited or credited to the income statement in the following manner:

- hedging contracts: the asset and liability elements and related contracts are valued separately. The differentials are booked to the appropriate asset and liability items on an accruals basis in the same way as the costs and revenues generated by the items being hedged;
- trading contracts: differentials, which are recognized at the time of settlement, are recorded under profits/losses from financial transactions.

Section 2 Tax adjustments and provisions

2.1 Adjustments made exclusively for tax purposes

Adjustments consist of accelerated depreciation on buildings, during the current and previous years, for L. 17,136 million (L. 177 million charged to the year) in accordance with article 67.3 of Presidential Decree 917/86. They have been charged to the maximum extent allowed by tax laws, in order to receive a tax benefit that was not otherwise obtainable.

The potential deferred tax liability amounts to L. 6,138 million (L. 63 million relating to 2000) and is calculated using the expected average tax rate.



2.2 Provisions made exclusively for tax purposes

Provisions consist of the reserve for possible loan losses, totalling L. 43,751 million, and other reserves for L. 5,733 million (an increase of L. 16,356 million, net of utilizations); these reserves have not been deducted from assets, but booked as separate items under liabilities.

These provisions were made in order to receive a tax benefit that was not otherwise obtainable.

The potential deferred tax liability amounts to L. 15,344 million (L. 5,155 million relating to 2000) and is calculated using the expected average tax rate.

PART B *Information on the consolidated balance sheet*

Section 1 *Receivables*

1.1 Breakdown of item 30 «Due from other banks»

	31/12/2000	31/12/1999
a) deposits with central banks	29,604	53,344
b) assets eligible for refinancing at central banks	–	–
c) receivables from leasing contracts	–	–
d) repo transactions	–	–
e) securities lent	–	–

Deposits with central banks consist of the compulsory reserve set up by the parent bank at the Bank of Italy.

1.2 Breakdown of item 40 «Customer loans»

	31/12/2000	31/12/1999
a) assets eligible for refinancing at central banks	1,330	1,259
b) receivables from leasing contracts	–	–
c) repo transactions	–	–
d) securities lent	–	–

The following table illustrates the loan situation:

Categories	31/12/2000			31/12/1999		
	Gross exposure	Total writedowns	Net exposure	Gross exposure	Total writedowns	Net exposure
A. Doubtful loans	374,414	109,145	265,269	399,556	111,257	288,299
A.1. Outstanding	180,258	76,014	104,244	192,018	81,370	110,648
A.2. Non-performing	131,875	20,286	111,589	120,419	17,205	103,214
A.3. Loans being restructured	–	–	–	85,843	12,183	73,660
A.4. Restructured loans	61,692	12,774	48,918	892	384	508
A.5. Unsecured loans exposed to country risk	589	71	518	384	115	269
B. Performing loans	8,650,961	38,079	8,612,882	7,138,250	31,730	7,106,520
Total	9,025,375	147,224	8,878,151	7,537,806	142,987	7,394,819

Movements in doubtful loans

Categories	31/12/2000				
	Out-standing loans	Non-performing loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk
A. Gross exposure as of 31/12/99	192,018	120,419	85,843	892	384
A.1. of which: overdue interest	22,100	–	–	–	–
B. Increases	105,583	82,500	0	63,907	226
B.1. transfers from performing loans	53,085	44,437	–	204	–
B.2. overdue interest	7,016	–	–	–	–
B.3. transfers from other categories of doubtful loans	42,191	27,152	–	63,099	–
B.4. other increases	3,291	10,911	–	604	226
C. Decreases	117,343	71,044	85,843	3,107	21
C.1. transfers to performing loans	326	15,041	2,424	–	–
C.2. write-offs	65,418	–	–	–	–
C.3. collections	39,387	14,464	5,380	240	21
C.4. proceeds from factored loans	–	–	–	–	–
C.5. transfers to other categories of doubtful loans	12,212	41,539	78,039	652	–
C.6. other decreases	–	–	–	2,215	–
D. Gross exposure as of 31/12/00	180,258	131,875	0	61,692	589
D.1. of which: overdue interest	25,288	–	–	–	–

Categories	31/12/1999				
	Out-standing loans	Non-performing loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk
A. Gross exposure as of 31/12/98	143,813	149,322	103,217	6,070	126
A.1. of which: overdue interest	21,191	–	–	–	–
B. Increases	109,304	69,670	11,597	847	383
B.1. transfers from performing loans	18,187	50,135	7,643	652	3
B.2. overdue interest	5,799	–	–	–	–
B.3. transfers from other categories of doubtful loans	82,782	3,884	–	–	–
B.4. other increases	2,536	15,651	3,954	195	380
C. Decreases	61,099	98,573	28,971	6,025	125
C.1. transfers to performing loans	305	3,757	24,596	–	50
C.2. write-offs	42,660	–	–	–	–
C.3. collections	18,134	13,219	3,202	611	75
C.4. proceeds from factored loans	–	–	–	–	–
C.5. transfers to other categories of doubtful loans	–	81,597	1,173	5,414	–
C.6. other decreases	–	–	–	–	–
D. Gross exposure as of 31/12/99	192,018	120,419	85,843	892	384
D.1. of which: overdue interest	22,100	–	–	–	–



Movements in total adjustments

Categories	31/12/2000					
	Out-standing loans	Non-performing loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk	Performing loans
A. Opening total adjustments as of 31/12/99	81,370	17,205	12,183	384	115	31,730
A.1. of which: overdue interest	3,846	–	–	–	–	–
B. Increases	31,159	15,573	0	12,774	57	14,589
B.1. adjustments	20,436	9,991	–	1,588	51	6,411
B.1.1. of which: overdue interest	2,020	–	–	–	–	–
B.2. use of reserves for possible loan losses	–	–	–	–	–	–
B.3. transfers from other categories of loans	9,136	4,525	–	6,729	–	12
B.4. other increases	1,587	1,057	–	4,457	6	8,166
C. Decreases	36,515	12,492	12,183	384	101	8,240
C.1. write-backs on valuation	2,620	–	–	–	–	–
C.1.1. of which: overdue interest	231	–	–	–	–	–
C.2. write-backs due to collections	533	3,721	929	7	101	8,089
C.2.1. of which: overdue interest	160	–	–	–	–	–
C.3. write-offs	33,362	–	–	–	–	–
C.4. transfers to other categories of loans	–	8,771	11,254	377	–	–
C.5. other decreases	–	–	–	–	–	151
D. Closing total adjustments as of 31/12/00	76,014	20,286	0	12,774	71	38,079
D.1. of which: overdue interest	4,838	–	–	–	–	–

Categories	31/12/1999					
	Out-standing loans	Non-performing loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk	Performing loans
A. Opening total adjustments as of 31/12/98	66,282	33,360	8,576	333	38	25,138
A.1. of which: overdue interest	4,624	–	–	–	–	–
B. Increases	42,711	12,188	5,702	377	114	14,105
B.1. adjustments	13,878	11,646	5,322	–	1	6,065
B.1.1. of which: overdue interest	952	–	–	–	–	–
B.2. use of reserves for possible loan losses	–	–	–	–	–	–
B.3. transfers from other categories of loans	24,092	542	380	377	–	116
B.4. other increases	4,741	–	–	–	113	7,924
C. Decreases	27,623	28,343	2,095	326	37	7,513
C.1. write-backs on valuation	1,161	–	2,000	–	–	–
C.1.1. of which: overdue interest	183	–	–	–	–	–
C.2. write-backs due to collections	2,806	607	–	33	36	7,331
C.2.1 of which: overdue interest	196	–	–	–	–	–
C.3. write-offs	22,882	–	–	–	1	56
C.4. transfers to other categories of loans	–	27,736	95	293	–	125
C.5. other decreases	774	–	–	–	–	1
D. Closing total adjustments as of 31/12/99	81,370	17,205	12,183	384	115	31,730
D.1. of which: overdue interest	3,846	–	–	–	–	–

1.3 Secured customer loans

	31/12/2000	31/12/1999
a) by mortgages	2,610,559	2,010,496
b) by liens on:	375,029	306,767
1. cash deposits	86	4,066
2. securities	374,943	302,701
3. other assets	–	–
c) by guarantees from:	3,152,019	2,341,172
1. governments	–	–
2. other public entities	–	–
3. banks	60,862	22,163
4. other operators	3,091,157	2,319,009
Total	6,137,607	4,658,435

1.4 Doubtful loans (including overdue interest)

	31/12/2000	31/12/1999
Doubtful loans (including overdue interest)	104,244	110,648

1.5 Receivables for overdue interest

	31/12/2000	31/12/1999
a) doubtful loans	20,451	18,252
b) other loans	–	–

Section 2 Securities

2.3 Trading securities

	31/12/2000		31/12/1999	
	Book value	Market value	Book value	Market value
1. Fixed-yield securities	2,722,866	2,725,836	2,485,344	2,490,264
1.1 Government securities	2,498,158	2,499,453	2,270,506	2,275,051
– listed	2,498,158	2,499,453	2,270,506	2,275,051
– unlisted	–	–	–	–
1.2 Other securities	224,708	226,383	214,838	215,213
– listed	92,281	93,935	65,417	65,792
– unlisted	132,427	132,448	149,421	149,421
2. Variable-yield securities	117,285	130,159	51,735	65,092
– listed	57,651	70,525	41,141	54,498
– unlisted	59,634	59,634	10,594	10,594
Total	2,840,151	2,855,995	2,537,079	2,555,356



2.4 Change for the year in trading securities

	31/12/2000	31/12/1999
A. Opening balance	2,537,079	2,497,201
B. Increases	23,249,466	25,973,429
B1. Purchases	23,222,842	25,939,263
– Fixed-yield securities	22,365,362	25,410,578
government securities	20,996,485	23,589,558
other securities	1,368,877	1,821,020
– Variable-yield securities	857,480	528,685
B2. Write-backs and revaluations	1,836	251
B3. Transfers from investment portfolio	–	–
B4. Other changes	24,788	33,915
C. Decreases	22,946,394	25,933,551
C1. Sales and redemptions	22,932,938	25,901,103
– Fixed-yield securities	22,142,973	25,397,338
government securities	20,779,798	23,605,900
other securities	1,363,175	1,791,438
– Variable-yield securities	789,965	503,765
C2. Write-downs	12,449	32,345
C3. Transfers to investment portfolio	–	–
C5. Other changes	1,007	103
D. Closing balance	2,840,151	2,537,079

Section 3 Equity investments

3.1 Main equity investments

	Location	Type of relationship (1)	Shareholders' equity	Profit/Loss	Type of investment		% of votes at the AGM	Book value
					Parent company	% held		
A. Companies included in the consolidation area								
A1. Full consolidation method								
1. Banca Popolare di Sondrio (Suisse) SA	Lugano	1	92,209	10,722	Banca Popolare di Sondrio	100	100	–
2. Popso (Suisse) Advisory Holding SA	Luxembourg	1	3,039	2,146	Banca Popolare di Sondrio (Suisse) SA	100	100	–
B. Net equity method								
1. Pirovano Stelvio spa	Tirano	1	3,539	– 841	Banca Popolare di Sondrio	98	98	6,361
2. Ripoval spa	Sondrio	8	2,875	488	Banca Popolare di Sondrio	50	50	2,718
3. Sinergia Seconda srl	Milan	1	20,025	41	Banca Popolare di Sondrio	100	100	19,917

(1) 1 - Control as per article 2359.1.1 of the Italian Civil Code (majority of voting rights at the AGM)

8 - Associated company

The equity investment in Sofipo Fiduciaire SA is not reported since it has been written down to zero having closed its first 3 years of operations with a loss. The valuation of the equity investment in Ripoval S.p.A. has taken into account the share capital increase of L. 3,000 million. The shareholders' equity shown in the above table refers to the 1999 financial statements.

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

	31/12/2000	31/12/1999
a) Assets	222,964	223,274
1. Due from other banks	175,920	155,883
of which:		
– subordinated	–	–
2. Due from financial institutions	36,745	52,939
of which:		
– subordinated	–	–
3. Customer loans	10,299	14,452
of which:		
– subordinated	271	–
4. Bonds and other fixed-yield securities	–	–
of which:		
– subordinated	–	–
b) Liabilities	183,154	452,869
1. Due to other banks	7,757	3,275
2. Due to financial institutions	166,366	407,935
3. Customer deposits	9,031	41,659
4. Securities issued	–	–
5. Subordinated liabilities	–	–
c) Guarantees and commitments	112,996	66,211
1. Guarantees granted	112,996	66,211
2. Commitments	–	–

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3.4 Breakdown of item 70 «Equity investments»

	31/12/2000	31/12/1999
a) in banks	19,871	14,367
1. listed	587	588
2. unlisted	19,284	13,779
b) in financial institutions	54,810	46,944
1. listed	1	–
2. unlisted	54,809	46,944
c) others	37,434	38,611
1. listed	10,020	10,020
2. unlisted	27,414	28,591
Total	112,115	99,922

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

	31/12/2000	31/12/1999
a) in banks	–	–
1. listed	–	–
2. unlisted	–	–
b) in financial institutions	–	–
1. listed	–	–
2. unlisted	–	–
c) others	–	144
1. listed	–	–
2. unlisted	–	144
Total	–	144



3.6 Changes for the year in equity investments

3.6.1 Equity investments in Group companies

	31/12/2000	31/12/1999
A. Opening balance	144	0
B. Increases	0	144
B1. Purchases	–	144
B2. Write-backs	–	–
B3. Revaluations	–	–
B4. Other changes	–	–
C. Decreases	144	–
C1. Sales	–	–
C2. Write-downs	–	–
of which:		
– permanent write-downs	–	–
– other adjustments	–	–
C3. Other changes	144	–
D. Closing balance	0	144
E. Total revaluations	–	–
F. Total write-downs	–	–

The amount refers to Popso (Suisse) Advisory SA, which has been fully consolidated.

3.6.2 Other equity investments

	31/12/2000	31/12/1999
A. Opening balance	99,922	74,426
B. Increases	13,297	26,819
B1. Purchases	13,232	26,819
B2. Write-backs	–	–
B3. Revaluations	–	–
B4. Other changes	65	–
C. Decreases	1,104	1,323
C1. Sales	37	–
C2. Write-downs	943	809
of which:		
– permanent write-downs	–	–
– other adjustments	943	809
C3. Other changes	124	514
D. Closing balance	112,115	99,922
E. Total revaluations	–	–
F. Total write-downs	6,504	5,402

Section 4 Fixed and intangible assets

4.1 Changes for the year in fixed assets

	31/12/2000				
	Buildings	Furniture and fittings	Machines and equipment	Others	Total
A. Opening balance	115,346	6,782	9,130	3,169	134,427
B. Increases	5,454	5,353	12,138	1,080	24,025
B1. Purchases	5,454	5,333	12,095	1,080	23,962
B2. Write-backs	–	–	–	–	–
B3. Revaluations	–	–	–	–	–
B4. Other changes	–	20	43	–	63
C. Decreases	5,617	3,561	8,638	1,250	19,066
C1. Sales	–	–	–	–	–
C2. Write-downs:	5,617	3,561	8,638	1,250	19,066
a) depreciation	5,617	3,561	8,638	1,250	19,066
b) permanent write-downs	–	–	–	–	–
C3. Other changes	–	–	–	–	–
D. Closing balance	115,183	8,574	12,630	2,999	139,386
E. Total revaluations	82,048	–	–	–	82,048
F. Total write-downs:	88,625	22,175	59,463	9,654	179,917
a) depreciation	88,625	22,175	59,463	9,654	179,917
b) permanent write-downs	–	–	–	–	–

	31/12/1999				
	Buildings	Furniture and fittings	Machines and equipment	Others	Total
A. Opening balance	118,984	6,407	6,624	3,101	135,116
B. Increases	1,784	3,200	9,470	1,459	15,913
B1. Purchases	1,784	3,200	9,470	1,459	15,913
B2. Write-backs	–	–	–	–	–
B3. Revaluations	–	–	–	–	–
B4. Other changes	–	–	–	–	–
C. Decreases	5,422	2,825	6,964	1,391	16,602
C1. Sales	–	–	29	1	30
C2. Write-downs:	5,422	2,824	6,935	1,390	16,571
a) depreciation	5,422	2,824	6,935	1,390	16,571
b) permanent write-downs	–	–	–	–	–
C3. Other changes	–	1	–	–	1
D. Closing balance	115,346	6,782	9,130	3,169	134,427
E. Total revaluations	82,048	–	–	–	82,048
F. Total write-downs:	83,008	18,555	55,068	8,608	165,239
a) depreciation	83,008	18,555	55,068	8,608	165,239
b) permanent write-downs	–	–	–	–	–



4.2 Changes for the year in intangible assets

	31/12/2000			
	Software purchases	Leasehold improvements	Set-up costs	Total
A. Opening balance	6,794	13,993	0	20,787
B. Increases	6,425	12,809	–	19,234
B1. Purchases	6,339	12,697	–	19,036
B2. Write-backs	–	–	–	–
B3. Revaluations	–	–	–	–
B4. Other changes	86	112	–	198
C. Decreases	7,124	9,661	–	16,785
C1. Sales	–	–	–	–
C2. Write-downs:	7,124	9,661	–	16,785
a) amortization	7,124	9,661	–	16,785
b) permanent write-downs	–	–	–	–
C3. Other changes	–	–	–	–
D. Closing balance	6,095	17,141	0	23,236
E. Total revaluations	–	–	–	–
F. Total write-downs:	35,140	40,861	1,111	77,112
a) amortization	35,140	40,861	1,111	77,112
b) permanent write-downs	–	–	–	–

	31/12/1999			
	Software purchases	Leasehold improvements	Set-up costs	Total
A. Opening balance	3,988	13,816	0	17,804
B. Increases	9,768	6,523	241	16,532
B1. Purchases	9,768	6,523	241	16,532
B2. Write-backs	–	–	–	–
B3. Revaluations	–	–	–	–
B4. Other changes	–	–	–	–
C. Decreases	6,962	6,346	241	13,549
C1. Sales	–	–	–	–
C2. Write-downs:	6,962	6,343	241	13,546
a) amortization	6,962	6,343	241	13,546
b) permanent write-downs	–	–	–	–
C3. Other changes	–	3	–	3
D. Closing balance	6,794	13,993	0	20,787
E. Total revaluations	–	–	–	–
F. Total write-downs:	30,859	31,005	1,054	62,918
a) amortization	30,859	31,005	1,054	62,918
b) permanent write-downs	–	–	–	–

Section 5 *Other asset items*

5.1 Breakdown of item 150 «Other assets»

	31/12/2000	31/12/1999
Taxes withheld	387	245
Tax credits on dividends	2,537	2,044
Deferred tax assets	13,274	19,022
Advances paid to tax authorities	44,958	53,979
Withholdings on interest due to customers	248	332
Tax credits and related interest	4,905	15,002
Miscellaneous cash equivalents	4	600
Bills with the cashier	265	125
Outstanding cheques and bills	6,134	3,238
Current account cheques drawn on third parties	75,742	97,533
Current account cheques drawn on Group banks	29,083	4,572
Other assets	–	18,846
Securities transactions	27,023	14,941
Transit account for Arca funds	1,937	9,321
Transit account for bank branches	1,725	475
Inventories	1,819	–
Contra-item for valuation of off-balance sheet transactions	156,822	64,551
Costs pertaining to 2001	2,211	308
Advances to suppliers	18,985	14,244
Advances to customers on loans	46,644	–
Value date differentials on portfolio transactions	12,656	–
Miscellaneous debits in transit	41,185	26,073
Premiums for exchange and securities options to be exercised	5,022	6,116
Residual items	17,345	7,850
Total	510,911	359,417

Deferred tax assets

	31/12/2000	31/12/1999
1. Opening balance	19,022	0
2. Increases	1,216	23,609
2.1. Deferred taxes assets arising during the year	1,216	795
2.2. Other increases	–	22,814
3. Decreases	6,964	4,587
3.1. Deferred tax assets reversing during the year	4,320	4,587
3.2. Other decreases	2,644	–
4. Closing balance	13,274	19,022



5.2 Breakdown of item 160 «Accrued income and prepayments»

	31/12/2000	31/12/1999
a) Accrued income	87,382	59,408
Interest receivable on securities	33,428	22,718
Interest on lire and foreign currency loans to customers	16,193	12,546
Interest on lire and foreign currency deposits and loans to other banks	2,929	1,310
Interest on customer mortgages and loans	21,063	13,410
Commissions receivable	10,535	8,525
Other accrued income	3,234	899
b) Prepayments	3,398	3,550
Invoices received not pertaining to this financial year	3,398	3,546
Other prepaid expenses	–	4
Total accrued income and prepayments	90,780	62,958

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

5.4 Distribution of subordinated assets

	31/12/2000	31/12/1999
a) Due from other banks	–	–
b) Customer loans	271	–
c) Bonds and other fixed-yield securities	6,592	8,729

Section 6 Payables

6.1 Breakdown of item «Due to other banks»

	31/12/2000	31/12/1999
a) Repo transactions	–	–
b) Securities lent	–	–

6.2 Breakdown of item «Customer deposits»

	31/12/2000	31/12/1999
a) Repo transactions	1,581,988	1,271,065
b) Securities lent	–	–

Item 20 amounts to L. 7,926,850 million.

Item 30 «securities issued» amounts to L. 1,264,167 million and is made up of the sub-items «bonds, certificates of deposit, and others».

The sub-item «bonds» is made up of:

	Nominal value	Book value
Issued by Banca Popolare di Sondrio:		
Floating-rate bond issues	506,207	481,081
Fixed-rate bond issues	135,201	134,239
Zero-coupon bond issues	425,224	401,389
Issued by Banca Popolare di Sondrio (Suisse) SA:		
Floating-rate bond issues	19,668	19,668
Total	1,086,300	1,036,377

Floating-rate bond issues also include structured bonds with a nominal value of L. 152,304 million. The sub-item «certificates of deposit» totals L. 77,771 million and consists of L. 68,535 million in short-term fixed-rate certificates, L. 5,535 million in medium-term fixed-rate certificates, L. 3,410 million in medium-term floating-rate certificates and L. 291 million in zero-coupon certificates.

The sub-item «other securities» totals L. 150,019 million and is made up of banker's drafts and others.

Item 40, «third-party funds under administration», totalling L. 301 million, consists of public funds to be used for assisted loans.

Section 7 Reserves

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

This item amounts to L. 43,751 million, of which L. 20,451 million refers to that portion of the reserve for overdue interest deemed recoverable.

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

	31/12/2000	31/12/1999
A. Opening balance	29,606	25,335
B. Increases	17,159	7,819
B1. Provisions	16,316	7,387
B2. Other changes	843	432
C. Decreases	3,014	3,548
C1. Utilizations	874	1,200
C2. Other changes	2,140	2,348
D. Closing balance	43,751	29,606

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

	31/12/2000	31/12/1999
a Charity fund	743	674
b Reserve for guarantees granted	6,000	5,000
c Reserve for personnel expenses	6,286	6,617
d Reserve for litigation costs	7,038	5,038
e Reserve for fluctuation in securities value	5,734	3,522
Total	25,801	20,851

Deferred tax liabilities

	31/12/2000	31/12/1999
1. Opening balance	156	200
2. Increases	48	26
2.1 Deferred taxes liabilities arising during the year	48	26
2.2 Other increases	–	–
3. Decreases	71	70
3.1 Deferred taxes liabilities reversing during the year	49	70
3.2 Other decreases	22	–
4. Closing balance	133	156



Section 8 *Share capital, reserves, reserve for general banking risks, and subordinated liabilities*

The following table shows the breakdown and respective amounts of items comprising the Group's shareholders' equity.

Liability items	31/12/2000	31/12/1999
Item 100 Reserve for general banking risks	75,000	67,000
Item 130 Negative differences arising on application of net equity method	259	194
Item 150 Share capital		
Made up of 68,783,032 ordinary shares with a par value of L. 5,000, issued by the parent bank	343,915	343,915
Item 160 Share premium reserve	451,927	451,927
Item 170 Reserves		
of which:	260,514	220,272
a) legal	84,949	69,697
b) for own shares	343	346
c) statutory	139,998	122,177
d) others	35,224	28,052
Item 190 Retained earnings	705	0
Item 200 Net profit for the year	87,034	67,419
Total shareholders' equity	1,219,354	1,150,727

Consolidated capital ratios: solvency ratio as of 31 December 2000

Categories	31/12/2000	31/12/1999
A. Capital for supervisory purposes		
A.1 Basic capital (tier 1)	1,155,380	1,100,227
A.2 Supplementary capital (tier 2)	54,795	34,594
A.3 Amounts to be subtracted	43,769	40,725
A.4 Capital for supervisory purposes	1,166,406	1,094,096
B. Precautionary requirements for supervisory purposes		
B.1 Credit risks	836,355	717,499
B.2 Market risks	26,125	36,201
of which:		
– risks to the trading securities portfolio	26,125	36,201
– exchange risks	–	–
B.3 Other precautionary requirements	14,113	13,078
B.4 Total precautionary requirements	876,593	766,778
C. Risk assets and capital ratios		
C.1 Risk-weighted assets	10,957,413	9,584,725
C.2 Tier 1 capital /Risk-weighted assets	10.54%	11.48%
C.3 Capital for supervisory purposes /Risk-weighted assets	10.64%	11.41%

This is the minimum consolidated capital ratio requirement which banking groups must constantly meet to cover counterparty solvency risk.

The minimum prescribed level for the solvency ratio (total capital for supervisory purposes to weighted assets) is 8% for banking groups.

Section 9 *Other liability items*

9.1 Breakdown of item 50 «Other liabilities»

	31/12/2000	31/12/1999
Amounts at the disposal of third parties	63,187	36,022
Taxes to be paid	52,844	22,056
Employee salaries and contributions	18,977	32,262
Trade payables	14,971	12,053
Transit accounts for sundry entities	46,585	14,589
Other liabilities	–	11,705
Invoices receivable	14,167	8,144
Securities transactions	29,317	1,234
Transit accounts for agent bank banker's drafts	–	1,554
Transit accounts for Arca funds	52,819	71,586
Value date differentials on portfolio transactions	–	80,998
Directors' and statutory auditors' emoluments	1,477	1,291
Loans disbursed to customers to be finalized	18,631	30,797
Miscellaneous debits being settled	139,817	117,943
Premiums for exchange, derivatives and securities options sold and not exercised	5,168	6,238
Contra-item of valuation of off-balance sheet transactions	153,960	64,174
Residual items	6,569	8,552
Miscellaneous items to be settled	1,323	4,748
Consolidation differences	1,021	–
Total	620,833	525,946

9.2 Breakdown of item 60 «Accrued liabilities and deferred income»

	31/12/2000	31/12/1999
a) Accrued liabilities	45,884	25,413
Interest on bonds	14,303	9,310
Interest on certificates of deposit	1,618	2,707
Interest on customer deposits in lire and foreign currency	440	95
Interest on deposits from other banks in lire and foreign currency	14,561	7,381
Repo transactions	7,855	4,411
Other accrued liabilities	7,107	1,509
b) Deferred income	4,063	3,997
Interest on portfolio, mortgages and loans	1,053	594
Commission on guarantees	3,010	3,348
Other deferred income	–	55
Total	49,947	29,410

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

Section 10 *Guarantees and commitments*

10.1 Breakdown of item 10 «Guarantees granted»

	31/12/2000	31/12/1999
a) commercial endorsement credits	1,150,997	1,087,289
b) financial endorsement credits	853,330	798,031
c) assets given in guarantee	15,925	10,425
Total	2,020,252	1,895,745



10.2 Breakdown of item 20 «Commitments»

	31/12/2000	31/12/1999
a) commitments to disburse funds (certain to be called on)	418,298	310,686
b) commitments to disburse funds (not certain to be called on)	46,949	422,089
Total	465,247	732,775

10.3 Collateral for own payables

The collateral provided by Group banks for their own liabilities consists of government securities: L. 1,572,266 million relates to securities given to customers for repo transactions, L. 14,292 million is for the deposit paid against the issue of banker's cheques, while L. 8,080 million concerns treasury and other services.

10.4 Margins usable on credit lines

	31/12/2000	31/12/1999
a) central banks	29,604	53,344
b) other banks	–	5,000

10.5 Forward transactions

Type of transaction	31/12/2000			31/12/1999		
	For hedging	For trading	Other	For hedging	For trading	Other
1. Buying and selling						
1.1 Securities						
– purchases	–	224,788	–	–	215,659	–
– sales	–	206,683	–	–	211,527	–
1.2 Foreign currency						
– currency against currency	–	21,022	–	–	121,148	–
– purchases against lire	–	2,919,574	–	–	2,571,963	–
– sales against lire	–	3,032,546	–	–	2,446,716	–
2. Deposits and loans						
– to be disbursed	–	–	117,300	–	–	75,963
– to be received	–	–	150,797	–	–	30,764
3. Derivative contracts						
3.1 With exchange of capital						
a) securities						
– purchases	–	38,737	–	–	3,915	–
– sales	–	38,737	–	–	3,915	–
b) foreign currency						
– currency against currency	–	–	–	–	–	–
– purchases against lire	–	–	–	–	–	–
– sales against lire	–	–	–	–	–	–
c) other instruments						
– purchases	–	–	–	–	–	–
– sales	–	–	–	–	–	–
3.2 Without exchange of capital						
a) foreign currency						
– currency against currency	–	–	–	–	10,986	–
– purchases against lire	–	59,854	–	–	36,153	–
– sales against lire	–	59,854	–	–	36,166	–
b) other instruments						
– purchases	149,381	427,904	–	130,018	552,816	–
– sales	170,101	427,904	–	132,941	552,816	–

Section 11 Concentration and distribution of assets and liabilities

11.1 Significant risk accounts

	31/12/2000	31/12/1999
a) Amount	550,315	232,471
b) Number	4	2

11.2 Breakdown of customer loans by main borrower categories

	31/12/2000	31/12/1999
a) governments	–	–
b) other public entities	153,605	110,616
c) non-financial businesses	5,551,623	4,648,224
d) financial businesses	375,627	400,165
e) family businesses	681,196	537,277
f) other businesses	2,116,100	1,698,537
Total	8,878,151	7,394,819

11.3 Breakdown of loans to resident non-financial companies and family businesses

	31/12/2000	31/12/1999
a) other services for sale	1,627,113	1,370,876
b) wholesale and retail services, recoveries and repairs	967,887	886,872
c) construction and public works	603,448	474,302
d) metal products excluding cars and transportation	370,813	315,771
e) textiles, leather and footwear, clothing	261,909	226,303
f) other sectors	2,031,054	1,702,968
Total	5,862,224	4,977,092

11.4 Distribution of guarantees granted by main categories of counterparty

	31/12/2000	31/12/1999
a) governments	–	–
b) other public entities	169,606	200,073
c) Banks	40,109	17,898
d) non-financial businesses	1,462,898	1,351,440
e) financial businesses	134,238	142,536
f) family businesses	53,436	35,708
g) other businesses	159,965	148,090
Total	2,020,252	1,895,745

11.5 Geographical breakdown of assets and liabilities

Item	31/12/2000			31/12/1999		
	Italy	Other EU countries	Other countries	Italy	Other EU countries	Other countries
1. Assets	12,017,012	331,451	446,470	10,550,767	314,773	363,369
1.1 Due from other banks	894,279	60,974	121,378	1,057,496	74,367	165,148
1.2 Customer loans	8,363,083	221,622	293,446	7,024,883	176,272	193,664
1.3 Securities	2,759,650	48,855	31,646	2,468,388	64,134	4,557
2. Liabilities	9,599,675	974,578	1,026,130	8,436,301	739,391	869,115
2.1 Due to other banks	743,646	929,625	735,794	633,697	636,245	615,202
2.2 Customer deposits	7,612,130	44,646	270,074	6,587,231	103,146	238,742
2.3 Securities issued	1,243,598	307	20,262	1,214,736	–	15,171
2.4 Others	301	–	–	637	–	–
3. Guarantees and commitments	2,287,184	141,334	56,981	2,379,279	55,620	193,621



11.6 Breakdown of assets and liabilities by maturity

									31/12/2000
	Fixed duration							Unspecified duration	
	Sight	Up to 3 months	3 to 12 months	1 to 5 years		Over 5 years			
				Fixed rate	Floating rate	Fixed rate	Floating rate		
1. Assets	4,017,365	2,913,895	1,198,691	1,009,080	2,177,077	367,993	2,122,128	201,162	
1.1 Re-financeable treasury bills	154	2,635	121,487	208,071	285,670	38,284	252,838	–	
1.2 Due from other banks	242,108	761,559	36,282	6,355	723	–	–	29,604	
1.3 Customer loans	3,754,872	1,626,641	944,261	392,855	810,433	206,831	970,700	171,558	
1.4 Bonds and other fixed-yield securities	231	3,038	6,099	53,193	844,800	22,603	883,763	–	
1.5 Off-balance sheet items	20,000	520,022	90,562	348,606	235,451	100,275	14,827	–	
2. Liabilities	6,907,164	3,985,874	691,516	628,591	329,775	187,623	199,282	–	
2.1 Due to other banks	519,765	1,722,593	145,161	21,546	–	–	–	–	
2.2 Customer deposits	6,215,485	1,550,560	159,025	1,780	–	–	–	–	
2.3 Securities issued	151,914	179,713	191,064	238,105	239,523	69,520	194,328	–	
– bonds	503	138,416	161,904	235,193	236,513	69,520	194,328	–	
– certificates of deposit	1,395	41,294	29,160	2,912	3,010	–	–	–	
– other securities	150,016	3	–	–	–	–	–	–	
2.4 Subordinated liabilities	–	–	–	–	–	–	–	–	
2.5 Off-balance sheet items	20,000	533,008	196,266	367,160	90,252	118,103	4,954	–	

									31/12/1999
	Fixed duration							Unspecified duration	
	Sight	Up to 3 months	3 to 12 months	1 to 5 years		Over 5 years			
				Fixed rate	Floating rate	Fixed rate	Floating rate		
1. Assets	3,790,361	2,677,685	1,080,720	911,038	1,649,176	151,360	2,031,855	381,548	
1.1 Re-financeable treasury bills	24	5,375	8,825	333,233	220,264	24,524	380,423	–	
1.2 Due from other banks	387,202	725,298	124,178	6,031	957	–	–	53,345	
1.3 Customer loans	3,390,982	1,423,090	734,128	162,035	726,740	14,501	832,695	110,648	
1.4 Bonds and other fixed-yield securities	850	4,188	10,493	40,502	552,399	88,570	815,674	–	
1.5 Off-balance sheet items	11,303	519,734	203,096	369,237	148,816	23,765	3,063	217,555	
2. Liabilities	5,979,852	3,324,597	869,208	612,280	256,292	34,634	209,932	253,944	
2.1 Due to other banks	307,446	1,406,387	159,401	11,910	–	–	–	–	
2.2 Customer deposits	5,470,070	1,303,792	119,535	–	–	–	–	35,722	
2.3 Securities issued	159,219	84,295	300,031	288,207	180,418	23,056	194,681	–	
– bonds	30,402	30,000	260,866	282,735	180,018	23,056	194,681	–	
– certificates of deposit	630	54,295	39,165	5,439	400	–	–	–	
– other securities	128,187	–	–	33	–	–	–	–	
2.4 Subordinated liabilities	–	–	–	–	–	–	–	–	
2.5 Off-balance sheet items	43,117	530,123	290,241	312,163	75,874	11,578	15,251	218,222	

11.7 Foreign currency assets and liabilities

	31/12/2000	31/12/1999
a) Assets	2,342,277	1,926,214
1. due from other banks	415,227	362,643
2. customer loans	1,853,409	1,538,756
3. securities	47,476	13,257
4. equity investments	64	144
5. others	26,101	11,414
b) Liabilities	2,187,455	1,818,056
1. due to other banks	1,728,524	1,361,889
2. customer deposits	439,260	441,546
3. securities issued	19,671	14,621
4. others	–	–

Section 12 Management and intermediation for third parties

12.1 Securities trading

	31/12/2000	31/12/1999
a) Purchases	1,875,682	1,679,933
1. regulated	1,870,689	1,656,031
2. non regulated	4,993	23,902
b) Sales	1,384,571	1,358,283
1. regulated	1,382,472	1,338,925
2. non regulated	2,099	19,358

12.2 Portfolio management

The total of L. 2,593,401 million represents the market value of securities managed on behalf of customers.

The total amount relating to portfolio management is L. 144,924 million.

12.3 Securities custody and administration

	31/12/2000	31/12/1999
a) Third-party securities on deposit	28,704,871	28,906,470
b) Third-party securities on deposit with third parties	22,069,462	22,341,018
c) Own securities on deposit with third parties	1,275,765	1,391,456

12.4 Collection orders for third parties: debit and credit adjustments

	31/12/2000	31/12/1999
a) debit adjustments	2,103,794	1,663,605
1. current accounts	12,648	5,103
2. central portfolio	1,629,615	1,274,293
3. cash	–	–
4. others	461,531	384,209
b) credit adjustments	2,091,137	1,744,603
1. current accounts	– 3,483	– 2,075
2. transferor of bills and documents	2,092,009	1,744,080
3. others	2,611	2,598



PART C *Information on the consolidated income statement*

Section 1 *Interest*

1.1 Breakdown of item 10 «Interest income and similar revenues»

	31/12/2000	31/12/1999
a) on amounts due from other banks	45,990	29,597
of which:		
– on amounts due from central banks	5,560	3,143
b) on customer loans	528,374	374,280
of which:		
– on third-party funds under administration	–	–
c) on fixed-yield securities	113,729	92,519
d) other interest income	245	88
e) positive balance of spreads on hedging transactions	–	–
Total	688,338	496,484

1.2 Breakdown of item 20 «Interest expense and similar charges»

	31/12/2000	31/12/1999
a) on amounts due to other banks	120,572	67,390
b) on customer deposits	201,704	119,403
c) on securities issued	35,562	29,812
of which:		
– certificates of deposit	2,634	3,595
d) on third-party funds under administration	–	–
e) on subordinated liabilities	–	–
f) negative balance of spreads on hedging transactions	–	–
Total	357,838	216,605

1.3 Detail of item 10 «Interest income and similar revenues»

	31/12/2000	31/12/1999
a) on assets in foreign currency	127,560	77,948

1.4 Detail of item 20 «Interest expense and similar charges»

	31/12/2000	31/12/1999
a) on liabilities in foreign currency	107,081	58,186

Section 2 Commissions

2.1 Breakdown of item 40 «Commission income»

	31/12/2000	31/12/1999
a) guarantees granted	9,073	8,269
b) collection and payment services	29,332	25,075
c) management, intermediation and consultancy services:	131,695	92,545
1. securities trading	28,827	20,379
2. foreign currency trading	8,597	7,184
3. portfolio management	18,543	15,358
4. securities custody and administration	6,609	4,292
5. securities placement	37,209	24,968
6. consultancy	-	-
7. door-to-door sales of securities, products and services	-	-
8. collection of orders	31,910	20,364
d) tax collection services	-	-
e) other services	66,376	54,337
Total	236,476	180,226

2.2 Breakdown of item 50 «Commission expense»

	31/12/2000	31/12/1999
a) collection and payment services	5,796	4,751
b) management and intermediation services:	9,183	4,575
1. securities trading	6,791	3,705
2. foreign currency trading	-	-
3. portfolio management	-	-
4. securities custody and administration	2,392	870
5. securities placement	-	-
6. door-to-door sales of securities, products and services	-	-
c) other services	2,533	1,879
Total	17,512	11,205

Section 3 Profits and losses from financial transactions

3.1 Breakdown of item 60 «Profits/losses from financial transactions»

Item	31/12/2000			31/12/1999		
	Securities transactions	Foreign currency transactions	Other transactions	Securities transactions	Foreign currency transactions	Other transactions
A.1 Revaluations	1,836	-	-	251	-	-
A.2 Write-downs	12,449	-	-	32,245	-	-
B. Other profits/losses	21,252	23,269	89	33,450	22,446	46
Total	10,639	23,269	89	1,456	22,446	46
1. Government securities	9,603	-	-	-	-	-
2. Other fixed-yield securities	1,483	-	-	-	-	-
3. Variable-yield securities	-1,066	-	-	13,340	-	-
4. Derivative contracts on securities	619	-	-	191	-	-



Section 4 Administrative expenses

This item shows a balance of L. 342,893 million.

The sub-item «personnel expenses» amounts to L. 179,992 million. The breakdown of this cost is given in the income statement.

The provisions for severance indemnities and pensions refer solely to the parent bank.

The sub-item «other administrative expenses» consists of the following:

	31/12/2000	31/12/1999
telephone, post and data transmission	15,875	14,698
maintenance of fixed assets	5,676	5,204
rent paid on buildings	15,435	13,808
surveillance	4,785	4,648
transportation	2,541	3,402
professional fees	9,021	9,241
office materials	4,329	3,981
electricity, heating and water	3,721	3,222
advertising and entertainment	6,374	5,539
legal and judicial expenses for debt collection	2,642	2,246
insurance	3,243	3,179
corporate survey and information expenses	2,760	2,154
indirect taxes and dues	44,063	39,148
hardware rental and maintenance	7,913	6,124
software rental and maintenance	6,324	5,509
data registration with third parties	965	785
cleaning	3,681	3,366
membership fees	1,118	995
services received from third parties	3,679	3,143
directors' and statutory auditors' emoluments	2,645	2,294
temporary workers	4,053	388
other	12,058	9,018
Total	162,901	142,092

The amounts relating to 1999 have been adjusted for comparison purposes.

4.1 Average number of employees by category

	31/12/2000	31/12/1999
a) managers	6	6
b) supervisors	164	131
c) other personnel	1,587	1,480
Total	1,757	1,617

The number of employees by category is the average of the figures at the end of 1999 and 2000.

At the end of the year there were 1,687 employees with the parent bank and 131 with Banca Popolare di Sondrio (Suisse) SA.

Section 5 Adjustments, write-backs and provisions

5.1 Breakdown of item 120 «Adjustments to loans and provisions for guarantees and commitments»

	31/12/2000	31/12/1999
a) adjustments to loans	80,725	64,017
of which:		
– forfeit write-downs for country risk	–	–
– other forfeit write-downs	6,398	6,600
b) provisions for guarantees and commitments	1,000	–
of which:		
– forfeit write-downs for country risk	–	–
– other forfeit write-downs	1,000	–
Total	81,725	64,017

Section 6 Other items in the income statement

6.1 Breakdown of item 70 «Other operating income»

	31/12/2000	31/12/1999
Recovery of charges on deposits and overdrafts	9,515	7,635
Rent received for buildings	1,477	1,462
Recovery of customer insurance	697	652
Recovery of taxes	20,063	18,592
Recovery of «Postal Service» costs	1,465	4,370
Other	5,912	2,630
Total	39,129	35,341

6.2 Breakdown of item 110 «Other operating expenses»

	31/12/2000	31/12/1999
Leasing and ancillary costs	1,555	1,368
Costs for the «Postal Service»	1,343	4,013
Others	3,251	1,553
Total	6,149	6,934

6.3 Breakdown of item 190 «Extraordinary income»

	31/12/2000	31/12/1999
a) Miscellaneous gains	2,413	23,390
b) Overprovisions	38	38
c) Gains on disposal	166	80
of fixed assets	84	80
of long-term investments	82	–
d) Consolidation differences	–	–
Total	2,617	23,508



6.4 Breakdown of item 200 «Extraordinary charges»

	31/12/2000	31/12/1999
a) Miscellaneous losses	1,281	369
b) Underprovisions	992	782
c) Losses on disposals	–	1
of fixed assets	–	–
of long-term investments	–	1
d) Consolidation differences	115	1
Total	2,388	1,153

6.5 Breakdown of item 240 «Income taxes for the year»

	31/12/2000	31/12/1999
1. Current taxes	60,974	51,961
2. Change in deferred tax assets	5,747	3,792
3. Change in deferred tax liabilities	– 23	– 44
4. Income taxes for the year	66,698	55,709

Changes in deferred tax assets mainly relate to the portion of loan write-downs which exceeds the amount allowed for tax purposes, while L. 2,644 million of this charge refers to the change in tax rates, as required by Bank of Italy instructions.

The change in deferred tax liabilities relates to gains on the disposal of assets and long-term investments.

Section 7 *Other information on the income statement*

7.1 Geographical breakdown of income

Item/Countries	31/12/2000			31/12/1999	
	Italy	EU countries	Other countries (non-EU)	Italy	Other countries (non-EU)
Interest income and similar revenues	670,270	29	18,039	488,190	8,294
Dividends and other income	7,450			6,052	–
Commission income	190,027	2,834	43,615	149,489	30,737
Profits from financial transactions	29,773	2	4,222	17,991	5,957
Other operating income	37,146		1,983	34,002	1,339
Total	934,666	2,865	67,859	695,724	46,327

The total income of L.1,005,390 million relates to the business activities carried out by the parent bank mainly in the province of Lombardy, with a significant presence in Milan, as well as in Rome, to business carried out in Switzerland by the subsidiary Banca Popolare di Sondrio (Suisse) S.A and in Luxembourg by Popso (Suisse) Advisory Holding SA. Banca Popolare di Sondrio (Suisse) S.A accounted for 3.74% of net interest income, 18.44% of commission income and 12.42% of profits from financial transactions. The percentage contribution by Popso (Suisse) Advisory Holding SA is not significant.

PART D *Other information*

Section 1 *Directors and statutory auditors*

1.1 Emoluments

	31/12/2000	31/12/1999
a) directors	2,346	2,013
b) statutory auditors	299	281

1.2 Loans and guarantees granted

	31/12/2000	31/12/1999
a) directors	6,135	5,428
b) statutory auditors	822	900

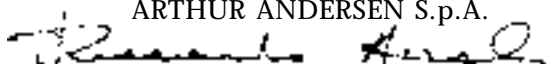
Report of the Independent Auditors pursuant to art. 156 of Legislative Decree no. 58 of February 24, 1998

(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 of Banca Popolare di Sondrio S.c. a r.l. and its subsidiaries as of and for the year ended December 31, 2000. These consolidated financial statements are the responsibility of the Bank's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with generally accepted auditing standards in Italy as recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob"). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the adequacy and the fairness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.
For our opinion on the prior year's consolidated financial statements, which are presented for comparative purposes as required by law, reference should be made to our auditors' report dated February 15, 2000.
3. In our opinion, the consolidated financial statements of Banca Popolare di Sondrio S.c. a r.l. and its subsidiaries as of and for the year ended December 31, 2000 comply with the Italian statutory provisions related to financial statements; therefore they give a true and fair view of the financial position and results of operations of the Bank and its subsidiaries.

Milan, February 15, 2001

ARTHUR ANDERSEN S.p.A.

Riccardo Azzali
(Partner)

STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

(in millions of lire)

	31-12-2000		31-12-1999	
SOURCES OF FUNDS				
Funds generated by operations:				
- Net profit for the year	87,034		67,419	
- adjustments:				
- loan write-downs and write-backs and provisions for guarantees and commitments	61,974		40,928	
- losses on securities and equity investments	13,540		32,902	
- amortization and depreciation	35,851		30,117	
- amortization and differences on value of investments stated at net equity	242		119	
- Provisions:				
- staff pension fund	10,030		8,592	
- reserve for severance indemnities	9,843		7,903	
- risks and charges	4,021		1,363	
- possible loan losses	16,316		7,387	
- general banking risks	8,000		22,000	
- personnel charges	169		4,837	
		247,020		223,567
Increase in shareholders' equity:				
- underwriting of own shares				
- dividends in prescription	72		7	
- exchange differences from conversion of balance sheets	4,159		(205)	
- other changes	145	4,376	(177)	(375)
Increase in funding:				
- customer deposits	997,731		1,149,148	
- deposits from other banks	523,921		285,564	
- securities issued	34,260	1,555,912	89,313	1,524,025
Change in other liability items:				
- third-party funds under administration	(336)		(318)	
- other liabilities	94,887		70,348	
- accrued liabilities and deferred income	20,537		(2,068)	
- taxation reserve	8,354	123,442	(8,699)	59,263
		1,930,750		1,806,480
APPLICATION OF FUNDS				
Use of funds generated by operations:				
- staff pension fund	3,501		3,447	
- reserve for severance indemnities	3,836		3,384	
- reserves for possible loan losses	2,171		3,116	
- reserve for risks and charges	(359)	9,149	2,612	12,559
Decrease in shareholders' equity:				
- dividends	30,952		26,138	
- charity fund	430	31,382	467	26,605
Increase in application of funds:				
- customer loans	1,544,306		1,536,192	
- cash on hand	14,818		20,197	
- due from other banks	(220,380)		(25,587)	
- trading securities	315,521	1,654,265	72,123	1,602,925
Change in other asset items:				
- other assets	151,494		108,790	
- accrued income and prepayments	27,822		(3,431)	
- equity investments and own shares	13,379		26,622	
- intangible assets	19,234		14,670	
- fixed assets	24,025	235,954	17,740	164,391
		1,930,750		1,806,480

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDING 31 DECEMBER 1999 AND 2000**
(in millions of lire)

	Share capital	Reserve for general banking risks	Share premium reserve
BALANCE AS OF 31 DECEMBER 1998	343,915	45,000	451,927
ALLOCATION OF PROFITS, as resolved by the AGM of 6 March 1999:			
To the legal reserve			
To the statutory reserves			
Dividend of L. 380 per share			
Charity fund			
Exchange difference on conversion of balance sheets denominated in foreign currency			
Change in net equity of companies included in the consolidation area			
DIVIDEND ON OWN SHARES			
RESERVE FOR GENERAL BANKING RISKS		22,000	
RESERVE FOR OWN SHARES			
PRIOR YEAR DIFFERENCE BETWEEN CONSOLIDATED/STATUTORY NET PROFIT			
NET PROFIT FOR 1999			
BALANCE AS OF 31 DECEMBER 1999	343,915	67,000	451,927
ALLOCATION OF PROFITS, as resolved by the AGM of 4 March 2000:			
To the legal reserve			
To the statutory reserves			
Dividend of L. 450 per share			
Charity fund			
Exchange difference on conversion of balance sheets denominated in foreign currency			
Change in net equity of companies included in the consolidation area			
DIVIDEND ON OWN SHARES			
RESERVE FOR GENERAL BANKING RISKS		8,000	
RESERVE FOR OWN SHARES			
RESERVE AS PER ART. 13 OF LEGISLATIVE DECREE 124/93			
RETAINED EARNINGS			
PRIOR YEAR DIFFERENCE BETWEEN CONSOLIDATED/STATUTORY NET PROFIT			
NET PROFIT FOR 2000			
BALANCE AS OF 31 DECEMBER 2000	343,915	75,000	451,927

Legal reserve	Restricted reserve for own shares	Statutory reserves	Other reserves	Retained earnings	Negative differences arising on application of net equity method	Net profit for the year	Total shareholders' equity
58,488	140	107,773	26,568		371	54,139	1,088,321
11,223		14,397				(11,223)	0
						(14,397)	0
						(26,138)	(26,138)
						(500)	(500)
(14)			(191)				(205)
					(177)		(177)
		7					7
							22,000
	206		1,794			(2,000)	0
			(119)			119	0
						67,419	67,419
69,697	346	122,177	28,052	0	194	67,419	1,150,727
14,337		17,749				(14,300)	37
						(17,749)	0
						(30,952)	(30,952)
						(500)	(500)
915			3,251				4,166
					65		65
		72					72
							8,000
	(3)		4,003			(4,000)	0
			36			(36)	0
				705			705
			(118)			118	0
						87,034	87,034
84,949	343	139,998	35,224	705	259	87,034	1,219,354

CONSOLIDATED FINANCIAL
STATEMENTS AS OF 31 DECEMBER 2000
IN EURO

Figures have been converted into euros using the irrevocable exchange rate of
L. 1,936.27 to the euro.

CONSOLIDATED BALANCE SHEET

(in thousands of euro)

ASSETS

31-12-2000

31-12-1999

10.	CASH ON HAND AT CENTRAL BANKS AND POST OFFICES	57,833		50,180
20.	TREASURY AND SIMILAR BILLS ELIGIBLE FOR REFINANCING WITH CENTRAL BANKS	469,531		502,341
30.	DUE FROM OTHER BANKS:	556,033		669,850
	a) sight	125,038	199,973	
	b) others	430,995	469,877	
40.	CUSTOMER LOANS	4,585,182		3,819,105
	of which:			
	– from third-party funds under administration	135	307	
50.	BONDS AND OTHER FIXED-YIELD SECURITIES:	936,712		781,232
	a) from public issuers	822,317	676,068	
	b) from banks	86,226	81,189	
	of which:			
	– own securities	2,880	1,656	
	c) from financial institutions	1,682	13,769	
	d) from other issuers	26,487	10,206	
60.	SHARES, QUOTAS AND OTHER VARIABLE-YIELD SECURITIES	60,572		26,719
70.	EQUITY INVESTMENTS	57,903		51,605
	a) valued at net equity	14,976	3,963	
	b) others	42,927	47,642	
80.	EQUITY INVESTMENTS IN GROUP COMPANIES	0		74
	a) valued at net equity	0	0	
	b) others	0	74	
110.	INTANGIBLE ASSETS	12,000		10,736
120.	FIXED ASSETS	71,987		69,426
140.	OWN SHARES (par value 25.15)	177		179
150.	OTHER ASSETS	263,863		185,623
160.	ACCRUED INCOME AND PREPAYMENTS:	46,884		32,515
	a) accrued income	45,129	30,682	
	b) prepayments	1,755	1,833	
TOTAL ASSETS		7,118,677		6,199,585

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THE CHAIRMAN
AND CHIEF EXECUTIVE OFFICER
Piero Melazzini

THE STATUTORY AUDITORS
Egidio Alessandri, Chairman
Piergiuseppe Forni - Roberto Schiantarelli

LIABILITIES

31-12-2000

31-12-1999

10.	DUE TO OTHER BANKS:		1,244,178		973,596
	a) sight	268,688		158,783	
	b) time or with notice	975,490		814,813	
20.	CUSTOMER DEPOSITS:		4,093,876		3,578,591
	a) sight	3,210,030		2,825,055	
	b) time or with notice	883,846		753,536	
30.	SECURITIES ISSUED:		652,888		635,194
	a) bonds	535,245		517,365	
	b) certificates of deposit	40,165		51,609	
	c) other securities	77,478		66,220	
40.	THIRD-PARTY FUNDS UNDER ADMINISTRATION		155		329
50.	OTHER LIABILITIES		320,633		271,628
60.	ACCRUED LIABILITIES AND DEFERRED INCOME:		25,795		15,189
	a) accrued liabilities	23,697		13,125	
	b) deferred income	2,098		2,064	
70.	RESERVE FOR SEVERANCE INDEMNITIES		30,435		27,332
80.	RESERVES FOR RISKS AND CHARGES:		98,378		88,135
	a) staff pension fund	46,254		42,882	
	b) taxation reserve	38,799		34,484	
	d) other reserves	13,325		10,769	
90.	RESERVES FOR POSSIBLE LOAN LOSSES		22,596		15,290
100.	RESERVE FOR GENERAL BANKING RISKS		38,734		34,603
130.	NEGATIVE DIFFERENCES ARISING ON APPLICATION OF NET EQUITY METHOD		134		100
150.	SHARE CAPITAL		177,617		177,617
160.	SHARE PREMIUM RESERVE		233,401		233,401
170.	RESERVES:		134,544		113,761
	a) legal reserve	43,872		35,995	
	b) reserve for own shares	177		179	
	c) statutory reserves	72,303		63,099	
	d) other reserves	18,192		14,488	
190.	RETAINED EARNINGS		364		
200.	NET PROFIT FOR THE YEAR		44,949		34,819
TOTAL LIABILITIES			7,118,677		6,199,585

THE GENERAL MANAGER
Mario Alberto Pedranzini

THE CHIEF ACCOUNTANT
Maurizio Bertolotti



GUARANTEES AND COMMITMENTS		31-12-2000	31-12-1999
10.	GUARANTEES GRANTED	1,043,373	979,071
	of which:		
	- acceptances	4,531	12,872
	- other guarantees	1,038,842	966,199
20.	COMMITMENTS	240,280	378,447

CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

	2000	1999
10. INTEREST INCOME AND SIMILAR REVENUES	355,497	256,413
of which:		
– on customer loans	272,882	193,299
– on fixed-yield securities	58,736	47,782
20. INTEREST EXPENSE AND SIMILAR CHARGES	(184,808)	(111,867)
of which:		
– on customer deposits	104,171	61,667
– on securities issued	18,366	15,397
30. DIVIDENDS AND OTHER INCOME:	3,848	3,125
a) from shares, quotas and other variable-yield securities	583	178
b) from equity investments	3,265	2,947
40. COMMISSION INCOME	122,130	93,079
50. COMMISSION EXPENSE	(9,044)	(5,787)
60. PROFITS FROM FINANCIAL TRANSACTIONS	17,558	12,368
70. OTHER OPERATING INCOME	20,208	18,252
80. ADMINISTRATIVE EXPENSES:	(177,090)	(156,984)
a) Personnel expenses	92,958	83,600
of which:		
– wages and salaries	62,712	55,645
– social security contributions	17,070	15,713
– severance indemnities	5,083	4,082
– pensions	5,129	4,425
b) Other administrative expenses	84,132	73,384
90. ADJUSTMENTS TO INTANGIBLE AND FIXED ASSETS	(18,515)	(15,554)
100. PROVISIONS FOR RISKS AND CHARGES	(2,077)	(704)
110. OTHER OPERATING EXPENSES	(3,176)	(3,581)
120. ADJUSTMENTS TO LOANS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS	(42,207)	(33,062)
130. WRITE-BACKS TO LOANS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS	10,200	11,924
140. PROVISIONS TO RESERVES FOR POSSIBLE LOAN LOSSES	(8,427)	(3,815)
150. ADJUSTMENT TO THE VALUE OF LONG-TERM FINANCIAL ASSETS	(563)	(339)
170. LOSS ON INVESTMENTS VALUED AT NET EQUITY	(125)	(61)
180. PROFIT FROM ORDINARY OPERATIONS	83,410	63,407
190. EXTRAORDINARY INCOME	1,352	12,140
200. EXTRAORDINARY CHARGES	(1,233)	(595)
210. NET EXTRAORDINARY ITEMS	119	11,545
230. CHANGE IN THE RESERVE FOR GENERAL BANKING RISKS	(4,132)	(11,362)
240. INCOME TAXES FOR THE YEAR	(34,447)	(28,771)
260. NET PROFIT FOR THE YEAR	44,949	34,819

EXTRAORDINARY PART

REPORT OF THE BOARD OF DIRECTORS

EXTRAORDINARY PART

Shareholders,

Today's extraordinary shareholders' meeting has been called to approve the proposal to convert the bank's share capital into euros, in implementation of Legislative Decree 213 of 24 June 1998, which introduced EU regulation 1103/97 of 17 June 1997. The meeting is also called to vote on the proposal to increase share capital, which the Board of Directors submits for your approval, having obtained the necessary authorization from the Bank of Italy.

The first proposal is dictated by the need for legal compliance, whilst the second proposal is aimed at providing effective support to the bank's expansion plans. The latter takes account of both the bank's need for capital whilst making shareholders an attractive, simple and easily understood offer.

This will also involve updating article 6 of the bank's by-laws for the new par value of the stock.

The matters set out in the meeting's agenda are explained in greater detail below.

* * *

The principal terms of the share capital increase are as follows:

- 1) redenomination in euros, at the fixed lira/euro conversion rate of L. 1,936.27, of the par value of each ordinary share in Banca Popolare di Sondrio, currently equal to L. 5,000, and simultaneous bonus increase in the par value to Euro 3 by transferring the amount required from the «share premium reserve» to «share capital»;
- 2) a bonus issue of one new share of par value Euro 3, carrying dividend rights from 1 January 2001, for every two shares held, with a transfer of the amount required from the «share premium reserve» to «share capital»;
- 3) a simultaneous extraordinary rights issue of one new share of par value Euro 3, carrying dividend rights from 1 January 2001, for every two shares held prior to the above bonus issue, at the price of Euro 4, of which Euro 3 is to be allocated to «share capital» and Euro 1 to the «share premium reserve»;
- 4) correlated payment of an expense reimbursement, calculated as Euro 0.04 for every new share subscribed under the rights issue, up to a maximum of Euro 80.

The increase in capital responds to shareholders' expectations, also demonstrated in general meeting, and reflects the desire, voiced several times by the directors and always shared by the bank's shareholders, to pursue an independent strategy of internally-driven expansion. Given the rapid changes currently affecting the domestic banking system, the aim is to fulfil our potential as a regional bank, thereby creating an effective interface between the local area served and the global market. By improving the bank's institutional, organizational and operational aspects, we believe we can offer services and products capable of fully satisfying the banking and financial requirements of our customers, particularly households and small and medium-sized companies.

In view of this goal, aimed at giving a decisive boost to the bank's size and scale of operations, the share capital increase is both a pre-condition and guarantee of its growth. The new financial resources, which will supplement the more limited funds raised from self-financing, will be used to help boost growth in the fundamental aggregates shown in the financial statements, allowing them to maintain a consistent ratio to equity in order to satisfy the capital adequacy requirements laid down by the supervisory authorities. Capital adequacy is central to the policy of the supervisory authorities and is reflected in the minimum capital



requirements. Such requirements in turn affect all a bank's operating decisions in areas such as growth in size, lending, investment in securities, currency management, investment in equity interests, purchase of property etc. Whilst the bank's capital adequacy ratios are still good relative to the minimum requirements, they have tended to decrease as the growth in capital has been outpaced by that in other components of the financial statements.

The capital increase is also required to deal with the various types of risk that the bank needs to monitor in an increasingly systematic and efficient manner. The new resources will enable the bank to put in place the necessary precautions, whilst introducing techniques and instruments for risk measurement and management needed to cope confidently with the development of new business areas. We should also recall that the scale of operations in the sectors of lending and equity and property investments depends on the amount of capital, which in turn restricts the degree of management autonomy.

The decision to propose the capital increase has been taken on the basis of the major expansion plans, both in progress and projected for the future. It is also the fruit of the results achieved in recent years, which in some cases have exceeded expectations. In fact, it is the bank's current size that signals the opportunity, indeed the need for this increase. The comparison between some of the key figures in 2000 with those as of 31 December 1998, the year when the last capital increase took place, is extremely relevant. There has been a significant increase in both direct deposits, up 30.88% to L. 8,883 billion, and indirect deposits, 52.76% higher at L. 20,768 billion. Loans have soared 48.61% to L. 8,605 billion, while their quality has been maintained. This is demonstrated by the ratio of outstanding overdue loans to total loans, which at 1.21% is far better than the industry average. Net interest income has climbed 16.54% to L. 326 billion, despite the structural decline in

interest rate spreads. Income from banking activities has risen 19.29% to L. 536 billion, partly thanks to the contribution from services, which account for 39.07% of the total result. Net profit has benefited, up 55.05% to L. 74 billion, confirming that growth in size and profitability can go hand in hand provided management policy is both prudent and dynamic.

Accordingly, the market has afforded a positive opinion to our stock, as reflected in its exponential growth, stable rating and satisfactory, constant return. In fact, over the last five years the stock has reported a gross annual return, taking account of both dividends and capital gains, of 22.44%. The Stock Exchange has also reacted positively to the news of the proposed capital increase, demonstrating the general confidence in the bank's prospects and its solid relationship with its shareholders.

These are the general reasons for this operation. Now we shall outline the plans for the sectors where the bank intends to focus its future development. The amount of the related investments has been valued in detail in order to establish the size of the capital increase.

In terms of geographical expansion, the plans are to maintain the same rate of growth in the branch network as in the past. This is a considerable undertaking, but it should be remembered that the establishment of regional status represents the necessary cornerstone on which to base the bank's entire development plans. The positive results reported by the newly-opened branches are also a source of encouragement. In fact, geographical expansion has proved to be a self-sufficient process, without depressing overall profitability.

In the area of distribution channels, considerable attention will be dedicated to the virtual bank, with the offer of new, specialized services aimed at both corporate and individual customers. Growth in this strategic sector is the result of continuous investment in technology and

the establishment of agreements with recognized counterparties.

Still in the technology area, important investments will be made in redesigning the «standard branch», involving changes to the physical layout, working procedures and architecture of the computer systems. The objectives include: a drastic reduction in administrative functions in favour of commercial ones; the development of more sophisticated, profitable activities; the integration between services provided in the branch and those on-line.

Another purpose of the capital increase is to extend our relationships with partner companies, considered essential for completing and maintaining the high quality of the range of products and services we offer. We refer to the so-called product companies, which have enabled the bank to enter new areas with high value-added products and solutions. We want to give continuity to the decisions taken, supporting the growth of these affiliates, and possibly, with a view to consolidating their management structures, purchasing the holdings of shareholders who are no longer interested in these joint ventures. The purpose of these actions is to establish a strong foothold in areas of business, which we cannot ignore in terms of winning and keeping customers, the volumes generated and the related profitability.

Banca Popolare di Sondrio (Suisse) S.A. warrants a word apart. Although the company currently has enough equity, thanks to its proficiency in generating profits, we are not ruling out the possibility of increasing its share capital in the future in order to allow its rapid pace of growth to continue.

As part of the plans to improve bank procedures, a major effort will be dedicated to the «Credit Risk Management» project. Given the continuing overall importance of lending activities, the bank needs to acquire new instruments and adopt procedures and techniques in line with the best practices being established in

the banking industry if it is to achieve optimum management of its credit risks.

Lastly, we wish to point out that the «degree of capitalization» represents a fundamental credential in respect of both Italian and foreign institutional customers, with whom we intend to develop already very important existing working relationships. These customers are leading players, who work exclusively with financial counterparties of proven solidity and efficiency. The capital increase will therefore help enhance the bank's competitiveness in this respect.

The new resources will allow the bank to implement projects, which have also been planned on the basis of growing profitability. An important contribution in this respect is expected from the synergies deriving from a more organized, widespread branch network, from technological advances, the expansion of lending activities, higher commissions as a result of marketing a wider range of products and services including those containing higher value-added, from the enhancement of innovative distribution channels, and lastly, from the improved efficiency of operating procedures, which is also hoped to reduce costs.

Based on these observations, the Board of Directors is proposing an operation, that is deliberately simple in structure but also capable of supporting the bank's growth, whilst offering shareholders an attractive investment opportunity. The capital increase will help raise new funds totalling around L. 266,365 million as a result of issuing 34,391,516 new shares purchased at a price of Euro 4 each, of which Euro 3 will be allocated to «share capital» and Euro 1 to the «share premium reserve». The amount of the share premium has been determined taking account of book shareholders' equity, the date from which the new shares will enjoy dividend rights and the trends in the stock's price. The bonus component, involving the increase in the par value of the 68,783,032 shares in circulation to Euro 3 and the issue of



34,391,516 ordinary shares of par value Euro 3 each in the ratio of one new share for every two in circulation, will entail transferring the amount of L. 255,406,186,175 from the «share premium reserve» to «share capital». Equity will increase from L. 1,115,361,867,133 to L. 1,381,726,909,874, whilst the value of share capital will rise from L. 343,915,160,000 to L. 799,095,128,223. The number of shares will double from 68,783,032 to 137,566,064. We would like to point out that these will be ordinary shares, with the same par value and identical rights to those already in circulation.

If the capital increase is approved, we shall ask the shareholders' meeting to grant the Board of Directors and/or the Chairman's Committee, and on their behalf the Chairman and Deputy Chairman, the power to carry out separately all the actions required to complete and implement the related resolution. Taking account of the legal and technical requirements, and provided that no currently unforeseeable events advise that the operation be delayed, it is reasonable to assume that the capital increase will take place between the end of May and beginning of June 2001. No placement or underwriting syndicates are required for this operation to take place; shareholders may

exercise their rights either directly at the branches of Banca Popolare di Sondrio or via Monte Titoli SpA in respect of the shares that the latter manages. The rights will be traded on Milan's Restricted (Over-the-Counter) Market and those that are not exercised will be offered in accordance with art. 2441.3 of the Italian Civil Code, which applies to all companies with shares listed on regulated markets in Italy as dictated by article 206 of Legislative Decree 58 of 24 February 1998 (Financial brokerage act) pursuant to articles 8 and 21 of Law 52 of 6 February 1996.

The bank will be responsible for giving due notice of the operation in the press, communicating to individual shareholders the terms and procedures of participation, and fulfilling all the related formalities.

* * *

The following proposal relates to the alteration to article 6 of the by-laws to update it for the new par value of the shares. The current text of this article is compared with the proposed text below.

CURRENT TEXT

PROPOSED TEXT

Article 6

Article 6

**Share capital
Procedures for new issues
Share price**

**Share capital
Procedures for new issues
Share price**

Share capital is variable and represented by registered shares with a par value of *L. 5,000 each (five thousand lire)*.

Share capital is variable and represented by registered shares with a par value of *Euro 3 each (three euros)*.

The issue of new shares, which in principle has no limit, may be approved:

The issue of new shares, which in principle has no limit, may be approved:

- 1 - in the case of ordinary issues, by the Board of Directors;
- 2 - in the case of extraordinary issues, by the extraordinary meeting of shareholders, in accordance with the provisions of article 2441 of the Italian Civil Code.

- 1 - in the case of ordinary issues, by the Board of Directors;
- 2 - in the case of extraordinary issues, by the extraordinary meeting of shareholders, in accordance with the provisions of article 2441 of the Italian Civil Code.

Unless otherwise required in law and/or by the banking supervisory authorities, if the shares of the company are listed on official markets, the ordinary issue of new shares is to allow the entry of new shareholders and takes place via subscription to a single share. In this regard, every year after the shareholders have approved the annual financial statements, the Board of Directors establishes:

Unless otherwise required in law and/or by the banking supervisory authorities, if the shares of the company are listed on official markets, the ordinary issue of new shares is to allow the entry of new shareholders and takes place via subscription to a single share. In this regard, every year after the shareholders have approved the annual financial statements, the Board of Directors establishes:

- a) the amount which, taking account of the equity reserves shown in the financial statements, must be paid in at the time of subscription in addition to the par value of every new share;
- b) the amount of the additional payment referred to in article 13 below, in order to obtain dividend rights for the entire year.

- c) the amount which, taking account of the equity reserves shown in the financial statements, must be paid in at the time of subscription in addition to the par value of every new share;
- d) the amount of the additional payment referred to in article 13 below, in order to obtain dividend rights for the entire year.

Comment

The first paragraph has been changed for the new par value of the shares expressed in euros.



Shareholders,

As indicated in point 3 on the agenda, we now invite you to vote on the matters proposed by the Board of Directors, approving the following resolutions, which include the granting of powers to legal representatives:

Resolutions relating to points 1 and 2 on the agenda:

- Redenomination of share capital and the par value of shares into euros, with a simultaneous bonus increase in the par value of every share to Euro 3. Related amendment to article 6 of the by-laws.
- Mixed-form capital increase.

«The shareholders of Banca Popolare di Sondrio in extraordinary meeting:

- having heard the report of the Board of Directors;
- having taken note of the report of the Board of Statutory Auditors;

hereby resolve

- 1) - to approve the redenomination of share capital and the par value of shares into euros, with a simultaneous bonus increase in the par value of every share to Euro 3, by transfer of the related amount from the «share premium reserve» to «share capital»;
 - to approve the related amendment to paragraph 1 of article 6 of the bank's by-laws, with the new text reading as follows «Share capital is variable and represented by registered shares with a par value of Euro 3 (three euros) each»;
- 2) to approve the mixed-form capital increase as proposed by the Board of Directors, described below:
 - a bonus issue of one new share of par value Euro 3, carrying dividend rights from 1

January 2001, for every two shares held, with a transfer of the amount required from the «share premium reserve» to «share capital»;

- a simultaneous extraordinary rights issue of one new share of par value Euro 3, carrying dividend rights from 1 January 2001, for every two shares held prior to the above bonus issue, at a price of Euro 4, of which Euro 3 is to be allocated to «share capital» and Euro 1 to the «share premium reserve»;
 - correlated payment of an expense reimbursement, equal to Euro 0.04 for every new share subscribed under the rights issue, up to a maximum of Euro 80.
- 3) to grant the Board of Directors and/or the Chairman's Committee, the widest possible powers to fix the period within which to resolutions in points 1) and 2) must be implemented and to establish all the other related terms, procedures and conditions, including those for the use of split shares arising under the bonus issue and for offering unexercised rights, in accordance with article 2441.3 of the Italian Civil Code which applies to all companies with shares listed on regulated markets in Italy as dictated by article 206 of Legislative Decree 58 of 24 February 1998 (Financial brokerage act) pursuant to articles 8 and 21 of Law 52 of 6 February 1996; these powers are also to include all those required to transfer the amounts relating to the bonus part of the operation from the «share premium reserve» to «share capital».

Resolution relating to points 3 on the agenda:

- Granting of powers

«The shareholders of Banca Popolare di Sondrio in extraordinary meeting, in addition to the resolutions taken this day in relation to points 1 and 2 on the agenda:

hereby resolve

to delegate to the Chairman and to the Deputy Chairman, separately, the powers needed to render public and executive, in accordance with the law, the above shareholders' resolutions; in addition, to make to them any amendments, deletions and/or additions that may be required by the

Authorities for the purposes of their approval, transcription, publication and legal authorization, as well as for the procedures as per art. 2436 of the Italian Civil Code, all with the promise of full ratification and approval.»

Sondrio, 30 January 2001

THE BOARD OF DIRECTORS

REPORT OF THE BOARD OF STATUTORY AUDITORS

EXTRAORDINARY PART

Shareholders,

The Board of Directors is submitting for your approval the modification to article 6 of the bank's by-laws, in implementation of the provisions of Legislative Decree 213/1998, which require that share capital and the par value of shares be redenominated in euros.

In addition to the conversion of the par value of the shares into euros, the Board of Directors is proposing a bonus increase in their par value from L. 5,000 to Euro 3. Based on the fixed exchange rate of L. 1,936.27 to the euro, this means that the par value of each share will increase by L. 808.81. This amount will be booked to share capital by transferring the corresponding figure from the "share premium reserve".

At the same time as this operation, you are requested to examine and approve a mixed-form capital increase as follows:

- a bonus issue of one new share of par value Euro 3, carrying dividend rights from 1 January 2001, for every two shares held, with a transfer of the amount required from the "share premium reserve" to "share capital";
- a simultaneous extraordinary rights issue of one new share of par value Euro 3, carrying dividend rights from 1 January 2001, for every two shares held prior to the above bonus issue, at a price of Euro 4, of which Euro 3 is to be allocated to "share capital" and Euro 1 to the "share premium reserve";
- payment of an expense reimbursement, equal to Euro 0.04 for every new share subscribed under the rights issue, up to a maximum of Euro 80.

Shareholders,

We have carefully assessed and fully agree with the reasons and explanations given by the Board of Directors in support of the capital increase.

The new resources to be raised thanks to your contribution have a precise purpose, helping strengthen the bank's capital base. This is essential for ensuring the bank's solidity and for giving continuity and security to the implementation of its planned strategy, which has been in place for some time now with pleasing results.

The expected benefits are so clear that they cannot be ignored: the bank's interests are at stake, meaning the interests of its shareholders. Everyone wants the bank to continue to grow at the healthy pace for which it is known and respected.

Based on our review, we can confirm that the manner of performing this clear and simple operation is in perfect compliance with the regulations governing such matters; we are also reassured by the approval received from the Bank of Italy.

We can only hope that you support this operation in order to ensure its best possible outcome.

Sondrio, 15 February 2001

THE STATUTORY AUDITORS
Egidio Alessandri, chairman
Piergiuseppe Forni
Roberto Schiantarelli

**RESOLUTIONS OF THE ORDINARY
AND EXTRAORDINARY
ANNUAL GENERAL MEETING OF THE SHAREHOLDERS**
held on 3 March 2001 (at second calling)



AGENDA

Ordinary part

- 1) Presentation of the financial statements as of 31/12/2000: 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 substitute members of the Advisory Committee.

Extraordinary part

- 1) Redenomination of share capital and the par value of shares into euros, with a simultaneous bonus increase in the par value of every share to Euro 3, by transfer of the related amount from the «share premium reserve» to «share capital». Related amendment to article 6 of the by-laws;
- 2) Mixed-form capital increase involving:
 - a bonus issue of one new share of par value Euro 3, carrying dividend rights from 1 January 2001, for every two shares held, with a transfer of the amount required from the «share premium reserve» to «share capital»;
 - a simultaneous extraordinary rights issue of one new share of par value Euro 3, carrying dividend rights from 1 January 2001, for every two shares held prior to the above bonus issue, at the price of Euro 4, of which Euro 3 is to be allocated to «share capital» and Euro 1 to the «share premium reserve»;
 - correlated payment of an expense reimbursement, equal to Euro 0.04 for every new share subscribed under the rights issue, up to a maximum of Euro 80;
- 3) Related resolutions and conferment of powers.

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, having listened to the report of the Board of Directors on performance in 2000 and their proposed allocation of the 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, income statement

and explanatory notes, as well as the financial statements of the subsidiary and associated companies, the shareholders

approved

- 1) the report of the Board of Directors on performance in 2000;
- 2) the financial statements as of 31 December 2000 with the results shown in the balance sheet, income statement and explanatory notes: a net profit of Lire 74,408,471,259.

The shareholders also approved the allocation of the net profit for the year of Lire 74,408,471,259 as proposed by the Board of Directors in compliance with the law and the bank's by-laws, namely:

a) to allocate:

- | | |
|--------------------------------|-------------------|
| - 10% to the legal reserve | L. 7,440,847,126 |
| - 30% to the statutory reserve | L. 22,322,541,378 |

b) to pay a dividend of L. 580 to each of the 68,783,032 shares in circulation as of 31/12/2000 with dividend rights as of 1/1/2000, transferring to the statutory reserve the dividends due to any own shares that the bank may hold on the day prior to the date on which the shares go ex-dividend, for a total of

L. 39,894,158,560

c) to allocate to the reserve for own shares

L. 4,000,000,000

d) to allocate the residual profit:

- | | |
|---|----------------|
| - to the charity fund | L. 500,000,000 |
| - to the reserve as per art. 13 Legislative Decree 124/93 | L. 50,027,279 |
| - to the legal reserve, an additional | L. 200,896,916 |

The shareholders also set at Lire 29 billion – booked in the balance sheet under «Reserve for own shares» for Lire 343.4 million and «Other reserves» for the remainder – the amount at the disposal of the Board of Directors to carry out, in accordance with art. 21 of the by-laws, purchases and sales of the bank's shares at market prices, within the limit of the above amount and that part of it that may subsequently become available as a result of selling the shares previously purchased; all as part of the normal activity of intermediation designed to encourage circulation of the bank's shares.

- 3) determination of the directors' emoluments;
- 4) the appointment of Mario Galbusera, Nicolò Melzi di Cusano, Mario Testorelli, Bruno Vanossi and Francesco Venosta as members of the Board of Directors for the three-year period 2001-2003;



- 5) the appointment of Alberto Crespi, Giuseppe Guarino and Andrea Monorchio as acting members of the Advisory Committee and of Susanna Agnelli and Ettore Gallo as alternate advisors for the three-year period 2001-2003.

For the extraordinary part, having listened to the report of the Board of Directors and taken note of the report of the Board of Statutory Auditors, the shareholders

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resolved:

- 1) – to approve the redenomination of share capital and the par value of shares into euros, with a simultaneous bonus increase in the par value of every share to Euro 3, by transfer of the related amount from the «share premium reserve» to «share capital»;
 - to approve the related amendment to paragraph 1 of article 6 of the bank's by-laws, with the new text reading as follows «Share capital is variable and represented by registered shares with a par value of Euro 3 (three euros) each»;
- 2) to approve the mixed-form capital increase as proposed by the Board of Directors, described below:
 - a bonus issue of one new share of par value Euro 3, carrying dividend rights from 1 January 2001, for every two shares held, with a transfer of the amount required from the «share premium reserve» to «share capital»;
 - a simultaneous extraordinary rights issue of one new share of par value Euro 3, carrying dividend rights from 1 January 2001, for every two shares held prior to the above bonus issue, at a price of Euro 4, of which Euro 3 is to be allocated to «share capital» and Euro 1 to the «share premium reserve»;
 - correlated payment of an expense reimbursement, equal to Euro 0.04 for every new share subscribed under the rights issue, up to a maximum of Euro 80;
- 3) – to grant the Board of Directors and/or the Chairman's Committee, the widest possible powers to fix the period within which to resolutions in points 1) and 2) must be implemented and to establish all the other related terms, procedures and conditions, including those for the use of split shares arising under the bonus issue and for offering unexercised rights, in accordance with article 2441.3 of the Italian Civil Code, which applies to all companies with shares listed on regulated markets in Italy, as dictated by article 206 of Legislative Decree 58 of 24 February 1998 (Financial brokerage act) pursuant to articles 8 and 21 of Law 52 of 6 February 1996; these powers are also to include all those required to transfer the amounts

- relating to the bonus part of the operation from the «share premium reserve» to «share capital»;
- to delegate to the Chairman and to the Deputy Chairman, separately, the powers needed to render public and executive, in accordance with the law, the above shareholders' resolutions; in addition, to make to them any amendments, deletions and/or additions that may be required by the Authorities for the purposes of their approval, transcription, publication and legal authorization, as well as for the procedures as per art. 2436 of the Italian Civil Code, all with the promise of full ratification and approval.

THE BANK'S GROWTH SINCE ITS FOUNDATION KEY FINANCIAL DATA

Year	Financial investments lire	Customer loans lire	Fiduciary funds lire	Shareholders' equity (capital & reserves) lire	Net profit for the year lire	Dividend lire
1871	50,511	180,633	72,157	90,243	1,431	2.40
1875	210,534	1,306,146	1,101,140	349,667	40,958	4.80
1880	89,960	1,982,008	1,504,015	696,182	63,949	4-
1885	413,293	2,770,282	2,247,403	792,962	81,130	4-
1890	887,984	3,495,003	3,187,972	884,545	95,210	4-
1895	1,626,468	2,672,099	3,158,173	877,596	69,048	3.50
1900	1,665,567	3,150,636	3,846,521	900,506	82,843	3.75
1905	1,820,120	4,511,953	5,487,128	976,050	102,815	4-
1910	2,826,143	7,197,912	9,174,175	1,089,486	130,910	5-
1915	4,695,275	6,580,483	10,025,751	1,274,266	114,947	4-
1920	15,308,840	17,619,325	43,217,328	2,386,350	360,233	10-
1925	17,647,206	69,110,205	77,303,591	4,459,907	1,012,629	11-
1930	24,976,137	84,395,615	106,028,097	6,253,905	1,086,786	11-
1935	41,440,233	59,853,760	102,990,686	6,859,473	656,938	7-
1940	47,238,634	63,524,949	110,492,224	5,985,029	604,102	4.375
1945	217,324,768	197,190,394	371,025,910	12,567,533	1,581,275	4.50
1950	1,178,143,464	1,728,004,559	2,633,063,277	97,774,822	20,977,987	80-
1955	2,736,652,595	4,593,101,812	6,919,258,008	507,538,163	50,339,685	240-
1960	6,728,341,569	11,354,894,711	17,666,877,226	960,311,990	89,062,532	290-
1965	12,709,787,718	19,095,407,878	35,315,339,189	1,297,813,485	116,261,503	330-
1970	21,741,812,203	40,933,641,636	66,685,141,779	3,054,405,662	168,067,728	380-
1975	95,357,422,047	89,956,111,500	199,699,178,214	9,565,973,510	651,267,178	550-
1980	481,894,450,213	262,074,902,032	747,648,563,276	86,393,967,075	4,451,036,002	1,200-
1981	587,130,515,183	290,163,138,950	844,132,823,461	136,109,787,538	6,860,449,121	1,700-
1982	841,319,962,820	327,213,343,582	1,092,908,835,203	181,987,626,486	11,379,406,505	1,800-
1983	1,068,301,667,994	390,912,156,043	1,399,683,630,343	204,274,016,662	18,967,163,218	2,700-
1984	1,272,756,173,430	473,053,876,174	1,714,839,497,963	227,098,808,780	22,759,441,699	3,700-
1985	1,296,862,890,008	634,268,654,746	1,908,105,269,710	238,833,497,680	25,814,463,183	5,000-
1986	1,655,469,622,446	738,390,550,644	2,145,616,271,302	249,984,598,045	26,300,274,304	4,200-
1987	1,848,034,028,398	789,308,725,745	2,333,218,913,595	260,402,944,713	26,311,307,976	4,200-
1988	1,840,357,492,343	987,816,483,788	2,488,897,938,830	270,555,622,507	26,460,190,701	4,400-
1989	1,855,483,777,942	1,229,068,595,740	2,771,036,101,389	280,954,624,043	27,076,827,754	4,500-
1990	1,779,938,246,983	1,587,503,964,300	3,035,178,934,286	329,179,378,297	28,888,504,956	3,200-
1991	1,716,466,230,069	1,964,123,977,869	3,307,699,544,754	373,203,755,104	31,016,836,077	3,200-
1992	2,250,454,029,374	2,327,911,489,007	4,166,439,336,756	385,278,450,381	31,570,877,483	3,300-
1993	3,243,379,866,344	2,790,472,026,444	5,542,593,261,318	485,836,596,464	34,583,536,271	2,200-
1994	2,784,843,989,314	3,293,998,587,247	5,659,197,288,560	499,753,074,615	32,871,283,788	2,200-
1995	3,540,227,650,239	3,685,748,248,735	6,586,353,793,548	649,580,572,653	36,185,696,721	800-
1996	3,519,166,343,630	4,106,522,751,782	6,951,670,548,845	668,260,897,374	40,052,942,650	850-
1997	3,351,567,955,095	4,812,999,288,336	7,444,534,266,360	684,485,542,534	40,266,832,761	850-
1998	3,882,612,551,411	5,790,092,272,246	8,409,615,557,406	1,036,219,004,464	47,989,918,458	380-
1999	3,860,010,617,593	7,212,148,295,916	9,795,513,852,990	1,079,578,367,282	59,163,759,221	450-
2000	3,956,073,788,698	8,604,678,323,034	11,288,262,476,571	1,115,361,867,133	74,408,471,259	580-

The figures for the years prior to 1993 have not been adjusted to make them comparable with those of subsequent years which have been classified differently in accordance with Legislative Decree 87/92.

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Photographs:

RENATO BOGIALLI
CHROMATA
FOTO AGRESTA
FOTO SOSIO
MAURO LANFRANCHI
OLYMPIA
ANGELO SGUALDINO
MASSIMO TOGNOLINI

Impagination:

GRAFICA MARCASSOLI s.r.l., Nembro (Bg)

Pre-print coordination and printing:

BOLIS POLIGRAFICHE SpA, Bergamo

Translation:

BUROSERVICE snc, Arese (Mi)