#  <br> Bancra Popolaro dil Smalio 



ANNUAL REPORT 2003



# Banca Popolare di Sondrio 

Founded 1871

## ORDINARY AND EXTRAORDINARY ANNUAL GENERAL MEETING OF THE SHAREHOLDERS 6 MARCH 2004

[^0]

## BOARD OF DIRECTORS

Chairman and Chief Executive Officer
Deputy Chairman
Directors

PIERO MELAZZINI*
CARLO GRASSI**
ALDO BALGERA
CLAUDIO BENEDETTI
GIANLUIGI BONISOLO*
FEDERICO FALCK
GIUSEPPE FONTANA
MARIO GALBUSERA
NICOLÒ MELZI DI CUSANO
MILES EMILIO NEGRI*
ALDO ROSSI
RENATO SOZZANI*
LINO ENRICO STOPPANI
BRUNO VANOSSI
FRANCESCO VENOSTA*

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


## BOARD OF STATUTORY AUDITORS

Chairman
Acting Auditors

Substitute Auditors

## ADVISORY COMMITTEE

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

EGIDIO ALESSANDRI
PIO BERSANI
PIERGIUSEPPE FORNI
MARCO ANTONIO DELL'ACQUA MARIO VITALI

## GENERAL MANAGEMENT

ANTONIO LA TORRE

MARIO ALBERTO PEDRANZINI
GIOVANNI RUFFINI GIOVANNI CARLO MASSERA GIUSEPPE FRANCO PAGANONI


100
(88)




Zurich
8
$2+E$


Si. Guillon


Doplaimes


AFILAN I Heital offier 24 Eraucher

ne


## SUMMARY OF THE BANK'S GROWTH

(1993/2003)

| (in millions of euro) | 1993 | 1998 | 2003 |
| :---: | :---: | :---: | :---: |
| Customer deposits: |  |  |  |
| direct | 1,933 | 3,505 | 8,184 |
| indirect | 1,970 | 7,021 | 12,690 |
| Shareholders' equity (excluding net profit for the year) | 251 | 535 | 774 |
| Customer loans: |  |  |  |
| cash loans | 1,441 | 2,990 | 7,117 |
| overdraft facilities | 452 | 773 | 1,690 |
| Own securities | 834 | 1,284 | 1,888 |
| Income from banking activities | 155 | 232 | 341 |
| Operating profit | 78 | 108 | 157 |
| Net profit for the year | 18 | 25 | 60 |
| Number of branches | 78 | 129 | 191 |
| Personnel | 969 | 1,490 | 1,993 |

Customer loans:


The shareholders of Banca Popolare di Sondrio are called to the annual general meeting (ordinary and extraordinary) at the head office in Piazza Garibaldi 16, Sondrio, at 10.00 a.m. on Friday, 5 March 2004 and, if necessary, on second calling in Bormio (So) at the Centro Polifunzionale Pentagono, via Alessandro Manzoni no. 22, at 10.30 a.m. on Saturday, 6 March 2004 to discuss the following

## AGENDA

## Ordinary part

1) Presentation of the financial statements as of $31 / 12 / 2003$ : 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 one acting and one substitute statutory auditor;
5) Appointment of acting and substitute members of the Advisory Committee.

## Extraordinary part

1) Mixed increase in capital involving:

- a bonus issue of one new share of par value 3 euro, with dividend rights from 1 January 2004, for every five shares held, transferring the amount required from the «share premium reserve» to «share capital»;
- a simultaneous extraordinary rights issue to be offered under option at a ratio of two new shares of par value 3 euro, with dividend rights from 1 January 2004, for every five shares held prior to the above bonus issue, at a price of 4 euro, of which 3 euro is to be allocated to «share capital» and 1 euro to the «share premium reserve»;
- related payment of an expense reimbursement equal to 0.04 euro for every new share subscribed under the rights issue, up to a maximum of 125 euro.

2) 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 spa centralized management system pursuant to article 85 of Legislative Decree 58 of 24 February 1998.
Shareholders have the right to vote at the meeting if they have been recorded in the shareholders' register for at least three months.
Each shareholder has the right to only one vote, however many shares they hold.
Shareholders with the right to vote may be represented at the meeting by another shareholder, by means of a proxy ballot prepared in compliance with Italian law. No shareholder can be a proxy for more than one other shareholder.
Shareholders who are minors can be represented by whoever is their legal representative.
Sondrio, 2 February 2004

Piero Melazzini<br>CHAIRMAN OF THE<br>BOARD OF DIRECTORS



## ORDINARY PART

Note: The figures in this report are in euro, and all changes expressed as percentages refer to comparable data from the end of 2002 unless otherwise specified. Because most of the figures in the text and tables are rounded to the nearest million or thousand euro, the percentages may differ marginally from those that would result from a comparison of amounts expressed in different units.

## REPORT ON PERFORMANCE <br> ORDINARY PART

## SUMMARY OF RESULTS

Shareholders,
Generally speaking, 2003 was a difficult year; another difficult year. It is still not entirely clear whether what certain observers glimpse at
the end of the tunnel is the light that heralds a general economic recovery, or if it is the headlamp of a locomotive coming in the other direction.

So we are in a situation of uncertainty which does nothing to encourage consumers to spend nor businesses to invest. Which is like saying that neither of the two main driving wheels

| (in millions of euro) | 2003 | 2002 | \% change |
| :---: | :---: | :---: | :---: |
| Balance sheet |  |  |  |
| Customer loans | 7,117 | 6,247 | 13.93 |
| Loans to other banks | 809 | 1,303 | -37.91 |
| Own securities | 1,888 | 1,803 | 4.72 |
| Equity investments | 131 | 112 | 16.37 |
| Total assets | 10,502 | 9,909 | 5.99 |
| Direct customer deposits | 8,184 | 7,349 | 11.35 |
| Indirect customer deposits | 12,690 | 11,640 | 9.02 |
| Insurance premiums | 372 | 329 | 13.22 |
| Customer assets under administration | 21,246 | 19,318 | 9.98 |
| Other direct and indirect funding | 2,852 | 3,556 | -19.80 |
| Shareholders' equity (excluding net profit for the year) | 774 | 752 | 2.87 |
| Income statement |  |  |  |
| Net interest income | 223 | 209 | 6.66 |
| Income from banking activities | 341 | 312 | 9.30 |
| Operating profit | 157 | 136 | 15.09 |
| Net profit for the year | 60.12 | 46.70 | 28.72 |
| Key ratios (\%) |  |  |  |
| Net interest income/total assets | 2.13 | 2.11 |  |
| Operating profit/total assets | 1.50 | 1.38 |  |
| Administrative expenses/income from banking activities | 60.93 | 62.82 |  |
| Net profit/total assets | 0.57 | 0.47 |  |
| Net profit/average shareholders' equity (excluding net profit) | 7.88 | 6.30 |  |
| Non-performing loans/customer loans | 0.99 | 1.22 |  |
| Capital ratios (\%) |  |  |  |
| Tier 1 capital/risk-weighted assets | 8.91\% | 9.69\% |  |
| Total capital/risk-weighted assets | 8.81\% | 9.74\% |  |
| Available margin (in billions of lire) | 161 | 215 |  |
| Other information |  |  |  |
| Number of employees | 1,993 | 1,878 |  |
| Number of branches | 191 | 178 |  |
| Number of treasury offices | 80 | 77 |  |



of any turnaround in the economic cycle managed to pick up any real speed during 2003, at least in Italy.

As far as we are concerned, we have put into practice the motto «help yourself and God will lend a hand», because there's very little to hope for just standing around waiting for something to happen.

We will now willingly leave the floor to the figures in the following table as they give an immediate perception of the important growth in volumes that has taken place. The result for the year, which is well up on last year, is the just premium for the work that we have performed. We are therefore proposing a higher dividend as well.

Total assets have increased from 9,909 to 10,502 million euro, $+5.99 \%$, while net profit has gone up from 46.7 to 60.1 million euro, an increase of all of 28.72 percentage points.

This significant rise in net profit was given a hand up by the important investments carried out in past years, which have progressively borne fruit. That is our way of proceeding: going for organic growth and the enhancement of our professional and technical resources, not to mention the financial resources contributed by our shareholders.

Direct deposits chalked up a substantial increase. This is undoubtedly confirmation of customers' ongoing preference for cash, but it is also the result of the relationship of trust that we have with small investors. There has even been some growth in our indirect deposits, with positive results in asset management.

Loans have also advanced solidly, accompanied by constant improvements in our staff's professionalism and risk management tools, ensuring that quality is more important than quantity.

Financial intermediation continues to be the Bank's number one source of revenue, again making a substantial contribution to operating
profit. Significant progress has also been made by the service element as have financial profits, helped by a better trend in stock market prices.

Greater efficiency has to a certain extent been achieved through cost containment. This is a commitment that we owe to ourselves and to our shareholders. Any increase in costs is closely monitored and tied strictly to business expansion.

Closer relations with our subsidiaries, associated companies and other affiliates is designed to ensure a streamlined operating structure and a full range of competitive products for our customers. Banca Popolare di Sondrio (SUISSE) SA, our Swiss subsidiary, has managed to combine putting down roots in Switzerland with a wider projection towards international markets, thanks to the launch of the Montecarlo branch in the Principality of Monaco.

As mentioned in the introduction, the considerable increase in net profit enables us to propose a dividend this year of 0.23 euro per share, a $21.05 \%$ increase over last year, in addition to the capital gain of $13.99 \%$ achieved during the period. This is a very satisfactory result for our 1,993 members of staff and one that rewards the shareholders for their trust in us.

## TERRITORIAL EXPANSION

The territorial expansion policy that we have applied to date originates from and is justified by our nature as a cooperative bank.

The adjective «cooperative» has the worth of a noun for us, because it is a word that says everything: it indicates the way we carry on our banking activities, in the same way that the close relationship that we have with our shareholders, customers and the territory in general become the ground rules for a way of being that identifies and qualifies us at a Group level.
of any turnaround in the economic cycle managed to pick up any real speed during 2003, at least in Italy.

As far as we are concerned, we have put into practice the motto «help yourself and God will lend a hand», because there's very little to hope for just standing around waiting for something to happen.

We will now willingly leave the floor to the figures in the following table as they give an immediate perception of the important growth in volumes that has taken place. The result for the year, which is well up on last year, is the just premium for the work that we have performed. We are therefore proposing a higher dividend as well.

Total assets have increased from 9,909 to 10,502 million euro, $+5.99 \%$, while net profit has gone up from 46.7 to 60.1 million euro, an increase of all of 28.72 percentage points.

This significant rise in net profit was given a hand up by the important investments carried out in past years, which have progressively borne fruit. That is our way of proceeding: going for organic growth and the enhancement of our professional and technical resources, not to mention the financial resources contributed by our shareholders.

Direct deposits chalked up a substantial increase. This is undoubtedly confirmation of customers' ongoing preference for cash, but it is also the result of the relationship of trust that we have with small investors. There has even been some growth in our indirect deposits, with positive results in asset management.

Loans have also advanced solidly, accompanied by constant improvements in our staff's professionalism and risk management tools, ensuring that quality is more important than quantity.

Financial intermediation continues to be the Bank's number one source of revenue, again making a substantial contribution to operating
profit. Significant progress has also been made by the service element as have financial profits, helped by a better trend in stock market prices.

Greater efficiency has to a certain extent been achieved through cost containment. This is a commitment that we owe to ourselves and to our shareholders. Any increase in costs is closely monitored and tied strictly to business expansion.

Closer relations with our subsidiaries, associated companies and other affiliates is designed to ensure a streamlined operating structure and a full range of competitive products for our customers. Banca Popolare di Sondrio (SUISSE) SA, our Swiss subsidiary, has managed to combine putting down roots in Switzerland with a wider projection towards international markets, thanks to the launch of the Montecarlo branch in the Principality of Monaco.

As mentioned in the introduction, the considerable increase in net profit enables us to propose a dividend this year of 0.23 euro per share, a $21.05 \%$ increase over last year, in addition to the capital gain of $13.99 \%$ achieved during the period. This is a very satisfactory result for our 1,993 members of staff and one that rewards the shareholders for their trust in us.

## TERRITORIAL EXPANSION

The territorial expansion policy that we have applied to date originates from and is justified by our nature as a cooperative bank.

The adjective «cooperative» has the worth of a noun for us, because it is a word that says everything: it indicates the way we carry on our banking activities, in the same way that the close relationship that we have with our shareholders, customers and the territory in general become the ground rules for a way of being that identifies and qualifies us at a Group level.


Widespread presence and a profound knowledge of where everyone belongs are indispensable bases on which to act as the engine of the local economy in the best way possible. This is the role that tradition has given us and one that the evolution of the national economy continues to require of us.

Italy typically has many small and mediumsized enterprises, which not only represent our natural counterparties on the entrepreneurial front, but which increasingly rely on the banks preferably cooperative banks - to help them expand. Banks that are able to give them professional and personalised assistance.

This is a task that is not particularly suitable for the so-called Large Banks, which by their nature and their size tend to be interested in scenarios that go way beyond national borders. So they have little inclination to devote human and financial resources to local economies and businesses that for them would be extremely marginal.

With us, on the other hand, our priority is to pay attention to the local situation, hand-in-hand with the desire to help our customers gain access to all of the opportunities offered by international markets. This is the case for businesses, which thanks to our specialist offices - the international unit and the corporate finance department - we are able to accompany and support during their process of growth, as well as for small investors, who are able to use increasingly sophisticated services and instruments.

Expansion of the branch network emphasised geographical extension and intensity at the same time. We showed that we were able to fit in well in areas similar to that of our origins, but also in different situations. Having to compete with other banks that were often fiercely competitive and highly professional was a great stimulus to us. From certain points of view, it is better to learn from others than to teach them.

The year under review helped reinforce the regional character of the Bank. This is already an important status, though it is even more so, as in our case, when it refers to Lombardy, Italy's most economically advanced region and one of the first in Europe. We have also expanded in the shadow of the Coliseum, while towards the end of the year we opened in Merano in the (for us) nearby Alto Adige, to which we are linked by the Stelvio Pass.

Apart from being long-lived, we are also able to put down new roots in areas with considerable growth potential. Let's look at the new branches inaugurated during 2003 which have made our network even more dense: thirteen of them, making up a total of 191.


## GEOGRAPHICALEXPANSION


in particular with two new branches, no. 22 in Via Santa Sofia and no. 23 in Viale Certosa, bringing the total to 24. After Milan, the Capital, with city agency no. 21 in Via Famiano Nardini, in the Nomentana district. In the Varese area, Gallarate and Carnago strengthen our links with this frontier land of lakes immortalised by the novels of Piero Chiara. In Lecco,
confirms the Bank's attention for this important town, the main centre of the Lario, and its vast territory, where we are now the cooperative bank of reference. This is confirmed by the new agency in Abbadia Lariana. In the Brescia area, both new branches are on the banks of Lake Garda: Salò and Toscolano Maderno. The Benaco is after all an extremely important tourist

our link with the capital of this Magnificent Country, where we have returned to the building that hosted our branch up until 1990 and since then located at the entrance to the town. In Pavia we have opened agency no. 1 in the premises left vacant by the branch, which has been transferred to more spacious offices in Piazzale Ponte Coperto Ticino. The Crema agency is
have laid the foundations for a more widespread presence in the future. Merano welcomed us in Christmas attire. In fact, we opened our first unit in Alto Adige in December, when this elegant town was already receiving numerous visitors to its famous street markets.

The place that stands out the most is Milan, where two new branches have brought the total to 24 . So it is fair to say at this point that we are well integrated with the economic life of Lombardy's capital, thanks to a presence in numerous districts, institutions, universities and firms.

With agency no. 22 in Via Santa Sofia we now offer our services in a central area of the city, being located between Corso Italia and Corso di Porta Romana, near the State University and the Policlinic, an extremely vivacious part of town from an economic point of view, where there is also a great many professional offices and wellestablished commercial enterprises.

Agency no. 23 in Viale Certosa, on the other hand, services the north-west suburbs of the city, the area around Piazzale Accursio to be precise. There are numerous shops and other commercial interests in the area, mainly small and mediumsized, while new building projects currently underway will add to the already substantial number of residents.

After Milan, the Capital, where we can already count on a significant area network, added to with the opening of agency no. 21. This is located in Via Famiano Nardini and serves the Nomentano district in the north-west part of Rome around Piazza Bologna. The Nomentano was built at the beginning of the 1900s and has in part retained its original elegance, as witnessed by the presence of various prestigious mansion houses. It is a dynamic area, helped by the vicinity of the Umberto I Policlinic and the University City.

In the Varesotto (the area around Varese), Gallarate and Carnago link us even more to that land of lakes and borders immortalised in the novels of Piero Chiara. A province that has maintained its identity, while at the same time managing to achieve considerable development. Gallarate is a valid example of this, with its strong and dynamic economic fabric, which has profited from the fast links created by the Milano-Domodossola-Paris railway line and the nearby

Malpensa 2000 Airport. A city of more than 46,000 inhabitants, Gallarate forms part - along with Legnano, Busto Arsizio and Castellanza - of one of the most important and dynamic industrial agglomerates in the whole of Italy.

Carnago is smaller, as it has a population of just over 5,000 inhabitants. It is located a dozen or so kilometres south of Varese in an area that features, among other things, a widespread presence of industrial and artisan enterprises.

The inauguration of agency no. 4 in the Germanedo district of Lecco confirms the Bank's attention on this important town and its vast territory, the Lario, where we are by now the cooperative bank of reference. This is also confirmed by the new agency in Abbadia Lariana, thanks to which we have created a line of continuity on the east bank of Lake Como, where we could well have an even denser presence in the future.

The two new openings in the area of Brescia both gave preference to the banks of Lake Garda: Salò and Toscolano Maderno. Salò is a town of almost 10,000 inhabitants located in a gulf of the same name on the south-west bank of the lake. It is a well-known and vivacious tourist and commercial centre that has grown considerably over the years. Toscolano Maderno lies just a few kilometres to the north, also favoured by a mild climate and beautiful surroundings, which have encouraged the presence of hotels and other tourist structures. Indeed, the Benaco is a first-rate area for tourism, well-known and much appreciated abroad as well, such that German is often the language spoken most frequently on its banks.

In our province of origin, Bormio agency no. 1 reinforces the link with the capital of the «Magnificent Country», where we have returned to the building that hosted our branch up until 1990, after which our branch has been located at the entry to the town. The new branch has been given the task of development: it will have to consolidate relationships with businesses in the



BORMIO 2005

FIS ALPINE WORLD SKI CHAMPIONSHIPS


BORMIO 2005
prwaented by
000 Audı

area and, above all, publicise and offer our products and services to the numerous tourists that frequent that delightful place, due to receive a further boost from the imminent World Ski Championships, twenty years after they were last held in Bormio and Santa Caterina Valfurva. The physical structure of the branch has also been designed specifically with this is mind. The premises are welcoming, furnished in Alpine style, together with certain modern elements. There are also two $18^{\text {th }}$ century stiue, i.e. wood-lined rooms which, with their sober elegance, are a real tourist attraction.

In Pavia we have opened agency no. 1 in premises left free by the branch that was transferred to larger and more suitable offices in Piazzale Ponte Coperto Ticino. This move widens our coverage and improves our ability to monitor a marketplace that has so far given us preference and business and which should provide interesting opportunities in the future as well.

The Crema agency is another important element on the Lombardy plain, where we have laid the foundation stones for a wider presence in the future. The recent agreements signed with Federlombarda go in the direction of stimulating contacts with farms, enhancing our particular approach, which tends to be much appreciated by people tied to tradition, but who also need a full range of modern services.

Merano welcomed us decked out for Christmas. In fact, we opened our first office in Alto Adige during December, when that elegant town was already attracting hundreds of visitors to its famous street markets. In some ways it is an area that is similar to our own, so we expect to do well there. We have analysed the needs of a sophisticated and demanding clientele and equipped the branch with the professional skills and technical equipment needed to satisfy them. We are well aware of the fact that we are guests in an area that is proud of its traditions and extremely protective of its own identity. In a countryside that reminds us of Switzerland next door.

The Bank also provides services through its 284 ATMs, 26 more than last year. They operate at our branches and at other locations frequented by the general public.

We now have three more treasury windows, bringing the total to 80 . They embody the Bank's original spirit of service to the local community.

Banca Popolare di Sondrio (SUISSE) SA, our Swiss subsidiary, follows the same philosophy as its parent, making every effort to fulfil its role as a bank across the board. Having roots in the territory is of fundamental importance as we want to be able to take an active role in the economies of the areas that we serve.

We have tried to be as incisive as possible in the places where we have opened recently, whereas abroad the main event was the launch of the Montecarlo branch in the Principality of Monaco. An initiative that raises the Bank's international profile, its objective being to provide retail services, above all to the 15,000 or so Italians who live or work there, as well as to their families and small businesses, many of which operate in import/export.

## FUNDING

Risk averse and super-sensitive about costs. That is the photograph, in black and white given the dullness of the economy, of the average Italian investor in 2003.

This is why liquidity, sometimes quite large amounts of it, has continued to be the temporary parking place for Italians' financial resources, until such time that they feel ready to make more important investment decisions or to spend the money and raise consumer demand.

Bank deposits have obviously benefited from this trend, as they are a safe refuge for those who still don't trust the stock market - and who can blame them after the scalping suffered in

recent years - while the purse strings have been kept tight shut in these uncertain times.

BOTs, Italy's treasury bonds, have also become fashionable again, even at interest rates that are lower than inflation. There have also been arguments about exactly how high inflation is. On the other hand, the very concept of inflation is already a source of discussion and even of polemics.

Without wanting to go into the merit of the debate, it seems fair to say that the increase in prices perceived by consumers for certain items of mass consumption was higher than what was officially recorded for the whole basket. The situation was similar to what happened during

last year's long hot summer, when excessive humidity made the unusually high temperatures even harder to bear, raising the level of discomfort and making tempers flare. By September the heat declined, but inflation has remained constantly above the EU average. This is a particularly Italian illness, which the euro has proved unable to cure. But it was totally unjust to accuse the euro of causing the inflation.

Going back to our original theme, the significant increase in direct deposits for the whole of the banking system also reflects a certain diffidence on the part of small investors towards more complex financial instruments, even if they
are not equities, and their risk profiles may be missed, both at the time of purchase and during the later, no less important, phase of management.

As far as we are concerned, as much and even more than we have done in the past, we have made every effort to ensure transparency and clarity in our dealings with customers, so everyone has had access to the information and explanations needed to make their own investment decisions in full awareness of the risks involved. «Clear agreements make for long friendships» is a proverb that is as old as it is valid; especially for those who, like us, pursue stable
and long-term relationships with customers, based on mutual honesty. These are the rules of the house, to which all of our personnel scrupulously and diligently abide.

In other words, we do not offer abstruse financial instruments, but protection of our customers, especially those with less experience, with a full explanation of the conditions and risks that each investment involves. This is a way of being a bank where the emphasis is on total ethics, and not just professional ethics.

The more than positive results for the year, which lend continuity to a process of growth that

DIRECT CUSTOMER DEPOSITS

| (in millions of euro) | $\mathbf{2 0 0 3}$ | $\%$ <br> ot total | $\mathbf{2 0 0 2}$ | $\%$ <br> change |
| :--- | ---: | ---: | ---: | ---: |
| Savings deposits | 494,679 | 6.04 | 443,906 | 11.44 |
| Certificates of deposit | 46,735 | 0.57 | 49,232 | -5.07 |
| Bonds | 805,933 | 9.85 | 717,666 | 12.30 |
| Repo transactions | $1,224,913$ | 14.97 | $1,264,031$ | -3.09 |
| Bank drafts and similar | 76,502 | 0.93 | 73,268 | 4.41 |
| Current accounts | $5,164,718$ | 63.12 | $4,611,913$ | 11.99 |
| Current accounts in foreign currency | 370,051 | 4.52 | 189,283 | 95.50 |
| Total | $\mathbf{8 , 1 8 3 , 5 3 1}$ | $\mathbf{1 0 0 . 0 0}$ | $\mathbf{7 , 3 4 9 , 2 9 9}$ | $\mathbf{1 1 . 3 5}$ |

## TOTAL FUNDING

| (in millions of euro) | $\mathbf{2 0 0 3}$ | $\%$ <br> ot total | $\mathbf{2 0 0 2}$ | $\%$ <br> change |
| :--- | ---: | ---: | ---: | ---: |
| Total direct customer deposits | $8,183,531$ | 33.96 | $7,349,299$ | 11.35 |
| Total indirect customer deposits | $12,690,306$ | 52.66 | $11,640,075$ | 9.02 |
| Total insurance premiums | 372,413 | 1.54 | 328,931 | 13.22 |
| Total | $\mathbf{2 1 , 2 4 6 , 2 5 0}$ | $\mathbf{8 8 . 1 6}$ | $\mathbf{1 9 , 3 1 8 , 3 0 5}$ | $\mathbf{9 . 9 8}$ |
| Due to other banks | 955,959 | 3.97 | $1,277,110$ | -25.15 |
| Indirect funding from banks | $1,895,639$ | 7.87 | $2,278,524$ | -16.80 |
| Third-party funds under administration | 14 | 0.00 | $\mathbf{6 5}$ | $-\mathbf{7 8 . 4 6}$ |
| Grand total | $\mathbf{2 4 , 0 9 7 , 8 6 2}$ | $\mathbf{1 0 0 . 0 0}$ | $\mathbf{2 2 , 8 7 4 , 0 0 4}$ | $\mathbf{5 . 3 5}$ |

has been underway for some time, are the fruit of the close and consolidated relationship of trust that we have managed to build up with investors. To this we would add the bank's ability to adapt quickly to changing economic conditions. The dynamic and streamlined nature of the organisation has in fact made it easier to keep our range of products and services constantly up-to-date, enabling us to

Experience often shows- and this is the case with our bond loans which sold out very rapidly that home-grown products are the ones that are most appreciated, also because they combine linear and transparent conditions with a direct guarantee from the Bank.

All backed by personalised assistance which has its strength in being close to the customer. This is our distinctive characteristic that has not been diminished by our expansion; indeed, if anything it has been increased by it, enhancing our contact with customers.

In the wider territories that we serve, our people apply the model of the local cooperative bank, always with an eye on the needs of the community and of each single customer. This is one of the reasons for the widespread preference given to our new branches, which made an important contribution to the Bank's growth during 2003.

The intense efforts made during the year are reflected in the figures given below. The trends in the various items have of course been affected by market conditions encountered during the year.

Total deposits at 31 December 2003 show an increase from 22,874 to 24,098 million euro, +5.35\%.

Direct customer deposits amount to 8,184 million, a sharp rise of $11.35 \%$, a good deal more than in previous years.

Indirect customer deposits, at market value, have grown by $9.02 \%$ to 12,690 million euro. Insurance premiums, shown separately for the first time, amount to 372 million, $+13.22 \%$.

Amounts due to banks fell to 956 million, $-25.15 \%$, while customer assets under administration came to 1,896 million.

A brief analysis of the trend in the various items making up direct deposits highlights above all the strong growth achieved by current accounts, the product preferred by households and businesses because of their irreplaceable service element. They rose by $15.28 \%$ during 2003, from 4,801 to 5,535 million euro, representing all of $67.64 \%$ of the Bank's total direct funding from customers.

Repo transactions dipped slightly after years of sustained growth, going from 1,264 to 1,225 million, $-3.09 \%$, while at this stage certificates of deposit are a residual caption: 47 million, down 5.07\%.

Despite their age, savings deposit accounts never seem to die out and still have plenty supporters, probably thanks to their extreme simplicity of use: 495 million, $+11.44 \%$.

As mentioned previously, our bond loans went extremely well, totalling 806 million, up $12.30 \%$, thanks to issues constantly in line with our counterparties' expectations. They represent all of $9.85 \%$ of direct funding from customers.

Bank drafts and similar items come to 77 million euro, $+4.41 \%$.

The substantial increase in the number of creditor accounts outstanding, almost 220,000, indicates the ongoing ability of our branches to expand business relationships. Once again, a significant contribution was made by the new branches.

As we said, indirect customer deposits rose by $9.02 \%$ to 12,690 million euro. A significant trend reversal that has certainly benefited from the partial change in direction made by financial and stock markets, but also from the efforts made by our personnel in this important segment.

Asset management will be discussed in the chapter on treasury and trading operations later on in this report. All we will say at this stage is
that the results in this important area and its various components were positive.

Overall, the quantitative and qualitative evolution of the Bank's funding is quite satisfactory, both as regards how the various components have moved and as regards the correlated development in loans.

It is well-known that savings are highly mobile and that capital movements play an increasingly important role in the economic relations between countries. The tax amnesty on illegally exported capital, known as «Fiscal Shield», contributed towards the positive trend in our funding, even if only to a minor extent.

## LOANS

We are now at the most important item in our entire balance sheet: namely the loans that we have granted. In other words, the most precise measurement of our entire business.

If we accept that banking is essentially a question of lending money, it is fair to say that we have been hard at work this last year. Loans to customers have in fact shown a strong upward trend to 7,117 million, $+13.93 \%$, conveniently in line with the important increase in direct deposits. A debit matched by a credit which reflects the balanced development of our business.

So this has been a year of decided growth, despite the uncertainties of a general economic situation that once again failed to catch the recovery train; the repercussions on companies' desire to invest is easy to understand.

Certain factors have, however, played in our favour. Above all, the solidity of our relationships with customers, who know that with us they can always find ready, complete, professional and careful assistance for their individual needs. A clear, precise and rapid yes, and sometime a no as well.

Then the preferential relationship established with the territory, within which our function is to act as the engine that drives economic and social development. This is the particular role of a local bank, one that we have shown that we know how to interpret in the best way possible even in those areas where we have opened more recently, whether they are the metropolitan neighbourhoods of Rome and Milan, important industrial districts or smaller residential and business centres.

The roots that we have created in Lombardy, where to date we have 166 branches spread over all of its 11 provinces, are once again fundamental, also on the lending side. Direct contact with Italy's most dynamic and hardworking entrepreneurs guarantees that we have more than adequate growth prospects for the future as well. Not least because SMEs, our natural business clients, are the backbone of the Italian economy. The level of excellence of many of our customers is also a constant stimulus to raise the quality of our services and to make use of increasingly sophisticated and effective tools.

Lastly, thanks to the 13 new branches that we opened during the year, a considerable demand for credit came from these new areas, where we have ensured direct support for worthy business initiatives, well aware that to earn trust you also have to give it.

So all in all, when relationships are set up to last over time and there is respect for each other's roles, and for the company's mission, they can be reinforced even in difficult times.

What we have just said includes a series of factors which have allowed us to boost our market shares in the places where we operate, expanding the related revenues considerably despite the decline in unit margins. Indeed, interest rates hit record lows during the year following the intervention of the European Central Bank, which was designed, to the extent possible, to pump oxygen into the economy during this difficult period.

We have said in the past, and the experience accumulated during the year merely confirms it, that to earn more you have to work much harder and, above all, much better. We are therefore condemned to expand our work base. Indispensable ingredients are selective lending and careful credit management: too much rigour can sometimes mean losing a bargain, but carelessness usually means losing money, often a great deal, and in any case too much.

This is why we are committed to constant improvement of our risk management capacity, making use not only of our specific specialist functions, suitably supported by innovative procedures, but also of a particular attitude at all levels throughout the company. This is discussed in greater detail in a separate chapter of this report, together with all of the other risk profiles that affect our work on a daily basis.

We will limit ourselves here just to emphasise that the correct allocation of financial
resources not only protects the bank from possible losses and ensures an adequate remuneration, but also encourages development of business projects in the territory that are able to create wealth.

It is a way of granting credit that nowadays would be said to be inspired by ethical principles. Confirmation of this is the Gente Serena policy which, among other things, guarantees our borrowers in the event of an accident.

The fact that our lending assets are of good quality is attested by the figures shown below, which reflect a risk profile that is under constant surveillance. The amount of the item «writebacks to loans and provisions for guarantees and commitments» of 23 million, $+23.20 \%$, in turn bears witness to the prudence with which we have always treated this delicate matter.

Like every year, we have again carried out an analysis with clinical caution to assess not only positions that are in a pathologically

LOANS

| (in millions of euro) | $\mathbf{2 0 0 3}$ | $\%$ <br> ot total | $\mathbf{2 0 0 2}$ | $\%$ <br> change |
| :--- | ---: | ---: | ---: | ---: |
| Current accounts | $2,611,126$ | 36.69 | $2,330,083$ | 12.06 |
| Foreign currency loans | 873,207 | 12.27 | 881,068 | -0.89 |
| Advances | 238,475 | 3.35 | 214,423 | 11.22 |
| Advances subject to collection | 108,975 | 1.53 | 99,590 | 9.42 |
| Discounted portfolio | 7,460 | 0.10 | 7,598 | -1.82 |
| Artisan loans | 37,450 | 0.53 | 40,925 | -8.49 |
| Agricultural loans | 11,738 | 0.16 | 4,820 | 143.53 |
| Personal loans | 64,387 | 0.90 | 63,212 | 1.86 |
| Other unsecured loans | $1,252,639$ | 17.60 | $1,057,156$ | 18.49 |
| Mortgage loans | $1,840,612$ | 25.87 | $1,470,738$ | 25.15 |
| Net non-performing loans | 70,767 | 0.99 | 76,495 | -7.49 |
| Items to be settled | 375 | 0.01 | 627 | -40.19 |
| Total | $\mathbf{7 , 1 1 7 , 2 1 1}$ | 100.00 | $6,246,735$ | 13.93 |


terminal state, but also those considered in doubt. A sort of census and critical review of our loans.

After carrying out the sums, nonperforming loans, net of writedowns, amount to 71 million euro, which represents 0.99 of total customer loans, compared with $1.22 \%$ at 31 December 2002. The figure has fallen considerably and is well below the national average. The estimated losses on these non-performing loans are covered by writedowns that have been increased from 48 to 86 million, $+77.21 \%$.

Watchlist loans, in other words, loans to borrowers in temporary financial difficulty that is expected to be resolved, amount to 51 million
euro, $-14.44 \%$, equal to $0.72 \%$ of total loans to customers. The related writedowns amount to 8 million, -28.39\%.

As mentioned earlier, total loans increased during the year to 7,117 million, an increase of $13.93 \%$. The net difference compared with the national figure, $+6.10 \%$, is unequivocal evidence of the particular dynamism of our Bank. And contributions to this overall figure came from the various types of loans, almost all of which are well up on last year.

Mortgage loans have grown strongly, up $25.15 \%$ to 1,841 million, the equivalent of $25.87 \%$ of total loans. This is our response to the demand for loans to buy and restructure buildings by households. Indeed the rush to buy homes has continued, thanks to the low level of interest rates combined with the onerousness of rents. This type of loan is particularly congenial to our «operating philosophy», as it allows us to fragment our lending into a wide variety of loans of limited amount, which has a positive impact on risk, while also allowing us to start up working relationships that are destined to last over time. Our collaboration in this sector with Banca Woolwich has continued, making a wide variety of products and services at our customers' disposal. Good results were also achieved in the field of «convention loans», an area where we have carved ourselves an interesting niche. Our counterparties are the members of the National Pension Funds with which we have stipulated special agreements.

Other unsecured loans have also expanded, $+18.49 \%$ to 1,253 million.

Current account overdrafts have risen to 2,611 million, an increase of $12.06 \%$, and they now represent $36.69 \%$ of total loans. Foreign currency loans, on the other hand, fell by $0.89 \%$ to 873 million.

In line with the maxim that he who has earning capacity has credit capacity as well, personal loans rose by 64 million, helped by the introduction of new product lines designed to
finance the specific needs of customers without being necessarily linked to consumer spending. Through Conafi we successfully launched loans guaranteed by a fifth of the borrower's salary.

Guarantees given rose by $10.60 \%$ to 1,690 million.

The preferential relationship established with companies was rewarded by a further credit line of 75 million euro granted by the European Investment Bank for interventions involving financial support in the medium/long term.

Paying special attention to the financing and capital requirements of companies, we also stipulated an agreement with the Milan office of Confidi, designing an exclusive product for it called «unsecured-mezzanine loan mix». This enhances the dialogue with the entrepreneur and cooperation with Confidi to support worthy industrial projects.

In this connection, it is worth emphasising that we have always paid a great deal of attention to our relations with the Loan Guarantee Cooperatives and Consortiums. They are extremely useful because they facilitate contact with businesses, who then benefit from the various forms of low-interest financing that we can make available.

We have specialist offices, together with our affiliates, which work together with the companies concerned to ease their access to the various types of financing available at national and local level. This is high value-added assistance which is designed to ensure the right selection of the financial support tools best suited to the varying needs of the counterparties.

Our affiliates have as always helped us to expand and enhance the Bank's products and services in the field of so-called «indirect financing». We will talk about them more in a specific chapter in this report.

We will limit ourselves here to mentioning that the Bank operates in these cases as liaison between the needs that emerge from the territories that we serve and the operational solutions that
have been prepared, often with our help, by the specialist intermediaries with whom we work.

This is also a confirmation that lending is a very different, and above all a much more complex, business than it was in years gone by. The tools have become more sophisticated, the areas of intervention have widened, collateral services have grown, and the needs of the counterparties have changed and diversified. One thing has not changed for sure: the desire to ensure professional selection and the careful management of the credit lines granted, to guarantee the Bank's solidity and to protect our interests and those of our creditors.

Any bank can help a company overcome a temporary lack of capital; what it should not do is let credit replace the equity that companies need on a permanent basis.

We are a bank in every sense, because we are a cooperative, which means that we are satisfied with the job that we do, well aware that we perform an important role for the economic and social development of the territories in which we operate and of which we tend to become more and more an integral part.

## TREASURY AND TRADING OPERATIONS

Confidence in financial markets can be a prophecy that fulfils itself: this optimism can pass on to businesses, investors start buying again and prices go up. Let's hope so.

The stock exchanges did their bit
Stock markets in 2003: after three consecutive years dominated by a bear market, 2003 closed with a bull market. This vigorous animal ran fast with sometimes quite hefty price rises, though these still aren't fully reflected in the macroeconomic fundamentals and in those of quoted companies.

Bond markets in 2003 behaved a bit like two-faced Janus: in the first half prices rose,

peaking towards the middle of the year in expectation of further cuts in interest rates which did not materialise; in the second half, the signs of economic recovery were interpreted as heralding a possible rise in yields, making prices fall as a result. By the end of the year, prices were back where they had been at the start of the year.

In this difficult context, Italian investors showed signs of great maturity, though perhaps also of great stoicism. Despite the well-known disasters that put investors' capacity for endurance and comprehension under severe strain, they continued to believe in the domestic production system, without allowing an important channel
for financing companies - shares and bonds - to dry up. It goes without saying that all interested parties now have to roll up their sleeves to rebuild the relationship of trust between investors and the financial system.

In this environment, it was to our credit that we constantly maintained our traditional professionalism, which has as one of its main requisites one of the cardinal virtues: prudence. Acting in this way, we have never offered to our customers financial instruments that are typically speculative or so complex that they are impossible to understand. Moreover, by carefully selecting products offered by the market, we have never taken part in underwriting syndicates placing bonds of any of the companies that the media have been talking about recently and whose names are on the everyone's lips. And lastly, we have always tried to evaluate the real propensity for risk of each single investor, bearing in mind that it always up to them to make the final decision.

As we said, 2003 saw a sharp recovery in stock markets. For the results of the main marketplaces around the world we would refer you to the chapter devoted to financial markets. Here we will merely mention the performance of the Italian Stock Exchange which did its bit with a promising $+13.94 \%$, thanks above all to sustained growth by the media and financial sectors. Total market capitalisation has recovered slightly as a result, reaching 37.6\% of GDP compared with $36.4 \%$ in 2002. However, this did not prevent it being relegated in the rankings by trading volumes from fifth to sixth place in Europe and from ninth to eleventh place in the world.

As for the changes in the Milan list, 2003 saw the number of quoted companies diminish from 295 to 279 , this being the net of 27 delistings and 11 newcomers.

There were 28 rights issues during the year which brought in 9.8 billion euro, compared with 3.7 billion in 2002. There was a distinct prevalence of large borrowers compared with small ones: the

three main operations in 2003 raised more than half of the total mentioned above. The lack of small borrowers mirrors the lack of small investors: around $90 \%$ of the shares placed were bought by institutional investors.

There was a considerable number of takeover bids: 32 for a total value of 16.9 billion. This figure equals the all-time high of 1996 for the number of operations and is second only to 1999 in terms of total value.

In this fairly dynamic situation, the activity of our finance department was, as usual, based on the principles of prudence and fairness, at the same time enhancing our staff's gifts of eclecticism
as they tried to discover new sources of business and of profit. Product innovation went hand-inhand with process innovation, which enabled us to prepare certain operations in-house instead of delegating them to third parties as we did previously.

The treasury department, which handles interbank deposits and the Bank's own liquidity, also had a year of intense trading and professional and IT refresher courses. Liquidity was quite high throughout the year and this facilitated operations on the MID, the Interbank Deposit Market, turning in strong growth. In a total of 6,936 operations, 97,094 million euro changed hands, $+30.69 \%$.

The own security portfolio, $\quad O_{w n}$ totalling 1,888 million, went up by securities $4.72 \%$, while its mix shows a distinct prevalence of floating-rate securities, mainly represented by Treasury Credit Certificates (CCTs). Fixed-rate securities, on the other hand represent around $7 \%$ of the total and consist almost entirely of Long-Term Treasury Bonds (BPTs) with short maturities.

We carefully adjusted the portfolio when market conditions were favourable and stayed fast whenever there was a tempest. Metaphors aside, we can say that our trading in own securities, which was extremely intense in the early part of the year, got hit in the second by changed expectations regarding the trend in interest rates. As a result, the total volume of trading came in at 20.45 billion, down $1.97 \%$. This also reflected on the trading profit which fell to 10.81 million, $-17.94 \%$.

The portfolio at the end of the year included capital gains of 3.34 million, write-backs on securities written down in previous year - mainly funds and equities - of 4.10 million and revaluations of funds and sicavs of 0.21 million, while the capital losses booked during the year came to 1.64 million.

Trading on the MTS/PCT, the institutional repo market, was particularly intense. The high level of liquidity gave preference to investment


## ASSET MANAGEMENT


rather than funding. Trading by the end of the year totalled more than 50,000 million, $+118.34 \%$.

After the constant growth in recent years, the balance of repo transactions with customers showed a slight decline: 1,225 million, $-3.09 \%$. Low interest rates pushed investors towards types of investment that offered potentially higher yields, while still being low risk, such as the bonds issued by the Bank, monetary and bond portfolio management schemes and short-term investment funds.

In the scenario that we have just described, the acceptance of orders - whether traditional or through the online trading system - remained at the same level as last year, recovering well during the last few months of the year when the Stock Exchange was at its most vivacious.

As for the bond market, the good tone also had a positive impact on trading volumes on behalf of customers, especially in the first half of the year.

Placement benefited from intense dealing in Arca funds, detailed below in the section where we talk about asset management, while the few IPOs were received rather coolly by investors.

The Restricted (OTC) Market, which is now called Expandi and which we sincerely hope will translate the sense of its name into fact, served egregiously to get our stock better known and better appreciated. The numbers say all.

Performance of the BPS stock

The BPS stock turned in a satisfactory performance in 2003, $+13.99 \%$, in line with the $14.63 \%$ achieved by the reference market index, the Expandi mentioned
previously, and with the $13.94 \%$ recorded by the Mibtel.

A good result, but one that takes on a greater significance if we consider the results of previous years. Indeed, if we extend the analysis to 2001 and 2002, the comparison is as follows: BPS turned in $+5.09 \%$ and $+1.43 \%$ respectively, the IMR (Expandi's precursor) $-12.18 \%$ and $-6.06 \%$ and the Mibtel $-24.63 \%$ and $-23.50 \%$.

So ours is a stock that not only reflects the Bank's dynamic and profitable operations, but which also manages to offer adequate protection against the turmoil of some of the hardest years ever for the Stock Exchange, subsequently posting a very respectable rise in 2003. Taking the good dividend into account as well, one really can't ask for more.

The number of shareholders is also rising without a halt: at the end of the year there were 117,169 , an increase of 8,147 . We are particularly proud of this fact, above all for the trust shown in us by investors and even more so because by far the majority of our shareholders are also customers, so they are doubly appreciative of their bank.

In the report devoted to the extraordinary general meeting we give full information on the proposed increase the share capital already approved by the Board of Directors.

There were no own shares in the bank's portfolio at the end of the year, so the reserve of 19 million euro was completely unutilised; a further attestation of the extent to which the market likes our stock. The following table summarises trading during 2003.

|  | No. of <br> shares | Par <br> value | $\%$ of share <br> capital | Amount of <br> trade |
| :--- | ---: | ---: | ---: | ---: |
| Balance at 31/12/2002 | 58,998 | 176,994 | 0.043 | $605,589.19$ |
| Purchases | 144,157 | 432,471 | 0.105 | $1,557,202.03$ |
| Sales | 203,155 | 609,465 | 0.148 | $2,217,826.41$ |
| Profit from trading |  |  |  | $55,035.19$ |
| Balance at 31/12/2003 | 0 | 0 | 0.000 | 0.00 |




During the year under review, the asset management sector benefited from a progressive improvement in the climate on financial markets. Net funding of mutual funds and sicavs turned positive again and assets under management grew. An effect of the recovery in prices and the ability of management companies to offer products and services in line with the changed expectations of investors.

We could repeat here the mythological expression of Janus to say that the sector experienced two completely different trends during the year. First-half flows were mainly towards more liquid products and, more generally,
towards the bond segment; second-half flows, on the other hand, saw a recovery in the equity segment, with investors encouraged to raise their risk profile by the recovery in stock market prices, with the result that net flows turned positive again after months of hefty redemptions.

As for ourselves, the Arca funds showed positive net inflows of 164 million, improving on the previous year's already good result. The positive trend helped raise assets under management in these funds to 1,304 million, $+14.43 \%$ on the 1,140 million at the end of 2002.

Of course, the merit for this goes not just to our sales network, but also to Arca, which with its usual equilibrium and professionalism coped with the market's vicissitudes extremely well, also updating the product line with its timely offer of the new BT Tesoreria fund.

Subscriptions also went well for our Popso (Suisse) Investment Fund Sicav - which has prepared the new European Convertible Bond and Japanese Equity lines - and of the Sistema Valori Responsabili mutual funds which are handled by our affiliate Etica SGR spa.

The Bank's portfolio management service had a very satisfactory

Portfolio management year, despite the fact that competition is getting increasingly fierce. At the end of 2003 total assets under management in segregated portfolios came to 1,326 million, an encouraging $+26.76 \%$. In order to keep our service constantly up-to-date, we developed Bilanciata $15 \%$, an investment line that is prevalently monetary and bond-based, but at the same time does not entirely overlook opportunities on the equities market; an attestation of how the Bank proceeds with caution, but also with a will to anticipate market trends.

Lastly, we would like to express understandable satisfaction for the overall trend in the various forms of asset management - 2,600 million, $+23.13 \%$ - a result that confirms our efforts in this important sector and, at a deeper
level, the appreciation that our customers have for our wide and diversified range of products.

During the boom years of the stock exchange, the «Roaring '90s», it was fashionable to take a DIY approach to investing. But that period is over. And market performance has revalued the worth of professional investment managers: they may not have a crystal ball, but at least they can protect investors from reckless decisions.

## EQUITY INVESTMENTS

The space devoted to our equity investments in this report reflects the importance we give to the companies that provide us with essential products and services. They contribute a great deal to the Bank's success, a factor that enhances their value and goes beyond the concept of a simple, if considerable, financial investment. Mentioning them, even briefly, is also intended as a sign of recognition for the men and women that manage and work in them, an attestation of their professionalism.

The mutually beneficial relationships that we have built up over time with them are an affirmation of our coherence. Providing the product companies, our «factory», with business and financial support so that their operations can develop in a healthy and balanced way is a longstanding practice for us. And we have always done our part in the delicate task of recomposing their ownership structure, which has changed with a certain frequency in recent years.

No additions or disposals of shareholdings took place during the year under review. All of the interventions in the form of increases in capital, along with an operation of minor import, involved the insurance sector, which by now forms an integral part of our banking activities, and that of leasing, an area that in the broadest
sense is instrumental to any bank that wants to be close to the business community.

In agreement with another cooperative bank, we took advantage of an opportunity to raise our stake quite considerably in the sector holding company Arca Vita spa, and hence indirectly in its subsidiary Arca Assicurazioni spa. With the increase in our interest in B. \& A. Broker spa, we have conveniently favoured a consolidation around us and the above companies of the affiliates that operate in all areas of the insurance industry - life, accident, consultancy and brokerage.

Italease is one of our historical investments, reminding us of the genetic role of companies in this sector and of those that were set up for the same purpose together with certain other cooperative banks.

From the start we were convinced proponents of the consortium model and we have worked intensely over the years to maintain it. Being used to the substance of things, we again had to work hard to aggregate the members. The fact that we found loyal and willing travelling companions suggests that we will manage to achieve the goal of restoring our product companies to the apex of their reference markets, as an expression of the world of cooperative banks and their refound unity.

Market companies or consortium companies, it doesn't really matter. What counts is to have efficient companies that can act effectively in their particular area. Companies that are able to generate value for the various stakeholders: shareholders, employees, end-users of the products and services, according to the concepts of social responsibility that we share.

Our largest investment is our wholly-owned subsidiary Banca Popolare di Sondrio (SUISSE) SA, based in Lugano. According to the rules laid down by the Bank of Italy, it is the only member of our Banking Group.

The Bank's equity investments at the end of 2003 amounted to 130.5 million - of which


SUISSE

that services its territory, according to the genetic profile and directives of the parent bank. In other words, retail banking

Swiss professionalism, where market means the entire world. During the year, its eighth, Banca Popolare di Sondrio (SUISSE)

year and is the only banking institution in the Principality deriving from an Italian cooperative bank. The representative
«SUISSE» accounts for 32.9 million - an increase of 18.4 million. The change derives from a total increase of 19.8 million - the sum of various increases in capital and taking higher stakes in certain companies - and a total decrease of 1.4 million, which refers for 0.6 million to covering losses made by Pirovano Stelvio spa and Servizi Internazionali e Strutture Integrate 2000 srl and for 0.8 million to the transfer of the following investments from «equity investments» to «shares, quotas and variable-yield securities»: Borsa Italiana spa, e-MID spa, Euros spa, Intesaleasing spa, MPS Merchant spa, MTS spa, SIA spa, Siteba spa, SSB spa, AvioValtellina spa, Società di Sviluppo Locale spa, Spluga Domani spa, Teleriscaldamento spa and Valtellina Golf Club spa. These transfers have no impact on total assets, nor on the results for statutory or fiscal purposes. The reason for them in accordance with current regulations is partly because the percentage held by the Bank is small, as well as the fact that even if we have a longstanding relationship with these companies, it does not comply with the requirements of art. 4 of Legislative Decree no. 87 of 27 January 1992; in other words, these holdings are not vital for the development of the Bank's core business.

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

## Subsidiaries:

Banca Popolare di Sondrio (SUISSE) SA (100\%). A Swiss bank with head office in Lugano, operative since 1995.

SUISSE's rapid territorial expansion - it now has thirteen branches and one representative office - confirms its original mission which is to service its chosen territory, in accordance with its genetic profile and the directives of the Parent Bank.

This means that it offers a retail activity targeted to residents, including many Italians, and to small and medium-sized enterprises, combined
with specialist activity in securities and foreign exchange carried on with traditional Swiss professionalism, where market means the whole world.

During the year under review, its eighth year of operations, Banca Popolare di Sondrio (SUISSE) opened a branch in Montecarlo (Principality of Monaco), significantly boosting the Group's international presence. After the profitable work carried out by our representative office, initiated on 2 August 2001, the authorities approved the opening of a fully operational branch in 2003. It was inaugurated on 17 February last year and is the only credit institution in Montecarlo owned by an Italian bank.

This confirms the validity of our international expansion plan, as implemented by this company, whose objective is to offer retail services to the Principality's lively economy and its Italian community (over 15,000 people), as well as to the numerous import/export companies that operate there. The Banque de France, which also supervises Montecarlo's banking system, authorised our branch to grant mortgage loans for the purchase of real estate in France.

Development of the distribution network the representative office in Zurich, Switzerland's most important financial city, will soon be transformed into a branch - is being constantly accompanied by reinforcement of the structure: in terms of human resources (the staff consisted of 193 people at the end of the year) and in terms of technological and commercial support, with an eye on innovative channels. The highly efficient call centre and the Go Banking on-line bank successfully integrate the services provided in a traditional fashion.

The substantial increase in business relations and in the volumes handled bears witness to the effectiveness of these measures, together with the bottom line.

In the meantime, there has also been growth at the companies that report to the subsidiary, but
which are also at the service of the Banking Group as a whole. Popso (Suisse) Investment Fund Sicav, which operates in six sectors, has reviewed its fund management structure, also with a view to enhancing internal skills; Sofipo Fiduciaire SA, a fiduciary company that operates internationally, all declare themselves comforted by the increase in business turnover and profitability.

The good work carried out by Banca Popolare di Sondrio (SUISSE) is reflected in various items in the financial statements, achieved at a time when market trends were still uncertain and with a Swiss economy that substantially reiterated the problems shared by all other European countries. The net profit comes to CHF $6,934,050$, an increase of $5.73 \%$ on the previous year. As usual, substantial provisions and depreciation have been charged in accordance with the Group's traditionally prudent approach. Capital and reserves, including the whole of the net profit for the year, booked to reserves as approved by the Board of Directors, come to CHF $95,055,155$, an increase of $7.87 \%$, of which CHF 50,000,000 refers to the share capital.

Pirovano Stelvio spa ( $100 \%$, formerly $98 \%)$. This company owns hotel facilities at the Stelvio Pass, which is renowned above all for its summer skiing.

Being located at 2,757 metres above sea level with more than 3,300 metres of ski slopes, the natural scenario is the very essence of Pirovano, its raison d'être. A unique scenario, from both an environmental and emotional point of view, which can only really be appreciated by staying there. The much-visited webcam with a $360^{\circ}$ view (www.pirovano.it, or through www.popso.it) anticipate at a distance the sensations that can be experienced by going up to the Stelvio Pass and from there to the ski slopes and the numerous circuits of sporting, naturalistic and historical interest. Apart from skiing, the main sports practised here are hill-walking and mountain biking.

So while this is an area that is largely devoted to skiing, it is extremely diversified and open. And our Pirovano offers hotel facilities that are ideal for relaxing, physical exercise and having fun, making them suitable for young people and entire families, professional sportsmen and women, as well as for those seeking some cool during baking hot summers, like that of 2003 which went down in history for being particularly long and torrid.

On the other hand, it was precisely this anomalous trend in the climatic conditions that last year inevitably affected the activities of our «Ski University». The start of the season was excellent and the end was good, thanks to the abundant snowfalls in October, but in the middle, for a long period, the glacier was only accessible at times of day when the sun was less hot, also for reasons of safety.

Of the numerous initiatives, we would mention the agreement reached with the prestigious Touring Club Italiano, which was officially sealed on 12 July 2003, which led to the opening of a Punto Touring at the Albergo Quarto. Our common aim is to spread the concept of civilised tourism: a commitment to act and to educate on behalf of our environmental and cultural heritage.

When it was time to say goodbye till the next season, «Snowfestival», Pirovano's annual closing event, was an opportunity for the Sondrio section of AIL (the Italian Association against Leukaemia) to raise a significant amount of money. Various personalities from the world of sport and entertainment contributed to the success of this event, including Deborah Compagnoni, who acted as the event's godmother, and the Consorzio Tutela Vini di Valtellina, which offered products for the charity auction.

We are extremely fond of Pirovano, not only as a unique and distinctive way of promoting our banking activity, but also as a concrete


## PI R OVAN O



Frovaeo't actwilles on lehalt of
the stiveatianal mortid ait certifiest By a Mrnopandern of Undentandieg with the Minintry for fifucation. the Uiviatrities ant Scientifir Mevant

suitable for young people and entire families, professional
both an environmental and emotional point of view, which can only really be appreciated by staying there. So while this is an
sportsmen and women, as well as for those seeking some cool

reached with the prestigious Touring Club Italiano, which led to the opening of a Punto Touring at the Albergo Quarto. Our
contribution towards the maintenance and, if possible, the development of the Stelvio tourist complex and of the Province of Sondrio.

Despite all of these efforts, it still proved impossible to end the year with a profit, not helped by last summer's relentless heat.

Sinergia Seconda srl (100\%). This company owns, directly and indirectly, properties in Milan and Rome that are not instrumental to the banking business.

Together with its subsidiaries, Immobiliare San Paolo srl and Immobiliare Borgo Palazzo srl, its purpose is to manage their properties in the best way possible, incrementing their commercial value also with a view to their subsequent disposal.

With this in mind, the company has managed to lease other portions of the larger building in Via dei Missaglia in Milan, which gives reasonable returns. The smaller but prestige buildings in Rome have been rented for some time.

The particular nature of the buildings in Azzano San Paolo (BG) and in Bergamo, which are held by the subsidiaries mentioned above, are smaller and therefore earn proportionately less.

The company closed the year with a profit.

## Associated companies:

Ripoval spa (50\%). Ripoval, owned jointly with Credito Valtellinese, is the concessionaire for tax collection services.

Contrary to what ought to be common business logic, this company's results continue to depend, directly or indirectly, on the continuous flow of new legislation. On the other hand, the company was created to be of service to the Inland Revenue.

Directly, because Decree Law no. 143 of 24 June 2003 re-established fees for the concessionaires for the whole of last year that were a good deal higher than those foreseen by
the rules in force up to that date and under which the related financial statements would inevitably have closed with a loss. Unfortunately, the uncertainty remains, conditioning financial and business planning of the entire sector. It is an original sin which cannot be eliminated without liquidating the company.

Indirectly, as the various tax concordats and amnesties introduced by the so-called Budget Law 2003 reduce the amount of taxes to be collected through the concessionaires over a number of years and hence the total amount of fees due to us.

At any rate, Ripoval spa continues on its way with determination and regularity, expressing as always operational efficiency and effectiveness. Confirmation of this is the positive outcome of the tax audit carried out by the Tax Authorities on fiscal year 2001.

The economic results are satisfactory.
Arca Vita spa ( $32.528 \%$, formerly $22.50 \%$ ). This is an insurance company which operates in the field of life insurance. It controls Arca Assicurazioni spa, which operates in accident insurance, and a number of smaller companies, while it is also associated with B. \& A. Broker spa, which provides advisory and brokerage services (see below).

In other words, the company heads up a functional insurance group which specialises in the provision of products tailor-made for the bancassurance sector. Sensitivity to market trends and rapid response are two of the factors that ensure that Arca Vita's policies are well received by customers, integrating synergically with the Bank's traditional products and over time finding new and profitable ways of interacting with them.

During the year under review, the company achieved a significant increase in premium revenue. Indeed, customers were particularly appreciative of the policies issued with a guaranteed minimum yield and/or capital protection.

Ongoing legislative uncertainty, on the other hand, is penalising the pension segment, in which Arca Vita offers its Linea Pensione package.

Given that the insurance sector is by now an integral and profitable part of the banking business, we decided to take advantage of an opportunity that arose when there was a change in the ownership structure, agreeing with another leading cooperative bank to increase our stake in Arca Vita quite substantially. An investment that looks to the future and which is a compliment to the company's long-standing solidity, led as it is by people who have always worked with commitment, professionalism and passion, factors that again this year made it possible to achieve a positive bottom line.

Servizi Internazionali e Strutture Integrate 2000 srl (33.333\%). This company has a representative office in Hong Kong and an office in Milan that specialises in country risk analysis and in the analysis of banking systems and banks in general. It is jointly owned together with Banca Popolare dell'Emilia Romagna and Veneto Banca.

The initiatives taken during the previous year to rationalise the structure and contain costs had good results. So even though the bottom line is still negative, it has improved considerably. At the same time, the services offered to the shareholders and to other banks remained high quality. In particular, the Hong Kong office saw its operations expand in the wake of the rapidly growing Chinese economy. It certainly confirmed its status as an effective observatory and point of reference for advisory and support services for the numerous entrepreneurs interested in doing business in Asia.

The company resolved to cover the loss of the year 2002, so the book value of our shareholding increased by $73,430.67$ euro and was then written down by the same amount. This is an acceptable loss as it corresponds to new, healthy business relationships, also with some
leading customers, which will generate indirect earnings.
B. \& A. Broker spa ( $28.571 \%$, formerly $14.286 \%)$. This company operates in the field of insurance consulting and brokerage.

In a market that is expanding, where businesses, but also households, are beginning to realise the need to optimise their risk coverage in terms of contents and costs, the company's operations are gradually increasing in size, as can be seen from the higher number of mandates acquired and the volume of commissions received.

The delicate activity of evaluating the insurance requirements of companies and then seeking out the most appropriate and least expensive solutions is carried on by highly professional specialists who are also used by the shareholder banks.

Through its own agents, B. \& A. has begun the placement of so-called «non-standard» accident policies, which are more complete and flexible compared with the basic types of cover offered by Arca Assicurazioni spa, which are usually reserved for the needs of the average household. These new products, which are called multiguarantee for the entrepreneur, global coverage for civil buildings and accidents, positively integrate the catalogue made available to our distribution network.

We have increased our stake in B. \& A. Broker spa because it is our deliberate policy to raise our weighting in the insurance sector.

Economic results are positive.
CBE-Service sprl (23.30\%). This is a Belgian company based in Brussels which markets the products of CBE-GEIE, the Coopération Bancaire pour l'Europe-Groupement Européen d'Intérêt Economique.

As a part of our commercial offering, the services provided by CBE-GEIE to companies and public institutions are growing in terms of diffusion and appreciation, in step with the process of European integration.

CBE-GEIE's experience of more than ten years guarantees a qualified contribution in areas of particular importance, as summarised below. «InformaEuropa» provides information on the financing opportunities promoted by the European Union through a database of EU programmes and related bulletins; it also provides consultancy and personalised assistance on the basis of specific projects or a questionnaire on the activity carried on. «GarEuropa» issues real time, targeted reports on contract tenders and preinformation advices, at both a national and international level, giving related assistance on analysing tenders, the procedures to be followed and how bids are to be submitted.

The company operates with punctuality, efficiency and effectively, guaranteeing itself not only good results, but also prospects for future development.

## Trade investments:

Centrobanca spa (1.60\%) belongs to the Banche Popolari Unite Banking Group.

Under the trademark «The Business Bank», the affiliate offers itself as the preferential interlocutor for companies' extraordinary, medium/long-term financial needs.

This is a complex role, which has seen Centrobanca rapidly develop professional skills and specialisations, with a view to offering more appropriate solutions for entrepreneurs during the delicate phases of corporate growth and changes in the ownership structure.

The company has successfully added to its traditional activity of medium/long-term industrial credit so-called «structured finance» interventions and direct risk capital investments, where the operations of its subsidiary Centrobanca Sviluppo Impresa SGR spa, which runs the Sviluppo Impresa closed-end investment fund, stand out. Operations on financial markets and a diversified advisory service complete the wide range of assistance that it can offer.

Positive results are a comfort for what has been done to date and a guarantee of further growth in the future.

Unione Fiduciaria spa (4.378\%, formerly $4.072 \%$ ). The senior member of its industry in Italy, having been founded in far-off 1958 with its core business in the fiduciary registration of securities, the company gradually increased its radius of action offering services to banks and financial intermediaries, at the same time expressing high professional capacity in the field of corporate assistance and management consultancy.

The company therefore represents a valuable asset for its shareholders, not only as regards the investment, but above all for the type and quality of the services that it can offer customers. Services that distinguish themselves and are renewed over time, confirming themselves always at the top of their sector. In other words, Unione Fiduciaria expresses a considerable underlying solidity, which comes from a series of concrete values such as its consolidated corporate culture, based on professional training and experience, the staff's commitment and management's independence.

The wide range of operating areas makes Unione Fiduciaria a multiservice company: consultancy to banks, financial intermediaries and companies; tax and corporate planning; implementation of specific software; complementary services such as company secretary, personnel administration, bookkeeping and more besides.

The company also assists foreigners who want to invest in Italy or Italians who want to invest abroad, also counting on the help of a joint affiliate Sofipo Fiduciaire SA, based in Lugano.

To confirm its eclecticism, we would also mention the book «Investing in Gold» that has been published as part of the series «Le Guide de Il Sole 24 Ore». The topic of gold is one that is being looked into for possible future initiatives.


## EOUITY INVESTMENTS



As always, the company has turned in positive results.

Polis Fondi Immobiliari di Banche Popolari S.G.R.p.A. (7\%). Usually under its abbreviated name of Polis Fondi SGR.p.A., this affiliate specialises in creating and running closedend property funds.

In its first five years of life, the company born at a time of renewed vivacity in the real estate sector and rising demand for portfolio diversification - has completed its first operating phase: after placement of the fund units, it invested all of the 250 million euro raised in buildings used as corporate head offices, hotels, shopping centres and logistic hubs, and is now evaluating new opportunities.

The results of this activity are positive. The book value of the fund's assets, as established by independent experts, indicates a yield that is higher than expected; in the past year, an initial pay-out was made equivalent to $3 \%$ of the unit subscription value; the return on the buildings acquired is good, while there is now the chance for some of them to be sold with interesting capital gains.

The results should also benefit from the tax regime in force from this year: instead of charging tax at $1 \%$ of the fund's assets, $12.50 \%$ on the yield earned by the units and on the difference between their redemption or liquidation value and their subscription or purchase cost.

Polis' fund units are traded on the stock exchange in compliance with the applicable regulations. The prices suffer a bit from low trading volumes, on the assumption, shared by investors, that any growth in the value of real estate assets gets expressed in the long term.

The income statement shows positive results.

Banca per il Leasing - Italease spa (6.434\%, formerly $4.95 \%$ ). A bank that specialises in leasing.

It was one of the first leasing companies to open in Italy and has been operating profitably
for the last thirty-five years alongside the participating banks, mainly cooperative banks or others with special agreements, reaffirming over time the professional skills that have allowed it to remain at the top of its sector for all this time.

Italease combines its profound experience with the advantages of being a bank, a qualification that it gained in 1995; among other things, this allows it access to funding in ways that are more functional and less expensive. Faithful to its historical mission, it concentrates its activity in leasing, strong in the appreciation of its intermediary banks, but above all that of the thousands of companies that have used its financial support over the years.

So it is fair to say that Italease has had a key role in the economic development of our country. There is no doubt at all that the merit lies with the people who have led and who now lead the company with professionalism, intelligence, ideas and passion. The company was subject to a routine inspection by the Supervisory Authorities, which turned out to be useful and satisfying.

During the year, the company was positively affected by renewed fervour. This led to the forming of a shareholder syndicate among the main partners. We were one of the main promoters of this, the purpose being to ensure the company the necessary stability, financial support and flow of work. Implementation of the third and last tranche of the increase in capital, as approved, was the occasion to test its holding power. Having seen that it was worthwhile, we increased our stake.

As for its operations, Italease, careful as always to changes in the market, launched its «nautical leasing» and prepared «LAS - Leasing allo sportello», an application that can be accessed through our intranet to automate and hence abbreviate the process of preparing cost estimates and of managing leasing contracts on the part of the banks making the sale.

Intense activity and traditional management equilibrium enabled the company to turn in positive results.

Factorit spa (2.415\%). This is a factoring company which provides services related to the administrative management and collection of receivables.

It has been on the market since the end of the 1970s, playing an increasingly important part in the steady growth in the services sector that has involved the banking system.

In concrete terms, Factorit has earned the market's appreciation - quite apart from the fact that it advances cash on trade receivables, manages them, evaluates debtors, and handles all of the administration and bookkeeping, control of payment deadlines, collection, soliciting payment, bad debt recovery - for the fact that it guarantees a positive outcome for the credits assigned. And with the introduction of «home factoring» via Internet, it is now possible for customers to dialogue with the company on outstanding balances.

This is a precious service, which managed to increase its volumes even during the downturn, helping companies to pay attention to the risks of insolvency and to optimise their management of working capital.

The company increased its market share during the year. The merit for this goes to the partner banks, Factorit's commercial and operational effectiveness and, of course, to the people who lead it and who work in it with skill and commitment.

Factoring has confirmed that it is an important support tool for companies, and hence for the economy, complementary to banking services and with a good margin for growth.

The net profit is a comfort as regards the company's management policies.

Centrosim spa (3.173\%) is a securities house.

After the prolonged slide in stock markets which lasted approximately three years, in 2003
the indices achieved a significant trend reversal, though it was still not enough to revive trading volumes to a decent level. Evidently, the deep wounds suffered by investors - both financial and emotional - are still open and likely to take a long time to heal.

This introduction serves to define the context in which securities houses had to operate. Many of them were forced to reposition themselves, if they had not already done so in previous years. In certain cases, they even closed down altogether. More in general, there were internal reorganisations, a euphemism for personnel cuts.

Centrosim did not escape the need to reduce fixed costs, but even though they did this, there was still plenty red ink, despite the professionalism that this company has always shown.

When push came to shove, the founders' intuition turned out to be correct; namely that it is absolutely essential for a trading SIM to have high volumes of business. Unfortunately, having set up a machine that could easily handle the thousands of orders coming from the banks' securities departments, Centrosim was forced to watch with justified concern the gradual abandonment by certain cooperative banks who preferred their independence, opting for alternative solutions.

In light of the overall situation, a certain consolidation is now underway with Centrosim acting as an aggregator, moving in the only direction that is possible to emerge from this crisis: to achieve economies of scale and operating advantages by substantially increasing trading volumes.

We will therefore continue to support Centrosim, guaranteeing it a flow of work and the capital resources necessary for operations to continue correctly and for the business to grow profitably.

Arca Banca di Investimento Mobiliare spa ( $12.841 \%$ ). This company, usually abbreviated to

Arca BIM, operates in various segments of the financial services industry.

The company derives from Arca SIM spa, so its original core business was in securities trading and portfolio management, though it is now very active in private equity, especially through its subsidiary Arca Impresa Gestioni SGR spa and its underlying closed-end investment funds, Arca Impresa and Arca Impresa 2000. It also offers a full range of management consultancy services, above all in the fields of mergers and acquisitions and structured corporate finance.

Even though it is still a young company, Arca BIM can benefit from the years of experience that its members of staff gained previously in these specific areas.

The hope is therefore that the company manages to carve a decent niche for itself before too long, in a sector that is seeing the participation of all the main banking and consultancy groups, and not just domestic ones.

The results were positive.
Arca SGR spa (5.17\%, formerly 4.816\%). This is a mutual and pension fund management company.

Having consigned to history 2001 and 2002, two notoriously difficult years also for the asset management industry, this last year saw a timid upswing in the trend. If on the one hand the level of diffidence remained high, with investors continuing to prefer low-risk investments, on the other the reasonable upswing in share prices did move the more enterprising ones, permitting at least a partial recovery in the value of our equity funds.

As always, Arca SGR operated well, demonstrating the traditional equilibrium and experience gained in twenty years of profitable work (having been founded on 14 October 1983), during which time we have always guaranteed our full and committed support.

Our contribution to the company's share capital is rising constantly, even though our
commitment is unfortunately not enough to maintain its market share on a level with its potential, not helped by the decisions taken by some of the original shareholders.

The consolidated professionalism and balance of Arca's management and personnel constitute a guarantee for investors. The performance of most of the funds that it manages has again beaten the industry benchmark. And that is what really counts.

An already ample range of funds has been enriched by BT Tesoreria, an accumulation fund designed mainly, but not exclusively, for companies with surplus cash that they need to invest on a temporary basis. The initiative has been reasonably successful. Arca Previdenza continues on its way, which could be at a good pace were it not for legislative indecision in the field of supplementary pensions.

Arca SGR spa closed the year with positive results, attesting to its good management and permitting the investments needed to maintain a high level of technology and hence of operating efficiency.

Based on this solid foundation, we are determined - also as a sign of recognition to the people who work at Arca with commitment and enthusiasm - to give our firm contribution to guarantee it a new phase of development. The company should start working again as soon as possible at the same rhythm that it once had as part of a recovery in the consortium spirit.

Arca Assicurazioni spa ( $9.90 \%$ ) is an insurance company that specialises in non-life policies sold through the banking channel.

After its initial years of activity when the company quickly penetrated the market, achieving substantial volumes of work, during 2003 it conti nued to consolidate and recompose its portfolio, though obviously without disregarding the ample possibilities for growth that the sector still has.

Selling non-life policies through our branches continues to be a straightforward and
profitable supplement to our normal banking activity.

The commercial side received a boost from the «Visibility Project», a marketing initiative launched successfully by certain branches of the distribution network and which is now being extended.

A significant improvement in the ratio between premiums written and claims paid again led to a net profit.

Arca Merchant spa (12.841\%). This company invests in the risk capital of unquoted companies using its own capital. The objective is to sustain the development of companies with good growth potential, thus enhancing the value of the investment with a view to selling it off in the medium to long term.

Even though this specific function involves the purchase and sale of securities, it cannot by its nature be defined as speculative, as this kind of investment involves direct involvement in the management of the business concerned and agreement with the key shareholders regarding the timing and way in which the investment is to be sold. These are factors of particular importance from an operating and ethical point of view, something those who work at Arca Merchant are well aware of.

We in turn are well aware of the delicate and complex function that the company performs, one that by its very nature is not without risks. It has our support so that we can express to the full our close relationship with the business community.

Arca Merchant will continue with the determination that it has always had, even though 2003 closed with a loss for the first time in the company's history.

Cilme-Multitel spa (5.062\%) handles electronic retail payments for banks.

We announced the setting up of this company in our last report, born of the merger of Cilme spa and Multitel spa, based on the
assumption that combining their businesses, which are complementary to each other, would make it possible to achieve operational and economic benefits.

The results of its first year of operations are comforting. The company is first in the national rankings for this sector, reflecting its operating and technical efficiency, which are recognised by the market. It has a good level of profitability and the company's growth prospects are encouraging.

The effectiveness of the service rendered is measured a thousand, if not tens of thousands of times every day. Cilme-Multitel's use of high quality technology, including innovative equipment in an internet environment, have enabled it to compete as a leading protagonist in the sectors of electronic money - it is in first position for the POS terminals managed - and e-banking applications.

Banca Popolare Etica scarl (0.161\%, formerly $0.182 \%$ ). This is an investment that expresses the fact that we share the principles of cooperation and social solidarity, as manifested in the collaboration currently underway.

This bank is about to celebrate its first five years of activity, during which time it has progressed considerably, carving its own niche.

Common cooperative origins is reflected in the substantial and rising number of shareholders. They are shareholders who effectively operate on the ground, mostly organised on a voluntary basis in the various local districts. They bring in business to the eight branches, the latest of which is in Bologna, which together with the financial consultancy and representative offices make up the company's peripheral network.

The interlocutors of Banca Etica, whether they are shareholders or customers, can find an answer to their needs at our windows, where they can also buy financial products, including the mutual funds run by Etica SGR, another of our investments which is commented on below.

Good balance sheet and income statement results augur well for the future.

Our stake in the company has gone down, but only because new shares were issued during the year which were subscribed mainly by fresh shareholders.

Etica SGR spa (11.364\%). This is an asset management company whose mission is to set up and promote ethical mutual funds.

After a delicate preparatory phase, on 18
with the «Valori Responsabili» trademark, three lines in the monetary, mixed bond and balanced sectors.

Etica SGR offers itself as a reliable counterparty for those who want to invest their financial resources in a targeted fashion. The evaluations and selection of issuers, which the company rigidly adheres to, are carried out by Ethibel, a very effective not-for-profit association based in Brussels, which performs objective and independent investigations into the social responsibility of companies and states.

Research done by ADISUM on ethical mutual funds in Italy, entitled «Ethics without rhetoric», awarded the «Valori Responsabili» funds, which can display the ethical badge issued by Assogestioni, the highest points, ranking it first in Italy for the quality of the social responsibility criteria used, the completeness of its information material and its permanent monitoring of the companies included in the portfolio. This important recognition obtained directly from consumers rewards Etica SGR's transparency and emphasises the sensitivity of investors who appreciate investment principles other than just the highest expected return.

Even though the company launched its funds at a moment that was still unfavourable for the asset management industry, the volumes of funding that it has taken in are very encouraging.

The economic results of the first year of operations inevitably discount the costs of setting up the structure and launching the product.

Finlombarda spa (0.405\%). As its full name suggests, Finlombarda - Finanziaria per lo sviluppo della Lombardia is a finance company for the development of Lombardy, helping to implement the region's economic, social and territorial development plans, with particular attention to small and medium-sized enterprises.

Our relationship with this company goes beyond a mere interest in its share capital. Indeed, given that we are a regional bank that is very close to Lombardy's hard-working entrepreneurs, we have stipulated numerous agreements with the company to help gain customers access to soft loans.

Worth mentioning immediately is the new agreement signed in 2003 which relates to the setting up of a roll-over fund and a guarantee fund for the development of small artisan businesses in the depressed areas of Lombardy. The funding and finalisation of low-interest financing in favour of artisans and SMEs in accordance with regional laws 34/96 and 35/96 have continued at a good rate. This also involves operations based on laws 1/99 (start-up of new activities) and 365/00 (interest grants for damages caused by natural catastrophes).

A substantial level of operations, which naturally implies efficiency on the part of the company and the important role that it plays. Collaboration that also involves acting as custodian bank for the closed-end investment funds set up by Finlombarda Gastonia SGR spa, of which the company is the reference shareholder and in whose funds the bank has invested.

The bottom line is positive.
Consorzio Cassamercato (6.286\%). This consortium was set up in 1999 on the initiative of SO.GE.MI. spa, the company that organises and runs Milan wholesale food markets. Its purpose is to mechanise goods trading. We joined the consortium along with all the other banks that have a presence at Milan's Fruit and Vegetable Market.

After more than four years, the project is still largely on the drawing board, partly because of its complexity and cost of implementation, and partly because of the problems involved in finding the right compromise between the various needs of potential users.

Little progress was made in 2003 as well, so it is not easy to foresee when the project is likely to be completed. The income statement reflects this situation, turning in another loss.

## Non-trade investments:

AEM spa ( $0.333 \%$ ). We have underlined on various occasions how our investment in the Milanese energy company represents for us not just a solid and stable financial investment, but also an attestation of the historical link between our Valleys and the Azienda, as it is familiarly known in our area. A link that is above all economical, one that has a meaning and that meaning is work. Once upon a time it only meant electricity, but now it also means gas and telecommunications. As well as a link in terms of good earnings, given the company's good results.

In previous reports we have spent a few words on the new structures built by AEM in the province of Sondrio, modernisations and extensions involving a high level of capital expenditure. 2003 saw completion of the works on the new canal in Val Viola, a 19-kilometre conduit that will permit a substantial increase in electricity output by the Premadio power station.

As just recognition for our area, it is worth remembering on this occasion the declaration of AEM's chairman that made headline news in the Corriere della Sera of 29 September 2003, the day after the black-out that hit almost the entire country: «Milan was saved by the power stations in the Valtellina». An affirmation that points to AEM's efficiency and highlights the Province of Sondrio's key contribution in a sector of vital importance for the community as a whole, which
unfortunately turned out to be less reliable that expected.

The company, which is the only one mentioned here that is quoted on the Stock Exchange, has a solid balance sheet and positive results.

InArCheck spa (15.385\%). This is a service company which specialises in control and certification activities in the field of civil and plant engineering and architecture, with a view to increasing construction quality and value.

It was set up in 2002 on the initiative of one of our leading counterparties, the Cassa Nazionale di Previdenza ed Assistenza per gli Ingegneri ed Architetti Liberi Professionisti (Pension and Welfare Fund for Engineers and Architects), for which we have been acting as treasurer since 1 April 2000, and the delicate start up period has now been completed. The amount of the order book is comforting with regard to its margins and geographical coverage.

Together with the control and certification activities, which also apply in the insurance cover granted to building projects, InArCheck contributes to the validation of projects as part of the application of the framework law on public works.

So the services that it provides on behalf of individuals, companies and the community in general are both complex and delicate, performed with great precision thanks to the skill and experience of its carefully selected professionals.

The combination of start-up charges and the normal delay between carrying out jobs already a lengthy process - and collecting the fees have had a negative impact on the results, which show a loss.

The required information on intercompany transactions can be found in the notes. These transactions have always been carried out in the interest of the companies concerned and at arm's-length conditions. The table entitled «Intercompany assets and liabilities with Group

SHARES HELD BY DIRECTORS, STATUTORY AUDITORS AND THE GENERAL MANAGER

| First and last name | Company in which shares are held | No. of sharesheld asof $31 / 12 / 2002$ |  | No. of shares purchased in 2003 |  | No. of shares sold in 2003 |  | No. of shares held as of $31 / 12 / 2003$ |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Directors |  | $\begin{gathered} \text { Share } \\ \text { Directly } \end{gathered}$ | es held: Indirectly | Shares Directly | held: Indirectly | Shares Directly | held: Indirectly | Share Directly | held: Indirectly |
| PIERO MELAZZINI | Banca Popolare di Sondrio scarl | 105,000 | 24,616 | - | - | - | - | 105,000 | 24,616 |
| SALVATORE BONOMO (*) | Banca Popolare di Sondrio scarl | 22,000 | 21,000 | - | - | 2,000 | 1,000 | 20,000 | 20,000 |
| ALDO BALGERA | Banca Popolare di Sondrio scarl | 122,504 | 12,631 | - | - | - | - | 122,504 | 12,631 |
| GIANLUIGI BONISOLO | Banca Popolare di Sondrio scarl | 2,360 | 74 | - | - | - | - | 2,360 | 74 |
| MILES EMILIO NEGRI | Banca Popolare di Sondrio scarl | 40,000 | 40,000 | - | - | - | - | 40,000 | 40,000 |
| GIUSEPPE FONTANA | Banca Popolare di Sondrio scarl | 200,000 | - | - | - | - | - | 200,000 |  |
| MARIO GALBUSERA | Banca Popolare di Sondrio scarl | 2,400 | 5,000 | - | - | - | - | 2,400 | 5,000 |
| CARLO GRASSI | Banca Popolare di Sondrio scarl | 400 | 81,200 | - | - | - | - | 400 | 81,200 |
| NICOLȮ MELZI | Banca Popolare di Sondrio scarl | 33,000 | 900 | 2,000 | 400 | - | 400 | 35,000 | 900 |
| ALDO ROSSI | Banca Popolare di Sondrio scarl | 25,000 | 30,000 | _ | - | - | - | 25,000 | 30,000 |
| RENATO SOZZANI | Banca Popolare di Sondrio scarl | 15,060 | 15,060 | - | - | - | - | 15,060 | 15,060 |
| LINO ENRICO STOPPANI | Banca Popolare di Sondrio scarl | 15,000 | 15,000 | 3,000 | 3,000 | - | - | 18,000 | 18,000 |
| BRUNO VANOSSI | Banca Popolare di Sondrio scarl | 25,070 | 29,474 | 2,000 | - | 2,000 | - | 25,070 | 29,474 |
| FRANCESCO VENOSTA | Banca Popolare di Sondrio scarl | 12,688 | 1,215 | - | 50 | - | - | 12,688 | 1,265 |
| FEDERICO FALCK (**) | Banca Popolare di Sondrio scarl | 500 | - | - | - | - | - | 500 |  |


| Statutory Auditors |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| EGIDIO ALESSANDRI | Banca Popolare di Sondrio scarl | 909 | 681 | - | - | - | - | 909 | 681 |
| PIERGIUSEPPE FORNI | Banca Popolare di Sondrio scarl | 6,441 | 14,860 | - | - | - | - | 6,441 | 14,860 |
| ROBERTO SCHIANTARELLI (***) | Banca Popolare di Sondrio scarl | 1,000 | - | - | - | - | - | 1,000 |  |
| PIO BERSANI | Banca Popolare di Sondrio scarl | 500 | - | - | - | - | - | 500 |  |
| MARIO VITALI | Banca Popolare di Sondrio scarl | 17,000 | 3,000 | - | - | - | - | 17,000 | 3,000 |


| General Manager |  |  |  |  |  |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| MARIO ALBERTO | Banca Popolare <br> di Sondrio scarl | 10,000 | - | - | - | - | - | 10,000 |
| PEDRANZINI |  |  |  |  |  |  |  |  |

[^1]companies» shows assets of 101 million and liabilities of 106 million.

Related party transactions as identified in accordance with CONSOB Communication no. DEM/2064231 of 30 September 2002, form part of the bank's ordinary operations and are regulated at market conditions or, in the absence of suitable parameters, on the basis of the costs incurred.

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

During 2003 as well as during the current year there have been no atypical or unusual transactions that might have a significant effect on the bank's economic or financial standing.

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

## INTERNATIONAL UNIT

Ours is a bank with strong territorial roots; we stay close to our customers, both mentally and through our branches, many of which are located in small towns and villages. It is a mission that is typical of a cooperative bank, attentive by definition to the needs of local businesses and the communities that it serves.

We then extend our reach to wider markets in Italy and abroad through our subsidiary, Banca

Popolare di Sondrio (SUISSE) SA and our international unit.

We have already commented on the former in the chapter on equity investments. Here we will talk about the latter, which from its modern offices in Sondrio's Lungo Mallero Cadorna illuminates the world scene for us like a lighthouse.

The personnel of the international unit do in fact enable us to widen our horizons, making us understand better the dynamics of the world economy which inevitably have repercussions on domestic affairs. These are the pervasive effects of globalisation, a phenomenon that is affecting more and more not just large companies but the lives of individual investors as well.

In recent years, the international sector has had to cope with events of major importance, which have required ideas, the ability to react fast and to use suitable human and technological resources. The Darwinian theory according to which those who adapt quicker and better to change have an advantage over the others applies to international affairs as well. The euro is an object lesson of this.

Banks have had the experience of the cuts caused by the single currency on the profits generated by foreign exchange activities and services, in particular the cross-border payment and collection system.

Our international unit inevitably felt the need to reposition itself on the market, though the advent of the euro, together with the increased accessibility to new geographical environments, has also acted as a catalyst to identify and develop new types of business.

Faced with any external change, even if apparently negative, the essential is not just to limit the damage, but to exploit the opportunities that new situations often bring. So we are right to believe that advantages will soon derive from the changed international scenario. The benefits are already considerable, and the foundations have
companies» shows assets of 101 million and liabilities of 106 million.

Related party transactions as identified in accordance with CONSOB Communication no. DEM/2064231 of 30 September 2002, form part of the bank's ordinary operations and are regulated at market conditions or, in the absence of suitable parameters, on the basis of the costs incurred.

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

During 2003 as well as during the current year there have been no atypical or unusual transactions that might have a significant effect on the bank's economic or financial standing.

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

## INTERNATIONAL UNIT

Ours is a bank with strong territorial roots; we stay close to our customers, both mentally and through our branches, many of which are located in small towns and villages. It is a mission that is typical of a cooperative bank, attentive by definition to the needs of local businesses and the communities that it serves.

We then extend our reach to wider markets in Italy and abroad through our subsidiary, Banca

Popolare di Sondrio (SUISSE) SA and our international unit.

We have already commented on the former in the chapter on equity investments. Here we will talk about the latter, which from its modern offices in Sondrio's Lungo Mallero Cadorna illuminates the world scene for us like a lighthouse.

The personnel of the international unit do in fact enable us to widen our horizons, making us understand better the dynamics of the world economy which inevitably have repercussions on domestic affairs. These are the pervasive effects of globalisation, a phenomenon that is affecting more and more not just large companies but the lives of individual investors as well.

In recent years, the international sector has had to cope with events of major importance, which have required ideas, the ability to react fast and to use suitable human and technological resources. The Darwinian theory according to which those who adapt quicker and better to change have an advantage over the others applies to international affairs as well. The euro is an object lesson of this.

Banks have had the experience of the cuts caused by the single currency on the profits generated by foreign exchange activities and services, in particular the cross-border payment and collection system.

Our international unit inevitably felt the need to reposition itself on the market, though the advent of the euro, together with the increased accessibility to new geographical environments, has also acted as a catalyst to identify and develop new types of business.

Faced with any external change, even if apparently negative, the essential is not just to limit the damage, but to exploit the opportunities that new situations often bring. So we are right to believe that advantages will soon derive from the changed international scenario. The benefits are already considerable, and the foundations have


INTERNATIONAL UNIT


been laid for more positive developments in the future.

Let's now come to the facts, namely the activity carried on during this last year.

To start with, the international unit made its usual generous contribution to the Bank's earnings. Also to be emphasised is the significant contribution that it also made to promoting our name in Italy and the world, to the concrete benefit of the Group as a whole. They have helped create an increasingly dense network of acquaintances and relationships where new business can be sought.

The agreement with PROMOS - a special agency of the Milan Chamber of Commerce for the promotion of international business - enables the Bank to have available, for itself and for its customers, an efficient, tried and tested overseas structure made up of thirteen offices located in some of world's main marketplaces, namely: Montreal (Canada), New York (USA), Mexico City (Mexico), Montevideo (Uruguay), Saõ Paulo (Brazil), Prague (Czech republic), Budapest (Hungary), Warsaw (Poland), Moscow (Russia), Cairo (Egypt), Beijing (China), Mumbai (India) and Tokyo (Japan).

Highly qualified services are provided mainly to Lombardy-based companies: handling relations with foreign banking institutions, embassies and consulates; organising business meetings; preparing analyses and support for trade missions, marketing opportunities, trade fairs and cultural events; assistance for delegations; indicating potential trade partners; helping companies open abroad, and more besides.

The agreement with PROMOS which is long-term and concerns exclusively the lending side of the business, was implemented immediately. Indeed, our international unit, with its usual efficiency, spread the word among entrepreneurs interested in the opportunities likely to derive from the agreement. An «America Day» and an «Egypt Day» were organised in Milan
and Sondrio in the presence of the respective PROMOS representatives, while a delegation from the Bank took part in the Prado Trade Fair in Montevideo, Uruguay's most important agroindustrial and commercial event. Other initiatives are in the pipeline, in addition to the normal routine work.

In the chapter on equity investments, to which you are referred, we commented on the specialist services provided to companies by Servizi Internazionali e Strutture Integrate 2000 srl and CBE Service sprl, companies which complete our overseas structure, with offices in Hong Kong and Brussels.

Numerous banks, other cooperative banks in particular, use us for their overseas operations. Of these, Popolare di Fondi, which provides with a considerable amount of business, reinforcing a significant level of cooperation.

As a result of an EU tender, we were appointed by INPS to pay pensions to more than 100,000 beneficiaries residing all over the Eurozone.

This important mandate, which rewards the efficiency of our specific IT and organisation structure, together with the fact that we have an excellent network of correspondents, follows on the intense activity of paying pensions from foreign benefit agencies to people resident in Italy. In this sector, which has just expanded as we have been appointed to pay pensions coming from Austria, we are the national leader. The periodic surveys that we carry out into the level of satisfaction of our counterparties gave encouraging results: more than $98 \%$ of those interviewed said that our service was excellent.

We are sensitive to the needs of many workers coming from so-called developing countries and to how they are evolving. This is why we prepared a special procedure for the transfer of money from Italy abroad: «Rimesse Emigrati» (emigrants' remittances). It is rapid, secure, inexpensive and transparent, and is
therefore much appreciated by its many users, such that it has been adopted by one cooperative bank that is particularly close to the needs of immigrants, as well as by leading foreign exchange companies operating nation-wide. So we really can say that keeping an eye on the social aspects of business, which is implicit in our corporate mission, can also have positive effects on the market.

Together with CO.MO.I. SIM spa, we have concluded the first contract in Italy for hedging atmospheric risk. This is a product that is frequently used in the USA under the name of «weather derivatives», and we think they could have interesting developments here as well. This goes to show that even a bank of modest dimensions, like our own, can create innovation, opening up new spaces.

While the start of 2004 has seen the timely publication of the much appreciated book of statistics called «Cambi \& Tassi», let's take a look at the figures that summarise the intense activity carried on in 2003.

There are more than 14,000 customers, an increase of more than $7 \%$, a sign that the specific products that we offer are well received and appreciated also in the areas where we have set up recently. The expansion to new markets around the world is reflected in the widening network of correspondent banks, in total almost 1,500 in 114 countries. These are tried and tested, carefully selected entities with whom we interact in real time. To the extent that at this stage every corner of the world - from a banking point of view, but not only - is on our doorstep.

The transactions followed by the international procedure - approximately 1.5 million in total - have gone down by $4 \%$ because of the downward trend in interbank foreign exchange activity, as explained below, whereas business with customers remained at a good level. The messages processed by the Swift system, more than 810,000 sent and received, are in line with the previous year.

As for foreign exchange dealing, while current items (goods and services) went down by $5 \%$ after years of rapid expansion, mainly because of the slowdown in goods traffic caused by the recession, capital movements rose by $73 \%$.

Forex trades fell by $11 \%$, partly because of the settlement phase following the introduction of the single currency, and partly because of the drop in the international movement of goods, and of people, due to ongoing geopolitical rates, interest rates and commodities) turned in further growth. Derivatives on precious metals, mainly gold, on the other hand, slowed down due to the hike in prices.

Looking at the balance sheet, foreign currency and external euro deposits from customers came in at 435 million, an increase of all of $72 \%$; those in foreign currency from banks amounted to 736 million, a decline of $27 \%$ due to the higher availability of direct funding; foreign currency loans to customers came to 873 million, in line with the previous year.

These figures give an idea of the intense and satisfactory work carried on with passion and skill by our people, who have always been committed to translating the Bank's consolidated vocation for operating internationally into concrete, profitable facts. They have been given the task of developing relations and relationships day-by-day throughout the world. They are accompanied by a high level of professionalism, an aptitude for communicating in an affable and effective way, a spirit of initiative and a good knowledge of foreign languages.

Recognition of this success came with ISO 9000 quality certification, now updated to Vision 2000 specification. It was obtained in previous years and then confirmed for the following sectors: cross-border and foreign pension payments; correspondent banking; remittances and documentary credits. In 2003 we added the following: payment abroad of Italian pensions;
collection of foreign cheques; direct debit of foreign payments (through the RID procedure). A quality made not for being bandied about, but which is reflected in our day-to-day work and which becomes the load-bearing structure that will enable us to cope with rising volumes with reasonable tranquillity.

We reiterate our thanks to the Italian Foreign Exchange Office (UIC) for the suggestions that they gave us at the time of their inspection in 2002. On the basis of these indications we have operated and continue to operate to improve our activities in this delicate sector which UIC is called upon to monitor.

## SERVICES, PROJECTS AND STRUCTURE

## Sales and Marketing

Over the last decade, banks have steadily expanded their range of products and services, to the extent that at a certain point some scholars came up with the theory that monetary intermediation was by now a thing of the past.

The facts now show that this is not the case. To tell the truth, we were always convinced of this, but there is no doubt that banks have extended their business activities to new sectors, such as finance and insurance, without overlooking that of payments. This because they have become more aware of the potential of their branch networks and the preferential relationship that they have with their customers.

The system has also seen a proliferation of specialist players, more or less equipped and organised, who had to procure market share and revenues; they then had to cope with the long bear market and the repercussions that hit the asset management industry as a result.

This situation, which is extremely dynamic and highly competitive, but also full of
opportunities, did not catch us unawares. Our firm desire to raise our volumes, sustained by strong territorial expansion and by the quality of what we had to offer, gave a boost to the business and permitted satisfactory economic returns. In other words, we ran, conscious of the fact that we did not have the option of walking.

The centrality of the customer guided us and is a key part of our corporate culture. Physically and mentally reactive, we have considerably enriched an already ample catalogue, thanks to the contribution made by our affiliates.

New targeted proposals have been aimed mainly at small investors. The range of portfolio management schemes that we look after now include Bilanciata $15 \%$, a line of investment that gives preference to the monetary and bond sectors, but does not overlook the opportunities of the equity sector. It is in fact intended for those who want to take a cautious approach to the stock exchange.

Popso (Suisse) Investment Fund Sicav, our Group's sicav, can now define itself as multimanager:

Popso (Suisse) Investment Fund Sicav the few segments that have been available for some time have now been joined by the European Convertible Bond and Japanese Equity lines, which are managed together with leading operators.

Being sensitive to the values of ethical finance, we have helped place

Sistema Valori Responsabili the Sistema Valori Responsabili mutual funds handled by our affiliate Etica SGR spa. The advisor Ethibel evaluates the issuers and selects those with a high profile of social responsibility.

The affiliate Acra SGR spa as
BT Tesoreria set up BT Tesoreria, a capital accumulation fund aimed mainly, but not only, at companies that need to invest surplus liquidity on a temporary basis.

The insurance sector has received a boost from the Arca Vita

Unit Linked MULTIFASE Group. The new policies being
offered have been diversified, with the common objective of guaranteeing the capital invested and to benefit from market trends, together with the peculiarity of insurance products. InvestiDOC, Index Linked 13 and Index Linked 19 are this year's issues; in addition, there is Unit Linked MULTIFASE, an innovative policy whose financial component is designed for gradual investment in the stock exchange.
«Non Standard» Policies
In CASA,
In FAMIGLIA, In SALUTE, In AUTO,
Solouna!

In accident insurance, we have launched, together with B. \& A. Broker spa, the placement of «non standard» policies, in other words policies that are complementary to the In CASA, In FAMIGLIA, In
SALUTE, In AUTO, Solouna! policies that have been successfully offered for years by Arca Assicurazioni spa. These new types of cover belong to the categories of «multiguarantees for the entrepreneur», «global civil buildings» and «accidents».
SCRIGNObps As for the electronic channel, which has the support of a special call centre, our portal SCRIGNObps has enriched and refined its content, resulting in a considerable increase in users. The novelties include SCRIGNOgruppi which allows companies to prepare bank transfers, defining the various people who are authorised to send them and their respective approval limits; SCRIGNOvetrina offers companies the opportunity to extend the visibility of their own websites through our portal; the function of SCRIGNOPagamentoUtenzeOnline is obvious from its name. With the Recapiti service, users of SCRIGNOInternetBanking can decide if and how they want to receive communications from the bank (by e-mail, fax, sms, etc.).

With a view to simplifying the procedures that tax payers have to comply with, we activated the electronic transmission of payment mandates, the so-called Modello F24.

Our profitable relationships with various national institutions, which attract huge
communities, have favoured the development of applications for handling relationships on a remote basis, which by now have been extended to all basic banking products and services.

Marketplace Coralis, the internet market looked after by a company of the Banche Popolari Unite Group, is growing in terms of diffusion and appreciation. And for companies it is a new, inexpensive and transparent way to make purchases.

Our closeness to young people,
POPSOWeb shown by the success of our dedicated CONTO 44 GATTI POPSOWeb current accounts, saw the setting aside of a new amount to finance computer purchases at zero interest. For the very young, the CONTO 44 GATTI, a savings deposit book which, together with special conditions, also offers its own website, a Club membership card for discounts at many parks and museums, and distribution of an exclusive publication.

Part of the lending business is our collaboration with Conafi spa for the granting of personal loans guaranteed by assignment of a fifth of the borrower's salary. As is the agreement with the Fondazione Enasarco - Ente Nazionale di Assistenza per gli Agenti e i Rappresentanti di Commercio - to grant mortgage loans throughout Italy to members, their children, to cooperatives set up by members and to the employees of the Fondazione.

Plastic money is on the rise. Our

Online
prepaid cards prepaid cards - rechargeable or disposable - have been approved for withdrawing cash from the ATMs of the QUIMultibanca circuit. It is possible to consult the residual cash balance on the card and the movements that have taken place on it through the Carte Prepagate on-line service in SCRIGNOInternetBanking, which virtual customers authorised to issue orders can also use to recharge their cards on-line.


## BANCASSURANCE

## $\overline{\text { ARCA VITA }}$

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

InvestiDOC
IINDEX LINKED
I LINEA PENSIONE
PER LORO
PROTEZIONE AZIENDA
ARCA VITA
intennatiロחal
UNIT TEAM

Unit Linked MULTIFASE, an innovative policy whose financial component is designed for gradual investment in the stock


## B. \& A. Broker s.p.a.

Società di consulenza e brokeraggio assicurativo per Banche \& Aziende

## ARCA ASSICURAZIONI


 AND TOUR ASSTST

solouna! In AUTO

Car insurance amranged at your bank branch. It's reliable, easy, quick and cheap for careful drivers.

In FAMIGLIA

## Gioia

In SALUTE
daily allowance
In CASA
policies, in other words policies that are complementary to those that have been successfully offered for years by Arca
"multiguarantees for the entrepreneur", "global civil buildings" and "accidents".


SUPPLEMENTARY PENSIONS


## Carta Chiara

Carta Chiara is a prepaid, rechargeable card that can be used throughout the world to make payments through the Maestro circuit.

## Carta Lira

 Carta Lira is an exclusive electronic payment system for professionals who operate with the Territorial Agency for the whole of Lombardy. It is now available in a prepaid form, rechargeable or disposable.Customers of H3G (brand name «3»), the first operator to launch a multimedia UMTS service in Italy, can now recharge their mobiles at one of our ATMs. TV licences can also be paid there.

Worthy of mention, if for no other reason for the size of the counterparty, is the acquisition of the service to handle payments ordered by Ferrovie dello Stato spa (the state railways) to its employees and third parties, following an EU tender, in which we took part as the leader of a group of cooperative banks.

## PattiChiari

 Lastly, we would point out that we have promptly adhered to the Banks and Companies project promoted by the Italian Bankers' Association under the trademark PattiChiari (clear agreements). We have taken part in all of the initiatives launched to date. Nor did they catch us unawares, as our activity has always been based, as far as possible, on fairness and transparency. So perhaps we can talk about Patti più Chiari (even clearer agreements).
## Central offices

The success of our front line, the branches that day in day out strive against our competitors, is sustained by the work done behind the scenes, at the central offices, which ensure the quality and effectiveness of everything that we offer.

As usual, we start with SOSI - Servizio Organizzazione e Sistemi Informativi (information systems and procedures), the protagonist of the IT and telematic processes that
look after all of the Bank's functions. Just a few words to express a huge commitment, which goes from the solution of complex structural problems to the implementation of numerous minor interventions, all important, which for reasons of space we cannot cite here. SOSI is the heart of the Bank.

Two important questions were tackled during 2003: IT service continuity, i.e. the disaster recovery plan, which the Supervisory Authorities are also interested in; and modernisation of the data transmission network.

As regards the first, the comparison of detailed technical and economic analyses made it possible to reach a solution that we would define as optimal. This involves entrusting the basic system to a third-party specialist (technically known as «facility management»), which in itself is opportune and less expensive that doing it ourselves. It also puts the burden of coping with any disaster situations onto the third party. In the end we chose a provider of international fame and proven worth, with consolidated experience in the sector and therefore in a position to provide the necessary guarantees.

As for the second aspect, the evolution in telematics and the development of e-mail and intranet applications - the main carrier of internal communications - have led to the need not only for facility management, but also for an upgrade of our network, having recourse to broadband technology. A quantum leap which will permit, among other things, competitive costs, a transmission speed at least four times what it is at present, and access to services such as videoconferencing and video communication. More generally, the purpose of this plan is to give a decisive boost to the electronic circulation of data, communications and documentation, whose functional and economic benefits - already substantial - are growing constantly.

Of SOSI's numerous other achievements during the year, we would only mention, because


## THE VIRTUAL BANK


of its practical importance, the electronic management of current account statements in pdf, making it possible to consult them and print them out at the branches through the intranet.

## Public entities and treasury offices

The 459 treasury and cashier mandates (46 more than last year) reflect well on the efforts of the public
entities office on behalf of local and national institutions of various kinds, and therefore to benefit the multitude of users, hundreds of thousands of them, who use their services. Collaboration with these institutions, to which we offer advantageous services and advanced technology, is the expression of our will to operate in a full and concrete manner in the territories where we have a presence.

The more significant new mandates include Cassa Nazionale del Notariato, the Brescia Chamber of Commerce, Azienda di Servizi alla Persona «Golgi-Redaelli» of Milan, the Azienda Ospedaliera della Valtelline e della Valchiavenna, acting as leader of a temporary consortium together with Credito Valtellinese. After a public tender, we were confirmed as the treasurers of ALER - Azienda Lombarda Edilizia Residenziale of Milan. We have a window on their premises which has recently been restructured and given direct access from the outside.

The Bank's success in managing treasury and cashier services derives from constant professional and technological updating. SCRIGNOGesTes, an online application via internet activated in 1997, has been revised and upgraded, adding to the IT functions, which are updated in real time, plug-ins for the electronic exchange of collection and payment orders. SCRIGNOFirma, the digital signature application, guarantees the authenticity of the instructions given.

The attention that this important sector pays to quality is reflected in the ISO 9001 certification which was acquired towards the end of the year.

There were 80 treasury windows as of 31 December 2003, an increase of four during the year. The new ones are at Rivanazzano (PV), Marmirolo (MN), Desio (MI) and Cosio Valtellina (SO). An office was also opened at the Libera Università di Lingue e Comunicazione (IULM) in Milan. The services previously provided by the Salò (BS) and Abbadia Lariana (LC) windows are now handled by the local branches, while in the municipality of Toscolano Maderno (BS), where a branch has been opened in the Toscolano district, the Maderno office has been left operative for the convenience of residents.

Our Corporate Finance Department is much appreciated by entrepreneurs as they find in us a look for personalised solutions. This is attested by our numerous interventions in aid of SMEs needing to increase their share capital in order to grow. This links in with the agreement that we have with the Milan office of Confidi for the provision of mixed unsecured loan-mezzanine financing as mentioned in the chapter on loans.

This department's duties include the preparation of targeted business plans, the acceptance of mandates for the disposal of business divisions, the evaluation of market positioning and, in connection with Law 109/1994 («Merloni-ter»), the certification of economicfinancial projects presented by private companies to public administrations involved in selecting firms to build and run infrastructures.

Lastly, this department ensures the best possible allocation of loans funded by the European Investment Bank, which has granted us a second tranche of 75 million euro.

The Planning and Control Department has the task of measuring profitability and corporate risk, before and after the event. The management information and control system which the department uses reflects the principles, rules and recommendations

made by national and international supervisory authorities, in the conviction that the approach originally taken provides us with a preferential point of observation from which we can correctly and punctually appreciate any changes in the reference context, anticipating the effects as far as possible.

To this end, the management accounting system has been improved by increasing the sources of information on profitability and by restructuring the budget system, raising the effectiveness and flexibility of the computations. As for the delicate risk management sector, which this office looks after with growing professionalism, please refer to the next chapter which is entirely devoted to this important topic.

Also of considerable importance is this department's coordination of the internal control review. This system, in line with the principles laid down by the Bank of Italy, consists of an established set of rules, activities, procedures and structures designed to ensure compliance with the company's policies and the conscious acceptance of risks in line with the capital and economic condition of the bank. This is why the argument is so delicate and why we intend to devote all of the necessary attention to it.

Technical,
Prevention and Safety Office

The Technical, Prevention and Safety Office sustains our territorial expansion, fitting out new branches, as well as handling extensions, improvements and the maintenance of existing branches and the central offices. An activity carried on with great commitment and competence, where the ratio between quality and cost is always excellent, in line with a tradition that successfully combines functionality, security and aesthetics.

The numbers confirm the intensity of their efforts: 33 new locations fitted out for branches and treasury offices being set up or transferred to more suitable premises; 11 sites opened; 14 projects planned, for which the administrative
formalities and calls for bids are currently in progress; and 6 projects currently being prepared.

The Bank's properties now cover a surface area of 112,012 sq.m. for an overall volume of 334,686 cu.m. We also have 79,048 sq.m. of land. Net of depreciation, the book value of buildings comes to 53.03 million euro, after additions during 2003 of 1.33 million, disposals of 0.01 million and depreciation of 2.93 million. The market value of our buildings shows substantial capital gains. The bank owns 40 buildings and 33 units in condominiums. Banking operations are carried on in 50 properties owned by the Bank and 227 locations that are rented, including 15 in leasing.
«Furniture and fittings», a sub-category of tangible fixed assets, comes to 12 million, The decrease of 1 million is the net of new investments and the depreciation charge for the year.

The Security Department $\begin{array}{r}\text { Security } \\ \text { Department }\end{array}$ continues its task of preventing Department criminal acts against the Bank's assets, including its data, personnel and customers. Duties that stand out in particular include overall protection of the branches, correct utilisation of the Bank's structures, confidentiality of the data and information handled, and timely adjustment to sector regulations. The department coordinates the other functions involved in security matters.

We signed up willingly to the «Protocol of understanding for the prevention of crime in banks» promoted by ABI together with the prefectures of certain provinces.

The activity of the Supply
Supply Office Office has been intense, as always, accompanying the Bank's territorial growth and operational expansion, mediating with skill and balance the need to spend with suitable control over costs, also by means of a timely review of supply agreements. The numbers involved in its day-to-day functions are impressive: more than 25,700 invoices handled, around 78,000
accounting transactions processed, almost 800 real estate contracts administered, in addition to insurance policies, security guards, transportation of valuables, maintenance works, taxes and dues of various kinds and more besides, making up a mass of work that has to be handled every day with care and commitment.

The Supply Office's activity has also been significantly affected by the use of IT and telematics.

As regards purchasing methods, on-line auctions have been successfully introduced using «Dutch-style» bidding based on the Supply Office's specifications, whereby interested suppliers continue to lower their bids until the lowest bidder wins. Given the benefits of this system, we expect this tool to become quite popular.

Also worthy of note is the new «inventory request» procedure, whereby offices can order material through the intranet, as is the introduction of an electronic tool made available by the Economy and Finance Ministry for the online registration and management of rent contracts.

Lastly, the operational instructions for the management of the purchasing function, which are the subject of particular regulations, have been updated to take account of the Bank's increased size and technological innovation, as well as to bring them into line with the requirements of quality control.

| Legal |
| :--- |
| Department | | The Legal Department's work has |
| ---: |
| been substantial and commendable, |
| but any comment on it unfortunately |

has to reiterate the long delays and procedural
complications that for too many years have
jeopardised legal action for the forced recovery of
non-performing loans, even if some benefit has
been obtained from delegating certain procedures
regarding claims over property to notaries. Let's
therefore unite our voice to that of those, a great
deal more authoritative than ours, who after the jeopardised legal action for the forced recovery of non-performing loans, even if some benefit has been obtained from delegating certain procedures regarding claims over property to notaries. Let's deal more authoritative than ours, who after the
reform of company law hope - or rather request that changes will be made to the rules that govern the legal recovery of debts and to those of bankruptcy law, also with reference to the exaggerated and distorted use of revocation lawsuits by liquidators.

This important corporate function operates outside the law courts as well, analysing problem loans and allocating them to the various categories - watchlist, non-performing and writeoffs - and offering valuable advice to the Bank's various departments and branches. Here at least their efforts are rewarded by a certain level of satisfaction.

With traditional punctuality and spirit of collaboration, the Legal Department replies to requests for bank confirmations sent by various authorities; they also reply to any complaints, a few of which were received in 2003.

We close with the Internal

## Internal Audit Department

 Audit Department, whose intense and detailed activity in the field of controls helps guarantee the correct functioning of the corporate machine.Effectively monitoring the correct application of the legal, regulatory and internal rules governing the banking business is an arduous task, as the underlying processes are by their very nature numerous and highly complex. Rapid technological innovation, verification of the adequacy of the internal control system, the increasing sophistication of financial instruments, the rising number of controls carried on by higher authorities (anti-money laundering, transparency, privacy) and last but not least, the Bank's considerable territorial expansion, are some of the elements that make the Internal Audit Department's work extremely complex.

All of 429 audit visits were carried out at branches and central offices, of which 95 performed by the Board of Statutory Auditors with the cooperation of the internal auditors, during which they traditionally take advantage


## OUR WEBSITE


of any occasion to train and advise the members of staff.

Alongside the constant refinement and enrichment of their on-site audits, the Internal Audit Department has also developed a system of remote checks using special software with encouraging results. As regards the central offices in particular, attention has been focused on entire processes that govern particular functions, rather than on individual tasks.

These are all delicate activities, including those concerning internal controls, risks and security, which the Internal Audit Department performs with commitment and professionalism, with the primary intent of preventing everything that is foreseeable.

## RISK MANAGEMENT

Previous reports have explained the characteristics of the Bank's risk control system. The objective is to identify, manage, control and, where possible, measure as accurately as possible the various kinds of risks that the Bank is exposed to in its day-to-day operations. More generally, the idea is to spread throughout the Bank at all levels a suitable risk culture, which is indispensable if current and future operations are to be based on the principles of healthy and prudent management.

Banking's growing complexity has steadily increased the different types of risk, so that now alongside lending risk there have now been identified market risk and operating risks, mainly to do with organisational weaknesses, insufficient control over information or insufficient professionalism on the part of human resources.

Our purpose is to raise the level of awareness of these matters so that adequate risk management strategies are adopted to prevent losses as far as possible, or at least to reduce their impact. The fact
that banking's incessant evolution - and hence our own - is constantly shifting the goal to which we are running needs to be taken as a stimulus. A way of consoling ourselves if we think of wisdom, which they say is like the horizon: the closer you get the further away it moves. In any case, the important thing is to create, step by step, a route that complies with the rules laid down by the Supervisory Authorities, based on best practice within the system and responding to our firm desire to supervise every operating environment. And talking of supervision, the Authorities are paying more and more attention to the evolution of internal control over risk.

Let's start by looking at interest rate, exchange rate and equity risks inherent in financial markets, which we have measured on a daily basis through the well-known VAR (Value At Risk) methodology. This makes it possible to estimate the maximum potential loss that could be made with a time horizon of one day and a confidence interval of $99 \%$.

The VAR data for 2003 is set out in the following table.

## RISK FACTORS

| (in thousands of euro) | At 31/12/03 | Average | Minimum | Maximum |
| :--- | ---: | ---: | ---: | ---: |
| Interest rate | 302 | 461 | 209 | 995 |
| Equities | 1,048 | 1,353 | 884 | 2,044 |
| Exchange rate | 10 | 10 | 4 | 92 |
| Total | $\mathbf{9 7 5}$ | $\mathbf{1 , 2 8 4}$ | $\mathbf{5 7 5}$ | $\mathbf{1 , 8 0 4}$ |

Total average VAR ( 1.284 million) is considerably lower than last year ( 1.720 million) due to the contraction in interest rate risk (from 0.737 to 0.461 million) and equity risk (from 1.920 to 1.353 million), while exchange rate risk remains marginal and stable, being measured on securities denominated in foreign currencies.

There has also been a reduction in the maximum value of total VAR (from 2.599 to 1.804
of any occasion to train and advise the members of staff.

Alongside the constant refinement and enrichment of their on-site audits, the Internal Audit Department has also developed a system of remote checks using special software with encouraging results. As regards the central offices in particular, attention has been focused on entire processes that govern particular functions, rather than on individual tasks.

These are all delicate activities, including those concerning internal controls, risks and security, which the Internal Audit Department performs with commitment and professionalism, with the primary intent of preventing everything that is foreseeable.

## RISK MANAGEMENT

Previous reports have explained the characteristics of the Bank's risk control system. The objective is to identify, manage, control and, where possible, measure as accurately as possible the various kinds of risks that the Bank is exposed to in its day-to-day operations. More generally, the idea is to spread throughout the Bank at all levels a suitable risk culture, which is indispensable if current and future operations are to be based on the principles of healthy and prudent management.

Banking's growing complexity has steadily increased the different types of risk, so that now alongside lending risk there have now been identified market risk and operating risks, mainly to do with organisational weaknesses, insufficient control over information or insufficient professionalism on the part of human resources.

Our purpose is to raise the level of awareness of these matters so that adequate risk management strategies are adopted to prevent losses as far as possible, or at least to reduce their impact. The fact
that banking's incessant evolution - and hence our own - is constantly shifting the goal to which we are running needs to be taken as a stimulus. A way of consoling ourselves if we think of wisdom, which they say is like the horizon: the closer you get the further away it moves. In any case, the important thing is to create, step by step, a route that complies with the rules laid down by the Supervisory Authorities, based on best practice within the system and responding to our firm desire to supervise every operating environment. And talking of supervision, the Authorities are paying more and more attention to the evolution of internal control over risk.

Let's start by looking at interest rate, exchange rate and equity risks inherent in financial markets, which we have measured on a daily basis through the well-known VAR (Value At Risk) methodology. This makes it possible to estimate the maximum potential loss that could be made with a time horizon of one day and a confidence interval of $99 \%$.

The VAR data for 2003 is set out in the following table.

## RISK FACTORS

| (in thousands of euro) | At 31/12/03 | Average | Minimum | Maximum |
| :--- | ---: | ---: | ---: | ---: |
| Interest rate | 302 | 461 | 209 | 995 |
| Equities | 1,048 | 1,353 | 884 | 2,044 |
| Exchange rate | 10 | 10 | 4 | 92 |
| Total | $\mathbf{9 7 5}$ | $\mathbf{1 , 2 8 4}$ | $\mathbf{5 7 5}$ | $\mathbf{1 , 8 0 4}$ |

Total average VAR ( 1.284 million) is considerably lower than last year ( 1.720 million) due to the contraction in interest rate risk (from 0.737 to 0.461 million) and equity risk (from 1.920 to 1.353 million), while exchange rate risk remains marginal and stable, being measured on securities denominated in foreign currencies.

There has also been a reduction in the maximum value of total VAR (from 2.599 to 1.804
million) and in the year-end value (from 1.742 to 0.975 million).

At the same time as VAR, the system also calculates the level of capital absorption by converting the daily VAR into a term VAR, which takes account of the number of working days until the end of the year, and adding to this the absolute value of net losses and any net capital losses incurred since the beginning of the year. This capital absorption peaked on 18 March 2003 at 26.508 million, so well below the limit of 60 million (maximum acceptable loss) set by the Board of Directors. Worth mentioning in passing that the risk acceptance policies have to be approved by the Board of Directors, which is then informed periodically about the actual results.

As for the lending risks (i.e. counterparty and issuer risks) involved in financial activity, various measurements are carried out on a daily basis, namely capital absorption, maximum credit granted to a single counterparty/issuer, concentration and country risks. Apart from showing substantial respect for the limits set, they also demonstrated a prudent attitude and careful selection of counterparties in a difficult environment.

Moving on to analyse the Bank's financial risks (interest rate risk), we would remind you that these are monitored by the ALM (Asset \& Liability Management) procedure which uses a dual methodology.

The analysis of average financial duration provides a measurement of the immediate change in the net value of assets and liabilities if there is a $1 \%$ increase in interest rates: the monthly analyses during 2003 gave an average figure of -8.034 million; the latest measurement, at the year-end, gave a figure of - 6.192 million.

The analysis of mismatches measures the potential change in net interest income if there is a $1 \%$ increase in interest rates for the next twelve months: the monthly analyses during 2003 gave an average figure of 13.527 million; the latest
measurement, at the year-end, gave a figure of 19.166 million.

In order to improve the effectiveness of these analyses, bearing in mind the importance of sight items in the Bank's assets and liabilities, a project has been initiated to study the effect of the so-called «stickiness» of sight interest rates, in other words the time it takes for them to adjust to changes in market rates.

As for the lending risks inherent in the business of granting credit to ordinary customers, work continued on refining the system for rating SMEs and micro enterprises, both segments of considerable importance for the Bank.

Talking of which, work continued on preparing the IT support architecture for the monthly calculations of credit ratings and for those prepared specially for new credit lines. It will also serve for the development of monitoring procedures at the Planning and Control Department and for the production of related reports. This has led us to an initial overview of the Bank's risk by segment, in accordance with the spirit of the Basel 2 Accord.

The periodic comparison between expected risk and actual risk, which we have performed over a period of three years, has confirmed that our forecasting model has held up remarkably well and has even been good at predicting insolvencies. This means that the tool has solid foundations and will be able to prove its worth in the future as well.

The average risk of the loan book was substantially stable during the course of the year ( $1.22 \%$ in December), even with a considerable increase in the number of counterparties belonging to the segments concerned. This reflects a rise in lending to companies with ratings without a corresponding increase in the level of risk.

With a view to exploiting the investments made to date by spreading the system to the entire network, research was begun into the principal organisational and operational consequences on
the processes of granting, reviewing and monitoring loans. In addition, various training courses were held which translated into a series of tests at head office and at groups of branches. The interaction with the operators/users and the formation of a widespread body of know-how enabled us to adjust our aim wherever practice conflicted with theory.

As regards operating risks, reliable measurements are still not available, but projects have been started to develop a qualitative and quantitative approach outlined in a specific feasibility study. There again, permanent monitoring of all of the main commercial developments, projected into the future, oriented to decision-making and attentive to objectives and resources, would be an ongoing and allembracing activity. Also in connection with the problems that change over the course of time.

On the one hand, the Internal Audit Department has defined a methodology and the IT support procedure for analysing the risks associated in an abstract way with individual corporate processes (potential risk), taking into account the extent to which they can be reduced by adequate controls (residual risk).

On the other hand, the Planning and Control Department has prepared an archive of operating losses. In particular, a series of interviews was carried out at the central offices to register a good number of events that took place in recent years with which to build up a database that will be added to in the future.

Integration of the work performed by these two offices gave rise to the IT basis on which to test various statistical models for the quantification of operating risks, so that we can identify the one that is closest to our reality.

The hope is that this experimentation will enable us to identify a definitive approach for us to take without deviations or about-turns.

Well aware that the road towards so-called «Controlling» is still a long one, we do have the
will to work assiduously, refining our culture of risk, of whatever kind it may be; in fact, all varieties of risk, without which banking would not exist.

## HUMAN RESOURCES

We willingly repeat that the Bank's staff is its principal success factor. Of this we are totally convinced.

This introduction is right and proper to give recognition to the quality of our people who in their everyday work interpret the values and principles that allow us to rank high up in Italy's banking system. In other words, loyalty to the company, a willingness to learn and to perform well, commitment and style: all elements that have always characterised and reinforced our corporate culture.

There are two sources that feed what ought to the most important item in the financial statements, even though it doesn't feature: the first is the example and on-the-job training given by the older members of staff to the younger ones; the second is the formal training of human resources, which is handled with great professionalism by our Personnel Department.

The Personnel Department also looks after the selection of new hires - based on consolidated principles, above all their human qualities and academic record - which constitutes the fundamental prerequisite for the Bank's peripheral and structural expansion. In line with our role as a cooperative bank which is always attentive to the needs of local economies, we prefer to hire personnel who come from the towns concerned, or from the surrounding area, also because this is a way for us to acquire local knowledge and contacts.

At the end of the year, the Bank employed a total of 1,993 people, an increase of 115 (+6.12\%).
$72 \%$ of employees work at the branches. Their average age has risen by one month to 34 years and 3 months, while the average length of service has also risen by one month to 9 years and 11 months. During the year we made use of fixedterm workers, contract workers and temps. These are forms of employment flexibility which have confirmed their usefulness.

This is a group that has grown amazingly fast, seeing as the number of employees has risen from 969 to 1,993 in just ten years. But this has made it possible for us to extend our activities to new markets and to defend our traditional ones. Commercial objectives have become steadily more complex, not only because of the fierce competition, but also due to constant expansion of the products and services that we offer. This has been a phase of growth that we have managed to handle successfully thanks to excellent knowledge management.

Our members of staff, the holders of this knowledge, have been given attention and commitment in order to refine each one's professional skills and raise their potential, both latent and blatant.

Of the various initiatives that have been underway for some time, the one that stands out is the refinement of the human resource management and training system. A process of particular importance to guarantee effective and steady promotion for those who really deserve it.

The ability to take on responsibility has to be sought out and nurtured, especially among new hires, with an eye not only on their education and personal aptitudes, but also taking account of their sense of balance and maturity which are indispensable when dealing with customers.

The development of human resources is coordinated in terms of organisation and method by the Personnel Department, but delegated on-the-job to their respective supervisors. They

receive specific training to help them identify and record what their staff already know or need to know, as well as to help them learn the Bank's work processes and techniques. The system provides for a comparison between an ideal professional profile and the actual skills of each individual, making it possible to develop a corporate training plan that is targeted to meet specific needs.

This is the general approach. Now let's look at the main training courses that were carried out in practice, emphasising that certain topics of particular importance, such as the introductory course for new hires and compliance with the
anti-money laundering rules, were given particular attention.

First of all, the numbers, which give an immediate perception of the intensity of the training activity last year: more than 1,350 participants for a total of $8,027 \mathrm{man} /$ days. In addition to this, there was on-line training through multimedia tools that nearly all members of staff took advantage of.

The lending area was involved in various courses, some with the collaboration of Bocconi University (SDA), some with the help of our affiliate Italease, when we talked about leasing. The objectives were bold: more refined evaluation of lending risk; better analysis of financial statements and correct interpretation of the economic and balance sheet variables; timely management and control of loan positions; improved knowledge of guarantees and bankruptcy law.

The financial sector saw all of our participants at the Private Banking module of ABI's Banking \& Financial course pass the final exam and receive their diploma, while a specific training course concerned effective management of the after-sales phase.

Lastly, based on long-standing experience, courses were held to improve communication; in other words, the acquisition of tools and techniques for the development of personal strengths, to increase awareness of those that are unexpressed, to raise the effectiveness of the decision-making process. Our financial promoters benefited from specific training courses.

Our usual attention to the scholastic world gave rise to 312 internships. An intense collaboration in the common interest which involved recent and imminent graduates in faculties with an economic slant and students in their fourth year at commercial technical college.

Generally speaking. Relations with the trade unions have remained on a basis of mutual respect. An agreement was signed for the
redefinition of the economic conditions for the supplementary pension scheme (D. Lgs. 124/93) in the interest of personnel hired after 27 April 1993. The agreement provides for significant improvements for the members of the underlying open-ended pension fund.

During the year, the banking sector was affected by important new legislation, above all D. Lgs. 276 of 24 October 2003 which introduced the so-called «Biagi Reform». The purpose of this law is to introduce more flexible job relationships, whereby to guarantee the labour market greater efficiency and competitiveness. We can only hope that this will come about in practice.

In the meantime, national negotiations have begun for the biannual renewal of the economic part of the collective labour contract which expired at the end of last year.

One particular form of collaboration is the one provided by retired members of staff. Their professional experience and maturity are excellent ingredients to help youngsters grow, to develop new business and to boost the Bank's prestige.

They make an important contribution to enhancing the sense of responsibility of our staff, giving an example in terms of their knowledge of situations, institutions, market trends and companies.

## PROMOTIONAL AND CULTURAL ACTIVITIES

The Bank's promotional and cultural activities during the year have been consistent with those of previous years. Nowadays, that is no small matter, above all in the field of communication and image, where messages tend to have a very rapid turnover, often disappearing without a trace.

Perhaps it is because what we have already done continues to offer new ideas; or perhaps it is
anti-money laundering rules, were given particular attention.

First of all, the numbers, which give an immediate perception of the intensity of the training activity last year: more than 1,350 participants for a total of $8,027 \mathrm{man} /$ days. In addition to this, there was on-line training through multimedia tools that nearly all members of staff took advantage of.

The lending area was involved in various courses, some with the collaboration of Bocconi University (SDA), some with the help of our affiliate Italease, when we talked about leasing. The objectives were bold: more refined evaluation of lending risk; better analysis of financial statements and correct interpretation of the economic and balance sheet variables; timely management and control of loan positions; improved knowledge of guarantees and bankruptcy law.

The financial sector saw all of our participants at the Private Banking module of ABI's Banking \& Financial course pass the final exam and receive their diploma, while a specific training course concerned effective management of the after-sales phase.

Lastly, based on long-standing experience, courses were held to improve communication; in other words, the acquisition of tools and techniques for the development of personal strengths, to increase awareness of those that are unexpressed, to raise the effectiveness of the decision-making process. Our financial promoters benefited from specific training courses.

Our usual attention to the scholastic world gave rise to 312 internships. An intense collaboration in the common interest which involved recent and imminent graduates in faculties with an economic slant and students in their fourth year at commercial technical college.

Generally speaking. Relations with the trade unions have remained on a basis of mutual respect. An agreement was signed for the
redefinition of the economic conditions for the supplementary pension scheme (D. Lgs. 124/93) in the interest of personnel hired after 27 April 1993. The agreement provides for significant improvements for the members of the underlying open-ended pension fund.

During the year, the banking sector was affected by important new legislation, above all D. Lgs. 276 of 24 October 2003 which introduced the so-called «Biagi Reform». The purpose of this law is to introduce more flexible job relationships, whereby to guarantee the labour market greater efficiency and competitiveness. We can only hope that this will come about in practice.

In the meantime, national negotiations have begun for the biannual renewal of the economic part of the collective labour contract which expired at the end of last year.

One particular form of collaboration is the one provided by retired members of staff. Their professional experience and maturity are excellent ingredients to help youngsters grow, to develop new business and to boost the Bank's prestige.

They make an important contribution to enhancing the sense of responsibility of our staff, giving an example in terms of their knowledge of situations, institutions, market trends and companies.

## PROMOTIONAL AND CULTURAL ACTIVITIES

The Bank's promotional and cultural activities during the year have been consistent with those of previous years. Nowadays, that is no small matter, above all in the field of communication and image, where messages tend to have a very rapid turnover, often disappearing without a trace.

Perhaps it is because what we have already done continues to offer new ideas; or perhaps it is


## CONFERENCES



essay entitled "Ezio Vanoni. Public economics as the science of patriotism" and Mrs Gigliola Magrini's diary-book "2004 - Life of a
a number of important subjects, such as water. As well as the Dutch calendar, which includes a study of ancient trades in the Valtellina

known species of animals in our Alps. II Notiziario, our bulletin, continues to maintain a high level of quality and appreciation

It is not a publication just for image purposes, but one of real substance, which over time has built up a valuable collection.


MOUNTAIN WISDOM

because we are encouraged by the appreciation shown by a large public. Fact is that we have given preference to continuity and tradition in our journey over the last thirty years or more through high quality cultural initiatives - mainly publishing and conferences - targeted promotional and publicity activities carried out with great discretion, essentially at a local level.

Again in 2003, a variety of prestigious speakers were invited to our conference hall dedicated to Fabio Besta. We remember an extraordinary series of meetings and would like to express our gratitude for the privilege that the Bank and the Province of Sondrio enjoyed as a result.

On 10 May 2003 we had writer and journalist Professor Igor Man, who spoke on a subject that is unfortunately all too topical, «Reflections on War», interspersed with tales of his encounters with leading personalities of our times. This was followed by an interview with the famous climber, our compatriot Achille Compagnoni, to celebrate the fiftieth anniversary of the conquest of K2, which was then published in La Stampa.

In 2003 we commemorated the centenary year of another compatriot, Ezio Vanoni, who was once Minister of Finance. This took place on 13 June 2003 with an unforgettable conference held in his usual masterful way by senator-for-life Giulio Andreotti and by Professor Francesco Forte, another from the Valtellina, entitled «Ezio Vanoni and Italy's Development». Both speakers talked about their relations with this eminent statesman. Professor Forte is also the author of a scholarly book entitled «Ezio Vanoni. Public economics as the science of patriotism», printed by us specially for this occasion and donated to the many participants.

Some four years after the previous meeting, on 27 June 2003 our guest of honour was Professor Umberto Veronesi, who gave a presentation on the foundation that bears his name, entitled
«Birth of a foundation for the progress of science». An initiative in which the science and conscience of the founder come together in research for the common good. We have accepted the role as reference bank to which donations should be sent.

On 19 September 2003 we had the honour and privilege to receive His Eminence Cardinal Angelo Sodano, Secretary of State for His Holiness John Paul II, who spoke with great learning to a large and qualified audience on the complex subject of «The Holy See in the International Community». It was an extraordinary event for the entire province, also in consideration of the fact that during his visit to our dioceses in May 1996, the Pope was only able to visit the city of Como. Of Cardinal Sodano's visit we also remember the Holy Mass that he celebrated the following day, at 5.30 in the morning, on the steps of the Sanctuary of the Madonna of Tirano, to inaugurate the novena for the $499^{\text {th }}$ anniversary of the Holy Virgin's appearance on 29 September 1504.

On 12 December 2003 we received for the fifth time Monsignor Gianfranco Ravasi, Prefect of the Pinacoteca-Biblioteca Ambrosiana, for a joint conference together with the well-known portrait painter Tullio Pericoli, who created for us the cover of the volume dedicated to Vilfredo Pareto. The theme of the meeting - «The Face and the Soul» - made particularly profound by the quality and experience of the speakers, was fascinating for everyone there.

Of our various publications, mention should be made, apart from Prof. Forte's essay mentioned above, of «Animals, Minerals and Rocks in Valtellina and Valchiavenna» by Gigliola Magrini, Adriano Turcatti and Francesco Bedogné. This is the third of an excellent series devoted to nature and the environment in the Province of Sondrio, which was donated to everyone who attended the shareholders' meeting on 1 March 2003.

Mrs Gigliola Magrini also signed the diarybook «2004 - Life of a year: water», the seventh

```
THE BANK FOR YOUNG PEOPLE
```


the "creative laboratories" for children. Set up inside our agency no. 5 in Sondrio's Piazza Campello, they gave children

On the "79th World Savings Day" we offered a select group of science students and high school leavers in the province of

order to understand the infinitely big. And after high school? We follow our youngsters to university. Because we act as

Pio V", Università degli Studi dell'Insubria, Libera Università di Lingue e Comunicazione IULM.
edition of a lovely series that has covered a number of important subjects, such as water.

With our help, the publishing house Sellerio produced a short volume called «To My Daughter» by the $18^{\text {th }}$ century Milanese philosopher, scholar, economist and politician, Pietro Verri.

Among others, we would also like to mention the initiative of the Council of the Lombardy Group of the National Federation of the Knights of Labour: on the sidelines of their council meeting held in Sondrio hosted by the Bank, the authorities, representatives of trade associations and local entrepreneurs met in our Besta Room for an exchange of ideas and experiences.

In line with tradition, the folder containing the 2002 financial statements of Banca Popolare di Sondrio (SUISSE) SA also held a cultural insert dedicated, on the $125^{\text {th }}$ anniversary of his birth and $40^{\text {th }}$ anniversary of his death, to German writer Hermann Hesse, Ticinese by adoption, a great lover of Italy and Nobel Prize-winner for Literature. This monograph then received an interesting review from Gavino Manca in Il Sole 24 Ore.

Notiziario, our bulletin, gets mentioned last out of a sense of hospitality. It continues to maintain a high level of quality and appreciation thanks to the prestigious names who kindly contribute their articles issue after issue, and we are now at issue no. 93. It is not a publication just for image purposes, but one of real substance, which over time has built up a valuable collection.

On the «79 th World Savings Day» we offered a select group of science students and high school leavers in the province of Sondrio a visit to CERN in Geneva. An initiative that was much appreciated for the recognised scientific excellence of that centre of world fame, where the infinitely small is studied in order to understand the infinitely big.

A new institutional presentation of the Bank accompanies the promotion efforts being
made by the branches, together with a targeted line of publicity material.

The Vilfredo Pareto Fund is still be organised. The contents of the website dedicated to the Pareto Archives is now being constantly updated. In the meantime, work has commenced on the computerised cataloguing of the library of the late Battista Leoni, which was acquired by the Bank together with this scholar's entire documentary archive. This work has been started from the very rich section on local history and culture.

Our library has also been enriched by around 2,000 books donated by journalist and contributor to our Notiziario, Paolo Grieco, which will be put in order, catalogued and much appreciated.

Promotion also includes the activities at the Stelvio Pass, the Pirovano and the «Carlo Donegani» historical museum, to which is entrusted, together with the branch located at an altitude of 2,757 metres, the highest in Europe, a publicity function for the Bank's image which is the only one of its kind. We would also remember «Quota 3000 Scuola», a study visit reserved for school groups as part of the current Protocol of Understanding with the Education Ministry; our participation with the Palazzo Stelvio in the second edition of ABI's annual event «Invito a Palazzo»; the « ${ }^{9}$ th Interbank Triangular Meeting», a skiing competition between our representatives and athletes of the Deutsche Bank and UniCredito Italiano Groups; the $<2^{\text {nd }}$ Interbank Pirovano Meeting», in which nineteen banks took place; the «Snowfestival», which closed the season on 8 November.

A mention apart is deserved by the «Madonna della Neve» celebration, dedicated last August to peace and in particular to the memory of Pope John XXIII's encyclical «Pacem in terris», with commentary by Monsignor Capovilla, the Pope's then private secretary. This emotional event held at the Stelvio Pass was transmitted by the RAI programme «A Sua Immagine».

Our Circolo Aziendale has had a remarkable year with activities ranging from cultural visits and holidays to sport and more besides.

To complete these notes, we would like to assure you that promotion through culture will remain our policy for the future, also as a sign of how attached we are to our territory.

## REVISION OF THE SECURITY PLAN

We have revised the security plan required by Presidential Decree 318 dated 28 July 1999 «Instructions for determining minimum security measures for the processing of personal information pursuant to art. 15.2 of Law 675 dated 31 December 1996».

In addition, the need for further measures is currently being assessed since Decree 196 dated 30 June 2003 «Privacy code for the protection of personal data» is now in force.

The security plan comprises a main document and numerous attachments. The principal document describes the bank's technological and organisational infrastructure for guaranteeing the confidentiality, authenticity and availability of data via the implementation of both physical and logical safeguards. The attachments provide details or, otherwise, further information about the data that is processed, the various types of security measure adopted and the IT equipment used by the bank.

The more significant measures taken as part of this work are described below:

- a facility management contract has been signed with an international counterpart that has demonstrable experience in the management of DP centres. This contract does not cover the handling of «printouts». A disaster recovery service is included, comprising a series of precautionary measures, activities and rules of
conduct for the management of «disaster» situations. These are defined as a temporary total inability to access IT resources, in the widest sense, as a result of any type of technical or environmental event, including vandalism and terrorism, that may impinge on our efficiency;
- the hardware and software platforms used in branches have been aligned and upgraded, together with their LANs;
- procedures for the management of anti-virus upgrades have been automated and centralised;
- the approach to upgrading the data transmission network (broadband) has been determined and the related work will be carried during the first half of 2004.

The security plan and its attachments are held by the manager responsible for the processing of personal data within SOSI - the information systems and procedures department.

## EQUITY

Our equity - your equity - is a fundamental part of the balance sheet, representing a guarantee for the bank, a vote of confidence from the shareholders and security for our customers.

This consideration is highly topical since the directors have recently proposed that the shareholders should increase the share capital by around 220 million euro.

The mechanisms and timing of this operation are properly described in a specific report to the extraordinary meeting that will be held together with the ordinary meeting. The reasons for this increase in capital, intended to maintain control over the various types of risk and accelerate the bank's rate of growth, are also fully explained.

With reference to the results reported for 2003, which are evident to all, we would just like

Our Circolo Aziendale has had a remarkable year with activities ranging from cultural visits and holidays to sport and more besides.

To complete these notes, we would like to assure you that promotion through culture will remain our policy for the future, also as a sign of how attached we are to our territory.

## REVISION OF THE SECURITY PLAN

We have revised the security plan required by Presidential Decree 318 dated 28 July 1999 «Instructions for determining minimum security measures for the processing of personal information pursuant to art. 15.2 of Law 675 dated 31 December 1996».

In addition, the need for further measures is currently being assessed since Decree 196 dated 30 June 2003 «Privacy code for the protection of personal data» is now in force.

The security plan comprises a main document and numerous attachments. The principal document describes the bank's technological and organisational infrastructure for guaranteeing the confidentiality, authenticity and availability of data via the implementation of both physical and logical safeguards. The attachments provide details or, otherwise, further information about the data that is processed, the various types of security measure adopted and the IT equipment used by the bank.

The more significant measures taken as part of this work are described below:

- a facility management contract has been signed with an international counterpart that has demonstrable experience in the management of DP centres. This contract does not cover the handling of «printouts». A disaster recovery service is included, comprising a series of precautionary measures, activities and rules of
conduct for the management of «disaster» situations. These are defined as a temporary total inability to access IT resources, in the widest sense, as a result of any type of technical or environmental event, including vandalism and terrorism, that may impinge on our efficiency;
- the hardware and software platforms used in branches have been aligned and upgraded, together with their LANs;
- procedures for the management of anti-virus upgrades have been automated and centralised;
- the approach to upgrading the data transmission network (broadband) has been determined and the related work will be carried during the first half of 2004.

The security plan and its attachments are held by the manager responsible for the processing of personal data within SOSI - the information systems and procedures department.

## EQUITY

Our equity - your equity - is a fundamental part of the balance sheet, representing a guarantee for the bank, a vote of confidence from the shareholders and security for our customers.

This consideration is highly topical since the directors have recently proposed that the shareholders should increase the share capital by around 220 million euro.

The mechanisms and timing of this operation are properly described in a specific report to the extraordinary meeting that will be held together with the ordinary meeting. The reasons for this increase in capital, intended to maintain control over the various types of risk and accelerate the bank's rate of growth, are also fully explained.

With reference to the results reported for 2003, which are evident to all, we would just like

## MORE THAN 117,000 SHAREHOLDERS


to point out the steady improvement in profitability.

This has been an ongoing process over many years, accompanied - it must be said - by considerable efforts to grow in scale and expand operations, without however abandoning the caution and thoughtfulness that has always been a hallmark of our management style.

The consequence has not been to forego activities in certain markets or circles, but rather to deploy the type of organisation and professional skills needed in order to operate with due care and reasonable expectations of making a profit.

Growth in profitability, even in difficult years for the banking system as a whole, such as 2002, confirms that the bank has considerable lending power deriving from its ability to generate earnings. The organisational structure has made a major contribution to this, remaining agile and slim, and therefore able to adapt quickly to market developments and changing economic conditions, without overlooking technological innovation and the enhancement of professional skills.

In other words, the strategic choice to grow by internal means - made in the past, a long time ago - has borne and continues to bear fruit. In effect, when the roots of a tree are healthy and good, its fruits are sure to be good and healthy. The co-operative model - which is not part of those almost forgotten nice things of times past, but represents a value from the past, for the present and in the future - has shown an ability to adapt rapidly and effectively to the new areas of activity undertaken by the bank. This is understood by the market, which raised our share price following the announcement of the capital increase, and above all by our shareholders who, in increasingly large numbers, constantly renew their confidence in our bank.

This then is our reward for the work carried out in the past, but also for the significant growth potential that still remains to be fulfilled.


In this context, we believe that there are good grounds for general acceptance, as on similar occasions in the past, of the proposal to strengthen our capital base. In particular, we are convinced that the new resources will enable us to continue the expansion of activities and generate the results necessary to remunerate this investment adequately.

Shareholders' equity currently amounts to 774 million, up $2.87 \%$ over the year due, in the main, to the allocation of the net profit for 2002. This amount is analysed as follows: share capital of 413 million, represented by $137,566,064$ fullypaid shares, par value € 3 each; share premium
reserve, 136 million; other reserves, including the reserve for general banking risks, 225 million. In addition, net profit for the year amounted to 60 million.

The principal ratios between capital and the other balance sheet items are provided below. Although they remain within appropriate limits, the steady expansion of operations in the past and looking ahead suggests a need to strengthen our capital base:

- capital/direct customer deposits
9.46\% v 10.24\%
- capital/customer loans
$10.87 \%$ v 12.04\%
- capital/financial investments
$27.37 \%$ v $23.37 \%$
- capital/total assets
7.37\% v 7.59\%

Risk-weighted assets total 8,849 million. The bank's solvency ratio (relationship between capital for supervisory purposes and risk-weighted assets) is $8.81 \%$, compared with the minimum of $7 \%$ required under current regulations for banks that belong to banking groups.

## INCOME STATEMENT

Results for the full year confirm the upward trend reported in the first half, with net profit up $28.72 \%$ compared with 2002 at 60.12 million.

Economic conditions in Italy certainly did not help. In particular, stagnation continued throughout the second half of the year, without apparently no signs of relief. So our results were good in a somewhat lean year.

The ability of the bank to move against the trend is most satisfactory, combining expansion with profitability to create room for further investment in growth.

This is perhaps the most important confirmation of the direction in which we are developing, demonstrating that a bank such as ours can, with its own resources - employees, shareholders and customers - and a well-defined territory, operate profitability and with autonomy within the Italian banking system.

Examination of the income

## Net interest

 statement, summarised below, starts
## income

 million, up 6.66\%.The comments made in prior years are still applicable today: the steady squeeze on unit margins has forced an increase in the volume of intermediation. The interest rate spread has narrowed further, although this was more than offset - as described in earlier sections of this report - by vigorous growth in deposit-taking and lending activities.

There were improvements in net commission income and, above all, in profits from financial transactions. To differing extents, both these captions benefited from the significant upturn in the world's stock and financial markets during the year.

Accordingly, income from Income banking activities rose $9.30 \%$ to from banking 341.41 million. Activity was rewarded reasonably well. Net commission income and profits from financial transactions contributed $34.62 \%$ of this total, while net interest income confirmed its traditional dominance as a source of earnings, despite easing slightly to $65.38 \%$ of the total. Other operating income amount to 27.29 million, $+16.41 \%$.

The three classes of administrative expense totalled 208.03 million, up $6.02 \%$ over the year. Although inevitable in view of the current increase in scale, this growth in costs is monitored constantly and contained with rigour. In fact, the rise was somewhat lower than in the prior year. In detail, personnel expenses rose by $7.80 \%$, other administrative expenses by $3.79 \%$ and indirect taxes and duties by $5.20 \%$.

## RECLASSIFIED INCOME STATEMENT

| (in thousands of euro) | 2003 | 2002 | change |
| :---: | :---: | :---: | :---: |
| Interest income and similar revenues | 381,250 | 395,455 | -3.59 |
| Interest expense and similar charges | $(162,906)$ | $(191,714)$ | -15.03 |
| Dividends and other revenues | 4,857 | 5,518 | -11.98 |
| NET INTEREST INCOME | 223,201 | 209,259 | 6.66 |
| Net commission income | 95,508 | 89,968 | 6.16 |
| Profits from financial transactions | 22,704 | 13,133 | 72.88 |
| - profit from trading securities and security derivatives | 10,814 | 13,178 | -17.94 |
| - profit from trading currency and currency derivatives | 8,511 | 11,073 | -23.14 |
| - profit from trading other derivatives | 704 | , 412 | 70.87 |
| - gain (loss) on valuation of securities | 2,675 | $(11,530)$ | - |
| INCOME FROM BANKING ACTIVITIES | 341,413 | 312,360 | 9.30 |
| Other operating income | 27,286 | 23,440 | 16.41 |
| Administrative expenses | $(208,029)$ | $(196,219)$ | 6.02 |
| - personnel expenses | $(107,183)$ | $(99,425)$ | 7.80 |
| - other administrative expenses | $(72,348)$ | $(69,705)$ | 3.79 |
| - indirect taxes and duties | $(28,498)$ | $(27,089)$ | 5.20 |
| Other operating expenses | $(3,629)$ | $(3,128)$ | 16.02 |
| OPERATING PROFIT | 157,041 | 136,453 | 15.09 |
| Adjustments to intangible and fixed assets | $(17,796)$ | $(16,749)$ | 6.25 |
| Provisions for risks and charges | - | $(5,000)$ | - |
| Loan write-downs and provisions for guarantees and commitments <br> - loan write-downs <br> - provisions for guarantees and commitments | $\begin{array}{r} (54,917) \\ (1,500) \end{array}$ | $(40,903)$ | 34.26 - |
| Write-backs to loans and provisions for guarantees and commitments | 23,421 | 19,010 | 23.20 |
| Provisions to the bad debt reserve | $(2,778)$ | $(9,024)$ | -69.22 |
| Adjustments to the value of long-term financial assets | (665) | $(1,607)$ | -58.62 |
| PROFIT FROM ORDINARY OPERATIONS | 102,806 | 82,180 | 25.10 |
| Extraordinary income | 663 | 1,617 | -59.00 |
| Extraordinary charges | (786) | $(1,293)$ | -39.21 |
| PRETAX PROFIT | 102,683 | 82,504 | 24.46 |
| Provision for general banking risks | $(1,266)$ | - | - |
| Income taxes | $(41,300)$ | $(35,800)$ | 15.36 |
| NET PROFIT FOR THE YEAR | 60,117 | 46,704 | 28.72 |

The results for 2002 have been reclassified for consistency with those for the current year.


All the above demonstrates the tenacious pursuit of growth in every area of the banking business, underpinned by a drive for profitability that focuses not only and not so much on the containment of costs, but rather on the increase of profitability.

The cost/income ratio, being the ratio of administrative expenses to income from banking activities, has therefore improved to $60.93 \%$ from $62.82 \%$ in 2002.
$\overline{\text { Operating profit }}$ Operating profit amounted to 157.04 million, up $15.09 \%$.
Continuing the analysis, we come to the various adjustment accounts that are the key to
sound and prudent management: adjustments to intangible and fixed assets, up $6.25 \%$; loan writedowns and provisions for guarantees and commitments totalling 56.42 million, up $37.93 \%$, which take account of the financial effect of expected future recoveries determined on a prudent basis; write-backs to loans up 23.20\%, confirming the caution adopted in prior years; provisions to the bad debt reserve, comprising overdue interest of 2.78 million, down $69.22 \%$; and losses on equity investments, also down considerably.

The profit from ordinary Net profit operations was therefore 102.81
million. Adding extraordinary income and deducting extraordinary charges, pretax profit amounted to 102.68 million. After income taxes for the year of 41.30 million, compared with 35.80 million in the prior year, and the provision for general banking risks of 1.27 million, the net profit for the year totalled 60.12 million. This more than satisfactory result has enabled us to absorb the rise in expenses and make the necessary provisions with the utmost prudence.

Management accordingly pro- Dividend poses that a dividend of $0.23 €$ per share should be declared, up $21.05 \%$. This significant progress reflects the dynamic and profitable nature of the business, which is conducted with the usual healthy and prudent criteria.

Without getting carried away by euphoria which, even when founded on the facts, tends to become over general, we would just like to say how proud we are of the part that our modest cooperative has played and continues to play in our nation's economic cauldron.

## ADOPTION OF THE NEW IAS, RENAMED IFRS

The International Accounting Standards Board has made a number of changes to the international accounting standards currently in
force, in response to requests from the more advanced international financial markets and to reflect the approach adopted by the world's most authoritative bodies. These standards will substantially change the rules for the preparation of individual and consolidated financial statements, when they are adopted at national and EU level.

The new standards, which must be adopted from 2005, significantly revise the way major operating activities are recognised and recorded for accounting purposes. This requires the careful analysis and interpretation of the regulations, the design of a new accounting system, the identification of critical areas for action and consequent changes in organisational and data processing procedures.

Although the regulations are not yet complete and are subject to continual updates, the bank has already performed a feasibility study together with a leading consultancy firm which, as expected, has identified the need to undergo a long process of change. The first stages include: employee awareness and training; identification of the principal areas for action; allocation of priorities; assessment of the solutions identified and the coordination of implementation.

As we gradually come to understand the new accounting principles, we become increasingly aware of the impact they will have on the financial statements. At present, however, it is hard to make a reliable quantitative estimate of these effects.

We were alerted to the above some time ago by our independent auditors, among others, who are closely monitoring our progress.

## SIGNIFICANT SUBSEQUENT EVENTS

The information regarding significant events that have taken place subsequent to year end is provided pursuant to art. 3.2.d) of Decree 87 dated 27 January 1992.

Events towards the end of last year, associated with the unexpected collapse of leading companies, are continuing to make an impact and cause general disorientation. Right now the witch hunt is on. Our hope is that the interests of small investors will soon be properly protected.

Turning to the Bank, we have continued to expand the branch network. Agency 24 opened in Viale Piave, in the centre of Milan, on 2 February, while the Desio branch in the hard-working Brianza area will open soon. These openings raise the network to 193 branches.

The number of treasury windows has also increased. There were 80 active at the end of 2003 and a further two have now been added: the Almè municipal branch in the province of Bergamo and the «Golgi-Redaelli» Service Centre in Milan.

With regard to Banca Popolare di Sondrio (SUISSE) SA, the Board of Directors of our Swiss subsidiary has recently examined and approved the financial statements for 2003, its eighth year of activities. Strong growth in the balance sheet aggregates confirms our increasingly robust presence within the fabric of the Swiss economy, with excellent results in the areas covered. Net profit amounted to almost CHF 7 million, up 5.73\%.

## FORECAST FOR OPERATIONS

The outlook for the Italian economy remains uncertain. The continued buoyancy of the stock markets reflects widespread confidence in the recovery of the real economy, but signals from the latter are still not as significant as had been hoped a few months ago.

In any case, we foresee another somewhat difficult year.

With regard to the Bank, we expect the volume of intermediation to increase further, not least due to the expansion and intensification of the network, which should generate additional
opportunities for work and facilitate the diversification of lending. In terms of profitability, net interest income will probably rise only slightly, despite the influx of resources from the increase in capital which will presumably be completed by the middle of the year. This is because of interest rates, which are expected to remain static until at least the last quarter of the year. Revenues from services and financial income may improve, given the expected expansion in the volume of business. Control over general expenses should continue along the lines established in 2003.

Our commitment is to achieve the above results.

Shareholders,

## The Auditors

We now submit for your examination and approval the 2003 financial statements in the form of the balance sheet and income statement, together with the attachments which form an integral part of them. The financial statements, which close with a net profit of $€ 60,117,119$, have been audited by Deloitte \& Touche spa, whose audit report is included in the Appendices. Deloitte \& Touche spa has absorbed Deloitte \& Touche Italia spa, formerly Arthur Andersen spa, who were appointed as independent auditors for the three-year period 2002-2004 at the Shareholders' Meeting held on 2 March 2002.

## ALLOCATION OF NET PROFIT FOR THE YEAR

In compliance with the law and the Bank's articles of association, we hereby propose the following allocation of net profit for the year:

| - to the legal reserve $10 \%$ | $€$ | $6,011,711.90$ |
| :--- | :--- | ---: |
| - to the statutory reserve $30 \%$ | $€$ | $18,035,135.70$ |
| - to the shareholders $€ 0.23$ per share | $€$ | $31,640,194.72$ |
| - to the reserve for treasury shares | $€$ | $4,000,000.00$ |
| - to the charity fund | $€$ | $250,000.00$ |
| - to the reserve as per art. 13 |  |  |
| Legislative Decree $124 / 93$ | $€$ | $37,184.72$ |
| - to the legal reserve, an additional | $€$ | $142,891.96$ |
| Total | $€ \mathbf{6 0 , 1 1 7 , 1 1 9 . 0 0}$ |  |

## CAPITAL AND RESERVES

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

| - Reserve for general banking risks | $€$ | $40,000,000$ |
| :--- | :--- | ---: |
| - Share capital, made up of $137,566,064$ |  |  |
| shares of par value $€ 3$ each | $€$ | $412,698,192$ |
| - Share premium reserve | $€$ | $135,886,233$ |
| - Reserves: |  |  |
| a) Legal reserve | $€$ | $54,150,994$ |
| b) Reserve for own shares | $€$ | - |
| c) Statutory reserve | $€$ | $129,851,000$ |
| d) Other reserves | $€$ | $29,598,144$ |
| Total | $€$ | $\mathbf{8 0 2 , 1 8 4 , 5 6 3}$ |

## BALANCE SHEET

| Total assets |  |  |  | € |
| :--- | :--- | ---: | ---: | ---: |
| Liabilities | $€$ | $9,667,772,418$ |  |  |
| Reserve for general banking risks | $€$ | $40,000,000$ |  |  |
| Share capital | $€$ | $412,698,192$ |  |  |
| Share premium reserve | $€$ | $135,886,233$ |  |  |
| Reserves | $€$ | $185,373,214$ | $€$ | $10,441,730,057$ |
| Net profit for the year |  |  | $€$ | $60,117,119$ |
| Guarantees granted |  |  | € | $1,689,518,142$ |
| Commitments |  | € | $258,050,765$ |  |

Shareholders,
Finally, we would like to thank all those who stand by us and give us their business, enabling us to report positive results.

Our first thank you goes to our shareholders and clients and, in particular, to those who are both at one and the same time.

Warm thanks for the intensive and productive work performed by the Board of Statutory Auditors which, valiantly chaired by Egidio Alessandri, carries out ever wider and more delicate duties. Thanks also to the Advisory Committee for their readiness and accessibility. We are grateful to the members of the Supervisory and Discount Committees for their effective contribution to the bank's activities, with particular recognition for the contribution made by those working in the Milan office.

Thanks go to the directors, officers and employees of our affiliates, especially those at Banca Popolare di Sondrio (SUISSE) SA, as well as to the Italian Banking Association, the National Association of Banche Popolari, our sister banks in the cooperative movement, and Italian and foreign correspondent banks; among these we would like to single out Banca Popolare di Fondi, with which we have co-operated effectively for many years.

As always, our gratitude goes to all those at the Bank of Italy, from the Governor - a man of great prestige and worthy representative of a long tradition of authoritative «high priests of money» - to the members of the directorate, the head of the supervisory body and his colleagues. To Messrs. Bruno Bianchi, Vincenzo Catapano and Vincenzo Pontolillo go our particular thanks. We are also grateful to the other general officers, and the Central Bank's branch managers in the provinces where we operate. And a special thought for Antonio Lenza, the manager of the Bank of Italy's Milan office - who took over during the year from Giulio Lanciotti, who we shall remember for his accessibility and kindness -, for Cesare Monti,
manager of the Rome office, and for Giovanni Alfieri, manager of the Sondrio branch.

We are grateful for the constant cooperation of the managers and staff of the Italian Foreign Exchange Office, Consob and Borsa Italiana which also manages the OTC Market where our shares are traded.

Deferential thanks to the Federal Bank Commission in Berne, which oversees the operations of our Swiss subsidiary, and to the
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 directors' report on operations;
- the financial statements as of 31 December 2003 with the results shown in the balance sheet and income statement and related explanatory notes, which show a net profit for the year of $€ 60,117,119$. The shareholders therefore specifically approve the allocation of the net profit of $€ 60,117,119$ as proposed by the Board of Directors in accordance with the requirements of law and the bank's articles of association, and more precisely resolve:
a) to allocate:
$-10 \%$ to the legal reserve $€ 6,011,711.90$
- $30 \%$ to the statutory reserve $€ 18,035,135.70$
b) to pay a dividend of $€ 0.23$ to each of the $137,566,064$ shares in circulation at 31/12/2003 with dividend rights as from $1 / 1 / 2003$, 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 $€ 31,640,194.72$
c) to allocate to treasury share reserve € 4,000,000.00
d) to allocate the residual profit:
- to the charity fund € $250,000.00$
- to the reserve as per art. 13 Legislative Decree 124/93 € 37,184.72
- to the legal reserve, an additional
$€ \quad 142,891.96$

Lastly, the shareholders set aside $€ 23,000,000$ - booked under «Other reserves» as the amount to be made available to the Board of Directors to buy and sell own shares at market prices, pursuant to art. 21 of the articles of association, within the limit of the aforesaid amount and such part of it as is made available by subsequent sales of the shares acquired; all within the scope of normal activity of intermediation designed to favour circulation of the shares.»

Banking literature has dedicated much attention to cooperative banks in recent years. Being directly involved, we too have made a modest contribution to the discussions, not least in our annual reports.

The European Commission has recently asked Italy to express an opinion on the compatibility of the legal form of cooperative banks with community law. Hopefully the land of Luzzatti, Besta, Zappa and other authoritative academics will respond in science and in conscience: the «popolari» represent a heritage that ought to be preserved.

Italy benefits from a cooperative banking system that makes a valid contribution to economic progress - progress that would be strong and sustained, if only legislation could adapt to today's changed economic structures and, above all, if the upper echelons could cease their «strife», eliminating the burden of resignation and injecting a dose of passion to heat up the action.

The «popolari» are banks of the people, defined as the inhabitants of a state, but also as a collection of citizens who form the less elevated economic and social classes. They are principally present in the areas where families and SMEs live, work, save and invest to create wealth and wellbeing; where the world of production takes priority over the world of finance, where certainty faces down risk. It follows that what is good for the swarm is also good for the bee.

But above all, being a «popolare» means working together with our sister banks. An axiom
that encompasses all, reminding us not to seek the true, the beautiful and the good outside of our association - since all is within - as a depository of traditions and the passion of our ancestors, perpetuating the flames without preserving the cinders.

We respectfully remind those who must decide our destiny that a bank is not a firm which can be treated in a roughshod manner. And it is unlikely that good will come from changes which create fractures between the economy and society, not least because of the resulting chaos.

Given our past and our vision of the future, we are convinced that the Bank must continue to make decisions based upon ethical values and to answer for its desires and actions, taking the related consequences. This also means continuing to play an active role in the development of the economy, which is the primary duty of the entrepreneurial banker.

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

Shareholders,
It is up to you to decide on the directors' emoluments. The Board reserves the right to propose the amount.

Point 3) on the agenda: appointment of directors.

Shareholders,
In accordance with the law and the articles of association, the Shareholders are called to appoint the directors. The mandates of the following directors have expired: Federico Falck, Mario Galbusera, Nicolò Melzi di Cusano, Bruno Vanossi and Francesco Venosta. The appointment has also lapsed of Claudio Benedetti who was co-
opted by the Board to replace the late Salvatore Bonomo, whose mandate would have expired at the end of 2005.

Point 4) on the agenda: appointment of an acting statutory auditor and a substitute statutory auditor.

Shareholders,
In accordance with the law and the articles of association, the Shareholders are called to appoint the statutory auditors needed to complete the membership of the Board of Statutory Auditors.

Following the resignation during 2003 of Roberto Schiantarelli, Acting Auditor appointed together with the entire Board of Statutory Auditors for the three-year period 2003-2005, his place was taken by Pio Bersani, Substitute Auditor.

Under the articles of association, the replacement auditor remains in office until the next shareholders' meeting which, accordingly, must elect the statutory auditors needed to complete the membership of the Board. In this case, the Shareholders' Meeting must appoint an Acting Auditor and a Substitute Auditor.

Point 5) on the agenda: appointment of the Advisory Committee.

Shareholders,
In accordance with the articles of association, the Shareholders are called to appoint the entire Advisory Committee for the three-year period 2004-2006. The appointments of Alberto Crespi, Giuseppe Guarino and Andrea Monorchio, Acting Advisors, and Susanna Agnelli and Antonio La Torre, Substitute Advisors, have expired.

Sondrio, 2 February 2004
THE BOARD OF DIRECTORS


## REPORT OF THE BOARD OF STATUTORY AUDITORS

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

Shareholders,
Firstly, we too would like to honour the memory of the late lamented Salvatore Bonomo, a professional of great repute and ability, for many years a director and deputy chairman of the Bank.

We also have to announce the resignation of Roberto Schiantarelli for health reasons after all of 35 years of active collaboration as one of our statutory auditors, a contribution that we much appreciate.

Before describing our activities during the year, in accordance with current regulations, we would like to follow our usual pattern and present the results of the financial statements as of 31 December 2003, the Bank's 133rd year of operations:
customer loans went up by $13.93 \%$ to € 7,117 million, obviously taking account of pertinent write-downs and adjustments.

Considerable advantages derived from this in terms of profitability: net interest income rose by more than $6.66 \%$ to $€ 223$ million; income from banking activities reached a significant level: $€ 341$ million ( $+9.30 \%$ ). Net profit came in at more than $€ 60$ million ( $+28.72 \%$ ), helped by the success in holding down operating costs.

Other elements that contributed to this progress were the expansion of the territorial network and of services, the necessary adjustment made to the structure, the reinforcement of organisational tools and systems; all of which have been amply explained in the Directors' Report and observed by ourselves.

## BALANCE SHEET

| Total assets |  |  | $€$ | 10,501,847,176 |
| :---: | :---: | :---: | :---: | :---: |
| Liabilities | $€$ | 9,667,772,418 |  |  |
| Reserve for general banking risks | € | 40,000,000 |  |  |
| Capital | € | 412,698,192 |  |  |
| Share premium reserve | $€$ | 135,886,233 |  |  |
| Reserves | $€$ | 185,373,214 | $€$ | 10,441,730,057 |
| Net profit for the year |  |  | $€$ | 60,117,119 |
| Guarantees given |  |  | $€$ | 1,689,518,142 |
| Commitments |  |  | $€$ | 258,050,765 |

The results, which are in themselves extremely eloquent, reflect the efforts of the Bank during a year that has not been easy, characterised by uncertainties and the dichotomy between a substandard trend in the real economy and a substantially positive one on financial markets; even though these markets were then shaken by the well-known insolvencies at important companies.

Compared with the previous year's figures, there were vigorous increases in operating volumes: direct customer deposits rose from $€ 7,349$ to 8,184 million ( $+11.35 \%$ ); total funding went from $€ 22,874$ to 24,098 million ( $+5.35 \%$ );

As statutory auditors we have carefully examined the statutory financial statements as of 31 December 2003 and its various component parts (balance sheet, income statement and explanatory notes), prepared in accordance with current rules and correctly applying the accounting policies, as we have ascertained.

The audit of the financial statements and of the accounting records in the widest sense, including the fiscal aspects, has been performed in complete independence by Deloitte \& Touche spa with the ability and diligence that we have known well for a number of years.

We would like to add that our relations with this auditing firm have always been based on genuine collaboration with mutual exchanges of information on matters relating to each one's area of competence. In accordance with the provisions of art. 150.2 of Legislative Decree no. 58 of 24 February 1998, we would like to point out that no significant matters (positive or negative) came to light during our meetings with the auditors.

In their report on the financial statements, the external auditors have given a clean opinion on both the balance sheet and income statement.

During 2003, the auditors were not asked to perform any other type of work apart from the audit.

As regards our specific activity, which we carried out in accordance with the rules laid down in Legislative Decree no. 58/1998, we took part in the 7 ordinary meetings of the Board of Directors required by the articles of association and in 86 bi-weekly meetings of the Chairman's Committee.

We can confirm that we were able to ascertain that the various bodies and persons who have been delegated powers reported back during board meetings on how those powers had been exercised and that as regards any operations in potential conflict of interest, the Directors complied with art. 2391 of the Civil Code and art. 136 of Legislative Decree no. 385 of 1 September 1993.

We would like to point out that our participation at such meetings was never passive, indeed, being well aware of our independence, we always made our critical point of view known on the problems or questions being debated, even if we could not interfere in the decisions made. And whenever our consensus was required, we did not hesitate to solicit information and clarification on the matters being discussed.

As regards the merit of the work carried out by the Board of Directors, we can confirm that we
never found any grounds for conflict with the interests of the Bank, always maintaining a high level of healthy and correct management in full compliance with the rules laid down in the articles of association and in law.

We can also confirm that the Bank has not carried out any transactions that are manifestly imprudent or risky, such as to compromise the solidity of the Bank.

Similarly, we can exclude atypical or unusual transactions with related parties, Group companies or third parties. The normal relations maintained with related parties serve to protect corporate competitiveness based on evaluations of economic convenience, also considering the type of transactions; they are not considered special concessions. Adequate information on related party transactions is provided in the Directors' report.

Relationships between the Parent Bank and its subsidiaries have always been explained in full by the Board of Directors.

We approved the instructions given to the subsidiaries in accordance with art. 114 of Legislative Decree no. 58/1998.

A great deal of attention has been given to the results of the subsidiary Banca Popolare di Sondrio (SUISSE) SA, which despite the unfavourable state of the Swiss economy, managed to confirm its capacity for growth in size and extension (13 branches) together with a considerable increase in the volumes handled (balance sheet total of CHF 954 million compared with CHF 843 million the previous year) and with a higher net profit (CHF 6.934 million) than in 2002 (+5.73\%).

The performance by Pirovano Stelvio, now wholly owned, was unduly conditioned by last year's excessively hot summer. However, the company is still an excellent way for promoting the Bank's activity, as well as a concrete contribution towards maintaining the tourist hub of the Stelvio and of the Province of Sondrio.

We carried out 92 branch visits, which allowed us to observe the Bank in action. And with the help of the internal auditors, we were able to focus on particular situations to ensure that legal regulations and internal procedures were being applied correctly.

The organisational structure of the Bank is subject to constant adjustment to keep up with its rapid growth. However, the Board has taken suitable action to ensure that adequate human resources and other means were available to achieve a satisfactory level of functionality and efficiency.

Even though growth-related tensions and dysfunctions are inevitable and cannot be ruled out entirely, they were kept within normal limits. In any case, management has always kept the situation under control, implementing Board decisions on a timely basis or taking corrective action to remove any anomalous behaviour.

SOSI, which runs the IT centre and is able to develop sophisticated software, deserves a special mention. A project designed to outsource part of its activity under a Facility Management Agreement has been decided and is now being implemented, partly to take advantage of the related Disaster Recovery service. This is a fundamental prerequisite to ensure operational continuity even in the direst of circumstances.

The administrative and accounting system, which has been in use for various years, backed up by suitable IT procedures, performs its functions quite adequately, giving a fair representation of the Bank's operations. The system is considered reliable. It also permits the Bank to report to the Supervisory Body with suitable precision and timeliness.

Moving on to the question of internal controls, we can assure you that these have always been a matter of particular consideration by the Board of Directors and by the Statutory Auditors.

Interventions and procedures have been applied and refined to carry out first and second
level checks, as well as to measure and monitor risks.

The Planning and Control Department looks after the processing of the Bank's figures and performs a series of analyses of the entire operation, providing very useful information for the governance of the Bank.

The Internal Audit Department operates assiduously and with proven skill in carrying out its checks at all central office and branch units.

The constant improvements made in internal audit techniques, support software and the methodologies used for quantifying risks attest to the high level of professionalism with which internal audits are carried out.

In addition to the traditional systems of auditing the business, by means of on-site visits with the help of a detailed checklist, there is now a mechanised system of remote controls. This is considered a state-of-the-art system for the acquisition of information on how the Bank's various activities are progressing.

We have continued to pay particular attention to the anti-money laundering rules. This is an area in which the Italian Foreign Exchange Office (UIC) carried out an inspection in 2002, which was concluded with a few recommendations but without particular observations.

Similarly, no particular comments were made by the Bank of Italy's inspectors who visited a number of branches to check on the Bank's implementation of the rules on transparency.

During the year, we received two petitions under art. 2408 of the Civil Code. One claimed that the Bank had not complied with the deadline for calling the AGM, according to an interpretation of art. 1 of Ministerial Decree no. 437 of 5 November 1998. The shareholder in question was not satisfied by the Bank's explanation that it was not required to apply this particular interpretation and has taken the matter to court, where it is still pending.

The other petition came from a shareholder who was not happy with the way that the Bank had dealt with his daughter's job application. Suitable explanations have been given by both management and by ourselves.

In the interests of complete information, we would also like to report that we received 22 complaints during the year of which 21 concerned the Bank's investment services. We have ascertained that these matters have since been settled. The other complaint concerned an operation linked to a fiduciary loan, which is still under discussion.

In any case, we can assure you that we have always intervened to verify corporate behaviour and we can exclude that the matters being contested were the result of procedural weaknesses or erroneous application of the rules in question.

As regards the Bank's application of the Code of Conduct issued by the Committee for Corporate Governance of Listed Companies, the Board of Directors discussed the matter in detail and after various considerations, largely to do with the Bank's nature as a cooperative bank, decided not to adopt the Code, at least for the time being. A copy of this resolution, which was approved unanimously by the Board of Directors with the consent of the Statutory Auditors, has been sent to Borsa Italiana spa.

Shareholders,
In conclusion, comforted by the results achieved by the Bank, which come on top of the positive results of prior years, and convinced by the checks that we have performed over time, we can assure you about the validity and correctness of the Bank's operations and how they are managed, and with regard to the entrepreneurial spirit of the Board of Directors in pursuing goals that are ever more advanced, with the support of a growing number of people who are devoted to their work through enthusiasm and a high level of professionalism, such as to constitute a solid and healthy organisation which knows how to create value and which undoubtedly has a future.

It only remains for us to hope that you will approve these financial statements that are being presented to you, along with the allocation of net profit as proposed by the Board of Directors, which agrees with the law and the articles of association.

Sondrio, 16 February 2004

THE STATUTORY AUDITORS<br>Egidio Alessandri, Chairman Pio Bersani, Acting Auditor Piergiuseppe Forni, Acting Auditor

# FINANCIAL STATEMENTS AS OF 31 DECEMBER 2003 

## BALANCE SHEET

(in euro)

31-12-2002

| 10. | CASH ON HAND AT CENTRAL BANKS AND POST OFFICES |  | 60,177,718 |  | 61,654,540 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 20. | TREASURY AND SIMILAR BILLS ELIGIBLE |  |  |  |  |
|  | FOR REFINANCING WITH CENTRAL BANKS |  | 348,225,889 |  | 329,114,713 |
| 30. | DUE FROM OTHER BANKS: <br> a) sight <br> b) others | $\begin{aligned} & 435,310,613 \\ & 373,846,210 \end{aligned}$ | 809,156,823 | $\begin{aligned} & 681,005,499 \\ & 622,176,861 \end{aligned}$ | 1,303,182,360 |
| 40. | CUSTOMER LOANS <br> of which: <br> - from third-party funds under administration | 14,707 | 7,117,211,453 | 66,618 | 6,246,734,925 |
| 50. | BONDS AND OTHER FIXED-YIELD SECURITIES: <br> a) from public issuers <br> b) from banks <br> of which: <br> - own securities <br> c) from financial institutions <br> d) from other issuers | $\begin{array}{r} 1,193,170,336 \\ 9,758,706 \\ 1,447,560 \\ 195,428,124 \\ 20,145,208 \end{array}$ | 1,418,502,374 | $\begin{array}{r} 1,142,229,382 \\ 6,626,633 \\ 1,306,761 \\ 210,435,988 \\ 10,949,570 \end{array}$ | 1,370,241,573 |
| 60. | SHARES, QUOTAS AND OTHER VARIABLE-YIELD SECURITIES |  | 121,157,877 |  | 103,464,703 |
| 70. | EQUITY INVESTMENTS |  | 97,613,486 |  | 79,252,156 |
| 80. | EQUITY INVESTMENTS IN GROUP COMPANIES |  | 32,928,414 |  | 32,928,414 |
| 90. | INTANGIBLE ASSETS |  | 14,121,009 |  | 13,003,415 |
| 100. | FIXED ASSETS |  | 65,003,491 |  | 67,534,138 |
| 120. | OWN SHARES |  | 0 |  | 605,589 |
| 130. | OTHER ASSETS |  | 370,759,323 |  | 252,807,170 |
| 140. | ACCRUED INCOME AND PREPAYMENTS: <br> a) accrued income <br> b) prepayments | $\begin{array}{r} 45,525,670 \\ 1,463,649 \end{array}$ | 46,989,319 | $\begin{array}{r} 46,655,697 \\ 1,509,785 \end{array}$ | 48,165,482 |
|  | TOTAL ASSETS |  | 10,501,847,176 |  | 9,908,689,178 |



GUARANTEES AND COMMITMENTS
31-12-2003
31-12-2002

| 10. | GUARANTEES GRANTED <br> of which: <br> - acceptances <br> - other guarantees | $\mathbf{1 , 6 8 9 , 5 1 8 , 1 4 2}$ |  | $\mathbf{1 , 5 2 7 , 6 0 8 , 6 6 0}$ |
| :---: | :--- | ---: | ---: | ---: |
| 20. | 3,146,114 |  | $1,609,759$ |  |

## INCOME STATEMENT

## (in euro)

2003



## NOTES TO THE FINANCIAL STATEMENTS

## FORM AND CONTENT OF THE FINANCIAL STATEMENTS

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

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

- statement of changes in financial position;
- statement of changes in shareholders' equity;
- statement of changes in the staff pension fund;
- listed of revalued assets still owned by the bank (article 10, Law 72/1983);
- list of equity investments;
- financial statements of the subsidiaries Banca Popolare di Sondrio (SUISSE) SA, Pirovano Stelvio spa and Sinergia Seconda srl, and of the associated companies Ripoval spa and Arca Vita spa (companies subject to significant influence).
All figures contained in the notes are expressed in thousands of euro, rounded up or down to the nearest thousand. This may result in minor discrepancies with respect to the detailed figures in the corresponding balance sheet and income statement items.


## OTHER INFORMATION

The financial statements are audited by Deloitte \& Touche Italia spa in accordance with the resolution of 2 March 2002 appointing them as external auditors for the 3-year period 2002-20032004.

## Part A Accounting Policies

The accounting policies are consistent with those used to prepare the prior year financial statements.

## 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 realisable 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 non-performing loans, watchlist loans, and loans being restructured and consolidated. The main non-performing loans collectible beyond one year have been discounted at an average market rate. The generic risk of losses that could occur on other loans in the future has been calculated on a forfeit basis and attributed proportionally to individual positions. Write-downs and write-ups are calculated by comparing the prior year value of each position with the current year value. The original value of a loan is duly restored in subsequent years if the reasons for the write-down no longer exist.

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

Watchlist 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.

Overdue interest accrued during the year is booked to the income statement to the extent collected or considered recoverable.

## Other receivables

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

## Guarantees and commitments

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

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

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

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

### 2.2 Trading securities

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 realisable value that, with regard to bonds and other fixed-yield securities, is obtained by discounting future financial flows at a suitable market rate calculated on the basis of objective information.
Units in mutual funds are valued on the basis of the period-end value of the securities or, where this is not possible, at cost.

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 euro at year-end exchange rates; forward transactions are converted at the forward exchange rate ruling at the year end for maturities corresponding to those being valued; the effect of this valuation is charged to the income statement.

Long-term investments expressed in foreign currency are converted at the 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 prudent forecast of current and deferred tax charges in accordance with current fiscal laws, taking into consideration any exemptions and tax credits due.

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

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

The other reserves are provided in order to cover losses in value on guarantees granted and on other commitments taken on, and on the certain or probable liabilities whose amount or date of occurrence is not known at the end of the financial year or by the date of the financial statements. The reserves created against these liabilities reflect the best possible estimate on the basis of 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 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 - charged up until 2001 - for € 9.059 million 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 $€ 3.497$ million 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 $€ 7.202$ million (a decrease of $€ 11.182$ million; this decrease is due to utilizations of $€ 13.960$ million and provisions of $€ 2.778$ million). The reserve includes overdue interest in accordance with article 71.6 of Presidential Decree 917/86. 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 $€ 2.780$ million ( $€ 1.084$ million relating to 2003 ) and is calculated using the expected average tax rate.

## РART B Information of the balance sheet

## Section 1 Receivables

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

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) deposits with central banks | 83,322 | 79,021 |
| b) assets eligible for refinancing at central banks | - | - |
| c) repo transactions | - | - |
| d) securities lent | - | - |

This item amounts to $€ 809.157$ million, a decrease of $€ 494.025$ million ( $-37.91 \%$ )
Even if the year-end balance shows a decrease, activity on the interbank market went up quite considerably during the year, in connection with the high volumes of treasury liquidity generated throughout the period.

Deposits with central banks consist of the compulsory reserve at the Bank of Italy for $€ 83.322$ million. The average rate of return on this reserve during the year was $2.33 \%$, with a maximum of $2.87 \%$ and a minimum of $2.00 \%$.

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

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) assets eligible for refinancing at central banks | 8,075 | 1,960 |
| b) repo transactions | - | - |
| c) securities lent | - | - |

This item comes to $€ 7,117.211$ million, an increase of $€ 870.476$ million ( $+13.93 \%$ ).

The total amount of loans granted is shown at their estimated realisable value.
Customer loans are booked net of write-downs totalling $€ 139.618$ million, of which: $€ 101.041$ million related to non-performing loans, watchlist loans, and loans being restructured and consolidated resulting from a detailed analysis of potential losses, taking country risk into account; € 38.577 million, based on an historical, statistical analysis of performing loans 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.

### 1.6 Secured customer loans

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) by mortgages | $\mathbf{2 , 4 4 0 , 6 8 8}$ | $\mathbf{1 , 9 1 4 , 8 2 1}$ |
| b) by liens on: | $\mathbf{1 8 7 , 9 1 4}$ | $\mathbf{1 5 9 , 2 7 4}$ |
| 1. cash deposits | 1,154 | 1,050 |
| 2. securities | 173,917 | 148,545 |
| 3. other assets | 12,843 | 9,679 |
| c) by guarantees from: | $\mathbf{1 , 5 8 1 , 2 8 4}$ | $\mathbf{1 , 4 7 7 , 2 2 3}$ |
| 1. governments | - | 13 |
| 2. other public entities | 495 | $\mathbf{2 , 9 6 1}$ |
| 3. banks | $\mathbf{7 , 2 6 5}$ | 10,813 |
| 4. other operators | $1,573,524$ | $\mathbf{1 , 4 6 3 , 4 3 6}$ |
| Total | $\mathbf{4 , 2 0 9 , 8 8 6}$ | $\mathbf{3 , 5 5 1 , 3 1 8}$ |

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

### 1.7 Customer Ioans

|  | 31/12/2003 |  |  |  | 31/12/2002 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Categories | $\begin{aligned} & \text { Gross } \\ & \text { exposure } \end{aligned}$ | Total writedowns |  | Gross exposure | Total writedowns |  |
| A. Doubtful loans | 242,770 | 101,041 | 141,729 | 240,425 | 68,056 | 172,369 |
| A.1. Non-performing | 156,349 | 85,582 | 70,767 | 124,789 | 48,294 | 76,495 |
| A.2. Watchlist | 59,086 | 7,609 | 51,477 | 70,790 | 10,625 | 60,165 |
| A.3. Loans being restructured | - | - | - | - | - | - |
| A.4. Restructured loans | 25,309 | 7,242 | 18,067 | 44,080 | 8,907 | 35,173 |
| A.5. Unsecured loans exposed to country risk | 2,026 | 608 | 1,418 | 766 | 230 | 536 |
| B. Performing loans | 7,014,059 | 38,577 | 6,975,482 | 6,107,960 | 33,594 | 6,074,366 |
| Total | 7,256,829 | 139,618 | 7,117,211 | 6,348,385 | 101,650 | 6,246,735 |

### 1.8 Movements in doubtful loans due from customers

|  |  |  |  |  | 31/12/2003 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Categories | Non performing loans | Watchlist loans | Loans being restructured | Restructured loans | Unsecured |
| A. Gross exposure at 31/12/2002 | 124,789 | 70,790 | 0 | 44,080 | 766 |
| A.1. of which: overdue interest | 15,544 | - | - | - |  |
| B. Increases | 61,928 | 24,760 | 0 | 823 | 1,409 |
| B.1. transfers from performing loans | 32,707 | 21,075 | - | - |  |
| B.2. overdue interest | 4,524 | - | - | - |  |
| B.3. transfers from other categories of doubtful loans | 20,602 | - | - | - |  |
| B.4. other increases | 4,095 | 3,685 | - | 823 | 1,409 |
| C. Decreases | 30,368 | 36,464 | 0 | 19,594 | 149 |
| C.1. transfers to performing loans | - | 1,983 | - | 6,426 |  |
| C.2. write-offs | 14,535 | - | - | - |  |
| C.3. collections | 15,833 | 13,921 | - | 13,168 | 107 |
| C.4. proceeds from factored loans | - | - | - | - |  |
| C.5. transfers to other categories of doubtful loans | - | 20,560 | - | - | 42 |
| C.6. other decreases | - | - | - | - |  |
| D. Gross exposure at 31/12/2003 | 156,349 | 59,086 | 0 | 25,309 | 2,026 |
| D.1. of which: overdue interest | 17,462 | - | - | - |  |


|  |  |  |  |  | 31/12/2002 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Categories | Nonperforming loans | Watchlist loans | Loans being restructured | Restructured loans | Unsecured loans exposed to country risk |
| A. Gross exposure at 31/12/2001 | 94,981 | 72,320 | 0 | 33,151 | 663 |
| A.1. of which: overdue interest | 13,786 | - | - | - |  |
| B. Increases | 65,777 | 23,160 | 0 | 11,351 | 299 |
| B.1. transfers from performing loans | 26,080 | 19,531 | - | 9,280 |  |
| B.2. overdue interest | 4,144 | - | - | - |  |
| B.3. transfers from other categories of doubtful loans | 16,532 | - | - | - |  |
| B.4. other increases | 19,021 | 3,629 | - | 2,071 | 299 |
| C. Decreases | 35,969 | 24,690 | 0 | 422 | 196 |
| C.1. transfers to performing loans | - | 3,055 | - | - |  |
| C.2. write-offs | 26,164 | - | - | - |  |
| C.3. collections | 9,805 | 5,103 | - | 422 | 196 |
| C.4. proceeds from factored loans | - | - | - | - |  |
| C.5. transfers to other categories of doubtful loans | - | 16,532 | - | - |  |
| C.6. other decreases | - | - | - | - |  |
| D. Gross exposure at 31/12/2002 | 124,789 | 70,790 | 0 | 44,080 | 766 |
| D.1. of which: overdue interest | 15,544 | - | - | - |  |

### 1.9 Movements in total adjustments



|  |  |  |  |  | 31/12/2002 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Categories | Nonperforming loans | Watchlist loans | Loans being restructured | Restructured loans | Unsecured loans exposed to country risk | Performing loans |
| A. Opening total adjustments at 31/12/2001 | 40,408 | 11,074 | 0 | 9,825 | 199 | 30,085 |
| A.1. of which: overdue interest | 2,734 | - | - | - | - | - |
| B. Increases | 35,380 | 5,194 | 0 | 1,310 | 90 | 12,045 |
| B.1. adjustments | 31,015 | 5,101 | - | 1,258 | 90 | 12,036 |
| B.1.1. of which: overdue interest | 1,177 | - | - | - | - | - |
| B.2. use of the reserve for possible loan losses | - | - | - | - | - |  |
| B.3. transfers from other categories of loans | 4,365 | 93 | - | 52 | - | 9 |
| B.4. other increases | - | - | - | - | - | - |
| C. Decreases | 27,494 | 5,643 | 0 | 2,228 | 59 | 8,536 |
| C.1. write-backs on valuation | 465 | 612 | - | 2,005 | - | 49 |
| C.1.1. of which: overdue interest | 1 | - | - | - | - | - |
| C.2. write-backs due to collections | 865 | 786 | - | 223 | 59 | 8,213 |
| C.2.1. of which: overdue interest | 172 | - | - | - | - | - |
| C.3. write-offs | 26,164 | - | - | - | - | - |
| C.4. transfers to other categories of loans | - | 4,245 | - | - | - | 274 |
| C.5. other decreases | - | - | - | - | - |  |
| D. Closing total adjustments at 31/12/2002 | 48,294 | 10,625 | 0 | 8,907 | 230 | 33,594 |
| D.1. of which: overdue interest | 3,160 | - | - | - | - |  |

## Doubtful loans (including overdue interest)

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| Non-performing loans (including overdue interest) | 70,767 | 76,495 |

Non-performing loans, expressed at their estimated realisable value, have decreased by € 5.728 million, $-7.49 \%$ compared with the end of last year.

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

Receivables for overdue interest

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) Non-performing loans | 7,202 | 12,384 |
| $b)$ other loans | - | - |

Receivables for overdue interest are stated at their estimated realisable value, in other words net of write-downs for $€ 10.260$ million. These receivables have decreased by $€ 5.182$ million, $-41.84 \%$ compared with the end of last year, following a more prudent valuation of the non-recoverable portion.

## Section 2 Securities

Securities owned by the bank, which are held for trading purposes, amount to $€ 1,887.886$ million and have increased by $€ 85.065$ million ( $+4.72 \%$ ). They are classified in the financial statements under item 20, «Treasury and similar bills eligible for refinancing with central banks» for $€ 348.226$ million, under item 50, «Bonds and other fixed-yield securities» for $€ 1,418.502$ million, and under item 60, «Shares, quotas and other variable-yield securities» for $€ 121.158$ million. The items take into account write-downs for $€ 1.636$ million and write-backs for $€ 4.311$ million to both listed and unlisted securities, charged in full to the income statement.

Item 60 includes $€ 50.495$ million of securities held as investments of the staff pension fund.

### 2.3 Trading securities

|  |  | $31 / 12 / 2003$ |  | $31 / 12 / 2002$ |
| :--- | ---: | ---: | ---: | ---: |
|  | Book value | Market value | Book value | Market value |
| 1. Fixed-yield securities | $\mathbf{1 , 7 6 6 , 7 2 8}$ | $\mathbf{1 , 7 6 7 , 4 4 7}$ | $\mathbf{1 , 6 9 9 , 3 5 6}$ | $\mathbf{1 , 7 0 3 , 6 7 7}$ |
| 1.1 Government securities | $1,541,396$ | $1,541,809$ | $1,470,198$ | $1,474,507$ |
| - listed | $1,541,396$ | $1,541,809$ | $1,470,198$ | $1,474,507$ |
| - unlisted | - | - | - | - |
| 1.2 Other securities | 225,332 | 225,638 | 229,158 | 229,170 |
| - listed | 201,196 | 201,502 | 1,666 | 1,678 |
| - unlisted | 24,136 | 24,136 | 227,492 | 227,492 |
| 2. Variable-yield securities | $\mathbf{1 2 1 , 1 5 8}$ | $\mathbf{1 2 3 , 7 7 5}$ | $\mathbf{1 0 3 , 4 6 5}$ | $\mathbf{1 0 4 , 1 6 4}$ |
| - listed | 64,970 | 67,582 | 33,793 | 34,492 |
| - unlisted | 56,188 | 56,193 | 69,672 | 69,672 |
| Total | $\mathbf{1 , 8 8 7 , 8 8 6}$ | $\mathbf{1 , 8 9 1 , 2 2 2}$ | $\mathbf{1 , 8 0 2 , 8 2 1}$ | $\mathbf{1 , 8 0 7 , 8 4 1}$ |

### 2.4 Change for the year in trading securities

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| A. Opening balance | $\mathbf{1 , 8 0 2 , 8 2 1}$ | $\mathbf{1 , 6 1 2 , 9 9 4}$ |
| B. Increases | $10,265,398$ | $\mathbf{1 0 , 5 2 2 , 8 9 5}$ |
| B1. Purchases | $10,246,883$ | $10,507,897$ |
| - Fixed-yield securities | $10,175,801$ | $10,337,547$ |
| government securities | $7,584,033$ | $8,452,792$ |
| other securities | $2,591,768$ | $1,884,755$ |
| - Variable-yield securities | 71,082 | 170,350 |
| B2. Write-backs and revaluations | 5,814 | 127 |
| B3. Transfers from investment portfolio | $\mathbf{-}$ | $\mathbf{1}$ |
| B4. Other changes | 12,701 | 14,871 |
| C. Decreases | $10,180,333$ | $\mathbf{1 0 , 3 3 3 , 0 6 8}$ |
| C1. Sales and reimbursements | $10,176,910$ | $10,319,164$ |
| - Fixed-yield securities | $10,118,082$ | $10,155,542$ |
| government securities | $7,517,473$ | $8,450,801$ |
| other securities | $2,600,609$ | $1,704,741$ |
| - Variable-yield securities | 58,828 | 163,622 |
| C2. Write-downs | 1,873 | 11,657 |
| C3. Transfers to investment portfolio | $1,887,886$ | $\mathbf{1 , 8 0 2 , 8 2 1}$ |
| C5. Other changes | 1,550 | - |
| D. Closing balance |  | 2,247 |

Write-backs and revaluations (sub-item B2) amount to $€ 1.503$ million and relate to securities held by the pension fund.

Other increases (sub-item B4) consist of € 11.637 million of income from trading in securities, $€ 0.240$ million of discounts, $€ 0.382$ million of increase in the value of capitalisation certificates and $€ 0.442$ million of gains on securities held by the pension fund.

Write-downs (sub-item C2) for $€ 0.237$ million relate to securities held by the pension fund.
Other decreases (sub-item C5) relate to losses on securities.

## Section 3 Equity investments

Items 70 and 80 report balances of $€ 97.613$ million and $€ 32.928$ million respectively, an overall increase of $€ 18.361$ million, $+16.37 \%$ with respect to 31 December 2002.

### 3.1 Main equity investments

|  | Location | Shareholders' <br> equity | Profit/ <br> loss | $\%$ <br> held | Book <br> value |  |
| :--- | :--- | ---: | ---: | ---: | ---: | ---: |
| A. Subsidiaries |  |  |  |  |  |  |
| 1. Banca Popolare di Sondrio <br> (SUISSE) SA | Lugano | 61,015 | 4,451 | 100 | 32,928 |  |
| 2. Pirovano Stelvio spa | Tirano | 2,152 | -110 | 100 | 4,401 |  |
| 3. Sinergia Seconda srl | Milan | 10,356 | 142 | 100 | 10,329 |  |
| B. Associated companies <br> (subject to significant influence) |  |  |  |  |  |  |
| 1. Ripoval spa | Sondrio | 3,064 | 170 | 50 | 1,291 |  |
| 2. Arca Vita spa | Verona | 89,298 | 3,161 | 32.528 | 36,853 |  |

With regard to the difference between the book value and the bank's share of net equity in the subsidiary Pirovano Stelvio spa, which operates in the tourist hotel sector, the book value at year end is $€ 1.163$ million higher than the value calculated using the net equity method. This difference is due to the depreciation of the higher value of the subsidiary's assets paid upon acquisition. However, in the group consolidated financial statements, this investment has been valued using the net equity method.

The book value of Arca Vita spa is $€ 7.806$ million higher than it was under the equity method at 31/12/2002 due to the purchase of shares during this and last year, reflecting the company's good performance. In the Group consolidated financial statements, however, this investment has been valued at equity.

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

|  | 31/12/2003 | 31/12/2002 |
| :---: | :---: | :---: |
| a) Assets | 101,397 | 168,670 |
| 1. due from other banks | 101,397 | 168,670 |
| 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: | - |  |
| b) Liabilities | 106,316 | 181,374 |
| 1. due to other banks | 106,316 | 181,374 |
| 2. due to financial institutions | - | - |
| 3. customer deposits | - | - |
| 4. securities issued | - | - |
| 5. subordinated liabilities | - | - |
| c) Guarantees and commitments | 0 | 512 |
| 1. guarantees granted | - | 512 |
| 2. commitments | - |  |

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

|  | 31/12/2003 | 31/12/2002 |
| :---: | :---: | :---: |
| a) Assets | 175,508 | 221,161 |
| 1. due from other banks | 21,570 | 78,696 |
| of which: <br> - subordinated | - | - |
| 2. due from financial institutions | 88,321 | 114,555 |
| of which: - subordinated | 140 | - |
| 3. customer loans | 55,892 | 17,077 |
| of which: <br> - subordinated | - | 139 |
| 4. bonds and other fixed-yield securities | 9,725 | 10,833 |
| of which: <br> - subordinated | 2 | - |
| b) Liabilities | 303,274 | 160,734 |
| 1. due to other banks | 32,636 | 1,830 |
| 2. due to financial institutions | 154,356 | 108,728 |
| 3. customer deposits | 116,282 | 50,176 |
| 4. securities issued | - | - |
| 5. subordinated liabilities | - | - |
| c) Guarantees and commitments | 171,495 | 167,772 |
| 1. guarantees granted | 161,677 | 166,063 |
| 2. commitments | 9,818 | 1,709 |

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

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) in banks | $\mathbf{2 2 , 8 9 3}$ | $\mathbf{1 8 , 0 0 1}$ |
| 1. listed | 394 | 394 |
| 2. unlisted | 22,499 | 17,607 |
| b) in financial institutions | $\mathbf{1 5 , 6 6 2}$ | $\mathbf{1 4 , 8 3 6}$ |
| 1. listed | - | - |
| 2. unlisted | 15,662 | $\mathbf{1 4 , 8 3 6}$ |
| c) others | 59,058 | $\mathbf{4 6 , 4 1 5}$ |
| 1. listed | 5,175 | 5,175 |
| 2. unlisted | 53,883 | $\mathbf{4 1 , 2 4 0}$ |
| Total | $\mathbf{9 7 , 6 1 3}$ | $\mathbf{7 9 , 2 5 2}$ |

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

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) in banks | 32,928 | 32,928 |
| 1. listed | - | - |
| 2. unlisted | 32,928 | 32,928 |
| b) in financial institutions | - | - |
| 1. listed | - | - |
| 2. unlisted | - | - |
| c) others | - | - |
| 1. listed | - | - |
| 2. unlisted | - | - |
| Total | $\mathbf{3 2 , 9 2 8}$ | $\mathbf{3 2 , 9 2 8}$ |

### 3.6 Changes for the year in equity investments

### 3.6.1 Equity investments in Group companies

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| A. Opening balance | 32,928 | 32,928 |
| B. Increases | - | - |
| B1.Purchases | - | - |
| B2. Write-backs | - | - |
| B3. Revaluations | - | - |
| B4.Other changes | - | - |
| C. Decreases | - | - |
| C1. Sales | - | - |
| C2. Write-downs | - | - |
| of which: | permanent write-downs | $\mathbf{-}$ |
| C3. Other changes | $\mathbf{3 2 , 9 2 8}$ | $\mathbf{-}$ |
| D. Closing balance | - | - |
| E. Total revaluations | - | - |
| F. Total write-downs | - | - |

### 3.6.2 Other equity investments

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| A. Opening balance | $\mathbf{7 9 , 2 5 2}$ | $\mathbf{6 6 , 2 5 5}$ |
| B. Increases | 19,796 | $\mathbf{1 9 , 6 9 7}$ |
| B1.Purchases | 19,796 | 14,604 |
| B2. Write-backs | - | - |
| B3. Revaluations | - | - |
| B4.Other changes | - | 5,093 |
| C. Decreases | $\mathbf{1 , 4 3 5}$ | $\mathbf{6 , 7 0 0}$ |
| C1. Sales | - | - |
| C2. Write-downs | 665 | 1,607 |
| of which: | permanent write-downs | 665 |
| C3. Other changes | 770 | 1,607 |
| D. Closing balance | $\mathbf{9 7 , 6 1 3}$ | 5,093 |
| E. Total revaluations | - | $\mathbf{7 9 , 2 5 2}$ |
| F. Total write-downs | 5,749 | - |

Increases during the year relate to the investment in Arca Vita spa for $€ 13.390$ million, in Banca Italease spa for $€ 4.896$ million (increase in capital), in Pirovano Stelvio spa $€ 0.728$ million (of which $€ 0.591$ million to cover losses and $€ 0.137$ million for the purchase of the remaining $2 \%$ of share capital), in Arca SGR spa for $€ 0.218$ million, in Arca Assicurazioni spa for $€ 0.262$ million for the remaining $5 / 10$ of the increase in share capital, in B. \& A. Broker spa for $€ 0.120$ million, in Servizi Internazionali e Strutture Integrate 2000 srl for $€ 0.074$ million, in Teleriscaldamento spa for $€ 0.055$ million, in Unione Fiduciaria spa for $€ 0.048$ million and in Euros Consulting for $€ 5$ thousand.

The decreases relate to coverage of the loss for the year of $€ 0.591$ million reported by Pirovano Stelvio spa and of $€ 0.074$ million by Servizi Internazionali e Strutture Integrate 2000 srl, and to the transfer to shares, quotas and other variable-yield securities of $€ 0.770$ million relating to minor equity investments no longer considered of long-term importance for the development of the bank's activity, in accordance with art. 4 of Decree 87 of 27/1/1992.

## Section 4 Fixed and intangible assets

### 4.1 Changes for the year in fixed assets



|  |  |  | Buildings | Furniture <br> and fittings | Machines and <br> equipment |
| :--- | ---: | ---: | ---: | ---: | ---: |
| A. Opening balance | $\mathbf{5 6 , 8 7 9}$ | $\mathbf{3 , 9 5 7}$ | $\mathbf{3 , 4 2 1}$ | Other | Total |
| B. Increases | 668 | $\mathbf{2 , 1 1 4}$ | $\mathbf{3 , 5 5 0}$ | $\mathbf{3 , 5 9 5}$ | $\mathbf{6 8 , 0 1 4}$ |
| B1. Purchases | 668 | 2,114 | 3,550 | 3,595 | 9,927 |
| B2. Write-backs | - | - | - | - | - |
| B3. Revaluations | - | - | - | - | - |
| B4. Other changes | - | - | - | - | - |
| C. Decreases: | $\mathbf{2 , 9 1 1}$ | $\mathbf{1 , 6 8 4}$ | $\mathbf{3 , 1 4 4}$ | $\mathbf{2 , 6 6 8}$ | $\mathbf{1 0 , 4 0 7}$ |
| C1. Sales | - | - | - | - | - |
| C2. Write-downs: | 2,911 | 1,684 | 3,144 | 2,668 | 10,407 |
| a) Depreciation | 2,911 | 1,684 | 3,144 | 2,668 | 10,407 |
| $\quad$ b) Permanent write-downs | - | - | - | - | - |
| C3. Other changes | - | - | - | - | - |
| D. Closing balance | $\mathbf{-} 4,636$ | $\mathbf{4 , 3 8 7}$ | $\mathbf{3 , 8 2 7}$ | $\mathbf{4 , 6 8 4}$ | $\mathbf{6 7 , 5 3 4}$ |
| E. Total revaluations | $\mathbf{4 2 , 3 7 4}$ | - | - | - | $\mathbf{4 2 , 3 7 4}$ |
| F. Total write-downs: | $\mathbf{5 1 , 6 5 9}$ | $\mathbf{1 3 , 8 3 3}$ | $\mathbf{2 1 , 8 4 4}$ | $\mathbf{2 2 , 1 6 7}$ | $\mathbf{1 0 9 , 5 0 3}$ |
| a) Depreciation | 51,659 | 13,833 | 21,844 | 22,167 | 109,503 |
| b) Permanent write-downs | - | - | - | - | - |

This item comes to € 65.003 million, a decrease of $€ 2.531$ million ( $-3.75 \%$ ).
The main changes for the year concerned:

- for buildings:
the purchase of part of a building in Bergamo and one in Via Solari, Milan, used as a branch following expiration of the lease contract;
the purchase of other plots of land next to the Service Centre in Berbenno di Valtellina; increases for additional works on the building in Via Roma, Bormio; the purchase of a plot of land in Livigno next to a building already owned and works on the building in Via Porpora, Milan and in Via Cesura, Sondrio;
sale of part of a plot of land in Rome;
- for furniture, machines and installations:
increases for head office and branch IT 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.

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 $€ 41.966$ million.

### 4.2 Changes for the year in intangible assets

|  |  |  | 31/12/2003 |
| :---: | :---: | :---: | :---: |
|  | Software purchases | Leasehold improvements | Total |
| A. Opening balance | 2,556 | 10,447 | 13,003 |
| B. Increases | 3,238 | 5,263 | 8,501 |
| B1.Purchases | 3,238 | 5,263 | 8,501 |
| B2. Write-backs | - | - | - |
| B3. Revaluations | - | - | - |
| B4.Other changes | - | - | - |
| C. Decreases: | 2,702 | 4,681 | 7,383 |
| C1. Sales | - | - | - |
| C2. Write-downs: | 2,702 | 4,619 | 7,321 |
| a) amortization | 2,702 | 4,619 | 7,321 |
| b) permanent write-downs | - | - | - |
| C3. Other changes | - | 62 | 62 |
| D. Closing balance | 3,092 | 11,029 | 14,121 |
| E. Total revaluations | - | - | - |
| F. Total write-downs: | 16,638 | 28,850 | 45,488 |
| a) amortization | 16,638 | 28,850 | 45,488 |
| b) permanent write-downs | - | - | - |
|  |  |  |  |
|  |  |  | 31/12/2002 |
|  | Software purchases | Leasehold improvements | Total |
| A. Opening balance | 2,042 | 8,148 | 10,190 |
| B. Increases | 2,781 | 6,374 | 9,155 |
| B1.Purchases | 2,781 | 6,374 | 9,155 |
| B2. Write-backs | - | - | - |
| B3. Revaluations | - | - | - |
| B4.Other changes | - | - | - |
| C. Decreases: | 2,267 | 4,075 | 6,342 |
| C1. Sales | - | - | - |
| C2. Write-downs: | 2,267 | 4,074 | 6,341 |
| a) amortization | 2,267 | 4,074 | 6,341 |
| b) permanent write-downs | - | - |  |
| C3. Other changes | - | 1 | 1 |
| D. Closing balance | 2,556 | 10,447 | 13,003 |
| E. Total revaluations | - | - | - |
| F. Total write-downs: | 13,935 | 24,406 | 38,341 |
| a) amortization | 13,935 | 24,406 | 38,341 |
| b) permanent write-downs | - | - |  |

Intangible assets affecting various years amount to $€ 14.121$ million, an increase of $€ 1.118$ million (+8.60\%).

Costs for the purchase of software are amortized at $84.33 \%$.
Costs for leasehold improvements are amortized at $72.34 \%$.

## Section 5 Other asset items

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

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| Deferred tax assets | 8,527 | 7,079 |
| Taxes withheld | 230 | 205 |
| Tax credits on dividends | 1,608 | 1,756 |
| Advances paid to tax authorities | 35,496 | 32,030 |
| Withholdings on interest due to customers | 108 | 146 |
| Tax credits and related interest | 3,910 | 2,062 |
| Outstanding cheques and bills | 1,754 | 2,111 |
| Current account cheques drawn on third parties | 60,210 | 41,583 |
| Current account cheques drawn on the bank | 28,212 | 20,557 |
| Securities transactions | 3,592 | 5,078 |
| Contra-item for valuation of off-balance sheet transactions | 75,379 | 46,305 |
| Costs pertaining to next year | 624 | 422 |
| Advances to suppliers | 6,006 | 13,271 |
| Advances to customers on loans | 71,645 | 49,324 |
| Value date differentials on portfolio transactions | 518 | 710 |
| Inventories | 1,378 | 1,444 |
| Miscellaneous debits in transit | 13,219 | 9,895 |
| Premiums for exchange and securities options to be exercised | 14,250 | 6,332 |
| Guarantee deposits | 113 | 112 |
| ltems in transit with branches | 361 | 134 |
| Liquid assets belonging to the staff pension fund | 746 | 8,40 |
| Receivables for hedging transactions | 28,532 | 10,879 |
| Advance payment as per Decree 341 of 10/12/2003 | $\mathbf{3 7 0 , 7 5 9}$ | $\mathbf{2 5 2 , 8 0 7}$ |
| Residual items | 8,332 |  |
| Total | - |  |

This item increased by $€ 117.952$ million ( $+46.66 \%$ ).
The increase is the result of rising business volumes. In addition, certain sub-items such as current account cheques drawn on third parties (up from $€ 41.583$ to $€ 60.210$ million, $+44.79 \%$ ) and advances to customers awaiting credits (up from $€ 49.324$ to $€ 71.645$ million, $+45.25 \%$ ) reflect a different timing at the end of 2003 with respect to the previous year. The contra-item off-balance sheet transactions (up from $€ 46.305$ to $€ 75.379$ million, $+62.79 \%$ ) shows a similar rise on the liabilities side, as these transactions more or less compensate for each other. Premiums for foreign exchange and securities options went from $€ 6.332$ million to $€ 14.250$ million ( $+125.05 \%$ ).

The advance of $€ 28.532$ million, made in accordance with the above Decree, is an advance on the amounts that taxpayers will pay the bank in 2004.

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

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

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) Accrued income | $\mathbf{4 5 , 5 2 5}$ | $\mathbf{4 6 , 6 5 6}$ |
| Interest receivable on securities | 11,283 | 15,968 |
| Interest on euro and foreign currency deposits and loans to customers | 3,912 | 4,600 |
| Interest on euro and foreign currency deposits and loans to other banks | 541 | 1,580 |
| Interest on customer mortgages and loans | 15,650 | 15,073 |
| Commissions receivable | 8,947 | 8,186 |
| Other | 5,192 | 1,249 |
| b) Prepayments | $\mathbf{1 , 4 6 4}$ | $\mathbf{1 , 5 1 0}$ |
| Invoices received not pertaining to this financial year | 1,464 | 1,510 |
| Total | $\mathbf{4 6 , 9 8 9}$ | $\mathbf{4 8 , 1 6 6}$ |

This item has decreased by $€ 1.177$ million, $-2.44 \%$ with respect to the prior year.
No adjustments have been made directly to the relevant balance sheet items for accrued income and prepayments.

### 5.4 Distribution of subordinated assets

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) due from other banks | - | - |
| b) customer loans | 140 | 139 |
| c) bonds and other fixed-yield securities | 2,851 | 170 |

## Section 6 Payables

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

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) repo transactions | - | - |
| b) securities lent | - | - |

This item amounts to $€ 955.959$ million, a decrease of $€ 321.151$ million ( $-25.15 \%$ ).
The considerable decline is due to a lower recourse to the interbank market, given the high level of liquidity generated throughout the year, as in 2002.

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

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | :--- | :--- |
| a) repo transactions | $1,224,913$ | $1,264,031$ |

b) securities lent

Item 20 totals $€ 7,254.361$ million, with an increase of $€ 745.228$ million ( $+11.45 \%$ ).
Item 30 «securities issued» has increased by € 89.004 million ( $+10.59 \%$ ), rising from € 840.166 million to $€ 929.170$ million. This is due to an increase of $€ 88.266$ million in «bonds» ( $+12.30 \%$ ) and of $€ 3.235$ million in «other securities» ( $+4.42 \%$ ) and a decrease of $€ 2.497$ million in «certificates of deposits» (-5.07\%).

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

|  | Book value |
| :--- | ---: |
| Floating-rate bond issues | 189,362 |
| Fixed-rate bond issues | 339,975 |
| Zero-coupon bond issues | 276,596 |
| Total | $\mathbf{8 0 5 , 9 3 3}$ |

Floating-rate and fixed-rate bond issues also include structured bonds with a nominal value of € 157.494 million.

The sub-item «certificates of deposit» totals € 46.735 million and consists of $€ 42.988$ million in short-term fixed-rate certificates, $€ 1.652$ million in medium-term fixed-rate certificates, $€ 2.018$ million in medium-term floating-rate certificates and $€ 0.077$ million in zero-coupon certificates.

Item 40 «Third party funds under administration» consists of public funds to be used for assisted loans. This item reports a balance of $€ 14,000$, a decrease of $€ 51,000(-78.46 \%)$.

## Section 7 Reserves

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

These reserves amount to $€ 7.202$ million, a decrease of $€ 11.182$ million ( $-60.82 \%$ ). They comprise overdue interest deemed recoverable (article 71.c. 6 of Presidential Decree 917/86).
7.2 Changes for the year in the reserves for possible loan losses

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| A. Opening balance | $\mathbf{1 8 , 3 8 4}$ | $\mathbf{1 7 , 5 5 2}$ |
| B. Increases | $\mathbf{2 , 7 7 8}$ | $\mathbf{9 , 0 5 6}$ |
| B1. Provisions | 2,778 | 9,024 |
| B2. Other changes | - | 32 |
| C. Decreases | $\mathbf{1 3 , 9 6 0}$ | $\mathbf{8 , 2 2 4}$ |
| C1. Utilizations | 6,100 | 6,758 |
| C2. Other changes | 7,860 | $\mathbf{1 , 4 6 6}$ |
| D. Closing balance | $\mathbf{7 , 2 0 2}$ | $\mathbf{1 8 , 3 8 4}$ |

The increases consist of $€ 2.778$ million of overdue interest.
The decreases in utilizations (sub-item C1) include € 0.100 million for overdue interest and $€ 6$ million for the use of the provision made during 2002 (article 71.c. 3 of Presidential Decree 917/86); other changes (sub-item C2) relate to overdue interest collected of $€ 1.845$ million and loan writedowns of $€ 6.015$ million.
7.3 Breakdown of sub-item 80c) «Reserves for risks and charges: others»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |  |
| :--- | :--- | ---: | ---: |
| a | Charity fund | 305 | 363 |
| $b$ | Reserve for guarantees granted | 5,000 | 3,500 |
| $c$ | Reserve for personnel expenses | 3,220 | 3,310 |
| $d$ | Reserve for litigation costs | 14,000 | 14,000 |
| Total | $\mathbf{2 2 , 5 2 5}$ | $\mathbf{2 1 , 1 7 3}$ |  |

This sub-item reports an increase of $€ 1.352$ million ( $+6.39 \%$ ).
The charity fund shows a balance of $€ 0.305$ million, the result of an increase of $€ 0.250$ million through the allocation of the 2002 net profit and a decrease of $€ 0.308$ million for donations made during the year.

The reserve for guarantees granted amounts to $€ 5$ million, showing an increase of $€ 1.500$ million $(+42.86 \%)$ following the provision made during the year.

The reserve for personnel expenses shows a balance of $€ 3.220$ million, a decrease of $€ 90$ thousand with respect to the prior year. This represents the Bank's liability to personnel for holidays not taken.

The reserve for litigation costs amounts to $€ 14$ million, with no change from the prior year.

## Taxation reserve

This reserve amounts to $€ 48.586$ million, an increase of $€ 4.928$ million ( $+11.29 \%$ ) 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 taxation, a rate of $33 \%$ has been used for IRPEG (corporate income tax), reflecting the new corporate income tax rate. The rate used for IRAP is the one applicable to the years in question. The recalculation using the new rates has determined a positive difference, involving a lower provision, as explained under item 220 of the income statement.

Tables 7.4 and 7.5 provide details of the deferred tax liabilities.

### 7.4 Change in deferred tax assets

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| 1. Opening balance | $\mathbf{7 , 0 7 9}$ | $\mathbf{5 , 3 8 1}$ |
| 2. Increases | $\mathbf{4 , 1 2 0}$ | $\mathbf{4 , 0 1 0}$ |
| 2.1. Deferred tax assets arising during the year | 3,918 | 3,591 |
| 2.2. Other increases | 202 | 419 |
| 3. Decreases | $\mathbf{2 , 6 7 2}$ | $\mathbf{2 , 3 1 2}$ |
| 3.1. Deferred tax assets reversing during the year | 2,672 | $\mathbf{2 , 3 1 2}$ |
| 3.2. Other decreases | - | - |
| 4. Closing balance | $\mathbf{8 , 5 2 7}$ | $\mathbf{7 , 0 7 9}$ |

The amount of $€ 3.918$ million refers to provisions and costs that are not immediately recognised for tax purposes, but which definitely will be in the near future. The timing differences on which deferred taxes have not been calculated, as it is impossible to tell when they are likely to reverse, amount to $€ 5$ million and refer to the provision for guarantees and commitments; unlike previous years, on the other hand, deferred taxes have been calculated in 2003 on the reserve for litigation costs.

The amount of $€ 0.202$ million shown under «other increases» relates to the recalculation of deferred tax assets using a higher rate of corporate income tax (IRPEG), due to the changes made to tax regulations during the year.

### 7.5 Change in deferred tax liabilities

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| 1. Opening balance | 33 | 43 |
| 2. Increases | $\mathbf{3 1}$ | $\mathbf{1 7}$ |
| 2.1. Deferred tax assets arising during the year | 30 | 14 |
| 2.2. Other increases | 1 | 3 |
| 3. Decreases | $\mathbf{1 4}$ | $\mathbf{2 7}$ |
| 3.1. Deferred tax assets reversing during the year | 14 | 27 |
| 3.2. Other decreases | - | - |
| Closing balance | $\mathbf{5 0}$ | $\mathbf{3 3}$ |

No deferred taxes have been booked on the reserves in suspense for tax purposes as they are unlikely to be used.

With reference to the bank's tax situation, it should be noted that fiscal years 1979 to 1987 (as well as from 1999 onwards) have not yet been agreed with the tax authorities; the bank has received assessment notices for these earlier years and has appealed to the appropriate authorities. The dispute regards the calculation of taxable income and withholdings on foreign deposits.

The outcome of litigation has so far been favourable, as all of the bank's appeals for the years 19791987 have been accepted in their entirety in both first and second degree.

## Breakdown of item 70 and sub-item 80 a)

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 € 37.594 million, having risen by $€ 2.357$ million ( $+6.69 \%$ ); this increase consists of $€ 5.607$ million in provisions for the year less utilizations that included $€ 1.883$ million of payments during the year, $€ 1.239$ million transferred to Arca Previdenza F.P.A. and $€ 128$ thousand for taxes on the revaluation for the year.

## Staff pension fund

This fund is supplementary to the state pension scheme and does not have separate legal status. It was set up with an endowment fund in accordance with article 2117 of the Civil Code as envisaged by Legislative Decree 47 of 18 February 2000.

Actuarial checks of the fund's adequacy are made every three years, as required by law. The most recent one was carried out in 2002, which confirmed that the fund was adequate, bearing in mind it is for a closed group as of 28 April 1993 of 722 employees and 138 pensioners. Pursuant to current internal agreements, employees hired after that date have been given the choice to enrol in a supplementary pension fund, Arca Previdenza F.P.A. A total of 824 employees have opted to enrol.

## Sezione 8 Share capital, reserves, reserve for general banking risks, and subordinated liabilities

The following table shows the breakdown and respective amounts of items comprising the bank's shareholders' equity:

| Liability items | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| A. Reserve for general banking risks | $\mathbf{4 0 , 0 0 0}$ | $\mathbf{3 8 , 7 3 4}$ |
| B. Share capital | $\mathbf{4 1 2 , 6 9 8}$ | $\mathbf{4 1 2 , 6 9 8}$ |
| C. Share premium reserve | $\mathbf{1 3 5 , 8 8 6}$ | $\mathbf{1 3 5 , 8 8 6}$ |
| D. Reserves: | $\mathbf{1 8 5 , 3 7 3}$ | $\mathbf{1 6 5 , 0 5 2}$ |
| D1. Legal reserve | 47,996 | 43,223 |
| D2. Reserve for own shares | - | 606 |
| D3. Statutory reserves | 111,816 | 97,799 |
| D4. Others | 25,561 | 23,424 |
| E. Net profit for the year | $\mathbf{6 0 , 1 1 7}$ | $\mathbf{4 6 , 7 0 4}$ |
| Total | $\mathbf{8 3 4 , 0 7 4}$ | $\mathbf{7 9 9 , 0 7 4}$ |

## Shareholders' equity

Movements in the items making up shareholders' equity are provided in an appendix.
The following is mentioned with regard to individual items:

- Reserve for general banking risks: amounts to € 40 million, an increase of $€ 1.266$ for provisions made during the year.
- Share capital: fully subscribed and paid in, consisting of $137,566,064$ ordinary shares with a par value of $€ 3$ each, for a total value of $€ 412.698$ million.
- Share premium reserve: unchanged from the prior year.
- Legal reserve: up by $€ 4.773$ million (+11.04\%) as a result of the allocation of 2002 profits.
- Statutory reserves: up by $€ 14.017$ million ( $+14.33 \%$ ) due to the allocation of 2002 profits of $€ 14.011$ million, the transfer of $€ 4$ thousand in dividends on own shares and the transfer of $€ 2$ thousand in dividends that have fallen into prescription.
- Other reserves: shows a balance of $€ 25.561$ million, with an increase of $€ 2.137$ million ( $+9.12 \%$ ) and consists of the following:
$€ 6.456$ million for the reserve as per article 11.2 of the Valtellina Law - created in 1990 under Law 102 of 2 May 1990 and increased in 1991 - made up of profits;
$€ 19$ million for the unrestricted portion of the reserve covering the potential purchase of own shares. The reserve has increased by $€ 1.500$ million due to allocation of the net profit for 2002;
$€ 105$ thousand for the reserve as per Legislative Decree 124/93, increased by € 31 thousand due to allocation of the net profit for 2002.


### 8.1 Capital ratios: solvency ratio as of 31 December 2003

| Categories | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| A. Capital for supervisory purposes |  |  |
| A. 1 Basic capital (tier 1) | 788,064 | 759,077 |
| A. 2 Supplementary capital (tier 2) | 7,475 | 19,043 |
| A. 3 Amounts to be subtracted | 15,498 | 15,498 |
| A. 4 Capital for supervisory purposes | 780,041 | 762,622 |
| B. Precautionary requirements for supervisory purposes |  |  |
| B. 1 Credit risks | 586,006 | 522,525 |
| B. 2 Market risks | 28,355 | 20,667 |
| $\quad$ of which: |  |  |
| $\quad-$ risks to the trading securities portfolio | 28,355 | 20,667 |
| $\quad-$ exchange risks | - | - |
| B. 3 Third level subordinated loans | 4,482 | - |
| B. 4 Other precautionary requirements | 618,843 | 5,518 |
| B. 5 Total precautionary requirements |  | $7,849,455$ |
| C. Risk assets and capital ratios | $8.91 \%$ | $7,832,253$ |
| C. 1 Risk-weighted assets | $8.81 \%$ | $9.69 \%$ |
| C. 2 Tier 1 capital / Risk-weighted assets | $9.74 \%$ |  |
| C. 3 Capital for supervisory purposes / Risk-weighted assets |  |  |

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 riskweighted assets) for banks belonging to banking groups is $7 \%$.

Compared with the above minimum prescribed level, our bank's ratio was $8.81 \%$ as of 31 December 2003, compared with $9.74 \%$ at the beginning of the year.

## Section 9 Other liability items

### 9.1 Breakdown of item 50 «Other liabilities»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| Amounts at the disposal of third parties | 36,636 | 23,960 |
| Taxes to be paid on behalf of third parties | 16,125 | 17,163 |
| Taxes to be paid | 1,263 | 1,177 |
| Employee salaries and contributions | 11,240 | 10,702 |
| Trade payables | 6,687 | 7,315 |
| Transit accounts for sundry entities | 2,931 | 11,816 |
| Invoices receivable | 3,043 | 2,501 |
| Securities transactions | 1,360 | 1,219 |
| Value date differentials on portfolio transactions | 80,039 | 97,167 |
| Directors' and statutory auditors' emoluments | 948 | 896 |
| Loans disbursed to customers to be finalized | 8,864 | 9,127 |
| Miscellaneous credit items being settled | 70,988 | 50,806 |
| Premiums for exchange and securities options sold and not exercised | 14,771 | 6,164 |
| Contra-item of valuation of off-balance sheet transactions | 73,028 | 42,742 |
| Items in transit with branches | 220 | 816 |
| Residual items | 9,725 | 8,678 |
| Total | $\mathbf{3 3 7 , 8 6 8}$ | $\mathbf{2 9 2 , 2 4 9}$ |

This item has increased by $€ 45.619$ million ( $+15.61 \%$ ), mainly attributable to the sub-items «Contra-item of valuation of off-balance sheet transactions» which increases by $€ 30.286$ million $(+70.86 \%)$ from $€ 42.742$ million to $€ 73.028$ million, «Amounts at the disposal of third parties» which increases by $€ 12.676$ million ( $+52.90 \%$ ), due to higher volumes, and «Premiums for options» which increases by $€ 8.607$ million ( $+139.63 \%$ ).

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»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) Accrued liabilities | $\mathbf{1 9 , 0 1 2}$ | $\mathbf{1 9 , 9 1 6}$ |
| Interest on bonds | 8,096 | 9,971 |
| Interest on certificates of deposit | 352 | 519 |
| Interest on customer deposits in euro and foreign currency | 62 | 47 |
| Interest on deposits from other banks in euro and foreign currency | 3,069 | 3,704 |
| Repo transactions | 2,228 | 4,352 |
| Other | 5,205 | 1,323 |
| b) Deferred income | $\mathbf{4 , 2 4 1}$ | $\mathbf{2 , 9 8 9}$ |
| Interest on portfolio, mortgages and loans | 365 | $\mathbf{3 7 2}$ |
| Commission on sureties | 2,788 | 2,545 |
| Other | 1,088 | $\mathbf{7 2}$ |
| Total | $\mathbf{2 3 , 2 5 3}$ | $\mathbf{2 2 , 9 0 5}$ |

This item has increased by € 0.348 million ( $+1.52 \%$ ), mainly due to a decrease of $€ 0.903$ million in accrued liabilities and a rise of $€ 1.251$ million in deferred income.

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

## Section 10 Guarantees and commitments

### 10.1 Breakdown of item 10 «Guarantees granted»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) commercial endorsement credits | 884,052 | 827,309 |
| b) financial endorsement credits | 797,461 | 687,295 |
| c) assets given in guarantee | 8,005 | 13,005 |
| Total | $\mathbf{1 , 6 8 9 , 5 1 8}$ | $\mathbf{1 , 5 2 7 , 6 0 9}$ |

### 10.2 Breakdown of item 20 «Commitments»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) commitments to disburse funds (certain to be called on) | 123,503 | 110,924 |
| b) commitments to disburse funds (not certain to be called on) | 134,548 | 143,290 |
| Total | $\mathbf{2 5 8 , 0 5 1}$ | $\mathbf{2 5 4 , 2 1 4}$ |

The risk related to guarantees granted and to commitments to disburse funds is valued in the same way as for loans and is adjusted indirectly, for the part deemed to be of doubtful collection, by booking an appropriate reserve for risks and charges under liabilities.

Estimated losses are covered by an amount of $€ 5$ million booked to the reserve for guarantees granted under sub-item 80c) «Other reserves».

### 10.3 Collateral given for own payables

The collateral provided by the bank against its own liabilities consists of government securities: $€ 1,218.934$ million relates to securities given to customers for repo transactions, $€ 9.943$ million is for the deposit paid against the issuing of banker's cheques.

### 10.4 Margins usable on credit lines

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) central banks | 83,322 | 79,021 |
| b) other banks | 2,439 | 6,708 |

10.5 Forward transactions

|  | 31/12/2003 |  |  |  | 31/12/2002 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Type of transaction For | For hedging | For trading | Other | For hedging | For trading | Other |
| 1. Buying and selling: |  |  |  |  |  |  |
| 1.1 Securities |  |  |  |  |  |  |
| - purchases | - | 39,438 | - | - | 37,599 |  |
| - sales | - | 28,618 | - | - | 24,529 | - |
| 1.2 Foreign currency |  |  |  |  |  |  |
| - currency against currency | - | 9,226 | - | - | 9,483 |  |
| - purchases against euro | - | 1,358,880 | - | - | 1,107,973 | - |
| - sales against euro | - | 1,379,579 | - | - | 1,126,934 | - |
| 2. Deposits and loans: |  |  |  |  |  |  |
| - to be disbursed | - | - | 63,978 | - | - | 55,196 |
| - to be received | - | - | 38,420 | - | - | 25,956 |
| 3. Derivative contracts: |  |  |  |  |  |  |
| 3.1 With exchange of capital |  |  |  |  |  |  |
| a) securities |  |  |  |  |  |  |
| - purchases | - | - | - | - | - | - |
| - sales | - | - | - | - | - | - |
| b) foreign currency |  |  |  |  |  |  |
| - currency against currency | - - | 39,936 | - | - | 48,521 | - |
| - purchases against euro | - | 269,254 | - | - | 128,274 |  |
| - sales against euro | - | 269,226 | - | - | 128,274 |  |
| c) other instruments |  |  |  |  |  |  |
| - purchases | - | 95,985 | - | - | 41,054 | - |
| - sales | - | 95,985 | - | - | 41,054 |  |
| 3.2 Without exchange of capital |  |  |  |  |  |  |
| a) foreign currency |  |  |  |  |  |  |
| - currency against currency | ncy - | - | - | - | - |  |
| - purchases against euro | - | - | - | - | - | - |
| - sales against euro | - | - | - | - | - | - |
| b) other instruments |  |  |  |  |  |  |
| - purchases 229 | 229,841 | 654,731 | - | 155,807 | 333,442 | - |
| - sales | - | 654,731 | 73,494 | - | 333,442 | 78,658 |

The transactions for buying and selling securities, foreign currency and derivative contracts with exchange of capital (or other assets) are recorded at the amount to be disbursed or to be received.

Off-balance sheet transactions without exchange of capital are recorded at their nominal value.
The derivative contracts shown in point 3.2 refer to swaps designed to hedge the interest rate risk on bond issues.

## Quantitative information on derivative contracts

The following table gives information on derivative contracts in compliance with the regulations formulated by the Basel Committee on Banking Supervision and the International Organization of Securities Commissions (IOSCO).

Breakdown of reference capital by type of contract

|  | Interest rates | Exchange <br> rates | Share prices <br> and indices | Other | Total |  |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: |
| Trading contracts (unquoted) |  |  |  |  |  |  |
| Futures purchased | - | - | - | 95,985 | $\mathbf{9 5 , 9 8 5}$ |  |
| Futures sold | - | - | - | 95,985 | $\mathbf{9 5 , 9 8 5}$ |  |
| Swaps purchased | 572,416 | - | - | - | $\mathbf{5 7 2 , 4 1 6}$ |  |
| Swaps sold | 572,416 | - | - | - | $\mathbf{5 7 2 , 4 1 6}$ |  |
| Options purchased | 38,894 | 309,190 | 10,000 | 33,421 | $\mathbf{3 9 1 , 5 0 5}$ |  |
| Options sold | 38,894 | 309,162 | 10,000 | 33,421 | $\mathbf{3 9 1 , 4 7 7}$ |  |
| Total | $\mathbf{1 , 2 2 2 , 6 2 0}$ | $\mathbf{6 1 8 , 3 5 2}$ | $\mathbf{2 0 , 0 0 0}$ | $\mathbf{2 5 8 , 8 1 2}$ | $\mathbf{2 , 1 1 9 , 7 8 4}$ |  |
| Non-trading contracts (unquoted) |  |  |  |  |  |  |
| Options purchased | - | - | 73,494 | - | $\mathbf{7 3 , 4 9 4}$ |  |
| Options sold | - | - | 73,494 | - | $\mathbf{7 3 , 4 9 4}$ |  |
| Swaps purchased | 156,347 | - | - | - | $\mathbf{1 5 6 , 3 4 7}$ |  |
| Total | $\mathbf{1 5 6 , 3 4 7}$ | - | $\mathbf{1 4 6 , 9 8 8}$ | - | $\mathbf{3 0 3 , 3 3 5}$ |  |
| Grand total | $\mathbf{1 , 3 7 8 , 9 6 7}$ | $\mathbf{6 1 8 , 3 5 2}$ | $\mathbf{1 6 6 , 9 8 8}$ | $\mathbf{2 5 8 , 8 1 2}$ | $\mathbf{2 , 4 2 3 , 1 1 9}$ |  |

## Section 11 Concentration and distribution of assets and liabilities

11.1 Significant risk accounts

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) amount | 820,373 | 882,403 |
| b) number | 8 | 8 |

### 11.2 Breakdown of customer loans by main borrower categories

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) governments | - | - |
| b) other public entities | 21,248 | 24,493 |
| c) non-financial businesses | $4,409,663$ | $3,897,996$ |
| d) financial businesses | 470,929 | 338,843 |
| e) family businesses | 694,717 | 481,156 |
| f) other businesses | $1,520,654$ | $1,504,247$ |
| Total | $\mathbf{7 , 1 1 7 , 2 1 1}$ | $\mathbf{6 , 2 4 6 , 7 3 5}$ |

11.3 Breakdown of loans to resident non-financial companies and family businesses

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) other services for sale | $1,458,964$ | $1,242,074$ |
| b) wholesale and retail services, recoveries and repairs | 781,066 | 687,829 |
| c) construction and public works | 603,375 | 483,276 |
| d) metal products excluding cars and transportation | 247,448 | 231,397 |
| $e)$ services by hotels, restaurants, bars, etc. | 197,972 | 175,405 |
| f) other sectors | $1,740,822$ | $1,465,549$ |
| Total | $\mathbf{5 , 0 2 9 , 6 4 7}$ | $\mathbf{4 , 2 8 5 , 5 3 0}$ |

As of 31 December 2002 sub-caption e) related to «textiles, leather and clothing», for a total of € 178.279 million.
11.4 Distribution of guarantees granted by main categories of counterparty

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) Governments | - | 5 |
| b) other public entities | 36,676 | 46,308 |
| c) banks | 122,538 | 117,782 |
| d) non-financial businesses | $1,245,350$ | $1,107,959$ |
| e) financial businesses | 46,709 | 72,709 |
| f) family businesses | 33,012 | 33,574 |
| g) other businesses | 205,233 | 149,272 |
| Total | $\mathbf{1 , 6 8 9 , 5 1 8}$ | $\mathbf{1 , 5 2 7 , 6 0 9}$ |

### 11.5 Geographical breakdown of assets and liabilities

|  | $31 / 12 / 2003$ |  |  |  |  |  |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: | ---: |
| Item | Italy | Other EU <br> countries | Other <br> countries | Italy | Other EU <br> countries | Other <br> countries |
| 1. Assets | $\mathbf{9 , 4 1 4 , 3 6 4}$ | $\mathbf{2 0 1 , 5 0 8}$ | $\mathbf{1 9 8 , 3 8 2}$ | $\mathbf{8 , 8 9 9 , 0 5 0}$ | $\mathbf{1 9 7 , 6 9 4}$ | $\mathbf{2 5 5 , 9 9 4}$ |
| 1.1 Due from other banks | 565,096 | 89,941 | 154,120 | $1,012,676$ | 86,347 | 204,159 |
| 1.2 Customer loans | $6,999,566$ | 75,252 | 42,393 | $6,113,867$ | 82,838 | 50,030 |
| 1.3 Securities | $1,849,702$ | 36,315 | 1,869 | $1,772,507$ | 28,509 | 1,805 |
| 2. Liabilities | $\mathbf{8 , 2 8 6 , 1 4 8}$ | $\mathbf{4 4 6 , 5 4 4}$ | $\mathbf{4 0 6 , 8 1 2}$ | $\mathbf{7 , 4 5 7 , 3 2 1}$ | $\mathbf{5 7 2 , 1 5 8}$ | $\mathbf{5 9 6 , 9 9 5}$ |
| 2.1 Due to other banks | 204,041 | 429,024 | 322,894 | 209,551 | 551,218 | 516,341 |
| 2.2 Customer deposits | $7,152,923$ | 17,520 | 83,918 | $6,407,539$ | 20,940 | 80,654 |
| 2.3 Securities issued | 929,170 | - | - | 840,166 | - | - |
| 2.4 Others | 14 | - | - | 65 | - | - |
| 3. Guarantees and commitments | $\mathbf{1 , 8 7 9 , \mathbf { 3 5 1 }} \mathbf{4 2 , 9 3 9}$ | $\mathbf{2 5 , 2 7 9}$ | $\mathbf{1 , 7 2 0 , 8 9 2}$ | $\mathbf{2 6 , 5 4 9}$ | $\mathbf{3 4 , 3 8 2}$ |  |

The sub-item «Others» under liabilities consists of item 40 «Third party funds under administration».

### 11.6 Breakdown of assets and liabilities by maturity

|  |  |  |  |  |  |  |  | 31/12/2003 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Sight | Up to 3 months | Fixed3 to 12 months | ration |  |  |  | Unspecified duration |
|  |  |  |  | 1 to 5 years |  | Over 5 years |  |  |
|  |  |  |  | Fixed rate | Floating rate | Fixed rate | Floating rate |  |
| 1. Assets | 3,281,672 | 1,666,508 | 1,355,007 | 966,251 | 1,722,295 | 273,892 | 1,801,967 | 174,895 |
| 1.1 Re-financeable treasury bills | - - | 893 | 2,730 | 59,927 | 123,524 | 640 | 160,512 | - |
| 1.2 Due from other banks | 435,311 | 247,335 | 41,187 | 2,002 | - | - | - | 83,322 |
| 1.3 Customer loans | 2,777,941 | 1,070,355 | 739,585 | 327,301 | 923,862 | 230,813 | 955,781 | 91,573 |
| 1.4 Bonds and other fixed-yield securities | - | 211 | 758 | 67,979 | 672,985 | 1,103 | 675,466 | - |
| 1.5 Off-balance sheet items | 68,420 | 347,714 | 570,747 | 509,042 | 1,924 | 41,336 | 10,208 | - |
| 2. Liabilities | 6,055,219 | 2,408,521 | 1,136,369 | 673,360 | 230,976 | 95,387 | 89,049 | - |
| 2.1 Due to other banks | 143,837 | 503,422 | 232,776 | 4,476 | 27,501 | - | 43,947 | - |
| 2.2 Customer deposits | 5,800,452 | 1,392,310 | 61,599 | - | - | - | - | - |
| 2.3 Securities issued | 76,952 | 88,242 | 215,664 | 259,081 | 200,571 | 54,041 | 34,619 | - |
| - bonds | 260 | 62,921 | 196,357 | 257,632 | 200,103 | 54,041 | 34,619 | - |
| - certificates of deposit | 190 | 25,321 | 19,307 | 1,449 | 468 | - | - | - |
| - other securities | 76,502 | - | - | - | - | - | - | - |
| 2.4 Subordinated liabilities | - | - | - | - | - | - | - | - |
| 2.5 Off-balance sheet items | 33,978 | 424,547 | 626,330 | 409,803 | 2,904 | 41,346 | 10,483 | - |

The breakdown by maturity is based on the residual life of assets and liabilities as the difference between the balance sheet date and the maturity dates of each transaction. In the event of repayment plans, the maturity of each payment has been considered.

The compulsory reserve deposited with the Bank of Italy is shown under amounts due from banks with unspecified duration.

Non-performing and other past due loans to customers are shown with unspecified duration.
Moreover, the Bank has mortgage loans with interest rate options in favour of customers, shown under assets, totalling $€ 8.434$ million.

|  |  |  |  |  |  |  |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: |

### 11.7 Foreign currency assets and liabilities

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) Assets | $\mathbf{1 , 1 6 0 , 6 9 0}$ | $\mathbf{1 , 2 4 4 , 0 4 8}$ |
| 1. due from other banks | 238,106 | 316,925 |
| 2. customer loans | 873,207 | 880,968 |
| 3. securities | 8,679 | $\mathbf{7 , 5 3 3}$ |
| 4. equity investments | 32,928 | $\mathbf{3 2 , 9 2 8}$ |
| 5. others | 7,770 | 5,694 |
| b) Liabilities | $\mathbf{1 , 1 0 5 , 9 3 6}$ | $\mathbf{1 , 1 9 2 , 4 8 2}$ |
| 1. due to other banks | 735,885 | $1,003,199$ |
| 2. customer deposits | 370,051 | $\mathbf{1 8 9 , 2 8 3}$ |
| 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 (55.61\%), Swiss francs (31.56\%), Yen (10.28\%), Swedish kroner (1.21\%), Pounds sterling ( $0.75 \%$ ) and others ( $0.59 \%$ ); for liabilities they are U.S. dollars (56.07\%), Swiss francs (29.97\%), Yen (11.34\%), Swedish kroner (1.28\%), Pounds sterling (0.81\%) and others (0.53\%).

### 11.8 Securitization transactions

The bank holds the following securities deriving from third-party securitization transactions:

|  | Nominal value | Book value | Type | Rating |
| :--- | ---: | ---: | ---: | ---: |
| Credifarma | 10,000 | 10,000 | Senior | AAA |
| Scip | 121,392 | 121,392 | Senior | AAA |
| Scip | 2,336 | 2,337 | Mezzanine | AA |
| CPG-AEM | 24,210 | 24,210 | Senior | - |
| Scic | 29,725 | 29,739 | Senior | AAA |
| Sintonia | 5,000 | 5,000 | Senior | AAA |
| Total | $\mathbf{1 9 2 , 6 6 3}$ | $\mathbf{1 9 2 , 6 7 8}$ |  |  |

S.C.I.P. Società Cartolarizzazione Immobili Pubblici Srl is a vehicle company set up for the privatisation of public sector properties.

## Section 12 Management and intermediation for third parties

### 12.2 Portfolio management

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| 1. securities issued by the bank drawing up the financial statements | 5,592 | 1,993 |
| 2. other securities | $1,295,722$ | $1,007,852$ |

The total amount of cash held in relation to portfolio management contracts is $€ 24.430$ million.

### 12.3 Securities custody and administration

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) third-party securities on deposit | $10,420,788$ | $10,400,929$ |
| 1. securities issued by the bank drawing up the financial statements | $1,218,694$ | $1,138,962$ |
| 2. other securities | $9,202,094$ | $9,261,967$ |
| b) third-party securities on deposit with third parties | $9,102,637$ | $8,852,454$ |
| c) own securities on deposit with third parties | $1,842,784$ | $1,779,697$ |

«Third-party securities on deposit» include $€ 1,679.628$ million in funds, for which the bank provides custody services.
12.4 Collection orders for third parties: debit and credit adjustments

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) debit adjustments | $\mathbf{1 , 6 5 1 , 3 6 2}$ | $\mathbf{1 , 4 4 4 , 0 3 8}$ |
| 1. current accounts | 825 | 2,768 |
| 2. central portfolio | $1,266,248$ | $1,118,255$ |
| 3. cash | 35 | - |
| 4. others | 384,254 | 323,015 |
| b) credit adjustments | $\mathbf{1 , 6 5 1 , 3 6 2}$ | $\mathbf{1 , 4 4 4 , 0 3 8}$ |
| 1. current accounts | 1,930 | 340 |
| 2. transferors of bills and documents | $1,649,432$ | $1,443,698$ |
| 3. others | - | - |

Following these adjustments, the accounts involved in the collection of loans on behalf of third parties show a residual balance of $€ 80.039$ million. This amount is shown under item 50 «Other liabilities» in «Value date differentials on portfolio transactions».

## Part C Information on the income statement

## Section 1 Interest

### 1.1 Breakdown of item 10 «Interest income and similar revenues»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) on amounts due from other banks | 25,167 | 27,908 |
| of which: |  |  |
| - on amounts due from central banks | 2,941 | 3,541 |
| b) on customer loans | 307,650 | 311,120 |
| of which: |  |  |
| - on third-party funds under administration | - | - |
| c) on fixed-yield securities | 47,581 | 56,423 |
| d) other interest income | 2 | 4 |
| e) positive balance of spreads on hedging transactions | 850 | - |
| Total | $\mathbf{3 8 1 , 2 5 0}$ | $\mathbf{3 9 5 , 4 5 5}$ |

This item has gone down by $€ 14.205$ million ( $-3.59 \%$ ) mainly because of falling interest rates, offset to a certain extent by the positive trend in funds under administration.

Interest on customer loans includes overdue interest of $€ 2.778$ million.
1.2 Breakdown of item 20 «Interest expense and similar charges»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) on amounts due to other banks | 14,190 | 24,012 |
| $b)$ on customer deposits | 124,786 | 143,885 |
| c) on securities issued | 23,930 | 23,817 |
| of which: <br> - certificates of deposit | 1,168 | 1,439 |
| d) on third-party funds under administration | - | - |
| e) on subordinated liabilities | - | - |
| f) negative balance of spreads on hedging transactions | $\mathbf{-}$ | - |
| Total | $\mathbf{1 6 2 , 9 0 6}$ | $\mathbf{1 9 1 , 7 1 4}$ |

This item has decreased by $€ 28.808$ million ( $-15.03 \%$ ), due to the declining trend in interest rates. Interest income and expense relating to balances with subsidiary and associated companies amount to $€ 3.356$ million and $€ 3.462$ million, respectively.

### 1.3 Detail of item 10 «Interest income and similar revenues»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) on assets in foreign currency | 18,022 | 29,284 |

This item has decreased by $€ 11.262$ million ( $-38.46 \%$ ) due to the fall in interest rates on loans and lower recourse to the interbank market.

### 1.4 Detail of item 20 «Interest expense and similar charges»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) on liabilities in foreign currency | 9,869 | 20,293 |

This item has decreased by $€ 10.424$ million ( $-51.37 \%$ ) due to the trend in interest rates and lower recourse to the interbank market.

## Section 2 Commissions

### 2.1 Breakdown of item 40 «Commission income»

|  | 31/12/2003 | 31/12/2002 |
| :---: | :---: | :---: |
| a) guarantees granted | 6,651 | 5,802 |
| b) credit derivatives | - | - |
| c) management, intermediation and consultancy services: | 39,278 | 40,342 |
| 1. securities trading | - | - |
| 2. foreign currency trading | 4,023 | 4,556 |
| 3. portfolio management | 5,123 | 4,815 |
| 3.1 individual | 5,123 | 4,815 |
| 3.2 collective | - | - |
| 4. securities custody and administration | 1,525 | 2,013 |
| 5. custodian bank | 2,180 | 1,901 |
| 6. securities placement | 14,217 | 15,145 |
| 7. acceptance of orders | 6,031 | 5,646 |
| 8. consultancy | 39 | 71 |
| 9. distribution of third party services | 6,140 | 6,195 |
| 9.1 portfolio management | - | - |
| 9.1.1 individual | - | - |
| 9.1.2 collective | - | - |
| 9.2 insurance products | 3,483 | 4,188 |
| 9.3 other products | 2,657 | 2,007 |
| d) collection and payment services | 25,858 | 20,216 |
| e) servicing for securitization transactions | - | - |
| f) tax collection services | - | - |
| g) other services | 31,239 | 29,630 |
| Total | 103,026 | 95,990 |

This item has increased by $€ 7.036$ million (+7.33\%) despite the low level of commissions earned on securities brokerage, thanks to the positive trend in fees earned by collection and payment systems.

### 2.2 Breakdown of item 40 «Commission income» - distribution channels for products and services

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) Bank branches | 25,480 | 26,155 |
| 1. portfolio management | 5,123 | 4,815 |
| 2. securities placement | 14,217 | 15,145 |
| 3. third-party products and services | 6,140 | 6,195 |
| b) door-to-door sales | - | - |
| 1. portfolio management | - | - |
| 2. securities placement | - | - |
| 3. third-party products and services | - | - |
| Total | $\mathbf{2 5 , 4 8 0}$ | $\mathbf{2 6 , 1 5 5}$ |

### 2.3 Breakdown of item 50 «Commission expense»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) Guarantees received | 67 | 23 |
| b) Credit derivatives | - | - |
| c) Management and intermediation services | 1,068 | 1,162 |
| 1. securities trading | - | - |
| 2. foreign currency trading | - | - |
| 3. portfolio management | - | - |
| 3.1 own portfolio | - | - |
| 3.2 third-party portfolio | - | - |
| 4. securities custody and administration | 1,068 | 1,162 |
| 5. securities placement | - | - |
| 6. door-to-door sales of securities, products and services | - | - |
| d) collection and payment services | 5,561 | $\mathbf{3 , 8 2 8}$ |
| e) other services | 822 | 1,009 |
| Total | $\mathbf{7 , 5 1 8}$ | $\mathbf{6 , 0 2 2}$ |

This item has increased by $€ 1.496$ million ( $+24.84 \%$ ) on the previous year.

## Section 3 Profits and losses from financial transactions

### 3.1 Breakdown of item 60 «Profits/losses from financial transactions»

|  | 31/12/2003 |  |  |  | 31/12/2002 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Item | Securities transactions | Foreign currency transactions | Other transactions | Securities transactions | Foreign currency transactions | Other transactions |
| A. 1 Revaluations | 4,311 | - | - | 127 | - | - |
| A. 2 Write-downs | 1,636 | - | - | 11,657 | - | - |
| B. Other profits | 10,814 | 8,511 | 704 | 13,178 | 11,073 | 412 |
| Total | 13,489 | 8,511 | 704 | 1,648 | 11,073 | 412 |
| 1. Government securities | 4,435 |  |  | 8,655 |  |  |
| 2. Other fixed-yield securities | 4,596 |  |  | 2,979 |  |  |
| 3. Variable-yield securities | 4,332 |  |  | -10,346 |  |  |
| 4. Derivative contracts on securities | 126 |  |  | 360 |  |  |

This item comes to $€ 22.704$ million, an increase of $€ 9.571$ million ( $+72.88 \%$ ).

## Section 4 Administrative expenses

This item shows a balance of $€ 208.029$ million, an increase of $€ 11.810$ million ( $+6.02 \%$ ) over the 2002 figure of $€ 196.219$ million.

The sub-item «personnel expenses» amounts $€ 107.183$ million, an increase of $€ 7.758$ million (+7.80\%), reflecting the higher number of employees. The breakdown of this cost is as follows:

Wages and salaries
Social security contributions
Severance indemnities
Pensions
Other expenses
$€ 71.952$
€ 20.323
$€ \quad 5.607$
€ 4.223
€ 5.078

The sub-item «other administrative expenses» has increased by € 4.052 million ( $+4.19 \%$ ). It consists of the following:

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| telephone, post and data transmission | 8,831 | 8,356 |
| maintenance of fixed assets | 4,330 | 3,918 |
| rent paid on buildings | 10,286 | 9,524 |
| surveillance | 3,235 | 3,292 |
| transportation | 1,469 | 1,375 |
| professional fees | 5,322 | 4,902 |
| office materials | 2,101 | 2,340 |
| electricity, heating and water | 2,249 | 2,008 |
| advertising and entertainment | 2,467 | 2,369 |
| legal expenses | 2,226 | 1,647 |
| insurance | 2,284 | 2,780 |
| corporate survey and information | 2,208 | 1,883 |
| indirect taxes and dues | 28,498 | 27,089 |
| hardware rental and maintenance | 3,911 | 4,285 |
| software rental and maintenance | 4,771 | 4,350 |
| data registration with third parties | 620 | 592 |
| cleaning | 2,473 | 2,257 |
| membership fees | 1,092 | 879 |
| services received from third parties | 3,184 | 2,541 |
| directors' and statutory auditors' emoluments | 1,512 | 1,448 |
| temporary and freelance staff | 3,602 | 4,388 |
| other | 4,175 | 4,571 |
| Total | $\mathbf{1 0 0 , 8 4 6}$ | $\mathbf{9 6 , 7 9 4}$ |

The 2002 figures have been adjusted for comparison purposes.

### 4.1 Average number of employees by category

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) managers | 17 | 11 |
| b) executives | 150 | 146 |
| c) other personnel | 1,769 | 1,697 |
| Total | $\mathbf{1 , 9 3 6}$ | $\mathbf{1 , 8 5 4}$ |

The number of employees by category is a simple average of the figures at the end of 2002 and 2003. There were 1,993 employees at the end of the year.

During the year the Bank used temporary and freelance staff in accordance with current regulations. On average, there were 110 of such workers and their costs are shown in the table above.

## Section 5 Adjustments, write-backs and provisions

### 5.1 Breakdown of item 120 «Adjustments to loans and provisions for guarantees and commitments»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) adjustments to loans | 54,917 | 40,903 |
| of which: |  |  |
| - forfeit write-downs for country risk | 378 | 31 |
| - other forfeit write-downs | 4,984 | 3,509 |
| b) provisions for guarantees and commitments | 1,500 | - |
| of which: |  |  |
| - forfeit provisions for country risk | - | - |
| - other forfeit provisions | - | - |
| Total | $\mathbf{5 6 , 4 1 7}$ | $\mathbf{4 0 , 9 0 3}$ |

This item has increased by $€ 15.514$ million ( $+37.93 \%$ ), net of $€ 6$ million for the utilization of the reserve for possible loan losses set up in 2002.

### 5.2 Adjustment to intangible and tangible assets (item 90)

This item shows a balance of $€ 17.796$ million ( $+6.25 \%$ ) on the 2002 figure of $€ 16.749$ million. The detail of this item is shown in Part B Section 4.

### 5.4 Write-backs to loans and to provisions for guarantees and commitments (item 130)

This amounts to $€ 23.421$ million and increases by $€ 4.411$ million ( $+23.20 \%$ ). Write-backs consist of the collection of $€ 5.626$ million in loans written off in previous years, the recovery of $€ 2.123$ million in overdue interest, write-backs to loans of $€ 8.679$ million upon valuation, and $€ 6.993$ million in extraordinary income on loans outstanding at the end of the prior year.

### 5.5 Provisions to reserves for possible loan losses (item 140)

These amount to $€ 2.778$ million and decrease by $€ 6.246$ million ( $-69.22 \%$ ). They include overdue interest pursuant to article 71.c. 6 of Presidential Decree 917/86. These amounts have been provided in order to obtain the related tax benefit.

### 5.6 Adjustments to financial assets (item 150)

This item shows a balance of $€ 0.665$ million, with a decrease of $€ 0.942$ million ( $-58.62 \%$ ), essentially due to write-downs of equity investments, as already discussed in part B, section 3 «Equity investments».

## Section 6 Other items in the income statement

### 6.1 Breakdown of item 70 «Other operating income»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| Recovery of charges on deposits and overdrafts | 6,876 | 5,956 |
| Rent received for buildings | 784 | 765 |
| Recovery of customer insurance | 622 | 514 |
| Recovery of taxes | 13,742 | 12,370 |
| Financial income of the staff pension fund | 1,176 | - |
| Other | 4,086 | $\mathbf{3 , 8 3 5}$ |
| Total | $\mathbf{2 7 , 2 8 6}$ | $\mathbf{2 3 , 4 4 0}$ |

This item has increased by $€ 3.846$ million (+16.41\%).
The sub-item «Other» includes financial recoveries from other banks in connection with the monetary settlement of bank transfers and trade collections and the tax credit for higher employment in accordance with current regulations (art. 7 of Law 388/2000).

### 6.2 Breakdown of item 110 «Other operating expenses»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| Leasing and ancillary costs | 1,941 | 1,086 |
| Other | 1,688 | 2,042 |
| Total | $\mathbf{3 , 6 2 9}$ | $\mathbf{3 , 1 2 8}$ |

This item has increased by $€ 0.501$ million ( $+16.02 \%$ ) compared with the adjusted figure for 2002.

Leasing costs refer to 15 contracts for buildings used as branch offices. The total value amounts to $€ 19.048$ million. To date $€ 3.487$ million of capital has been reimbursed.

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.

### 6.3 Breakdown of item 180 «Extraordinary income»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) Miscellaneous gains | 536 | 1,567 |
| b) Overprovisions | 28 | 4 |
| c) Gains on disposals: | 99 | 46 |
| of fixed assets | 99 | 46 |
| of long-term investments | - | - |
| Total | $\mathbf{6 6 3}$ | $\mathbf{1 , 6 1 7}$ |

This item has decreased by € 0.954 million ( $-59 \%$ ).

### 6.4 Breakdown of item 190 «Extraordinary charges»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) Miscellaneous losses | 301 | 725 |
| b) Underprovisions | 485 | 568 |
| c) Losses on disposals: | - | - |
| of fixed assets | - | - |
| of long-term investments | $\mathbf{7 8 6}$ | $\mathbf{1 , 2 9 3}$ |
| Total | - |  |

This item has decreased by € 0.507 million ( $-39.21 \%$ ).

### 6.5 Breakdown of item 220 «Income taxes for the year»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| 1. Current taxes | 42,731 | 37,508 |
| 2. Change in deferred tax assets | $-1,448$ | $-1,698$ |
| 3. Change in deferred tax liabilities | 17 | -10 |
| 4. Income taxes for the year | 41,300 | 35,800 |

Changes in deferred tax assets mainly relate to loan write-downs in excess of the amount allowed for tax purposes and to provisions not accepted as being deductible after the timing difference reversed; $€ 0.202$ million of the 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 $€ 539.123$ 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

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) directors | 1,302 | 1,294 |
| b) statutory auditors | 210 | 154 |

Emoluments paid to Directors, Statutory Auditors and the General Manager
(pursuant to article 78 of Consob Resolution 11971 of 14 May 1999)

| Name and surname | Company | Office | Term of office | Emoluments <br> for the office |
| :--- | :--- | :--- | :--- | :--- | :--- |
| emoluments |  |  |  |  |

### 1.2 Loans and guarantees granted

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) directors | 2,513 | 3,126 |
| b) statutory auditors | 272 | 305 |

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.I.
Banca Popolare di Sondrio, listed in the Bank Register at no. 842 and in the Banking Group Register at no. 5696.0, is the parent company of the «Banca Popolare di Sondrio Banking Group».

### 2.2 Head office

Piazza Garibaldi 16, Sondrio, Italy.


## APPENDICES

The appendices listed below contain additional information to the notes of which they form an integral part:

- statement of changes in financial position;
- statement of changes in shareholders' equity for the years ended 31 December 2002 and 31 December 2003;
- 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 the associated companies (subject to significant influence) Ripoval spa and Arca Vita spa.



## STATEMENT OF CHANGES IN FINANCIAL POSITION

(in thousands of euro)

## SOURCES OF FUNDS

Funds generated by operations:

- Net profit for the year

| 60,117 | 46,704 |  |
| ---: | ---: | ---: |
| 32,997 | 21,893 |  |
| 2,301 | 13,264 |  |
| 17,796 | 16,749 |  |
| 4,052 | 3,195 |  |
| 5,607 | 5,059 |  |
| - | 5,000 |  |
| 2,778 | 9,024 |  |
| 1,266 |  | - |
| 34 | 126,948 | 116 |

- Adjustments:
- loan write-downs and write-backs and provisions
for guarantees and commitments 32,997
21,893
- losses on securities and equity investments

> 2,301 17,796

13,264

- amortization and depreciation

4,052 3,195

- staff pension fund
- reserve for severance indemnities 5,059
- risks and charges

2,778 9,024

- possible loan losses

126,948 116

121,004

- general banking risks 34

6
6
13
13
Increase in shareholders' equity:

- dividends in prescription and relating to own shares

745,228
1,415,796
Increase in funding:

- customer deposits

745,228
$(321,151)$
(282,239)

- deposits from other banks 89,004

513,081 118,011

1,251,568
Change in other liability items:

- third-party funds under administration
(51)
(49)
- other liabilities
- accrued liabilities and deferred income 45,619 32,061
347
1,304
- taxation reserve 4,928

4,699 38,015
690,878
$1,410,600$

## APPLICATION OF FUNDS

Use of funds generated by operations:

| - staff pension fund | 2,347 |  | 2,521 |  |
| :---: | :---: | :---: | :---: | :---: |
| - reserve for severance indemnities | 3,250 |  | 2,103 |  |
| - reserves for possible loan losses | 13,960 |  | 8,192 |  |
| - reserves for risks and charges | - |  | 1,000 |  |
| - personnel charges | 124 | 19,681 |  | 13,816 |
| Decrease in shareholders' equity: |  |  |  |  |
| - dividends | 26,139 |  | 24,762 |  |
| - charity fund | 307 | 26,446 | 280 | 25,042 |
| Increase in application of funds: |  |  |  |  |
| - customer loans | 901,973 |  | 689,082 |  |
| - cash on hand | $(1,477)$ |  | $(18,434)$ |  |
| - due from other banks | $(494,025)$ |  | 398,097 |  |
| - trading securities | 86,700 | 493,171 | 201,485 | 1,270,230 |
| Change in other asset items: |  |  |  |  |
| - other assets | 117,952 |  | 69,578 |  |
| - accrued income and prepayments | $(1,176)$ |  | $(1,484)$ |  |
| - equity investments and own shares | 18,421 |  | 14,336 |  |
| - intangible assets | 8,439 |  | 9,155 |  |
| - fixed assets | 7,944 | 151,580 | 9,927 | 101,512 |
|  |  | 690,878 |  | 1,410,600 |

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDING 31 DECEMBER 2002 AND 2003
(in thousands of euro)

|  | Share capital | Reserve for general banking risks | Share premium reserve |
| :---: | :---: | :---: | :---: |
| BALANCE AS OF 31 DECEMBER 2001 | 412,698 | 38,734 | 135,886 |
| ALLOCATION OF PROFITS, as resolved by the AGM of 2 March 2002: |  |  |  |
| To the legal reserve |  |  |  |
| To the statutory reserves |  |  |  |
| Dividend of $€ 0.18$ per share |  |  |  |
| Charity fund |  |  |  |
| DIVIDEND ON OWN SHARES |  |  |  |
| RESERVE FOR GENERAL BANKING RISKS |  |  |  |
| RESERVE FOR OWN SHARES |  |  |  |
| RESERVE AS PER ART. 13 OF LEGISLATIVE DECREE 124/93 |  |  |  |
| NET PROFIT FOR 2002 |  |  |  |
| BALANCE AS OF 31 DECEMBER 2002 | 412,698 | 38,734 | 135,886 |
| ALLOCATION OF PROFITS, as resolved by the AGM of 1 March 2003: |  |  |  |
| To the legal reserve |  |  |  |
| To the statutory reserves |  |  |  |
| Dividend of $€ 0.19$ per share |  |  |  |
| Charity fund |  |  |  |
| DIVIDEND ON OWN SHARES |  |  |  |
| RESERVE FOR GENERAL BANKING RISKS |  | 1,266 |  |
| RESERVE FOR OWN SHARES |  |  |  |
| RESERVE AS PER ART. 13 OF LEGISLATIVE DECREE 124/93 |  |  |  |
| NET PROFIT FOR 2003 |  |  |  |
| BALANCE AS OF 31 DECEMBER 2003 | 412,698 | 40,000 | 135,886 |



## STATEMENT OF CHANGES IN THE STAFF PENSION FUND

(in thousands of euro)

The pension fund was created pursuant to art. 2117 of the Civil Code and following the introduction of Legislative Decree 47 of 18 February 2000 on the «Reform of the tax regulations governing supplementary pensions», which among other things changed the tax regime of pension funds existing at the time that Law 421 of 23 October 1992 came into force. Movements in the fund are provided below.


## LIST OF EQUITY INVESTMENTS

| NAME | $\begin{array}{r} \hline \text { NUMBER } \\ \text { OF } \\ \text { SHARES } \\ \text { OR QUOTAS } \end{array}$ | $\begin{gathered} \hline \text { PAR } \\ \text { VALUE } \end{gathered}$ <br> ands of euro) | $\begin{aligned} & \hline \text { BOOK } \\ & \text { VALUE } \end{aligned}$ sands of euro) | HELD |
| :---: | :---: | :---: | :---: | :---: |
| SAN PAOLO - IMI SPA | 627,000 | 1,756 | 303 | 0.045 |
| BANCA INTESA SPA | 104,058 | 54 | 91 | 0.002 |
| CENTROBANCA SPA | 5,376,000 | 5,376 | 6,327 | 1.600 |
| BANCA POPOLARE DI SONDRIO (SUISSE) SA | 500,000 | 32,094 | 32,928 | 100.000 |
| BANCA PER IL LEASING - ITALEASE SPA | 3,039,352 | 15,683 | 13,567 | 6.434 |
| I.C.B.P.I. SPA | 125,400 | 376 | 33 | 1.135 |
| BANCA POPOLARE ETICA S.C. a R.L. | 500 | 26 | 26 | 0.161 |
| ARCA BANCA DI INVESTIMENTO MOBILIARE SPA | 2,696,553 | 2,697 | 2,547 | 12.841 |
| CENTROSIM SPA | 6,346 | 381 | 458 | 3.173 |
| RIPOVAL SPA | 2,500 | 1,291 | 1,291 | 50.000 |
| ARCA SGR SPA | 2,585,000 | 2,585 | 873 | 5.170 |
| FINLOMBARDA SPA | 162 | 42 | 50 | 0.405 |
| POLIS FONDI IMMOBILIARI DI BANCHE POPOLARI SGR.p.A. | 36,400 | 364 | 362 | 7.000 |
| ARCA MERCHANT SPA | 17,398,375 | 9,047 | 11,410 | 12.841 |
| UNIONE FIDUCIARIA SPA | 47,281 | 260 | 241 | 4.378 |
| FACTORIT SPA | 905,691 | 906 | 713 | 2.415 |
| ETICA SGR SPA | 25,000 | 250 | 250 | 11.364 |
| AEM SPA | 6,000,000 | 3,120 | 5,175 | 0.333 |
| PIROVANO STELVIO SPA | 400,000 | 2,064 | 4,401 | 100.000 |
| CILME MULTITEL SPA | 111,363 | 334 | 52 | 5.062 |
| ARCA ASSICURAZIONI SPA | 720,226 | 1,635 | 1,804 | 9.900 |
| ARCA VITA SPA | 2,410,309 | 12,437 | 36,853 | 32.528 |
| B. \& A. BROKER SPA | 40,000 | 206 | 224 | 28.571 |
| SWIFT S.C. | 32 | 4 | 14 | 0.037 |
| SINERGIA SECONDA SRL | 10,200,000 | 10,200 | 10,329 | 100.000 |
| CBE-SERVICE SPRL | 233 | 6 | 6 | 23.300 |
| SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 SRL | 25,000 | 25 | 87 | 33.333 |
| CONSORZIO CASSAMERCATO | 132 | 7 | 7 | 6.286 |
| INARCHEK SPA | 1,200 | 120 | 120 | 15.385 |
|  | 53,384,113 | 103,346 | 130,542 |  |

## LIST OF SIGNIFICANT EQUITY INVESTMENTS AS OF 31/12/2003

List of significant equity investments directly or indirectly held in unlisted companies by Banca Popolare di Sondrio s.c.a.r.I., in accordance with article 120 of Legislative Decree 58 dated 24 February 1998 and Consob regulation 11971 dated 14 May 1999.

| Company name | country | \% held | Notes |
| :--- | ---: | ---: | :--- |
| - Acquedotto dello Stelvio srl | (I) | $27 \%$ | held indirectly through <br> Pirovano Stelvio spa |
| - AMC Automotive Casting spa | (I) | $30 \%$ | pledge |
| - Arca BIM spa | (I) | $12.841 \%$ |  |
| - Arca Merchant spa | (I) | $12.841 \%$ |  |
| - Arca Vita spa | (I) | $32.528 \%$ |  |
| - B. \& A. Broker spa | (I) | $28.571 \%$ |  |
| - Banca Popolare di Sondrio (SUISSE) SA | (CH) | $100 \%$ |  |
| - Cagi srl | (I) | $100 \%$ | pledge |
| - C.B.E. Service sprl | (B) | $23.300 \%$ |  |
| - Etica Sgr spa | (I) | $11.364 \%$ |  |
| - Immobiliare Borgo Palazzo srl | (I) | $100 \%$ | held indirectly through |
| - Immobiliare S. Paolo srl | (I) | $100 \%$ | held indirectly through |
| - InArCheck spa |  |  | Sinergia Seconda srl |

## LIST OF REVALUED ASSETS STILL OWNED BY THE BANK

(art. 10 of Law 72 dated 19/3/1983)
(in euro)

| PROPERTY | Investment | Amount of revaluation Law 576 of 2/12/75 | Amount of revaluation Law 72 of 19/3/83 | Amount of revaluation Law 413 of 30/12/91 | Gross book value | Accumulated depreciation as of 31/12/2003 | $\begin{array}{r} \text { Net } \\ \text { book value } \\ \text { as of } \\ 31 / 12 / 2003 \end{array}$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| APRICA - Corso Roma, 140 | 77,469 | 0 | 356,355 | 146,929 | 580,753 | 320,995 | 259,758 |
| BERBENNO DI VALTELLINA - Via Raneé, 542 | 12,284,113 | 0 | 0 | 99,417 | 12,383,530 | 4,217,628 | 8,165,902 |
| BERGAMO - Via Broseta, 64 B | 513,635 |  |  |  | 513,635 | 15,409 | 498,226 |
| BORMIO - Via Roma, 64 | 439,238 | 46,481 | 573,267 | 136,524 | 1,195,510 | 350,393 | 845,117 |
| BORMIO - Via Roma, angolo Via Don Peccedi | 2,966,334 | 0 | 361,520 | 301,774 | 3,629,628 | 1,426,723 | 2,202,905 |
| BRENO - Piazza Ronchi, 4 | 666,687 | 0 | 0 | 87,467 | 754,154 | 394,794 | 359,360 |
| CHIAVENNA - Via Dolzino, 67 | 1,061,378 | 46,481 | 1,149,057 | 1,066,173 | 3,323,089 | 2,473,891 | 849,198 |
| CHIESA IN VALMALENCO - Via Roma, 138 | 35,520 | 17,560 | 664,795 | 133,250 | 851,125 | 319,420 | 531,705 |
| COLICO - Piazza Cavour, 11 | 177,749 | 0 | 0 | 96,488 | 274,237 | 232,037 | 42,200 |
| DELEBIO - Piazza S. Carpoforo, 7/9 | 844,205 | 23,241 | 645,773 | 688,773 | 2,201,992 | 1,715,286 | 486,706 |
| DERVIO - Via Don Invernizzi, 2 | 1,270,219 | 0 | 0 | 329,276 | 1,599,495 | 922,872 | 676,623 |
| DOMASO - Via Statale Regina, 71 | 111,038 | 0 | 0 | 53,817 | 164,855 | 138,139 | 26,716 |
| DONGO - Piazza V. Matteri, 14 | 1,567,930 | 0 | 0 | 415,551 | 1,983,481 | 1,339,106 | 644,375 |
| EDOLO - Piazza Martiri della Libertà, 16 | 1,058,736 | 0 | 0 | 509,161 | 1,567,897 | 1,150,578 | 417,319 |
| GERA LARIO - Via Statale Regina, 14 | 292,666 | 0 | 131,677 | 227,733 | 652,076 | 540,275 | 111,801 |
| GRAVEDONA - Piazza Garibaldi, 10/12 | 903,799 | 0 | 0 | 223,957 | 1,127,756 | 659,193 | 468,563 |
| GROSIO - Via Roma, 67 | 26,372 | 7,230 | 229,791 | 51,484 | 314,877 | 127,249 | 187,628 |
| GROSIO - Via Vanoni, 5 | 106,041 | 0 | 0 | 11,595 | 117,636 | 62,232 | 55,404 |
| GROSOTTO - Via Statale, 73 | 15,539 | 12,911 | 147,146 | 42,099 | 217,695 | 98,623 | 119,072 |
| ISOLACCIA DI VALDIDENTRO - Via Nazionale, 31 | 403,787 | 0 | 290,229 | 272,602 | 966,618 | 724,931 | 241,687 |
| LECCO - Corso Martiri della Liberazione, 63/65 | 9,574,331 | 0 | 351,191 | 2,124,557 | 12,050,079 | 6,192,684 | 5,857,395 |
| LECCO - Via Galandra, 28 | 168,623 | 0 | 0 | 41,959 | 210,582 | 0 | 210,582 |
| LIVIGNO - Via Prestefan | 2,343,119 | 0 | 0 | 0 | 2,343,119 | 325,461 | 2,017,658 |
| LIVIGNO - Via S. Antoni, 33 | 470,515 | 0 | 345,487 | 358,828 | 1,174,830 | 906,540 | 268,290 |
| MADESIMO - Via Carducci, 3 | 493,542 | 0 | 0 | 203,733 | 697,275 | 494,122 | 203,153 |
| MARCHIROLO - Via Cav. Emilio Busetti, 7/A | 1,089,018 | 0 | 0 | 0 | 1,089,018 | 400,534 | 688,484 |
| MAZZO DI VALTELLINA - Via S. Stefano, 18 | 11,530 | 16,010 | 163,550 | 48,833 | 239,923 | 118,602 | 121,321 |
| MILAN - Piazza Borromeo, 1 | 38,217 | 0 | 0 | 213,722 | 251,939 | 91,845 | 160,094 |
| MILAN - Via Compagnoni, 9 | 51,141 | 0 | 0 | 6,842 | 57,983 | 0 | 57,983 |
| MILAN - Via Lippi, 25 | 53,970 | 0 | 0 | 1,635 | 55,605 | 0 | 55,605 |
| MILAN - Via Morigi, 2/A | 73,590 | 0 | 0 | 123,930 | 197,520 | 0 | 197,520 |
| MILAN - Via Porpora, 104 | 3,527,897 | 0 | 0 | 165,381 | 3,693,278 | 1,464,842 | 2,228,436 |


| PROPERTY | Investment | Amount of revaluation Law 576 of 2/1275 | Amount of revaluation Law 72 of 19/3/83 | Amount of revaluation Law 413 of $30 / 1291$ | Gross <br> book <br> value | Accumulated depreciation as of 31/12/2003 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| MILAN - Via S. Maria Fulcorina, 1 | 10,881,110 | 159,818 | 3,047,096 | 2,461,826 | 16,549,850 | 8,266,082 | 8,283,768 |
| MILAN - Via S. Maria Fulcorina, 11 | 493,165 | 0 | 0 | 0 | 493,165 | 0 | 493,165 |
| MILAN - Via Sangallo, 16 | 4,752 | 0 | 0 | 11,915 | 16,667 | 0 | 16,667 |
| MILAN - Via Solari, 15 | 422,156 |  |  |  | 422,156 | 12,664 | 409,492 |
| MONTAGNA IN VALTELLINA - Via Stelvio, 30 | 472,050 | 0 | 328,458 | 398,008 | 1,198,516 | 909,712 | 288,804 |
| MORBEGNO - Piazza Caduti della Libertà, 6 | 1,892,539 | 0 | 1,088,606 | 704,283 | 3,685,428 | 1,906,209 | 1,779,219 |
| MORBEGNO - Via Garibaldi, 81 | 589,317 | 25,823 | 0 | 56,050 | 671,190 | 329,322 | 341,868 |
| MORBEGNO - Via Nani, 13 | 54,709 | 0 | 0 | 17,739 | 72,448 | 0 | 72,448 |
| MOZZO - Via Gabriele D'Annunzio, 4 | 26,424 | 0 | 0 | 14,259 | 40,683 | 0 | 40,683 |
| NOVATE MEZZOLA - Via Roma, 13 | 45,682 | 0 | 251,282 | 89,219 | 386,183 | 209,831 | 176,352 |
| PASSO DELLO STELVIO | 630,416 | 0 | 0 | 296,176 | 926,592 | 766,111 | 160,481 |
| PONTE IN VALTELLINA - Piazza della Vittoria, 1 | 18,207 | 12,911 | 258,098 | 86,540 | 375,756 | 199,007 | 176,749 |
| REGOLEDO DI COSIO VALTELLINO - Via Roma, 7 | 134,617 | 0 | 0 | 78,405 | 213,022 | 113,421 | 99,601 |
| ROME - Via Di Propaganda, 27 | 155,625 | 0 | 350,503 | 88,926 | 595,054 | 439,580 | 155,474 |
| S. CASSIANO DI PRATA CAMPORTACCIO Via Spluga, 108 | 397,672 | 0 | 0 | 103,093 | 500,765 | 257,133 | 243,632 |
| S. SIRO - Via Statale Regina | 467,692 | 0 | 0 | 0 | 467,692 | 157,880 | 309,812 |
| S. PIETRO DI BERBENNO - Via Nazionale Ovest, 110 | 67,941 | 22,208 | 328,181 | 122,795 | 541,125 | 293,122 | 248,003 |
| SEREGNO - Via Wagner, 137/A | 123,950 | 0 | 0 | 13,282 | 137,232 | 0 | 137,232 |
| SONDALO - Via Zubiani, 2/4/6/8/10 | 21,757 | 25,823 | 312,456 | 158,005 | 518,041 | 183,032 | 335,009 |
| SONDRIO - Corso Vittorio Veneto, 7 | 309,912 | 0 | 0 | 1,190,813 | 1,500,725 | 431,394 | 1,069,331 |
| SONDRIO - Largo Pedrini, 8 | 200,617 | 0 | 0 | 22,527 | 223,144 | 200,702 | 22,442 |
| SONDRIO - Piazza Garibaldi, 16 - Via Ragazzi del '99, 6 | 1,077,432 | 351,191 | 7,810,125 | 3,142,651 | 12,381,399 | 7,288,834 | 5,092,565 |
| SONDRIO - Via Bernina, 1 | 224,721 | 0 | 82,385 | 45,795 | 352,901 | 155,157 | 197,744 |
| SONDRIO - Via Caimi, 29 | 357,915 | 0 | 0 | 46,342 | 404,257 | 404,257 | 0 |
| SONDRIO - Via Cesura, 4 | 155,551 | 0 | 0 | 64,149 | 219,700 | 0 | 219,700 |
| SONDRIO - Via delle Prese - Piazzale Toccalli | 348,608 | 0 | 0 | 0 | 348,608 | 167,332 | 181,276 |
| SONDRIO - Via Lungomallero Cadorna, 24 | 1,002,455 | 0 | 196,254 | 451,249 | 1,649,958 | 1,334,906 | 315,052 |
| SONDRIO - Via Lusardi, 53 | 247,506 | 0 | 0 | 0 | 247,506 | 0 | 247,506 |
| SONDRIO - Via Pio Rajna, 1 | 16,195 | 0 | 0 | 40,221 | 56,416 | 0 | 56,416 |
| SONDRIO - Via Tonale, 6 | 56,297 | 0 | 243,248 | 54,643 | 354,188 | 247,230 | 106,958 |
| TALAMONA - Via Cusini, 29 | 223,475 | 0 | 313,640 | 203,691 | 740,806 | 495,892 | 244,914 |


| 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 <br> book <br> value | Accumulated depreciation as of 31/12/2003 | book value as of 31/12/2003 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| TEGLIO - Piazza S. Eufemia, 2 | 40,150 | 13,944 | 546,700 | 148,165 | 748,959 | 349,896 | 399,063 |
| TIRANO - Località Valchiosa | 139,352 | 0 | 0 | 0 | 139,352 | 0 | 139,352 |
| TIRANO - Piazza Cavour, 20 | 392,572 | 0 | 1,736,322 | 718,576 | 2,847,470 | 1,686,692 | 1,160,778 |
| TRESENDA DI TEGLIO - Via Nazionale, 57 | 192,524 | 0 | 193,671 | 67,596 | 453,791 | 224,379 | 229,412 |
| VILLA DI CHIAVENNA - Via Roma, 39 | 197,713 | 0 | 0 | 7,639 | 205,352 | 205,352 | 0 |
| VILLA DI TIRANO - Traversa Foppa, 25 | 440,816 | 0 | 0 | 7,651 | 448,467 | 124,779 | 323,688 |
|  | 241,540 | 781,632 | 2,496,863 | 9,095,719 | 7,615,754 | 54,584,312 | 53,031,442 |

Revaluations have been depreciated as follows: entirely for the 1975 revaluation, by € 13.448 million for that of 1983 and by $€ 6.525$ million for the one made in accordance with Law 413 of 30/12/1991.


# FINANCIAL STATEMENTS OF SUBSIDIARY AND ASSOCIATED COMPANIES: 

BANCA POPOLARE DI SONDRIO (SUISSE) SA PIROVANO STELVIO SPA
SINERGIA SECONDA SRL RIPOVAL SPA
ARCA VITA SPA

## BANCA POPOLARE DI SONDRIO (SUISSE) SA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2003
(in Swiss francs)

| ASSETS | 2003 | 2002 |
| :---: | :---: | :---: |
| Liquid assets | 16537397 | 15955263 |
| Due from other banks | 151341723 | 275387181 |
| Customer loans | 341384780 | 273421944 |
| Mortgage loans | 326022899 | 198235496 |
| Trading securities and precious metals | 129259 | 1148819 |
| Investment securities | 41972993 | 38100452 |
| Equity investments | 350000 | 350000 |
| Fixed assets | 18982491 | 20102621 |
| Accrued income and prepayments | 9033965 | 3688450 |
| Other assets | 48598949 | 16801021 |
| Total assets | 954354456 | 843191247 |
| Total amounts due from Group companies and holders of qualifying equity investments | 49230289 | 135904696 |


| LIABILITIES |  | 2003 | 2002 |
| :---: | :---: | :---: | :---: |
|  | Money market securities | 12607 | 1000000 |
|  | Deposits with other banks | 164721019 | 283582602 |
|  | Customer deposits - savings and investments | 209864546 | 127983422 |
|  | Other customer deposits | 347368825 | 245250481 |
|  | Treasury liabilities | 46863000 | 43159000 |
|  | Accrued liabilities and deferred income | 6918982 | 9436979 |
|  | Other liabilities | 53916508 | 18546909 |
|  | Adjustments and provisions | 29633814 | 26110749 |
|  | Share capital | 50000000 | 50000000 |
|  | General legal reserve | 38121105 | 31562589 |
|  | Net profit for the year | 6934050 | 6558516 |
|  | Total liabilities | 954354456 | 843191247 |
|  | Total amounts due to Group companies and holders of qualifying equity investments | 157753583 | 245060715 |
| OFF-BALANCE | E SHEET TRANSACTIONS | 2003 | 2002 |
|  | Contingent liabilities | 31193791 | 29344096 |
|  | Additional payment commitments | 300000 | 300000 |
|  | Derivative products | 1275021079 | 697261053 |
|  | Gross positive replacement value | 41894970 | 10135066 |
|  | Gross negative replacement value | 45212627 | 14872796 |
|  | Fiduciary transactions | 476837090 | 562547015 |

## INCOME STATEMENT

AS OF 31 DECEMBER 2003
(in Swiss francs)

| INCOME STATEMENT | 2003 | 2002 |
| :---: | :---: | :---: |
| Interest income and discounts | 24848832 | 18954881 |
| Interest income and dividends from trading securities | 12691 | 14057 |
| Interest income and dividends from investment securities | 760036 | 986231 |
| Interest expense | (11799 220) | (8764 295) |
| Net interest income | 13822339 | 11190874 |
| Commissions on lending transactions | 513087 | 1017454 |
| Commissions on securities trading and investments | 35892167 | 32656541 |
| Commissions on services | 3154055 | 2865912 |
| Commission expense | (2992 485) | (2956 368) |
| Net commission income and income from services | 36566824 | 33583539 |
| Profits from financial transactions | 4537258 | 3490101 |
| Profit (loss) on disposal of financial investments | 166185 | 424443 |
| Profit (loss) on equity investments | - | 3340396 |
| Other ordinary income | 629704 | 95155 |
| Other ordinary charges | (515 625) | (1836 628) |
| Total other ordinary income (charges) | 280264 | 2023366 |
| Net income from ordinary banking operations | 55206685 | 50287880 |
| Personnel costs | (21694 216) | (19 338 164) |
| Other operating expenses | (13765 419) | $(11699$ 161) |
| Operating expenses | (35 459 635) | (31037 325) |
| Gross profit | 19747050 | 19250555 |


| INCOME STATEMENT | 2003 | 2002 |
| :---: | :---: | :---: |
| Depreciation and amortization | (6 600 000) | (7350 000) |
| Adjustments, provisions and losses | (3800 000) | (4500 000) |
| Extraordinary income | - | 302511 |
| Extraordinary charges | - |  |
| Income taxes | (2 413 000) | (1 144 550) |
| Net profit for the year | 6934050 | 6558516 |
| ALLOCATION OF NET PROFIT |  |  |
| Net profit for the year | 6934050 | 6558516 |
| Retained earnings | - |  |
| Earnings available for allocation | 6934050 | 6558516 |
| Proposal of the Board of Directors for the allocation of 2003 net profit of CHF 6934050 to general legal reserve | 6934050 | 6558516 |
| Balance carried forward | - |  |

## PIROVANO STELVIO SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2003 (in euro)

## BALANCE SHEET

| LIABILITIES | 31-12-2003 | 31-10-2003 | 31-10-2002 |
| :---: | :---: | :---: | :---: |
| A SHAREHOLDERS' EQUITY |  |  |  |
| I SHARE CAPITAL | 2,064,000 | 2,064,000 | 2,064,000 |
| III REVALUATION RESERVES | 192,104 | 192,104 | 192,104 |
| IV LEGAL RESERVE | 5,959 | 5,959 | 5,959 |
| VII OTHER RESERVES |  |  |  |
| 12 Translation reserve |  | 2 | 3 |
| TOTAL VII |  | 2 | 3 |
| IX PROFIT (LOSS) FOR THE YEAR | $(110,202)$ | $(481,034)$ | $(170,169)$ |
| TOTAL SHAREHOLDERS' EQUITY | 2,151,861 | 1,781,031 | 2,091,897 |
| C RESERVE FOR SEVERANCE INDEMNITIES | 44,427 | 61,641 | 55,265 |
| TOTAL RESERVE FOR SEVERANCE INDEMNITIES | 44,427 | 61,641 | 55,265 |
| D PAYABLES |  |  |  |
| 03 DUE TO BANKS |  |  |  |
| a due within 12 months | 31,248 | 30,023 | 27,715 |
| b due beyond 12 months | 70,518 | 86,454 | 116,477 |
| TOTAL 03 | 101,766 | 116,477 | 144,192 |
| 05 ADVANCE PAYMENTS |  |  |  |
| a due within 12 months |  | 3,299 | 4,350 |
| TOTAL 05 |  | 3,299 | 4,350 |
| 06 DUE TO SUPPLIERS |  |  |  |
| a due within 12 months | 171,873 | 353,028 | 332,566 |
| TOTAL 06 | 171,873 | 353,028 | 332,566 |
| 10 DUE TO PARENT COMPANY |  |  |  |
| a due within 12 months | 1,706,632 | 1,737,427 | 1,375,882 |
| TOTAL 10 | 1,706,632 | 1,737,427 | 1,375,882 |
| 11 TAXES PAYABLE |  |  |  |
| a due within 12 months | 4,794 | 21,606 | 36,866 |
| TOTAL 11 | 4,794 | 21,606 | 36,866 |
| 12 DUE TO SOCIAL SECURITY INSTITUTIONS |  |  |  |
| a due within 12 months | 5,027 | 27,854 | 28,796 |
| TOTAL 12 | 5,027 | 27,854 | 28,796 |
| 13 OTHER PAYABLES |  |  |  |
| a due within 12 months | 5,783 | 51,656 | 94,344 |
| TOTAL 13 | 5,783 | 51,656 | 94,344 |
| TOTAL PAYABLES | 1,995,875 | 2,311,347 | 2,016,996 |
| E ACCRUED LIABILITIES AND DEFERRED INCOME |  |  |  |
| 02 Other accrued liabilities and deferred income TOTAL ACCRUED LIABILITIES | 15,703 | 178,764 | 161,892 |
| AND DEFERRED INCOME | 15,703 | 178,764 | 161,892 |
| TOTAL LIABILITIES AND |  |  |  |
| SHAREHOLDERS' EQUITY | 4,207,866 | 4,332,783 | 4,326,050 |


| MEMORANDUM ACCOUNTS | $\mathbf{3 1 - 1 2 - 2 0 0 3}$ | $\mathbf{3 1 - 1 0 - 2 0 0 3}$ | $\mathbf{3 1 - 1 0 - 2 0 0 2}$ |
| :---: | ---: | ---: | ---: |
| 01 PERSONAL GUARANTEES RECEIVED |  |  |  |
| d Sureties received from third parties | 131,457 | 146,168 | 176,419 |
| TOTAL 01 | 131,457 | 146,168 | 176,419 |
| TOTAL MEMORANDUM ACCOUNTS | 131,457 | 146,168 | 176,419 |

31-12-2003 31-10-2003
A PRODUCTION VALUE
01 REVENUES FROM SALES AND SERVICES
05 OTHER REVENUES AND INCOME
a Other revenues and income TOTAL 05
TOTAL PRODUCTION VALUE
B PRODUCTION COSTS
06 FOR RAW MATERIALS, CONSUMABLES AND GOODS
$(8,436)$
$(37,208)$
(377,922)
$(915,926)$
(576,320)
$(43,562)$
$(15,406)$
$(3,884)$
$(62,852)$ TOTAL 09
$(62,852)$
(190
$(28,059)$
$(2,639)$
$(797,413)$
$(1,026)$
(15,621)
$(21,236)$
$(22,262)$
$(19,405)$
$(18,659)$
$(168,822)$
$(103,454)$
$(103,454)$
C FINANCIAL INCOME AND CHARGES
16 OTHER FINANCIAL INCOME
a from loans recorded among non-current assets
a4 From third parties
154
TOTAL a 154
9,193
9,193
9,347
$(41,684)$
$(6,260)$
(7,853)
$(6,329)$
d4 From third parties TOTAL d

1,524
1,524
17 INTEREST AND OTHER FINANCIAL CHARGES
c To parent company
d To third parties
TOTAL 17
TOTAL FINANCIAL INCOME AND CHARGES
E EXTRAORDINARY ITEMS
20 INCOME
b Other extraordinary income TOTAL 20
21 CHARGES
b Taxes relating to prior years
c Other extraordinary charges TOTAL 21
TOTAL EXTRAORDINARY ITEMS
PRE-TAX PROFIT (LOSS) (A-B+-C+-D+-E)
22 INCOME TAXES FOR THE YEAR
26 NET PROFIT (LOSS) FOR THE YEAR
$(2,400)$
(419) $(2,655)$
$(419) \quad(5,055)$
$(5,055)$
$(464,517)$
$(16,517)$
$(481,034)$

192
192
10,407
10,407
10,599
$(52,622)$
$(12,969)$
$(65,591)$
$(54,992)$
$(18,359)$
$(133,214)$
$(151,573)$
$(21,832)$
$(88,865)$
$(2,171,888)$
$(50,734)$

## SINERGIA SECONDA SRL

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2003 (in euro)
A) AMOUNTS RECEIVABLE FROM SHAREHOLDERS ..... 0B) NON-CURRENT ASSETS
I - Intangible assets

1) set-up and expansion costs $0 \quad 21,125$
2) other 16,557 ..... 22,785
Total intangible assets 16,557 ..... 43,910
II - Fixed assets0
III - Financial assets
3) equity investments in
a) subsidiary companies ..... 20,000 ..... 20,000
20,00020,000
TOTAL NON-CURRENT ASSETS 36,557 ..... 63,910
C) CURRENT ASSETS। - Inventories
4) finished products and merchandise $10,560,789$ ..... 10,480,183 Total inventories $10,560,789$ ..... 10,480,183
II - Receivables
5) due from customers
a - due within 12 months ..... 23,949 ..... 44,320
6) due from subsidiary companies a - due within 12 months ..... 13,938,107
$14,044,756$
7) due from others
a - due within 12 months ..... 6,093 ..... 3,810
Total receivables ..... $13,968,149$14,092,886
III - Financial assets not heldas non-current assets00
IV - Cash and banks
8) bank and postal deposits ..... 0
9) cash and cash equivalents ..... 22 ..... 22
Total cash and banks ..... 22 ..... 22
TOTAL CURRENT ASSETS 24,528,96024,573,091
D) ACCRUED INCOME AND PREPAYMENTS
10) accrued income and prepayments ..... 34,442113,959
TOTAL ACCRUED INCOME AND PREPAYMENTS ..... 34,442 ..... 113,959

## LIABILITIES AND SHAREHOLDERS' EQUITY <br> A) SHAREHOLDERS' EQUITY

। - Share capital 10,200,000 ..... 10,200,000
II - Share premium reserve 0 ..... 0
III - Revaluation reserves ..... 0 ..... 0
IV - Legal reserve ..... 141,993
V - Reserve for own shares ..... 0 ..... 0
0
VI - Statutory reservesVII - Other reservesd) rounding difference of par value in euro1VIII- Profit (loss) carried forwardIX - Net profit (loss) for the yearTOTAL SHAREHOLDERS' EQUITY-128,724141,993142,3670
2-290,799
10,355,637 $10,213,271$162,075
B) RESERVES FOR RISKS AND CHARGES
2) for taxation ..... 1,4871,487
TOTAL RESERVES FOR RISKS AND CHARGES 1,487 ..... 1,487
C) RESERVES FOR SEVERANCE INDEMNITIES 0 ..... 0
D) PAYABLES3) due from banksa - due within 12 months 14,042,066$14,406,517$
6) due from suppliers
a - due within 12 months 76,075 ..... 68,474
11) taxes payable
a - due within 12 months 106,277 ..... 43,297
13) other payablesa - due within 12 months15,37514,972
TOTAL PAYABLES 14,239,793 ..... 14,533,260
E) ACCRUED LIABILITIES AND DEFERRED INCOME1) accrued liabilities and deferred income 3,0422,942
TOTAL ACCRUED LIABILITIESAND DEFERRED INCOME

3,042
2,942

| MEMORANDUM ACCOUNTS | $\mathbf{3 1 - 1 2 - 2 0 0 3}$ | $\mathbf{3 1 - 1 2 - 2 0 0 2}$ |
| :--- | ---: | ---: |
| b) Tenant guarantees | 55,196 | 62,943 |
| TOTAL MEMORANDUM ACCOUNTS | 55,196 | $\mathbf{6 2 , 9 4 3}$ |



## RIPOVAL SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002 (in euro)

BALANCE SHEET

| Assets |  |  | 31-12-2002 | 31-12-2001 |
| :---: | :---: | :---: | :---: | :---: |
| 10. | CASH AND BANKS |  | 82,927 | 86,547 |
| 20. | DUE FROM BANKS |  | 77,491 | 20,599 |
|  | a) Sight |  | 77,491 |  |
| 40. | DUE FROM CUSTOMERS |  | 21,717,095 | 12,101,929 |
|  | a) From taxpayers | 0 |  |  |
|  | b) From entities for ordinary tax rolls of which: | 892,864 |  |  |
|  | for instalments paid in advance to tax authorities | 825,333 |  |  |
|  | c) From other entities for tax collection | 20,824,231 |  |  |
| 50. | BONDS AND OTHER FIXED-INTEREST SECURITIES <br> a) public issuers | 0 | 0 | 251,000 |
| 90. | INTANGIBLE ASSETS of which: |  | 26,087 | 17,273 |
|  | set-up costs | 755 |  |  |
| 100. | FIXED ASSETS |  | 1,460,744 | 1,588,980 |
|  | a) Land and buildings | 1,276,590 |  |  |
|  | b) Equipment and machinery | 104,351 |  |  |
|  | c) Furniture and office machines | 71,449 |  |  |
|  | d) Other assets | 8,354 |  |  |
| 130. | OTHER ASSETS |  | 362,030 | 555,182 |
| 140. | ACCRUED INCOME AND PREPAYMENTS |  | 9,679 | 8,850 |
|  | a) Prepayments | 9,679 |  |  |
| Total assets |  |  | 23,736,053 | 14,630,359 |



## INCOME STATEMENT

| Costs |  |  | 2002 | 2001 |
| :---: | :---: | :---: | :---: | :---: |
| 10. | INTEREST EXPENSE AND SIMILAR CHARGES of which: Interest on bank loans | 62,201 | 62,201 | 74,912 |
| 20. | COMMISSIONS AND FEES FOR COLLECTION SERVICES <br> a) For collection services <br> b) For other services | 252,617 <br> 154,493 | 407,110 | 444,194 |
| 40. | ADMINISTRATIVE EXPENSES <br> a) Personnel expenses of which: <br> Wages and salaries 967,242 <br> Social security contributions <br> Contribution for capital <br> b) Expenses for professional services <br> c) Consumables and miscellaneous office costs <br> d) Expenses for non-professional services <br> e) Expenses for the use of third-party assets <br> f) Indirect taxes and duties | 1,409,096 $\begin{array}{r} 274,824 \\ 195,558 \\ 103,383 \\ 20,408 \\ 115,484 \end{array}$ | 2,118,753 | 2,132,326 |
| 50. | ADJUSTMENTS TO INTANGIBLE AND FIXED ASSETS <br> a) Amortization of intangible assets <br> b) Depreciation of fixed assets | 20,226 $143,911$ | 164,137 | 261,611 |
| 60. | ADJUSTMENTS TO EMOLUMENTS |  | 6,500 | 7,236 |
| 70. | PROVISIONS FOR RISKS AND CHARGES |  | 69,000 | 108,456 |
| 110. | EXTRAORDINARY CHARGES |  | 6,517 | 119,342 |
| 130. | INCOME TAXES FOR THE YEAR |  | 167,000 | 291,798 |
| 140. | NET PROFIT FOR THE YEAR |  | 170,389 | 323,286 |
| Total |  |  | 3,171,607 | 3,763,160 |



## ARCA VITA SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002 (in euro)

BALANCE SHEET

## ASSETS

## B. INTANGIBLE ASSETS

1. Acquisition commission to be amortized
a) life business
b) accident business
2. Start-up and expansion costs
3. Goodwill
4. Other deferred charges

## c. INVESTMENTS

I Land and buildings

1. buildings for business purposes
2. buildings leased to third parties

II Investments in Group companies and other equity investments

1. Shares and quotas:
b) subsidiaries
e) other

III Other financial investments

1. Shares and quotas:
a) listed shares
2. Units in mutual funds
3. Bonds and other fixed-yield securities a) listed
b) unlisted
c) convertible bonds
4. Loans
b) loans on insurance policies
5. Other financial investments
D. INVESTMENTS BENEFITING LIFE ASSURANCE POLICYHOLDERS

BEARING RISKS AND THOSE DERIVING FROM THE MANAGEMENT OF PENSION FUNDS
I. Investments relating to services linked to investment funds and stockmarket indices

D Bis. TECHNICAL RESERVES CARRIED BY REINSURERS
II LIFE BUSINESS

1. Actuarial reserves
2. Premium reserves for supplementary insurance
3. Reserve for claims to be settled
E. RECEIVABLES

I Receivables deriving from direct insurance transactions with:

1. Policyholders
a) for premiums for the year
b) for premiums of previous years
2. Insurance brokers
3. Insurance company current accounts

II Receivables deriving from reinsurance transactions:

1. Insurance and reinsurance companies

III Other receivables
F. OTHER ASSETS

I Fixed assets and inventories

1. Furniture, office machines and internal transport vehicles
2. Publicly-registered assets
3. Plant and equipment

II Liquidity

1. Bank and post office deposits
2. Cheques and cash

IV Other assets
2. Sundry assets
G. ACCRUED INCOME AND PREPAYMENTS

1. Interest
2. Leasing instalments
3. Other

TOTAL ASSETS

|  |  |  |  |  |  |  |
| ---: | ---: | ---: | ---: | ---: | ---: | ---: |
|  |  |  |  |  |  |  |

## LIABILITIES AND SHAREHOLDERS' EQUITY

## A. SHAREHOLDERS' EQUITY

| Share capital
II Share premium reserve
III Revaluation reserves
IV Legal reserve
VII Other reserves
VIII Retained earnings (accumulated losses)
IX Net profit (loss) for the year

## C. TECHNICAL RESERVES

II LIFE BUSINESS

1. Actuarial reserves
2. Premium reserves for supplementary insurance
3. Reserve for claims to be settled
4. Other technical reserves
D. INVESTMENTS BENEFITING LIFE ASSURANCE POLICYHOLDERS BEARING RISKS AND THOSE DERIVING FROM THE MANAGEMENT OF PENSION FUNDS
5. Investments relating to services linked to investment funds and stockmarket indices

## E. PROVISIONS FOR RISKS AND CHARGES

3. Other provisions

## F. DEPOSITS RECEIVED FROM REINSURERS

G. PAYABLES AND OTHER LIABILITIES

I Payables, deriving from direct insurance transactions, with:

1. Insurance brokers
2. Insurance company current accounts

II Payables, deriving from reinsurance transactions, with:

1. Insurance company current accounts

IV Due to banks
VII Reserve for severance indemnities
VIII Other payables

1. Taxes rechargeable to policyholders
2. Miscellaneous tax liabilities
3. Due to social and welfare institutions
4. Miscellaneous payables

IX Other liabilities
2. Commission on premiums being collected
3. Miscellaneous liabilities


## MEMORANDUM ACCOUNTS

II Guarantees received

1. Sureties

III Guarantees granted by third parties in the company's interest

IV Commitments

VII Securities with third parties

| $4,090,000$ | $4,090,000$ |
| ---: | ---: |
| $10,000,000$ |  |
| $27,755,665$ | $88,474,849$ |
| $2,751,454,858$ | $2,776,633,484$ |

II TECHNICAL STATEMENT - LIFE BUSINESS

1. PREMIUMS FOR THE YEAR, NET OF AMOUNTS TRANSFERRED TO REINSURERS:
a) Gross premiums calculated
b) (-) premiums transferred to reinsurers
2. INVESTMENT INCOME:
a) Income from shares and quotas
b) Income from other investments:
aa) land and buildings
bb) other investments
(of which from Group companies)
c) Writebacks of investments
d) Proceeds on the sale of investments
3. INCOME AND UNREALIZED GAINS RELATING TO INVESTMENTS BENEFITING POLICYHOLDERS

BEARING RISK AND TO INVESTMENTS DERIVING FROM THE MANAGEMENT OF PENSION FUNDS
4. OTHER TECHNICAL INCOME, NET OF AMOUNTS TRANSFERRED TO REINSURERS
5. ACCIDENT RELATED EXPENSE, NET OF AMOUNTS TRANSFERRED TO REINSURERS:
a) Claims settled:
aa) gross amounts
bb) (-) amounts transferred to reinsurers
b) Change in reserve for claims to be settled:
aa) gross amounts
bb) (-) amounts transferred to reinsurers
6. CHANGES IN ACTUARIAL AND OTHER TECHNICAL RESERVES, NET OF AMOUNTS TRANSFERRED TO REINSURERS
a) Actuarial reserves:
aa) gross amounts
bb) (-) amounts transferred to reinsurers
b) Premium reserves for supplementary insurance:
aa) gross amounts
bb) (-) amounts transferred to reinsurers
c) Other technical reserves:
aa) gross amounts
bb) (-) amounts transferred to reinsurers
d) Technical reserves of life assurance business where investment risk is borne
by the policyholder and reserves deriving from the management of pension funds:
aa) gross amounts
bb) (-) amounts transferred to reinsurers
8. OPERATING EXPENSES:
a) Acquisition commission
b) Other acquisition expenses
c) Change in commission and other acquisition expenses to be amortized
d) Collection commission
e) Other administrative expenses
f) (-) Commission and profit-sharing received from reinsurers
9. INVESTMENT EXPENSE AND OTHER FINANCIAL CHARGES:
a) Investment operating expense and interest expense
b) Value adjustments to investments
c) Losses on the sale of investments
10. INVESTMENT EXPENSE AND OTHER FINANCIAL CHARGES

AND UNREALIZED LOSSES RELATING TO INVESTMENTS BENEFITING POLICYHOLDERS
BEARING RISK AND TO INVESTMENTS DERIVING FROM THE MANAGEMENT OF PENSION FUNDS
11. OTHER TECHNICAL CHARGES, NET OF AMOUNTS TRANSFERRED TO REINSURERS
12. (-) PORTION OF INVESTMENT INCOME TRANSFERRED FROM THE LIFE BUSINESS TECHNICAL STATEMENT (caption III. 4)
13. LIFE ASSURANCE BUSINESS - TECHNICAL STATEMENT RESULTS (caption III. 2)

III NON-TECHNICAL STATEMENT
2. LIFE ASSURANCE BUSINESS - TECHNICAL STATEMENT RESULTS (caption II. 13)
4. (+) PORTION OF INVESTMENT INCOME TRANSFERRED FROM THE LIFE BUSINESS TECHNICAL STATEMENT (caption II. 12)
7. OTHER INCOME
8. OTHER CHARGES
9. RESULT FROM ORDINARY ACTIVITY
10. EXTRAORDINARY INCOME
11. EXTRAORDINARY EXPENSE
12. RESULT FROM EXTRAORDINARY ACTIVITY
13. RESULT BEFORE TAXES
14. INCOME TAXES FOR THE YEAR
15. NET PROFIT (LOSS) FOR THE YEAR



# REPORT OF THE INDEPENDENT AUDITORS ON THE FINANCIAL STATEMENTS 

IN ACCORDANCE WITH ART. 156 OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 (Translation from the original issued in Italian)

To the Shareholders of
BANCA POPOLARE DI SONDRIO
Società Cooperativa a Responsabilità Limitata

1. We have audited the financial statements of Banca Popolare di Sondrio S.c. a r.l. for the year ended 31 December 2003. Preparation of the financial statements is the responsibility of the bank's Board of Directors. We are responsible for the professional opinion on the financial statements, which we have formed on the basis of our audit.
2. Our examination was conducted according to the auditing standards recommended by CONSOB. Accordingly, the audit was planned and carried out so as to acquire all information necessary for determining whether the financial statements contain significant errors and whether they are, on the whole, reliable. The audit procedures include random checks of the elements supporting the balances and other information in the financial statements, as well as a verification that the accounting policies are appropriate and the estimates made by the directors are reasonable. We believe that the procedures carried out provide a fair basis on which to express our professional opinion.
For our opinion of the prior year's financial statements, whose figures are presented for comparison purposes as required by law, please see our report dated 13 February 2003.
3. In our opinion, the financial statements of Banca Popolare di Sondrio S.c. a r.l. as of 31 December 2003 comply with all pertinent regulations. Therefore, they have been prepared clearly and provide a true and fair view of the bank's assets and liabilities, financial position and results for the year.

Milan, 18 February 2004


## 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) SA - Lugano, Switzerland

The parent bank owns the entire share capital of Banca Popolare di Sondrio (SUISSE) SA of CHF $50,000,000$ which is fully paid in.

The consolidation area 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.

The Swiss economy marked time. In fact, the most dependable forecasts are pointing towards slower growth in gross domestic product albeit with some signs of recovery in the last part of the year.

Despite the overall gloom, the financial services, banking and insurance sector has held up well.

Inflation continued to be extremely low, at around $0.6 \%$. Interest rates came down once more following a cut by the Swiss Central Bank. Unemployment is running at a rate of $4.1 \%$, reflecting the tough economic environment.

The Swiss franc lost some of its value against the euro, while the country's financial market followed the general trend with the Zurich Stock Exchange reporting a gain of $18.51 \%$.

Conditions in the cantons where Banca Popolare di Sondrio (SUISSE) SA is active were much like in the rest of the country.

## GEOGRAPHICAL EXPANSION

The past year saw the Group considerably expand its branch network once more, adopting a strategy that combined entry into new geographical areas with a reinforcement of its share of the markets already served.

The parent bank particularly consolidated its positions in Lombardy and the capital, further enhancing its reputation as a regional bank. The new branch in Merano, the Group's first in the Trentino Alto Adige region, opened up a new market towards the north. The report on performance accompanying the parent bank's financial statements describes these events in more detail.

Banca Popolare di Sondrio (SUISSE) SA made continued efforts to consolidate its position within Switzerland, while also seeking to expand
its operations internationally. On the domestic front it sought to bring to full fruition the major investment in its more recently opened branches. In terms of international activities, the year marked the opening of the Montecarlo branch in the Principality of Monaco with the objective of providing retail banking services to the some 15,000 Italians who reside or work there, and the principality's households and small businesses, many of whom are active in the import-export sector. The branch is also authorised to grant mortgage loans for the purchase of properties in France.

At the end of 2003, the Group had a total of 204 branches and 2 representative offices.

## GROUP PERFORMANCE

## Funding

The general tendency for investors to stay liquid continued once more this year. This worked to the Group's advantage in the primary funding

CONSOLIDATED DIRECT CUSTOMER DEPOSITS

| (in thousands of euro) | $\mathbf{2 0 0 3}$ | $\%$ <br> of total | $\mathbf{2 0 0 2}$ | $\%$ <br> of total | $\%$ <br> change |
| :--- | ---: | ---: | ---: | ---: | ---: |
| Savings deposits | 629,389 | 7.28 | 532,024 | 6.89 | 18.30 |
| Certificates of deposit | 46,735 | 0.54 | 49,232 | 0.64 | -5.07 |
| Bonds | 836,014 | 9.67 | 747,382 | 9.67 | 11.86 |
| Repo transactions | $1,224,913$ | 14.17 | $1,264,031$ | 16.36 | -3.09 |
| Bank drafts and similar | 76,510 | 0.88 | 73,957 | 0.96 | 3.45 |
| Current accounts | $5,317,595$ | 61.50 | $4,760,494$ | 61.62 | 11.70 |
| Current accounts in foreign currency | 515,392 | 5.96 | 298,236 | 3.86 | 72.81 |
| Total | $\mathbf{8 , 6 4 6 , 5 4 8}$ | $\mathbf{1 0 0 . 0 0}$ | $\mathbf{7 , 7 2 5 , 3 5 6}$ | $\mathbf{1 0 0 . 0 0}$ | $\mathbf{1 1 . 9 2}$ |

TOTAL CONSOLIDATED FUNDING

| (in thousands of euro) | $\mathbf{2 0 0 3}$ | $\%$ <br> of total | $\mathbf{2 0 0 2}$ | $\%$ <br> of total | $\%$ <br> change |
| :--- | ---: | ---: | ---: | ---: | ---: |
| Total direct customer deposits | $8,646,548$ | 33.23 | $7,725,356$ | 31.41 | 11.92 |
| Total indirect customer deposits | $14,250,010$ | 54.77 | $13,137,192$ | 53.42 | 8.47 |
| Total insurance-related deposits | 372,413 | 1.43 | 328,931 | 1.34 | 13.22 |
| Total | $\mathbf{2 3 , 2 6 8 , 9 7 1}$ | $\mathbf{8 9 . 4 3}$ | $\mathbf{2 1 , 1 9 1 , 4 7 9}$ | $\mathbf{8 6 . 1 7}$ | $\mathbf{9 . 8 0}$ |
| Due to other banks | 853,950 | 3.28 | $1,122,259$ | 4.56 | -23.91 |
| Indirect deposits from banks | $1,895,639$ | 7.29 | $2,278,524$ | 9.26 | -16.80 |
| Third-party funds under administration | 14 | 0.00 | 65 | 0.01 | $-\mathbf{7 8 . 4 6}$ |
| Grand total | $\mathbf{2 6 , 0 1 8 , 5 7 4}$ | $\mathbf{1 0 0 . 0 0}$ | $\mathbf{2 4 , 5 9 2 , \mathbf { 3 2 7 }}$ | $\mathbf{1 0 0 . 0 0}$ | $\mathbf{5 . 8 0}$ |

sector thanks to the good reputation it enjoys with its customers. Even the Group's more recently opened branches made a positive contribution in this sense, allowing it to penetrate attractive new markets.

Direct customer deposits went up $11.92 \%$ to 8,647 million. Deposits received from other banks fell $23.91 \%$ to 854 million.

Indirect customer deposits climbed 8.47\% to 14,250 million, insurance-related deposits went up by $13.22 \%$ to 372 million, while indirect deposits from banks fell $16.80 \%$ to 1,896 million.

As a net result, total consolidated funding increased by $5.80 \%$ to 26,019 million.

Analysing the components of direct deposits, the growth in current accounts was of particular note, reporting an increase of $15.31 \%$ to 5,833 million and reflecting customers' continued preference for liquidity. Bonds were also significantly higher, up $11.86 \%$ to 836 million, as were the ever popular savings deposits, $18.30 \%$ more to 629 million. Among the other
components, repo transactions were down by $3.09 \%$ to 1,225 million.

Although financial and equity markets started to show some signs of recovery, the uncertainty long dominating them affected performance in the asset management sector. Despite a difficult tough context overall, the Group nonetheless managed to report an impressive set of results, with assets under management rising $23.57 \%$ on the prior year to 3,244 million.

## Loans

The good progress in funding was accompanied by an equally positive performance by customer loans, which went up by $14.82 \%$ to 7,540 million. The scale of this increase was partly due to the reduced cost of borrowing, with interest rates still at a very low level indeed.

There continued to be strong demand for home loans by individuals to purchase their

CONSOLIDATED CUSTOMER LOANS

| (in thousands of euro) | $\mathbf{2 0 0 3}$ | $\%$ <br> of total | $\mathbf{2 0 0 2}$ | $\%$ <br> of total | $\%$ <br> change |
| :--- | ---: | ---: | ---: | ---: | ---: |
| Current account overdrafts | $2,617,318$ | 34.71 | $2,338,593$ | 35.61 | 11.92 |
| Foreign currency loans | $1,213,666$ | 16.10 | $1,125,252$ | 17.14 | 7.86 |
| Advances | 314,327 | 4.17 | 281,397 | 4.29 | 11.70 |
| Advances subject to collection | 108,975 | 1.45 | 99,590 | 1.52 | 9.42 |
| Discounted portfolio | 7,460 | 0.10 | 7,598 | 0.12 | -1.82 |
| Artisan loans | 37,450 | 0.50 | 40,925 | 0.62 | -8.49 |
| Agricultural loans | 11,738 | 0.16 | 4,820 | 0.07 | 143.53 |
| Personal loans | 64,387 | 0.85 | 63,212 | 0.96 | 1.86 |
| Other unsecured loans | $1,252,639$ | 16.61 | $1,057,156$ | 16.10 | 18.49 |
| Mortgage loans | $1,840,612$ | 24.41 | $1,470,738$ | 22.40 | 25.15 |
| Non-performing loans | 70,767 | 0.94 | 76,495 | 1.16 | -7.49 |
| Items to be settled | 375 | 0.00 | 627 | 0.01 | -40.19 |
| Total | $\mathbf{7 , 5 3 9 , 7 1 4}$ | $\mathbf{1 0 0 . 0 0}$ | $\mathbf{6 , 5 6 6 , 4 0 3}$ | $\mathbf{1 0 0 . 0 0}$ | $\mathbf{1 4 . 8 2}$ |

principal place of residence and for mortgage loans, which increased by $25.15 \%$ to 1,841 million, representing $24.41 \%$ of the total. Current account overdrafts also forged ahead, rising by $11.92 \%$ to 2,617 million, while other unsecured loans moved up $18.49 \%$ to 1,253 million.

Non-performing loans, net of write-downs, amounted to $0.94 \%$ of total customer loans compared with $1.16 \%$ the year before. This figure bears witness to the continued high quality of the loan portfolio, confirming the Group's vigilant approach to monitoring lending risk.

## Securities portfolio

The securities portfolio amounted to 1,915 million at year end, having risen by $4.65 \%$ over the period. Movements in the portfolio are detailed in table 2.4 of the notes to the consolidated financial statements. Given the overall importance of the parent bank's portfolio relative to the total, the reader is referred to the report on performance accompanying its financial statements for information on investment policies.

The value of Banca Popolare di Sondrio's stock rose by $13.99 \%$ over the year. Most of this gain took place after the parent bank's Board of Directors approved the plan for a capital increase.

As of 31 December 2003 the parent bank owned none of its own shares, against a reserve for the purchase of own shares of 19 million.

In 2003, 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) SA did not carry out any transactions in its own shares or in those of the parent bank.

The other consolidated companies did not carry out any transactions in their own or the parent bank's shares either.

There are no cross-holdings among the companies included in the consolidation area.

## EQUITY INVESTMENTS

Equity investments amounted to 89 million as of 31 December 2003, having increased by 14 million 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.

The table below sets out the balances with non-consolidated subsidiaries and associated companies. Interest income of $€ 0.877$ million and interest expense of $€ 0.151$ million has been debited or credited to these companies.

Intercompany transactions are always conducted in the interest of the individual companies concerned and at arm's length conditions.

Related party transactions, as defined in CONSOB communiqué no. DEM/2064231 of 30 September 2002, form part of the Group's ordinary

|  | No. of <br> shares | Total par <br> value | \% of share <br> capital | Amount of <br> trade |
| :--- | ---: | ---: | ---: | ---: |
| Balance as of 31/12/2002 | 58,998 | 176,994 | 0.043 | $605,589.19$ |
| Purchases | 144,157 | 432,471 | 0.105 | $1,557,202.03$ |
| Sales | 203,155 | 609,465 | 0.148 | $2,217,826.41$ |
| Profit from trading |  |  |  | $55,035.19$ |
| Balance as of 31/12/03 | 0 | 0 | 0.000 | 0.00 |

## BALANCES WITH NON-CONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

Situation as of 31 December 2003 (in thousands of euro)

|  | Subsidiaries of the parent bank |  | Subsidiaries of other subsidiaries |  | Associated companies of the parent bank |  | Associated companies of subsidiaries |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| ASSETS |  |  |  |  |  |  |  |  |
| Due from other banks | - | - | - | - | - | - | - | - |
| Customer loans | 15,749 | 16,119 | 2 | 11 | 2,136 | 7,599 | 24 | 133 |
| Securities | - | - | - | - | 9,723 | 9,341 | - | - |
| LIABILITIES |  |  |  |  |  |  |  |  |
| Due to other banks | - | - | - | - | - | - | - | - |
| Customer deposits | - | - | 1,159 | 71 | 6,359 | 5,610 | 456 | 420 |
| GUARANTEES AND COMMITMENTS |  |  |  |  |  |  |  |  |
| Guarantees granted | 146 | 176 | 1,277 | - | 6,528 | 6,534 | 189 | 311 |
| Commitments | - | - | - | - | - | - | - | - |

operations and are regulated at arm's-length conditions or, if no suitable parameters exist, at cost.

No atypical or unusual transactions that could have a significant impact on the Group's results, assets or finances were carried out either during 2003 or the current year.

## HUMAN RESOURCES

As of 31 December 2003, the Group's headcount came to 2,186 , up $6.06 \%$ on the figure of 2,061 reported at the end of 2002 . The increase in personnel is mainly due to recruits for the new branches opened as part of the Group's distribution network.

A personnel breakdown by category is contained in the notes.

## CAPITAL AND RESERVES

Consolidated shareholder's equity as of 31 December 2003 came to 860.519 million, an
increase of $4.20 \%$ over the year, mainly thanks to the appropriations made at the time of apportioning the 2002 net profit.

The ratios between capital and the main balance sheet items are as follows:

- capital/direct customer deposits
9.21\% v 10.05\%
- capital/customer loans
$10.57 \%$ v 11.82\%
- capital/financial investments
28.68\% v 24.75\%
- capital/total assets
7.28\% v 7.62\%


## RECONCILIATION BETWEEN THE PARENT BANK'S AND THE CONSOLIDATED FINANCIAL STATEMENTS

Because of the difference in size between the parent bank and the other companies being consolidated, the individual contributions of the
latter are not very significant, although certainly not negligible either. The following table reconciles the items «net profit for the year» and «shareholders' equity» as shown in the parent bank's and in the consolidated financial statements.

At 231.475 million, net interest income was $6.70 \%$ higher, with the growth in volumes offsetting the drop in interest rates and related spreads. Income from customer loans fell by $2.73 \%$ to 394.571 million. The cost of funding decreased by $13.54 \%$ to 167.576 million.

# RECONCILIATION BETWEEN SHAREHOLDERS' EQUITY AND NET PROFIT FOR THE YEAR AS SHOWN IN THE PARENT BANK'S AND THE CONSOLIDATED FINANCIAL STATEMENTS 

(in thousands of euro)

|  | Shareholders' <br> equity | of which: net <br> profit for the year |
| :--- | ---: | ---: |
| Shareholders' equity of the parent bank as of $31 / 12 / 2003$ | 834,074 | 60,117 |
| Difference with respect to carrying values of equity investments in: | 28,087 | 4,451 |
| - companies consolidated on a line-by-line basis | $(1,642)$ | $(695)$ |
| - companies valued at net equity | $\mathbf{8 6 0 , 5 1 9}$ | $\mathbf{6 3 , 8 7 3}$ |
| Balance at $\mathbf{3 1 / 1 2 / 2 0 0 3}$, as shown in the consolidated financial statements |  |  |

Consolidated shareholders' equity, including the reserve for possible loan losses, amounts to 876.992 million, while the parent bank's shareholders' equity, including the reserve for possible loan losses, amounts to 841.276 million.

## INCOME STATEMENT

The context in which the Group had to operate during 2003 was generally not very favourable. Both the Swiss and Italian economies were marked by pervasive stagnation, bordering at times on outright recession.

In view of these circumstances, our Group results are really quite satisfactory: a net profit of 63.873 million, representing an improvement of $28.48 \%$ on the previous year.

Income statement trends largely reflect those seen in the parent bank's own financial statements.

Net commission income grew at the satisfactory rate of $5.22 \%$ to 118.961 million, mostly thanks to revenue from payment and collection services.

Profits from financial transactions soared $73.51 \%$ to 25.385 million, while gains on securities fell by $18.93 \%$ to 10.921 million.

Capital losses on securities totalled 1.967 million, a decrease of $84.78 \%$, while write-backs relating to prior year write-downs, came to 4.715 million compared with 0.193 million in the prior year. Profits from currency trading were $15.23 \%$ lower at 11.423 million.

These movements were reflected in income from banking activities, which rose $9.05 \%$ to 375.821 million.

Other operating income climbed $16.23 \%$ to 27.308 million.

Administrative expenses rose $6.06 \%$ to 230.795 million.

Personnel expenses were $7.42 \%$ higher at 120.824 million, reflecting the need for new

## RECLASSIFIED CONSOLIDATED INCOME STATEMENT

| (in thousands of euro) | 2003 | 2002 | change |
| :---: | :---: | :---: | :---: |
| Interest income and similar revenues | 394,571 | 405,641 | -2.73 |
| Interest expense and similar charges | $(167,576)$ | $(193,810)$ | -13.54 |
| Dividends and other revenues | 4,480 | 5,109 | -12.31 |
| NET INTEREST INCOME | 231,475 | 216,940 | 6.70 |
| Net commission income | 118,961 | 113,062 | 5.22 |
| Profits from financial transactions | 25,385 | 14,630 | 73.51 |
| - profit from trading securities and derivatives on securities | 10,921 | 13,471 | -18.93 |
| - profit from trading currency and derivatives on currency | 11,423 | 13,476 | -15.23 |
| - profit from trading other derivatives | 293 | 412 | -28.88 |
| - gain (loss) on valuing securities | 2,748 | $(12,729)$ | - |
| INCOME FROM BANKING ACTIVITIES | 375,821 | 344,632 | 9.05 |
| Other operating income | 27,308 | 23,494 | 16.23 |
| Administrative expenses | $(230,795)$ | $(217,616)$ | 6.06 |
| - personnel expenses | $(120,824)$ | $(112,475)$ | 7.42 |
| - other administrative expenses | $(80,915)$ | $(77,561)$ | 4.32 |
| - indirect taxes and duties | $(29,056)$ | $(27,580)$ | 5.35 |
| Other operating expenses | $(3,643)$ | $(3,142)$ | 15.95 |
| OPERATING PROFIT | 168,691 | 147,368 | 14.47 |
| Adjustments to intangible and fixed assets | $(22,830)$ | $(21,809)$ | 4.68 |
| Provisions for risks and charges | - | $(5,000)$ | - |
| Loan write-downs and provisions for guarantees and commitments <br> - loan write-downs <br> - provisions for guarantees and commitments | $\begin{array}{r} (56,170) \\ (1,500) \end{array}$ | $(42,981)$ | 30.69 |
| Write-backs to loans and provisions for guarantees and commitments | 23,421 | 19,010 | 23.20 |
| Provisions to reserves for possible loan losses | $(3,965)$ | $(10,045)$ | -60.53 |
| Adjustments to the value of long-term financial assets | (665) | $(1,607)$ | -58.62 |
| Write-backs to long-term financial assets | - | 206 | - |
| Gains/(losses) on investments valued at net equity | 511 | 675 | -24.30 |
| PROFIT FROM ORDINARY OPERATIONS | 107,493 | 85,817 | 25.26 |
| Extraordinary income | 1,281 | 2,203 | -41.85 |
| Extraordinary charges | (786) | $(1,719)$ | -54.28 |
| PROFIT BEFORE TAX | 107,988 | 86,301 | 25.13 |
| Change in reserve for general banking risks | $(1,266)$ | - | - |
| Income taxes | $(42,849)$ | $(36,588)$ | 17.11 |
| NET PROFIT FOR THE YEAR | 63,873 | 49,713 | 28.48 |

[^2]recruits to staff the expanding branch network. As a proportion of total administrative expenses, personnel costs rose from $51.68 \%$ to $52.35 \%$.

Other administrative expenses came to 109.971 million, increasing by $4.59 \%$ which was less than half their prior year rate. Total administrative expenses accounted for $61.41 \%$ of income from banking activities, compared with last year's figure of $63.14 \%$.

Other operating expenses increased by $15.95 \%$ to 3.643 million.

As a result, operating profit came to 168.691 million, $14.47 \%$ up on last year's figure of 147.368 million.

The following items have been deducted from operating profit to arrive at the profit before tax:

- adjustments to intangible and fixed assets of 22.830 million ( $+4.68 \%$ );
- loan write-downs and provisions for guarantees and commitments of 57.670 million (+34.18\%). The write-downs are based on a reasonable forecast of the possible write-offs arising from any loans classified as non-performing, watchlist and restructured, in addition to definitive loan losses that have already been written off. The write-downs also include a general provision against the risk that performing loans might turn bad;
- write-backs to loans and provisions for guarantees and commitments, totalling 23.421 million (+23.20\%);
- provisions to reserves for possible loan losses of 3.965 million ( $-60.53 \%$ ); these 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 benefit;
- adjustments to the value of long-term financial assets of 0.665 million ( $-58.62 \%$ ); gains on investments valued at net equity of 0.511 million (-24.30\%);
- extraordinary income of 1.281 million and extraordinary charges of 0.786 million.

As a result, profit before tax came in at 107.988 million ( $+25.13 \%$ ).

After deducting 1.266 million in provisions to the reserve for general banking risks, and 42.849 million ( $+17.11 \%$ ) in income and business taxes, the net profit for the year came to 63.873 million (+28.48\%).

## 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 2003. As regards Switzerland, there is nothing to report that may significantly change the context in which Banca Popolare di Sondrio (SUISSE) SA operates.

In terms of the business prospects for 2004, we expect volumes to carry on increasing. The management of services is also expected to improve and hence benefit the Group's profitability.

Sondrio, 2 February 2004
THE BOARD OF DIRECTORS

## REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE 2003 CONSOLIDATED FINANCIAL STATEMENTS

Shareholders,
We have examined the Bank's consolidated financial statements for 2003, consisting of the balance sheet, income statement and explanatory notes and accompanied by the directors' report on operations. We have checked compliance with the rules laid down in Legislative Decree 87/92 and Bank of Italy instructions dated 30 July 2002.

There have been increases in most items during the year. Direct deposits rose to 8,647 million (+11.92\%); indirect funding increased by $8.47 \%$ to 14,250 million; loans amounted to 7,540 million after growth of $14.82 \%$; consolidated shareholders' equity came to 861 million ( $+4.20 \%$ ) and the net profit was 63.87 million ( $+28.48 \%$ ).

These are satisfactory figures in our opinion, the result of intense efforts in circumstances that were not always favourable and the product of good management to protect the Bank's capital and to foster growth also on the part of the subsidiaries.

The consolidation area has remained the same. The most important subsidiary is Banca Popolare di Sondrio (SUISSE) SA, which operates in Switzerland, making it subject to the control of the Federal Bank Commission, that country's supervisory authority.

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.

The consolidation methods, as explained in the notes, are consistent with those used in previous years.

The consolidation has been carried out on the basis of company accounts approved by their respective Boards of Directors and checked by their respective statutory and independent auditors.

The consolidated financial statements were audited by Deloitte \& Touche spa, who issued the attached audit report.

The consolidated report on operations discloses intercompany transactions and balances with subsidiary and associated companies that are not included in the consolidation area.

Talking of which, we can confirm to you that intercompany transactions have always been carried out in the interests of the individual companies concerned and at market conditions. Similarly, any related party transactions have always formed part of the Bank's normal activities, excluding any atypical or unusual transactions.

We would add that there are no cross holdings between companies included in the consolidation and all transactions and balances between them have been eliminated.

Sondrio, 16 February 2004

THE STATUTORY AUDITORS<br>Egidio Alessandri, Chairman<br>Pio Bersani, Acting Auditor<br>Piergiuseppe Forni, Acting Auditor

# CONSOLIDATED <br> FINANCIAL STATEMENTS <br> AS OF 31 DECEMBER 2003 

## CONSOLIDATED BALANCE SHEET

(in thousands of euro)

| 10. | CASH ON HAND AT CENTRAL BANKS AND POST OFFICES |  | 70,794 |  | 72,640 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 20. | TREASURY AND SIMILAR BILLS ELIGIBLE FOR REFINANCING AT CENTRAL BANKS |  | 348,226 |  | 329,115 |
| 30. | DUE FROM OTHER BANKS: <br> a) sight <br> b) others | $\begin{aligned} & 445,766 \\ & 328,026 \end{aligned}$ | 773,792 | $\begin{aligned} & 689,163 \\ & 541,385 \end{aligned}$ | 1,230,548 |
| 40. | CUSTOMER LOANS <br> of which: <br> - from third-party funds under administration | 15 | 7,539,714 | 67 | 6,566,403 |
| 50. | BONDS AND OTHER FIXED-YIELD SECURITIES: <br> a) from public issuers <br> b) from banks of which: - own securities <br> c) from financial institutions <br> d) from other issuers | $\begin{array}{r} 1,204,648 \\ 19,890 \\ 1,448 \\ 196,529 \\ 21,313 \end{array}$ | 1,442,380 | $\begin{array}{r} 1,148,678 \\ 20,322 \\ 1,307 \\ 211,536 \\ 12,755 \end{array}$ | 1,393,291 |
| 60. | SHARES, QUOTAS AND OTHER VARIABLE-YIELD SECURITIES |  | 124,304 |  | 107,439 |
| 70. | EQUITY INVESTMENTS: <br> a) valued at net equity <br> b) others | $\begin{aligned} & 44,083 \\ & 44,771 \end{aligned}$ | 88,854 | $\begin{aligned} & 34,618 \\ & 39,938 \end{aligned}$ | 74,556 |
| 100. | POSITIVE DIFFERENCE ARISING ON THE APPLICATION OF THE EQUITY METHOD |  | 7,342 |  | 3,990 |
| 110. | INTANGIBLE ASSETS |  | 18,101 |  | 17,807 |
| 120. | FIXED ASSETS |  | 73,208 |  | 76,571 |
| 140. | OWN SHARES |  | 0 |  | 606 |
| 150. | OTHER ASSETS |  | 399,140 |  | 265,176 |
| 160. | ACCRUED INCOME AND PREPAYMENTS: <br> a) accrued income <br> b) prepayments | 48,103 <br> 3,604 | 51,707 | $\begin{array}{r} 47,483 \\ 1,678 \end{array}$ | 49,161 |
|  | TOTAL ASSETS |  | 10,937,562 |  | 10,187,303 |


| 10. | DUE TO OTHER BANKS: <br> a) sight <br> b) time or with notice | $\begin{array}{r} 50,207 \\ 803,743 \end{array}$ | 853,950 | $\begin{array}{r} 76,041 \\ 1,046,218 \end{array}$ | 1,122,259 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 20. | CUSTOMER DEPOSITS: <br> a) sight <br> b) time or with notice | $\begin{aligned} & 6,060,561 \\ & 1,626,729 \end{aligned}$ | 7,687,290 | $\begin{aligned} & \text { 5,369,579 } \\ & 1,485,207 \end{aligned}$ | 6,854,786 |
| 30. | SECURITIES ISSUED: <br> a) bonds <br> b) certificates of deposit <br> c) other securities | $\begin{array}{r} 836,013 \\ 46,735 \\ 76,511 \end{array}$ | 959,259 | $\begin{array}{r} 747,382 \\ 49,232 \\ 73,956 \end{array}$ | 870,570 |
| 40. | THIRD-PARTY FUNDS UNDER ADMINISTRATION |  | 14 |  | 65 |
| 50. | OTHER LIABILITIES |  | 369,658 |  | 305,018 |
| 60. | ACCRUED LIABILITIES AND DEFERRED INCOME: <br> a) accrued liabilities <br> b) deferred income | $\begin{array}{r} 21,524 \\ 4,241 \end{array}$ | 25,765 | $\begin{array}{r} 24,847 \\ 2,997 \end{array}$ | 27,844 |
| 70. | RESERVE FOR SEVERANCE INDEMNITIES |  | 37,594 |  | 35,237 |
| 80. | RESERVES FOR RISKS AND CHARGES: <br> a) staff pension fund <br> b) taxation reserve <br> d) other reserves | $\begin{aligned} & 51,241 \\ & 49,423 \\ & 26,376 \end{aligned}$ | 127,040 | $\begin{aligned} & 49,536 \\ & 43,757 \\ & 25,304 \end{aligned}$ | 118,597 |
| 90. | RESERVES FOR POSSIBLE LOAN LOSSES |  | 16,473 |  | 27,056 |
| 100. | RESERVE FOR GENERAL BANKING RISKS |  | 40,000 |  | 38,734 |
| 130. | NEGATIVE DIFFERENCES ARISING ON APPLICATION OF NET EQUITY METHOD |  | 123 |  | 123 |
| 150. | SHARE CAPITAL |  | 412,698 |  | 412,698 |
| 160. | SHARE PREMIUM RESERVE |  | 135,886 |  | 135,886 |
| 170. | RESERVES: <br> a) legal reserve <br> b) reserve for own shares <br> c) statutory reserves <br> d) other reserves | $\begin{array}{r} 72,466 \\ 0 \\ 111,816 \\ 23,657 \end{array}$ | 207,939 | 64,954 606 97,799 25,358 | 188,717 |
| 200. | NET PROFIT FOR THE YEAR |  | 63,873 |  | 49,713 |
|  | TOTAL LIABILITIES |  | 10,937,562 |  | 10,187,303 |

GUARANTEES AND COMMITMENTS
31-12-2003
31-12-2002

| 10. | GUARANTEES GRANTED <br> of which: <br> - acceptances <br> - other guarantees | $\begin{array}{r} 3,146 \\ 1,704,378 \end{array}$ | 1,707,524 | $\begin{array}{r} 1,610 \\ 1,545,250 \end{array}$ | 1,546,860 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 20. | COMMITMENTS |  | 340,780 |  | 391,667 |

## CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

2003
2002


205

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements consist of the balance sheet, income statement and these notes, and are accompanied by the report of the Board of Directors, in accordance with Legislative Decree $87 / 92$, which regulates the annual and consolidated financial statements of banks, implementing EEC Directives $86 / 635$ and 89/117. In preparing the above, account has been taken of the Bank of Italy's Instructions of 30 July 2002.

The notes comment on the data in the financial statements, and contain the information required by current legislation.

All figures contained in the notes are in thousands of euro.
The consolidated financial statements, as well as the bank's statutory financial statements, have been audited by Deloitte \& Touche spa.

## CONSOLIDATION AREA

The consolidated financial statements include the data of the Banca Popolare di Sondrio S.c. a r.I. and of the Banca Popolare di Sondrio (SUISSE) SA, the latter operating in the area of credit and loans. Banca Popolare di Sondrio holds $100 \%$ of its share capital.

The consolidation is made on the basis of the annual accounts as of 31 December 2003 as approved by the respective Boards of Directors.

The subsidiary Sinergia Seconda srl, a real estate company headquartered in Milan and whollyowned by the bank, has been excluded from full consolidation as it does not meet the requirements of article 28 of Legislative Decree 87/92. It has valued under the net equity method on the basis of its financial statements as at 31 December 2003. The company owns $100 \%$ of Immobiliare San Paolo srl and Immobiliare Borgo Palazzo srl, both carried at equity.

The associated company Ripoval spa, a company over which the bank exercises considerable influence because of its $50 \%$ ownership, has been valued under the net equity method on the basis of its latest approved financial statements, which are those for the year ended on 31 December 2002.

The subsidiary Pirovano Stelvio spa has been excluded from full consolidation as it does not meet the requirements of article 28 of Legislative Decree 87/92, not being a credit or financial institution; nor is its business instrumental to the activity of the banking group. It has therefore also been valued under the net equity method on the basis of its financial statements for the year ended 31 December 2003.

The associated company Arca Vita spa, a company over which the bank exercises considerable influence because of its $32.528 \%$ ownership, has been valued under the net equity method on the basis of its latest approved financial statements, which are those for the year ended on 31 December 2002.

Sofipo Fiduciaire SA, an indirectly held associated company of Banca Popolare di Sondrio (SUISSE) SA, which owns $30 \%$ of the share capital, has also been valued under the net equity method on the basis of its latest approved financial statements, which are those for the year ended on 31 December 2003.

CBE-Service sprl, Servizi Internazionali e Strutture Integrate 2000 srl and B. \& A. Broker spa, the associated companies in which the bank holds interests of $23.30 \%, 33.33 \%$ and $28.57 \%$ respectively, have been valued at cost, in accordance with article 36.4 of Legislative Decree 87/92, as they are not considered significant.

## CONSOLIDATION POLICIES

The book value of the investments in Banca Popolare Sondrio (SUISSE) SA is eliminated against its net equity.

Intercompany balances and transactions are eliminated.

Insignificant income and charges pertaining to transactions carried out at normal market conditions have not been eliminated.

## OTHER CONSOLIDATION OPERATIONS

The valuation in euro of the figures in the financial statements of Banca Popolare di Sondrio (SUISSE) SA has been made applying the official exchange rate ruling at the year end. Its financial statements have been duly reclassified and adjusted, where necessary, to bring them into line with the accounting principles of the Group. The same format is used as for the financial statements of Banca Popolare di Sondrio s.c. a r.l.

## РART A Accounting policies

The accounting policies are consistent with those used to prepare the prior year financial statements.

## 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 non-performing loans, watchlist loans, loans being restructured and consolidated. The main non-performing loans collectible beyond one year have been discounted at an average market rate. The generic risk of losses that could occur on other loans in the future has been calculated on a forfeit basis and attributed proportionally to individual positions. Write-downs and write-ups are calculated by comparing the prior year value of each position with the current year value. The original value of a loan is duly restored in subsequent years if the reasons for the write-down no longer exist.

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

Watchlist 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.

Overdue interest accrued during the year is booked to the income statement to the extent collected or considered recoverable.

## 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 fixedyield 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 spa, Ripoval spa, Sinergia Seconda srl, Immobiliare San Paolo srl, Immobiliare Borgo Palazzo srl, Arca Vita spa and Sofipo Fiduciaire SA to which the value attributed is determined according to article 19 of Legislative Decree 87/92;
under sub-item b) others; the remaining equity investments are valued using the methods indicated below:
investments in unlisted companies are valued at cost, as determined on the basis of the purchase or subscription price, or else at the value indicated in the latest approved financial statements. The cost is reduced for permanent losses in value, when sufficient profits to absorb these losses are not immediately foreseeable for the affiliate that incurred them.
Equity investments in listed companies are valued at the lower of purchase or subscription price and market value, defined as the average quoted price in the second half of the year.
The original value is restored in subsequent years if the reasons for the write-down no longer exist.

Dividends 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 euro at year-end exchange rates; forward transactions are converted at the forward exchange rate ruling at the year end for maturities corresponding to those being valued; the effect of this valuation is charged to the income statement.

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

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

## 5. Fixed assets

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

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

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 taxes are recognized using the balance sheet liability method. In any case, there are no deferred tax liabilities on events or transactions that have not been recorded in the income statement.

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

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

## 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 - charged up until 2001 - for $€ 9.059$ million in accordance with article 67.c. 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 $€ 3.497$ million 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 $€ 16.473$ million, and other reserves for $€ 3.851$ million (a decrease of $€ 10.863$ million, net of provisions for $€ 3.965$ million); 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 $€ 6.192$ million 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»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) deposits with central banks | 83,322 | 79,021 |
| 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 at the Bank of Italy made by the Parent Bank.

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

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) assets eligible for refinancing at central banks | 8,075 | 1,960 |
| b) receivables from leasing contracts | - | - |
| c) repo transactions | - | - |
| d) securities lent | - | - |

### 1.6 Secured customer loans

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) by mortgages | $\mathbf{2 , 6 7 3 , 3 0 6}$ | $\mathbf{2 , 0 6 5 , 2 5 2}$ |
| b) by liens on: | $\mathbf{3 0 0 , 0 0 8}$ | $\mathbf{2 4 7 , 6 4 3}$ |
| 1. cash deposits | 1,154 | 1,050 |
| 2. securities | 286,011 | 236,914 |
| 3. other assets | 12,843 | 9,679 |
| c) by guarantees from: | $\mathbf{1 , 6 1 8 , 6 4 9}$ | $\mathbf{1 , 5 0 7 , 0 1 3}$ |
| 1. governments | - | 13 |
| 2. other public entities | 495 | 2,961 |
| 3. banks | 44,630 | 40,603 |
| 4. other operators | $1,573,524$ | $1,463,436$ |
| Total | $\mathbf{4 , 5 9 1 , 9 6 3}$ | $\mathbf{3 , 8 1 9 , 9 0 8}$ |

### 1.7 Customer Ioans

|  | 31/12/2003 |  |  |  |  | 31/12/2002 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Categories | Gross exposure | Total writedowns | $\begin{array}{r} \text { Net } \\ \text { exposure } \end{array}$ | Gross exposure | Total writedowns | $\begin{array}{r} \mathrm{Net} \\ \text { exposure } \end{array}$ |
| A. Doubtful loans | 242,818 | 101,089 | 141,729 | 240,477 | 68,108 | 172,369 |
| A.1. Non-performing | 156,349 | 85,582 | 70,767 | 124,789 | 48,294 | 76,495 |
| A.2. Watchlist | 59,134 | 7,657 | 51,477 | 70,842 | 10,677 | 60,165 |
| A.3. Loans being restructured | - | - | - | - | - | - |
| A.4. Restructured loans | 25,309 | 7,242 | 18,067 | 44,080 | 8,907 | 35,173 |
| A.5. Unsecured loans exposed to country risk | 2,026 | 608 | 1,418 | 766 | 230 | 536 |
| B. Performing loans | 7,442,413 | 44,428 | 7,397,985 | 6,432,652 | 38,618 | 6,394,034 |
| Total | 7,685,231 | 145,517 | 7,539,714 | 6,673,129 | 106,726 | 6,566,403 |

### 1.8 Movements in doubtful loans due from customers

|  |  |  |  |  | 31/12/2003 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Categories | Nonperforming Ioans | Watchlist loans | Loans being restructured | Restructured loans | Unsecured loans exposed to country risk |
| A. Gross exposure at 31/12/2002 | 124,789 | 70,842 | 0 | 44,080 | 766 |
| A.1. of which: overdue interest | 15,544 | 1 | - | - |  |
| B. Increases | 61,928 | 24,760 | 0 | 823 | 1,409 |
| B.1. transfers from performing loans | 32,707 | 21,075 | - | - |  |
| B.2. overdue interest | 4,524 | - | - | - |  |
| B.3. transfers from other categories of doubtful loans | 20,602 | - | - | - |  |
| B.4. other increases | 4,095 | 3,685 | - | 823 | 1,409 |
| C. Decreases | 30,368 | 36,468 | 0 | 19,594 | 149 |
| C.1. transfers to performing loans | - | 1,983 | - | 6,426 |  |
| C.2. write-offs | 14,535 | - | - | - |  |
| C.3. collections | 15,833 | 13,921 | - | 13,168 | 107 |
| C.4. proceeds from factored loans | - | - | - | - | - |
| C.5. transfers to other categories of doubtful loans | - | 20,560 | - | - | 42 |
| C.6. other decreases | - | 4 | - | - | - |
| D. Gross exposure at 31/12/2003 | 156,349 | 59,134 | 0 | 25,309 | 2,026 |
| D.1. of which: overdue interest | 17,462 | 1 | - | - |  |


| 31/12/2002 |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Categories | Nonperforming loans | Watchlist Ioans | Loans being restructured | Restructured loans | Unsecured loans exposed to country risk |
| A. Gross exposure at 31/12/2001 | 94,981 | 72,372 | 0 | 33,151 | 663 |
| A.1. of which: overdue interest | 13,786 | 2 | - | - | - |
| B. Increases | 65,777 | 23,161 | 0 | 11,351 | 299 |
| B.1. transfers from performing loans | 26,080 | 19,531 | - | 9,280 | - |
| B.2. overdue interest | 4,144 | - | - | - | - |
| B.3. transfers from other categories of doubtful loans | 16,532 | - | - | - | - |
| B.4. other increases | 19,021 | 3,630 | - | 2,071 | 299 |
| C. Decreases | 35,969 | 24,691 | 0 | 422 | 196 |
| C.1. transfers to performing loans |  | 3,055 | - | - |  |
| C.2. write-offs | 26,164 | - | - | - | - |
| C.3. collections | 9,805 | 5,103 | - | 422 | 196 |
| C.4. proceeds from factored loans | - | - | - | - | - |
| C.5. transfers to other categories of doubtful loans | - | 16,532 | - | - | - |
| C.6. other decreases | - | 1 | - | - | - |
| D. Gross exposure at 31/12/2002 | 124,789 | 70,842 | 0 | 44,080 | 766 |
| D.1. of which: overdue interest | 15,544 | 1 | - | - |  |

### 1.9 Movements in total adjustments

|  |  |  |  |  | 31/12/2003 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Categories per | Nonperforming Ioans | Watchlist loans |  |  |  | Unsecured loans exposed to ountry risk |
| A. Opening total adjustments at 31/12/2002 | 48,294 | 10,677 | 0 | 8,907 | 230 | 38,618 |
| A.1. of which: overdue interest | 3,160 | 1 | - | - | - |  |
| B. Increases | 55,066 | 2,860 | 0 | 1,649 | 423 | 14,416 |
| B.1. adjustments | 51,255 | 2,787 | - | 1,649 | 423 | 13,117 |
| B.1.1. of which: overdue interest | 7,526 | - | - | - | - |  |
| B.2. use of the reserve for possible loan losses | ses - | - | - | - | - |  |
| B.3. transfers from other categories of loans | 3,811 | 73 | - | - | - | 46 |
| B.4. other increases | - | - | - | - | - | 1,253 |
| C. Decreases | 17,778 | 5,880 | 0 | 3,314 | 45 | 8,606 |
| C.1. write-backs on valuation | 473 | 170 | - | 675 | - | 45 |
| C.1.1. of which: overdue interest | - | - | - | - | - | - |
| C.2. write-backs due to collections | 2,770 | 2,098 | - | 2,602 | 31 | 7,864 |
| C.2.1. of which: overdue interest | 247 | - | - | - | - |  |
| C.3. write-offs | 14,535 | - | - | - | - | 85 |
| C.4. transfers to other categories of loans | - | 3,608 | - | 37 | 14 | 271 |
| C.5. other decreases | - | 4 | - | - | - | 341 |
| D. Closing total adjustments at 31/12/2003 | 85,582 | 7,657 | 0 | 7,242 | 608 | 44,428 |
| D.1. of which: overdue interest | 10,260 | 1 | - | - | - |  |


|  |  |  |  |  | 31/12/2002 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Categories pe | Nonperforming Ioans | Watchlist Ioans |  |  |  | Unsecured loans exposed to country risk |
| A. Opening total adjustments at 31/12/2001 | 40,408 | 11,126 | 0 | 9,825 | 199 | 32,903 |
| A.1. of which: overdue interest | 2,734 | 2 | - | - | - | - |
| B. Increases | 35,380 | 5,195 | 0 | 1,310 | 90 | 14,769 |
| B.1. adjustments | 31,015 | 5,101 | - | 1,258 | 90 | 12,036 |
| B.1.1. of which: overdue interest | 1,177 |  | - | - | - | - |
| B.2. use of the reserve for possible loan losses | es - | - | - | - | - | - |
| B.3. transfers from other categories of loans | 4,365 | 93 | - | 52 | - | 9 |
| B.4. other increases | - | 1 | - | - | - | 2,724 |
| C. Decreases | 27,494 | 5,644 | 0 | 2,228 | 59 | 9,054 |
| C.1. write-backs on valuation | 465 | 612 | - | 2,005 | - | 567 |
| C.1.1. of which: overdue interest | 1 | - | - | - | - | - |
| C.2. write-backs due to collections | 865 | 786 | - | 223 | 59 | 8,213 |
| C.2.1. of which: overdue interest | 172 | - | - | - | - | - |
| C.3. write-offs | 26,164 | - | - | - | - | - |
| C.4. transfers to other categories of loans | - | 4,245 | - | - | - | 274 |
| C.5. other decreases | - | 1 | - | - | - | - |
| D. Closing total adjustments at 31/12/2002 | 48,294 | 10,677 | 0 | 8,907 | 230 | 38,618 |
| D.1. of which: overdue interest | 3,160 | 1 | - | - | - | - |

## Doubtful loans (including overdue interest)

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| Non-performing loans (including overdue interest) | 70,767 | 76,495 |

## Receivables for overdue interest

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) doubtful loans | 7,202 | 12,384 |
| b) other loans | - | - |

## Section 2 Securities

### 2.3 Trading securities

|  |  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |  |
| :--- | ---: | ---: | ---: | ---: |
|  | Book value | Market value | Book value | Market value |
| 1. Fixed-yield securities | $\mathbf{1 , 7 9 0 , 6 0 6}$ | $\mathbf{1 , 7 9 1 , 4 6 8}$ | $\mathbf{1 , 7 2 2 , 4 0 5}$ | $\mathbf{1 , 7 2 6 , 9 4 8}$ |
| 1.1 Government securities | $1,552,231$ | $1,552,715$ | $1,475,956$ | $1,480,289$ |
| - listed | $1,552,231$ | $1,552,715$ | $1,475,956$ | $1,480,289$ |
| - unlisted | - | - | - | - |
| 1.2 Other securities | 238,375 | 238,753 | 246,449 | 246,659 |
| - listed | 214,239 | 214,617 | 18,957 | 19,167 |
| - unlisted | 24,136 | 24,136 | 227,492 | 227,492 |
| 2. Variable-yield securities | $\mathbf{1 2 4 , 3 0 4}$ | $\mathbf{1 2 7 , 0 1 1}$ | $\mathbf{1 0 7 , 4 4 0}$ | $\mathbf{1 0 8 , 1 3 9}$ |
| - listed | 68,116 | 70,818 | 37,768 | 38,467 |
| - unlisted | 56,188 | 56,193 | 69,672 | 69,672 |
| Total | $\mathbf{1 , 9 1 4 , 9 1 0}$ | $\mathbf{1 , 9 1 8 , 4 7 9}$ | $\mathbf{1 , 8 2 9 , 8 4 5}$ | $\mathbf{1 , 8 3 5 , 0 8 7}$ |

### 2.4 Change for the year in trading securities

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| A. Opening balance | $\mathbf{1 , 8 2 9 , 8 4 5}$ | $\mathbf{1 , 6 4 6 , 6 9 1}$ |
| B. Increases | $\mathbf{1 0 , 2 8 1 , 5 9 6}$ | $\mathbf{1 0 , 5 3 3 , 5 5 8}$ |
| B1. Purchases | $10,262,323$ | $10,517,516$ |
| - Fixed-yield securities | $10,190,982$ | $10,346,412$ |
| government securities | $7,591,762$ | $8,455,167$ |
| other securities | $2,599,220$ | $1,891,245$ |
| - Variable-yield securities | 71,341 | 171,104 |
| B2. Write-backs and revaluations | 6,218 | 193 |
| B3. Transfers from investment portfolio | - | - |
| B4. Other changes | 13,055 | 15,849 |
| C. Decreases | $\mathbf{1 0 , 1 9 6 , 5 3 1}$ | $\mathbf{1 0 , 3 5 0 , 4 0 4}$ |
| C1. Sales and reimbursements | $10,190,946$ | $10,335,201$ |
| - Fixed-yield securities | $10,130,898$ | $10,167,419$ |
| government securities | $7,519,748$ | $8,450,801$ |
| other securities | $2,611,150$ | $1,716,618$ |
| - Variable-yield securities | 60,048 | 167,782 |
| C2. Write-downs | 2,204 | 12,922 |
| C3. Transfers to investment portfolio | - | - |
| C5. Other changes | 3,381 | $\mathbf{2}$ |
| D. Closing balance | $\mathbf{1 , 9 1 4 , 9 1 0}$ | $\mathbf{1 , 8 2 9 , 8 1}$ |

## Section 3 Equity investments

### 3.1 Main equity investments

|  | Location | Type of relationship (1) | Shareholders' equity | Profit/ Loss | Type of investment |  | \% of votesat the AGM | Book value |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  |  |  | Parent company | \% held |  |  |
| A. Companies included in the consolidation area <br> A1. Full consolidation method |  |  |  |  |  |  |  |  |
| 1. Banca Popolare di Sondrio (SUISSE) SA | Lugano | 1 | 61,015 | 4,451 | Banca Popolare di Sondrio | 100 | 100 | - |
| B. Net equity method |  |  |  |  |  |  |  |  |
| 1. Pirovano Stelvio spa | Tirano | 1 | 2,152 | -110 | Banca Popolare di Sondrio | 100 | 100 | 3,238 |
| 2. Ripoval spa | Sondrio | 8 | 3,064 | 170 | Banca Popolare di Sondrio | 50 | 50 | 1,457 |
| 3. Sinergia Seconda srl | Milan | 1 | 10,356 | 142 | Banca Popolare di Sondrio | 100 | 100 | 10,469 |
| 4. Arca Vita spa | Verona | 8 | 89,298 | 3,161 | Banca Popolare di Sondrio | 32.528 | 32.528 | 28,713 |
| 5. Sofipo Fiduciarie SA | Lugano | 8 | 687 | 58 | Banca Popolare di Sondrio (SUISS | $\text { E) } S A^{30}$ | 30 | 206 |

[^3]The valuation at equity of Arca Vita spa showed a difference between book value and shareholders' equity at 31 December 2002, adjusted for dividends distributed during the year, of $€ 8.140$ million. This amount has been included in asset item 100 «Positive differences arising on application of the equity method» and $€ 0.798$ million will be amortized over five years in accordance with the rules governing goodwill as per art. 16.2 of Decree Law 87 of 27/1/1992 starting from 2003.

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

|  | 31/12/2003 | 31/12/2002 |
| :---: | :---: | :---: |
| a) Assets | 175,508 | 221,161 |
| 1. due from other banks | 21,570 | 78,696 |
| of which: - subordinated | - | - |
| 2. due from financial institutions | 88,321 | 114,555 |
| of which: - subordinated | 140 | - |
| 3. customer loans | 55,892 | 17,077 |
| of which: - subordinated | - | 139 |
| 4. bonds and other fixed-yield securities | 9,725 | 10,833 |
| of which: <br> - subordinated | 2 | - |
| b) Liabilities | 303,730 | 160,734 |
| 1. due to other banks | 32,636 | 1,830 |
| 2. due to financial institutions | 154,812 | 108,728 |
| 3. customer deposits | 116,282 | 50,176 |
| 4. securities issued | - | - |
| 5. subordinated liabilities | - | - |
| c) Guarantees and commitments | 171,505 | 167,772 |
| 1. guarantees granted | 161,687 | 166,063 |
| 2. commitments | 9,818 | 1,709 |

3.4 Breakdown of item 70 «Equity investments»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) in banks | $\mathbf{2 2 , 8 9 3}$ | $\mathbf{1 8 , 0 0 1}$ |
| 1. listed | 394 | 394 |
| 2. unlisted | 22,499 | 17,607 |
| b) in financial institutions | $\mathbf{1 6 , 0 6 6}$ | $\mathbf{1 4 , 9 8 7}$ |
| 1. listed | - | - |
| 2. unlisted | 16,066 | 14,987 |
| c) others | $\mathbf{4 9 , 8 9 5}$ | $\mathbf{4 1 , 5 6 8}$ |
| 1. listed | 5,175 | 5,175 |
| 2. unlisted | 44,720 | 36,393 |
| Total | $\mathbf{8 8 , 8 5 4}$ | $\mathbf{7 4 , 5 5 6}$ |

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

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) in banks | - | - |
| 1. listed | - | - |
| 2. unlisted | - | - |
| b) in financial institutions | - | - |
| 1. listed | - | - |
| 2. unlisted | - | - |
| c) others | - | - |
| 1. listed | - | - |
| T. unlisted | - | - |
| otal | - | - |

### 3.6 Changes for the year in equity investments

### 3.6.1 Equity investments in Group companies

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| A. Opening balance | 0 | 0 |
| B. Increases | 0 | 0 |
| B1. Purchases | - | - |
| B2. Write-backs | - | - |
| B3. Revaluations | - | - |
| B4. Other changes | - | 0 |
| C. Decreases | 0 | - |
| C1. Sales | - | - |
| C2. Write-downs | - | - |
| of which: | - | - |
| C3. Other changes | - | - |
| D. Closing balance | - | 0 |
| E. Total revaluations | 0 | - |
| F. Total write-downs | - | - |

### 3.6.2 Other equity investments

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| A. Opening balance | $\mathbf{7 4 , 5 5 6}$ | $\mathbf{6 5 , 1 2 0}$ |
| B. Increases | 19,960 | $\mathbf{2 0 , 1 9 1}$ |
| B1. Purchases | 19,796 | 14,604 |
| B2. Write-backs | - | 206 |
| B3. Revaluations | - | - |
| B4. Other changes | 164 | 5,381 |
| C. Decreases | $\mathbf{5 , 6 6 2}$ | $\mathbf{1 0 , 7 5 5}$ |
| C1. Sales | - | - |
| C2. Write-downs | 665 | 1,607 |
| of which: | - | - |
| permanent write-downs | 665 | 1,607 |
| C3. Other changes | 4,997 | 9,148 |
| D. Closing balance | $\mathbf{8 8 , 8 5 4}$ | $\mathbf{7 4 , 5 5 6}$ |
| E. Total revaluations | - | - |
| F. Total write-downs | $\mathbf{5 , 9 5 6}$ | $\mathbf{5 , 2 9 1}$ |

## Section 4 Fixed and intangible assets

### 4.1 Changes for the year in fixed assets

| 31/12/2003 |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | Buildings | Furniture and fittings | Machines and equipment | Others | Total |
| A. Opening balance | 61,212 | 4,934 | 4,733 | 5,692 | 76,571 |
| B. Increases | 1,329 | 1,971 | 2,986 | 2,639 | 8,925 |
| B1.Purchases | 1,329 | 1,971 | 2,986 | 2,639 | 8,925 |
| B2.Write-backs | - | - | - | - | - |
| B3. Revaluations | - | - | - | - |  |
| B4.Other changes | - | - | - | - | - |
| C. Decreases: | 3,546 | 1,793 | 3,714 | 3,235 | 12,288 |
| C1. Sales | 8 | - | - | - | 8 |
| C2. Write-downs: | 3,092 | 1,756 | 3,652 | 3,167 | 11,667 |
| a) Depreciation | 3,092 | 1,756 | 3,652 | 3,167 | 11,667 |
| b) Permanent write-downs | - | - | - | - | - |
| C3. Other changes | 446 | 37 | 62 | 68 | 613 |
| D. Closing balance | 58,995 | 5,112 | 4,005 | 5,096 | 73,208 |
| E. Total revaluations | 42,374 | - | - | - | 42,374 |
| F. Total write-downs: | 55,429 | 17,138 | 27,880 | 26,832 | 127,279 |
| a) Depreciation | 55,429 | 17,138 | 27,880 | 26,832 | 127,279 |
| b) Permanent write-downs | - | - | - | - |  |


|  |  |  |  | $31 / 12 / 2002$ |  |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: |
|  | Buildings | Furniture <br> and fittings | Machines and <br> equipment | Others | Total |
| A. Opening balance | $\mathbf{6 3 , 6 6 2}$ | $\mathbf{4 , 4 3 7}$ | $\mathbf{4 , 2 1 8}$ | $\mathbf{4 , 4 8 7}$ | $\mathbf{7 6 , 8 0 4}$ |
| B. Increases | $\mathbf{8 3 2}$ | $\mathbf{2 , 3 3 1}$ | $\mathbf{4 , 3 8 1}$ | $\mathbf{4 , 0 7 8}$ | $\mathbf{1 1 , 6 2 2}$ |
| B1.Purchases | 689 | 2,321 | 4,365 | 4,063 | 11,438 |
| B2. Write-backs | - | - | - | - | - |
| B3. Revaluations | - | - | - | - | - |
| B4. Other changes | 143 | 10 | 16 | 15 | 184 |
| C. Decreases: | $\mathbf{3 , 2 8 2}$ | $\mathbf{1 , 8 3 4}$ | $\mathbf{3 , 8 6 6}$ | $\mathbf{2 , 8 7 3}$ | $\mathbf{1 1 , 8 5 5}$ |
| C1. Sales | - | - | - | - | - |
| C2. Write-downs: | 3,282 | 1,834 | 3,866 | 2,873 | 11,855 |
| $\quad$ a) Depreciation | 3,282 | 1,834 | 3,866 | 2,873 | 11,855 |
| $\quad$ b) Permanent write-downs | - | - | - | - | - |
| C3. Other changes | - | - | - | - | - |
| D. Closing balance | $\mathbf{6 1 , 2 1 2}$ | $\mathbf{4 , 9 3 4}$ | $\mathbf{4 , 7 3 3}$ | $\mathbf{5 , 6 9 2}$ | $\mathbf{7 6 , 5 7 1}$ |
| E. Total revaluations | $\mathbf{4 2 , 3 7 4}$ | - | - | - | $\mathbf{4 2 , 3 7 4}$ |
| F. Total write-downs: | $\mathbf{5 2 , 3 8 6}$ | $\mathbf{1 5 , 4 9 5}$ | $\mathbf{2 4 , 8 0 2}$ | $\mathbf{2 4 , 0 1 0}$ | $\mathbf{1 1 6 , 6 9 3}$ |
| a) Depreciation | 52,386 | 15,495 | 24,802 | 24,010 | 116,693 |
| b) Permanent write-downs | - | - | - | - | - |

### 4.2 Changes for the year in intangible assets

|  |  |  |  | 31/12/2003 |
| :---: | :---: | :---: | :---: | :---: |
|  | Software purchases | Leasehold improvements | $\begin{gathered} \text { Set-up } \\ \text { costs } \end{gathered}$ | Total |
| A. Opening balance | 5,018 | 12,789 | 0 | 17,807 |
| B. Increases | 4,664 | 6,382 | 0 | 11,046 |
| B1. Purchases | 4,664 | 6,382 | - | 11,046 |
| B2. Write-backs | - | - | - | - |
| B3. Revaluations | - | - | - | - |
| B4. Other changes | - | - | - | - |
| C. Decreases: | 4,811 | 5,941 | 0 | 10,752 |
| C1. Sales | - | - | - | - |
| C2. Write-downs: | 4,645 | 5,720 | - | 10,365 |
| a) amortization | 4,645 | 5,720 | - | 10,365 |
| b) permanent write-downs | - | - | - | - |
| C3. Other changes | 166 | 221 | - | 387 |
| D. Closing balance | 4,871 | 13,230 | 0 | 18,101 |
| E. Total revaluations | - | - | - | - |
| F. Total write-downs: | 24,613 | 37,155 | 561 | 62,329 |
| a) amortization | 24,613 | 37,155 | 561 | 62,329 |
| b) permanent write-downs | - | - | - | - |


|  |  |  | 31/12/2002 |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Software purchases | Leasehold improvements | Set-up | Total |
| A. Opening balance | 3,206 | 9,458 | 0 | 12,664 |
| B. Increases | 5,599 | 9,499 | 0 | 15,098 |
| B1. Purchases | 5,575 | 9,471 | - | 15,046 |
| B2. Write-backs | - | - | - | - |
| B3. Revaluations | - | - | - | - |
| B4. Other changes | 24 | 28 | - | 52 |
| C. Decreases: | 3,787 | 6,168 | 0 | 9,955 |
| C1. Sales | - | - | - | - |
| C2. Write-downs: | 3,787 | 6,167 | - | 9,954 |
| a) amortization | 3,787 | 6,167 | - | 9,954 |
| b) permanent write-downs | - | - | - | - |
| C3. Other changes | - | 1 | - | 1 |
| D. Closing balance | 5,018 | 12,789 | 0 | 17,807 |
| E. Total revaluations | - | - | - | - |
| F. Total write-downs: | 20,405 | 32,134 | 602 | 53,141 |
| a) amortization | 20,405 | 32,134 | 602 | 53,141 |
| b) permanent write-downs | - | - | - |  |

## Section 5 Other asset items

5.1 Breakdown of item 150 «Other assets»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| Deferred tax assets | 8,527 | 7,079 |
| Taxes withheld | 230 | 205 |
| Tax credits on dividends | 1,608 | 1,756 |
| Advances paid to tax authorities | 35,564 | 32,079 |
| Withholdings on interest due to customers | 108 | 146 |
| Tax credits and related interest | 1,173 | 2,379 |
| Outstanding cheques and bills | 60,210 | 2,111 |
| Current account cheques drawn on third parties | 28,212 | 41,583 |
| Current account cheques drawn on Group banks | 3,592 | 20,557 |
| Securities transactions | 1,498 | 5,104 |
| Items in transit with branches | 1,378 | 540 |
| Inventories | 102,253 | 1,444 |
| Contra-item for valuation of off-balance sheet transactions | 624 | 56,830 |
| Costs pertaining to the subsequent year | 6,006 | 422 |
| Advances to suppliers | 71,645 | 13,271 |
| Advances to customers on loans | 518 | 49,324 |
| Value date differentials on portfolio transactions | 13,219 | 710 |
| Miscellaneous debits in transit | 14,250 | 9,895 |
| Premiums for exchange and securities options to be exercised | 148 | 6,332 |
| Guarantee deposits | 746 | 147 |
| Liquid assets belonging to the staff pension fund | 3,462 | 810 |
| Receivables for hedging transactions | 28,532 | 3,332 |
| Advance payment as per Decree 341 of 10/12/2003 | $\mathbf{4}$ | $\mathbf{-}$ |
| Differences on elimination | 10,879 | 801 |
| Residual items | $\mathbf{3 9 9 , 1 4 0}$ | $\mathbf{2 6 5 , 1 7 6}$ |
| Total |  |  |

### 5.2 Breakdown of item 160 «Accrued income and prepayments»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) Accrued income | $\mathbf{4 8 , 1 0 3}$ | $\mathbf{4 7 , 4 8 3}$ |
| Interest receivable on securities | 11,390 | 16,124 |
| Interest on euro and foreign currency deposits and loans to customers | 6,371 | 5,888 |
| Interest on euro and foreign currency deposits and loans to other banks | 674 | 895 |
| Interest on customer mortgages and loans | 15,650 | $\mathbf{1 5 , 0 7 3}$ |
| Commissions receivable | 8,947 | 8,186 |
| Forward currency transactions | 361 | 306 |
| Other | 4,710 | 1,011 |
| b) Prepayments | $\mathbf{3 , 6 0 4}$ | $\mathbf{1 , 6 7 8}$ |
| Invoices received not pertaining to this financial year | 1,460 | 1,510 |
| Other | 2,144 | $\mathbf{1 6 8}$ |
| Total | $\mathbf{5 1 , 7 0 7}$ | $\mathbf{4 9 , 1 6 1}$ |

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

### 5.4 Distribution of subordinated assets

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) due from other banks | - | - |
| b) customer loans | 140 | 139 |
| c) bonds and other fixed-yield securities | 2,851 | 170 |

## Section 6 Payables

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

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) repo transactions | - | - |
| b) securities lent | - | - |

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

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) repo transactions | $1,224,913$ | $1,264,031$ |
| b) securities lent | - | - |

Item 20 totals € 7,687.290 million.
Item 30 «securities issued» amounts to $€ 959.259$ million. It is made up of «bonds, «certificates of deposit» and «other securities».

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

|  | Book value |
| :--- | ---: |
| Issued by Banca Popolare di Sondrio: | 189,362 |
| Floating-rate bond issues | 339,975 |
| Fixed-rate bond issues | 276,596 |
| Zero-coupon bond issues | $\mathbf{8 0 5 , 9 3 3}$ |
| Total |  |
| Issued by Banca Popolare di Sondrio (SUISSE) SA: | $\mathbf{3 0 , 0 8 0}$ |
| Floating-rate bond issues | $\mathbf{8 3 6 , 0 1 3}$ |
| Total |  |

Floating-rate and fixed-rate bond issues also include structured bonds with a nominal value of $€ 157.494$ million.

The sub-item «certificates of deposit» totals € 46.735 million and consists of € 42.988 million in short-term fixed-rate certificates, € 1.652 million in medium-term fixed-rate certificates, € 2.018 million in medium-term floating-rate certificates and $€ 0.077$ million in zero-coupon certificates.

The sub-item «other securities» totals $€ 76.511$ million and is made up of banker's drafts and others.

Item 40 «Third party funds under administration» consists of public funds to be used for assisted loans. This item reports a balance of $€ 14,000$, a decrease of $€ 51,000(-78.46 \%)$.

## Section 7 Reserves

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

These reserves amount to $€ 16.473$ million. They comprise $€ 7.202$ million in reserves against the portion of overdue interest deemed recoverable.
7.2 Changes for the year in the reserves for possible loan losses

|  | $31 / 12 / 2003$ | $\mathbf{3 1 / 1 2 / 2 0 0 2}$ |
| :--- | ---: | ---: |
| A. Opening balance | $\mathbf{2 7 , 0 5 6}$ | $\mathbf{2 4 , 6 6 0}$ |
| B. Increases | $\mathbf{3 , 9 6 5}$ | $\mathbf{1 0 , 6 2 0}$ |
| B1. Provisions | 3,965 | $\mathbf{1 0 , 0 4 5}$ |
| B2. Other changes | - | 575 |
| C. Decreases | $\mathbf{1 4 , 5 4 8}$ | $\mathbf{8 , 2 2 4}$ |
| C1. Utilizations | 6,100 | $\mathbf{6 , 7 5 8}$ |
| C2. Other changes | 8,448 | $\mathbf{1 , 4 6 6}$ |
| D. Closing balance | $\mathbf{1 6 , 4 7 3}$ | $\mathbf{2 7 , 0 5 6}$ |

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

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |  |
| :--- | :--- | ---: | ---: |
|  | Charity fund | 305 | 363 |
| $b$ | Reserve for guarantees granted | 5,000 | 3,500 |
| $c$ | Reserve for personnel expenses | 3,220 | 3,310 |
| $d$ | Reserve for litigation costs | 14,000 | 14,000 |
| e Reserve for fluctuation in securities value | 3,851 | 4,131 |  |
| Total | $\mathbf{2 6 , 3 7 6}$ | $\mathbf{2 5 , 3 0 4}$ |  |

### 7.4 Change in deferred tax assets

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| 1. Opening balance | $\mathbf{7 , 0 7 9}$ | $\mathbf{5 , 3 8 1}$ |
| 2. Increases | $\mathbf{4 , 1 2 0}$ | $\mathbf{4 , 0 1 0}$ |
| 2.1. Deferred tax assets arising during the year | 3,918 | 3,591 |
| 2.2. Other increases | 202 | 419 |
| 3. Decreases | $\mathbf{2 , 6 7 2}$ | $\mathbf{2 , 3 1 2}$ |
| 3.1. Deferred tax assets reversing during the year | 2,672 | $\mathbf{2 , 3 1 2}$ |
| 3.2. Other decreases | - | - |
| 4. Closing balance | $\mathbf{8 , 5 2 7}$ | $\mathbf{7 , 0 7 9}$ |

### 7.5 Change in deferred tax liabilities

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| 1. Opening balance | 33 | 43 |
| 2. Increases | $\mathbf{3 1}$ | $\mathbf{1 7}$ |
| 2.1. Deferred tax assets arising during the year | 30 | 14 |
| 2.2. Other increases | 1 | 3 |
| 3. Decreases | $\mathbf{1 4}$ | $\mathbf{2 7}$ |
| 3.1. Deferred tax liabilities reversing during the year | 14 | 27 |
| 3.2. Other decreases | - | - |
| 4. Closing balance | $\mathbf{5 0}$ | $\mathbf{3 3}$ |

## Section 8 Share capital, reserves, reserve for general banking risks, and subordinated liabilities

The following table gives a breakdown of the items making up Group shareholders' equity.

| Liability items |  | 31/12/2003 | 31/12/2002 |
| :---: | :---: | :---: | :---: |
| Item 100 | Reserve for general banking risks | 40,000 | 38,734 |
| Item 130 | Negative differences arising on application of net equity method | 123 | 123 |
| Item 150 | Share capital | 412,698 | 412,698 |
|  | Made up of $137,566,064$ ordinary shares with a par value of $€ 3$, issued by the parent bank |  |  |
| Item 160 | Share premium reserve | 135,886 | 135,886 |
| Item 170 | Reserves | 207,939 | 188,717 |
|  | a) legal | 72,466 | 64,954 |
|  | b) for own shares | - | 606 |
|  | c) statutory | 111,816 | 97,799 |
|  | d) others | 23,657 | 25,358 |
| Item 190 | Retained earnings | - |  |
| Item 200 | Net profit for the year | 63,873 | 49,713 |
| Total shareholders' equity |  | 860,519 | 825,871 |

### 8.1 Capital ratios: solvency ratio as of 31 December 2003

| Categories | 31/12/2003 | 31/12/2002 |
| :---: | :---: | :---: |
| A. Capital for supervisory purposes |  |  |
| A. 1 Basic capital (tier 1) | 803,186 | 777,080 |
| A. 2 Supplementary capital (tier 2) | 16,588 | 27,461 |
| A. 3 Amounts to be subtracted | 15,870 | 15,856 |
| A. 4 Capital for supervisory purposes | 803,904 | 788,685 |
| B. Precautionary requirements for supervisory purposes |  |  |
| B. 1 Credit risks | 694,402 | 615,974 |
| B. 2 Market risks | 30,771 | 23,200 |
| of which: <br> - risks to the trading securities portfolio <br> - exchange risks | 30,771 - | 23,200 |
| B. 3 Third level subordinated loans | - |  |
| B. 4 Other precautionary requirements | 3,612 | 4,518 |
| B. 5 Total precautionary requirements | 728,785 | 643,692 |
| C. Risk assets and capital ratios |  |  |
| C. 1 Risk-weighted assets | 9,109,812 | 8,046,150 |
| C. 2 Tier 1 capital / Risk-weighted assets | 8.82\% | 9.66\% |
| C. 3 Capital for supervisory purposes / Risk-weighted assets | 8.82\% | 9.80\% |

This is the minimum consolidated capital ratio requirement which banking groups must constantly meet to cover counterparty solvency risk.

The minimum prescribed level for the solvency ratio (total capital for supervisory purposes to risk-weighted assets) is 8\% for banking groups.

## Section 9 Other liability items

### 9.1 Breakdown of item 50 «Other liabilities»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| Amounts at the disposal of third parties | 36,636 | 23,960 |
| Taxes to be paid on behalf of third parties | 18,206 | 19,151 |
| Taxes to be paid | 1,263 | 1,177 |
| Employee salaries and contributions | 11,240 | 10,702 |
| Trade payables | 6,687 | 7,315 |
| Transit accounts for sundry entities | 2,931 | 11,816 |
| Invoices receivable | 3,043 | 2,501 |
| Securities transactions | 1,360 | 1,219 |
| Value date differentials on portfolio transactions | 80,039 | 97,167 |
| Directors' and statutory auditors' emoluments | 948 | 896 |
| Loans disbursed to customers to be finalized | 8,864 | 9,127 |
| Miscellaneous credit items being settled | 70,988 | 50,806 |
| Premiums for exchange and securities options sold and not exercised | 14,771 | 6,164 |
| Contra-item of valuation of off-balance sheet transactions | 99,231 | 52,981 |
| Items in transit with branches | 220 | 816 |
| Residual items | 13,231 | 9,220 |
| Total | $\mathbf{3 6 9 , 6 5 8}$ | $\mathbf{3 0 5 , 0 1 8}$ |

### 9.2 Breakdown of item 60 «Accrued liabilities and deferred income»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) Accrued liabilities | $\mathbf{2 1 , 5 2 4}$ | $\mathbf{2 4 , 8 4 7}$ |
| Interest on bonds | 8,096 | $\mathbf{1 0 , 4 8 9}$ |
| Interest on certificates of deposit | 352 | 519 |
| Interest on customer deposits in euro and foreign currency | 1,423 | 593 |
| Interest on deposits from other banks in euro and foreign currency | 2,623 | $\mathbf{3 , 0 7 5}$ |
| Repo transactions | 2,228 | 42 |
| Commission | 153 | $\mathbf{4 , 3 5 2}$ |
| Other | 6,649 | 5,777 |
| b) Deferred income | $\mathbf{4 , 2 4 1}$ | $\mathbf{2 , 9 9 7}$ |
| Interest on portfolio, mortgages and loans | 365 | $\mathbf{3 7 2}$ |
| Commission on sureties | 2,788 | $\mathbf{2 , 5 4 5}$ |
| Other | 1,088 | 80 |
| Total | $\mathbf{2 5 , 7 6 5}$ | $\mathbf{2 7 , 8 4 4}$ |

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»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) commercial endorsement credits | 897,221 | 841,450 |
| b) financial endorsement credits | 802,298 | 692,405 |
| c) assets given in guarantee | 8,005 | 13,005 |
| Total | $\mathbf{1 , 7 0 7 , 5 2 4}$ | $\mathbf{1 , 5 4 6 , 8 6 0}$ |

10.2 Breakdown of item 20 «Commitments»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) commitments to disburse funds (certain to be called on) | 206,232 | 248,377 |
| b) commitments to disburse funds (not certain to be called on) | 134,548 | 143,290 |
| Total | $\mathbf{3 4 0 , 7 8 0}$ | $\mathbf{3 9 1 , 6 6 7}$ |

### 10.3 Collateral given for own payables

The collateral provided by the Group against its own liabilities consists of government securities: $€ 1,218.934$ million relates to securities given to customers for repo transactions, $€ 9.943$ million is for the deposit paid against the issuing of banker's cheques.

### 10.4 Margins usable on credit lines

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) central banks | 83,322 | 79,021 |
| b) other banks | 2,439 | 6,708 |

### 10.5 Forward transactions

|  | 31/12/2003 |  |  |  | 31/12/2002 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Type of transaction | For hedging | For trading | Other | For hedging | For trading | Other |
| 1. Buying and selling: |  |  |  |  |  |  |
| 1.1 Securities |  |  |  |  |  |  |
| - purchases | - | 39,438 | - | - | 37,599 | - |
| - sales | - | 28,618 | - | - | 24,529 | - |
| 1.2 Foreign currency |  |  |  |  |  |  |
| - currency against currency | - | 157,299 | - | - | 22,474 | - |
| - purchases against euro | - | 1,420,363 | - | - | 1,159,472 | - |
| - sales against euro | - | 1,446,598 | - | - | 1,158,080 | - |
| 2. Deposits and loans: |  |  |  |  |  |  |
| - to be disbursed | - | - | 63,978 | - | - | 55,196 |
| - to be received | - | - | 38,420 | - | - | 25,707 |
| 3. Derivative contracts: |  |  |  |  |  |  |
| 3.1 With exchange of capital |  |  |  |  |  |  |
| a) securities |  |  |  |  |  |  |
| - purchases | - | 2,617 | - | - | 2,705 | - |
| - sales | - | 2,617 | - | - | 2,705 | - |
| b) foreign currency |  |  |  |  |  |  |
| - currency against currency | y | 39,936 | - | - | 48,521 | - |
| - purchases against euro | - | 269,254 | - | - | 128,274 | - |
| - sales against euro | - | 269,226 | - | - | 128,274 | - |
| c) other instruments |  |  |  |  |  |  |
| - purchases | - | 95,985 | - | - | 41,054 | - |
| - sales | - | 95,985 | - | - | 41,054 | - |
| 3.2 Without exchange of capital |  |  |  |  |  |  |
| a) foreign currency |  |  |  |  |  |  |
| - currency against currency | y - | 9,748 | - | - | 1,078 | - |
| - purchases against euro | - | 234,040 | - | - | 78,255 | - |
| - sales against euro | - | 234,040 | - | - | 78,255 | - |
| b) other instruments |  |  |  |  |  |  |
| - purchases | 229,841 | 528,008 | - | 155,807 | 265,677 | - |
| - sales | 126,723 | 528,008 | 73,494 | 67,765 | 265,677 | 78,658 |

## Quantitative information on derivative contracts

The following table gives information on derivative contracts in compliance with the regulations formulated by the Basel Committee on Banking Supervision and the International Organization of Securities Commissions (IOSCO).

Breakdown of reference capital by type of contract

|  | Interest rates | Exchange <br> rates | Share prices <br> and indices | Other | Total |  |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: |
| Trading contracts (unquoted) |  |  |  |  |  |  |
| Futures purchased | - | - | - | 95,985 | $\mathbf{9 5 , 9 8 5}$ |  |
| Futures sold | - | - | - | 95,985 | $\mathbf{9 5 , 9 8 5}$ |  |
| Swaps purchased | 445,693 | - | - | - | $\mathbf{4 4 5 , 6 9 3}$ |  |
| Swaps sold | 445,693 | - | - | - | $\mathbf{4 4 5 , 6 9 3}$ |  |
| Options purchased | 38,894 | 552,978 | 10,000 | 33,421 | $\mathbf{6 3 5 , 2 9 3}$ |  |
| Options sold | 38,894 | 552,950 | 10,000 | 33,421 | $\mathbf{6 3 5 , 2 6 5}$ |  |
| Trading contracts (quoted) |  |  |  |  |  |  |
| Options purchased | - | - | 2,617 | - | $\mathbf{2 , 6 1 7}$ |  |
| Options sold | - | - | 2,617 | - | $\mathbf{2 , 6 1 7}$ |  |
| Total | $\mathbf{9 6 9 , 1 7 4}$ | $\mathbf{1 , 1 0 5 , 9 2 8}$ | $\mathbf{2 5 , 2 3 4}$ | $\mathbf{2 5 8 , 8 1 2}$ | $\mathbf{2 , 3 5 9 , 1 4 8}$ |  |
| Non-trading contracts (unquoted) |  |  |  |  |  |  |
| Options purchased | - | - | 73,494 | - | $\mathbf{7 3 , 4 9 4}$ |  |
| Options sold | - | - | 73,494 | - | $\mathbf{7 3 , 4 9 4}$ |  |
| Swaps purchased | 156,347 | - | - | - | $\mathbf{1 5 6 , 3 4 7}$ |  |
| Swaps sold | 126,723 | - | - | - | $\mathbf{1 2 6 , 7 2 3}$ |  |
| Total | $\mathbf{2 8 3 , 0 7 0}$ | - | $\mathbf{1 4 6 , 9 8 8}$ | - | $\mathbf{4 3 0 , 0 5 8}$ |  |
| Grand total | $\mathbf{1 , 2 5 2 , 2 4 4}$ | $\mathbf{1 , 1 0 5 , 9 2 8}$ | $\mathbf{1 7 2 , 2 2 2}$ | $\mathbf{2 5 8 , 8 1 2}$ | $\mathbf{2 , 7 8 9 , 2 0 6}$ |  |

Section 11 Concentration and distribution of assets and liabilities

### 11.1 Significant risk accounts

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) amount | 820,373 | 882,403 |
| b) number | 8 | 8 |

### 11.2 Breakdown of customer loans by main borrower categories

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) governments | - | - |
| b) other public entities | 36,895 | 40,988 |
| c) non-financial businesses | $4,533,995$ | $4,029,975$ |
| d) financial businesses | 474,010 | 340,460 |
| e) family businesses | 694,717 | 481,156 |
| f) other businesses | $1,800,097$ | $1,673,824$ |
| Total | $\mathbf{7 , 5 3 9 , 7 1 4}$ | $\mathbf{6 , 5 6 6 , 4 0 3}$ |

11.3 Breakdown of loans to resident non-financial companies and family businesses

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) other services for sale | $1,460,908$ | $1,243,279$ |
| b) wholesale and retail services, recoveries and repairs | 783,762 | 690,721 |
| c) construction and public works | 653,324 | 524,696 |
| d) metal products excluding cars and transportation | 247,448 | 231,397 |
| e) services by hotels, restaurants, bars, etc. | 197,972 | 175,405 |
| f) other sectors | $1,740,822$ | $1,465,549$ |
| Total | $\mathbf{5 , 0 8 4 , 2 3 6}$ | $\mathbf{4 , 3 3 1 , 0 4 7}$ |

As of 31 December 2002 sub-caption e) related to «textiles, leather and clothing», for a total of € 178.279 million.

### 11.4 Distribution of guarantees granted by main categories of counterparty

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) governments | - | 5 |
| b) other public entities | 36,676 | 46,308 |
| c) banks | 125,422 | 119,048 |
| d) non-financial businesses | $1,251,298$ | $1,112,568$ |
| e) financial businesses | 48,662 | 76,554 |
| f) family businesses | 33,012 | 33,574 |
| g) other businesses | 212,454 | $\mathbf{1 5 8 , 8 0 3}$ |
| Total | $\mathbf{1 , 7 0 7 , 5 2 4}$ | $\mathbf{1 , 5 4 6 , 8 6 0}$ |

### 11.5 Geographical breakdown of assets and liabilities

|  |  | $31 / 12 / 2003$ |  |  |  |  |  |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: | ---: |$)$

11.6 Breakdown of assets and liabilities by maturity

|  |  |  |  |  |  |  |  | 31/12/2003 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Fixed duration |  |  |  |  |  |  | Unspecified duration |
|  | Sight | Up to 3 months | 3 to 12 months | 1 to 5 years |  | Over 5 years |  |  |
|  |  |  |  | Fixed rate | Floating rate | Fixed rate | Floating rate |  |
| 1. Assets | 3,340,244 | 1,734,344 | 1,403,782 | 1,026,523 | 1,734,009 | 270,592 | 1,802,660 | 214,627 |
| 1.1 Re-financeable treasury bills | - | 893 | 2,730 | 59,927 | 123,524 | 640 | 160,512 |  |
| 1.2 Due from other banks | 445,766 | 201,515 | 41,187 | 2,002 | - | - | - | 83,322 |
| 1.3 Customer loans | 2,826,058 | 1,182,910 | 804,509 | 473,996 | 923,862 | 240,600 | 956,474 | 131,305 |
| 1.4 Bonds and other fixed-yield securities | - | 1,312 | 1,940 | 75,542 | 684,699 | 3,421 | 675,466 |  |
| 1.5 Off-balance sheet items | 68,420 | 347,714 | 553,416 | 415,056 | 1,924 | 25,931 | 10,208 | - |
| 2. Liabilities | 6,361,074 | 2,381,566 | 1,067,362 | 694,983 | 232,902 | 96,232 | 89,049 | - |
| 2.1 Due to other banks | 50,958 | 494,292 | 232,776 | 4,476 | 27,501 | - | 43,947 | - |
| 2.2 Customer deposits | 6,199,177 | 1,422,077 | 64,110 | - | 1,926 | - | - | - |
| 2.3 Securities issued | 76,961 | 89,594 | 221,924 | 280,704 | 200,571 | 54,886 | 34,619 | - |
| - bonds | 260 | 64,273 | 202,617 | 279,255 | 200,103 | 54,886 | 34,619 | - |
| - certificates of deposit | 190 | 25,321 | 19,307 | 1,449 | 468 | - | - | - |
| - other securities | 76,511 | - | - - | - | - | - | - | - |
| 2.4 Subordinated liabilities | - | - - | - | - | - | - | - | - |
| 2.5 Off-balance sheet items | 33,978 | 375,603 | 548,552 | 409,803 | 2,904 | 41,346 | 10,483 | - |


11.7 Foreign currency assets and liabilities

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) Assets | $\mathbf{1 , 5 1 3 , 6 1 7}$ | $\mathbf{1 , 5 0 4 , 8 1 3}$ |
| 1. due from other banks | 259,941 | 342,664 |
| 2. customer loans | $1,213,666$ | $1,123,954$ |
| 3. securities | 27,454 | 25,430 |
| 4. equity investments | 224 | 241 |
| 5. others | 12,332 | 12,524 |
| b) Liabilities | $\mathbf{1 , 3 9 5 , 7 0 3}$ | $\mathbf{1 , 4 1 8 , 2 5 0}$ |
| 1. due to other banks | 735,730 | $1,016,496$ |
| 2. customer deposits | 629,884 | 371,350 |
| 3. securities issued | 30,089 | 30,404 |
| 4. others | - |  |

### 11.8 Securitization transactions

The bank holds the following securities deriving from third-party securitization transactions:

|  | Nominal value | Book value | Type | Rating |
| :--- | ---: | ---: | ---: | ---: |
| Credifarma | 10,000 | 10,000 | Senior | AAA |
| Scip | 121,392 | 121,392 | Senior | AAA |
| Scip | 2,336 | 2,337 | Mezzanine | AA |
| CPG-AEM | 24,210 | 24,210 | Senior | - |
| Scic | 29,725 | 29,739 | Senior | AAA |
| Sintonia | 5,000 | 5,000 | Senior | AAA |
| Total | $\mathbf{1 9 2 , 6 6 3}$ | $\mathbf{1 9 2 , 6 7 8}$ |  |  |

S.C.I.P. Società Cartolarizzazione Immobili Pubblici srl is a vehicle company set up for the privatisation of public sector properties.

## Section 12 Management and intermediation for third parties

### 12.1 Securities trading

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) Purchases | $\mathbf{4 , 5 3 7 , 8 1 6}$ | $\mathbf{3 , 6 6 0 , 5 6 0}$ |
| 1. regulated | $3,550,305$ | $2,748,708$ |
| 2. non regulated | 987,511 | 911,852 |
| b) Sales | $\mathbf{3 , 7 0 1 , 6 9 0}$ | $\mathbf{2 , 9 6 1 , 7 8 6}$ |
| 1. regulated | $2,871,957$ | $2,190,597$ |
| 2. non regulated | 829,733 | 771,189 |

### 12.2 Portfolio management

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| 1. securities issued by the bank drawing up the financial statements | 5,592 | 1,993 |
| 2. other securities | $1,780,226$ | $1,436,016$ |

The total amount of cash held in relation to portfolio management contracts is $€ 54.532$ million.

### 12.3 Securities custody and administration

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) third-party securities on deposit | $11,642,614$ | $11,484,513$ |
| b) third-party securities on deposit with third parties | $10,292,135$ | $9,885,814$ |
| c) own securities on deposit with third parties | $1,866,644$ | $1,801,369$ |

### 12.4 Collection orders for third parties: debit and credit adjustments

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) debit adjustments | $\mathbf{1 , 6 5 1 , 3 6 2}$ | $\mathbf{1 , 4 4 4 , 0 3 8}$ |
| 1. current accounts | 825 | 2,768 |
| 2. central portfolio | $1,266,248$ | $1,118,255$ |
| 3. cash | 35 | - |
| 4. others | 384,254 | 323,015 |
| b) credit adjustments | $\mathbf{1 , 6 5 1 , 3 6 2}$ | $\mathbf{1 , 4 4 4 , 0 3 8}$ |
| 1. current accounts | 1,930 | 340 |
| 2. transferors of bills and documents | $1,649,432$ | $1,443,698$ |
| 3. others | - | - |

## Part C Information on the income statement

## Section 1 Interest

1.1 Breakdown of item 10 «Interest income and similar revenues»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) on amounts due from other banks | 25,108 | 27,209 |
| of which: <br> - on amounts due from central banks | 2,941 | 3,541 |
| b) on customer loans | 320,566 | 321,353 |
| of which: <br> - on third-party funds under administration | - |  |
| c) on fixed-yield securities | 48,045 | $\mathbf{-}$ |
| d) other interest income | 27,071 |  |
| e) positive balance of spreads on hedging transactions | $\mathbf{8 5 0}$ | 8 |
| Total | $\mathbf{3 9 4 , 5 7 1}$ | $\mathbf{4 0 5 , 6 4 1}$ |

### 1.2 Breakdown of item 20 «Interest expense and similar charges»

|  | 31/12/2003 | 31/12/2002 |
| :---: | :---: | :---: |
| a) on amounts due to other banks | 13,506 | 22,285 |
| b) on customer deposits | 129,443 | 146,898 |
| c) on securities issued | 24,627 | 24,621 |
| of which: <br> - certificates of deposit | 1,168 | 1,439 |
| d) on third-party funds under administration | - |  |
| e) on subordinated liabilities | - |  |
| f) negative balance of spreads on hedging transactions | - | 6 |
| Total | 167,576 | 193,810 |

### 1.3 Detail of item 10 «Interest income and similar revenues»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) on assets in foreign currency | 34,010 | 30,046 |

### 1.4 Detail of item 20 «Interest expense and similar charges»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) on liabilities in foreign currency | 17,361 | 22,586 |

### 2.1 Breakdown of item 40 «Commission income»

|  | 31/12/2003 | 31/12/2002 |
| :---: | :---: | :---: |
| a) guarantees granted | 6,736 | 5,933 |
| b) credit derivatives | - |  |
| c) management, intermediation and consultancy services: | 60,750 | 61,234 |
| 1. securities trading | 13,609 | 14,447 |
| 2. foreign currency trading | 4,023 | 4,556 |
| 3. portfolio management | 8,059 | 7,785 |
| 3,1 individual | 8,059 | 7,785 |
| 3,2 collective | - | - |
| 4. securities custody and administration | 3,707 | 4,173 |
| 5. custodian bank | 2,180 | 1,901 |
| 6. securities placement | 13,993 | 15,145 |
| 7. acceptance of orders | 6,031 | 5,646 |
| 8. consultancy | 39 | 71 |
| 9. distribution of third party services | 9,109 | 7,510 |
| 9.1 portfolio management | - |  |
| 9.1.1 individual | - |  |
| 9.1.2 collective | - |  |
| 9.2 insurance products | 3,636 | 4,263 |
| 9.3 other products | 5,473 | 3,247 |
| d) collection and payment services | 26,439 | 20,772 |
| e) servicing for securitization transactions | - |  |
| f) tax collection services | - | - |
| g) other services | 34,239 | 33,180 |
| Total | 128,164 | 121,119 |

### 2.2 Breakdown of item 40 «Commission income» - distribution channels for products and services

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) Bank branches | 31,161 | 30,440 |
| 1. portfolio management | 8,059 | 7,785 |
| 2. securities placement | 13,993 | 15,145 |
| 3. third-party products and services | 9,109 | $\mathbf{7 , 5 1 0}$ |
| b) door-to-door sales | - | - |
| 1. portfolio management | - | - |
| 2. securities placement | - | - |
| 3. third-party products and services | - | - |
| Total | $\mathbf{3 1 , 1 6 1}$ | $\mathbf{3 0 , 4 4 0}$ |

### 2.3 Breakdown of item 50 «Commission expense»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) Guarantees received | 67 | 23 |
| b) Credit derivatives | - | - |
| c) Management and intermediation services: | 2,529 | 3,085 |
| 1. securities trading | 767 | 924 |
| 2. foreign currency trading | - | - |
| 3. portfolio management | - | - |
| 3.1 own portfolio | - | - |
| 3.2 third-party portfolio | - | - |
| 4. securities custody and administration | 1,762 | 2,161 |
| 5. securities placement | - | - |
| 6. door-to-door sales of securities, products and services | - | - |
| d) collection and payment services | 5,688 | $\mathbf{3 , 9 4 0}$ |
| e) other services | 919 | 1,009 |
| Total | $\mathbf{9 , 2 0 3}$ | $\mathbf{8 , 0 5 7}$ |

The 2002 figures have been adjusted for comparison purposes.

## Section 3 Profits and losses from financial transactions

### 3.1 Breakdown of item 60 «Profits/losses from financial transactions»

|  | 31/12/2003 |  |  |  |  | 31/12/2002 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Item | Securities transactions | Foreign currency transactions | Other transactions | Securities transactions | Foreign currency transactions | Other transactions |
| A. 1 Revaluations | 4,715 | - | - | 193 | - | - |
| A. 2 Write-downs | 1,967 | - | - | 12,922 | - |  |
| B. Other profits | 10,921 | 11,423 | 293 | 13,471 | 13,476 | 412 |
| Total | 13,669 | 11,423 | 293 | 742 | 13,476 | 412 |
| 1. Government securities | 4,435 |  |  | 8,655 |  |  |
| 2. Other fixed-yield securities | 4,776 |  |  | 2,073 |  |  |
| 3. Variable-yield securities | 4,332 |  |  | -10,346 |  |  |
| 4. Derivative contracts on securities | 126 |  |  | 360 |  |  |

## Section 4 Administrative expenses

This item shows a balance of $€ 230.795$ million.
The sub-item «personnel expenses» amounts € 120.824 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:

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| telephone, post and data transmission | 9,697 | 9,039 |
| maintenance of fixed assets | 4,524 | 4,102 |
| rent paid on buildings | 12,122 | 11,383 |
| surveillance | 3,416 | 3,470 |
| transportation | 1,664 | 1,538 |
| professional fees | 5,641 | 5,159 |
| office materials | 2,372 | 2,657 |
| electricity, heating and water | 2,477 | 2,198 |
| advertising and entertainment | 3,361 | 3,343 |
| legal expenses | 2,226 | 1,647 |
| insurance | 2,474 | 2,877 |
| corporate survey and information | 2,709 | 2,441 |
| indirect taxes and dues | 29,056 | 27,580 |
| hardware rental and maintenance | 4,005 | 4,343 |
| software rental and maintenance | 5,633 | 5,246 |
| data registration with third parties | 620 | 592 |
| cleaning | 2,742 | 2,505 |
| membership fees | 1,137 | 932 |
| services received from third parties | 3,184 | 2,541 |
| directors' and statutory auditors' emoluments | 1,698 | 1,649 |
| temporary and freelance staff | 5,611 | $\mathbf{4 , 3 8 8}$ |
| other | $\mathbf{1 0 9 , 9 7 1}$ | 5,511 |
| Total | $\mathbf{1 0 5 , 1 4 1}$ |  |

The 2002 figures have been adjusted for comparison purposes.

### 4.1 Average number of employees by category

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) managers | 18 | 12 |
| b) executives | 217 | 205 |
| c) other personnel | 1,890 | 1,810 |
| Total | $\mathbf{2 , 1 2 5}$ | $\mathbf{2 , 0 2 7}$ |

The number of employees by category is a simple average of the figures at the end of 2002 and 2003.

At the end of the year there were 1,993 employees with the parent bank and 193 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»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) adjustments to loans | 56,170 | 42,981 |
| of which: |  |  |
| - forfeit write-downs for country risk | 377 | 31 |
| - other forfeit write-downs | 6,237 | 5,587 |
| b) provisions for guarantees and commitments | 1,500 | - |
| of which: |  |  |
| - forfeit provisions for country risk | - | - |
| - other forfeit provisions | - | - |
| Total | $\mathbf{5 7 , 6 7 0}$ | $\mathbf{4 2 , 9 8 1}$ |

### 5.2 Adjustments to fixed and intangible assets (item 90)

In addition to the adjustments to fixed and intangible assets, this item also includes $€ 0.798$ million for amortization of the positive difference arising on application of the equity method for the valuation of Arca Vita spa.

## Section 6 Other items in the income statement

### 6.1 Breakdown of item 70 «Other operating income»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| Recovery of charges on deposits and overdrafts | 6,876 | 5,957 |
| Rent received for buildings | 797 | 806 |
| Recovery of customer insurance | 622 | 514 |
| Recovery of taxes | 13,742 | 12,370 |
| Financial income of the staff pension fund | 1,176 | - |
| Other | 4,095 | 3,847 |
| Total | $\mathbf{2 7 , 3 0 8}$ | $\mathbf{2 3 , 4 9 4}$ |

### 6.2 Breakdown of item 110 «Other operating expenses»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| Leasing and ancillary costs | 1,941 | 1,086 |
| Other | 1,702 | 2,056 |
| Total | $\mathbf{3 , 6 4 3}$ | $\mathbf{3 , 1 4 2}$ |

The 2002 figures have been adjusted for comparison purposes.

### 6.3 Breakdown of item 190 «Extraordinary income»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) Miscellaneous gains | 564 | 1,792 |
| b) Overprovisions | 28 | 4 |
| c) Gains on disposals: | 99 | 407 |
| of fixed assets | 99 | 46 |
| of long-term investments | - | 361 |
| d) Consolidation differences | 590 | - |
| Total | $\mathbf{1 , 2 8 1}$ | $\mathbf{2 , 2 0 3}$ |

6.4 Breakdown of item 200 «Extraordinary charges»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) Miscellaneous losses | 301 | 725 |
| b) Underprovisions | 485 | 568 |
| c) Losses on disposals: | - | - |
| of fixed assets | - | - |
| of long-term investments | - | - |
| d) Consolidation differences | - | 426 |
| Total | $\mathbf{7 8 6}$ | $\mathbf{1 , 7 1 9}$ |

### 6.5 Breakdown of item 240 «Income taxes for the year»

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| 1. Current taxes | 44,280 | 38,296 |
| 2. Change in deferred tax assets | $-1,448$ | $-1,698$ |
| 3. Change in deferred tax liabilities | 17 | -10 |
| 4. Income taxes for the year | $\mathbf{4 2 , 8 4 9}$ | $\mathbf{3 6 , 5 8 8}$ |

Changes in deferred tax assets mainly relate to loan write-downs in excess of the amount allowed for tax purposes and to provisions not accepted as being deductible after the timing difference reversed; $€ 0.202$ million of the 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

|  | 31/12/2003 |  |  |  | 31/12/2002 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Item/Countries | Italy | $\begin{array}{r} \text { EU } \\ \text { countries } \end{array}$ | Other countries (non-EU) | Italy | $\begin{array}{r} \mathrm{EU} \\ \text { countries } \end{array}$ | Other countries (non-EU) |
| Interest income and similar revenues | 378,854 | - | 15,717 | 393,434 | - | 12,207 |
| Dividends and other income | 4,449 | - | 31 | 5,065 | - | 44 |
| Commission income | 102,802 | - | 25,362 | 95,990 | - | 25,129 |
| Profits from financial transactions | 22,292 | - | 3,093 | 13,133 | - | 1,497 |
| Other operating income | 27,286 | - | 22 | 23,440 | - | 54 |
| Total | 535,683 | 0 | 44,225 | 531,062 | 0 | 38,931 |

The total income of $€ 579.908$ million relates to the business activities carried out by the parent bank mainly in Lombardy, with a significant presence in Milan, as well as in Rome, to business carried out in Switzerland by the subsidiary Banca Popolare di Sondrio (SUISSE) SA Banca Popolare di Sondrio (SUISSE) SA accounted for $4.33 \%$ of net interest income, $19.79 \%$ of commission income and $12.18 \%$ of profits from financial transactions.

## PART D Other information

## Section 1 Directors and statutory auditors

### 1.1 Emoluments

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) directors | 1,488 | 1,495 |
| b) statutory auditors | 210 | 154 |

### 1.2 Loans and guarantees granted

|  | $31 / 12 / 2003$ | $31 / 12 / 2002$ |
| :--- | ---: | ---: |
| a) directors | 2,513 | 3,126 |
| b) statutory auditors | 272 | 305 |

# REPORT OF THE INDEPENDENT AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS 

IN ACCORDANCE WITH ART. 156 OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 (Translation from the original issued in Italian)

To the Shareholders of

1. We have audited the consolidated financial statements of Banca Popolare di Sondrio S.c. a r.l. and its subsidiaries for the year ended 31 December 2003. Preparation of the financial statements is the responsibility of the Banca Popolare di Sondrio's Board of Directors. We are responsible for expressing a professional opinion on the financial statements, which we have formed on the basis of our audit.
2. Our examination was conducted according to the auditing principles recommended by CONSOB. Accordingly, the audit was planned and carried out so as to acquire all information necessary for determining whether the consolidated financial statements contain significant errors and whether they are, on the whole, reliable. The audit procedures include random checks on the elements supporting the balances and other information in the financial statements, as well as a verification that the accounting policies are appropriate and the estimates made by the directors are reasonable. We believe that the procedures carried out provide a fair basis on which to express our professional opinion.
For our opinion of the prior year's financial statements, whose figures are presented for comparison purposes as required by law, please see our report dated 13 February 2003.
3. In our opinion, the financial statements of Banca Popolare di Sondrio S.c. a r.l. and its subsidiaries as of 31 December 2003 comply with all pertinent regulations. Therefore, they have been prepared clearly and provide a true and fair view of the assets and liabilities, financial position and results for the year of the bank and its subsidiaries.

Milan, 18 February 2004


## STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

(in thousands of euro)

## SOURCES OF FUNDS

Funds generated by operations:

- Net profit for the year
- adjustments:
- loan write-downs and write-backs and provisions
for guarantees and commitments
- losses on securities and equity investments
,249
23,971
- amortization and depreciation

2,632
14,528

- amortization and differences in value of investments stated at net equity
(511)

63,873
49,713

Provisions:

- staff pension fund

4,052

- reserve for severance indemnities

5,607

- risks and charges
$3,-$
21,809
- possible loan losses

3,965
1,266

- general banking risks

34
137,997
(675)

- personnel charges

Increase in shareholders' equity:

- underwriting of own shares
- dividends in prescription and on own shares

6
3,195
3,195
5,059
5,000
10,045

- exch. diffs on conversion of subsidiaries' fin. stats
- other changes

Increase in funding:

- customer deposits
$(4,108)$
- 

$(4,102)$
116
132,761

- deposits from other banks

832,504
13
1,164
(29)

1,148

- securities issued
$(268,309)$
1,560,849
88,689
$\begin{array}{rr} & (466,371) \\ 652,884 & 129,930\end{array}$
- third-party funds under administration
- other liabilities
(51)
(49)
- accrued liabilities and deferred income

64,640
28,812
$(2,079)$
5,186
5,666
68,176
3,592
37,541
854,955
$1,395,858$

## APPLICATION OF FUNDS

Use of funds generated by operations:

- staff pension fund
- reserve for severance indemnities
- reserves for possible loan losses
- reserve for risks and charges

- personnel charges

Decrease in shareholders' equity:

- dividends
- charity fund

Increase in application of funds:

- customer loans
- cash on hand
- due from other banks
- trading securities

Change in other asset items:

- other assets

2,347
2,521
3,250
2,103


$$
14,548
$$

280
124
20,549
$1,224,408$
1,224,408

- accrued income and prepayments
- equity investments and own shares
- positive differences arising on application of the equity method
- intangible assets

26,139


## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDING 31 DECEMBER 2002 AND 2003

(in thousands of euro)

|  | Share capital | Reserve for general banking risks | Share premium reserve |
| :---: | :---: | :---: | :---: |
| BALANCE AS OF 31 DECEMBER 2001 | 412,698 | 38,734 | 135,886 |
| ALLOCATION OF PROFITS, as resolved by the AGM of 2 March 2002: |  |  |  |
| To the legal reserve |  |  |  |
| To the statutory reserves |  |  |  |
| Dividend of $€ 0.18$ per share |  |  |  |
| Charity fund |  |  |  |
| Exchange difference on conversion of balance sheets denominated in foreign currency |  |  |  |
| Change in net equity of companies included in the consolidation area |  |  |  |
| DIVIDEND ON OWN SHARES |  |  |  |
| RESERVE FOR GENERAL BANKING RISKS |  |  |  |
| RESERVE FOR OWN SHARES |  |  |  |
| RESERVE AS PER ART. 13 OF LEGISLATIVE DECREE 124/93 |  |  |  |
| OTHER CHANGES |  |  |  |
| NET PROFIT FOR 2002 |  |  |  |
| BALANCE AS OF 31 DECEMBER 2002 | 412,698 | 38,734 | 135,886 |

ALLOCATION OF PROFITS, as resolved by the AGM of 1 March 2003:

To the legal reserve
To the statutory reserves
Dividend of $€ 0.19$ per share
Charity fund
Exchange difference on conversion of balance sheets denominated in foreign currency
Change in net equity of companies included
in the consolidation area
DIVIDEND ON OWN SHARES
RESERVE FOR GENERAL BANKING RISKS 1,266
RESERVE FOR OWN SHARES
RESERVE AS PER ART. 13 OF LEGISLATIVE DECREE 124/93
NET PROFIT FOR 2003

| BALANCE AS OF 31 DECEMBER 2003 | 412,698 | 40,000 | 135,886 |
| :--- | :--- | :--- | :--- |


| Legal reserve | Restricted reserve for own shares | Statutory reserves | Other reserves | Retained earnings | Negative differences arising on application of net equity method | Net profit for the year | Total shareholders' equity |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 53,759 | 874 | 83,967 | 22,077 | 398 | 123 | 51,506 | 800,022 |
| 10,771 |  |  |  |  |  | $(10,771)$ | 0 |
|  |  | 13,819 |  |  |  | $(13,819)$ | 0 |
|  |  |  |  |  |  | $(24,762)$ | $(24,762)$ |
|  |  |  |  |  |  | (250) | (250) |
| 447 |  |  | 717 |  |  |  | 1,164 |
|  |  |  | (256) | (398) |  | 649 | (5) |
|  |  | 13 |  |  |  |  | 13 |
|  | (268) |  | 2,791 |  |  | $(2,523)$ | 0 |
|  |  |  | 30 |  |  | (30) | 0 |
| (23) |  |  | (1) |  |  |  | (24) |
|  |  |  |  |  |  | 49,713 | 49,713 |
| 64,954 | 606 | 97,799 | 25,358 | 0 | 123 | 49,713 | 825,871 |
| 9,289 |  |  |  |  |  | $(9,289)$ | 0 |
|  |  | 14,011 |  |  |  | $(14,011)$ | 0 |
|  |  |  |  |  |  | $(26,139)$ | $(26,139)$ |
|  |  |  |  |  |  | (250) | (250) |
| $(1,777)$ |  |  | $(2,331)$ |  |  |  | $(4,108)$ |
|  |  |  | $(1,507)$ |  |  | 1,507 | 0 |
|  |  | 6 |  |  |  |  | 6 |
|  |  |  |  |  |  |  | 1,266 |
|  | (606) |  | 2,106 |  |  | $(1,500)$ | 0 |
|  |  |  | 31 |  |  | (31) | 0 |
|  |  |  |  |  |  | 63,873 | 63,873 |
| 72,466 | 0 | 111,816 | 23,657 | 0 | 123 | 63,873 | 860,519 |

## EXTRAORDINARY PART



## DIRECTORS' REPORT <br> extraordinary part

Shareholders,
Today's extraordinary general meeting is required to vote on the proposal to increase share capital that the Board of Directors is submitting for your approval, having obtained authorisation from the supervisory authorities.

The principal terms of the operation are as follows:

1) bonus of one new share of par value 3 euro, carrying dividend rights from 1 January 2004, for every five shares held, by transferring the related amount from the «share premium reserve» to «share capital»;
2) simultaneous extraordinary issue of shares for cash to be offered under option at a ratio of two new shares of par value 3 euro each, carrying dividend rights from 1 January 2004, to every five shares held before the bonus grant, at the price of 4 euro each, of which 3 euro to be booked to «share capital» and 1 euro to the «share premium reserve»;
3) related payment of a fee of 0.04 euro for every new share subscribed for cash, with an upper limit of 125 euro.

This proposal results from the Bank's growth in size and earnings over the past ten years and reflects the Board's desire, shared with shareholders, to pursue endogenous growth by capitalising on its institutional, organisational and operational characteristics, which have thus far enabled it to satisfy in full the demands of its large customer base. The operation bears the hallmark of the Bank's standard transparency and simplicity, meaning that it can be easily understood by everyone. It will raise the financial resources required to fund the Bank's future development, while offering its shareholders an attractive investment opportunity.

The underlying purpose is to strengthen the Bank's regional structure, since this is a necessary condition for doing our job properly and continuing to be an autonomous player
within the national banking industry. We shall thus be able to continue providing a good level of service to households and private individuals; to present ourselves as an effective partner for medium and small enterprises, without ignoring the needs of larger ones; to provide efficient services to organisations and institutions; in short, to provide ever more stimulus to the economy and be an integral part of the areas served.

An adequate capital base is also at the heart of policies for monitoring the various kinds of banking risk, which have always been based on healthy and prudent principles of management. In fact, the desire is to have a more-than-adequate capital base and the necessary resources to improve the techniques and instruments for measuring and managing risks, in order to undertake with confidence the development of new areas of business and augment operations in traditional ones.

The increase in capital, which is essential for us to achieve these goals, is to some extent being «imposed» by the results achieved in the past. Having more than exceeded expectations, the need to ensure a balanced ratio between equity and the fundamental balance-sheet aggregates requires internally-generated resources to be supplemented with fresh ones.

The comparison between the growth in capital and some of the principal balance-sheet aggregates in the two-year period 31 December 2001 - 31 December 2003, following the last operation on capital, provides a ready confirmation of this fact. Direct deposits have climbed by $40.72 \%$ to 8,184 million. Customer loans have increased by $27.56 \%$ to 7,117 million, while guarantees are $23.14 \%$ higher at 1,690 million. Conversely, shareholders' equity, excluding net profit, has grown by $5.83 \%$ from 731 to 774 million.

We can no longer avoid increasing our equity in order to satisfy, with a view to the future as well, the supervisory rules regarding
minimal capital requirements. In fact, although the «capital adequacy ratios» laid down by the supervisory regulations are still good compared with the established minimum, they have progressively come down, which explains the different rates of growth between capital and the other balance-sheet aggregates. In fact, the bank's individual capital adequacy ratio (with a required minimum of $7 \%$ ) has gone from $10.74 \%$ at 31 December 2001 to $8.81 \%$ at 31 December 2003. The consolidated capital adequacy ratio (with a required minimum of $8 \%$ ) has dropped from $10.87 \%$ to $8.82 \%$ over the same period.

In the two years under review the results reported in the income statement have done particularly well. Net interest income has increased by $14.62 \%$ to 223 million. Income from banking activities has benefited as a result, climbing $14.71 \%$ to 341 million. Net profit has progressed a full $30 \%$ to 60.1 million. These are undoubtedly positive results, as described in further detail in the report on performance to which the reader is referred. In this report we shall limit ourselves to focusing on the bank's ability to combine growth with profitability.

This has been reflected in the market's positive opinion of our stock, which has been particularly appreciated for its limited volatility, its satisfactory, constant yield and overall stability. In other words, it is perceived as a safe haven stock, a stranger to speculative swings, and able to offer shelter from market turmoil. This is demonstrated by its performance of $+5.09 \%$ and $+1.43 \%$ in 2001 and 2002 respectively, two really black years for equity markets. In 2003 the stock reported an impressive $+13.99 \%$ gain, a large part of which took place after the announcement of the capital increase.

These figures are the result of intense and zealous work, forming part of a management philosophy founded on the concept of prudence. Even the decision to expand endogenously is the result of this approach. The Bank has preferred
direct intervention in its local markets to outside acquisitions: perhaps less ostentatious, but still following an intense and fruitful path of development. We have pursued synergies and economies of scale - which, as experience has shown, so many have sought, but few have actually achieved through aggregations - by constantly honing the corporate machine and expanding our services, including through agreements with outside parties, in line with the volume of work.

Having presented the general reasons for this operation, we shall now summarise our strategies for the individual sectors of the business. The related investments have been the subject of detailed assessment in order to quantify the size of the capital increase.

Enhancement of the Bank's regional structure involves building up its local network in Lombardy and adjoining areas. Similar attention is warranted in Rome, where the Bank has 22 branches, which have generated important opportunities for work and income. Territorial entrenchment, serving endogenous growth, also helps put the Bank on an equal footing when making agreements with qualified partners and so for expanding the products on offer, proposing new types of service and reducing individual investments and costs.

On the other hand, events of the past few years highlight the importance of having been able to benefit from a significant increase in volumes thanks to the new branches. Only in this way has it been possible to raise corporate profitability, despite a reduction in margins per unit. The plan, therefore, is to make this a continuous development. In short, experience has taught us to prefer intensity to expansion; in our case, this means acting effectively on a scale proportionate to our capabilities.

Of the objectives pursued, particular importance is placed on strengthening relations with the Bank's equity investments, especially
those in companies formed with other cooperative banks, which provide the Bank with essential products and services in completion of its portfolio. The process of concentration taking place over the past few years within the banking sector has also affected cooperative banks, with repercussions on their ownership structure and beyond. We have gradually gathered the fruits, increasing some of our interests, with a view to ensuring quality products, good returns and a streamlined organisation. But above all we have provided our equity investments with continuity of governance and management. The intention is to proceed in this direction by enhancing their effectiveness in the sectors already served and by working through them in new areas.

The creation of an Internal Control System more and more attuned to managing the risks associated with the various banking processes is strategically important. As a result, the plan is to improve the techniques and instruments for measuring the various kinds of risk; to redesign the working procedures to complement the new applications to the best; to carry out intensive training involving all staff; to invest in highly specialised professional roles. The significant work already completed in the area of lending and financial risks will be taken to new levels. In addition, the intention is to introduce technical and methodological tools for monitoring and managing operational risks.

Major investments will be made in the technological area, involving an upgrade of the information system, whose platform will be the internet and new technologies. Customers will benefit thanks to an improved and greater number of products and services, along with an enlargement of the channels through which they are available. The communication networks will have their band widths enlarged considerably in order to deliver advanced services to our more sophisticated customers. This will result in less pressure on the branches, whose working practices
will be revised, with mass transactions increasingly centralised and automated in order to focus on higher value-added services.

Important areas under the responsibility of the data processing centre will be outsourced under Facility Management arrangements, in order to concentrate on another highly delicate objective, namely Disaster Recovery. This is an essential requisite in order to ensure continued operations in the event of any situations that may harm the overall efficiency of the Bank's computer resources, with the risk that our business could be partially or completed blocked.

The availability of efficient information systems for remote working will help foster our dealings with institutional counterparties and their associated customers, thereby allowing relationships with qualified organisations beyond our branches' sphere of operation.

Lastly, we consider that a sufficient amount of capital often represents a preferential factor for foreign counterparties when deciding with which organisations to start and consolidate partnerships. The Bank has always believed in the international sector, obtaining not insubstantial shares of this market. Our past focus on the international sector places us in a privileged position, while requiring further major investment to maintain a top position in the future as well. We do this willingly, aware that it is part of our bank's mission to provide assistance to the corporate sector in the ongoing process of internationalisation. We have always felt like citizens of the world around us. As for Europe, we are now its citizens by right, no longer members of different nations but Europeans from different regions.

The strategies described have been reviewed and planned with a view to achieving a progressive improvement in the Bank's profitability. In fact, the analyses of the impact of the capital increase on the Bank's balance sheet and income statement support the strategy pursued. More specifically, the
simulations prepared have shown that major economic benefits are to be expected from increased lending activities, from higher commissions generated from a larger, more professional range of services, from the synergies obtainable within an increasingly wide local network, from activities performed via online channels and from a more efficient corporate organisation, geared to keeping costs in check. All this should make it possible to satisfy shareholder expectations in terms of dividends.

It is on the basis of the foregoing considerations that the Board of Directors has decided to propose to raise fresh funding by increasing the Bank's capital by 220.1 million euro. This will involve issuing $55,026,425$ new shares for cash, at a ratio of two new shares for every five in circulation, at a price of 4 euro each, of which 3 euro to be booked to «share capital» and 1 euro to the «share premium reserve». The size of the share premium reserve has been determined by taking account of book shareholders' equity, the date from which dividend rights will be enjoyed and the performance of the stock. The bonus issue corresponding to $27,513,213$ ordinary shares of par value 3 euro each, at a ratio of one new share for every five in circulation - involves transferring the sum of $82,539,639$ euro from the «share premium reserve» to «share capital». Equity reserves, which will rise to $802,184,563$ euro following approval of the allocation of the 2003 net profit, will increase to $1,022,290,263$ euro and share capital will go up from $412,698,192$ euro to $660,317,106$ euro. The number of shares will increase from $137,566,064$ to $220,105,702$. These are 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 general meeting to empower the Board of Directors and/or the Chairman's Committee, and the Chairman and Deputy Chairman on their
behalf, with separate signing authority, to do everything necessary to execute and implement the related resolution.

Bearing in mind the technical and legal requirements, and provided no unforeseen circumstances advise delaying until a later date, it is reasonable to assume that the capital increase will take place between the end of May and the beginning of June this year. The operation will not involve any underwriting and/or placement syndicates; the shareholders may exercise their rights at any branch of Banca Popolare di Sondrio or through the authorised intermediaries belonging to the centralised management system run by Monte Titoli spa. The rights will be traded on the Milan Stock Exchange's «Expandi» market and those not exercised will be offered in accordance with the provisions of article 2441.3 of the Italian Civil Code.

The Bank will provide timely notification of this operation in the press and inform individual shareholders of the terms and conditions of acceptance, remaining at their disposal for all the related and other formalities.

Shareholders,
As foreseen in point 2 of the agenda, we now invite you to vote on our proposals by approving the following resolutions, including the conferment of powers to legal representatives:

## Resolution on point 1 of the agenda:

- Mixed increase in capital.
«The Extraordinary Shareholders' Meeting of Banca Popolare di Sondrio:
- having heard the report of the Board of Directors;
- having taken note of the report of the Board of Statutory Auditors;
resolved

1) to approve the mixed increase in capital as proposed by the Board of Directors involving:

- a bonus issue of one new share of par value 3 euro, with dividend rights from 1 January 2004, for every five shares held, transferring the amount required from the «share premium reserve» to «share capital»;
- a simultaneous extraordinary rights issue to be offered under option at a ratio of two new shares of par value 3 euro, with dividend rights from 1 January 2004, for every five shares held prior to the above bonus issue, at a price of 4 euro, of which 3 euro is to be allocated to «share capital» and 1 euro to the «share premium reserve»;
- related payment of an expense reimbursement equal to 0.04 euro for every new share subscribed under the rights issue, up to a maximum of 125 euro.

2) To delegate to the Board of Directors and to the Chairman's Committee all possible powers to set the period within which the resolutions as per point 1) have to be implemented and to establish all other terms, methods and conditions relating to them, including those for the use of scrip certificates and the sale of unexercised rights, in accordance with art.
2441.3 of the Civil Code, as well as those regarding the transfer of amounts from the «share premium account» to «share capital» in connection with the bonus issue.»

## Resolution on point 2 of the agenda:

- Conferment of powers.
«In addition to the resolution passed today
on point 1 of the agenda, the Extraordinary Shareholders' Meeting of Banca Popolare di Sondrio,

> resolved
to delegate severally to the Chairman and to the Deputy Chairman the powers required to render public and executive according to the law the above shareholders' resolutions; moreover, the power to make to such resolutions any amendments, deletions and/or additions that may be required by the competent authorities for the purposes of their approval, transcription and publication in accordance with the law, all with the promise of full ratification and approval».

Sondrio, 2 February 2004

THE BOARD OF DIRECTORS


# STATUTORY AUDITORS' REPORT TO THE EXTRAORDINARY GENERAL MEETING HELD ON 6 MARCH 2004 

Shareholders,
The Board of Directors is submitting for your approval a proposal to increase share capital, whose fundamental terms are as follows:

- bonus of one new share of par value 3 euro, carrying dividend rights from 1 January 2004, for every five shares held, by transferring the related amount from the «share premium reserve» to «share capital»;
- simultaneous extraordinary issue of shares for cash to be offered under option at a ratio of two new shares of par value 3 euro each, carrying dividend rights from 1 January 2004, for every five shares held before the bonus grant, at the price of 4 euro each, of which 3 euro to be booked to «share capital» and one euro to the «share premium reserve».

The Board of Statutory Auditors has examined the proposal from a technical point of view, but its main focus has been on its contents and reasons put forward by the Board of Directors.

The choice of a mixed capital increase, involving the allocation of a portion of reserves to share capital, is permitted by article 2442 of the Italian Civil Code. This same article also provides for the granting of ordinary new shares in relation to the number of ordinary shares already held. Compliance with this article reflects the operation's transparency and simplicity.

As for the proposal to increase capital and its projected size, we are in agreement with this.

Even if the Bank cannot currently be viewed as short of capital, its future shape will undoubtedly depend on the flow of new resources, with the Bank looking not just to the near future but the long-term as well.

Despite the Bank's good past performance, you will be aware that its level of free cash flow is
modest relative to current and prospective needs for additional development.

The capital adequacy requirements imposed by the banking industry's supervisory authorities are currently respected, even if with the growth in size and balance-sheet aggregates they are tending to show some signs of weakening.

An adequate level of capitalisation provides a bank with the necessary margin for conducting its business, while at the same time conserving its stability. In contrast, an inadequate capital base prevents operational flexibility and obstructs investment and development activity. In addition, there is the expected introduction of international regulations for higher capital requirements in order to provide better protection against lending, market, interest and operational risks.

The Board of Directors has outlined the plans, implementation of which depends on the capital increase. We do not intend repeating them, but we would stress their validity. They may be summarised in the need for ongoing growth and the Bank's successful strategy for maintaining its independence.

Since the conditions for growth already exist, as amply demonstrated by the results achieved up until now, it is time to create the conditions so that there will be no further delay in achieving the stated goals.

There is no doubt that given uncertain market trends and greater competition in banking intermediation and services, it is necessary to expand business both in terms of size and the territory served. This must be supported by an adequate structure and efficient organisation in terms of both people and instruments.

There can be no further delays in enhancing the benefits of new technology, needed for a
multitude of products and due to have a profound impact on how services are delivered.

Future priorities will focus on these ends, to which the new resources will be dedicated.

Your Bank, or rather your Banking Group, has shown its ability to move in the right direction as regards the scale achieved. In our opinion,
it warrants your support, which we hope you will give.

Sondrio, 16 February 2004
THE STATUTORY AUDITORS
Egidio Alessandri, Chairman
Pio Bersani, Acting Auditor
Piergiuseppe Forni, Acting Auditor

# RESOLUTIONS OF THE ORDINARY AND EXTRAORDINARY ANNUAL GENERAL MEETING OF THE SHAREHOLDERS 

held on 6 March 2004 (at second calling)


## AGENDA

## Ordinary part

1) Presentation of the financial statements as of $31 / 12 / 2003$ : 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 one acting and one substitute statutory auditor;
5) Appointment of acting and substitute members of the Advisory Committee.

## Extraordinary part

1) Mixed increase in capital involving:

- a bonus issue of one new share of par value 3 euro, with dividend rights from 1 January 2004, for every five shares held, transferring the amount required from the «share premium reserve» to «share capital»;
- a simultaneous extraordinary rights issue to be offered under option at a ratio of two new shares of par value 3 euro, with dividend rights from 1 January 2004, for every five shares held prior to the above bonus issue, at a price of 4 euro, of which 3 euro is to be allocated to «share capital» and 1 euro to the «share premium reserve»;
- related payment of an expense reimbursement equal to 0.04 euro for every new share subscribed under the rights issue, up to a maximum of 125 euro.

2) 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.

The ordinary shareholders' meeting, having heard the report of the Board of Directors on the 2003 results and the proposed allocation of net profit for the year; having taken note of the report of the Board of Statutory Auditors and that of the Independent Auditors; having taken as read the balance sheet and income statement, explanatory notes and the financial statements of the subsidiary and associated companies
approved:

1) the directors' report on operations;
2) the financial statements as of 31 December 2003 with the results shown in the balance sheet and income statement and related explanatory notes, which show a net profit for the year of $€ 60,117,119$. The shareholders therefore specifically approve the allocation of the net profit of $€ 60,117,119$ as proposed by the Board of Directors in accordance with the requirements of law and the bank's articles of association, and more precisely resolved:
a) to allocate:
$-10 \%$ to the legal reserve € 6,011,711.90
$-30 \%$ to the statutory reserve € 18,035,135.70
b) to pay a dividend of $€ 0.23$ to each of the $137,566,064$ shares in circulation at $31 / 12 / 2003$ with dividend rights as from $1 / 1 / 2003$, 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
€ 31,640,194.72
c) to allocate to treasury share reserve
€ 4,000,000.00
d) to allocate the residual profit:

- to the charity fund
- to the reserve as per art. 13 Legislative Decree 124/93
$€ \quad 250,000.00$
- to the legal reserve, an additional
$€ \quad 37,184.72$

The shareholders also set aside $€ 23,000,000$ - booked to «Other reserves»- as the amount to be made available to the Board of Directors to buy and sell treasury shares at arm's length conditions, pursuant to art. 21 of the articles of association, within the limit of the aforesaid amount and such part of it as is made available by subsequent sales of the shares acquired; all within the scope of a normal activity of intermediation designed to favour circulation of the shares;
3) the determination of the directors' emoluments;
4) the appointment of Federico Falck, Mario Galbusera, Nicolò Melzi di Cusano, Bruno Vanossi and Francesco Venosta as members of the Board of Directors for the three-year period 2004-2006, and Claudio Benedetti for 2004/2005;
5) the appointment of Pio Bersani as Acting Statutory Auditor and of Marco Antonio Dell'Acqua as substitute Statutory Auditor for the period 2004/2005.
6) the appointment of Alberto Crespi, Giuseppe Guarino and Andrea Monorchio as acting members of the Advisory Committee and Susanna Agnelli and Antonio La Torre as substitute members of the Advisory Committee for the three-year period 2004/2006.

The extraordinary shareholders' meeting, having heard the report of the Board of Directors and having taken note of the report of the Board of Statutory Auditors
resolved:

1) to approve the mixed increase in capital as proposed by the Board of Directors involving:

- bonus of one new share of par value 3 euro, carrying dividend rights from 1 January 2004, for every five shares held, by transferring the related amount from the «share premium reserve» to «share capital»;
- simultaneous extraordinary rights issue of shares for cash to be offered under option at a ratio of two new shares of par value 3 euro each, carrying dividend rights from 1 January 2004, to every five shares held before the bonus grant, at the price of 4 euro each, of which 3 euro to be booked to «share capital» and 1 euro to the «share premium reserve»;
- related payment of a fee of 0.04 euro for every new share subscribed for cash, with an upper limit of 125 euro.

2)     - to delegate to the Board of Directors and to the Chairman's Committee all possible powers to set the period within which the resolutions as per point 1) have to be implemented and to establish all other terms, methods and conditions relating to them, including those for the use of scrip certificates and the sale of unexercised rights, in accordance with art. 2441.3 of the Civil Code, as well as those regarding the transfer of amounts from the «share premium account» to «share capital» in connection with the bonus issue.

- to delegate severally to the Chairman and to the Deputy Chairman the powers required to render public and executive according to the law the above shareholders' resolutions; moreover, the power to make to such resolutions any amendments, deletions and/or additions that may be required by the competent authorities for the purposes of their approval, transcription and publication in accordance with the law, all with the promise of full ratification and approval.



# THE BANK'S GROWTH SINCE ITS FOUNDATION KEY FINANCIAL DATA 

| Year | Financial investments euro | Customer loans euro | Fiduciary funds euro | Shareholders' equity (capital \& reserves) euro | Net profit for the year euro | Dividend euro |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 1871 | 26 | 93 | 37 | 47 | 1 | 0.001 |
| 1875 | 109 | 675 | 569 | 181 | 21 | 0.002 |
| 1880 | 46 | 1,024 | 777 | 360 | 33 | 0.002 |
| 1885 | 213 | 1,431 | 1,161 | 410 | 42 | 0.002 |
| 1890 | 459 | 1,805 | 1,646 | 457 | 49 | 0.002 |
| 1895 | 840 | 1,380 | 1,631 | 453 | 36 | 0.002 |
| 1900 | 860 | 1,627 | 1,987 | 465 | 43 | 0.002 |
| 1905 | 940 | 2,330 | 2,834 | 504 | 53 | 0.002 |
| 1910 | 1,460 | 3,717 | 4,738 | 563 | 68 | 0.003 |
| 1915 | 2,425 | 3,399 | 5,178 | 658 | 59 | 0.002 |
| 1920 | 7,906 | 9,100 | 22,320 | 1,232 | 186 | 0.005 |
| 1925 | 9,114 | 35,692 | 39,924 | 2,303 | 523 | 0.006 |
| 1930 | 12,899 | 43,587 | 54,759 | 3,230 | 561 | 0.006 |
| 1935 | 21,402 | 30,912 | 53,190 | 3,543 | 339 | 0.004 |
| 1940 | 24,397 | 32,808 | 57,064 | 3,091 | 312 | 0.002 |
| 1945 | 112,239 | 101,840 | 191,619 | 6,491 | 817 | 0.002 |
| 1950 | 608,460 | 892,440 | 1,359,864 | 50,496 | 10,834 | 0.041 |
| 1955 | 1,413,363 | 2,372,139 | 3,573,499 | 262,122 | 25,998 | 0.124 |
| 1960 | 3,474,898 | 5,864,314 | 9,124,181 | 495,960 | 45,997 | 0.150 |
| 1965 | 6,564,058 | 9,861,955 | 18,238,851 | 670,265 | 60,044 | 0.170 |
| 1970 | 11,228,709 | 21,140,462 | 34,440,002 | 1,577,469 | 86,800 | 0.196 |
| 1975 | 49,247,998 | 46,458,454 | 103,136,018 | 4,940,413 | 336,351 | 0.284 |
| 1980 | 248,877,713 | 135,350,391 | 386,128,259 | 44,618,760 | 2,298,768 | 0.620 |
| 1981 | 303,227,605 | 149,856,755 | 435,958,220 | 70,294,839 | 3,543,126 | 0.878 |
| 1982 | 434,505,499 | 168,991,589 | 564,440,308 | 93,988,765 | 5,876,973 | 0.930 |
| 1983 | 551,731,767 | 201,889,280 | 722,876,267 | 105,498,725 | 9,795,722 | 1.394 |
| 1984 | 657,323,707 | 244,311,938 | 885,640,690 | 117,286,747 | 11,754,271 | 1.911 |
| 1985 | 669,773,787 | 327,572,423 | 985,454,131 | 123,347,208 | 13,332,058 | 2.582 |
| 1986 | 854,978,708 | 381,346,894 | 1,108,118,326 | 129,106,270 | 13,582,958 | 2.169 |
| 1987 | 954,429,924 | 407,643,937 | 1,205,007,005 | 134,486,897 | 13,588,657 | 2.169 |
| 1988 | 950,465,324 | 510,164,638 | 1,285,408,512 | 139,730,318 | 13,665,548 | 2.272 |
| 1989 | 958,277,398 | 634,760,956 | 1,431,120,712 | 145,100,954 | 13,984,014 | 2.324 |
| 1990 | 919,261,388 | 819,877,375 | 1,567,539,101 | 170,006,961 | 14,919,668 | 1.653 |
| 1991 | 886,480,827 | 1,014,385,379 | 1,708,284,250 | 192,743,654 | 16,018,859 | 1.653 |
| 1992 | 1,162,262,510 | 1,202,265,949 | 2,151,786,340 | 198,979,714 | 16,304,997 | 1.704 |
| 1993 | 1,675,065,908 | 1,441,158,530 | 2,862,510,529 | 250,913,662 | 17,860,906 | 1.136 |
| 1994 | 1,438,251,891 | 1,701,208,296 | 2,922,731,483 | 258,100,923 | 16,976,601 | 1.136 |
| 1995 | 1,828,374,994 | 1,903,530,111 | 3,401,567,857 | 335,480,368 | 18,688,353 | 0.413 |
| 1996 | 1,817,497,737 | 2,120,842,006 | 3,590,238,215 | 345,127,951 | 20,685,619 | 0.439 |
| 1997 | 1,730,940,393 | 2,485,706,688 | 3,844,781,082 | 353,507,281 | 20,796,084 | 0.439 |
| 1998 | 2,005,202,039 | 2,990,333,100 | 4,343,203,973 | 535,162,454 | 24,784,724 | 0.196 |
| 1999 | 1,993,529,114 | 3,724,763,745 | 5,058,960,710 | 557,555,696 | 30,555,532 | 0.232 |
| 2000 | 2,043,141,602 | 4,443,945,484 | 5,829,901,035 | 576,036,331 | 38,428,768 | 0.300 |
| 2001 | 2,618,137,267 | 5,579,546,805 | 7,374,954,358 | 731,304,438 | 46,064,525 | 0.180 |
| 2002 | 3,218,789,508 | 6,246,734,925 | 8,626,473,276 | 752,369,741 | 46,703,800 | 0.190 |
| 2003 | 2,827,584,863 | 7,117,211,453 | 9,139,503,657 | 773,957,639 | 60,117,119 | 0.230 |

The figures for the years prior to 1993 have not been adjusted to make them comparable with those of subsequent years which have been classified differently in accordance with Legislative Decree 87/92.


## INDEX

## 5 Company boards

6 Branch network
11 Summary of the bank's growth (1993/2003)
13 Notice of calling to the shareholders' meeting

15 ORDINARY PART
17 Report on performance
17 Summary of results
20 Territorial expansion
27 Funding
31 Loans
34 Treasury and trading operations
41 Equity investments
59 International unit
64 Services, projects and structure
76 Risk management
78 Human resources
80 Promotional and cultural activities
89 Revision of the security plan
89 Equity
92 Income statement
94 Adoption of the new IAS, renamed IFRS
95 Significant subsequent events
95 Forecast for operations
96 Allocation of net profit for the year
96 Capital and reserves
101 Report of the Board of Statutory Auditors
105 Financial statements as of 31 December 2003
106 Balance sheet
109 Income statement
111 Notes to the financial statements
111 Accounting policies
115 Information on the balance sheet
139 Information on the income statement
145 Other information

## 149 Appendices

151 Statement of changes in financial position
152 Statement of changes in shareholders' equity
154 Statement of changes in the staff pension fund
155 List of equity investments
156 List of significant equity investments
157 List of revalued assets still owned by the bank
161 Financial statements of subsidiaries and associated companies
162 Banca Popolare di Sondrio (SUISSE) SA
166 Pirovano Stelvio spa
170 Sinergia Seconda srl
174 Ripoval spa
178 Arca Vita spa
187 Report of the independent auditors on the financial statements

189 Consolidated financial statements of the Banca Popolare di Sondrio Group
191 Report on performance
199 Report of the Board of Statutory Auditors on the consolidated financial statements
201 Consolidated financial statements as of 31 December 2003
202 Consolidated balance sheet
205 Consolidated income statement
207 Notes to the consolidated financial statements
239 Report of the independent auditors on the consolidated financial statements
241 Statement of changes in financial position
242 Statement of changes in shareholders' equity
245 EXTRAORDINARY PART
247 Directors' report
253 Statutory Auditor's report
255 Resolutions of the ordinary and extraordinary annual general meeting of the shareholders
261 The Bank's growth since its foundation, key financial data


## Photographs

FOTO SGUALDINO
FRANCO GARLASCHELLI
MAURO LANFRANCHI
EMILIO MARCASSOLI
OLYCOM
LIVIO PIATTA
SOCIETÀ ALTO ADIGE MARKETING
STUDIO SEMPIONE
MASSIMO TOGNOLINI
ADRIANO TURCATTI

## Impagination

GRAFICA MARCASSOLI s.r.I., Nembro (Bg)

## Pre-print coordination and printing

BOLIS POLIGRAFICHE SpA, Bergamo

## Translation

BUROSERVICE snc, Arese (Mi)




[^0]:    Sondrio Companies Register no. 00053810149 - Official List of Banks no. 842
    Parent Company of the Banca Popolare di Sondrio Group -

[^1]:    (*) died 21/12/2003
    (**) from 1/3/2003
    (***) resigned 4/6/2003

[^2]:    The 2002 figures have been adjusted for comparison purposes.

[^3]:    (1) 1 - Control as per article 2359.1.1 of the Italian Civil Code (majority of voting rights at the AGM)

    8 - Associated company

