





Banca Popolare di Sondrio

Founded 1871

ANNUAL GENERAL MEETING OF THE SHAREHOLDERS HELD ON 2 MARCH 2002

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

Sondrio Companies Register no. 00053810149 – Official List of Banks no. 842
Parent Company of the Banca Popolare di Sondrio Group –
Official List of Banking Groups no. 5696.0 – Member of the Interbank Deposit Protection Fund
Fiscal code and VAT number: 00053810149
Share capital: € 412,698,192 – Reserves: € 339,658,879

BOARD OF DIRECTORS

Chairman and Chief Executive Officer

Deputy Chairman

Directors

PIERO MELAZZINI*

SALVATORE BONOMO*

ALDO BALGERA

GIANLUIGI BONISOLO*

GIUSEPPE FONTANA

MARIO GALBUSERA

CARLO GRASSI**

NICOLÒ MELZI DI CUSANO

MILES EMILIO NEGRI

ALDO ROSSI

RENATO SOZZANI*

LINO ENRICO STOPPANI

MARIO TESTORELLI

BRUNO VANOSSI

FRANCESCO VENOSTA*

* Members of the Chairman's Committee

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

BOARD OF STATUTORY AUDITORS

Chairman

Acting Auditors

Substitute Auditors

EGIDIO ALESSANDRI

PIERGIUSEPPE FORNI

ROBERTO SCHIANTARELLI

PIO BERSANI

MARIO VITALI

ADVISORY COMMITTEE

Advisors

Substitute Advisors

ALBERTO CRESPI

GIUSEPPE GUARINO

ANDREA MONORCHIO

SUSANNA AGNELLI

ANTONIO LA TORRE

GENERAL MANAGEMENT

General Manager

Deputy General Managers

MARIO ALBERTO PEDRANZINI

GIOVANNI RUFFINI

GIOVANNI CARLO MASSERA

GIUSEPPE FRANCO PAGANONI

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

MANAGEMENT AND HEAD OFFICE

SONDRIO, piazza Garibaldi 16

(BRANCH OFFICES)

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

(PROVINCE OF SONDRIO)

Head office: SONDRIO, piazza Garibaldi 16

Sondrio: • Agenzia n. 1, via Bernina 1 • Agenzia n. 2, via Nani 32 • Agenzia n. 3, Ospedale Civile, via Stelvio 25 • Agenzia n. 4, piazzale Bertacchi 57 ang. via N. Sauro
• Albosaggia • Aprica • Ardenno • Bormio • Chiavenna • Chiesa in Valmalenco • Colorina • Delebio • Gordona • Grosio • Grosotto • Isolaccia Valdidentro • Lanzada • Livigno, via S. Antoni 33 • Livigno, Agenzia n. 1, via Saroch 160 • Madesimo • Madonna di Tirano • Mazzo di Valtellina • Montagna in Valtellina - loc. al Piano • Morbegno, piazza Caduti della Libertà 10 • Morbegno, Agenzia n. 1, via V Alpini 172 • Novate Mezzola • Nuova Olonio • Passo dello Stelvio • Piantedo • Ponte in Valtellina • Regoledo di Cosio • San Cassiano Valchiavenna • S. Nicolò Valfurva • San Pietro Berbenno • Semogo • Sondalo • Talamona • Teglio • Tirano • Traona • Tresenda • Villa di Chiavenna • Villa di Tirano

(PROVINCE OF BERGAMO)

• BERGAMO, via Broseta 64/b ang. via Zendrini
• Carvico • Cisano Bergamasco • Gazzaniga • Grumello del Monte • Osio Sotto • Romano di Lombardia

(PROVINCE OF BRESCIA)

• BRESCIA, via Benedetto Croce 22
Brescia: • Agenzia n. 1, via Crocifissa di Rosa 59 • Agenzia n. 2, via Solferino 61
• Berzo Demo • Bienno • Breno • Darfo Boario Terme • Edolo • Gardone Val Trompia • Lumezzane • Ospitaletto • Palazzolo sull'Oglio • Pisogne • Ponte di Legno • Sale Marasino

(PROVINCE OF COMO)

• COMO, viale Innocenzo XI 71
Como: • Agenzia n. 1, via Giulini 12 • Agenzia n. 2, via Statale per Lecco 70 (fraz. Lora) • Agenzia n. 3, via Asiago 25 (fraz. Tavernola)
• Arosio • Bregnano • Campione d'Italia • Carimate • Carlazzo • Domaso • Dongo • Gera Lario • Gravedona • Lurago d'Erba • Merone • Sala Comacina • San Fedele Intelvi • Santa Maria Rezzonico • Villa Guardia

(PROVINCE OF CREMONA)

• Pandino • Rivolta d'Adda

(PROVINCE OF LECCO)

• LECCO, corso Martiri della Liberazione 65
Lecco: • Agenzia n. 1, viale F. Turati 59 • Agenzia n. 2, piazza XX Settembre 11 • Agenzia n. 3, corso E. Filiberto 91 (fraz. Maggianico)
• Bosisio Parini • Casatenovo • Colico • Dervio • Mandello del Lario • Nibionno • Oggiono • Pescate • Primaluna • Valmadrera

(PROVINCE OF LODI)

• LODI, via Gabba 5

(PROVINCE OF MILAN)

Head office: MILAN, via S. Maria Fulcorina 1

Milan: • Agenzia n. 1, via Porpora 104 • Agenzia n. 2, viale Faenza 22 • Agenzia n. 3, AEM, corso Porta Vittoria 4 • Agenzia n. 4, Ente Regione Lombardia, via F. Filzi 22 • Agenzia n. 5, via degli Imbriani 54 ang. via Carnevali • Agenzia n. 6, via Marco d'Agiate 11 • Agenzia n. 7, via Principe Eugenio 1 • Agenzia n. 8, via Lessona ang. via Trilussa 2 • Agenzia n. 9, ALER, viale Romagna 26 • Agenzia n. 10, via Solari 15 • Agenzia n. 11, Università Bocconi, via F. Bocconi 8 • Agenzia n. 12, via delle Forze Armate 260 • Agenzia n. 13, viale Monte Santo 8 ang. via Galilei • Agenzia n. 14,

via privata Cesare Battisti 2 • Agenzia n. 15, via Gioacchino Murat 76 • Agenzia n. 16, Ortomercato, via Cesare Lombroso 54 • Agenzia n. 17, Uffici Finanziari, via Manin 29 • Agenzia n. 18, viale Belisario 1 ang. via Tiziano • Agenzia n. 19, via Giambellino 39 ang. via Vignoli • Agenzia n. 20, via Canova 39 ang. corso Sempione
• Albiate • Bernareggio • Carate Brianza • Cinisello Balsamo • Lissone • Monza • Segrate • Seregno • Villasanta

(PROVINCE OF PAVIA)

- PAVIA, corso Strada Nuova 75
- Voghera

(PROVINCE OF ROME)

Head office: ROME, viale Cesare Pavese 336

Rome: • Agenzia n. 1, viale Val Padana 2 • Agenzia n. 2, via Silvestro Gherardi 45 • Agenzia n. 3, via Trionfale 22 • Agenzia n. 4, piazza Biagio Pace 1 • Agenzia n. 5, piazza S. Maria Consolatrice 16/b • Agenzia n. 6, via Cesare Baronio 12 • Agenzia n. 7, viale di Valle Aurelia 59 • Agenzia n. 8, viale Somalia 255 • Agenzia n. 9, loc. Casal Palocco, piazzale Filippo il Macedone 75 • Agenzia n. 10, via Laurentina 617/619 • Agenzia n. 11, via Carlo Alberto 6/a • Agenzia n. 12, Circonvallazione Cornelia 295 • Agenzia n. 13, via Foligno 51/a • Agenzia n. 14, largo delle Sette Chiese 6 ang. via della Villa di Lucina • Agenzia n. 15, via della Farnesina 154 • Agenzia n. 16, via Nomentana 925/a ang. via Trissino • Agenzia n. 17, piazza dei Sanniti 10/11 • Agenzia n. 18, loc. Infernetto, via W. Ferrari 348 ang. via Franchetti • Agenzia n. 19, piazza Filattiera 24 • Agenzia n. 20, via Caio Canuleio 29

(PROVINCE OF VARESE)

VARESE, viale Belforte 151

Varese: • Agenzia n. 1, piazza Monte Grappa 6

• Bisuschio • Castellanza • Lavena Ponte Tresa • Luino • Malpensa 2000 • Marchirolo

(PROVINCE OF VERBANO-CUSIO-OSSOLA)

- Gravellona Toce

(REPRESENTATIVE OFFICES)

- GENEVA, rue du Cendrier 12/14 • HONG KONG*

* With other banking partners

(MOBILE BRANCH) Autobanca

(FOREIGN SUBSIDIARY)

BANCA POPOLARE DI SONDRIO (SUISSE) SA

Head office: LUGANO, via Maggio 1

Lugano: • Cassarate, piazza E. Bossi 2

• Basel, Greifengasse 18 • Castasegna, loc. Farzett • Celerina, via Maistra 48 • Chiasso, corso S. Gottardo 30 • Chur, Bahnhofstrasse 9 • Locarno, piazza Muraccio • Poschiavo, strada S. Bartolomeo • St. Gallen, Teufenerstrasse 3 • St. Moritz, via Dal Bagn 9

Representative office: • Montecarlo, 3 Princesse Florestine • Zurich, St. Annagasse 16

(FIDUCIARY CONSULTANTS)

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

(TREASURY OFFICES)

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



Banca Popolare di Sondrio

Branches:

- 44 in the province of SONDRIO
- 7 in the province of BERGAMO
- 15 in the province of BRESCIA
- 19 in the province of COMO
- 2 in the province of CREMONA
- 14 in the province of LECCO
- 1 in the province of LODI
- 21 in MILAN
- 9 in the province of MILAN
- 2 in the province of PAVIA
- 21 in ROME
- 8 in the province of VARESE
- 1 in the province of VERBANO CUSIO OSSOLA

75 trasury offices

Representative offices:

GENEVA – HONG KONG*

(*) with other banking partners



Banca Popolare di Sondrio (SUISSE)

Branches:

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

Representative offices:

MONTECARLO – ZURICH

Legend:

BANCA POPOLARE DI SONDRIO

● Branches

● Trasury offices

● Representative offices

BANCA POPOLARE DI SONDRIO (SUISSE)

● Branches

● Representative offices



Basel

Geneva

S W I T Z E R

VALTELLINESE
BY BIRTH
LOMBARD
BY GROWTH
ROMAN
BY ADOPTION



SUMMARY OF THE BANK'S GROWTH

(1991/2001)

(in millions of euro)	1991	1996	2001
Customer deposits:			
direct	1,227	2,739	5,815
indirect	1,743	3,679	9,573
Shareholders' equity (excluding net profit for the year)	193	345	731
Customer loans:			
cash loans	1,014	2,121	5,580
overdraft facilities	257	556	1,372
Own securities	278	960	1,613
Income from banking activities	101	201	298
Operating profit	41	95	136
Net profit for the year	16	21	46
Number of branches	63	107	163
Personnel	824	1,272	1,830

NOTICE OF CALLING TO THE SHAREHOLDERS' MEETING

The shareholders of Banca Popolare di Sondrio are called to the annual general meeting (ordinary part) at the head office in Piazza Garibaldi, 16, Sondrio, at 10.00 a.m. on Friday, 1 March 2002 and, if necessary, on second calling at the Cinema Teatro Pedretti in Piazza Garibaldi, 4, Sondrio, at 10.00 a.m. on Saturday, 2 March 2002 to discuss the following

AGENDA

- 1) Presentation of the financial statements as of 31/12/2001: report of the Board of Directors and proposed allocation of net profit; report of the Board of Statutory Auditors; related resolutions;
- 2) Determination of directors' emoluments;
- 3) Appointment of independent auditors for the financial statements, consolidated financial statements and half-year report for the three-year period 2002/2004, pursuant to article 159 of Legislative Decree 58 of 24 February 1998;
- 4) Appointment of directors;
- 5) Appointment of a substitute statutory auditor;
- 6) Appointment of a substitute advisor.

The meeting can be attended by:

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

Shareholders have the right to vote at the meeting if they have been recorded in the shareholders' register for at least three months.

Each shareholder has the right to only one vote, however many shares are held. Shareholders with the right to vote may be represented at the meeting by another shareholder, by means of a proxy ballot drawn up in accordance with article 2372.4 of the Italian Civil Code. No shareholder can be a proxy for more than one other shareholder.

Shareholders who are minors can be represented by whoever is their legal representative.

Sondrio, 28 January 2002

Piero Melazzini
CHAIRMAN OF THE
BOARD OF DIRECTORS

***Note:** The figures in this report are in euro, and all changes expressed as percentages refer to comparable data from the end of 2000 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

SUMMARY OF RESULTS

Shareholders,

A brief introduction to give an overview of the main results of operations, putting a finger on the pulse to give an immediate feel for the situation. We can say right away that the pulse is

beating strongly, a sign that the body is healthy, dynamic and quick to respond.

The general climate was not easy right from the start of the year; it then gradually got worse as stock markets collapsed, culminating in the terrorist attacks on 11 September. Some people even talked about a wartime economy. This, of course, is an exaggeration which we trust will

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RESULTS IN BRIEF

(in millions of euro)	2001	2000	% change
Balance sheet			
Customer loans	5,580	4,444	25.55
Loans to other banks	905	519	74.47
Own securities	1,613	1,432	12.60
Equity investments	99	92	8.15
Total assets	8,589	6,918	24.15
Direct customer deposits	5,815	4,588	26.77
Indirect customer deposits	9,573	10,725	- 10.75
Customer assets under administration	15,388	15,313	0.49
Other direct and indirect funding	3,640	4,394	- 17.17
Shareholders' equity (excluding net profit for the year)	731	576	26.95
Income statement			
Net interest income	195	169	15.52
Income from banking activities	298	277	7.57
Operating profit	136	130	5.21
Net profit for the year	46.06	38.43	19.87
Key ratios (%)			
Net interest income/total assets	2.27	2.44	
Operating profit/total assets	1.59	1.87	
Administrative expenses/income from banking activities	60.94	58.94	
Net profit/total assets	0.54	0.56	
Net profit/average shareholders' equity (excluding net profit)	6.94	6.78	
Net outstanding loans/customer loans	0.98	1.21	
Capital ratios (%)			
Tier 1 capital/weighted assets	10.64%	10.30%	
Total capital/weighted assets	10.74%	10.27%	
Available margin (in billions of lire)	260	185	
Other information			
Number of employees	1,830	1,687	
Number of branches	163	150	
Number of treasury offices	73	69	



soon be replaced by an enduring peace. The fact is that the word recession has returned after years of exile during America's exceptionally long boom. In Europe and therefore in Italy too, hopes for further growth steadily declined, in certain cases being almost extinguished. It was then that we realised that expanding the domestic market without the stimulus of the US market is a bit like trying to lift yourself up by pulling on your shoestrings. Not an easy task, to say the least!

Against this background, the figures in our annual report, summarised here in this next table, clearly show the extent that we have grown.

The net profit of Euro 46.06 million, shows a satisfying rise of 19.87%, while total assets are up from 6,918 million to 8,589 million, +24.15%. These are important numbers, which we are expressing for the first time in euro; a monetary sign of the times that are changing.

Our sources of direct funding benefited from the violent thunderstorms that hit the stock markets. Liquidity fled from equities and a good part of it ended up in traditional bank deposits. This liquidity should, however, be considered sporadic and temporary.

As for indirect funding, we developed new products that offered guaranteed capital, but still with the benefit of professional asset management. And customers have always been ensured personalized assistance to help them cope with the more critical phases of the market.

In lending, our desire to satisfy the needs of a growing number of households and businesses went hand in hand with a determination to improve the quality of our loan book. A mandatory choice, given the unrelenting decline in interest rates and their related spreads.

Risk profiles are monitored internally with great professionalism.

The drop in income from services is a general phenomenon, in line with the drop in assets under management; the main reason for this is the ongoing slump on the world's

stock markets. Fortunately, this was more than offset by a higher contribution from money management.

But the bottom line does not only depend on expanding the sources of revenue. It also depends on keeping costs under tight control.

A wider range of services, constant improvements in organisation and greater efficiency in work processes all helped ensure positive results.

Our actions are complementary to those of our subsidiary Banca Popolare di Sondrio (Suisse) SA, which means that our individual initiatives also have a positive impact on the group's results. The contribution made by the various companies in which we have an interest is indispensable, allowing us to concentrate our efforts on what we do best: being a cooperative bank.

Better results allow us to propose a dividend of 0.18 euro per share, an increase of 20.18% on last year in comparable terms.

The above table of accounting figures and statistics, which measure the temperature and blood pressure of this body, provides various pieces of good news. Overall, it is an indicator of a balanced and profitable operation, the fruit of the hard work of 1,830 colleagues, deeply committed to provide an adequate remuneration on the bank's equity, which has risen considerably thanks to the choral response of the shareholders to the increase in capital carried out in the first half of the year.

GEOGRAPHICAL EXPANSION

In this age of virtuality and dematerialization, real-time long-distance dialogue, and the constant influx of new technological tools that keep changing the way we think and do business, we are gradually tending to replace the information



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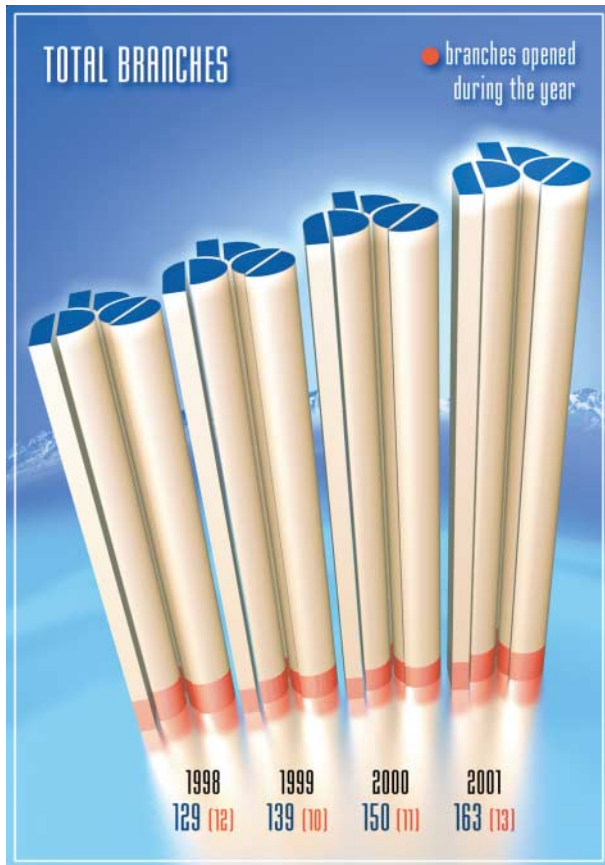
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detected by our senses with what is told to us by the instruments with which we are surrounded (some might say «besieged» is a better word).

The important thing is not to ignore our common sense which, in tandem with the other five, is surely our best source of value added.

Joking aside, daily experience reminds us that the virtual often replaces the real. Without adhering to the absurd philosophy that only what is reported by the media can be said to have actually happened in the global village, we do need to acknowledge this evolution and its many facets and ramifications.

In the world of banking, too, the phenomenon that gets such a brief mention here has had a growing influence. Just a few years since the first ATMs were installed for simple cash

withdrawals, we have reached the age of the virtual bank, where customer relations – constantly filtered by the technology that constitutes its essence – risk being depersonalized or worse.

We are determined participants in the race for the new, not just because we know it's impossible to jump from a train at top speed, but above all because we believe in the destination. What that destination represents is the offer of new and more extensive ways of accessing our services, the reduction of elementary transactions at branches, and thus more time and resources to devote to the more rewarding aspects of service.

Meanwhile, we are strong believers in the need to maintain and nourish our direct ties with customers. Therefore, we build branches as places where each relationship can be personalized as much as possible.

In the same way that sophisticated yet aseptic satellite photos let us view a territory but not really understand it, if we want to establish and develop good working relationships, be they large or small, we cannot rely solely on computer links, analyses of charts, and the output of expert programs. It is still necessary, and we hope it will be for some time, to look people in the eye, talk with them and understand them. Otherwise, we risk making decisions that are technically correct but wrong within the context, a bit like claiming that music is just a movement of the air.

Only by celebrating the professionalism of the banker at one with the sensitivity and experience of man can we fulfil the duty that cooperative banking assigns us: to promote the economic and social development of our communities, by focusing on small and medium-size business. Which means efficient, economical services, and confidence in serious initiatives conducted according to sound business principles.

This is our «philosophy», and we live by it in the form of new branch openings in an increasingly broad swathe of the map. We are

Geographical expansion

BOSISIO PARINI (LC)



AROSIO (CO)



GARDONE VAL TROMPIA (BS)



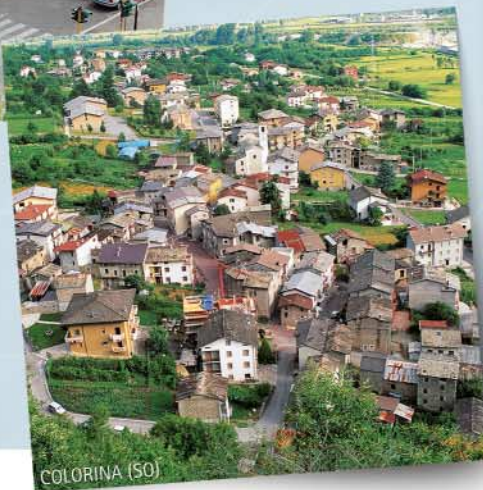
ROME AG. 19



NIBIONNO (LC)



COLORINA (SO)



BERZO DEMO (BS)



The expansion of our branch network knows no rest, only new stages: all of 13 new branches were opened during the year. A journey that starts in the bank's own province with the Colorina branch, to cover the south side of the middle to lower Valtellina. Three new branches in the Lecco part of Brianza – Bosisio Parini, Nibionno e Oggiono – reinforce an already fairly dense network; only a few kilometres further west, but in the province of Como, there is the new Arosio branch. In the historic capital of the Lario, there is a new and prestigious office in a central position which gives greater visibility to the more and more important role that our bank has taken on in that city. The constant attention we have devoted to the province of Brescia is reiterated by the inaugurations in Gardone Val Trompia and

COMO



GRUMELLO DEL MONTE (BG)



RIVOLTA D'ADDA (CR)



ROME AG. 20



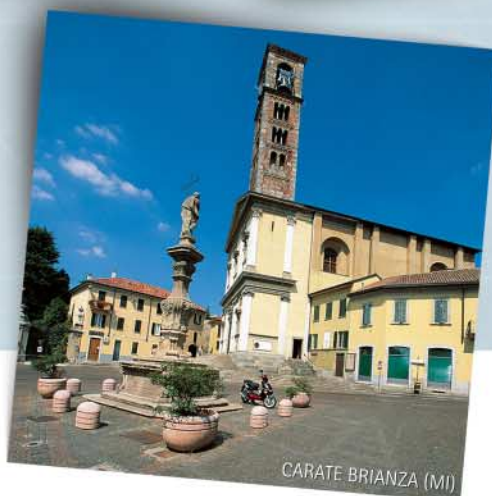
OGGIONO (LC)



VOGHERA (PV)



CARATE BRIANZA (MI)



Opening soon:

- BUSTO ARSIZIO (VA)
- CANTÙ (CO)
- MENAGGIO (CO)

Berzo Demo. Grumello del Monte, on the road from Bergamo to Lake Iseo, has now been opened, while the branch in Rivolta d'Adda will provide support for the one already in Pandino, previously our only branch in the province of Cremona. Voghera, the capital of the Oltrepò Pavese, opens the doors to a territory that was previously outside our range and is the first branch in Lombardy south of the River Po. Two new branches were opened in Rome this year: Agency 19 in District IV, situated in the north of the city, and agency 20 in the Appio Claudio quarter, which extends to the south-east of Rome. And a branch was opened in Carate Brianza, just north of Milan, at the start of the new year.



writing new chapters in a history that now counts over 130 years and is being constantly re-energized.

As we work to expand our network, we forgo rest stops in favour of progress: 13 new branches during the year, for a total of 163. This year's journey began in our original territory, with a branch in Colorina to serve the south side of the mid-to-lower Valtellina, whose inhabitants appreciate the sun like no-one else because they only see it for part of the year. We moved on to the industrious Brianza, where we feel so at home not only because of our numerous branches there but because of our consonance with the local spirit. Enterprise and efficiency are part of our genetic makeup, which close quarters with the Brianza work ethic – one of the strongest in the country, and in all of Europe too – have helped to cultivate and refine.

In the part of Brianza around Lecco we have three new branches: in Bosisio Parini, Nibionno and Oggiono. They fortify a network that is already widespread and solidly rooted in a place where small and medium-size businesses have long been a part of the landscape, on a par with the hills and the lakes. Three vivacious towns where we can now offer services to individuals and households as well.

Just a few kilometres further west, but in the province of Como, we have opened a branch in the town of Arosio. Arosio is an old friend of ours, as we have run its municipal treasury service since January 1997.

In Como, a new and prestigious head office in the city centre gives greater visibility to the role we have gradually assumed in this historic lakeside provincial capital, where we also have three city branches. The head office in Viale Innocenzo XI/Via Benzi occupies what used to be the machine room of an old factory. An example of industrial archaeology redirected to a new life, which we hope will give new «drive» to the bank's efforts around Como.

Our unflagging commitment to the province of Brescia is attested by openings in Gardone Val Trompia and Berzo Demo. The former, a manufacturing centre for sporting and military arms, is home to worldwide leaders in that sector. Berzo Demo continues our progress along the Val Camonica, from Ponte di Legno all the way down to Pisogne, by way of our branches in Edolo, Berzo Demo, Breno, Bienno and Darfo Boario Terme. It is thanks to us and us only that local businesses can still count on the service of a cooperative bank.

Grumello del Monte, on the road that leads from Bergamo to Lake Iseo (and thus to the province of Brescia), gives us a better footing in an area that has developed some manufacturing niches (textile machines and clothing accessories, such as buttons) in which it remains a major international player.

A branch in Rivolta d'Adda, with a population of more than 7,000, has joined the outlet in Pandino which used to be our only branch in the province of Cremona. The local economic fabric has a high content of tradesmen and farmers who run modern, efficient businesses.

Voghera, the unofficial capital of the Oltrepò Pavese, opens the door of a zone once beyond our reach. It is our first Lombard branch south of the Po, but it wasn't like crossing the Rubicon for us: we've already set up shop in Rome and have been there for 11 years.

We have saved the capital for last, to savour the pleasure of announcing its new primacy in number of branches: along with Milan, it now has no less than twenty-one. Herein lies the proof that BPS sets the model for cooperative banking, a model that can be successfully extended across new frontiers. We have two new addresses in Rome: Branch 19 serves District IV, north of the centre and the most populous in the capital; and Branch 20 is located in the Appio Claudio neighbourhood on the southeast outskirts of the city.

Bancomat Cash Dispensers



Ultraspecialised ATMs on duty 24 hours a day, our 230 Bancomat terminals offer a service that is much appreciated and frequently used thanks to their positioning in strategic locations that are much frequented and commercially important. 30 new units were installed during the year. There was also an increase in the types of services provided, such as recharging the now ubiquitous cell phones on behalf of all the main national carriers.



A new office represents us in Geneva, the Swiss seat of important institutions and supranational organizations and a high-calibre centre of finance, open to relations with the entire world. Our Geneva location was greeted warmly by the city's large Italian community.

Ultra-specialized tellers that toil 24 hours a day, our 230 ATMs provide a popular, oft-used service thanks in part to their strategic location in busy commercial districts. Thirty new machines were added during the year. Additional features were added too, such as the recharging of the now ubiquitous cell phone debit cards, now offered by all of the main operators in the country.

Our treasury branches ensure a direct bond with many local communities, which appreciate the efficiency and diligence of our «home-delivery» services. We now have 73, an increase of four for the year.

It's as enclosed and protected by its mountains as it is at the centre of international relations. This, in a nutshell, is one of the founding characteristics of the Swiss Confederation that our Banca Popolare di Sondrio (Suisse) SA immediately grasped and adopted as its own, by rooting itself in Swiss territory while opening its doors to international business and financial markets. This sums up the strategy pursued by our subsidiary, which continued to make strides in 2001.

Its first achievement was to open a representative office in Montecarlo, in the Principality of Monaco: the group's very first coastal outlet. This initiative will help us first learn more about international markets, then to make contact with the numerous and active community of Italians who live or work in Monaco: 15,000, out of a total population of 30,000. Montecarlo, a world capital of tourism by vacationers and congress participants, has a bustling commercial life with thousands of companies in every sector, especially international trade.

The second step was to open a branch in Basel, where we already had a representative office

that we will soon transfer to Zurich. The two cantons of Basel – the city and the countryside – have a population of some 500,000, including many fellow Italians, and are an important industrial hub for chemicals, pharmaceuticals, engineering and textiles. The city's position on the border with France and Germany is also beneficial to the development of trade. As parent company of BPS Suisse, one might add, we are the only Italian bank in Basel.

FUNDING

«Warning: falling rocks» say the signs along mountain roads. Faced with such a risk, the driver has no way of knowing whether he should slow down or accelerate. The only safe decision would be to turn back. Which is exactly what many small investors have done to shelter themselves from the falling stock markets. Not everyone stopped at the first sign of danger, however, and paid the price of decisions either too hasty (in investing) or too slow (in pulling out).

The carefree golden age of the New Economy has been abruptly replaced by an iron age of uncertainty. The melancholy retreat toward liquidity – or, in the lingo of finance techies, the marked acceleration in the process of reallocating investment portfolios – has been a boon to direct deposits, which have enjoyed a sudden return to favour by large and small investors alike. Despite the considerable drop in interest rates, many have rediscovered the «discreet charm» of current accounts, repo transactions, savings deposits, bonds and the like. Instruments deemed outmoded until a few months ago are now basking in an unexpected revival to the tune of earning a little is better than losing a lot, especially when the nest egg comes back whole. As they say, a contented mind is a perpetual feast.



The trend has welcome consequences: higher direct deposits have allowed a proportionately stronger acceptance of loan applications, by way of a shrewd lending policy. Less encouraging is the cause, namely the widespread mistrust of equity markets, especially since the stock exchange is not just the thermometer of the economy's health but also the barometer of its future performance. The notorious impact on indirect funding and asset management is the flip side of the coin; heads is smiling, but tails looks grim.

Many small investors bought expensive return tickets for the short and disappointing trip into the perilous land of stocks. For the future, however, we are confident that the experience will at least serve as a warning to them to invest their resources more carefully.

There is no disputing that in 2001 the raw material of the banking business was, if not exactly abundant – precious materials never are, by definition – certainly less scarce than in the recent past. After several long years of dearth, this is no small achievement. The causes are discussed here and there in this report.

Anyway, if a bank wants to continue as a lender, as we are determined to do, it cannot simply be satisfied with small investors' estrangement from the stock market. It needs to adapt to the changing needs of the market, quick to offer customers the investment options most apt under the current circumstances, but also careful to develop the right tools for whatever is coming next.

The formula of finance for finance's sake that so many «pushed» with the levity of the town



charlatan is gone, leaving more room for balanced, complete and reliable proposals like ours.

To our solid traditional products, which can always be improved and enriched of course, we have added a selection of innovative investment tools: some created in-house, some developed by our affiliates, others bought directly on the market thanks to successful partnerships with companies of national and international renown. The cherry on top is our personalized assistance to investors, a relationship conducted with sagacity and far-sightedness as befits those that are meant to last.

Because we insist on such clarity and professional advice, we can make ourselves heard even when the market takes a bad turn (times

when other dealers would rather not talk to their clients, much less look them in the eye). For that matter, it's precisely in awkward situations where emotions tend to get the better of us that bankers are asked to give advice and help people make the best, most rational decisions. After all, when the sea is calm every skipper has his sails unfurled, but when the waters get rough a sailor needs to know what he's doing to avoid being capsized by waves and events.

It's not enough to celebrate savings, although we did just that with our schools project on the occasion of the 77th World Savings Day; we need to promote it actively, which means protecting it above all else. To that end, product

DIRECT CUSTOMER DEPOSITS

(thousands of euro)	2001	% of total	2000	% change
Savings deposits	405,688	6.98	373,093	8.74
Certificates of deposit	39,913	0.69	40,165	- 0.63
Bonds	610,451	10.50	525,087	16.26
Repo transactions	1,027,766	17.67	817,029	25.79
Bank drafts and similar	71,791	1.23	77,477	- 7.34
Current accounts	3,519,342	60.51	2,601,852	35.26
Current accounts in foreign currency	140,540	2.42	152,906	- 8.09
Total	5,815,491	100.00	4,587,609	26.77

TOTAL FUNDING

(thousands of euro)	2001	% of total	2000	% change
Total direct customer deposits	5,815,491	30.56	4,587,609	26.77
Total indirect customer deposits	9,572,623	50.31	10,725,530	- 10.75
Total	15,388,114	80.87	15,313,139	0.49
Due to other banks	1,559,349	8.20	1,242,137	25.54
Indirect funding from banks	2,080,389	10.93	3,152,050	- 34.00
Third-party funds under administration	114	-	155	- 26.45
Grand total	19,027,966	100.00	19,707,481	- 3.45

innovation is a sure-fire recipe for success, which we have embellished with a special focus on instruments which protect the investor from capital losses while offering the chance for appreciable gains. Fine examples are the new Index Fund policies, issued in collaboration with our affiliate Arca Vita S.p.A.

In our role as credit intermediaries, always careful to keep the two sides of the scales in balance, we also have a high regard for instruments that permit the best marriage between the needs of investors and companies, especially small and medium-size businesses without access to the financial markets. We are talking about closed-end funds, for which the term «finance for development» is no empty slogan, since their purpose is to foster the growth of economic initiatives that involve our own community. Of no less significance are real estate funds, which are likely to take the place of entrepreneurs in the ownership of major properties.

The intensity of our efforts is expressed in the figures we review below. Please note that the trends in individual items reflect the difficult market conditions with which we were often faced.

As of 31 December 2001, total funding had fallen from Euro 19,707 to 19,028 million, a decrease of 679 million or 3.45%. Direct customer deposits grew by 26.77%, to 5,815 million, and indirect customer deposits came to 9,573 million. Deposits from other banks reached 1,559 million (+25.54%), and securities under administration came to 2,080 million.

Among the various components of direct deposits, current accounts made good progress as proof of customers' rising preference for an instrument that combines extreme versatility with an appreciable and appreciated return. In a year when liquidity was often the mirage of the «survivors» of stock market misadventures, the increase in this form of funding – from 2,755 to 3,660 billion (+32.86%) – is perfectly understandable.

Savings deposits, the most traditional voice in the choir of direct deposits, are as popular as ever thanks to their inherent simplicity. They gained 406 million (+8.74%) for the year.

The irreversible decline of CDs (-40 million or 0.63%) is in counterpoint to the unstoppable growth of repo transactions (+1,028 million, 25.79%). Once a temporary rest spot for liquidity, this instrument is now for some, for many in fact, a kind of permanent place to stay.

Bonds have long been an important source of funding: this year they came to 610 million, an increase of 16.26%. Our job is to offer a nearly continuous stream of issues to meet our customers' expectations.

Bank drafts amounted to 72 million, down 7.34%.

Our efforts were rewarded by a steady and substantial increase in the number of current accounts, which reached and exceeded 184,000.

Indirect deposits were inevitably affected by the slow – no, backward – march of the financial markets. After years of rapid growth, the downturn that began the previous year grew steeper, reducing this aggregate by 10.75% to 9,573 million.

Asset management saw a lull that we consider part of the natural course of events, given the exceedingly high growth rates in previous years that could not be sustained for long.

Between highs and lows, pros and cons, economic growth and depression, the golden rule is as always: the bank gives credit to the extent it receives credit. The rest is dialectic, when it is more than just idle chatter.

LOANS

As the swelling sea lifts small boats as well as large, in recent years economic growth has fostered the desire for loans, so that nearly every bank has enjoyed a significant rise in assets.



In 2001 the gradual decline in interest rates helped sustain the demand for loans, even during the later months that were more directly influenced by the sagging economy. It is clear, however, that only a real improvement in expectations can revive demand for the longer term. While interest rate manoeuvres are still useful for preventing the economy from overheating, they are a blunt instrument in the opposite case. Pulling on a string is one thing, pushing on it quite another.

In a national and international context where the light of the past is not enough to brighten the shadows of the present, which in turn dull our vision of the imminent future, Banca Popolare di Sondrio has moved with determination and success: loan disbursements climbed to 5,580 million, up 25.55% on the previous year.

With one eye on loan quality and the other on the needs of our clientele, we did not run the

risk of growing cross-eyed; most often, the two objectives coincide. Experience has taught us that the more we cultivate business with households and the smaller firms, the less risky our loans become, never mind the benefits created by other types of business and the additional income they generate. This stems not only from the general principle of spreading risks, but from our very manner of being a bank.

With our footprint in so many communities, we are better equipped than others to judge the reliability of our customers and the solidity of their business endeavours first-hand. Our loan management efforts are made easier by our profound familiarity with the surrounding economic and social environment, with its strengths but also its weaknesses.

What's more, small and medium-size businesses feel more comfortable dealing with a «popular» bank, and are always more aware of receiving that personalized attention and service

LOANS

(thousands of euro)	2001	% of total	2000	% change
Current account overdrafts	2,216,685	39.73	1,848,905	19.89
Foreign currency loans	1,067,661	19.13	833,643	28.07
Advances	185,037	3.32	148,604	24.52
Advances subject to collection	86,842	1.56	67,616	28.43
Discounted portfolio	8,354	0.15	9,383	- 10.97
Artisan loans	40,496	0.73	44,111	- 8.20
Agricultural loans	3,506	0.06	2,817	24.46
Personal loans	60,839	1.09	54,022	12.62
Other unsecured loans	763,382	13.68	490,945	55.49
Mortgage loans	1,142,736	20.48	925,581	23.46
Net outstanding overdue loans	54,573	0.98	53,838	1.37
Items to be settled	619	0.01	1,060	- 41.60
- Writedowns	- 51,183	- 0.92	- 36,580	39.92
Total	5,579,547	100.00	4,443,945	25.55



that the large banking groups – the more they expand, the more they grow distant, until they are practically unapproachable – cannot or will not provide. Conversely, direct, immediate service guarantees ready and effective solutions. An example for many others is the prompt intervention on behalf of the businesses in Brianza that were damaged by a fierce tornado last summer. Once again, small goes together with quick.

A local bank by origin and by choice, we play our role with enthusiasm and a sense of measure, aware that our close ties with the community constitute the most notable economy of scale. With our feet planted firmly in the local soil, we do look beyond borders, even national ones, to give private citizens new and effective

products and companies attractive funding options. These are the rules of the market, music to which even the deaf have to dance.

For households, we have expanded our catalogue with a special focus on consumer loans and on mortgages for buying or renovating homes and for the purchase of business premises. An agreement with Banca Woolwich S.p.A. adds a variety of excellent products to our range, which customers are finding more and more to their satisfaction.

Companies should note that we have become an authorized intermediary for the disbursement of loans by the European Investment Bank, a supranational organization based in Luxembourg whose mission is to further the integration, balanced development and economic and social cohesion of European Union countries through the extension of long-term loans.

In Italy, we are the smallest individual bank that the EIB has recognized as a qualified intermediary. Even the littlest sometimes feel big; they taste the thrill, then return, satisfied, to their ranks. And this is its own satisfaction, because the unique bond we have forged with small and medium-size enterprise has thus been valued and «certified».

These new initiatives produced some of the momentum by which loans, as mentioned above, rose 25.55% to a total of 5,580 million. A comparison with the national average, +6.70%, highlights our greater vitality with the immediacy of numbers.

The constant expansion of our branch network and the steady growth of business in economically vigorous areas are what have propelled loans to double in just four short years. We have accelerated in total safety, since the growth has gone hand in hand with progress along the road to loan quality. For those who miss that road, or who take it in the wrong direction, more business just means more losses.



The measures we took during the year to improve credit risk management are described in a separate section of this report. Here we would merely like to state that their effectiveness, combined with that of our traditional safeguards (consisting first and foremost of the professionalism of our staff), finds immediate confirmation in the extent of our overdue loans.

Let's move on the numbers, then. We take pleasure in doing so; it's like putting our hand in the *Bocca della Verità* with our conscience clear.

Outstanding overdue loans at their net realizable value, i.e. after adjustments for provisions and losses, amounted to 0.98% of total customer loans, down from 1.21% in 2000. This figure, which has been falling steadily for several years and is well below the national average, demonstrates our consistent ability to match growth with the improvement of our assets.

The overall increase in loans is the sum of performance by the various components, almost all of which forged ahead. It's the numbers that prove it: for BPS, banking means lending above all else.

Mortgage loans, gaining 23.46% from 926 to 1,143 million, made up 20.48% of total disbursements. This is the reward for the priority we place on families, the natural recipients of many of our products and services. Even greater was the leap for unsecured loans: +55.49%, to a total of 763 million.

As always, current account overdrafts formed the lion's share of loans. With an increase of 19.89% they reached 2,217 million, 39.73% of the total. Foreign currency loans also did very well, rising 28.07% to 1,068 million.

Personal loans, including consumer loans, came to 61 million for a decent +12.62%. Guarantees granted topped 1,372 million, +22.66%.

We have already mentioned the new funding opportunities we can offer small and medium-size companies thanks to our

engagement by the European Investment Bank. Here we would like to highlight the bond we have forged with a growing number of guarantee cooperatives and consortiums in the provinces where we do business, by way of our fruitful ties with trade associations. This is a favourite channel for BPS, a river of funding meant for even the smallest businesses, which are thus given access to low-interest loans without much of the usual red tape.

The growth of this type of funding in our province of origin has encouraged us to extend it to our adopted regions wherever such associations are alive and well. The results have been beyond all expectations.

The newfound entrepreneurial spirit that pervades Centrobanca is reflected in a rise in the medium- and long-term loans we have realized thanks to our intense, forthright partnership with this important institution.

Our commercial initiatives in the leasing sector enjoyed the usual support of Banca per il Leasing – Italease S.p.A., which afforded us outstanding results.

Just as strong and fruitful was our work with Factorit S.p.A., whose products and services are increasingly popular with our clientele.

These are three examples of how important it is to have competent, dynamic affiliates even in the sector of loans, «indirect» ones in the case in point. They make a vital contribution to the bank, and even more so to our customers, who enjoy greater support in terms of quantity and quality alike. Expanding the range of financing options makes for a definite competitive edge.

We close this important chapter on the banker's art by reminding you what a difficult art it is. We are reminded of Luigi Einaudi's words when he wrote that the banker must simultaneously evaluate the ability and honesty of borrowers, their decisions, and the prospects of individual companies and their sectors. That is the equilibrium to which all bankers are held.

TREASURY AND TRADING OPERATIONS

Managing money often requires more skill – and sometimes luck – than earning it. That's not an advertisement for a new fund manager, but the simple confirmation of the old adage: «everyone should stick to their own profession». The year under review was a tough one for everybody: for professional traders, yes, but even more so for the committed do-it-yourselfers.

Many, alas, exaggerated their hand, or rather, their mouse. Fancying themselves «e-traders», they turned their home computers into mini trading floors. Some were so good at it that they made a full-fledged business out of what started as a pastime. Who knows what their families had to say about it, but that's another matter. Others, after heavy losses, returned the computer to its more domestic role.

A return to good sense after rather too many crazy moves. We had reached the point where when a housewife said she was waiting for the market to open, we no longer knew whether she was referring to the farmers' market down the street or the NASDAQ in New York.

It was a tough year all right, and a nervous one too, as stock prices continued to fall. In many ways it was an important year, when stock exchanges (thanks partly to the sangfroid and clear-sightedness of their governing authorities – could these have become the invisible hand of the market?) proved to be mature and solid by passing some difficult tests. In just over a month they recovered the sharp losses that followed 11 September, calming a panic situation that might have swept away everything and everyone in its path.

Our role was that of the faithful advisor, professional and prudent, and in some ways the family protector – open to the new but careful to make sure the fancy packaging wasn't masking the old story about the field of miracles where



coins multiply on their own. We offered customers appropriate tools for dealing with the ups and downs of the economy, satisfying those who preferred the more classic, less risky products as well as those who decided to take or hold positions in the trickier but not always hostile equity market.

Gale-force winds swept the markets to and fro, slashing stock offerings to the benefit of bonds. Corporate bonds issued in Euroland alone came to 635 million, up from 506 in 2000. There was also a proliferation of «hybrid» financial instruments, often speculative in nature because of their use of leverage, which amplifies the movements of the underlying securities. This kind of instrument caused real problems for less experienced investors. The number of covered

**Stock
markets**

warrants listed in Italy – one of the more exotic new offerings of the past few years – nearly doubled in 2001, while trades fell by 34% in value, proving that investors were not so easily seduced.

Whatever the other markets did, Piazza Affari did worse. Most striking was the plunge in total capitalization, which hit its lowest since 1998 in terms of percentage of GDP. The MIB30 went as low as 43% below its opening figure, then limited the damage – in this world, everything's relative – to 26%. The Mibtel closed down 24.63%.

Only 13 new stocks set sail in the choppy waters of the primary market, while five courageous captains struck a course on the Nuovo Mercato. There are now 294 listed stocks.

The new STAR (Segmento Titoli ad Alti Requisiti), a section for solid medium-size firms, was joined by 37 companies. The new section stood out for its good liquidity, and its index, at –9.1%, fared better than the general one.

Lastly, it should come as no surprise that as much as 7.6 billion in fresh funds, compared with 3.8 billion in 2000, were raised through Piazza Affari: 80% of that relates to trading in Olivetti stock. Using the Stock Exchange to raise funds returned to being mostly the prerogative of large groups rather than medium-size businesses.

When it came to placements, too, in which one or more shareholders sell part of their existing interests and no fresh funds are raised for the company, the transactions were highly concentrated: ENI took the lion's share, with 70% of the total of 7 billion.

During the year there were 20 public purchase offers worth a combined 5.9 billion, the third highest amount since mandatory takeover bids were introduced into Italian law. The largest bids were by Itالenergia (a member of the Fiat Group) for Edison and Montedison.

At a difficult time when the cards on the table kept changing, our finance experts moved with the appropriate skill and caution.



Our Treasury had a busy year, seeking the wisest and most profitable investments for our liquid funds. Trading on the MID (Market for Interbank Deposits) was helped and stimulated by the authorities' repeated adjustments of official rates. No less than 6,395 trades were completed (+7.8%), for a total of 49,898 million (+4.96%).

Our own securities portfolio grew by 12.60% for a total of 1,613 million, including 49 million invested by the employee pension fund. Floating-rate securities were by far the most prevalent, and consisted almost entirely of Treasury Certificates (CCTs). The expansive policies of the central banks also encouraged an increase in the fixed-interest component, mostly long-term treasury bonds (BTPS). This was especially true during the first

*Own
securities*

half of the year, when there were greater expectations that interest rates would go down, hence prices would go up. During the second half, once these expectations had been met, we went lighter on fixed-interest securities making substantial capital gains. The fact remains that by the end of 2001, our total investment in BTPs had risen by 35%, and consisted chiefly of securities with short maturities.

The dynamic management of the bond portfolio was good for the profit from trading, which rose 40.85% to 15.39 million. For the sake of thoroughness, we should point out that the year-end figure for own securities included capital gains of 5.80 million, writebacks on securities written down in previous years for 0.83 million, and capital losses of 9.55 million, almost all attributable to equities and equity funds.

The volume of own securities traded came to over 26,000 million, a rise of 11.75%. There was a 25% decline, to 9,625 million, in volumes traded with institutional counterparts on the MTS/PCT (the electronic repo market). Through this channel we concluded short-term transactions, almost all for funding, at rates lower than those on the interbank markets.

In a phenomenon known as «flight to quality», repo transactions with customers benefited from the poor performance of the stock markets and investors' consequent preference for short-term, risk-free instruments. Outstanding positions at year end amounted to 1,027.76 million, +25.79%.

On the other side of the coin, the collection and transmission of customer orders fell sharply, as could only have been the case. The daily average was around 1,400 orders. To explain what a drop that is, suffice to say that in the spring of 2000 the average was 5,000 orders per day. On-line trading fell in absolute terms but increased as a percentage of the total, although the use of this innovative tool is nowhere near its full potential; for that we have to wait for the markets to recover.

We are tempted to say, hang on, because the good times will return. But that would be too risky! As we write this report, we are even suffering a lack of water and snow.

Foreign securities were also hurt by the troubled economy, although customers' greater interest in properly diversifying their investments would suggest that opportunities beyond the border be kept in due consideration.

A preference for less risky kinds of investment, shared by many, led to a solid demand for government securities. Indeed, we often satisfied these requests by selling directly from our own portfolio.

An agile form of bond trading consisted of so-called «baskets», electronic pages of the finance department's procedure by which branch staff, with a simple transaction, can conduct efficient, real-time trades with customers.

As for placements, while the bond market shone mainly with new corporate issues, the equity market was sluggish. With the sole exception of Snam Rete Gas, the few IPOs in 2001 drew little interest.


We served as placement bank for the public offering of Azienda Sondriese Multiservizi S.p.A., which came to a successful close in December. This company, which runs the local public services of our provincial capital, has no plans at the moment to list on the official markets, but it has brought in significant financial resources to the city of Sondrio by capitalizing on its good name.

Emerging stronger than ever from the latest increase in capital, which closed triumphantly on 27 June 2001 and during which it reached an all-time adjusted high of 11.5 euro, BPS stock has sailed ahead calmly and mostly ignored the tensions on the market. It suffered an abrupt yet inevitable fall post-11 September, when it hit a low of Euro 8.6, then gradually climbed back to Euro 10.5, the closing price for the year. The 12-month gain came to 5.09%, compared with a loss of 12.18% for the

*Performance
of BPS stock*

(Asset Management)

Arca Funds



**Società di Gestione
del Risparmio**

Arca BT

Arca MM

Arca RR

Arca Obbligazioni Europa

Arca Bond

Arca Bond Dollari

Arca Bond Paesi Emergenti

Arca Bond Corporate

Arca TE

Arca BB

Arca 27 Azioni Estere

Arca Azioni Alta Crescita

Arca Azioni Italia

Arca Azioni Europa

Arca Azioni America

Arca Azioni Far East

Arca Azioni Paesi Emergenti

Arca BT

Arca MM

Arca RR

Arca Obbligazioni Europa

Arca Bond

Arca Bond Dollari

Arca Bond Paesi Emergenti

Arca Bond Corporate

Arca TE

Arca BB

Arca 27 Azioni Estere

Arca Azioni Alta Crescita


Arca Azioni Italia

Arca Azioni Europa

Arca Azioni America


Arca Azioni Far East

Arca Azioni Paesi Emergenti



ArcaCinqueStelle

MULTI STYLE
MULTI ASSET
MULTI MANAGER



ArcaMultiFondo

ARCA MULTI FONDO
FUND OF FUNDS

Popso (Suisse)
Investment Fund SICAV



[An opportunity to invest]

The times are gone when an investment in the Stock Exchange attracted small and large investors, often on the basis of wild rumours. In 2001 the asset management business suffered a sharp decline in funding. Awaiting better times to come again, the people at Arca, who certainly do not lack creativity or the willingness to put their reputation at stake, have among other things been promoting ArcaMultiFondo, a new multisegment, accumulation fund of funds, which joins ArcaCinqueStelle, which puts Arca at the summit of this particular sector in Italy. The product, which is the company's flagship product, invests in units of collective investment enterprises. The six segments of which it is composed differ from each other in their rising percentage of risk capital that each contains. The products offered by Popso (Suisse) Investment Fund Sicav attracted considerable interest as well.

OTC market. Our stock is on a parabola that continues its ascent, not only because the point of arrival is well above the point of departure, partly thanks to the dividend, but above all because the stock expresses so well the confidence that our shareholders have in their bank.

Completely alien from short-sighted, speculative reasoning, our shareholders never panicked. Which is hardly surprising: at times of uncertainty and frayed nerves, it is a godsend to be able to count on a solid, familiar stock. Who better than our shareholders, most of whom are also customers, has day-to-day proof of our efficient service and penny-wise management? Seeing a company with our own eyes and touching it with our own hands is a far cry from investing on hearsay, from tossing one's chips on stocks of which we often know little more than their name. In this respect as well, the direct relationship between the bank and its shareholders offers reciprocal guarantees.

The stock's rising value rewarded shareholders for their faith and drew in many others, for a total of 100,384, an increase of 13,226 during the year. Having broken the 100,000 threshold, we certainly go against the trend in this demographically shrinking nation.

At year end we owned 86,248 of our own shares, worth 0.87 million, against a reserve of 14.98 million for the purchase of treasury stock. The following table summarizes trading during the year:



The troubled economy and the shakiness of international financial markets were very hard on the asset management sector. Domestic mutual funds, despite a rebound during the last few months, closed the year with net redemptions of 766 million. This is highly disappointing with

	No. shares	Par value*	% of share capital	Amount of trade
Balance as of 31/12/00	9,740	29,220	0.007	177,334
Purchases	533,787	1,601,361	0.388	6,082,076
Sales	457,279	1,371,837	0.332	5,519,858
Profit from trading				134,417
Balance as of 31/12/01	86,248	258,744	0.063	873,969

* For the sake of comparison we have assigned a par value of 3 euro, equivalent to Lire 5,808.81. This reflects the redenomination in euro of the par value of Lire 5,000, which was performed along with a scrip increase in capital on 11 April 2001.

Portfolio Management



In 2001 it was difficult to avoid rough waters altogether, but often our operators were able to find refuge in safe havens or managed to survive the tempest without too much damage. Which is saying quite a lot. Our portfolio management department held the rudder with skill and determination. Their prudent approach suggested that it was best to make full use of fund-based portfolio management. Considering the terrible conditions, the results are comforting and are reflected in the total amount of assets under management.

respect to their brilliant performance of the past several years. As the clouds darkened over the equity market, fund managers – in an about-face that no matter how abrupt was often simply too late – returned to favouring the money market and bonds. Multi-sector products shared a similar fate.

It is hard to avoid the rough waves of the economy, but as demonstrated by the following figures, our operators often found shelter in safe ports or navigated the waves without much damage. Which is certainly no small achievement.

The balance of our customers' assets in Arca funds fell sharply with respect to the previous year, but remained positive at 12.2 million. However small, that amount rewards the commitment of ourselves and the fund manager. The decline in stock prices penalized fund-based portfolio management, which lost 6.40% to close with 1,223 million.

The products offered by Popso (Suisse) Investment Fund SICAV, our open-end investment fund, were met by a good show of interest.

**Portfolio
management**

Our portfolio management service held the tiller with skill and fortitude.

A prudent stance suggested broader use of fund-based management contracts. Results did decline during this difficult period, but then recovered, matched by the total asset figure of 947 million (-4.92%).

Total funding attributable to asset management schemes went from 2,302 to 2,170 million, a decrease of 5.76%.

To avoid ending this section with a minus, to which we are allergic by nature, let's talk about our intense activity as a custodian bank. This business expanded thanks to our service on behalf of the closed-end fund «Quadrivio New Old Economy», in addition to the four Arca funds and the Arca Previdenza pension scheme.

Years like this one – terrible for the managed and no easier for the managers – remind us that every cloud has a silver lining, as long as we have

the humility and good sense to let unwelcome events teach us a better course of action for the future. If we do, mistakes can be valuable.

EQUITY INVESTMENTS

As usual, we devote much of this report to our equity investments. A major asset item, at more than 99 million, they express growing strategic significance – especially our subsidiaries and trade investments. The latter, shared with other banking institutions, give us some initial food for thought.

We are founding members, and in some cases historical members, of every company that has sprung from the association of cooperative banks. Since the beginning we have used their services and distributed their products. The quality of their offerings is such that they occupy the top-most ranks in national classifications. The ties that bind us are symbiotic, and benefit our customers and shareholders as well. For the bank, satisfying the former means good commissions and dividends, plus gains on invested capital. In the past, much emphasis was placed on the connections between cooperative banks and the companies that managed related services.

An ideal situation in many respects, this validates our decision to provide constant support. The explanation lies in the volumes, and thus the economies of scale, that an efficient and widespread distribution network can foster. It's just like Columbus's egg, and perhaps for that reason it is hard to appreciate.

The restlessness that has enveloped the world of cooperative banking also affects our common operational limbs. At BPS, our position has always been clear and resolute, but if we want to win the game as a team we need everybody's support. The first rule of value creation, the leitmotif of modern times, is not to waste existing



Castasegna



Cassarate



Chur



Chiasso



St. Gallen



Locarno



Basel



St. Moritz



Montecarlo



Celerina



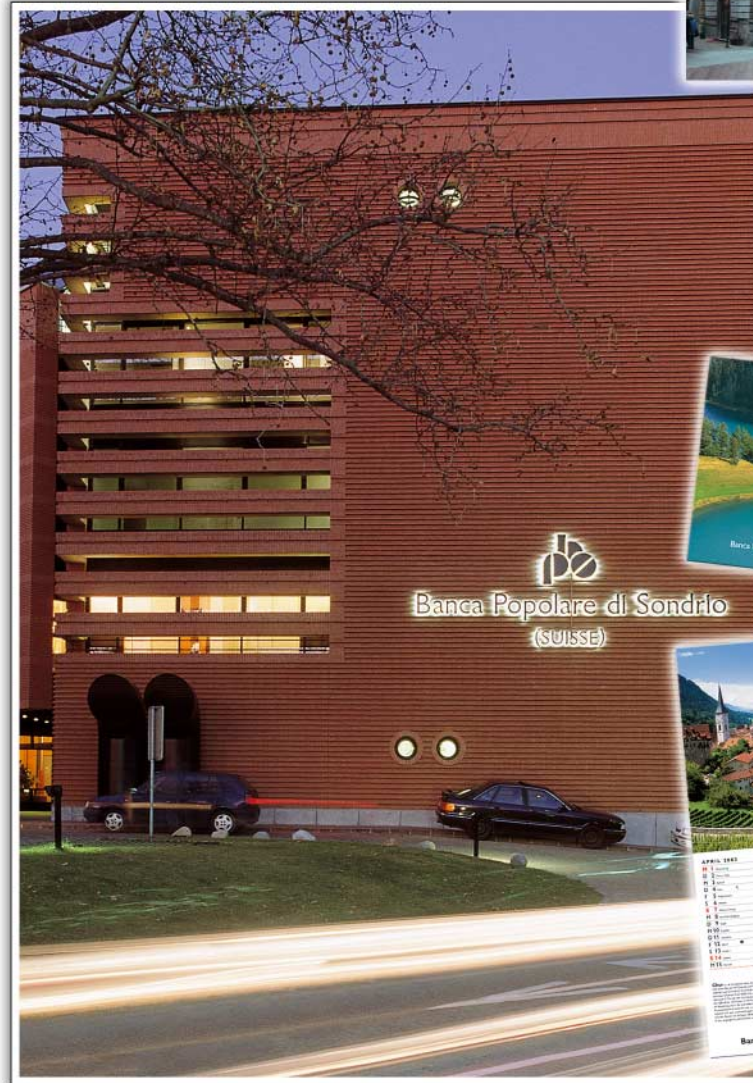
Zurich



Poschiavo



The building that will host the Lugano Branch



Put very briefly, our strategy with our Swiss subsidiary is based on a desire to be present in Switzerland and, at the same time, a determination to open up to the markets. Important progress was made during the year: to start with, a representative office was opened in Montecarlo in the Principality of Monaco: access to the sea for the whole Group. Montecarlo, is not only one of the world's capitals for individual and conference tourism, it is also extremely active in commerce, with thousands of businesses operating in a wide variety of sectors, often trading with other countries. The Italian community living there is also numerous and active, with all of 15,000 out of a total population of 30,000 inhabitants. Our second step was to open a branch in Basel, where we already had a representative office, which will soon be transferred to Zurich. The city, where a considerable number of Italians live, is an important industrial hub, on the border between France and Germany, in an ideal position for trade exchanges with other countries. Note that as the parent company of Suisse, we are the only Italian bank with a presence in Basel. Banca Popolare di Sondrio (Suisse) SpA currently has eleven branches in four different cantons, in addition to two representative offices.

assets – primarily our men (who devote their skill and dedication to our affiliates each day) and their wealth of knowledge and experience. We are well aware, however, that to live means to change, also in the world of business. And changes, especially in strategy, require diverse, sometimes ground-breaking decisions. The realities are manifold and may have different meanings for different people.

To consolidate our achievements to date, and even more so to build on them, it is vital that we ensure stable governance at each of the companies. We hope that the shareholders, in a strong, united front, will forge loyal and lasting bonds. In that respect, we reaffirm – with appropriate corrective measures for the sake of greater operating efficiency – the principle of consortium that underlies our system of cooperative banking affiliates, even for our smaller sister banks to whom essential products and services must be guaranteed at competitive conditions.

Speaking of which, we hope they take a direct interest in the individual companies, whose fine performance in nearly all cases affords fitting economic returns.

Our status as a cooperative bank is something we cherish as strong, alive, and modern, so we remain committed to doing our work according to the principles laid down by Luzzatti. We do so because we believe in them, because we want to support the soundness of the «model» with actions as well as words. Actions are the synthesis of what we desire and what we are.

As of 31 December 2001 our equity investments were worth 99.18 million – including 32.93 million in our Swiss subsidiary – with an increase of 7.48 million for the year that was achieved in compliance with the relevant laws. During the year we did not take on new investments, and we sold our marginal interest in Italfondario S.p.A. as a result of the compulsory

100% takeover bid launched by its parent company Ieffe Acquisition S.p.A.

Subsidiaries:

Banca Popolare di Sondrio (Suisse) S.A. (100%). A Swiss bank with head office in Lugano.

In 2001, we focused our efforts on two highly strategic locations. On 2 August we opened a representative office in Montecarlo, in the Principality of Monaco. Later, after the necessary adjustment period, the Basel office established in April 2000 was replaced with a full-fledged branch. The two cities need little in the way of introduction, and in any case we have already talked about them in the section on geographical expansion.

BPS (Suisse) SA now has 11 branches in four cantons, as well as two representative offices. This is a wholly respectable network considering that it only dates back to 1995.

Our plans to operate as a universal bank, an adjective we write with some embarrassment and anxiety given our size, have been well received by the Swiss authorities. This is a mark of distinction compared with the achievements of other foreign banks in the Confederation, and we have managed it partly by launching innovative on line banking services. A deal with a major insurer has let us add life insurance policies to our range of products as well.

Despite the lull in asset management, Popso (Suisse) Investment Fund SICAV increased the number of new units issued and will soon be unveiling some new investment options. For Sofipo Fiduciaire SA, business was strong enough to require additional investments, especially in human resources. It still closed the year with a loss, but the extent of the loss was minor and the outlook for 2002 is good.

An auspicious real estate opportunity, which was readily taken, will allow our «Suisse» to move to new headquarters in Lugano after the necessary preparations. The prestigious building



DOWNHILL



CROSS-COUNTRY



SNOW-BOARD



CARVING



The activities organised by Pirovano on behalf of schools are certified by a letter of intent with the Education Ministry.



The company involves us. When we have the honour of hosting important people or events there, we realise that Stelvio is not just sport and tourism, serviced by one of our branches, but also culture. Based on these premises and with the will to consolidate, in an innovative way, our rapport with the world of education, this gave rise to the three-year letter of intent – valid throughout Italy and for all schools at any level – between Pirovano and the Education Ministry. Following the basic guidelines, the company has diversified the offer with a view to attracting people in other sports, such as in cycling, wanting to do altitude training, as well as lovers of the open air. The members of the Italian downhill and cross-country ski teams are already fans of Pirovano, as they often use the Stelvio runs to prepare for their winter competitions.

we have bought is in Via Luvini, a stone's throw from Piazza della Riforma, in the heart of the city. It is unattached on all four sides and has six storeys for a total area of about 1,600 square metres. The purchase is a tangible sign of how well our subsidiary has done on the Swiss banking scene.

This bold declaration is supported by the bank's results for the year. The income statement shows a net profit of CHF 9,025,396, up 7% on 2000. Shareholders' equity now amounts to CHF 72,537,193, including CHF 50,000,000 in share capital, an increase of 13.16%.

The credit goes to those who work there with such dedication, intelligence and passion. In addition to the general manager, more than 160 employees – with the support of an efficient structure – combine the professionalism required by a major financial centre with the ability to keep customers at centre stage.

Pirovano Stelvio S.p.A. (98%). This company runs a modern accommodation facility for summer skiing at Stelvio Pass.

In 2001 the occupancy rate increased enough to call it a hesitant reversal of trend. This subsidiary is still a source of ambivalence for us. We are proud to own a fine vacation facility – tourism being one of the main pillars of the local economy – that happens to lie in a natural landscape of unparalleled beauty and that adds a certain flair to our portfolio; but we are disappointed by its lacklustre results, which may well have improved on last year's but are still far from breaking even. It is hard to tell exactly how far it needs to go, since the indirect benefits for the bank, otherwise known as the return, are difficult to quantify. The indirect effects for the community, on the other hand, are significant beyond all doubt.

Summer skiing has long been out of favour, and Pirovano Stelvio has inevitably suffered from that trend. Other factors that go against it are rising competition and the inadequacy of the provincial transport network.

In spite of everything, the company continues to hold our interest. Whenever we have the honour of hosting celebrities or events at Stelvio, we remember that it is a place not only for sports and tourism, which our branch is there to serve, but also for culture. From those premises, and from the desire to establish innovative new ties with the world of education, sprang the three-year agreement – valid throughout Italy and for schools of every level – between Pirovano and the Ministry of Public Education.

The agreement, signed on 4 May 2001 by former Minister Tullio De Mauro, to whom we express our utmost gratitude, is official recognition of the role earned by our «Ski University» thanks in part to the project «Quota 3000 Scuola», an extensive teaching programme at high altitude and in close contact with nature.

This important protocol aims to promote use of the existing facilities and to exploit some of its unique characteristics: its position inside the Stelvio National Park, a meeting place for different cultures, languages and traditions and a habitat for numerous plant and animal species; the Carlo Donegani Museum of History, located right on the premises; and the many fascinating historical reminders of the «White War» of 1915-18.

As for operations, the ski season opened on 2 June 2001 and it was a fine one, thanks to abundant snowfalls that kept the lifts working, in their new, more functional incarnation, until the road was closed on 4 November. The weather was also good. As mentioned above, the occupancy rate was about 10% better than the previous year, which bodes well for next season as well.

The company pursued its recognized strategies, taking care to diversify its offer in an attempt to attract other kinds of athletes for periods of high-altitude training (such as cyclists) as well as general open-air enthusiasts. Some of our most prized guests are the members of the national Nordic and Alpine ski teams, who used Stelvio's slopes to train for the winter games.



With a view to improving its infrastructures, Pirovano took part in the increase in capital of its affiliate SIFAS S.p.A., which runs the skilifts.

Sinergia Seconda S.r.l. (100%). The purpose of this company is to manage some properties that are not instrumental to the banking business. It is the direct owner of buildings in Milan and Rome. Through its wholly-owned subsidiaries Immobiliare San Paolo S.r.l. and Immobiliare Borgo Palazzo S.r.l., which share its business purpose, it owns properties respectively in Azzano San Paolo (BG) and in Bergamo.

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

During the year the Milan building was almost entirely rented out to one of the peripheral offices of the local Revenue Service.

The building, having undergone extraordinary maintenance for that purpose, can now make a substantial contribution to the results from ordinary activities. The economic effects will be fully apparent in 2002. Considering financial charges and running costs, as well as the restructuring expenses, the year closed with a loss.

The upswing in the real estate market is firming up the value of these assets.

Associated companies:

Ripoval S.p.A. (50%). Ripoval, owned jointly with Credito Valtellinese, is the concessionaire for tax collection services.

At a time when the sphere of operations, and the sources of income as well, are severely limited by legal provisions, Ripoval benefited from the safeguard mechanism which was extended to the year under review by a law issued on 21 November 2000.

In accordance with government instructions aiming to expand the concessionaires' sphere of action, Ripoval applied for and was granted, with a

Finance Ministry decision dated 5 June 2001, a listing in the official register as per Art. 53 of Legislative Decree 466/97. This authorizes it to perform liquidation, assessment and collection services for provincial and municipal taxes anywhere in the country.

The company made investments in order to maintain its near monopoly on business with the towns in the Province of Sondrio, while also making its service more efficient. Most of the 76 towns (out of the province's 78) that use Ripoval to collect property and refuse taxes signed up for the chance to view tax collection data free of charge via the Internet.

On-line connections were also established with the tax registry archives and with the local chamber of commerce. The possibility to access a large quantity of useful information, in real time, goes hand in hand with the overhaul of the disputes department. The installation of «Pagobancomat» terminals at Ripoval's public offices follows the recent decision to allow taxpayers to settle their bills with forms of payment other than cash.

In 2002 the company will evaluate whether it is worthwhile, economically and otherwise, to seek new market outlets, as its listing in the official register would permit it to do.

Ripoval is the expression of our local sister banks' commitment to the community. The inspection report on ordinary operations for the years 1997, 1998 and 1999, drawn up by the inspectorate of the Financial Administration, states that the company «is well structured and has the characteristics necessary for efficiently conducting its service». We note these words with pleasure, and anticipate profits on the bottom line.

Servizi Internazionali e Strutture Integrate 2000 S.r.l. - Sintesi 2000 S.r.l. (33.333%). This company was established and made operative in 2000, so 2001 was its first full year of business. On its own and through its offices in London and

Hong Kong, it worked to foster international trade and business relations. It was effective in producing analyses of banks and banking systems with a view to evaluating country risk.

The primary beneficiaries of its work, both directly and indirectly as it was a way to help customers operating abroad, were its shareholder banks. In addition to BPS, these consist of Banca Popolare dell'Emilia Romagna and Veneto Banca. The skill and helpfulness of the professionals manning these offices were much appreciated by counterparties operating in certain geographical areas or interested in new market outlets. Our affiliate also extended its service, which it plans to develop gradually, to other banks and financial institutions.

Business was in line with forecasts, while the result for the year – a loss – was affected by start-up and management expenses. There are, however, good bases for a better performance in the future.

CBE-Service S.p.r.l. (23.30%, formerly 20%). This is the entity in charge of promoting and marketing the products of CBE-GEIE. The *Coopération Bancaire pour l'Europe-Groupement Européen d'Intérêt Economique*, a legislative observatory based in Brussels of which we have been a member since November 1997, is an efficient association of banks that provides companies with services related to the policies and programmes of the European Union.

This year's «Vademecum Turismo» is the third publication in the series. Its objective is to give small and medium-size companies in the tourism sector information on financing opportunities in the domestic and European context.

The farsightedness of our international unit – as demonstrated by our constant search for products of interest to companies that do business abroad – is being punctually rewarded during this phase of European integration and absorption of the common currency.

Our highly gratifying collaboration with these entities (whose services – GarEuropa and ImpresaEuropa on-line – have also been acquired, via BPS, by some important Lombard industry associations) convinced us to take part in the shareholder rearrangement by which some other major banks assumed interests. Our holding in CBE-Service S.p.r.l. increased from 20% to 23.30% during the year. The result for the year was a modest profit.

We cannot fail to mention the importance to BPS of being part of a coalition captained by the prestigious San Paolo-IMI Group. We are the beneficiaries of its experience, teachings, and professional and cultural tradition. We are grateful to it for its leadership and promise our heartfelt and diligent allegiance.

Trade investments:

Centrobanca S.p.A. (1.60%). Originally the medium- and long-term lending arm of the cooperative banks, Centrobanca continues to play its role under the majority ownership of Banca Popolare di Bergamo-Credito Varesino. Naturally, it has updated its operations to account for the evolution of Italian business.

We have retained an interest in the bank – in our small way, we feel we are welcome travel companions – and would like to express our re-energized sense of commitment. In full respect for the founding principles, we continue to provide venture capital and business, so in deed as well as in word we continue to support what began as Banca Centrale di Credito Popolare.

Like every organism that evolves without denying its origins, our affiliate – by maintaining a strong specialist vocation in medium- and long-term loans to manufacturing companies – has begun to refurbish and enrich its product and service portfolio. The goal, aside from increasing the sources of revenue other than loan interest, is to offer businesses the most solid assistance possible, to be one of their foremost sources of



support. Centrobanca's move into corporate finance (structured loans, venture capital interventions including through closed-end investment funds, advice on corporate restructuring operations) is further proof of that orientation.

It has heightened its commitment as a concessionaire for the low-interest loans granted by the Ministry of Production Activities to companies in the industrial, commercial, tourism and high-tech sectors, in accordance with existing laws. This attests to its growing involvement as an intermediary at the service of the local economy.

The bank's astute management, in keeping with its new administrative policies, helped the income statement make concrete gains despite closing with another loss due to the heavy restructuring expenses. Its earnings prospects are good.

Unione Fiduciaria S.p.A. (4.072%). Founded by a group of cooperative banks in distant 1958, Unione Fiduciaria stands out for having a top-rate portfolio of services that regularly leads its delicate market. We can legitimately claim that for our fiduciary company, time has not passed in vain.

There are several reasons for its prolonged period of growth. First and foremost is the quality of its human resources, a highly professional in-house team that can address any issue with aplomb, sometimes with the help of a small group of outside consultants. Keeping up with the times while expanding the sphere of action is no easy task, but there is no lack of skill or will.

The company's first mission, essentially the trusteeship and management of third-party securities and other assets, has gradually been extended to some complementary responsibilities. Leading the way are corporate consulting activities, with a special emphasis on shareholding arrangements. More recent areas of influence, backed by advanced technological tools, are the

provision of IT services to other fiduciary companies, asset managers, pension and real estate funds. Confidentiality and personalization are as much of a guarantee here as they are for the company's traditional services.

This is not the place to describe our affiliate's extensive product catalogue, to which we have given due mention in order to illustrate the complexity of its operations. Here we would simply like to state that the multitude of services it has developed to complement its institutional role, the contribution of its affiliates Unione Gestioni SIM S.p.A. and Sofipo Fiduciaire SA, and last but not least, the close partnership with the widespread branch network of its shareholder banks put Unione Fiduciaria in a position to meet its clients' various needs on the domestic and international front, while retaining its high status within the fiduciary sector in Italy. The company has been and remains attractive to outside parties, including some foreign «giants». The cooperative system, we think, is as united as ever in its effort to keep the affiliate going and render it stronger all the time. Perhaps because little is said about it. And when it is, it's said in a whisper. Remember, confidentiality is paramount.

The company's fine results, and the image gains that the cooperative banks enjoy, are the just reward for our commitment.

Polis Fondi Immobiliari di Banche Popolari SGR.p.A. (7%). The new name is not much shorter than the old one, but it is a better window onto what this company does: it manages closed-end real estate funds. We shall get right down to business by saying that as soon as it had placed its units, the company began to invest in properties on the basis of stringent evaluation procedures. With the market heading up, much of the more than 250 million euro in funding has already been invested in buildings on the outskirts of or in the orbit of major cities. These are well made, highly marketable properties that are already earning rent at very advantageous

conditions. The success of funds like these are helping turn real estate from reserves into resources, from static assets into dynamic investment tools.

Since 19 April 2001 the units of the fund, called Polis, have been trading on the Stock Exchange. Like other closed-end funds, the listing suffers from scant trading volumes. As a result, the liquidity of the units may penalize their value. As the saying goes, everything has a reason: the key is knowing what it is.

All income deriving from participation in the fund is now tax-exempt for non-business investors. Other investors are granted a tax credit equal to 1% of the value of the units.

The company, owned by Unione Fiduciaria S.p.A. and a group of cooperative banks, made a profit for the year.

Banca per il Leasing - Italease S.p.A. (3.75%, formerly 3.558%). Italease needs no introduction: financial leasing is an increasingly popular corporate service, and the cooperative banks – of which Italease is a product – have made it known in spheres other than big business as well. So the merit is partly our own.

We have always had an exclusive relationship with this affiliate. We find it a dependable, efficient partner, and once again this year, the business we brokered grew substantially in terms of both number of transactions and amount.

Italease does solid work in a dynamic market; nationwide, the leasing business gained around 30 billion euro worth of new contracts, and prospects remain excellent. It is the third largest player in the sector, behind companies that have benefited from concentrations.

After two years of rapid growth, our affiliate took care to consolidate its positions by adopting a more selective credit policy and focusing on the development of new products and services.

It is about to launch a business in car leasing for free-lance professionals and small and medium-size businesses. This product is designed

for a relatively young market, which in Italy covers 1,200,000 company cars and thus has good potential for growth. We expect significant returns from this project, which Italease is promoting along with GE Capital Service S.r.l., an arm of America's General Electric Company which is the world's largest group with activities in numerous fields.

It is already active as a concessionaire of the Ministry of Productive Activities for the examination and management of low-interest lease applications submitted in accordance with certain laws. It has also entered a partnership with Banca Woolwich S.p.A. to develop the property leasing business through that bank.

During the year, Italease increased its share capital by around 37 million. Among other things, this gives the company a better fit with the growth in ordinary activities that has characterized the past few years. BPS took part in the operation, and our subscription to unopted shares demonstrates our full support of Italease. We made this decision at one with other shareholders, in our belief that top management's commitment to streamlining production processes and boosting integration with the banks' distribution networks will receive the support it needs from the shareholder base.

Once again, we must stress the need for forthright, loyal support among the shareholders, so we can evaluate each other's willingness to close ranks and create a strong majority that can guarantee this affiliate the administrative stability, business volume and financial assistance it needs. In other words, growth prospects to protect an institution that is still – thanks to the dedication and passion of the men who guide it – a bulwark for most of the cooperative banks in as delicate and strategic a sector as leasing.

As always, the year closed with a profit.

Factorit S.p.A. (2.415%). Now considered one of the cooperative banks' historical trade investments, Factorit has carved out its own space



SUBSIDIARIES

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

ASSOCIATED COMPANIES

RIPOVAL SPA
SINTESI 2000 SRL
CBE - SERVICE SPRL

TRADE INVESTMENTS

CENTROBANCA SPA
UNIONE FIDUCIARIA SPA
POLIS - FONDI IMMOBILIARI
DI BANCHE POPOLARI SGR.p.A.
BANCA PER IL LEASING ITALEASE SPA
FACTORIT SPA
CENTROSIM SPA
CILME SPA
BORSA ITALIANA SPA
SOCIETÀ PER IL MERCATO
DEI TITOLI DI STATO - MTS SPA
e-MID SPA
FINLOMBARDA SPA
BANCA POPOLARE ETICA SCARL
CONSORZIO CASSAMERCATO

THE ARCA GROUP

ARCA SGR SPA
ARCA MERCHANT SPA
ARCA VITA SPA
ARCA ASSICURAZIONI SPA
B. & A. BROKER SPA

NON-TRADE INVESTMENTS

AVIOVALTELLINA SPA
SPLUGA DOMANI SPA
SOCIETÀ DI SVILUPPO LOCALE SPA
AEM SPA
Teleriscaldamento -
COGENERAZIONE
VALCAMONICA-VALTELLINA-
VALCHIAVENNA SPA

on the market. Like other cooperative banking creations, it has improved the banks' portfolios, according to the logic of sharing typical operating risk in order to develop innovative tools.

The confidence that Factorit has earned over time is based on strong professional skills that have blended the financial aspect with excellent standards of service. The reliability and thoroughness of the computer procedures it has developed go hand in hand with the constant upgrading of its products and services to better meet the domestic and international needs of its customers and satisfy all parts of the economy, including the public sector. Customers are especially pleased with its sector specialization in the handling of receivables.

The increase in the service component, in line with market trends, is expressed in its rising share of receivables acquired without recourse and consequent commission income, and in a deliberate reduction of the lending volume. The takeover of In Factor S.p.A. has brought in a significant amount of business.

Operations, chosen selectively in terms of yield and exposure to risk, generated some 8,800 million in turnover. This kept Factorit among the top-ranking companies in the sector.

Organizational and commercial changes, meant to ensure a quick response to the network of shareholder banks as well as specialized advice to customers, are a guarantee of competitiveness and a solid, expansive future.

By nature, the factoring market is dependent on the economy, so the current downturn meant that earnings were lower than forecast. But the sector did enjoy a year of growth. In that context, Factorit's volumes were excellent and it improved on the already good results of the previous year.

Centrosim S.p.A. (2%). One of Italy's leading brokerage firms, this cooperative banking affiliate – which in 10 years on the market has grown impressively and no doubt earned its

stripes – was faced with a lengthy bear market after an extraordinarily profitable 2000.

Centrosim showed its mettle despite the sharp decline in trading. It took the opportunity to fortify its structures and extend real-time trading to foreign securities, through an agreement with Knight Securities International for the U.S. market and with others for those on the Continent.

The traditional portfolio management and placement departments were joined by the more recent corporate finance unit, which gives Centrosim a position on the primary market through the provision of specialized advice and assistance to companies making changes to their capital and ownership arrangements or their borrowing structures, or conducting extraordinary finance transactions. Analysis and research activities were as precise and content-rich as always, whether relating to macro-topics or to specific issuers.

The appreciable effort to become its own autonomous force and thus to be ever more attractive to its shareholders deserves some contemplation by the banks. Satisfied with the quality and value of Centrosim's services, its shareholder banks are determined to keep using them and to march as a cohesive group, ensuring the volumes Centrosim needs to stay competitive on its market.

No matter how skilled Centrosim's men or how efficient its structure and operations, the downturn on the stock markets left no-one in the industry unscathed. Inevitably, the bottom line suffered, but Centrosim still closed the year with a profit.

Cilme S.p.A. (7.788%). Now approaching 15 years on the market – during which time it has splendidly achieved the goals for which it was founded, to the benefit of its shareholder banks – Cilme is a nationally recognized force in the field of electronic payment systems, including via innovative, Web-based technologies.



An acronym for Consorzio Interbancario Lombardo per la Moneta Elettronica, Cilme topped its own forecasts during the year in terms of the number of machines it administers – 65,000 between POS, remote banking and Web banking stations – and paralleled this performance with a rise in volumes and results. The bottom line was good, higher than the previous year's despite the pricing cut. Results of this magnitude can derive only from Cilme's efficiency, i.e. the capacity to keep its technological apparatus constantly up to date as it performs its delicate functions.

In 2001, Cilme's directors and top management were busy evaluating the possibility of merging with Multitel S.p.A., a solid industry player based in Anzola dell'Emilia (Bologna) that shares Cilme's mission and strategies for growth. The objective is to use higher volumes, hence an increased capacity for initiative and technological innovation, to make the companies as influential as possible in their traditional spheres of activity: electronic money (POS transactions, fidelity cards, mobile payments, etc.), electronic banking (remote and Internet banking), and e-commerce (B2B and B2C payments and the hosting of Internet sites).

Multitel S.p.A. was founded in 1985 and took its current name in 1991, after expanding its ownership structure to some major banks in Emilia Romagna. Its operations and business volumes are consistent with Cilme's, and if the two companies were merged they could pursue objectives of impressive scope.

The extraordinary shareholders' meetings of Cilme S.p.A. and Multitel S.p.A., held respectively on the 22nd and 23rd of this month, approved the merger plan on the basis of balance sheet figures as of 31 August 2001. The new company will have share capital of 6.6 million, made up of 2,200,000 shares with a par value of 3 euro each. Considering the swap ratios, BPS should get 111,363 shares of the new company equal to a 5.06% interest.

Borsa Italiana S.p.A. (0.25%). In charge of organizing and running the national stock exchanges, this company's priority is to be as efficient as possible so as to favour the liquidity and transparency of the market – populated by some 180 domestic and international brokers – without forgoing adequate margins.

Borsa Italiana's broad sphere of operations lets it compete successfully at a European level. First comes the electronic equities market (MTA), which is made up of the Segmento Titoli con Alti Requisiti (STAR), the Nuovo Mercato (NM), the covered warrants market (MCW), the over-the-counter market (Ristretto) and the premiums market (MPR). Then there's the after hours market (TAH) for evening transactions on securities participating in the MIB 30, the MIDEX, the Nuovo Mercato and, at the issuer's request, the covered warrants market. Borsa Italiana also runs derivatives trading on two markets – for stock derivatives (IDEM) and interest-rate futures (MIF) – and the trading of fixed-interest securities in the form of the Italian bond market (MOT) and the market for European government bonds (EuroMOT). Late in the year, closing auctions were introduced on the OTC market where our stock is traded.

In these delicate situations, Borsa Italiana sets precise, effective rules by which issuers and brokers can access these markets and continue to operate there. It also oversees the markets and handles company information requirements.

In an effort to encourage small- and mid-cap listings by increasing their visibility and liquidity, on 19 April 2001 the company instituted the STAR, reserved to issuers who meet higher quality and quantity standards than those required for a general listing. Since 17 September 2001 it has calculated the MIB STAR, an index of stocks traded in the new section.

To close these notes on our important affiliate, we would like to express our appreciation of Borsa Italiana's Web site – an invaluable

business tool – and of its e-mail service for issuers, of which we are naturally one.

The company closed the year with a profit.

Società per il Mercato dei Titoli di Stato-MTS S.p.A. (0.075%). This affiliate, which runs Europe's main electronic platform for the trading of government securities and repo transactions, has seen a considerable rise in volumes thanks to the speed with which the financial markets have metabolized the switch to the euro.

In that context, a vital role is played by its London subsidiary EuroMTS Ltd., which has earned a solid reputation in the wholesale trading of European benchmark government securities.

With a view to expansion, on 26 November the extraordinary shareholders' meeting of MTS S.p.A. voted to buy the remaining 25% of EuroMTS Ltd., thereby taking full control of the company and paving the way for a single European platform for the trading of fixed-interest securities.

Meanwhile, the domestic markets managed by the MTS galaxy, of which Italy's is the largest, are growing at a fair rate. The launch of the Dutch, French, Belgian and Portuguese markets and of MTS Japan KK (Japan's is the second largest government securities market in the world) was followed by MTS German Market AG, and a Spanish affiliate will also be opening soon.

Back at MTS proper, an efficient management and operational structure, along with constant technological progress, permitted an increase in the volumes traded by its more than 200 members – 11,360 billion in government securities (+23%) and 7,100 billion in repo transactions (+26%) – and the achievement of good economic results.

After unveiling the on-line trading system called Bondvision, the company also acquired Coredeal to manage the market for non-government bonds.

e-MID S.p.A. (1%). This company runs e-MID and e-MIDER, organized electronic markets

for the trading and settlement of, respectively, interbank deposits and derivatives on short-term interest rates (EONIA swaps).

Founded in 1999 when the Italian financial market was privatized, the company works to increase the efficiency of transactions on the money market, and hopes to assume a role of European scope over the medium to long term.

Its size, already quite respectable, suggests considerable prospects for growth. e-MID has around 200 members, including 25 major international banks, from 12 countries in Europe. Average daily trading comes to around 16 billion. e-MIDER has about 50 members hailing from 10 European countries; the average daily volume is 1.6 billion, while those to maturity, standardized at one month, amount to 3.3 billion.

In an effort to expand its offering, e-MID S.p.A. has struck a deal with MTS S.p.A. that gives its members access to the trading platform for repo transactions on Italian government bonds. With the support of Reuters, the financial information and technology giant, it aims to develop wide-scale participation – first and foremost in Europe – in the electronic markets for bank treasury products.

e-MID S.p.A.'s energy and momentum, which are reflected in rising volumes and the acquisition of new members, were well rewarded in its income statement.

Finlombarda S.p.A. (0.405%). Those like us, who because of origin and other factors end up with a strong attachment to Lombardy (Italy's wealthiest region, where fierce competition in every sector certainly does not dull the talent), are well aware of the region's entrepreneurial vigour. It descends from the passionate devotion of small and large families, who passed on the work ethic by always striving to do more and better.

This is where Finlombarda - Finanziaria per lo Sviluppo della Lombardia S.p.A. has been doing business for over 30 years. In synergy with banks,



it intervenes where necessary or simply where it is opportune to promote the development of local economies. Its many fine projects aim to help small and medium size companies obtain loans; support public and private initiatives aimed at infrastructure improvements in health care, transportation, energy and the environment; and facilitate international relations. It offers several forms of low-interest loans and provides direct support for education, research and training. Adding even more variety to our investment are the agreements with Finlombarda, three of them for the time being, which stem from specific regional laws concerning credit access by artisan concerns, small business development, and regional policies for labour and employment services. They are further proof of our ties to its main shareholder, the Region of Lombardy, an institution we are honoured to serve as co-treasurer and that has hosted a BPS branch, in the Pirelli Tower, since 11 April 1983.

The income statement closed with a profit.

Banca Popolare Etica S.c.a.r.l. (0.232%, formerly 0.289%). Our involvement with Banca Etica goes well beyond the merely functional investment of funds, and has to do with the principles and goals that led to the founding of the first, and still only, Italian bank with a declared commitment to social welfare.

The spirit of mutual aid and cooperation, a founding element of the cooperative movement, is celebrated by the aims of Banca Etica (itself the epitome of cooperative banking) as it lends its funds exclusively to businesses of high social value. More specifically, the small investor can decide what part of the «third sector» he wants to support, choosing among social cooperation and organized volunteering, environmental associations and organic farming, third world development, ethical trade, and cultural initiatives.

The bank is gradually making a name for itself, on the strength of nearly 18,000

shareholders, the load-bearing axis of the more than 70 constituencies that have sprung up spontaneously around the country. This momentum, fuelled also by major agreements with national and international associations, led to a significant increase in funding and lending volumes in 2001.

The traditional distribution structure consists of the head office in Padua, four branches, and four advisory offices (of which three were opened during the year). We are honoured to put our own branches at Banca Etica's disposal, as local support for fund raising and for the logistical needs of shareholders and customers. In 2002 our affiliate plans to establish Etica SGR S.p.A., an asset management company, through which it will place mutual funds of ethical content.

The bank also plans to increase its share capital this year, to support its development and hence the increase in balance sheet aggregates. Subscriptions to new shares, always a possibility since the bank has a variable share capital, is what caused our stake to decrease in percentage terms.

We feel close to Banca Etica's staff, professionals who pay attention to costs and to a proper balance in disbursing loans, and who profitably conduct a business of innovative content and admirable social value. Part of their intention is to revive the meaning of social action, the commitment to civil and moral values that protect the common good. Our sister bank closed another year with a profit.

Consorzio Cassamercato (6.286%). Sponsored by SO.GE.MI. S.p.A. (Società per l'impianto e l'esercizio dei mercati annonari all'ingrosso di Milano) and founded in 2000, this consortium aims to computerize the payment of merchandise using innovative means. Our investment relates to the existence of a BPS branch inside Milan's wholesale produce market.

In 2001, the planning phase of this initiative moved ahead. The need to reconcile the needs of the various players slowed down the

implementation phase, i.e. the actual creation of the technological infrastructure for which the consortium was founded.

The Arca Group

Arca SGR S.p.A. (4.816%, formerly 4.815%). This affiliate is Italy's fourth largest asset management company and tops the list based on long-term results. The bubble of new economy stocks did not burst over Arca's head; with its unerring balance and professionalism, it never lost its sense of proportion. A clear, strong and consistent strategy pays off in the long run, and the high quality of its risk/yield ratio is acknowledgement of that fact. The confidence that Arca has earned, an indispensable quality for those who assume the burden of managing other people's money, permits it to do its job on behalf of investors even when times are tough.

A comparison between the gains made by the various mutual funds managed by Arca SGR S.p.A. and the performance of their benchmarks is favourable to Arca on many accounts. This did not, of course, let the equity and balanced funds escape from the sharp declines suffered by stock markets round the world. No-one was granted a miracle, although late in the year, when volatility came back to normal, there was a return to equity-content funds. Bond funds attained newfound dignity, not only because of their yields – which were fairly good with respect to inflation – but because of their ability to keep capital safe.

Gone are the days when playing the market attracted small and large investors alike, sometimes in the wake of uncontrollable rumours. In 2001 the asset management business suffered a significant decline in funds, a trend that did not spare our affiliate.

The Arca team has no lack of imagination and initiative, and as it waited for better times,

one of its projects was to promote ArcaMultiFondo – a new multi-sector, accumulation-type fund of funds – which has joined ArcaCinqueStelle and put the company at the vertex of its sector nationwide. This product, a real highlight of the collection, invests in units of open-end investment funds; its six sections are differentiated by their rising proportions of equities.

Arca Previdenza, the open-end, complementary pension fund now available for individuals as well as groups, remained popular this year and had no trouble maintaining its second-place position on the national charts. This kind of investment still lags far behind the levels it has reached in other industrialized countries, and should be given a significant boost by the oft-announced reform of Italy's social security system.

Arca SGR closed the year with a profit. It also increased its share capital from Euro 20,658,400 to Euro 50,000,000, through a scrip increase up to Euro 45,000,000 and a rights issue for the rest, with the new shares issued at par and fully subscribed. Fortifying capital is a way to achieve the long-term plan for structural investments and to keep equity for supervisory purposes as solid as it is today.

Arca Merchant S.p.A. (11.604%, formerly 10.239%). Founded in 1987, Arca Merchant has seen Italy's business culture evolve, and taken an active role in the process by supporting European integration and thus the growing opportunities to go international.

Its purpose is to help small and medium-size companies implement financial solutions that will ensure them balanced structural development, so they can operate competitively and profitably in their markets.

One way this has been achieved is through the gradual expansion of the private equity business, both the Arca Merchant Group's own and that of the closed-end investment funds it controls. Through venture capital operations with unlisted companies – basically equity investments

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and the subscription to reserved increases in capital and convertible bonds – the funds are raised to carry through with pre-defined development plans. Naturally, the direct goal of the merchant bank or the fund is to dispose of the interest at a profit, while the indirect benefit goes to the investee company and hence to the economy in general.

Arca Merchant, which acts in close collaboration with its subsidiaries Arca Merchant International SA (a vehicle for operating outside the country) and Arca Impresa Gestioni SGR S.p.A. (owner of the closed-end funds Arca Impresa and Arca Impresa 2000), does its delicate job so well that it is one of Italy's largest merchant banks in terms of the overall size of its operations.

In an effort to broaden its sphere and make the most of its assets and experience, Arca SIM S.p.A., a wholly-owned subsidiary of Arca Merchant, applied for permission to work as a bank and was authorized to do so as from 1 October 2001, under the name Arca Banca di Investimenti Mobiliari S.p.A. (Arca BIM S.p.A. for short), with a decision by the central authorities dated 23 August 2001. The shareholding structure is currently being rearranged, with a view to a better definition of roles within the group (the individual holdings will be unaltered). Operations will focus on financial brokerage, portfolio management, participation in underwriting and placement syndicates, and corporate finance.

The increase in our holding in Arca Merchant S.p.A. – the result of an ownership rearrangement – is proof of our esteem for a company we have never failed to support. It also furthers the hope that a group of like-minded travel companions will establish a stable governance for the company, so that real growth will be in the sights of Arca Merchant and its fledgling bank, whose prospects in this market are vast.

The net profit for the year speaks of the skill, intelligence, and devotion of the Arca Merchant Group's staff.

Arca Vita S.p.A. (17.503%, formerly 16%).

This is the cooperative banks' insurance arm, a force in the bancassurance sector since the late 1980s and a synergistic complement to the traditional banking channel.

Founded in 1987, Arca Vita has worked long and hard to tailor a portfolio in the interests of its placement banks. To breathe life into its ambitious plans, it has gradually built up a suitable corporate and group structure. Demonstrating its commercial success is its high rank on the national charts, until a few years ago the exclusive domain of large insurers.

Its operations are manifold. With Arca Vita International Ltd. in Ireland it runs a life insurance business, whose financial content is increasing all the time. Arca Assicurazioni, which we discuss separately below, is a non-life insurer. Arca Direct Assicurazioni S.r.l. and Arca Network SIM S.p.A. broker the entire range of products, respectively via the Internet and money shops staffed by financial advisors. Efforts are supported by Arca Inlinea S.r.l., which runs the group's call centre and whose efficiency is constantly monitored, and GAA Services Ltd. which takes care of matters concerning the management and administration of unit-linked policies.

Unfortunately, the enthusiasm of Arca Vita S.p.A.'s staff as they worked to expand its field of action could not shelter the company from the repercussions – emotional and otherwise – of the downturn on the stock markets. This had an inevitable effect on production.

Our affiliate did close the year with a profit, and successfully completed the third and last tranche of the increase in capital that had been resolved at an earlier date. The increase in BPS's holding, evidence of our support for the company and of the soundness of our relationship, is explained by our subscription to unopted shares and the exercise of our right of pre-emption, in accordance with the by-laws, on the interest sold by another shareholder.

Arca Assicurazioni S.p.A. (7.093%, formerly 7.043%). This is Arca Vita's extension into non-life insurance; it receives assistance and services from Arca Vita and is gradually expanding its areas of coverage.

The company started out in sectors that were more profitable, but offered growth prospects over the medium to long term. Its policies consisted of «In CASA», against household fire and theft; «In FAMIGLIA», against unintentional damage to third parties; and «In SALUTE», which pays a daily allowance in the case of hospitalization. Later, again through our branches, it started to sell «In AUTO», a third-party motor and accessory damage policy that soon made it a force on the market.

Sales of «In AUTO» have been beyond all expectations, but its profitability has been dampened by a lengthy mandatory premium freeze that has hurt the company's bottom line.

In an effort to shift its balance away from motor insurance, our affiliate has decided to extend its operations to credit and security deposit insurance. ISVAP, the insurance industry authority, issued its approval of the move with resolution no. 1,982 of 5 December 2001.

We are confident that as the company realigns its operations, its results will improve and it will break even in the near future.

We have such faith in its energy and prospects for growth that we did not hesitate to accept our portion when another shareholder disposed of its interest.

B. & A. Broker S.p.A. (14.286%). This company is an insurance advisor and broker for the shareholder banks and for companies and public organizations, specialized in the analysis of company risk.

Its objective is to put those risks in the hands of insurers, seeking the best combination of price and coverage.

The range of customized insurance packages offered by specialists in the field is attracting the

growing interest of companies. Proof of that trend is the fact that the brokerage business is growing much faster than the insurance market itself.

For the second year in a row (its fourth year of operations), our affiliate closed with a profit; its proven professional qualities and the steady growth of its organizational and sales structure put it in an excellent position to acquire new customers and thus expand its reputation. Crucial in this respect is the contribution of the shareholder banks, whose respective branch networks operate in flourishing business communities.

The service we can provide through B. & A. Broker S.p.A. is a valuable complement to our offerings in the insurance sector.

Non-trade investments:

AvioValtellina S.p.A. (8.226%, formerly 11.029%). In a province where the transportation system is not only failing to improve but actually showing new cracks – the problem of chronically late trains to and from Milan, for example, has been «solved» by making the longer travel time official – AvioValtellina's airstrip at Caiolo has made some significant structural progress.

Construction work, some of it sponsored by the Valtellina Law, has extended the strip to 1,050 metres and finished the new helipad. These improvements ensure adequate safety standards for fixed-wing aircraft to take off and land, and for the helicopter rescue service to operate at night as well as during the day. Other projects, both finished and planned, involve the completion of the weather, radio and fire fighting systems. Unfortunately, environmental limitations and other regulations prevent the facility from becoming a full-fledged airport. We hope, at least, that the commercial flight business can gradually join the helicopter service, activities that can easily cohabitate with flights for tourists and amateur pilots.

Caiolo has long been a favourite with amateur pilots from Germany because of its



physical geography, unique in the Alpine range; in a sense, Valtellina is exported across Europe thanks to its conduciveness to gliding. And the enthusiasts are no mere handful: on the weekends, the skies of our valleys are heavily trafficked indeed.

Our interest in AvioValtellina has decreased because of the increase in capital reserved to its public-sector shareholder. The company closed the year with a profit.

Spluga Domani S.p.A. (1.49%, formerly 1.621%). Spluga Domani, which we like to remember as the builder of Sky Express, the underground cable car connecting Campodolcino and Motta, runs almost all of the lift and snow-making equipment in the Spluga Valley.

Its strong desire to grow, and the obligingly snowy skies, took it several steps closer to breaking even. Proof of that trend can be found in its much improved bottom line (although it still closed the year with a loss) and a significant rise in volumes.

Investments went toward slope refurbishment, artificial snow machines, and the indispensable high-altitude hospitality of its Larici and Val di Lei lunch and refreshment facilities. Additional investment plans entail expanding its offerings with a view to increasing sales.

Spluga Domani's commitment to reviving Valchiavenna has encouraged other initiatives as well. The repairs at three hairpin turns in Gallivaggio, along the Chiavenna-Campodolcino road, now allow larger tour buses to pass with obvious logistical benefits that translate into a higher occupancy rate. A newly established consortium aims to coordinate and improve accommodation by renting out apartments.

As we have long augured, thanks to its good orientation and management, the dedication of its staff, and its generous investments (both completed and planned), Spluga Domani is also winning the approval and support of local entities.

Late in the year, the Community of Valchiavenna announced its plans to take over the futuristic Sky Express. The proceeds of that transaction – around Euro 12 million, funded by a regional subsidy – will improve the company's financial and economic position, and pave the way for other business investments.

Spluga Domani's efforts are there for all to see and deserve the attention not only of the public, but of all the businesses that are aided by tourism, our valley's most basic asset. For our part, we continue to support it without reserve.

Società di Sviluppo Locale S.p.A. (5.714%). This company, which works to foster economic growth in the Province of Sondrio, spent another year in search of its proper role. It may be true that business opportunities are few and far between, but we are somewhat baffled by its limited financial resources and hence its weak potential to achieve its purpose.

We can only hope that it rises above the differences of opinion that its public and private shareholders seem to hold about its fate, and embarks on a sensible, concrete, and feasible course of action that we are more than ready to support.

AEM S.p.A. (0.333%). This small but valuable interest is not only a sound financial investment, but an expression of our ties with AEM. It acknowledges the company's important historical role as part of the economy of the Province of Sondrio, in terms of employment, industry and culture; and our equally historical friendship and business relationship, to which we attribute the honour of having had a branch at AEM's Milan headquarters in Corso Porta Vittoria since far-off 1980.

We shall not dwell on the company's balance sheet and income statement figures, since AEM is part of the select group making up the MIB 30 and is thus scrutinized by analysts far more qualified than ourselves. Moreover, the company is required to announce its own results,

but has not yet done so for 2001 in accordance with specific formalities. The fact remains that AEM is solid through and through.

In its second century of life, AEM S.p.A. heads an efficient multiutility group that operates in the fields of electricity, natural gas and telecommunications. The increase in production capacity – coinciding with the start-up of the new combined-cycle plant at Cassano d'Adda – goes hand in hand, in a firm strategic vision, with the expansion of the distribution network.

In Italy's deregulated energy market, AEM has what it takes to succeed. An example of its standing is its involvement in the Edipower consortium, which plans to buy Eurogen, a major electricity producer being sold by Enel S.p.A.

In Valtellina, AEM has had an ambitious investment plan for a few years now concerning its own hydroelectric plants, most of which were built during the first half of the 20th century. It plans to increase installed power at the Premadio and Grosio plants, and improve system regulation. That latter objective is taking the form of the new Viola canal, an impressive work now in progress in the upper valley in full respect for the environment.

AEM's history cannot be distinguished from Valtellina's, and echoes the entire country's economic and social milestones. Today more than ever, it is the very expression of commitment and dedication. In addition to the solidity it has built through hard work, including that of many Valtellina natives, and through the work of its far-sighted, enterprising administration, it is a guarantee of balanced future development. For that reason our investment in the company can be considered long-term.

Teleriscaldamento - Coogenerazione Valcamonica, Valtellina-Valchiavenna S.p.A. (2.302%). The good results for the year ended 30 June 2001, and the contents of the directors' report presented to the ordinary and extraordinary shareholders' meeting of 17

November, demonstrate that this company is really in business. Its prospects are also encouraging: its net profit and significant sales figure were accompanied by the rapid expansion of its Tirano and Sondalo networks, and above all, by a far higher than expected number of hook-ups performed and requested. The company's initial goals, which we share wholeheartedly, are on their way to being met. Now that the work is underway, it's hard not to feel that it's a bit like the discovery of hot water. In any case, it's good preparation for the years to come.

The good functioning of the plants that produce and distribute alternative biomass fuel obtained from the burning of scrap wood confirms the environmental worthiness of the project. In addition to cleaning out woods and eliminating other waste materials, it reduces diesel fuel consumption, cuts carbon monoxide emissions, and produces ash for potential use as an agricultural fertilizer. The recent air pollution levels suggest that this is no small matter.

The company is looking into other district heating systems for residential communities and large individual structures.

The required information on intercompany transactions can be found in the notes. More specifically, the table entitled «Intercompany assets and liabilities with group companies» shows assets of 17.17 million and liabilities of 1.24 million. The guarantees given to Banca Popolare di Sondrio (Suisse) SA amount to 0.51 million.

Related party transactions fall under the bank's ordinary operations and are settled at arm's-length conditions or, in the absence of suitable parameters, on the basis of costs incurred.

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



SHARES HELD BY DIRECTORS, STATUTORY AUDITORS AND THE GENERAL MANAGER

First and last name	Company in which shares are held	No. of shares held as of 31/12/2000		No. of shares allocated and purchased in 2001		No. of shares sold in 2001		No. of shares held as of 31/12/2001	
Directors		Shares held:		Shares held:		Shares held:		Shares held:	
		Directly	Indirectly	Directly	Indirectly	Directly	Indirectly	Directly	Indirectly
PIERO MELAZZINI	Banca Popolare di Sondrio scarl	52,500	12,308	52,500	12,308	–	–	105,000	24,616
SALVATORE BONOMO	Banca Popolare di Sondrio scarl	11,025	10,425	10,975	10,575	–	–	22,000	21,000
ALDO BALGERA	Banca Popolare di Sondrio scarl	58,752	6,315	63,752	6,316	–	–	122,504	12,631
GIANLUIGI BONISOLO	Banca Popolare di Sondrio scarl	1,180	590	1,180	484	–	–	2,360	1,074
ALBERTO CREDARO	Banca Popolare di Sondrio scarl	600	2,400	600	2,400	–	–	1,200	4,800
GIUSEPPE FONTANA	Banca Popolare di Sondrio scarl	100,000	–	100,000	–	–	–	200,000	–
MARIO GALBUSERA	Banca Popolare di Sondrio scarl	1,200	1,200	1,200	1,200	–	–	2,400	2,400
CARLO GRASSI	Banca Popolare di Sondrio scarl	200	40,600	200	40,600	–	–	400	81,200
NICOLÒ MELZI DI CUSANO	Banca Popolare di Sondrio scarl	16,500	450	16,500	450	–	–	33,000	900
ALDO ROSSI	Banca Popolare di Sondrio scarl	15,000	15,000	15,000	15,000	5,000	–	25,000	30,000
RENATO SOZZANI	Banca Popolare di Sondrio scarl	7,530	7,530	7,530	7,530	–	–	15,060	15,060
	Pirovano Stelvio spa	8,000	–	–	–	–	–	8,000	–
LINO ENRICO STOPPANI	Banca Popolare di Sondrio scarl	7,500	4,500	7,500	5,000	–	–	15,000	9,500
MARIO TESTORELLI	Banca Popolare di Sondrio scarl	6,028	3,765	6,028	3,766	–	–	12,056	7,531
BRUNO VANOSSI	Banca Popolare di Sondrio scarl	12,535	14,737	12,535	14,737	–	–	25,070	29,474
FRANCESCO VENOSTA	Banca Popolare di Sondrio scarl	5,344	270	7,344	270	–	–	12,688	540
Statutory Auditors									
EGIDIO ALESSANDRI	Banca Popolare di Sondrio scarl	500	375	409	306	–	–	909	681
PIERGIUSEPPE FORNI	Banca Popolare di Sondrio scarl	3,040	7,430	3,040	7,430	–	–	6,080	14,860
ROBERTO SCHIANTARELLI	Banca Popolare di Sondrio scarl	5,600	–	7,600	–	–	–	13,200	–
GIULIANO ORSINI (*)	Banca Popolare di Sondrio scarl	500	10,100	500	11,100	1,000	–	–	21,200
MARIO VITALI	Banca Popolare di Sondrio scarl	8,000	1,500	9,000	1,500	–	–	17,000	3,000
General Manager									
MARIO ALBERTO PEDRANZINI	Banca Popolare di Sondrio scarl	4,975	–	5,025	–	–	–	10,000	–

(*) Deceased on 12 November 2001.

During the year there were no atypical or unusual transactions, defined as those 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

From one extreme to the other. It is the swinging of a pendulum, but also an expression used in everyday speech, frequently with negative connotations. To use it in the positive sense, let's talk about BPS's international unit. Founded in a fairly closed and long-isolated territory, the bank has gradually opened up to relationships with foreign banks with the opening up of its internal structure, step by step in line with the corporate expansion that has more or less coincided with technological progress. BPS has earned itself a prominent standing among banks and a much larger share of international work that we have on the domestic market. In short, once we had ventured out of our protective mountain refuge, we drew forth our intuition and acumen, spread our wings and very quickly reached goals that previously seemed impossible.

From this we learnt to interact with very different banking set-ups, a good deal larger and more developed than what we had traditionally been used to. For our people, this was and continues to be an invaluable experience to gain a better understanding of the world in which we live and work.

In our travels beyond these mountains and across the sea – travels that in some way, due to the high standing of the professionals met along the way and with whom we have established business relationships, recall those of Gulliver, whose travels took him to uncharted lands -, we have never lost sight of our core business: making the economy of our region grow along with us. From here, the compelling and resolute desire to propose to and make available to our customers, above all those who are interested in new experiences, all the opportunities offered by foreign markets, including business prospects and new forms of financing.

A swinging pendulum inevitably returns to its starting point. Above all, the sense of commitment that has traditionally characterised our work and which has always given us a great deal of satisfaction. And the most important has been seeing the number of loyal customers grow day by day.

The gradual lowering of the many barriers that used to obstruct economic relationships between different geographic areas and the growing support for unifying elements only serve to substantiate our decision to devote more attention and more substantial resources to our international unit. For us Europeans, the introduction of the euro has been the most significant change, although we can hardly ignore the enormous historic impact of China's recent membership of the WTO, along with its cousin, Taiwan. The international unit must now take part in the inexorable process of market expansion, improving the assistance given to our clientele with contributions of international scope. This is the burden that can be shouldered only by those who thoroughly understand the rules of the international markets and speak a global language. Speaking and understanding several languages well is a vital passport for those who want to be considered citizens of the world. Our young



people will have the task of filling their passports with the relevant visas.

In this wider perspective, the evolution of our economy takes on an unfamiliar and challenging significance, because we live in an economy that requires more and more involvement into progressively broader markets. This is where our constant and vigorous commitment lies. This is the reason for a bank such as Banca Popolare di Sondrio, at the same time flexible and tenacious, agile and self-assured. This is the conviction that guides us in our day-to-day management of the business.

Constant improvement in the quality of the services we provide; a constant search for new relationships with a clientele that ranges from private customers to institutional players; offering support to companies operating on international markets; expansion of our range of products and services: these were the cardinal points of evolution. The quadrant has seen us move with energy and decision, stimulated by an inherent enthusiasm.

Quality has been given its annual seal of approval by Det Norske Veritas, which has certified our procedures and products as meeting the strict ISO 9002 standards. We are proud to mention that the market – as judge and jury, and therefore, whose ruling is final – was the first to hand down the verdict, once again in our favour. The surveys on customer satisfaction during the year confirm that our services are much appreciated by those who use them.

The new high profile contacts established with leading international operators go to show the effectiveness of our development programme.

Assistance provided to companies in the delicate process of internationalisation has proceeded consistently and in harmony with the initiatives launched over the past few years, only enhanced and strengthened.

The collaboration agreement sealed with Simest S.p.A. – a finance company that specialises

in business development and promotion for Italian companies working abroad, controlled by the Ministry of Foreign Trade – has become operational. After training our specialised personnel, we have been busy organising meetings with customers interested in this specific subject matter.

Another agreement was reached with SACE, a public insurance company for foreign trade. So far, the partnership has proved both demanding and rewarding for both sides, enabling us to confirm documentary credits to our exporting customers who trade with problematic countries, without having to assume any particular risks ourselves.

Particularly noteworthy was the Trade Facilitation Program agreement signed last spring in London with BERS, a supranational agency founded in 1991 thanks to the participation of 60 countries, the European Union, and the European Investment Bank. The purpose of this agreement is to foster the reconstruction and development of Eastern Europe. The agreement sets forth guidelines for BERS to issue guarantees in favour of banks in twenty Western and Central European nations in order to cover commitments – letters of credit and sureties included – taken on in relation to the trading activities of their customers. Yet another opportunity to enter accredited markets offering interesting prospects.

On the home front, in the European Union, Coop ration Bancaire pour l'Europe Geie and its operating branch, CBE Service Sprl have fulfilled their roles as providers of information and consulting services. Reliable and critical guides, they have enabled companies to work their way through the bureaucratic mayhem of laws, guidelines, ordinances and regulations in order to access Community-wide programmes and financing, as well as to participate in international calls for tenders. The monographic studies – called «Vademecum Turismo», published last fall, following up the studies devoted to small and

International Unit



The progressive decline in the many barriers that used to obstruct economic relations between various sectors and the growing affirmation of certain elements of unification justify the decision to dedicate considerable attention and more resources to the International Unit. The international unit must now take part in the inexorable process of market expansion, improving the assistance given to our clientele with contributions of international scope. This is the burden that can be shouldered only by those who thoroughly understand the rules of the international markets and speak a global language. Speaking and understanding several languages well is a vital passport for those who want to be considered citizens of the world. Our young people will have the task of filling their passports with the relevant visas.



medium sized companies and agriculture – are particularly useful support aids for the counterparties with whom we at BPS feel a particular affinity.

Representative offices in London and Hong Kong have ensured their highly qualified and professional contribution. In particular, the latter has been an important vantage point for BPS customers thinking of starting up business relations with the Far East. We would like to mention our friendly relationship with our correspondent banks, with whom we share the same belief in foreign trade. And a sincere thank you goes to our capable and diligent colleagues who promote our good name abroad.

Completing this support system reserved exclusively to businesses are the advisory services and products for managing financial risk (foreign exchange, interest rates and commodities), market research, identification of new trade opportunities and commercial agreements.

Experimenting new ideas is a duty that we have always fulfilled enthusiastically. Curiosity in the form of a quest for knowledge has always been the engine that has driven humanity down the road to progress, and that applies to us as well.

Through the BPS website, the bank has extended its offer to foreign accounts and foreign currency deposits, for which the customer can obtain information and make use of simple and safe procedures, in a choice of four languages. Thanks to the network of networks, users can also monitor all dealings with the bank, having access to a detailed database.

Technology has allowed us to create new applications which were unimaginable only a few years ago. Just consider that we are now able to use the fax, email or even SMS messages to a cell phone to send the beneficiary of a foreign wire transfer immediate and automatic notification that a transaction has been completed in their name.

Again on the subject of innovative technological applications, we are pleased to announce that we have been named the «pilot bank» of the Esportare.it portal, an integrated system for Italian exports and currently the only European platform able to handle electronic letters of credit.

The services provided to our foreign and Italian counterparties form one of the pillars of our activity and all have been awarded ISO 9002 quality certification. We are the only bank in the country that can offer this additional guarantee. The work we have done in the crucial sector of foreign pension payments to Italy is in constant expansion and is a service used successfully by social security authorities as well as beneficiaries, 98.4% of whom have declared in recent surveys to be completely satisfied with the services we provide.

Publication of «Cambi & Tassi 2001» , our leaflet explaining exchange and interest rates, which has been available since the first working day of the new year, closes the historic chapter on the Italian lira which has been supplanted by the single currency, the euro.

Getting down to the numbers, our international unit now serves close to 12,000 customers, an increase of over 25% for the year. Our correspondent banking network consists of 1,397 banks in 101 countries. Selected for their solidity and efficiency, they cover every need of our customers and of the Italian banks that use our services for international operations.

Overall, the international unit has handled more than 1.5 million transactions, representing an increase of 20% over last year. Likewise, there was nearly a 20% jump in messages sent and received via SWIFT, the main international transmission channel, which handled over 740,000 messages, sent and received. This is the perfect cue to mention once again that 12 December 2001 marked the 100th anniversary of the first transatlantic telegraph link between

Poldhu in Great Britain and St. John, Newfoundland in Canada by Guglielmo Marconi, one of the most important representatives of Italian ingenuity and resourcefulness, whose contributions to science have made a profound impact on civilisation.

The two areas that form foreign currency trades have undergone divergent trends: current accounts (goods and services) have posted a 41% rise, while financial transactions have slipped 38%, due to the difficult situation on global markets.

Currency trading fell by 19% to Euro 56.3 million, due to the elimination of a certain volume of transactions between the 12 Euro zone currencies.

Volumes of derivative products on exchange and interest rates were in line with the previous year. Precious metal trading has increased at a healthy rate, especially for gold loans.

Foreign currency and euro deposits by customers came to Euro 211 million, practically unchanged over the previous year, despite the elimination of the balances expressed in the European currencies being phased out.

Foreign currency deposits by other banks rose substantially, up by 60.60%, approaching Euro 1,405 million. As for loans in foreign currency, those to customers rose to Euro 1,068 million, up by 28.07%.

What else can we say about these figures? Nothing, really, except perhaps to add that they are the result of the professionalism of our people, quick to tackle the new themes being proposed daily on the market with enthusiasm and an uncanny ability to innovate. They are careful to keep the work as streamlined and flexible as possible, essential qualities for those who must compete on global markets with the giants of the banking world. But aside from any claims, accounting magic and the understandable ambition to achieve a high standing, there is the bank and, naturally, this office which acts as a

reliable and innovative tool, sharpened in its work and always ready for action.

SERVICES, PROJECTS AND STRUCTURE

Sales, Marketing, Public Entities and Treasuries

This chapter reminds us of our team efforts. And a team that plays well is one that caters to the needs of its customers.

The sales department gets its drive and impetus from the special centralised structure and takes shape in the daily work of the distribution network, both traditional and virtual.

The two travel in pairs, or if we care to be a bit more metaphorical, function like a rally car, where the perfect synchronization between the driver and his co-pilot is the recipe for success. It goes without saying that the vehicle also plays a vital role. What we have to do is seek the perfect combination of product qualities – contents, reliability, performance – and modern driving, I meant to say *selling*, techniques, whose guidelines have been established and codified in the hallowed books of marketing.

Speaking about guidelines, it should be said that ostentatious terminology, frequently incomprehensible for those who don't dabble in neologisms and anglicisms, merely hide age-old rules of common sense. We at BPS have always applied rule number one, which always puts the customer first. The other rules merely follow suit, as any good salesman would know.

Above all respect for the customer, the desire to meet their needs, and the openness and integrity of our people. They earn the trust of the customer with their commitment and professional approach, without making lofty promises. Ours is a sober and rigorous manner that is increasingly appreciated even by veterans



**ARCA VITA**

Arca Vita Unit Linked Z5
Arca Vita Unit Linked Z5 WEB
Arca Vita Unit Linked GT5
Arca Vita Unit Linked GT1.2
Arca Vita Unit Linked JUNIOR
Arca Vita SOLOPIÙ 4+4
UNICA 100%
INDEX FUND
PROGRESSIVE PENSION PLAN
PER LORO

ARCA VITA
international

UNIT TEAM

The insurance sector continues to grow and, as far as life insurance is concerned, it diversifies as well, at times doubling the coverage. In fact, together with the effectiveness of the insurance component, the new index fund issues offer complete protection for the capital invested, with the chance to benefit from any positive performance on the part of the underlying securities. This is the spirit in which we placed Index Fund XI, Equity Linked Bond and Index Fund XXIV, all handled by Arca Vita SpA. The unit-linked "Solopiu" also has the same functions, this being a policy with multimanager financial management by leading international operators. Still in the field of unit linked policies, GT 5 has replaced

ARCA ASSICURAZIONI



A safe haven
from all
unexpected events

In FAMIGLIA

Gioia

At long last I have a friend
in the family
who looks
after me 24
hours a day.



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

In SALUTE

diaria ricovero



To protect
your most precious asset in
the best way possible

In CASA



In AUTO

The car insurance policy
that can be signed at your bank.

It's reliable, easy,
quick and cheap for
careful motorists.

GT 25 and XL 1000, while Z5 WEB is the first product reserved to users of SCRIGNObps, our virtual channel. The success of non-life insurance policies, which by now people are very used to signing at the bank, encouraged us to expand the range. Arca Assicurazioni SpA has launched two new versions of In FAMIGLIA: RC, the basic version with a third-party liability add-on and GIOIA, specially for women. This latter was inspired by the recent obligation for housewives to take out insurance cover for accidents during non-professional activities. Alongside In AUTO, In CASA and In SALUTE are growing too, much appreciated for their excellent quality/price ratio.

(Open-End Pension Fund)



The advertisement features a large, stylized graphic of the word "ARCA" in a bold, orange, blocky font, set against a background of a yellow grid with faint architectural lines. Below the "ARCA" graphic, three colored boxes are arranged in a row: a blue box on the left labeled "EMPLOYEE", a red box in the center labeled "SELF-EMPLOYED", and a teal box on the right labeled "DEPENDENT RELATION".

Arca Previdenza
FONDO PENSIONE APERTO

For the eagle-eyed.



Arca Previdenza
Fondo Pensione Aperto

"Arca Previdenza", an open-end supplementary pension fund which is now available also in the form of an individual pension plan, continues to be appreciated by the general public. Indeed, it is maintaining its position as the second ranking product in its field. The private pension sector, which is still largely undeveloped in Italy compared with other industrialised nations, awaits a strong boost from the oft-announced reform of the pension system.



PRIMO CONTO CONTO popso STUDENT web

A real aid to study,
research and amusement for youngsters
from the age of 14 to 24*

At the cost of only one euro, lots of on-line advantages

CARTASI
BANCAFAMIGLIA
BANCOMAT
SCRIGNO
In AUTO



FILO DIRETTO
VIAGGI
PIROVANO
GENTE SERENA
MAGISTER

(*) 1° CONTO POPSOWeb: 14-18 years – CONTO STUDENT POPSOWeb: 18-24 years

We think constantly of the young: the tools dedicated to them – 1° Conto POPSOWeb and Conto Student POPSOWeb – bring them closer to the bank.

We immediately signed up for the "PC per gli studenti" programme promoted by the President of the Council of Ministers to grant loans to students, on their honour, to encourage the purchase of personal computers. POPSOWeb, our interest-free loan, is much in demand as it is very much in the spirit of this initiative; indeed, it could be considered its forerunner.



of the New Economy. They have learned the hard way that frequently, unbelievable once-in-a-lifetime offers disguise the whiskers and tail of Pinocchio's thieving Cat and Wolf.

Let's look back on last year, glancing briefly at our catalogue of products and services, which can also be consulted by branch personnel via intranet. It provides a positive reflection of our business. The 190 different items are ways for us to encourage more customers to enter the bank, whether physically or virtually.

New items get launched with a certain frequency, either by the marketing department or by our subsidiaries, so if they are to move it is important that our sales representatives identify the best combination of products for each customer.

Giving assistance to our corporate customers with more complicated needs has been facilitated by the Electronic Commercial Customer Profile. The purpose of this is to enhance the fiduciary relationship established by providing entrepreneurs – as well as their family, employees, and associates – our entire product catalogue. It is an assortment of products, code names and furtive pleasures. A kaleidoscope of surprises, old and new.

Let's thumb through it quickly, stopping briefly to examine the key chapters.

Index Fund

The insurance division has continued its healthy growth cycle and, in terms of the life insurance area, has diversified, in some cases doubling the coverage. Indeed, the new index fund issues offer not only the efficiency of the insurance component, but also comprehensive protection of capital invested in one policy, with the possibility of benefiting from the positive performance of underlying securities. Considering the well-deserving purpose, I hope the reader will pardon the abundant use of foreign buzz words and code names.

Solopiu GT5 Z5 WEB

In this vein, we have placed Index Fund XI, Equity Linked Bond, and Index Fund XXIV, handled by Arca

Vita S.p.A. It fulfils the same purposes as Unit Linked Solopiu, a policy that features a «multimanager» approach, entrusted to major international operators. Again in the area of unit linked policies, GT5 has replaced GT25 and XL100, while Z5 WEB is the first product reserved for users of SCRIGNObps, the bank's virtual channel.

The success achieved by the policies in the non-life insurance division and the fact that customers have become accustomed to taking

*In FAMIGLIA
In AUTO
In CASA
In SALUTE*

out policies directly at the bank has encouraged us to beef up the range of products. Arca Assicurazioni S.p.A. has introduced two new types of coverage for In FAMIGLIA: a basic version of Family Third Party Liability cover and GIOIA-Infortuni «especially for women». This latter was created after the recent obligation to provide insurance in the context of non-professional activities and covers minor and major accidents. Alongside In AUTO, In CASA and In SALUTE have emerged, being very well received due to their excellent content/price ratio.

Companies can rely on expert insurance brokerage services, run by our subsidiary, B. & A. Broker S.p.A., which has acquired an encouraging amount of new business.

*Insurance
brokerage*

Progressive Pension Plan, an individual retirement programme offered by Arca Vita S.p.A., consolidates our offer of supplementary social security products that should benefit from implementation of the latest Budget Law. The Arca Previdenza Open-End Pension Fund, offered by Arca SGR S.p.A., has continued its business in the collective and individual subscription divisions with excellent results.

*Progressive
Pension Plan*

It is one way to prepare for a future without nasty surprises. Much has been said about the costs of health care and it is still a hot topic of debate. The population is ageing and people are

The collage features several prepaid cards from Banca Popolare di Sondrio, arranged on a background of large green leaves. The cards include:

- PREPAID RECHARGEABLE**: A card with a white background and a small image of a tree.
- PREPAID**: A card with a green background and a small image of a tree.
- CartaSi**: A card with a colorful autumn forest background, featuring Visa, MasterCard, and Eurocard logos.
- CartaSi**: A card with a waterfall background, featuring Visa, MasterCard, and Eurocard logos.
- CartaSi**: A card with a snowy landscape background, featuring Visa, MasterCard, and Eurocard logos.
- Lira PRONTOCONTANTE**: A card with a green background and a large 'Lira' logo, featuring a 500 Lira coin.

The distribution of debit and credit cards and of electronic products has benefited from the advent of the euro. Instalment repayment cards are being met with increasing interest, with our CartaSiBancaFamiglia acting as pathfinder. There has been a 30% increase in the number of POS devices installed through us; and there has also been a considerable increase in the use of corporate remote banking systems. Implementation of the agreements with all of the offices of the Territorial Agency of Lombardy's provincial capitals, as well as with certain municipalities, has given a huge boost to our Carta Lira, an electronic tool for paying special taxes, mortgage taxes and stamp duty. A prepaid version is also about to be launched.



worried that the government will not be able to guarantee adequate assistance for much longer. It is worthwhile to invest today to ensure your tomorrow.

ArcaMultiFondo In the financial sector, the bank has made a concerted effort to improve its commercial area with the launch of ArcaMultiFondo, the new multi-sector fund of funds offered by Arca SGR. Considering the difficult situation in which the asset management industry has had to operate, it is even more significant that Popso (Suisse) Investment Fund Sicav, the Group's Sicav, achieved a positive balance of net subscriptions.

Meanwhile, the activity – and therefore the production – of our network of financial advisors continues to grow. They are a flexible team whose expertise more than makes up for its limited size. Its focus lies in supporting the branches in the area of business development.

1° Conto POPSOWeb Conto Student POPSOWeb We always keep in mind the younger members of our community: products dedicated to this segment – the 1° Conto POPSOWeb and the Conto Student POPSOWeb – should bring them closer to the bank. Banca Popolare di Sondrio is ready to join the «PCs for students» programme, an special loan promoted by the Prime Minister to encourage youngsters to buy a personal computer. In the spirit and in support of this incentive, which we had already anticipated, our zero-interest rate POPSOWeb loan plan has met with great success.

Presto Our loan department has expanded to include the wide range of products offered by Banca Woolwich S.p.A., which was mentioned in the chapter dedicated to customer-loans. «Presto», the new personal loan offered by Linea S.p.A., whose name speaks volumes about the speed with which credit is granted to the applicant.

CartaSi Banca Famiglia Wrapping up the section dedicated to the product area, we would like to mention just one more word regarding credit and debit cards and electronic

products which, considering the volumes of business, is not small change. These tools have benefited from the advent of the euro. Instalment repayment debit cards – with our CartaSi BancaFamiglia paving the way – have been enjoying growing interest. Our predictions were spot-on. The number of POS equipment installed by us was 5,880 at the end of 2001, an increase of 1,660 units. The increase in the number of remote banking systems reserved for corporate users was also significant.

Implementation of special **Carta Lira** agreements with the tax offices in the provincial capitals of Lombardy, as well as with select municipalities, has given a boost to our Carta Lira, an electronic instrument for paying special taxes, mortgage payments and stamp duties. In the next version, this card will reappear under the guise of a prepaid rechargeable card.

The streamlined and **Corporate Loans** professional organisation set up at the central offices dedicated to corporate loans continues profitably and without a hitch. Its mission – often with the help of our subsidiaries – lies in adequately meeting the needs of corporate customers, especially medium sized enterprises, with regard to: alternative sources of financing, organising providers of risk capital, extraordinary or structured financing operations, and assisting in the processes of internationalisation. The results achieved to date have been encouraging.

In this way, I think it is fair to say that we have totally absorbed the concept of market orientation. We too are competitive, with offers that specifically focus on the needs of particular customer segments.

The Public Entities and **Public Entities and Treasuries** Treasuries department is the main point of contact for major institutional customers and a substantial number of local public and national authorities. Intensive use of electronic instruments, especially the Internet, is the only way to keep up with the growing volumes

of traditional management and mass payments, as well as preparing tailor-made services.

Among the new and prestigious contracts acquired, we would like to mention the University of Insubria, with the main campus in Varese and a satellite campus in Como, and the National Social Security Institute for Psychologists in Rome. Plus, the Provincial Consortium of Brianza Milanese for Waste Disposal and the Board of Surveyors of the Province of Lecco. The «Giovanni Amendola» National Social Security Institute for Italian Journalists, confirmed their interest in our treasury services after a formal selection process.

The following institutes have hired the Banca Popolare di Sondrio to manage their social security contributions and membership fees: Italian Social Security Fund for Consulting Surveyors; National Social Security Institute for Geologists; Italian Social Security Fund on behalf of Accountants and Business Consultants; National Social Security Institute for Doctors and Orthodontists; National Register of Biologists; National Syndicate of Engineers and Architects, all of which are headquartered in Rome.

At the end of 2001, the bank had 399 contracts for treasury and cashier services, which meant an increase of just two units during the year. However, the real numbers were better, due to the fact that a number of schools combined to form the so-called Comprehensive Institutes.

Nine new treasury branches were opened during the year in Cassago Brianza (LC); Fino Mornasco e Ossuccio (CO); Lonate Pozzolo (VA); Lonato, Pian Camuno and Ponte di Legno-Tonale (BS); Segrate-Milano Due (MI); Bianzone in the province of Sondrio. The entire network, after subtracting the five branch closures in markets where we have launched fully operational branches, now totals 73 units, up by four units from last year. As regards new openings in 2002, information is contained in the section on subsequent events.

The enormous quantity of work done by the Public Entities and Treasuries department – which continues to generate collateral benefits for the bank's other activities – achieves adequate economic returns. What's more, the prestige of the counterparties, which is the real value-added, and the desire to make a good showing at calls for tenders even at a European level, make for a strong incentive to remain abreast of professional and technological advancements in the sector. There is plenty for us to draw on to continue confidently on the path we've undertaken.

Central offices

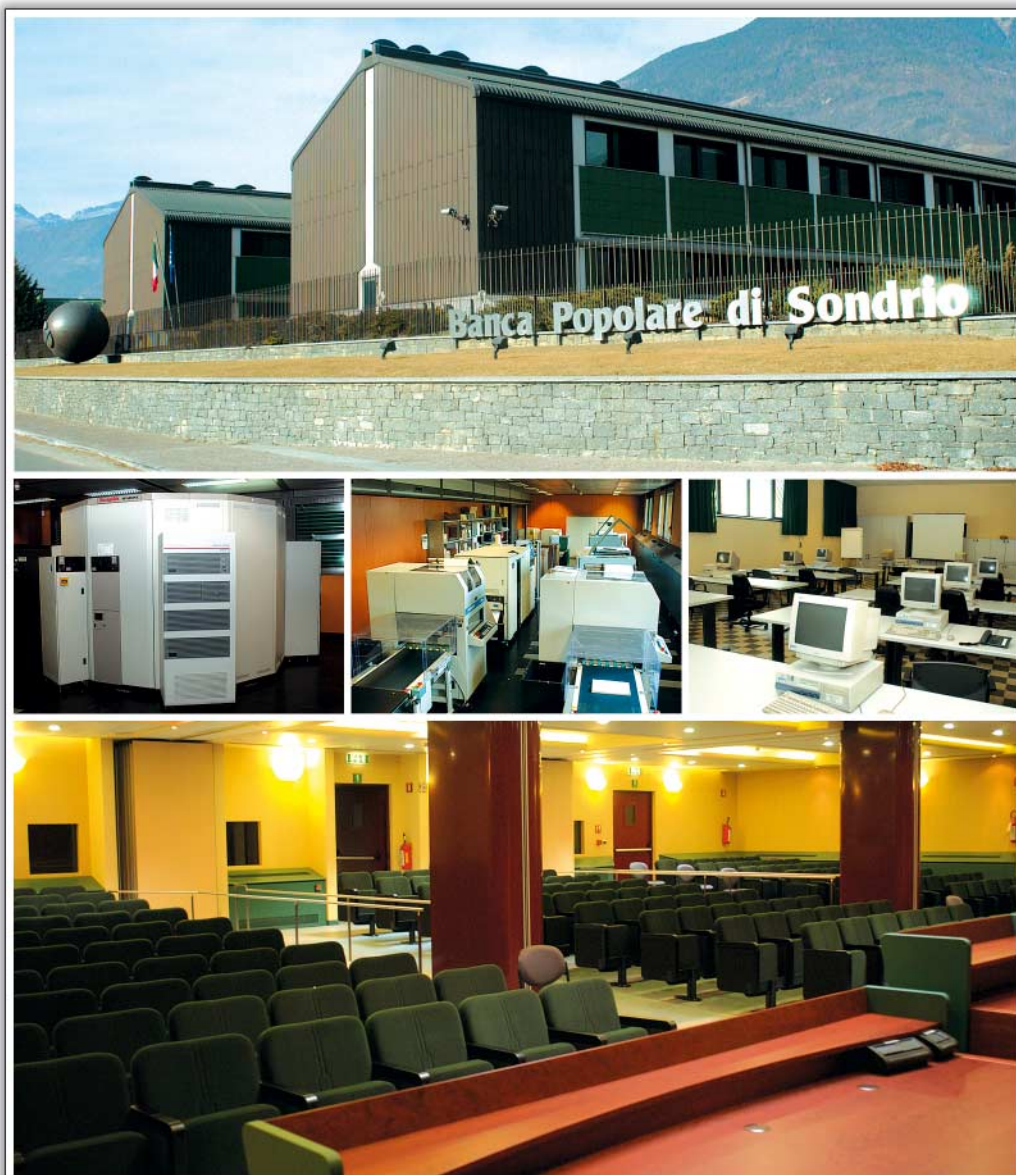
Like dancers linking hands in a circle, the commercial structure lends a hand to the distribution network, while the other receives help from the centralised services, SOSI above all.

The constant need for technology, which for us essentially means IT and electronic communications technology, leads directly to the organisation and information systems department, which has concentrated largely on ensuring correct and punctual introduction of the euro. As we had no choice in the matter, we decided to look at the burden as an opportunity to update our procedures and processes. Information technology is a cultural medium that offers new tools to grow and think.

The transition to the single currency, begun on 1 January 1999, culminated with the transformation *en masse* of the current accounts on 1 November 2001 and extension of the new currency to every operating level. These dates will remain impressed in our memories, especially because of the efficiency shown by the departments concerned in offering the best possible support to private and business customers.

The euro took up a lot of time, but that wasn't all. The virtual channel was enhanced with new features of SCRIGNObps, a package of invaluable applications.

F. Morani Service Centre



Technology, which for us means above all information technology and electronic telecommunications, leads directly to the Organisation and Information Systems Department, which has recently been concentrating its efforts on guaranteeing the correct and punctual introduction of the euro. This was an inevitable step, so we tried to change this burden into an opportunity to update procedures and processes. Information technology is a cultural medium that offers new instruments to grow and to think. The changeover to the single currency, which was begun on 1 January 1999, culminated with the mass "transformation" of all current accounts on 1 November 2001 and with the extension of the new currency to all operating levels. These are dates that will remain impressed in our memories, also because of the efficiency shown by the various structures that were directly involved in offering the best possible support to our private and corporate customers.

One that stands out is SCRIGNOfirma, a product offering a digital signature for the safe use of the Internet and on-line transactions. It was created in collaboration with Postecom S.p.A., a subsidiary of Poste Italiane S.p.A. and can claim to be the first in Italy to be certified AIPA – Authority for IT in the Public Administration. This tool opens up considerable operating possibilities.

The ability to obtain information and impart orders with simple and secure procedures, in four languages, was extended to foreign accounts and foreign currency deposits. A functional restructuring has also involved consultation of the securities portfolio. Our VISPOpay, the system for on-line payments, which functions like a virtual credit card, was implemented by leading national companies working in e-commerce. Thanks to SCRIGNOmultipanica, it is now possible to access CILME S.p.A.'s Internet banking system directly.

Among the most innovative services, «Inarcassa On-Line» deserves a few words. This service is reserved to members of the National Social Security Institute for Consulting Engineers and Architects. Among its many features, this application allows on-line transmission of the declaration for calculating social contributions.

With a view to finding synergies between the old and the new, SOSI has also looked after the traditional channel. Its interventions were as numerous as ever and involved highly strategic sectors for us, such as our international area, where a new procedure is in the definitive installation phase, as well as our financial and commercial areas. In the field of immediate electronic debit (Bancomat) payments, we would like to mention the launching of Telepass Family-Bancomat for easier payment of motorway tolls and the special agreements signed with Wind, Tiscali and Blu for recharging cellular telephones through an ATM.

The surge in operating volumes has compelled us not only to strengthen and refine

our procedures, but also to boost the capacity of our server.

Lastly, there is our new intranet, an extraordinary tool that all BPS members of staff have open access to. The ability to use this huge volume of data, information, instructions and forms easily accessible through countless web pages yields invaluable benefits in terms of efficiency and keeping down costs.

However, we are aware that not everything that is intranet and Internet glitters like gold. All too frequently these highfalutin words hide a poor project and lacklustre interest on the part of customers. *Est modus in rebus.*

It is up to the Planning and Control Department to make forecasts and monitor the fundamental variables in banking operations: profitability and risk. The delicate balance between these two factors is vital for harmonious growth over time. Knowing them is essential to ask the right amount and to remunerate work and capital fairly.

As regards profitability, we concentrate on analysing the economic contribution provided by each customer, product and branch. This information is of vital importance for making the right decisions. This department's activity has developed in various directions. Drawing up the budget has been strongly directed towards doing business and increasing our employees' sense of responsibility. Periodic measurement of results has been extended to asset management and administration and to debit and credit cards. The mosaic of total profitability is built up in this way, piece by piece, but the evolution of events requires new tiles to be added and others shifted elsewhere, a game that seems to have no end.

To our traditional methods of credit risk management, designed to spot early symptoms of any deterioration in individual loan positions, we have also added new techniques that can estimate the risk level of all or part of the loan book. The purpose is to make full use of the raw

Digital signature



SCRIGNOfirma is a digital signature product for the secure use of Internet and on-line transactions, which we developed together with Postecom SpA, a subsidiary of the Italian Post Office, and the first in Italy to be certified by AIPA, the Public Administration Information Technology Authority. This is a tool that opens up considerable operating opportunities. A special kit gives the user everything they need to sign documents using their own personal computer.

(The virtual bank)

Partnership

Home Banking

Trading On Line

E-commerce

Online payments

VispoPay

Document Management

GeTes

School

Digital signature

Events

Special Projects

Porthole

Bankruptcy

Sales

Database

SCRIGNO
bps

SCRIGNO Trading On Line
Presentazione (Aggiornamento: ottobre 2001)
Istruzioni preliminari
SCRIGNO Trading On Line è una delle componenti del "pacchetto" SCRIGNObps nel quale confluiscono tutte le applicazioni, opportunità e prodotti che caratterizzano la nostra offerta nel mondo del "virtual banking".
Si tratta di una applicazione, operante dal luglio 2000, che permette di acquistare e vendere in tempo reale - per il momento sulla Borsa Italiana - strumenti finanziari quotati quali azioni, titoli di Stato, obbligazioni convertibili, obbligazioni ordinarie e warrant.
Se già siete utenti di SCRIGNO Trading On Line, per accedere al vostro account SCRIGNO, nell'angolo in basso a sinistra della pagina, cliccate su "Accedi".
Se ancora non la siete, cliccate su "Registrati".

SCRIGNO Home Banking
Presentazione (Aggiornamento: ottobre 2001)
Istruzioni preliminari
SCRIGNO Home Banking è una delle componenti del "pacchetto" SCRIGNObps nel quale confluiscono tutte le applicazioni, opportunità e prodotti che caratterizzano la nostra offerta nel mondo del "virtual banking".
SCRIGNO Home Banking costituisce l'evoluzione del primo prodotto di internet-electronic banking realizzato dal nostro istituto nel 1997. Consente ai nostri Clienti di "chattare", mediante l'utilizzo di un computer connesso alla rete Internet, standosene tranquillamente a casa - tutti i giorni, 24 ore su 24, una valida gamma di operazioni con finalità informative e operative nelle aree "Costi correnti", "Costi titoli" e "Boutique".
SCRIGNO Home Banking è un prodotto offerto a titolo gratuito, semplice da utilizzare, gestito da un solido sistema di sicurezza.

Our virtual banking channel has been enriched by the new functions added to SCRIGNObps, a treasure trove of precious applications. Access to information and the ability to input orders using simple and secure procedures in four languages has also been extended to foreign and currency accounts. Consultation of securities portfolios has been restructured from a functional point of view. Our VispoPay, an on-line payment system that is comparable to a virtual credit card, has been adopted by leading national trading companies operating in the field of e-commerce. And thanks to SCRIGNOmultipanica it is now possible to have direct access to CILME SpA's internet banking facilities.



material, namely people's savings, well aware of the risk taken on and, therefore, to determine the «premium» needed to cover it. The objective requires clear ideas, professionalism and investment. Once the route has been mapped out, the ship rigged and the crew prepared, the anchor can be raised and the sails unfurled to set off for the desired port of call. For a more complete picture, please review the section of this report dedicated to risk.

Constant and continuous monitoring of business development, work that is always in progress, is an ongoing priority for the bank. BPS does not carry on a business that happens to have a few risks attached; banking is the quintessential risk activity, in the broadest sense of the word.

*Technical,
Prevention and
Safety Office*

Everything completed, initiated or planned by the Technical, Prevention and Safety Office gives us an idea of the long and meticulous phase of development that the bank is involved in. The figures are impressive: 29 brand new units – branches or treasury desks, either newly set up or transferred to more suitable premises; 14 sites on the go; 11 projects prepared, with administrative processes already commenced; and 18 projects in the pipeline. These numbers speak plainly about our commitment and our hard work. The quality of this effort is the traditional BPS quality, expressed by our manner, distinguished by sobriety and decorum, with an eye to keeping costs under tight control.

Among the numerous works done this year, we are pleased to mention maintenance work on the bank's headquarters. The façades have been spruced up and repainted, returning this majestic building – built in 1882 on a design by Francesco Polatti – to its original colour and splendour.

The bank's properties together cover a surface area of 111,179 m² and a volume of 331,317 m³. Land owned by the bank extends for 83,385 m². The net book value shown in the balance sheet, after depreciation, stands at Euro

56.88 million. Movements during the year included additions of Euro 0.37 million less depreciation of Euro 2.98 million. The market value of the real estate far exceeds the figures shown in the financial statements, which are strictly at book value. BPS owns 40 entire buildings, while another 31 units are located in condominium buildings. The bank's activities are carried on in 49 buildings that we own and 191 rented properties, of which 14 are being leased.

Law 448 of 28 December 2001, the «The 2001 Budget Law», reiterating the contents of the previous legislation, Law 342 of 21 November 2000, confirmed companies' ability to revalue tangible and intangible assets as well as equity investments in subsidiaries and associated companies. As on the previous occasion, we again decided not to revalue our assets. The tax benefits of revaluation derive mainly from selling the properties and investments, which the bank has not done nor has it any intention to do.

The sub-item «furniture and fittings», included in tangible fixed assets, amounts to Euro 11.13 million. Additions in the form of new investments came to Euro 6.81 million, offset by Euro 6.95 million in charges almost exclusively for depreciation.

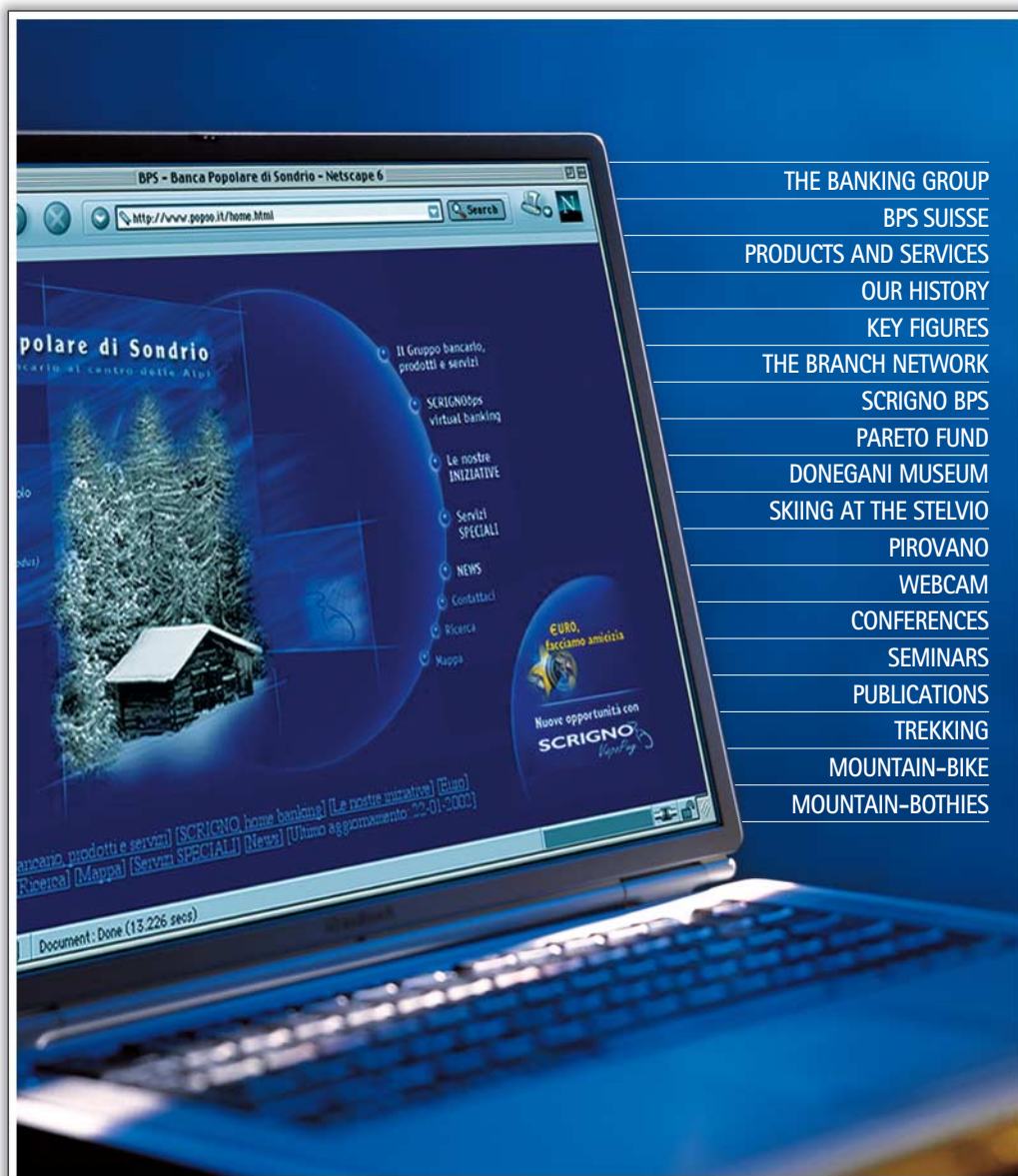
The Security Department has operated gainfully, organizing targeted measures and protecting the diverse and delicate processes that guarantee proper functioning of the banking activity and the underlying assets. The improvements made to security have specifically regarded logistics, technology, and organization. The primary objective is prevention of harmful or deleterious events. Positive feedback has persuaded us to continue our efforts in this direction.

Here we are at the Supply Office, once known as Purchasing. Today its responsibilities have been expanded, but its core competency has not changed: keeping a tight hold on the purse strings.

Security

*Supply
Office*

Our Website



THE BANKING GROUP
BPS SUISSE
PRODUCTS AND SERVICES
OUR HISTORY
KEY FIGURES
THE BRANCH NETWORK
SCRIGNO BPS
PARETO FUND
DONEGANI MUSEUM
SKIING AT THE STELVIO
PIROVANO
WEBCAM
CONFERENCES
SEMINARS
PUBLICATIONS
TREKKING
MOUNTAIN-BIKE
MOUNTAIN-BOTHIES

Our website amplifies the effects of our initiatives with up-to-date and interesting articles which, together with our much appreciated webcams, encourage large numbers of surfers to set sail towards our valleys.



If on the one hand, procuring assets and services and the resulting handling continue to be paramount – the office processed more than 23,000 invoices during the year, on the other hand, the function requires ever wider and up-to-date knowledge of the legislation in order to handle an array of regulatory and contractual issues correctly.

The figures in this department are impressive. The increase in cost is directly proportional to corporate development, especially the BPS branch network. The department's skill lies in taking full advantage of any economies of scale resulting from the greater dimensions, purposes that it also pursues when updating contracts with suppliers. An essential activity, an expression of attention and efficiency.

The supply office cooperated during the year with our euro task force in the preparatory phases for introduction of the single currency.

*Central
Treasury*

Vis-à-vis the euro, we shouldn't neglect to mention the central treasury, the office which has felt the burden of the changeover more than any other. Personnel in this department were heavily involved in the preparatory phases and especially in the operating phase for the transition to the new currency.

*Legal
Department*

Alas, it is our duty now to talk about the Legal Department. It's not that we don't appreciate the hard work done by our dedicated personnel, it's just that we would prefer if they had nothing to do. That would mean having loans without any sort of anomalies. This is not the case, however, and the work of our legal staff aims to return the good health and shine – in a manner of speaking, if only it were that easy – to our non-performing loans, even if they are relatively few in proportion. A fast and efficient activity, to be sure, but frequently plagued by sluggish court procedures. Let's face it, time is money. The more time passes, the more our expenses mount and the more the value of the debt owed deteriorates.

This leads us to seek and accept out-of-court settlements as well. Once the case is removed from the courts, our Legal Department can better express its negotiating skills. Falling under this category is the so-called private administration of corporate crises. The deficiencies inherent in court proceedings have encouraged us to seek more and more out-of-court settlements, along with restructuring and consolidation of financial liabilities.

Kudos to our legal staff, then, who have always given BPS invaluable advice. The vital support that they provide the central offices and the branches, always broad-based and of high quality, does honour to their professionalism.

The delicate activity correlated with inspections by the public administration continues to take up a large part of their time, but they are diligent about doing their part.

Complaints arrive at BPS in the minimum quantities that any bank would call inevitable, and the Legal Department deals with them promptly and thoroughly.

The Internal Audit Department closes our discussion of the bank's administration. We have left it until the end because this is the unit that oversees all the others. Its supervisory role has taken on an increasingly important function due to the bank's constant development.

*Internal
Audit
Department*

The number and complexity of products and services, especially financial, imposes the need for careful prevention, which is provided assiduously, as well as with a spirit of co-operation so that everyone can always feel secure that they are working «by the books».

The department made 442 direct audit inspections to administrative offices and branches during the year. These were backed by remote monitoring, in real time, by using IT instruments that are in constant evolution. The department has made a concerted effort especially in analysing operating processes, identifying the critical points

and corrective measures, with a view to monitoring and tracking so-called operating risks.

The correct application of the rules in working with the public – especially with reference to investment services, open and honest relations, and the handling of personal information – is subject to constant verification.

All of the Internal Audit Department's findings are duly reported to top management, which periodically reports to the Board of Directors. The Internal Audit Department co-operates to the utmost with the Board of Statutory Auditors, in return receiving suggestions for reflection and in-depth analysis.

In the section on planning and control, we touched on the fact that without the variety of risks that it involves, banking would not have a *raison d'être*. The chief role of the Internal Audit Department is prevention, a sort of preventative laboratory of the state of health of the bank. We happily acknowledge the commitment and the professionalism of our «guardians».

THE EURO

Several countries, one currency. Not just a motto, but the summation of an event that has, finally, made the use of the adjective «historic» appropriate. As of 1 January 2002, twelve European countries have agreed to relinquish their currencies forever in exchange for a common symbol.

A prodigy, the result of the forward thinking intuition of illuminated theorists guiding populations that – while proud of their individual cultures and protective of their own traditions, separated by centuries-old boundaries and accustomed to speaking different languages – decided to forego minting their own money, thereby surrendering a substantial portion of their sovereignty.

It is stirring to think that over 300 million people, from the glaciers of Lapland to the sultry beaches of Crete, from fog enshrouded Dublin to sunny Palermo, will use the same bills and the same coins.

As someone once said, the euro is a naked currency, as it bears no state emblem. And this is precisely why it is destined to a Titanic undertaking: gelling the desire and the trust necessary for the integration process which will hopefully lead to a common consciousness of European identity.

Assertively expressed, unified aspirations and intentions, together with enthusiasm. On 2 January this year, despite the repeated recommendations, bank tellers and post offices throughout «Euroland» were inundated with requests for the new currency, by those who wanted to finally pocket a dream, or at least, we would like to think it so. This is what appeared before the eyes of the founding fathers of the common currency. And speaking of dreams, one is most definitely ended in Euroland. The dream that said with paradoxical, cynical and sentimental humour of Campanile: «Country you go to, currency you find. Which you find in a figurative sense because as we all know, one of the most difficult things to find are the coins».

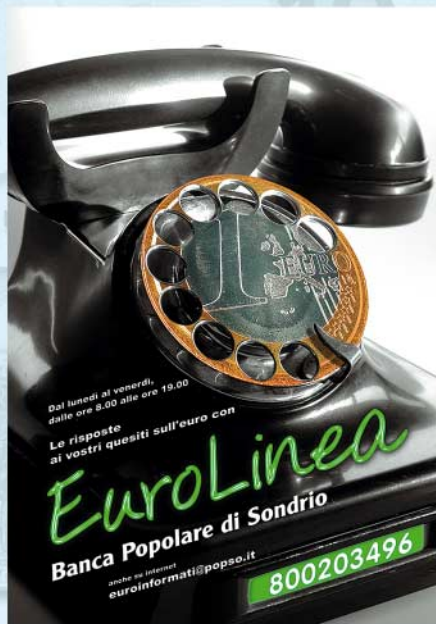
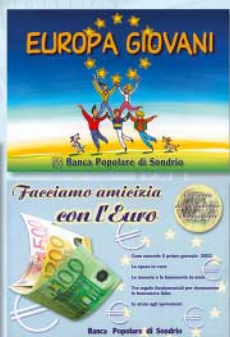
Bank branches, including our own, saw an exceptional flow of customers, greatly surpassing our expectations, which severely overloaded personnel and systems.

At BPS, everything went fairly well at the end of the day, thanks chiefly to painstaking preparation prior to the big day and the concerted effort on the part of all our personnel, who, with a civic spirit and sense of responsibility, successfully limited the inevitable problems of the first few days. We feel justified and pleased to report what happened, even now that the transitional phase is coming to a close, if for no other reason than to give credit to those who have worked so hard to send to posterity an

(Let's make friends with the euro)



Many countries, one currency. Not a motto but the synthesis of an event that, for once, deserves the use of the adjective "historical". From 1 January 2002, twelve European states accepted to separate themselves definitively from their respective currencies in favour of a common one. It is moving to think that more than 300 million people, from the icepacks of Lapland to the beaches of Crete, from fog-bound Dublin to sunny Palermo, are using the same banknotes and the same coins. Under the slogan "Let's make friends with the euro", we have been carrying on a fruitful dialogue on this topic with our customers and the public in general ever since the spring of last year. We organised more than 200 training and information meetings which were attended by more than 12,000 people who



were able to familiarise themselves with the new currency. Crowds that give an idea of our popularity and of the efforts we make to stay close to our community, both in words and in deeds. In addition to verbal presentations, we also communicated with them through a series of publications that took a different form according to who they were meant for. They were also kept constantly up to date. We were possibly the only bank in Italy, perhaps even in Europe, to have prepared two vehicles that from 15 December 2001 to 1 January 2002 visited the numerous marketplaces and schools in the province of Sondrio to distribute the new currency, collect donations on behalf of the "Last good deed of the lira" campaign and to reply to their many doubts and questions.



historic experience that is in and of itself, singular, like the euro.

Espousing the motto, «Euro, let's be friends», BPS opened a rewarding line of communication with our customers and with the general public as early as last spring. We organised more than 200 preparatory and informative meetings where some 12,000 people took part to become familiar with the new currency. A level of mass participation that perhaps conveys our popularity and an expression of our commitment to being truly close, in words and actions, to the community in which we belong. Families, young people, senior citizens, public institutions, the police force, schools, commercial and manufacturing companies, and professionals have all expressed their appreciation especially for the practical aspects of the displays and they became the protagonists in a debate which has benefited both professor and pupil.

Banca Popolare di Sondrio went beyond mere words to communicate its mission through a series of publications, differentiated according to the recipient and updated regularly. A relentless activity aimed at recommending conduct, promoting initiatives, and informing on the evolution of the regulatory framework.

The euro section of our website has been a secure and welcome stop for web surfers looking for answers to their queries, as well as the latest news. Equally, the weekly news features, managed for several months by two Lombard newspapers, have earned themselves loyal and attentive readership.

We were the only bank nationally, and perhaps the only one in Europe, to have fitted out two vehicles specifically to spread the euro ethos. Between 15 December 2001 and 1 January 2002, our vans hit a number of the major squares and schools around the province of Sondrio to distribute the new currency, collect donations to the «Last Good Deed of the Lira» campaign for cancer research, and provide answers to a plethora of doubts and queries.

The communication initiatives that BPS launched helped make the bank stand out for its clear proposals and capacity for action. The community-wide appreciation of our Euromobile in its mobile campaign confirms the important social role that we play in the area.

The national press remembered that Sondrio is not only the most liveable city in Italy, but also that it is the city where the local cooperative bank did the most to inform the population about the new currency.

In parallel with this commitment to the community, BPS has also worked exhaustively on internal issues in order to guarantee a euro transition in complete security and with functionality as the key word.

Training of personnel was done through specific meetings, some organised by the Bank of Italy, as well as through an innovative form of education with remote training courses using a special technology platform. The experiment, if that's the right word, was a great success, and our members of staff were able to improve their knowledge without having to leave their place of work, easily, flexibly, and compatible with the needs of their daily work routine.

BPS customers also benefited from the expertise acquired in terms of advice, assistance and streamlined operations.

Based on the expected work loads, personnel at the branches were reinforced by hiring more staff who were thoroughly trained and informed even before coming into contact with customers. The bank also arranged for all the necessary equipment, above all to limit the manual counting of coins. This might seem a small detail, but if you consider that of the 47,000 tons of coins in circulation, only a tiny percentage came to our bank, but which still represented 200 tons of metal, giving you a better idea of what this changeover really entailed.

The corporate IT system was appropriately updated, with modifications made to the

procedures not involved in the euro transition on 1 January 1999 and insertion of new applications to account for the withdrawal of the lire and distribution of the euro, including pre-distribution of «Eurokits».

In order to defend the notes and coins and, above all, the people handling them, all necessary measures were taken to prepare effective methods of protection and dissuasion. All this led to substantial costs of some Euro 2.685 million in 2001, while for 2002, BPS estimates its costs to be in the order of Euro 2.500 million, especially going toward higher personnel costs during the period of the double circulation.

In short, a test of our efficiency and commitment that has been substantiated by the final users of our efforts. Citizens and businesses alike quickly became accustomed to the mechanisms of the change, overcoming the minor practical difficulties of the first few days.

The euro was a successful event to which we made our contribution. Team members in contact with the public, we take our bows along with our able-bodied coaches: the European Central Bank, the Economic and Finance Minister, the Bank of Italy, the Euro Board, the Italian Banking Association. Each, in their respective role of creation, promotion, co-ordination, and control has done its bit extremely well. The relationship of mutual trust with the national community and, naturally, the European community, is now stronger than ever.

We hope that the fact that the euro is being used by 300 million Europeans coincides not only with its rise as an international currency, but most of all with the affirmation of the often difficult path of integration.

It is now up to all of us to circulate the new money and with it, ideas and hopes on which to build more solid and effective supranational institutions. It will be a Europe of many peoples, where the values contributed by each of them will form the heritage of them all.

If this comes to pass, then, it may not be so Utopian to foresee a more just monetary system, able to break through the previously impassable political boundaries, clearing away the obstacles to a common homeland.

RISK MANAGEMENT

Before talking about risk management, it should be said that business generally has become more and more complex in the recent years – heightened competition and complicated financial instruments, to name just two of the causes –increasing the degree of risk that banks must face. This has led to the need to develop appropriate defences.

We therefore give risk management our utmost attention, in the awareness that this, as someone once said, in a certain sense forms «the day-to-day management of any bank».

Financial activities are now subject to new regulations, which foresee a series of operating limits in line with the inclination to risk established by the Board of Directors, and calculated by individual financial risk category using VAR, the well-known system for measure Value at Risk.

VAR is the lynchpin of the system of limits and provides an easily understandable measurement of the risk taken on, determined by means of a complicated statistical model. For the year 2001, risk exposure is shown by the figures in the following table.

RISK FACTORS

(in thousands of euro)	At 31/12/01	Average	Minimum	Maximum
Interest rate	915	805	519	1,369
Equities	1,952	1,715	972	3,709
Total	1,856	1,751	996	3,592

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The average value of total VAR, Euro 1.75 million, has increased with respect to the previous year, being equal to Euro 1.26 million.

In this regard, we should also mention that the surging volatility of the markets following the dramatic events in September has caused the VAR for equities to touch the maximum point of Euro 3.71 million, subsequently falling back at the end of December to Euro 1.95 million and coming in recently at Euro 1.427 million, practically in line with the figure of twelve months ago.

The growth of the average VAR on interest rates was slower, growing from Euro 0.67 million to Euro 0.80 million.

New regulations were implemented on credit risk towards issuers of equities subscribed by the bank (issuer risk) and by the counterparties in financial contracts (counterparty risk).

The lending process, now better structured than in the past, imposes classification of each borrower into one of three set merit classes. To this end, ratings assigned by specialist rating agencies will be used wherever possible. For banking counterparties that do not have a rating, BPS will use a model that will use point scores to draw up a classification, based on indicators of assets, profitability and financial position, supplemented by the loan officer's personal judgement.

Total drawdowns, Grouped by merit class and weighted using coefficients that reflect the degree of risk, represent the total amount of risk and therefore determines the quantity of capital needed to cover it. This amount must respect the limit set by the Board of Directors.

After examining the risks of its financial activities, BPS turns its attention to the risk involved in the bank's overall operations; in other words, financial and credit risk in the broadest sense. The former are monitored using the ALM (Asset & Liability Management) procedure, while for the latter, BPS has developed its own internal rating system.

ALM gives proof of the bank's reduced exposure to interest rate risks: at the end of 2001, a potential loss of Euro 3.973 million (representing 0.5% of the assets) was found in terms of a decrease in the net value of assets and liabilities in the event of a 1% increase in interest rates.

On the internal rating project, *Internal rating* the bank has set up a special task force whose objective includes classifying customers on a particular scale, assigning each one a point score.

For smaller loans, mostly granted to private customers, the bank has fine tuned its automatic evaluation systems which, among other things, has the advantage of being immediate.

For larger counterparties, it was deemed preferable to resort to the judgement of expert analysts or, if there are official ratings, to make use of the level of appreciation already expressed by the market.

Our great competitive advantage still lies in Banca Popolare di Sondrio's ability to evaluate accurately the creditworthiness of the small and medium sized enterprises that are our main borrowers. We felt it was appropriate to set up an in-house evaluation model, the so-called «credit scoring» to increase our specific knowledge, frequently informal and undocumented, held in the memory of the account managers. Their subjective judgement should correct the objective opinion given by processing the most significant financial, qualitative and performance data available.

For a comprehensive evaluation, we introduced the concept of «insolvency probability», meaning the probability that a debtor could become insolvent within a year, estimated through a statistical analysis of historical data. This enables BPS to rate each counterparty in a specific category.

Once the verification stage has been overcome successfully, the system will have to be implemented at an IT level. At the same time,

these new methodologies will be gradually introduced in granting and managing credit, encouraging the spread of a specific philosophy and honing the calibration of the models.

As we said, the rating that reflects the probability that a subject may become insolvent within the next year, will form the underlying assumption for further development of credit risk management. Adding an estimate of the probable loss in percentage terms in the event of insolvency – which depends on the associated ability to repay, for example, if there is collateral – and the measure of the exposure in absolute terms at the time of default, at that stage all the elements needed to calculate the expected loss will be available. The possibility of the effective loss being greater – or of an unexpected loss arising – constitutes the VAR on the credit risk, which needs to be matched by appropriate capital coverage.

This will result in a model that will make it possible to do the following: comprehensively measure the risk, evaluate the adequacy of the income received and therefore the conditions to apply, quantify more accurately the loan loss provisions that have to be made, allocate capital in a more efficient way and manage loans from an overall perspective. This will also favour use of active management instruments, such as securitization, credit insurance and credit derivatives.

As regards the operating risks, let's make the distinction between the quantitative problems and the qualitative ones.

For the former, which entails measuring risk in order to determine the amount of capital to set aside for coverage, we have been following developments in this area with attention, bearing in mind academic research, better operating practices and, above all, the views of the supervisory authorities.

From a qualitative point of view, control over risk has always been carried out as part of the inspectorate function, where traditional

regulatory controls are supplemented by growing intervention on the part of the internal auditors. This department has in fact been extended to include supervision from an organizational perspective, carrying out specific checks on processes and internal applications, with the goal of heightened security. The commitment made toward enabling the individual units to get information about the risks involved in specific activities has also been very useful, as it has encouraged adoption of specific corrective measures and monitoring. In the vein of greater control over operating risks, we would highlight the attention that has been paid to the development of a remote control system. This in order to reach an information flow management that would optimise on-site controls and alert promptly of any anomalies.

HUMAN RESOURCES

Each and every resource has a value, also as a source of revenue. For instance, natural resources and the raw materials generated by them. Human resources are a factor of production in any company, but they take on particular importance in a bank. There is little point in differentiating between traditional and virtual: providing innovative services is closely related to the interpersonal exchange of information and ideas, even when this takes place electronically.

The crisis in the New Economy substantiates the strength of the new with the old, increasing our determination to seize each and every opportunity offered by information technologies to insert them as complements into our structure. In other words, a new economy implanted into the old, if you will. Meanwhile, our geographical expansion is proceeding well, justified by the real and constant growth in the aggregates shown in our balance sheet and income statement. To



achieve this it has been essential to hire new members of staff over time to meet the growing operational needs both at the branches and at head office.

In this way, the process of expansion has proceeded in step with the increase in staff. Both of these imply the intention – which for us is *de rigueur* – to proceed with our own resources, without pinching anyone else's by opening the purse-strings. Development through internal growth, which broadly fits this line of action, imposes strict compliance with the principles that have always guided us. Banca Popolare di Sondrio has always paid the utmost attention to recruitment and selection of its personnel, ideally newcomers embarking on their first employment experience. Our point of reference is the school, as most of our new hires are school-leavers. We look for enthusiastic dedication and proven resolution in our candidates, according to the outcome of their school career. We also look closely at the moral quality and motivations of our candidates. Our complex, yet not impossible objective lies in correctly caring for and nourishing the staff, thereby achieving sustained growth without diluting our corporate values.

The needs related to this sustained growth and replacement of the employees who leave us – defections, while rising, are still fairly low by any standard – require not only good recruitment and selection, but also an effective and precise training programme right from the start, when people first join the company, thanks to the outstanding efforts of our personnel office. Training, perceived as an educational process, is not limited to the transfer and growth of knowledge, but extends to the facilitation of individual learning processes.

A major effort on everyone's part, because it is, not surprisingly, an uphill battle. Young people are called upon to get involved in on-the-job training which, combined with the theory they are taught in the classroom, allows them to take an active role in the operating area assigned

to them. The possibilities for professional growth are many and imply rising levels of responsibility. The best way to grow is through commitment, the incentive lies in correct recognition of merits and the real opportunities for new assignments and duties.

BPS continued to hire people in 2001, adding 143 new staff (+8.48%), to reach a total of 1,830. Allocation of the resources needed by the new branches, in other words as part of the commercial sector, has improved the ratio of branch employees to the total work force, rising from 70% to 72%. This figure is undoubtedly positive, though it would have been higher if we had not deliberately chosen to centralize in-house all of the functions relating to company operations, limiting outsourcing to just a few activities with low value-added.

The average age of our personnel was slightly lower than at the end of 2000, at 33 years and 6 months and the average period of service was also lower by four months, down to 9 years and 6 months.

Our organization also includes 70 temporary staff, hired to meet extraordinary, temporary needs, especially in those units that had to cope with the extra workload caused by the introduction of the euro.

We would like to emphasize the contribution that BPS makes to youth employment, above all in the province of Sondrio. Our staff has increased by 1,006 people compared with 1991, and 558 compared with 1996, and this is without counting temporary employment contracts. Our staff is growing at an unprecedented rate. The veritable explosion of personnel corresponds to the upsurge in our figures, as reflected in the number of zeroes, an expression of the remarkable progress our bank has made.

We devote special attention to staff training, whose objective is to support the management activities in providing new hires as well as more expert personnel appropriate tools to enhance



the skills that they gain over time in the field. It becomes an essential premise for implementing career paths that, based on predefined profiles, result in the company's needs being matched perfectly with each member of staff's ability, aptitude and motivation.

Therefore, training – directed towards medium term objectives – melds in an integrated system that aims for consistent high-quality results through the precise definition of rules and mechanisms. The final goal is to increase the value of one of the company's major assets, namely its human resources, an item not listed in the balance sheet, but absolutely essential and vital for the success of any enterprise.

Alongside the traditional classroom sessions reserved exclusively for new hires – five weeks,

dedicated to individual macro-areas, with good levels of knowledge – and the refresher courses on sales aspects, designed for officers and branch employees, the past year saw the experimental use of innovative technologies to allow employees to access training modules directly from their workstations. A remote multimedia course on the euro was developed using a specially designed platform. The tool was well received, as it allowed pupils to interact with the professors, albeit electronically. It was judged flexible, easy to modify and update according to need. Furthermore, it offered the ability to achieve the training objectives with a large Group of users – 1,400 in the case in point – in a short period of time and at relatively low cost.

Based on this positive experience, a new multimedia training programme was launched for newly hired personnel who would be working as tellers. The objective is for them to acquire the basic technical knowledge and procedures so that they can operate directly with customers.

In addition to the remote training programme, some 7,308 man-days of training were held in 2001, a number that speaks for itself in terms of the particular attention paid to the professional growth of our personnel. 170 work study programmes were also completed in 2001 in conjunction with the major technical institutes and schools in the province of Sondrio and other provinces where BPS operates. This major commitment involves a substantial measure of our efforts today, and has repercussions in the future. The enhancement of our human capital is a component, or better, the main component to be taken into consideration when assessing the value of the company.

In a climate of respect for our reciprocal functions, Banca Popolare di Sondrio has been meeting with trade union representatives to renew the company's supplementary labour contract. Discussion of the various themes resulted in establishing common points of convergence, for



which BPS is confident that an agreement will be sealed shortly.

The matters laid down in the national collective labour contract on 11 July 1999 have all been implemented. During the year in question, the banking industry was not involved in any particular regulatory changes.

We would like to return a moment to talk about the outstanding work of our colleagues, who even throughout the euro transition phases demonstrated the exceptional cloth from which they are cut. And not only in the home stretch but during the entire preparatory phase, BPS employees displayed their exceptional civic and social principles.

The history of the company is written by what we produce day after day, over the course of months and years. It is the result of many decisions and just as many actions taken by the people who work on them. A divine service, as Luther would have said, performed between the wrinkles of history.

PROMOTIONAL AND CULTURAL ACTIVITIES

Our recipe for promotional activities has become a classic: targeted advertising on a local level and a more broad-reaching cultural effort. Within the framework of enjoyable and appetising events and initiatives, we have put the finishing touches on what our employees have cooked up; chefs that take care of the presentation as well as the substance.

The menu of promotional and cultural offerings has hit the target, being well received by the general public. Perhaps also because of the genuine gusto with which we add value to our history and our actions.

The *pièce de résistance* was that memorable day on 14 July 2001, when we had the great

honour of playing host in the Besta room in Sondrio to the Governor of the Bank of Italy, Antonio Fazio. An event that made history and which was covered by the national and international press. We are most grateful to the Governor for the privilege he paid to us and to his extremely efficient colleagues for their invaluable support.

The audience listening to the speech given by Mr. Fazio also proved to be an illustrious gathering. Our Chairman, Maurizio Sella, Chairman of the Italian Banking Association and Elio Faralli, Chairman of the National Association of Cooperative Banks introduced the keynote speaker. The highest representatives of the civil, military and religious associations were all present, as well numerous chairmen and general managers of banks, especially the cooperative banks. Since we cannot list them all, suffice to mention Monsignor Maggiolini, Bishop of the Diocese of Como and the Hon. Giulio Tremonti, Minister of the Economy, a native of Sondrio. There were also various high-level representatives from the Bank of Italy, including the central manager, Vincenzo Pontolillo, the manager of the Milan office, Giulio Lanciotti, the then-manager of the Sondrio branch, Luigi Gimma, as well as Mr Fazio's closest colleagues.

In his speech, deliberately left untitled, the Governor commented lucidly and knowledgeably on a wide range of topics. Mention was made of the *Summa Theologiae* of St. Thomas Aquinas with his quote, «society is based on truth», giving the Governor a starting point for affirming how «society, social relationships, and the normal functioning of daily life and the economy would be impossible if people didn't tell each other the truth.» Mention was then made of the contribution of Fabio Besta, father of accounting, and in deference to the truth in numbers, he issued an invitation to reform the state accounting system.

He then talked about Italy's economic and monetary policy in a national and international



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He then talked about Italy's economic and monetary policy in a national and international

context, allowing him to express his opinion on the size of the real economy and his conviction that it may well be possible to «make a special effort to recreate some of the basic conditions that helped foster growth in the 1950s and 60s, even if in a completely different environment.».

Turning his attention to the cooperative banks, Mr. Fazio reminded the audience of the progress made by cooperative credit, underlining how these institutions have the capacity to stimulate nation-wide economic development, implicitly bearing out the validity of the cooperative model. He was also very clear in his invitation to adopt methods of aggregation that, while preserving the independence of the individual banks, allow for economies of scale that are indispensable if banks are to remain competitive.

The visit paid by Governor Fazio and his entourage continued the next day. The guests were treated to a tour of the Stelvio Pass and Bormio, a pleasant opportunity to enjoy the human and cultural qualities of our distinguished guest.

Other authoritative figures have given lustre to our thirty-year conference season: Monsignor Professor Angelo Scola, then magnificent rector of the Pontificia Università Lateranense and now Patriarch of Venice, tackled the issue «Jesus, Man's Destiny»; «The plurality of languages in the history of man and today in the community and our schools» was the subject proposed by the linguist and scholar Tullio De Mauro, then Education Minister; the scientist and member of the Academy of the Lincei, Professor Umberto Colombo gave the public his thoughts on «Energy: problems and prospects for the 21st century.» Finally, Monsignor Professor Gianfranco Ravasi, joining us for the third time, reflected on the theme, «Prayer» the eponymous title of his widely acclaimed publication.

Our publishing department released two new works that once again confirm our position as publishers interested in our home territory.

First, in chronological order, the book by writer, journalist and art critic, Giorgio Soavi, entitled «*Guardo Sondrio e le sue Valli*,» distributed to shareholders attending the last AGM. The book opens a series called *Sensazioni*, featuring the author's recollections as an assiduous frequenter of our valleys in his youth, with splendid photographic images of Valtellina's alpine setting. Another work was released in the same series, called «*I Monti di Dio*» by Monsignor Professor Gianfranco Ravasi. The book debuted at the International Book Fair in Frankfurt on 10-15 October 2001, where our logo was proudly displayed alongside the publisher, Edizioni San Paolo. The volume will be distributed to shareholders at this year's AGM and was written to celebrate the «International Year of the Mountains», providing a moment of reflection that comes naturally after climbing a mountain peak.

The month of June heralded presentation of the new «Tour Guide for the Province of Sondrio», a reprint of the popular book by Mario Gianasso, published more than twenty years ago and now practically impossible to find. With this agile and comprehensive work, an excellent guide for the native as well as the visitor, the bank has contributed towards the spread of knowledge on the natural, cultural, artistic, and yes, even culinary riches of the Adda and Mera Valleys. The «Guide» remains the only tool of its kind for this region.

Wrapping up our review of the publishing side of our business, our magazine *Notiziario* enjoys a growing readership that appreciates both the text and the splendid photographs. Thanks to its prestigious contributors and wide-ranging articles, the *Notiziario* has become one of the best cultural publications in its field. We proudly remember how «*L'Osservatore Romano*» reproduced in its 14 June 2001 issue an article that first appeared in the April issue of the magazine, entitled «*Il Volto della Salvezza*» by the

Antonio Fazio in Valtellina



14 July 2001 was indeed a memorable day, as we had the extreme honour of playing host here in Sondrio, in our Besta Room, to Antonio Fazio, Governor of the Bank of Italy. An event that made history and which was covered by the national and international press. We are most grateful to the Governor for the privilege he paid to us and to his extremely efficient colleagues for their invaluable support. The audience listening to the speech given by Mr. Fazio also proved to be an illustrious gathering. Our Chairman, Maurizio Sella, Chairman of the Italian Banking Association and Elio Faralli, Chairman of the National Association of Cooperative Banks introduced the keynote speaker. The highest



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MONS. ANGELO SCOLA
19 January 2001



TULLIO DE MAURO
6 March 2001



UMBERTO
COLOMBO
9 April 2001



MONS. GIANFRANCO
RAVASI
4 May 2001

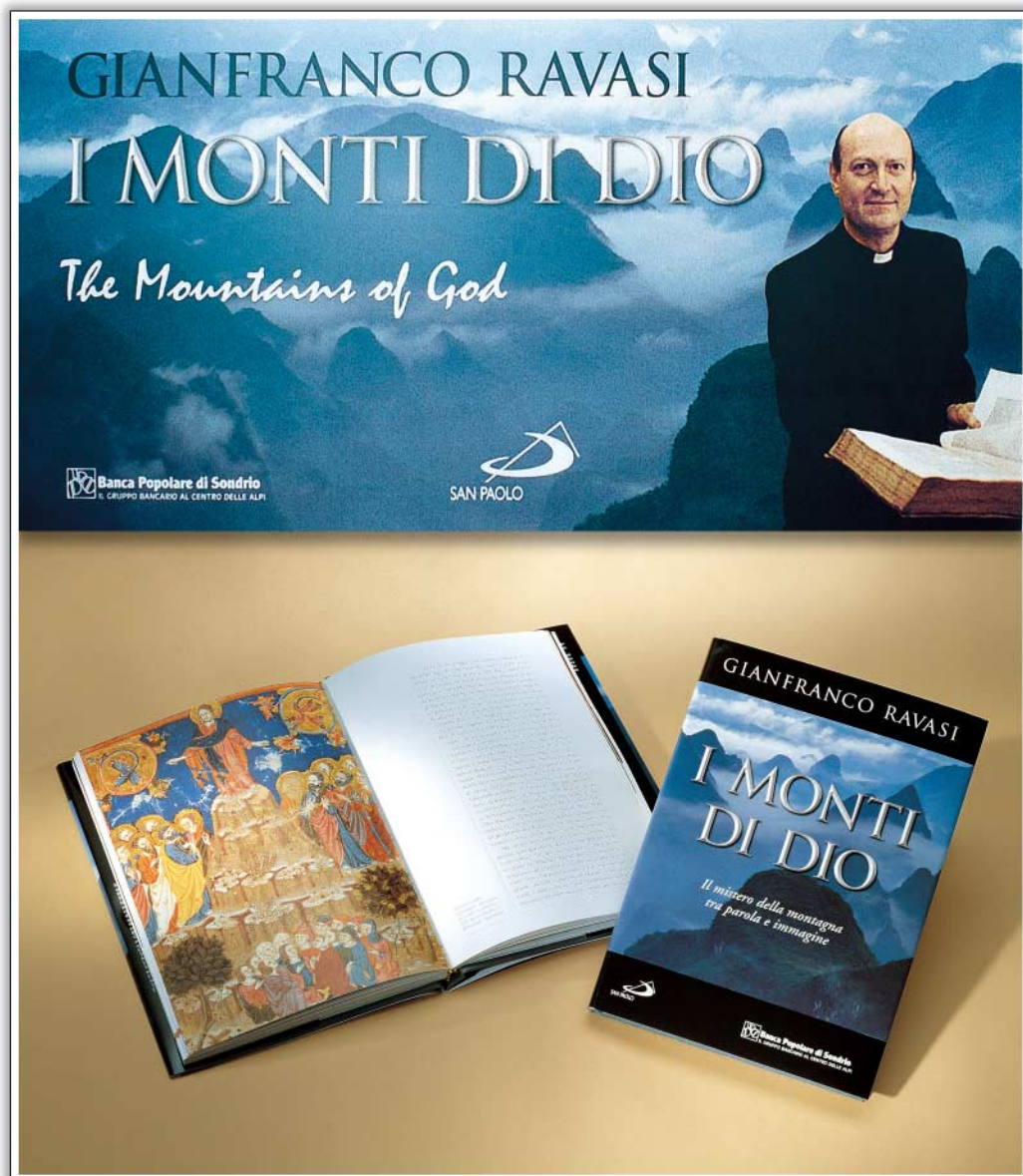


ON. PROF.
ANTONIO MARZANO
2 February 2002



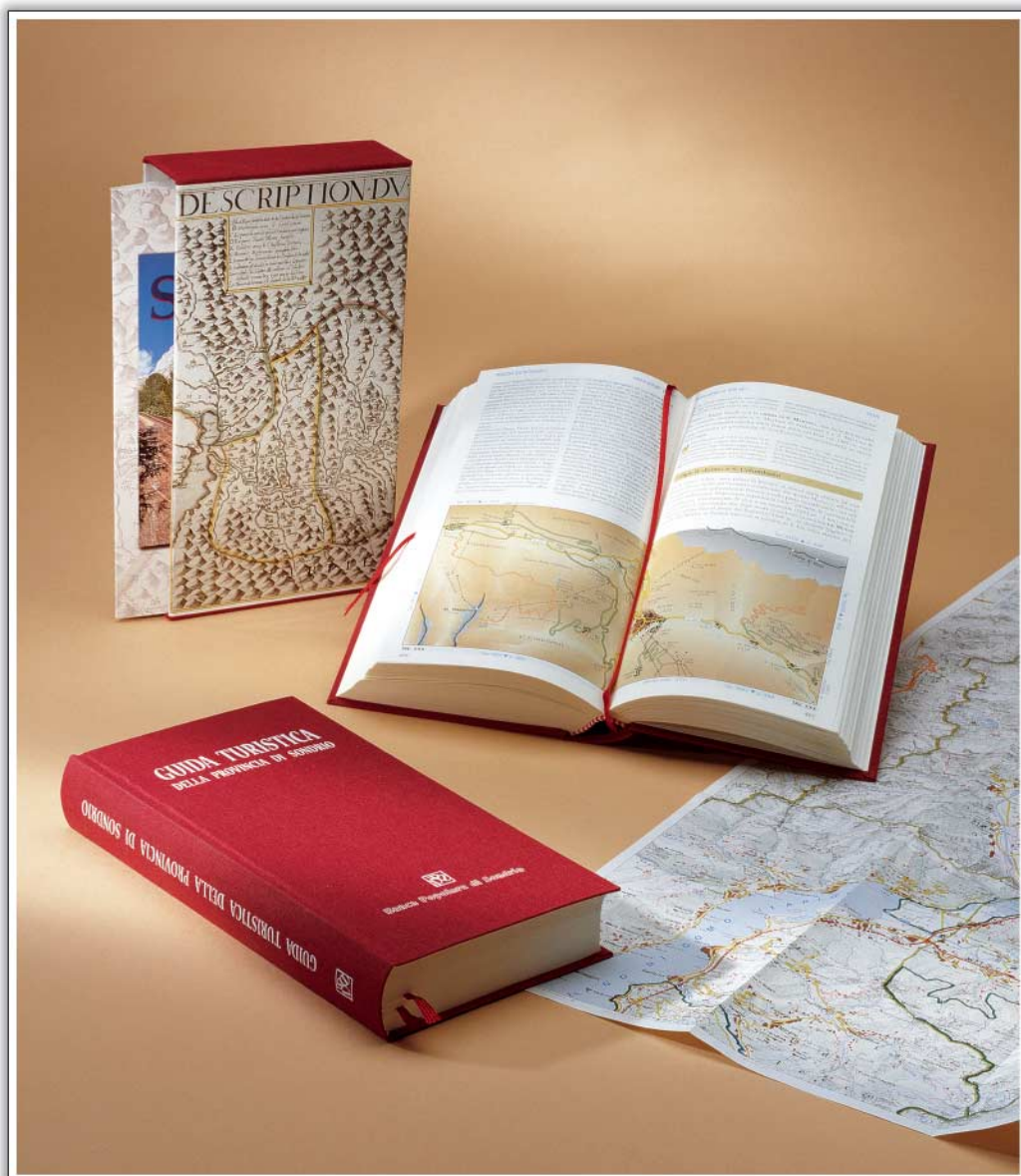
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(The Mountains of God)



I Monti di Dio by Monsignor Professor Gianfranco Ravasi belongs to a series called Sensazioni. The book debuted at the International Book Fair in Frankfurt on 10-15 October 2001, where our logo was proudly displayed alongside the publisher, Edizioni San Paolo. The volume will be distributed to shareholders at this year's AGM and was written to celebrate the "International Year of the Mountains", providing a moment of reflection that comes naturally after climbing a mountain peak.

The Tour Guide



The month of June heralded presentation of the new "Tour Guide for the Province of Sondrio", a reprint of the popular book by Mario Gianasso, published more than twenty years ago and now practically impossible to find. With this agile and comprehensive work, an excellent guide for the native as well as the visitor, the bank has contributed towards the spread of knowledge on the natural, cultural, artistic, and yes, even culinary riches of the Adda and Mera Valleys. The "Guide" remains the only tool of its kind for this region.

journalist and writer Franco Monteforte. The piece was dedicated to the suggestive wooden *Via Crucis* created by the artist Beniamino Simoni for the Church of San Martino in Cervenno, in Valcamonica.

The cultural insert to the 2000 annual report of the subsidiary, Banca Popolare di Sondrio (Suisse) SA was dedicated to the esteemed figure of Don Nicolò Rusca, native of Canton Ticino and Archbishop of Sondrio in 1590. Knowledgeable essays commemorated his life, ended in martyrdom, as well as his prolific works. We hope that the beatification process of this worthy priest will soon reach its happy conclusion.

The euro, symbolic of a more unified Europe, is the leit-motif of this year's wall calendar, complete with images of the twelve member countries and comments by the writer and friend, Giorgio Torrelli. The crown of our magnificent valleys is celebrated in our desk calendar. Adding a touch of class to our year-end production is the fifth edition of our diary entitled «*I giorni del 2002*» in which journalist Gigliola Magrini, indulges us with her curiosities, anecdotes and fragments of local culture, mountains and clocks.

The commitment to enhance the Fondo Vilfredo Pareto chiefly involved publication of the book «*L'uomo e lo scienziato*», due out shortly. Work also continued on reorganizing and cataloguing the archives managed by the Fondo Pareto and updating the space on our website dedicated to this great economist and sociologist. The figure of the «solitary man of Céligny» was also the subject of a special feature in our *Notiziario*.

Precious few banks still celebrate World Savings Day which, to tell the truth, seems to have fallen into disuse. We are still faithful to the cause and celebrated the 77th edition at the Stelvio Pass along with the Superintendent for Education of the Province of Sondrio and principals of local middle and high schools who we met at our Pirovano Centre. The theme of the conference

was, not surprisingly, the arrival of the euro and a fond farewell to the lira. The older students came away with a gift, the CD-Rom «Euro, let's make friends» produced in conjunction with the ITIS «Enrico Mattei» in Sondrio, as well as the booklet, *Europa Giovani*, published by BPS and ABI's Guide to the Euro

Pirovano Stelvio SpA, our skiing university, signed an important letter of intent with the Education Ministry on 4 May 2001. The agreement, whose contents were disclosed to schools throughout Italy, involves personalised courses for students of all ages to promote the study of science, history and the environment.

We were back at the Stelvio Pass on 5 August 2001 when, in conjunction with the *Gazzetta dello Sport*, we promoted an event in memory of Gino Bartali, the much loved champion who in the golden age of cycling made history on our mountains as elsewhere. His son, Andrea Bartali, was also present at the «Donegani» museum, along with team member Renzo Soldani, the great skier and friend Achille Compagnoni and the doyen of journalists of the «pink Gazzetta», Angelo Zomegnan. A wooden statue of the Tuscan champion was unveiled at the museum, the handiwork of Marino Colturi «Rasiga» from Bormio. We remember the climate of serene and spontaneous camaraderie of that event, typical of cyclists, the same atmosphere that accompanied the 4th Valtellina Velò Excursion Cycling Meeting organised by our Social Club which included the participation of Giorgio Squinzi, the owner of the Mapei Cycling Team, along with a number of athletes from his club and 170 other enthusiasts. The activities of our Social Club included various other initiatives that have been much appreciated.

In the context of charitable activities, Banca Popolare di Sondrio was a strong supporter of the «Last good deed of the Lira» campaign, promoted by the Italian Association for Cancer Research and the Italian Federation on Cancer Research,

Publications

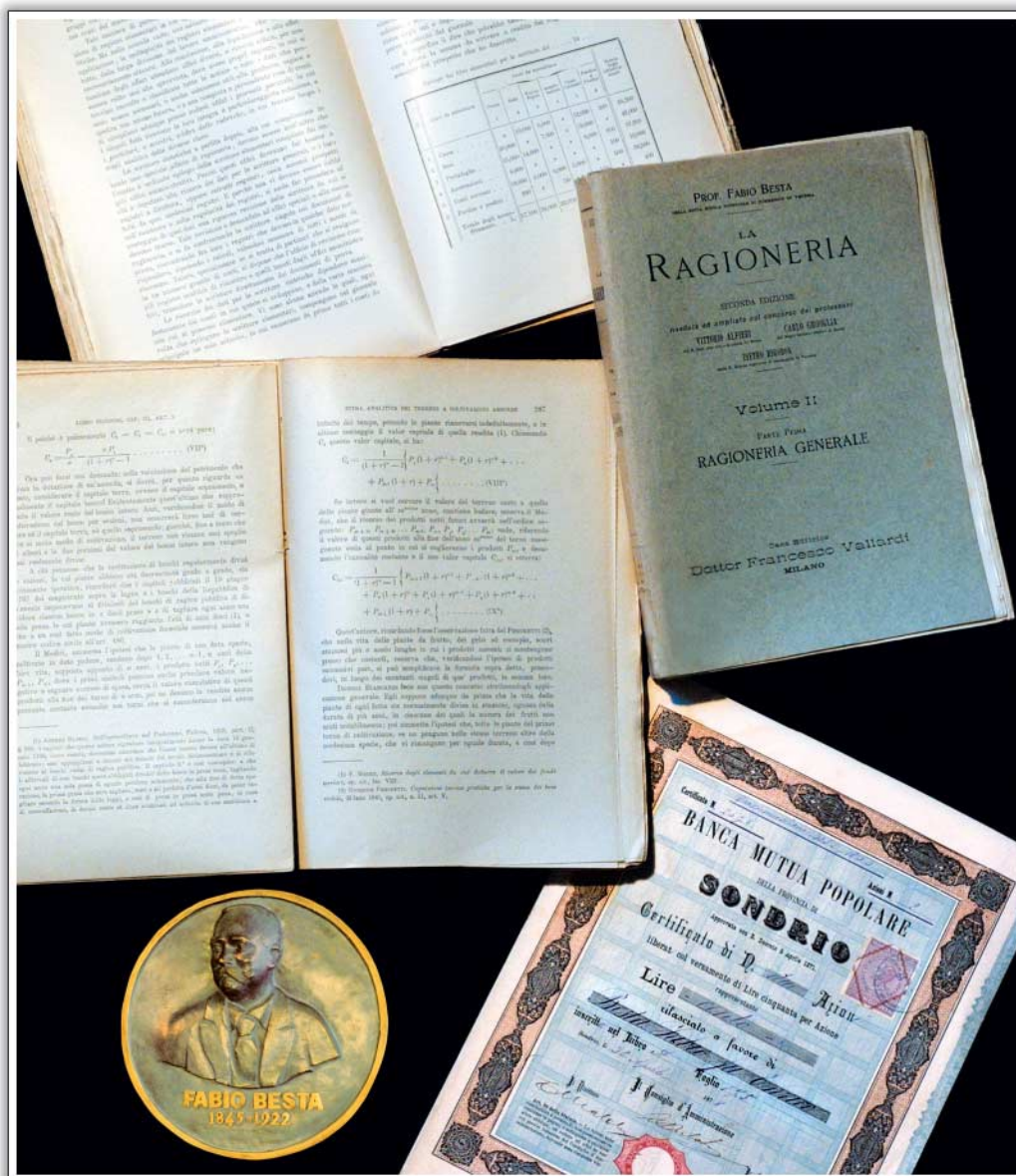


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Besta Volumes



Valtellina-born Fabio Besta (Teglio 17/1/1845 – Tresivio 3/10/1922), known as the father of modern bookkeeping, is the author of the three volumes shown above, called "La Ragioneria", his most important work. In 1995, on the 150th anniversary of his birth, we named the conference room in our head office in Sondrio after him, also considering that he was one of our very first shareholders. The three volumes (published by Casa Editrice Dottor Francesco Vallardi – Milan, the first two reprinted in 1920, the third in 1922) are very precious because they are practically impossible to find any more. They were donated many years ago by Athos Marchi, when he was our General Manager, to Letizia Patroni Negri – academic, teacher and well-known author of texts on bookkeeping – who then, most generously, decided to donate them to the bank, a gesture that we all much appreciate. They are now on show in the room named after their author.

Events at the Stelvio



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Valtellina Velò



We remember the climate of serene and spontaneous camaraderie of that event, typical of cyclists, the same atmosphere that accompanied the 4th Valtellina Velò Excursion Cycling Meeting organised by our Social Club which included the participation of Giorgio Squinzi, the owner of the Mapei Cycling Team, along with a number of athletes from his club and 170 other enthusiasts. The activities of our Social Club included various other initiatives that have been much appreciated.

along with the Treasury Minister and the Euro Council. All of our branches displayed the campaign's containers for collecting coins.

We would also like to report on the use of the donations made on the invitation of the Italian Banking Association through the national banking system, following the natural disasters that hit our province in July 1987.

On 13 September 1995, the Association resolved to allocate the funds as a contribution towards the construction of an Old People's Home in Sondrio, delegating to our chairman the duty of overseeing payment of the instalments according to the stages of completion of the new project. In particular, the funds were earmarked for the executive project, purchase of part of the land, and creation of the gardens next to the home. Overall, a total of Lire 1,742,386,370 was paid out in three instalments.

We are also proud to say that on completion of the works, the structure was unveiled in a grand opening ceremony on 13 October 2001 attended by the Vice Chairman of the Italian Banking Association, Camillo Venesio.

The home, which is intended for non self-sufficient elderly people, covers an essential need. The Italian Banking Association will be remembered for the important role it played in its creation.

In short, a year rich in promotional and cultural initiatives, which we sponsored with traditional as well as innovative tools: our Internet site has amplified the impact of our initiatives with up-to-date and interesting features that, through the use of webcams, have brought many new surfers to our valleys.

Advertising and culture: a combination that we have tried to make enjoyable and useful at the same time. Not psychological pressure to achieve purely commercial ends, but a way to propose ourselves to the public in general, with reason and, as the philosopher might say, the truth as knowledge.

EQUITY

The increase in capital, brought to a successful end in the first half of the year, has increased the capital base of the bank which, thanks to the contribution of Euro 138 million, now amounts to Euro 731 million, a 26.95% increase over last year.

Before we begin discussing where the new financial resources will be going, we should highlight that the outcome of the operation has enabled our institute to accomplish a first important objective: growing together with our shareholders, to raise the model of the cooperative bank to new heights.

The shareholders showed once again a united front, demonstrating their unanimous support of a development project that has proceeded slowly, but rewardingly, in perfect balance. Not the balance of a tight-rope walker in the middle of a performance, but the virtue of those who must keep in mind their own limits and the fact that they are working with other people's money, so with their feet planted firmly on the ground.

We are well aware of the need to increase our size in order to be active participants in the transition taking place in the banking industry. This is why we decided to arm ourselves with extra resources. For BPS, our commitment to enhancing the value of our institutional, organizational and operational characteristics, as well as supporting our subsidiaries and other Group companies, is a powerful tool for creating shared initiatives with other cooperative banks.

The level of a bank's capital is a binding point of reference against which we have to compare our fundamental aggregates. This is particularly important as regards our risk management policy which, together with new instruments and procedures to monitor any risks to which the bank may be exposed in its everyday activities, insists that there has to be the backing

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EQUITY

The increase in capital, brought to a successful end in the first half of the year, has increased the capital base of the bank which, thanks to the contribution of Euro 138 million, now amounts to Euro 731 million, a 26.95% increase over last year.

Before we begin discussing where the new financial resources will be going, we should highlight that the outcome of the operation has enabled our institute to accomplish a first important objective: growing together with our shareholders, to raise the model of the cooperative bank to new heights.

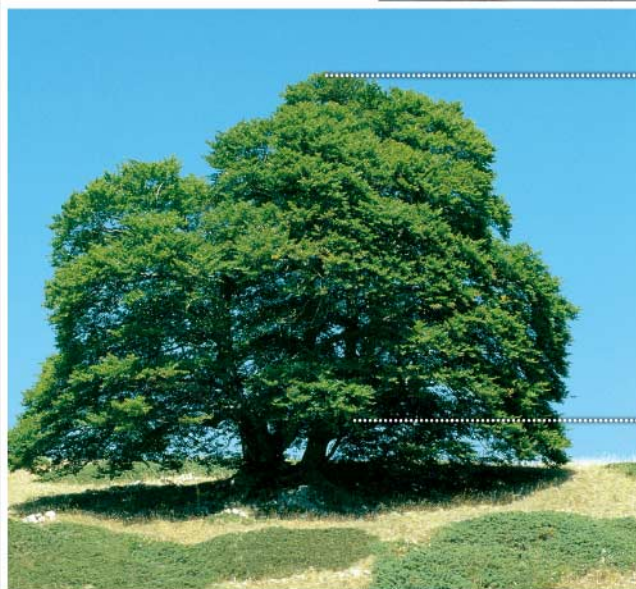
The shareholders showed once again a united front, demonstrating their unanimous support of a development project that has proceeded slowly, but rewardingly, in perfect balance. Not the balance of a tight-rope walker in the middle of a performance, but the virtue of those who must keep in mind their own limits and the fact that they are working with other people's money, so with their feet planted firmly on the ground.

We are well aware of the need to increase our size in order to be active participants in the transition taking place in the banking industry. This is why we decided to arm ourselves with extra resources. For BPS, our commitment to enhancing the value of our institutional, organizational and operational characteristics, as well as supporting our subsidiaries and other Group companies, is a powerful tool for creating shared initiatives with other cooperative banks.

The level of a bank's capital is a binding point of reference against which we have to compare our fundamental aggregates. This is particularly important as regards our risk management policy which, together with new instruments and procedures to monitor any risks to which the bank may be exposed in its everyday activities, insists that there has to be the backing

Shares and shareholders

**MORE THAN
100,000
SHAREHOLDERS**



€ 10.50
2001

+287%*
**YIELD ON THE
SHARES IN THE
LAST 10 YEARS**

€ 2.71**
1991

(*) FROM 31 DECEMBER 1991 TO 31 DECEMBER 2001: +287.45%.
N.B.: THERE IS NO GUARANTEE THAT A SIMILAR PERFORMANCE WILL BE ACHIEVED IN THE FUTURE.

(**) STOCK VALUE CORRESPONDING, TO THE PRICE OF €10.47 OF 31 DECEMBER 1991, ADJUSTED TO REFLECT THE SUBSEQUENT OPERATIONS ON SHARE CAPITAL.

Our stock was reinforced by the latest increase in share capital, after which it performed quite happily, largely unaffected by the tensions in the market. A curve that continues to rise thanks to our stock's ability to express the constant trust that our shareholders have in their bank. They are not interested in short-term speculation, which means that they do not go into a panic any time the market falls. This is not surprising: at times of uncertainty and nervousness, it is important to be able to put one's trust in a solid and well-known stock. The share's performance during the year rewarded the shareholders for this trust and attracted many new ones, for a total of 100,384, an increase of 13,226 over the year. Now that we have exceeded the barrier of 100,000, we could say that for Italy we are a demographic phenomenon that goes against the trend.

of a certain amount of capital. It is important to bear in mind that the developments in the way to do banking, the increasing use of technological innovations, and the growing size certainly increase the possible sources of income, but at the same time they extend the amount and type of current and future risks; and hence, the damages that are reasonably foreseeable. In short, it is necessary to have a safety net that even the most expert acrobat is willing to accept, even if only to keep the audience happy. Foremost in our preoccupations are deposit-holders, those entrust us with their hard-earned savings.

In addition to functioning as a guarantee, in other words the ability to meet the commitments that have been taken on, the bank's capital must also be sufficient to cover the planned growth in operations. Very briefly, you might say that the goal is to consolidate, slowly but surely, our status as a regional bank and, thanks to the invaluable contribution of the other Group companies, to build up the overall range of products and services so as to meet the banking and financial needs of our customers.

Given that growth requires investment, the traditional debate about the optimal size of the capital should not be faced in relation to the current size of the company, but rather, with reference to the feasibility and soundness of the development programme. In our experience, the guidelines suggest linking investments to the income that can reasonably be expected, based on restraint and a sense of reality, key value parameters faced with hyperbolic predictions of earnings that frequently – as in the case of some virtual businesses – are destined to remain exactly that.

Our shareholders know that deposits made with us will be appropriately allocated with a view to returns matching the prudence and caution that traditionally distinguishes the bank's management. With their extensive knowledge of



the company's business, they interpret the profitability indicators so dear to the analysts, but also bearing in mind the returns that they get in terms of the wealth of services that they use. The value attributed by the market to BPS's stock encompasses the positive expectations about the strategies that we have adopted.

With the increase in capital and in customer deposits, our liabilities have also grown considerably. The privilege of having these extra funds implies the even more privileged torment of having to repay them, a matter of conscience and therefore divine in nature.

We summarize below the ratios between capital and the main balance sheet items, highlighting that the relative trends reflect the constant growth of the business and,



consequently, the need to boost the bank's equity:

- *capital/direct customer deposits*
12.58% v 12.56%
- *capital/customer loans*
13.11% v 12.96%
- *capital/financial investments*
27.93% v 28.19%
- *capital/total assets*
8.51% v 8.33%

For the purposes of calculating our capital for supervisory purposes, and in compliance with regulatory instructions, we have had the half-year results to 30 June 2001 audited.

As we mentioned, in absolute terms, our equity is now worth Euro 731 million, split as follows: share capital, Euro 412 million fully paid in and represented by 137,566,064 shares of par value Euro 3 each; share premium reserve, Euro 136 million; other reserves, including the reserve for general banking risks, Euro 183 million; without considering the net profit for the year of Euro 46 million.

INCOME STATEMENT

We would like to take this opportunity to remind readers that the interim financial statements at 30 June 2001 illustrated the good results of management. Net profit was up to Euro 20.947 million, representing an increase of 11.43%.

As they say, starting off well is half the battle. This age-old adage is corroborated by the annual financial statements, as net profit rose to Euro 46.065 million, with an increase of 19.87%.

Let's begin our discussion talking about the comparison with experience of our industry on a national level. According to what we've read and, even more so, what we've heard, the year that

ushered in the new millennium went less well than the previous year, at least for banks. Nevertheless, more or less all of their results should be preceded by a plus sign.

The figures that we are remarking on here, and which have been submitted for your approval, are satisfactory. It has certainly not been one of the easiest periods, requiring a good dose of attention, commitment and acumen.

The components that most limited revenues essentially had to do with services, an area that was strongly affected by the crazy fluctuations of the market, which left their indelible mark in terms of capital losses, with little room to avoid them.

The size of the net profit is a reward for you, dear shareholders, for your unshakeable faith and confidence in your shares and your bank. But it also rewards us, your fiduciaries, for the development policies, the internal lines of strategy that efficiently marry size and penetration, to the benefit of revenues. Two clear lines like in geometry: one horizontal, symbolising territorial coverage and the other vertical, indicating penetration.

Raising the capital base in the first half of the year was another component of income.

At the end of the year, net interest income came to Euro 194.730 million. This was an increase of 15.52% compared with 2000, reflecting robust growth in the volumes intermediated despite the hefty cuts in interest rates and the slight reduction in interest spreads.

*Net interest
income*

The losses in the latter now seem, especially in light of the rising competition, a structural characteristic of the system, a necessary evil leaving no alternative but to get to used to it. The growth in net interest income can be compared with income from banking activities, rising to 65.43% from 60.93%. This is a variance we would happily have done without, precisely because it means that services, the sector that is more secure

RECLASSIFIED INCOME STATEMENT

	2001	2000	% change
(in thousands di euro)			
Interest income and similar revenues	409,784	347,295	17.99
Interest expense and similar charges	(219,825)	(182,571)	20.41
Dividends and other revenues	4,771	3,848	23.99
NET INTEREST INCOME	194,730	168,572	15.52
Net commission income	85,873	92,720	– 7.38
Profits from financial transactions	17,019	15,376	10.69
– profit from trading securities and derivatives on securities	15,392	10,927	40.86
– profit from trading currency and derivatives on currency	10,292	9,746	5.60
– profit from trading other derivatives	53	46	15.22
– gain (loss) on valuing securities	(8,718)	(5,343)	63.17
INCOME FROM BANKING ACTIVITIES	297,622	276,668	7.57
Other operating income	22,999	19,184	19.89
Administrative expenses	(181,362)	(163,070)	11.22
– personnel expenses	(93,456)	(85,328)	9.53
– other administrative expenses	(63,573)	(55,451)	14.65
– indirect taxes and duties	(24,333)	(22,291)	9.16
Other operating expenses	(2,872)	(3,154)	– 8.94
OPERATING PROFIT	136,387	129,628	5.21
Adjustments to intangible and fixed assets	(15,763)	(14,484)	8.83
Provisions for risks and charges	(6,365)	(1,033)	516.17
Loan write-downs and provisions for guarantees and commitments			
– loan write-downs	(37,609)	(41,664)	– 9.73
– provisions for guarantees and commitments	(401)	(516)	– 22.29
Write-backs to loans and provisions for guarantees and commitments	14,121	10,164	38.93
Provisions to the bad debt reserve	(9,398)	(6,644)	41.45
Adjustments to the value of long-term financial assets	(374)	(425)	– 12.00
PROFIT FROM ORDINARY OPERATIONS	80,598	75,026	7.43
Extraordinary income	884	1,292	– 31.58
Extraordinary charges	(2,117)	(1,146)	84.73
PRETAX PROFIT	79,365	75,172	5.58
Provision to the reserve for general banking risks	0	(4,132)	
Income and equity taxes	(33,300)	(32,611)	2.11
NET PROFIT FOR THE YEAR	46,065	38,429	19.87



in terms of profits, is suffering a phase of stagnancy, or more accurately, decline.

We have often repeated in these annual reports that, despite the fact that banks deal with a precious commodity such as money, they are essentially companies with a low level of profitability. We really have to roll up our sleeves and get down to work, doing the best job we can to achieve good results. As far as we are concerned, we think that we have kept fairly close to these principles.

Picking up where we left off, we can say that net income from services showed a contraction of 7.38% after numerous years of constant growth. These are the consequences of this negative period experienced by domestic and international financial markets. And the items

more directly related to equities trading were the ones penalised the most.

Financial profits – securities, exchange rates and derivatives – have shown an increase of 10.69%, consolidating last year's jump (65.49%). Due to the volatility of the markets, capital losses were inevitable, but these were fully absorbed from an economic perspective.

Income from banking activities rose to Euro 297.622 million, with an increase of 7.57%.

*Income from
banking
activities*

Administrative expenses – the aggregate comprised of personnel costs, general expenses and indirect taxes and duties – rose by 11.22% against the 10.28% rise last year. The acceleration in this growth, carefully evaluated, monitored and correlated to the real needs of an expanding business – can be attributed to the effect of the euro. The lira to euro changeover resulted in hefty costs for BPS to guarantee the bank and its customers a smooth transition, free of risk, inefficiency and inconveniences. We feel that we were very successful. Net of the euro effect, the rise would have been lower due to our conscientious management of the resources that entails first taking stock of what we have before approving new expenditures. The new control and planning tools proved to be very useful in this respect, marking new levels of corporate efficiency.

Operating profit stood at Euro 136.387 million, rising by 5.21%.

Operating profit

We will now talk about the various provisions and adjustments made to the income statement, the foundation of prudent management: depreciation and amortization, provisions for risks and charges, increased proportionally according to the escalating degree of risk, and which belongs to the so-called revocations, thoroughly regulated but still interpreted in a wide variety of ways by bankruptcy law; write downs to receivables, which were reduced as risk fell, but still always based on

maximum prudence; write-backs to loans that are on the rise, confirming their careful and prudent assessment; provisions to the loan loss reserve which, along with the interest charged on overdue loans reasonably deemed collectable, largely depend on taking advantage of the maximum tax benefit based on a certain percentage of total loans.

No provision was made to the reserve for general banking risks, which stood at Euro 38.734 million, since provisions were made in sufficient quantity to the individual headings.

*Net profit
for the year
Dividends*

Finally, once the tax bleed was over, thankfully a bit lower this year and in the hope that this trend will remain a constant in the future, we achieved a net profit of Euro 46.065 million, an increase of 19.87% which we feel is quite significant.

The rise in net profit has convinced the Board of Directors to propose a dividend of Euro 0.18 per share, increasing by more than 20% over last year, considering that the number of shares has doubled following the increase in capital. A precise, proper and agreeable criteria of commutative justice.

The idea of an increase in the BPS stock price might seem like a dream. In our case, it was reality. Even in 2001, the value of Banca Popolare di Sondrio's shares rose by 5%.

SUBSEQUENT EVENTS

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

1 January 2002 – an historic date – will be remembered as the christening of the euro. An uneventful baptism, experienced by the community with the right spirit and which, aside from fairly understandable mix-ups, made for a

lively topic of conversation, supplanting comments on the crazy weather we've been having.

As we mentioned in the previous paragraphs, much of the credit goes to the banking system which, effectively co-ordinated by the authorities and under the guidance of our industry association, has been able to ensure the orderly changeover of the currency within reasonable limits.

As regards company events that have marked the beginning of the new year, we should mention that the Carate Brianza branch in the province of Milan is already at the starting gate. Soon another three branches will be opened: in Busto Arsizio in the province of Varese, and in Menaggio and Cantù, both in the province of Como, which will bring the total number of branches up to 167.

With regard to the bank's affairs, we are able to report that early 2002 saw the opening of several new treasury and cash services operating on behalf of municipalities and various other entities, bringing the total number of such operations to just under four hundred. A significant one for the bank, which can rely on its consolidated experience in the area and on state-of-the-art IT systems. In one with the determination of our resolute employees to improve services, we are able to ensure the highest quality of services.

A new treasury branch was opened in the municipality of Cilvegna, in the province of Pavia.

As regards the Group as a whole, our affiliate Banca Popolare di Sondrio (Suisse) SA has approved its 2001 financial statements, the sixth since its foundation, reporting very satisfactory results in both its balance sheet and income statement, with over SF 9 million in profit, increasing by 7%.

In February, the subsidiary will be relocating its representative office in Basel, which has been supported since last October by a fully operational



unit, to Zurich, in order to explore the potential of that important Swiss market.

BUSINESS PROSPECTS

Economists' forecasts were invented to make meteorologists look good in comparison. An old joke to relay the measure of difficulty in formulating predictions on economic trends, often as unpredictable as the weather in March!

For us who are not economists, the difficulties can only be greater. On the other hand, let's hope that we are not affected by the saying about meteorology being to economics what meteorologists are to economists. In any case, we will try to provide some indications, without any presumptuousness, on what is happening in the view of the most prestigious macroeconomic research and analysis centres.

On an international level, the picture is still dominated by the delicate situation in America, which due to its unequivocal importance is able to influence the entire world economy. For the Euro-area, the uncertainty remains as to the knock-on effect of the huge reduction in investment activities and spending in the United States. Fears are mounting for exports, especially for Germany, and the likely repercussions on trade within the European Union.

In this rather opaque scenario, further elements of uncertainty associated with national trends have caused previous growth forecasts to be downgraded. Among the positive elements, we find a recovery in consumer demand on the part of households, accompanied by substantial price stability. Expectations for growth still depend on equity markets returning to «normal» and oil prices becoming more stable.

The expected effects on the banking system have more to do with the income statement than with the structure and composition of the balance

sheet. Thanks to another injection of liquidity, also at a lower cost, BPS will be able to cope with the rise in customer loans, expected to rise, especially for home mortgages.

Despite the fall in interest rates and spreads, it is still up to net interest income to determine the bottom line due to the constant increase in deposits. The income statement has suffered from the slow rate of growth in other revenue items, with income from asset management being penalised the most.

A sort of victory for the traditional, but evidently still current, way to run a bank, which must be supported by a careful cost control policy to be pursued by possible forms of synergetic collaboration.

This is a scenario that seems to hold interesting growth opportunities for our bank. Thanks to the increase in customer deposits, we will be able to pursue, actively and judiciously, the plan to develop and expand our operations that we mapped out some time ago.

Lastly, our policy of openness and friendship is also a positive growth factor, whose results are seen daily: a growing client base, the increase in shareholders, business deals launched and sealed, and even the correspondence received by the bank, which often contains constructive criticism that we consider useful. In any case, forecasts still remain a good tool for healthy management.

* * *

Dear Shareholders,

We now submit for your examination and approval the 2001 financial statements in the form of the balance sheet and income statement, together with the attachments which are an integral part of them. The financial statements, which close with a net profit of Euro 46,064,525, have been audited by Arthur Andersen S.p.A. whose audit report is included in the Appendices.

The Audit

BALANCE SHEET

Total assets		€	8,588,855,096
Liabilities	€	7,811,486,133	
Reserve for general banking risks	€	38,734,267	
Share capital	€	412,698,192	
Share premium reserve	€	135,886,233	
Reserves	€	143,985,746	€ 8,542,790,571
Net profit for the year		€	46,064,525
Guarantees granted		€	1,372,074,167
Commitments		€	203,629,741

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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%	€	4,606,452.50
– to the statutory reserve 30%	€	13,819,357.50
– to the shareholders € 0.18 per share	€	24,761,891.52
– to the reserve for treasury shares	€	2,522,749.93
– to the charity fund	€	250,000.00
– to the reserve as per art. 13 Legislative Decree 124/93	€	29,708.97
– to the legal reserve	€	74,364.58
Total	€	46,064,525.00

CAPITAL AND RESERVES

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

– Reserve for general banking risks	€	38,734,267
– 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	€	43,222,425
b) Reserve for own shares	€	873,969
c) Statutory reserve	€	97,786,137
d) Other reserves	€	23,155,848
Total	€	752,357,071

Shareholders,

On this difficult journey, our thoughts go to all our fellow travellers, who, by supporting BPS and placing their trust and confidence in us, have helped us to report another positive set of results and prepare plans for the future. Our thanks therefore go to our shareholders and customers, who are increasingly one and the same, for their constant and unflagging support.

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

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



our various offices. Particular thanks must go to the Banca Popolare di Fondi with which we have an agreement of consultancy and co operation.

Our respect and gratitude also goes to those at the Bank of Italy, from the Governor to the members of the directorate, the head of the supervisory body and his colleagues, the other general officers, and the Central Bank's branch managers in the provinces where we operate.

And a special thought for Giulio Lanciotti, the manager of the Bank of Italy's prestigious Milan office, for Gabriele Frascadore, manager of the Rome office. The frequency of his contact with the Sondrio branch suggests a particular relationship with his manager there. This is no doubt why Mr. Luigi Gimma has been transferred to a more important branch. We remember his constant availability and the benevolence with which he followed our affairs. The new manager, Giovanni Alfieri, merits our best wishes and we naturally promise to provide the utmost collaboration.

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

A special and respectful thanks to the Federal Bank Commission in Bern which oversees the operations of our Swiss subsidiary.

Lastly, we would like to thank all of our staff for their intelligent and faithful collaboration and their spirit of loyalty to the firm. We wish a long life in health and serenity to those who retired during the year, having earned the right to a pension after many years of service: namely Giancarlo Barberi, Aldo Sergio Barlascini, Fernanda Castelli, Arnaldo Proserpio, Elio Rinaldi, Pietro Spini, Giovanni Tosetti, Ivo Tuia, and Marziano Volpi.

Unintentionally, we may have neglected to mention someone. We apologize if this is the case. Our thanks also go to all those who have stimulated us to improve with their friendly advice and prompt criticism.

Shareholders,

In submitting the 2001 financial statements for your approval, the Board of Directors invites the meeting to pass the following resolution, after reading the report of the Board of Statutory Auditors:

«The ordinary meeting of the shareholders of Banca Popolare di Sondrio, having heard the report of the Board of Directors on the 2001 results and the proposed allocation of net profit for the year, which provides for the payment of a dividend of Euro 0.18 per share; having taken note of the report of the Board of Statutory Auditors and that of the Independent Auditors; having taken as read the balance sheet and income statement, explanatory notes and the financial statements of the subsidiary and associated companies

approves:

- the directors' report on operations;
- the financial statements as of 31 December 2001 with the results shown in the balance sheet and income statement and related explanatory notes, which show a net profit for the year of Euro 46,064,525. The shareholders therefore specifically approve the allocation of the net profit of Euro 46,064,525 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 € 4,606,452.50
 - 30% to the statutory reserve € 13,819,357.50
- b) to pay a dividend of € 0.18 to each of the 137,566,064 shares in circulation at 31/12/2001 with dividend rights as from 1/1/2001, 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 € 24,761,891.52
- c)-to allocate to treasury share reserve € 2,522,749.93
- d) to allocate the residual profit:
- to the charity fund € 250,000.00
 - to the reserve as per art. 13 Legislative Decree 124/93 € 29,708.97
 - to the legal reserve, an additional € 74,364.58

Lastly, the shareholders set aside Euro 17,500,000 – booked under «Reserve for own shares» for Euro 873,969 and «Other reserves» for the remainder – 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.»

We inform that, according to article 14 of the D.P.R. no. 917 of 22/12/1986, the dividend distributed will entitle shareholders to a full tax credit at a rate of 56.25%.

THE REFORM OF COMPANY LAW AND COOPERATIVE BANKS

Shareholders,

We would like to conclude the report by summing up some basic concepts. Our commitment has always been to work intensively, enthusiastically, and economically. And this is the goal we have set for ourselves, increasing our size, volumes and profits. Nothing is free in the economic world and everything is the result of ideas, actions and effort. Oftentimes, a little luck doesn't hurt either. The short article that appeared recently in the Focus section of *Corriere della Sera* reiterated the extent to which this bank venerates its shareholders. Letting them know as soon as possible how the business is doing. Our thanks for this authoritative recognition of a corporate style. Thanks for having implicitly remembered St. Augustine's advice that «*multitudo non est sequenda*». The wisdom of not doing what everyone else is doing.

On 2 March, when this report will be read out to the shareholders, the lira will have definitively been removed from circulation. While we salute the lira for the last time, we will be greeting the euro with high hopes in a common sentiment on the part of European citizens.

The words that the Governor of the Bank of Italy spoke on 14 July here in Sondrio, in our Besta room, were received with wholesale agreement by the listeners and stimulated positive reflections in us. Mr. Fazio – whom we thank once again – officially attested to the important and irreplaceable role of the cooperative banking movement in Italy, underscoring the positive results achieved in terms of market share, productivity and profitability. At the same time, he reiterated the need always to pay attention to the ability to compete because «what matters is not only the size but especially the efficiency of



operations.» Regarding the future, he mentioned the new forms of collaboration between sister companies as the road to take in order to achieve good results over time.

We can only share and appreciate the idea expressed by the Governor, based on his conviction that cooperative banks, regulated by the Banking Law of 1993, still have a great deal to do in terms of the economic, financial and social development of the country. A positive assessment recently decreed by the legislature that, in approving Law no. 366 of 3 October 2001, a «Mandate to the government to reform company law», has expressly excluded from the act, «cooperative banks, cooperative credit banks and cooperative banking institutes in general, which will continue to apply the current regulations, except for the issuance of coordinating standards that do not affect the substance of the regulations.».

This is an important recognition of the role that cooperative banks have played to date in upgrading the national banking system and, especially, their ability to interpret the founding principles of the cooperative movement: the importance of each shareholder, the *voto capitaro* (one man one vote), limitation on equity holdings, close relationship with the regional and local community, and special attention paid to households and the small and medium sized enterprise.

This was plainly substantiated by Elio Farfalli, Chairman of the National Association of Cooperative Banks in his speech during Governor Fazio's visit: «The cooperative banks have become an important force in Italy. Last year (2000), they improved their market position as a whole – the percentage of deposits, loans and branches rose respectively to 21.2, 20.5, and 22.5 percent of the national total. They boosted their importance in their local areas, increasing from 21 to 25 provinces where the market share held is greater than 25 percent and increasing to 15 and 5

provinces where the market share tops 30 and 40 percent, respectively. The degree of risk was cut to 5%, considerably lower than the rest of the banking system while profits have substantially exceeded the national average.».

As for us, we can say out loud that the future of the bank rests on trust: trust in ourselves, in others and others' trust in us. We champion above all the work ethic, a crucial element in social progress. Our work, inspired by ethics and values, is realised in the services offered with precision, convenience, and care. For us, entrepreneurial culture isn't just a slogan, which is always better than nothing, but the uniform worn by the banker who never loses sight of two essential standards: honesty and integrity.

Our future lies in the present. «I never think about the future. It comes too quickly.» The words of Einstein.

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: As under article 159 of the Legislative Decree no. 58 of 24 February 1998, authorisation of the auditing of the statutory financial statements, consolidated financial statements and the interim report for the three-year period from 2002-2004.

Shareholders,

The Legislative Decree no. 58, dated 24 February 1998, lays down in article 159, paragraph 1, that the «Shareholders' meeting on approving

the financial statements, must assign the duty of auditing the statutory and consolidated financial statements to an auditing company registered in the professional roll as required under article 161, subject to the opinion of the Board of Statutory Auditors. The Statutory Auditors shall determine the fee for the auditing services.» Since the contract, granted by the shareholders' meeting on 6 March 1999 to Arthur Andersen S.p.A. of Milan for the three-year period from 1999-2001 has expired, it is necessary to entrust the contract for the period from 2002-2004.

Considering that Arthur Andersen S.p.A., registered in the professional roll as required under article 161 of Leg. Decree 58/98, has diligently performed the services previously entrusted by the bank, the Board of Directors proposes to appoint the Milan office of Arthur Andersen S.p.A. to audit the financial statements of the holding company and of the Group and to carry out a limited audit of the half-year report, for the three-year period from 2002-2004.

Arthur Andersen S.p.A. made BPS an offer of their services for an annual fee of Euro 115,000, with yearly adjustments made according to cost of living increases as published by ISTAT. This fee does not include: reimbursement of all out-of-pocket expenses in performing their duties, as incurred, and of ancillary expenses by means of a flat 5% of the total contract; the contribution to Consob for supervisory services; and VAT.

Point 4) on the agenda: appointment of Board of Directors.

Shareholders,

In compliance with the matters laid down in the articles of association, the shareholders'

meeting is called upon to reappoint certain Board members. The Directors whose term of office has expired are Messrs. Aldo Balgera, Gianluigi Bonisolo, Alberto Credaro, Piero Melazzini, and Lino Enrico Stoppani.

Point 5) on the agenda: Appointment of an alternate auditor.

Shareholders,

During the year, the alternate auditor Giuliano Orsini passed away. The shareholders' meeting, in accordance with the articles of association and the law, must appoint a replacement member to serve until the Board of Auditors' term of office has expired.

Point 6) on the agenda: Appointment of alternate member of the Advisory Committee.

Dear Shareholders,

During the year, the alternate advisor Ettore Gallo passed away. The shareholders' meeting is asked to elect his replacement in order to supplement the composition of the Board as required under the first paragraph of article 52 of the articles of association.

Sondrio, 28 January 2002

THE BOARD OF DIRECTORS

REPORT OF THE BOARD OF STATUTORY AUDITORS

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

Shareholders,

Before giving you an explanation of our audit activities during the year, we would like to follow our usual pattern and present the results for this the bank's 131st year, which the Board of Directors is submitting for your examination and approval:

The past year was a difficult one for financial and entrepreneurial activities. Nevertheless, the bank enjoyed increased operating volumes, an expanded branch network, a larger staff, and improvements in the services and structures. All this achieved thanks to the steadfast sense of enterprise and a healthy and prudent management whose results are

BALANCE SHEET

Total assets		€	8,588,855,096
Liabilities	€	7,811,486,133	
Reserve for general banking risks	€	38,734,267	
Capital	€	412,698,192	
Share premium reserve	€	135,886,233	
Reserves	€	143,985,746	€ 8,542,790,571
Net profit for the year		€	46,064,525
Guarantees given		€	1,372,074,167
Commitments		€	203,629,741

Bear in mind that our report follows the recommendations provided by CONSOB (the National Commission for Companies and the Stock Exchange) on 6 April 2001 since the bank's shares are listed on an official market.

Detailed analyses of the contents of the 2001 financial statements, together with prior year comparative figures, are given in the report of the Board of Directors, accompanied by additional explanations in the notes. Documents that we have examined thoroughly and which give us no cause for objection.

Among the most important events occurring last year, we would remind shareholders of the increase in capital, as approved by you and which was completed successfully. The new resources entering the bank with your contribution (Euro 137,566,000 or Lire 266,365 million) have resulted in a significant strengthening of the bank's capital, which ensures solidity, security and continuity in the realisation of the bank's long-term plans, which are already producing encouraging results.

demonstrated in the financial statement figures, especially as regards the balance of costs and revenues, where the scale has tipped significantly in favour of the latter.

The Board of Directors has not been led astray into adventurous or dicey management risks; it has worked in accordance with the most conventional principles, in compliance with the law and the articles of association, keeping the interests of the company paramount.

This is why we can certify that no uncharacteristic or unusual transactions have taken place, neither between Group companies nor with related parties. Through a detailed and comprehensive mapping out of all related parties we have come to the certainty that no transaction that could significantly influence the economic or financial position of the bank has taken place. Therefore, no granting of privileges nor conflicts of interest.

The relationship between the Board of Statutory Auditors and the independent auditors,



Arthur Andersen S.p.A., has always been distinguished by openness and reciprocal trust. Periodic exchanges of information have allowed for serious and honest discussions on the topics handled, without conflicts or disagreements.

The auditors' report, which is attached to these financial statements, has no exception to make regarding the results shown, nor with regard to the representation of the assets and liabilities, financial and economic situation, nor regarding the merit of the company's operations.

Shareholders,

As proposed by the Board of Directors, you are now being called upon to resolve independently on the renewal for the three-year period 2002-2004 of the contract with Arthur Andersen S.p.A.

In this regard, we would like to point out that the services included in the contract consist of auditing activities as per art. 155 of Leg. Decree 58/1998 to be carried out by verifying that the books of account are kept properly and that all transactions are recorded correctly in the accounting entries, subsequently issuing certificates attesting to the fact that the statutory and consolidated financial statements reflect the balances shown in the books of account, as verified by their checks, and that the financial statements comply with the regulations that govern them.

The contract also includes a limited audit of the half-yearly report.

In this regard, we have formulated a favourable opinion due to the expertise and professionalism demonstrated by the company in question, which has the added advantage of understanding the organisation and the functions of our bank.

In addition to the contract in question, no

other service was required of Arthur Andersen S.p.A. during 2001 nor was any provided.

During the year, no denunciations were received as per article 2408 of the Italian Civil Code.

During the period, the bank received certain complaints regarding investment services, mostly financial transactions, which were all handled within the prescribed terms. A detailed statement of the individual complaints was submitted promptly to CONSOB. On our part, the reasons for the complaint were verified so that the situation could be clarified or corrected as quickly as possible. Of the 27 complaints filed, 23 were settled; the other 4 are still pending, as they were filed in the latter part of the year or are still in dispute.

In any event, we were able to exclude the fact that these were due to procedural failings or legal irregularities.

We have fulfilled the supervisory duties and powers of inspection and control required by law, by means of direct observation of the various phases of the bank's activities: resolute, executive and operational.

We attended all of the meetings of the Board of Directors, which are bimonthly as required by the articles of association, and of the Chairman's Committee (95), which are biweekly. We also performed inspections at 6 head office departments, and at 97 of the bank's branches.

Frequent contacts with the Board of Directors allowed us to independently monitor operational decisions and measures from close quarters, considering them to have been taken in an orthodox manner. Without wishing to go into the merits of management, we consider that these administrative acts have always had the bank's best interests at heart, in the name of growth and improved organizational structure.

The bank never departed from the principles of correct administration. Nor did the Board fail to issue a management report, as

required under art. 150 of the Leg. Decree 58/1998.

Significant efforts were made to adapt the structural aspects of the current phase of rapid expansion, which has kept the bank busy searching for solutions to the inevitable problems that this involves. Judging from the current situation, the presence of failings or dysfunctions can be considered immaterial, or in any case kept under strict control.

BPS top management worked diligently, intelligently and with determination to implement the directives issued by the Bank of Italy and to take corrective measures for any differences, thereby making an enormous contribution to the organisation and the efficiency of BPS.

The work on the internal control system performed by the internal audit department, which covers the entire scope of operations, offers an effective protective shield against any digressions from the regulatory framework. We can attest to the work done since most of the inspections are carried out in our presence and with our full participation.

In many years of experience, the internal auditors have honed their knowledge in every operating department and sharpened their professional skills. They embrace innovations in their field and in the evolution of the company's business, especially where specialised skills are required.

An important contribution toward preparing IT control instruments is given by the group of auditors operating at the bank's service centre. The Board of Directors has always provided all the tools for intensifying these activities. Recently, the Board authorized the implementation of a remote control system (Trend and Deloitte & Touche) that will automatically signal potential corporate risks.

All aspects of the bank's business are systematically analysed by the planning and

control department, which helps top management by highlighting key aggregates and trends.

The administrative-bookkeeping system has long been automated and is based on tried and tested procedures. It records all corporate transactions, including those deriving from sector procedures such as operations in the finance department and the international unit.

Recording transactions is based on a fairly detailed chart of accounts which follows the example set by the Bank of Italy (called Puma).

The automated procedures ensure reliability, precision and security, avoid duplications and data handling, and keep all items in transit under control.

The results of the financial statements are verified in the prescribed periodic notations made to the Bank of Italy.

Even the account postings that make up the financial statements are derived from a special procedure, in the same way that the figures in the notes are extrapolated automatically.

Relations between the holding company and its subsidiaries are a constant topic of discussion during board meetings. Reports on the performance of the individual companies are followed by directives to ensure that they pursue their respective purposes. Our requests for information or clarifications are always given a comprehensive response.

We have looked carefully at the progress of the subsidiary Banca Popolare di Sondrio (Suisse) SA with registered offices in Lugano, which, in harmony with the directives and nature of the holding company, has grown considerably in just six years, in terms of both deposits and geographic coverage.

Nothing of any real importance, far less anything negative, emerged during the meetings held with the independent auditors, as required by art. 150, paragraph 2, of the Leg. Decree 58/1998.



As regards the bank's compliance with the Code of Conduct for Listed Companies issued by the Committee for Corporate Governance, the Board of Directors examined the subject extensively. Basing its decision on a variety of opinions, essentially due to the cooperative organisation of the bank, it decided not to adopt this code, at least for the time being, leaving the option open for future discussion.

We have forwarded a copy of this resolution, approved unanimously by the Board of Directors and with the approval of the Board of Statutory Auditors, to Borsa Italiana S.p.A. and it will be available for shareholders to view at the company's headquarters along with the documentation prepared for the shareholders' meeting to approve the financial statements.

Shareholders,

The supervisory activities we performed last year resulted in the above considerations. We feel

justified in giving a positive judgement, not so much because of our work, but because of the situations that we encountered. We can confirm that the current law, the articles of association and the principles of correct administration have been observed. In fulfilling our duties, we found a few imperfections and inaccuracies attributable to human error, but none that could compromise the efficiency, productivity or development of the bank.

You are involved in a healthy, well managed, ethical and appropriately supervised organisation. This is why we intend to use our right to ask for your approval.

Sondrio, 13 February 2002

THE STATUTORY AUDITORS

Egidio Alessandri, chairman

Piergiuseppe Forni, auditor

Roberto Schiantarelli, auditor

**FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2001**

BALANCE SHEET

(in euro)

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A S S E T S		31-12-2001	31-12-2000
10.	CASH ON HAND AT CENTRAL BANKS AND POST OFFICES	80,088,947	49,005,899
20.	TREASURY AND SIMILAR BILLS ELIGIBLE FOR REFINANCING WITH CENTRAL BANKS	404,324,264	469,531,203
30.	DUE FROM OTHER BANKS:	905,085,569	518,763,956
	a) sight	87,990,652	114,839,336
	b) others	817,094,917	403,924,620
40.	CUSTOMER LOANS	5,579,546,805	4,443,945,484
	of which:		
	– from third-party funds under administration	118,534	135,087
50.	BONDS AND OTHER FIXED-YIELD SECURITIES:	1,100,638,065	912,066,686
	a) from public issuers	1,056,359,264	819,345,202
	b) from banks	21,900,045	69,898,539
	of which:		
	– own securities	3,264,149	2,879,953
	c) from financial institutions	1,304,300	1,200,927
	d) from other issuers	21,074,456	21,622,018
60.	SHARES, QUOTAS AND OTHER VARIABLE-YIELD SECURITIES	108,031,843	50,894,732
70.	EQUITY INVESTMENTS	66,255,143	58,779,277
80.	EQUITY INVESTMENTS IN GROUP COMPANIES	32,928,414	32,928,414
90.	INTANGIBLE ASSETS	10,190,108	9,399,280
100.	FIXED ASSETS	68,013,704	70,752,009
120.	OWN SHARES (par value 258,744)	873,969	177,334
130.	OTHER ASSETS	183,229,582	255,931,888
140.	ACCRUED INCOME AND PREPAYMENTS:	49,648,683	45,690,131
	a) accrued income	48,146,584	43,935,151
	b) prepayments	1,502,099	1,754,980
TOTAL ASSETS		8,588,855,096	6,917,866,293

THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER
Piero Melazzini

THE STATUTORY AUDITORS
Egidio Alessandri, Chairman
Piergiuseppe Forni - Roberto Schiantarelli

LIABILITIES		31-12-2001	31-12-2000
10.	DUE TO OTHER BANKS:	1,559,348,783	1,242,137,251
	a) sight	243,721,656	266,211,718
	b) time or with notice	1,315,627,127	975,925,533
20.	CUSTOMER DEPOSITS:	5,093,336,265	3,944,879,797
	a) sight	4,010,749,357	3,068,288,502
	b) time or with notice	1,082,586,908	876,591,295
30.	SECURITIES ISSUED:	722,155,086	642,728,782
	a) bonds	610,450,770	525,086,469
	b) certificates of deposit	39,912,826	40,165,499
	c) other securities	71,791,490	77,476,814
40.	THIRD-PARTY FUNDS UNDER ADMINISTRATION	114,224	155,205
50.	OTHER LIABILITIES	260,188,134	311,431,677
60.	ACCRUED LIABILITIES AND DEFERRED INCOME:	21,601,409	23,219,944
	a) accrued liabilities	19,254,129	21,128,865
	b) deferred income	2,347,280	2,091,079
70.	RESERVE FOR SEVERANCE INDEMNITIES	32,281,221	30,434,739
80.	RESERVES FOR RISKS AND CHARGES:	104,908,817	93,720,183
	a) staff pension fund	48,861,798	46,253,964
	b) taxation reserve	38,959,473	37,102,304
	c) other reserves	17,087,546	10,363,915
90.	RESERVES FOR POSSIBLE LOAN LOSSES	17,552,194	14,693,617
100.	RESERVE FOR GENERAL BANKING RISKS	38,734,267	38,734,267
120.	SHARE CAPITAL	412,698,192	177,617,357
130.	SHARE PREMIUM RESERVE	135,886,233	233,401,004
140.	RESERVES:	143,985,746	126,283,702
	a) legal reserve	38,541,608	34,594,976
	b) reserve for own shares	873,969	177,334
	c) statutory reserves	83,966,780	72,303,032
	d) other reserves	20,603,389	19,208,360
170.	NET PROFIT FOR THE YEAR	46,064,525	38,428,768
TOTAL LIABILITIES		8,588,855,096	6,917,866,293

THE GENERAL MANAGER
Mario Alberto Pedranzini

THE CHIEF ACCOUNTANT
Maurizio Bertoletti

**GUARANTEES AND COMMITMENTS****31-12-2001****31-12-2000**

10.	GUARANTEES GRANTED	1,372,074,167	1,118,605,707
	of which:		
	– acceptances	4,526,901	4,530,876
	– other guarantees	1,367,547,266	1,114,074,831
20.	COMMITMENTS	203,629,741	202,518,119

INCOME STATEMENT

(in euro)

		2001	2000
10.	INTEREST INCOME AND SIMILAR REVENUES	409,783,732	347,294,741
	of which:		
	– on customer loans	318,071,551	267,066,324
	– on fixed-yield securities	68,783,571	58,110,703
20.	INTEREST EXPENSE AND SIMILAR CHARGES	(219,824,576)	(182,570,678)
	of which:		
	– on customer deposits	(144,997,201)	(103,318,955)
	– on securities issued	(21,611,833)	(18,155,420)
30.	DIVIDENDS AND OTHER INCOME:	4,771,142	3,847,800
	a) from shares, quotas and other		
	variable-yield securities	742,851	582,465
	b) from equity investments	4,028,291	3,265,335
40.	COMMISSION INCOME	91,940,987	98,140,795
50.	COMMISSION EXPENSE	(6,068,182)	(5,420,527)
60.	PROFITS FROM FINANCIAL TRANSACTIONS	17,018,903	15,376,370
70.	OTHER OPERATING INCOME	22,999,495	19,184,492
80.	ADMINISTRATIVE EXPENSES:	(181,362,215)	(163,070,532)
	a) Personnel expenses	(93,456,153)	(85,327,673)
	of which:		
	– wages and salaries	(61,792,253)	(56,198,687)
	– social security contributions	(17,578,710)	(15,953,096)
	– severance indemnities	(4,918,905)	(5,083,512)
	– pensions	(5,158,207)	(5,129,035)
	b) Other administrative expenses	(87,906,062)	(77,742,859)
90.	ADJUSTMENTS TO INTANGIBLE AND FIXED ASSETS	(15,762,701)	(14,484,473)
100.	PROVISIONS FOR RISKS AND CHARGES	(6,365,183)	(1,032,914)
110.	OTHER OPERATING EXPENSES	(2,871,552)	(3,153,662)
120.	ADJUSTMENTS TO LOANS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS	(38,010,943)	(42,179,642)
130.	WRITE-BACKS TO LOANS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS	14,120,994	10,163,633
140.	PROVISIONS TO RESERVES FOR POSSIBLE LOAN LOSSES	(9,398,307)	(6,644,492)
150.	ADJUSTMENT TO THE VALUE OF LONG-TERM FINANCIAL ASSETS	(374,357)	(425,472)
170.	PROFIT FROM ORDINARY OPERATIONS	80,597,237	75,025,439
180.	EXTRAORDINARY INCOME	884,573	1,292,124
190.	EXTRAORDINARY CHARGES	(2,117,285)	(1,146,055)
200.	NET EXTRAORDINARY ITEMS	(1,232,712)	146,069
210.	CHANGE IN THE RESERVE FOR GENERAL BANKING RISKS	–	(4,131,655)
220.	INCOME TAXES FOR THE YEAR	(33,300,000)	(32,611,085)
230.	NET PROFIT FOR THE YEAR	46,064,525	38,428,768

NOTES TO THE FINANCIAL STATEMENTS

FORM AND CONTENT OF THE FINANCIAL STATEMENTS

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

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

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

All figures contained in the notes are expressed in 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 Arthur Andersen SpA in accordance with the resolution of 6 March 1999 appointing them as external auditors for the 3-year period 1999 – 2000 – 2001.

PART A *Accounting policies*

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



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

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

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

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

Other receivables

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

Guarantees and commitments

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

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

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

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

2.2 Trading securities

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

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

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

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

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

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

5. Fixed assets

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

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

Moreover, within the limits of the law, accelerated depreciation has been charged in order to take advantage of the tax benefit on property, as well as to counter the obsolescence of high-tech goods shown under machines and equipment.

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

6. Intangible assets

These are booked at purchase cost, inclusive of ancillary charges, and are written off systematically over their estimated useful life. They consist of costs for setting-up and refurbishing branches in rented buildings and costs for the purchase of software utilization rights.

7. Others

Payables

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

**Accruals and deferrals**

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

Reserve for severance indemnities

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

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

Reserves for risks and charges

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

The taxation reserve provides for income tax on the basis of a reasonable forecast of current and deferred tax charges in accordance with current fiscal laws, taking into consideration any exemptions and tax credits due.

The prudence principle dictates that deferred tax assets should only be 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, during the current and previous years, for € 9.059 million (€ 0.118 million charged to the year) in accordance with article 67.3 of Presidential Decree 917/86. They have been charged to the maximum extent allowed by tax laws, in order to receive a tax benefit that was not otherwise obtainable.

The potential deferred tax liability amounts to € 3.103 million (€ 0.040 million relating to 2001) 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 € 17.552 million (an increase of € 2.858 million, net of utilizations). The reserve includes € 11.052 million (€ 2.898 million relating to 2001) for overdue interest in accordance with article 71.6 of Presidential Decree 917/86 and € 6.5 million for general provisions in accordance with article 71.3 of the same Decree. These reserves have not been deducted from assets, but booked as separate items under liabilities.

These provisions were made in order to receive a tax benefit that was not otherwise obtainable.

The potential deferred tax liability amounts to € 6.012 million (€ 0.979 million relating to 2001) and is calculated using the expected average tax rate.

PART B Information on the balance sheet**Section 1 Receivables****1.1 Breakdown of item 30 «Due from other banks»**

	31/12/2001	31/12/2000
a) deposits with central banks	215,093	15,289
b) assets eligible for refinancing at central banks	–	–
c) repo transactions	–	–
d) securities lent	–	–

This item amounts to € 905.086 million, an increase of € 386.322 million (+ 74.47%).



Activity on the interbank market went up quite considerably during the year.

Deposits with central banks consist of the compulsory reserve at the Bank of Italy for € 66.231 million and the guarantee deposit for the advance delivery of euros for € 148.862 million. The guarantee deposit is remunerated at the same conditions as the compulsory reserve; the average rate of return on this reserve during 2001 was 4.28%, with a maximum of 4.77% and a minimum of 3.30%.

1.2 Breakdown of item 40 «Customer loans»

	31/12/2001	31/12/2000
a) assets eligible for refinancing at central banks	1,270	687
b) repo transactions	–	–
c) securities lent	–	–

This item comes to € 5,579.547 million, an increase of € 1,135.601 million (+25.55%).

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

Customer loans are booked net of write-downs totalling € 91.591 million, of which: € 61.506 million related to outstanding doubtful loans, non-performing loans and loans being restructured and consolidated resulting from a detailed analysis of potential losses and taking into account country risk; € 30.085 million, deriving from historical, statistical analysis in order to take into account losses that might occur in the future as part of normal banking activities, and booked analytically to each individual item.

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

The following table illustrates the loan situation:

	31/12/2001			31/12/2000		
Categories	Gross exposure	Total writedowns	Net exposure	Gross exposure	Total writedowns	Net exposure
A. Doubtful loans	201,115	61,506	139,609	193,332	56,368	136,964
A.1. Outstanding	94,981	40,408	54,573	93,095	39,258	53,837
A.2. Non-performing	72,320	11,074	61,246	68,072	10,477	57,595
A.3. Loans being restructured	–	–	–	–	–	–
A.4. Restructured loans	33,151	9,825	23,326	31,861	6,597	25,264
A.5. Unsecured loans exposed to country risk	663	199	464	304	36	268
B. Performing loans	5,470,023	30,085	5,439,938	4,326,450	19,469	4,306,981
Total	5,671,138	91,591	5,579,547	4,519,782	75,837	4,443,945

Movements in doubtful loans

	31/12/2001				
Categories	Out-standing loans	Non-performing loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk
A. Gross exposure as of 31/12/2000	93,095	68,072	0	31,861	304
A.1. of which: overdue interest	13,060	–	–	–	–
B. Increases	33,405	28,488	0	1,395	372
B.1. transfers from performing loans	14,492	21,751	–	–	47
B.2. overdue interest	3,967	–	–	–	–
B.3. transfers from other categories of doubtful loans	10,620	–	–	–	–
B.4. other increases	4,326	6,737	–	1,395	325
C. Decreases	31,519	24,240	0	105	13
C.1. transfers to performing loans	–	2,838	–	104	–
C.2. write-offs	22,108	–	–	–	–
C.3. collections	9,411	10,782	–	1	13
C.4. proceeds from factored loans	–	–	–	–	–
C.5. transfers to other categories of doubtful loans	–	10,620	–	–	–
C.6. other decreases	–	–	–	–	–
D. Gross exposure as of 31/12/2001	94,981	72,320	0	33,151	663
D.1. of which: overdue interest	13,786	–	–	–	–

	31/12/2000				
Categories	Out-standing loans	Non-performing loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk
A. Gross exposure as of 31/12/1999	99,169	62,102	44,334	461	198
A.1. of which: overdue interest	11,414	–	–	–	–
B. Increases	54,529	42,602	0	33,005	117
B.1. transfers from performing loans	27,416	22,950	–	105	–
B.2. overdue interest	3,623	–	–	–	–
B.3. transfers from other categories of doubtful loans	21,790	14,023	–	32,588	–
B.4. other increases	1,700	5,629	–	312	117
C. Decreases	60,603	36,632	44,334	1,605	11
C.1. transfers to performing loans	168	7,709	1,252	–	–
C.2. write-offs	33,786	–	–	–	–
C.3. collections	20,342	7,470	2,778	124	11
C.4. proceeds from factored loans	–	–	–	–	–
C.5. transfers to other categories of doubtful loans	6,307	21,453	40,304	337	–
C.6. other decreases	–	–	–	1,144	–
D. Gross exposure as of 31/12/2000	93,095	68,072	0	31,861	304
D.1. of which: overdue interest	13,060	–	–	–	–



Movements in total adjustments

Categories	31/12/2001					
	Out-standing loans	Non-performing loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk	Performing loans
A. Opening total adjustments as of 31/12/2000	39,258	10,477	0	6,597	36	19,469
A.1. of which: overdue interest	2,498	–	–	–	–	–
B. Increases	24,229	5,170	0	3,247	167	14,146
B.1. adjustments	21,609	5,140	–	3,247	167	14,141
B.1.1. of which: overdue interest	1,969	–	–	–	–	–
B.2. use of the reserve for possible loan losses	–	–	–	–	–	–
B.3. transfers from other categories of loans	2,620	30	–	–	–	5
B.4. other increases	–	–	–	–	–	–
C. Decreases	23,079	4,573	0	19	4	3,530
C.1. write-backs on valuation	405	586	–	18	–	113
C.1.1. of which: overdue interest	6	–	–	–	–	–
C.2. write-backs due to collections	566	1,421	–	1	4	3,328
C.2.1. of which: overdue interest	157	–	–	–	–	–
C.3. write-offs	22,108	–	–	–	–	–
C.4. transfers to other categories of loans	–	2,566	–	–	–	89
C.5. other decreases	–	–	–	–	–	–
D. Closing total adjustments as of 31/12/2001	40,408	11,074	0	9,825	199	30,085
D.1. of which: overdue interest	2,734	–	–	–	–	–

Categories	31/12/2000					
	Out-standing loans	Non-performing loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk	Performing loans
A. Opening total adjustments as of 31/12/1999	42,024	8,885	6,292	199	59	16,165
A.1. of which: overdue interest	1,987	–	–	–	–	–
B. Increases	16,092	8,043	0	6,597	29	7,522
B.1. adjustments	10,554	5,160	–	820	26	3,311
B.1.1. of which: overdue interest	1,043	–	–	–	–	–
B.2. use of the reserve for possible loan losses	–	–	–	–	–	–
B.3. transfers from other categories of loans	4,718	2,337	–	3,475	–	6
B.4. other increases	820	546	–	2,302	3	4,205
C. Decreases	18,858	6,451	6,292	199	52	4,218
C.1. write-backs on valuation	1,353	–	–	–	–	–
C.1.1. of which: overdue interest	119	–	–	–	–	–
C.2. write-backs due to collections	275	1,921	480	4	52	4,140
C.2.1. of which: overdue interest	83	–	–	–	–	–
C.3. write-offs	17,230	–	–	–	–	–
C.4. transfers to other categories of loans	–	4,530	5,812	195	–	–
C.5. other decreases	–	–	–	–	–	78
D. Closing total adjustments as of 31/12/2000	39,258	10,477	0	6,597	36	19,469
D.1. of which: overdue interest	2,498	–	–	–	–	–

1.3 Secured customer loans

	31/12/2001	31/12/2000
a) by mortgages	1,504,272	1,290,046
b) by liens on:	165,869	163,612
1. cash deposits	48	45
2. securities	151,844	163,567
3. other assets	13,977	–
c) by guarantees from:	1,259,770	1,599,630
1. governments	41	–
2. other public entities	4,132	–
3. banks	11,632	3,181
4. other operators	1,243,965	1,596,449
Total	2,929,911	3,053,288

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

1.4 Doubtful loans (including overdue interest)

	31/12/2001	31/12/2000
Doubtful loans (including overdue interest)	54,573	53,837

Doubtful loans, expressed at their estimated realizable value, have increased by € 0.735 million, +1.37% in comparison with the end of last year.

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

1.5 Receivables for overdue interest

	31/12/2001	31/12/2000
a) doubtful loans	11,052	10,562
b) other loans	–	–

Receivables for overdue interest are stated at their estimated realizable value, in other words net of write-downs for € 2.734 million. These receivables have increased by € 0.490 million, +4.64% in comparison with the end of last year.

Section 2 **Securities**

Securities owned by the bank, which are held for trading purposes, amount to € 1,612.994 million and have increased by € 180.501 million (+12.60%). They are classified in the financial statements under item 20, «Treasury and similar bills eligible for refinancing with central banks» for € 404.324 million, under item 50, «Bonds and other fixed-yield securities» for € 1,100.638 million, and under item 60, «Shares, quotas and other variable-yield securities» for € 108.032 million. The items take into account write-downs for € 9.552 million and write-backs for € 0.834 million to both listed and unlisted securities, charged in full to the income statement.

Item 60 includes € 48.501 million of securities held as investments of the staff pension fund.



2.3 Trading securities

	31/12/2001		31/12/2000	
	Book value	Market value	Book value	Market value
1. Fixed-yield securities	1,504,962	1,507,564	1,381,598	1,382,424
1.1 Government securities	1,459,265	1,461,820	1,287,219	1,287,868
– listed	1,459,265	1,461,820	1,287,219	1,287,868
– unlisted	–	–	–	–
1.2 Other securities	45,697	45,744	94,379	94,556
– listed	8,669	8,713	25,986	26,152
– unlisted	37,028	37,031	68,393	68,404
2. Variable-yield securities	108,032	111,231	50,895	56,899
– listed	28,989	32,188	20,097	26,101
– unlisted	79,043	79,043	30,798	30,798
Total	1,612,994	1,618,795	1,432,493	1,439,323

2.4 Change for the year in trading securities

	31/12/2001	31/12/2000
A. Opening balance	1,432,493	1,294,663
B. Increases	13,410,704	11,985,363
B1. Purchases	13,392,648	11,972,503
– Fixed-yield securities	13,077,697	11,535,171
government securities	11,652,489	10,841,465
other securities	1,425,208	693,706
– Variable-yield securities	314,951	437,332
B2. Write-backs and revaluations	834	948
B3. Transfers from investment portfolio	–	–
B4. Other changes	17,222	11,912
C. Decreases	13,230,203	11,847,533
C1. Sales and reimbursements	13,220,325	11,841,242
– Fixed-yield securities	12,970,299	11,433,416
government securities	11,491,454	10,731,870
other securities	1,478,845	701,546
– Variable-yield securities	250,026	407,826
C2. Write-downs	9,552	6,291
C3. Transfers to investment portfolio	–	–
C5. Other changes	326	–
D. Closing balance	1,612,994	1,432,493

Section 3 Equity investments

Items 70 and 80 report balances of € 66.255 million and € 32.928 million respectively, an overall increase of € 7.476 million, +8.15% with respect to 31 December 2000.

3.1 Main equity investments

	Location	Shareholders' equity	Profit/loss	% held	Book value
A. Subsidiaries					
1. Banca Popolare di Sondrio (Suisse) SA	Lugano	55,002	6,086	100	32,928
2. Pirovano Stelvio spa	Tirano	1,880	-382	98	4,264
3. Sinergia Seconda srl	Milan	10,051	-291	100	10,329
B. Subject to significant influence					
1. Ripoval spa	Sondrio	3,087	279	50	1,291

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 € 1.040 million higher than the value calculated using the net equity method. This difference is due to the depreciation of the higher value of the subsidiary's buildings paid upon the subsidiary's acquisition. However, in the group consolidated financial statements, this investment has been valued using the net equity method.

Sinergia Seconda srl has a book value higher than shareholders' equity, due to the loss incurred during the year. This investment has not been written down, however, as the company is expected to make a profit in the future, since most of its properties are already earning rent.

3.2 Assets and liabilities due to and from Group companies

	31/12/2001	31/12/2000
a) Assets	17,166	16,839
1. due from other banks	17,166	16,839
of which:		
- subordinated	-	-
2. due from financial institutions	-	-
of which:		
- subordinated	-	-
3. customer loans	-	-
of which:		
- subordinated	-	-
4. bonds and other fixed-yield securities	-	-
of which:		
- subordinated	-	-
b) Liabilities	1,237	17,449
1. due to other banks	1,237	17,449
2. due to financial institutions	-	-
3. customer deposits	-	-
4. securities issued	-	-
5. subordinated liabilities	-	-
c) Guarantees and commitments	512	92,423
1. guarantees granted	512	92,423
2. commitments	-	-



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

	31/12/2001	31/12/2000
a) Assets	214,653	115,151
1. due from other banks	128,015	90,855
of which:		
– subordinated	–	–
2. due from financial institutions	57,953	18,977
of which:		
– subordinated	–	–
3. customer loans	17,227	5,319
of which:		
– subordinated	140	140
4. bonds and other fixed-yield securities	11,458	–
of which:		
– subordinated	1,020	–
b) Liabilities	256,210	94,591
1. due to other banks	1,930	4,006
2. due to financial institutions	237,316	85,921
3. customer deposits	16,964	4,664
4. securities issued	–	–
5. subordinated liabilities	–	–
c) Guarantees and commitments	189,251	58,357
1. guarantees granted	188,108	58,357
2. commitments	1,143	–

3.4 Breakdown of item 70 «Equity investments»

	31/12/2001	31/12/2000
a) in banks	12,040	10,263
1. listed	394	303
2. unlisted	11,646	9,960
b) in financial institutions	14,804	12,042
1. listed	–	–
2. unlisted	14,804	12,042
c) others	39,411	36,474
1. listed	5,175	5,175
2. unlisted	34,236	31,299
Total	66,255	58,779

The figures for 2000 have been reclassified for comparison purposes.

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

	31/12/2001	31/12/2000
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	32,928	32,928

3.6 Changes for the year in equity investments

3.6.1 Equity investments in Group companies

	31/12/2001	31/12/2000
A. Opening balance	32,928	32,928
B. Increases	–	–
B1. Purchases	–	–
B2. Write-backs	–	–
B3. Revaluations	–	–
B4. Other changes	–	–
C. Decreases	–	–
C1. Sales	–	–
C2. Write-downs	–	–
of which:		
– permanent write-downs	–	–
C3. Other changes	–	–
D. Closing balance	32,928	32,928
E. Total revaluations	–	–
F. Total write-downs	–	–

3.6.2 Other equity investments

	31/12/2001	31/12/2000
A. Opening balance	58,779	52,423
B. Increases	7,851	6,800
B1. Purchases	7,851	6,800
B2. Write-backs	–	–
B3. Revaluations	–	–
B4. Other changes	–	–
C. Decreases	375	444
C1. Sales	1	19
C2. Write-downs	374	425
of which:		
– permanent write-downs	374	425
C3. Other changes	–	–
D. Closing balance	66,255	58,779
E. Total revaluations	–	–
F. Total write-downs	3,477	3,103

The most significant increases during the year relate to the investment in Arca Merchant S.p.A. for € 2.521million; the larger stakes in the following companies: € 2.782 million in Arca Vita S.p.A., of which € 1.829 million for shares purchased on the market and € 0.953 million for an increase in share capital; € 91,000 in Arca Assicurazioni S.p.A. of which € 18,000 for shares purchased on the market and € 73,000 for a capital injection; € 0.242 million in Arca SGR S.p.A.; € 0.374 million in Pirovano Stelvio S.p.A.; € 1.778 million in Banca per il Leasing – Italease S.p.A.; € 62,000 million in Sintesi 2000 srl and € 1,000 in C.B.E. Service S.p.r.l. The decreases relate to coverage of the loss of € 0.374 million reported in 2001 by Pirovano Stelvio S.p.A.



Section 4 **Fixed and intangible assets**

4.1 Changes for the year in fixed assets

	31/12/2001				
	Buildings	Furniture and fittings	Machines and equipment	Other	Total
A. Opening balance	59,487	4,024	3,932	3,309	70,752
B. Increases	369	1,543	2,476	2,796	7,184
B1. Purchases	369	1,543	2,476	2,796	7,184
B2. Write-backs	–	–	–	–	–
B3. Revaluations	–	–	–	–	–
B4. Other changes	–	–	–	–	–
C. Decreases	2,977	1,610	2,987	2,348	9,922
C1. Sales	–	–	–	–	–
C2. Write-downs:	2,977	1,610	2,987	2,348	9,922
a) Depreciation	2,977	1,610	2,987	2,348	9,922
b) Permanent write-downs	–	–	–	–	–
C3. Other changes	–	–	–	–	–
D. Closing balance	56,879	3,957	3,421	3,757	68,014
E. Total revaluations	42,374	–	–	–	42,374
F. Total write-downs:	48,748	12,148	18,750	19,801	99,447
a) Depreciation	48,748	12,148	18,750	19,801	99,447
b) Permanent write-downs	–	–	–	–	–

	31/12/2000				
	Buildings	Furniture and fittings	Machines and equipment	Other	Total
A. Opening balance	59,571	3,305	2,872	3,063	68,811
B. Increases	2,817	2,243	3,607	2,221	10,888
B1. Purchases	2,817	2,243	3,607	2,221	10,888
B2. Write-backs	–	–	–	–	–
B3. Revaluations	–	–	–	–	–
B4. Other changes	–	–	–	–	–
C. Decreases	2,901	1,524	2,547	1,975	8,947
C1. Sales	–	–	–	–	–
C2. Write-downs:	2,901	1,524	2,547	1,975	8,947
a) Depreciation	2,901	1,524	2,547	1,975	8,947
b) Permanent write-downs	–	–	–	–	–
C3. Other changes	–	–	–	–	–
D. Closing balance	59,487	4,024	3,932	3,309	70,752
E. Total revaluations	42,374	–	–	–	42,374
F. Total write-downs:	45,771	10,538	15,763	17,640	89,712
a) Depreciation	45,771	10,538	15,763	17,640	89,712
b) Permanent write-downs	–	–	–	–	–

This item comes to € 68.014 million, a decrease of € 2.738 million (-3.87%).

The main changes for the year concerned:

- for buildings:
purchase of land and a building next to the Service Centre in S. Pietro Berbenno and works underway at the Centre; increases for works on the building in Via Roma, Bormio;

- for furniture, machines and installations:
increases for head office and branch EDP equipment, furniture and fittings for the newly opened branches.

Depreciation has been calculated on the basis of rates deemed to represent the residual useful life of the assets. Accelerated depreciation on buildings has been charged so as to take advantage of the tax benefit, which would not otherwise be obtainable.

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

Buildings used for business purposes are worth € 45.779 million.

The figures for 2000 have been reclassified for comparison purposes.

4.2 Changes for the year in intangible assets

	31/12/2001		
	Software purchases	Leasehold improvements	Total
A. Opening balance	2,255	7,144	9,399
B. Increases	2,109	4,522	6,631
B1. Purchases	2,109	4,522	6,631
B2. Write-backs	–	–	–
B3. Revaluations	–	–	–
B4. Other changes	–	–	–
C. Decreases	2,322	3,518	5,840
C1. Sales	–	–	–
C2. Write-downs:	2,322	3,518	5,840
a) amortization	2,322	3,518	5,840
b) permanent write-downs	–	–	–
C3. Other changes	–	–	–
D. Closing balance	2,042	8,148	10,190
E. Total revaluations	–	–	–
F. Total write-downs:	16,800	20,854	37,654
a) amortization	16,800	20,854	37,654
b) permanent write-downs	–	–	–

	31/12/2000		
	Software purchases	Leasehold improvements	Total
A. Opening balance	2,683	6,150	8,833
B. Increases	1,916	4,187	6,103
B1. Purchases	1,916	4,187	6,103
B2. Write-backs	–	–	–
B3. Revaluations	–	–	–
B4. Other changes	–	–	–
C. Decreases	2,344	3,193	5,537
C1. Sales	–	–	–
C2. Write-downs:	2,344	3,193	5,537
a) amortization	2,344	3,193	5,537
b) permanent write-downs	–	–	–
C3. Other changes	–	–	–
D. Closing balance	2,255	7,144	9,399
E. Total revaluations	–	–	–
F. Total write-downs:	14,478	17,336	31,814
a) amortization	14,478	17,336	31,814
b) permanent write-downs	–	–	–



Intangible assets affecting various years amount to € 10.190 million, an increase of € 0.791 million (+8.41%).

Costs for the purchase of software are amortized at 89.16%.

Costs for leasehold improvements are amortized at 71.90%.

Section 5 **Other asset items**

5.1 Breakdown of item 130 «Other assets»

	31/12/2001	31/12/2000
Deferred tax assets	5,381	6,856
Taxes withheld	181	200
Tax credits on dividends	1,601	1,239
Advances paid to tax authorities	27,855	23,219
Withholdings on interest due to customers	129	128
Tax credits and related interest	2,517	2,364
Bills and credit instruments with the cashier	44	131
Outstanding cheques and bills	2,979	3,168
Current account cheques drawn on third parties	37,542	39,117
Current account cheques drawn on the bank	2,326	15,020
Securities transactions	4,021	13,956
Transit account for Arca funds	–	1,001
Contra-item for valuation of off-balance sheet transactions	30,610	75,545
Costs pertaining to 2002	809	335
Advances to suppliers	14,659	9,805
Advances to customers on loans	23,100	24,090
Value date differentials on portfolio transactions	–	6,537
Inventories	921	939
Miscellaneous debits in transit	13,763	21,270
Premiums for exchange and securities options to be exercised	3,472	2,594
Guarantee deposits	203	320
Items in transit with branches	465	1
Liquid assets belonging to the staff pension fund	360	–
Residual items	10,292	8,097
Total	183,230	255,932

This item decreased by € 72.702 million (-28.41%).

The decrease is the result of improvements in the management of financial flows and a substantial decline in the revaluation of off-balance sheet transactions, which have decreased from € 75.545 million to € 30.610 million (-59.48%).

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

5.2 Breakdown of item 140 «Accrued income and prepayments»

	31/12/2001	31/12/2000
a) Accrued income	48,147	43,935
Interest receivable on securities	17,361	17,019
Interest on euro and foreign currency deposits and loans to customers	6,411	8,363
Interest on euro and foreign currency deposits and loans to other banks	3,482	1,570
Interest on customer mortgages and loans	13,036	10,535
Commissions receivable	6,447	5,441
Other accrued income	1,410	1,007
b) Prepayments	1,502	1,755
Invoices received not pertaining to this financial year	1,502	1,755
Total	49,649	45,690

This item has increased by € 3.959 million, +8.66% 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

	31/12/2001	31/12/2000
a) due from other banks	–	–
b) customer loans	140	140
c) bonds and other fixed-yield securities	1,725	3,405

Section 6 **Payables**

6.1 Breakdown of the item «Due to other banks»

	31/12/2001	31/12/2000
a) repo transactions	–	–
b) securities lent	–	–

This item amounts to € 1,559.349 million, an increase of € 317.212 million (+25.54%).

The increase relates to the increase in customer loans denominated in foreign currency.

6.2 Breakdown of the item «Customer deposits»

	31/12/2001	31/12/2000
a) repo transactions	1,027,766	817,028
b) securities lent	–	–

Item 20 totals € 5,093.336 million, with an increase of € 1,148.456 million (+29.11%).

Item 30 «securities issued» has increased by € 79.426 million (+12.36%), rising from € 642.729 million to € 722.155 million. This is due to an increase of € 85.364 million in «bonds» (+16.26%) and a decrease of € 5.685 in «other securities» (-7.34%) and of € 0.253 million in «certificates of deposit» (-0.63%).

The sub-item «bonds» is made up of:

	Nominal value	Book value
Floating-rate bond issues	260,611	234,925
Fixed-rate bond issues	102,870	100,178
Zero-coupon bond issues	297,840	275,348
Total	661,321	610,451



Floating-rate bond issues also include structured bonds with a nominal value of € 77.149 million.

The sub-item «certificates of deposit» totals € 39.913 million and consists of € 36.717 million in short-term fixed-rate certificates, € 1.539 million in medium-term fixed-rate certificates, € 1.573 million in medium-term floating-rate certificates and € 84,000 in zero-coupon certificates.

The contrasting trends in «bonds» and «certificates of deposit» are the result of the changes in the last few years to the tax regime applying to the related returns.

Item 40 «Third party funds under administration» consists of public funds to be used for assisted loans. This item reports a balance of € 114,000, a decrease of € 41,000 (–26.45%).

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

These reserves amount to € 17.552 million, an increase of € 2.858 million (+19.45%). They comprise € 11.052 million in reserves against the portion of overdue interest deemed recoverable (article 71.6 of Presidential Decree 917/86) and € 6.500 million in general provisions, pursuant to article 71.3 of the same Decree.

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

	31/12/2001	31/12/2000
A. Opening balance	14,694	9,426
B. Increases	9,471	6,764
B1. Provisions	9,398	6,645
B2. Other changes	73	119
C. Decreases	6,613	1,496
C1. Utilizations	5,199	391
C2. Other changes	1,414	1,105
D. Closing balance	17,552	14,694

The increases include € 2.898 million for overdue interest and € 6.500 for possible loan losses (article 71.3 of Presidential Decree 917/86). The decreases include € 2.481 million for overdue interest and € 4.132 million for the use of the provision made during 2000 (article 71.3 of Presidential Decree 917/86).

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

	31/12/2001	31/12/2000
a) Charity fund	393	384
b) Reserve for guarantees granted	3,500	3,099
c) Reserve for personnel expenses	3,194	3,246
d) Reserve for litigation costs	10,000	3,635
Total	17,087	10,364

This sub-item reports an increase of € 6.723 million (+64.88%).

The charity fund shows a balance of € 0.393 million, the result of an increase of € 0.258 million through the allocation of the 2000 net profit and a decrease of € 0.249 million for donations made during the year.

The reserve for guarantees granted amounts to € 3.500 million, an increase of € 0.401 million (+12.95%).

The reserve for personnel expenses shows a balance of € 3.194 million, a decrease of € 52,000 with respect to the prior year. The decrease is the result of provisions for the year of € 0.258 million and utilizations of € 0.310 million.

The reserve for litigation costs amounts to € 10 million, an increase of € 6.365 million.

7.4 Breakdown of item 70 and sub-items 80a) and 80b)

The following paragraphs describe the reserves included under items 70 and 80 for which no tables have been prepared.

Reserve for severance indemnities

This reserve totals € 32.281 million, having risen by € 1.846 million (+6.07%); this increase consists of € 4.919 million in provisions for the year less utilizations that included € 1.987 million of payments during the year, € 0.990 million transferred to Arca Previdenza F.P.A. and € 96,000 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 during 2000 based on the situation at 31 December 1999, which confirmed that the fund is adequate, considering that it is for a closed group as of 28 April 1993 of 752 employees and 128 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 678 employees have opted to enrol.

Taxation reserve

This reserve amounts to € 38.959 million, an increase of € 1.857 million (+5.01%) and includes the amounts due for the year for corporate income tax (IRPEG) and the regional tax on business activities (IRAP), gross of advances paid, withholding tax and the tax credit.

When calculating deferred tax, a rate of 30% has been used for IRPEG (corporate income tax), reflecting the new corporate income tax rate and the provisions of the Dual Income Tax regime. The rate used for IRAP is the one applicable to the years affected. Last year the current rates were applied. The recalculation using the new rates has determined a negative difference, involving a higher provision, as explained under item 220 of the income statement.

The following table provides details of the deferred tax liabilities.

Deferred tax liabilities

	31/12/2001	31/12/2000
1. Opening balance	69	80
2. Increases	5	25
2.1. Deferred tax liabilities arising during the year	5	25
2.2. Other increases	—	—
3. Decreases	31	36
3.1. Deferred tax liabilities reversing during the year	29	25
3.2. Other decreases	2	11
4. Closing balance	43	69

**Deferred tax assets**

	31/12/2001	31/12/2000
1. Opening balance	6,856	9,824
2. Increases	1,282	628
2.1. Deferred tax assets arising during the year	1,282	628
2.2. Other increases	–	–
3. Decreases	2,757	3,596
3.1. Deferred tax assets reversing during the year	2,527	2,231
3.2. Other decreases	230	1,365
4. Closing balance	5,381	6,856

The amount of € 1.282 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 € 13.694 million.

The amount of € 0.230 million shown under «other decreases» relates to the recalculation of deferred tax assets using a lower rate of income tax, partly because the standard rate of IRPEG has been reduced, and partly because the effective rate to be applied is further reduced by applying the Dual Income Tax (DIT) mechanism.

No deferred taxes have been booked for reserves in suspense for tax purposes.

With reference to the bank's tax situation, it should be noted that fiscal years 1979 to 1987 have not yet been agreed with the tax authorities; the bank has received assessment notices for these years and has appealed to the appropriate authorities. The dispute regards the calculation of taxable income and withholdings on foreign deposits. Fiscal years from 1996 to date also remain open.

The outcome of litigation has so far been favourable, as all of the bank's appeals for the years 1979-1987 have been accepted in their entirety in both first and second degree.

Section 8 **Share capital, reserves, reserve for general banking risks, and subordinated liabilities**

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

	31/12/2001	31/12/2000
A. Reserve for general banking risks	38,734	38,734
B. Share capital	412,698	177,617
C. Share premium reserve	135,886	233,401
D. Reserves:	143,986	126,284
D1. Legal reserve	38,542	34,595
D2. Reserve for own shares	874	177
D3. Statutory reserves	83,967	72,304
D4. Others	20,603	19,208
E. Net profit for the year	46,065	38,429
Total	777,369	614,465

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*: unchanged from the prior 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, a rise of € 235.081 million following the increase in share capital resolved on 3 March 2001 during the extraordinary shareholders' meeting and applied from 7 May to 8 June 2001.
- *Share premium reserve*: down by € 97.515 (- 41.78%) due to the following movements at the time the share capital was increased:
 - + € 34.392 million for capital paid in by the shareholders;
 - € 28.732 million transferred to share capital on its conversion into euro;
 - € 103.175 million for a bonus issue of shares as resolved by the extraordinary shareholders' meeting mentioned above.
- *Legal reserve*: up by € 3.947 million (+11.41%) as a result of the allocation of 2000 profits.
- *Reserve for own shares*: shows a balance of € 0.874 million, being the portion of the restricted reserve for the purchase of own shares to cover shares in portfolio.
- *Statutory reserves*: up by € 11.664 million (+16.13%) due to the allocation of 2000 profits of € 11.528 million, the transfer of € 1,000 in dividends on own shares and the transfer of € 3,000 in dividends that have fallen into prescription and rights not exercised for € 132,000, in accordance with the bank's by-laws.
- *Other reserves*: shows a balance of € 20.603 million, with an increase of € 1.395 million (+7.26%) 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; € 14.103 million for the unrestricted portion of the reserve covering the potential purchase of own shares. The reserve has increased by € 2.066 million due to allocation of the net profit for 2000. € 44,000 for the reserve as per Legislative Decree 124/93, increased by € 26,000 due to allocation of the net profit for 2000.

Capital ratios: solvency ratio as of 31 December 2001

Categories	31/12/2001	31/12/2000
A. Capital for supervisory purposes		
A.1 Basic capital (tier 1)	741,293	584,027
A.2 Supplementary capital (tier 2)	19,977	20,976
A.3 Amounts to be subtracted	13,067	22,605
A.4 Capital for supervisory purposes	748,203	582,398
B. Precautionary requirements for supervisory purposes		
B.1 Credit risks	464,177	373,360
B.2 Market risks	19,008	16,267
of which:		
– risks to the trading securities portfolio	19,008	16,267
– exchange risks	–	–
B.3 Other precautionary requirements	4,653	7,289
B.4 Total precautionary requirements	487,838	396,916
C. Risk assets and capital ratios		
C.1 Risk-weighted assets	6,969,114	5,670,229
C.2 Tier 1 capital / Risk-weighted assets	10.64%	10.30%
C.3 Capital for supervisory purposes / Risk-weighted assets	10.74%	10.27%



This is the minimum capital ratio requirement which banks and banking groups must constantly meet to cover counterparty solvency risk.

The minimum prescribed level for the solvency ratio (total capital for supervisory purposes to risk-weighted assets) for banks belonging to banking groups is 7%.

Compared with the above minimum prescribed level, our bank's ratio was 10.74% as of 31 December 2001, compared with 10.27% at the beginning of the year.

Section 9 **Other liability items**

9.1 Breakdown of item 50 «Other liabilities»

	31/12/2001	31/12/2000
Amounts at the disposal of third parties	26,137	32,504
Taxes to be paid on behalf of third parties	22,819	26,040
Taxes to be paid	2,368	1,251
Employee salaries and contributions	10,179	8,986
Trade payables	8,904	7,732
Transit accounts for sundry entities	13,483	24,059
Advance delivery of euros	1,844	–
Invoices receivable	2,467	6,003
Securities transactions	3,164	15,141
Transit accounts for Arca funds	–	27,279
Value date differentials on portfolio transactions	43,380	–
Directors' and statutory auditors' emoluments	773	763
Loans disbursed to customers to be finalized	8,242	9,622
Miscellaneous credit items being settled	75,042	72,124
Premiums for exchange and securities options sold and not exercised	3,534	2,669
Contra-item of valuation of off-balance sheet transactions	31,074	73,904
Items in transit with branches	1,198	–
Residual items	5,580	3,355
Total	260,188	311,432

This item has decreased by € 51.244 million (-16.45%), mainly due to the decrease of € 42.830 million (-57.95%) in the «Contra-item of valuation of off-balance sheet transactions», which went from € 73.904 million to € 31.074 million. This amount is basically counterbalanced by the corresponding item recorded under «other assets».

The sub-item «Miscellaneous credit items being settled» refers to transactions which were settled at the beginning of the year.

9.2 Breakdown of item 60 «Accrued liabilities and deferred income»

	31/12/2001	31/12/2000
a) Accrued liabilities	19,254	21,129
Interest on bonds	8,417	7,386
Interest on certificates of deposit	456	836
Interest on customer deposits in euro and foreign currency	35	70
Interest on deposits from other banks in euro and foreign currency	5,238	7,419
Repo transactions	4,108	4,057
Other accrued liabilities	1,000	1,361
b) Deferred income	2,347	2,091
Interest on portfolio, mortgages and loans	407	544
Commission on sureties	1,807	1,547
Other deferred income	133	–
Total	21,601	23,220

This item has decreased by € 1.619 million (-6.97%), mainly due to a decrease of € 1.875 million in accrued liabilities and a slight increase of € 0.256 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**

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10.1 Breakdown of item 10 «Guarantees granted»

	31/12/2001	31/12/2000
a) commercial endorsement credits	716,959	585,364
b) financial endorsement credits	646,890	525,017
c) assets given in guarantee	8,225	8,225
Total	1,372,074	1,118,606

10.2 Breakdown of item 20 «Commitments»

	31/12/2001	31/12/2000
a) commitments to disburse funds (certain to be called on)	145,137	178,271
b) commitments to disburse funds (not certain to be called on)	58,493	24,247
Total	203,630	202,518

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 € 3.5 million in the reserve for guarantees granted booked under sub-item 80c) «Other reserves», and have been valued on a forfeit basis to take account of losses that could occur in the future during normal lending activities.

10.3 Collateral given for own payables

The collateral provided by the bank against its own liabilities consists of government securities: € 1,027.354 million relates to securities given to customers for repo transactions, € 18.702 million is for the deposit paid against the issuing of banker's cheques.

10.4 Margins usable on credit lines

	31/12/2001	31/12/2000
a) central banks	66,231	15,289
b) other banks	3,568	–



10.5 Forward transactions

Type of transaction	31/12/2001			31/12/2000		
	For hedging	For trading	Other	For hedging	For trading	Other
1. Buying and selling						
1.1 Securities						
– purchases	–	50,080	–	–	116,093	–
– sales	–	38,963	–	–	106,743	–
1.2 Foreign currency						
– currency against currency	–	2,854	–	–	451	–
– purchases against euro	–	1,624,509	–	–	1,464,067	–
– sales against euro	–	1,570,495	–	–	1,546,477	–
2. Deposits and loans						
– to be disbursed	–	–	95,057	–	–	60,580
– to be received	–	–	143,973	–	–	77,880
3. Derivative contracts						
3.1 With exchange of capital						
a) securities						
– purchases	–	–	–	–	–	–
– sales	–	–	–	–	–	–
b) foreign currency						
– currency against currency	–	11,556	–	–	–	–
– purchases against euro	–	20,847	–	–	16,753	–
– sales against euro	–	20,847	–	–	16,753	–
c) other instruments						
– purchases	–	34,225	–	–	95,894	–
– sales	–	34,225	–	–	95,894	–
3.2 Without exchange of capital						
a) foreign currency						
– currency against currency	–	–	–	–	–	–
– purchases against euro	–	–	–	–	–	–
– sales against euro	–	–	–	–	–	–
b) other instruments						
– purchases	77,149	221,071	–	77,149	134,291	–
– sales	78,658	221,071	–	78,658	134,291	–

The transactions for buying and selling securities, foreign currency and derivative contracts with exchange of capital (or other assets) are recorded at the amount to be disbursed or to be received.

Off-balance sheet transactions without exchange of capital are recorded at their nominal value.

Derivative contracts, recorded under point 3.2, refer to basic swaps hedging the interest rate risk on bond issues.

The figures for 2000 have been reclassified for comparison purposes.

Section 11 **Concentration and distribution of assets and liabilities**

11.1 Significant risk accounts

	31/12/2001	31/12/2000
a) amount	561,219	284,214
b) number	5	4

11.2 Breakdown of customer loans by main borrower categories

	31/12/2001	31/12/2000
a) governments	41	–
b) other public entities	26,310	68,503
c) non-financial businesses	3,524,823	2,830,102
d) financial businesses	298,393	181,902
e) family businesses	429,502	272,265
f) other businesses	1,300,478	1,091,173
Total	5,579,547	4,443,945

11.3 Breakdown of loans to resident non-financial companies and family businesses

	31/12/2001	31/12/2000
a) other services for sale	1,057,029	840,334
b) wholesale and retail services, recoveries and repairs	593,915	499,872
c) construction and public works	398,696	311,655
d) metal products excluding cars and transportation	194,637	191,509
e) textiles, leather and clothing	164,136	135,265
f) other sectors	1,437,518	1,011,069
Total	3,845,931	2,989,704

11.4 Distribution of guarantees granted by main categories of counterparty

	31/12/2001	31/12/2000
a) Governments	5	–
b) other public entities	15,833	87,594
c) banks	95,053	105,023
d) non-financial businesses	1,018,397	754,813
e) financial businesses	93,789	69,328
f) family businesses	31,908	19,233
g) other businesses	117,089	82,615
Total	1,372,074	1,118,606

11.5 Geographical breakdown of assets and liabilities

Item	31/12/2001			31/12/2000		
	Italy	Other EU countries	Other countries	Italy	Other EU countries	Other countries
1. Assets	7,815,676	183,677	98,274	6,162,233	139,466	93,503
1.1 Due from other banks	841,341	30,301	33,444	460,879	26,308	31,577
1.2 Customer loans	5,393,196	124,681	61,670	4,281,281	101,822	60,842
1.3 Securities	1,581,139	28,695	3,160	1,420,073	11,336	1,084
2. Liabilities	6,075,052	902,046	397,856	4,875,289	489,864	464,748
2.1 Due to other banks	373,042	863,862	322,445	383,942	470,854	387,341
2.2 Customer deposits	4,979,741	38,184	75,411	3,848,927	18,851	77,102
2.3 Securities issued	722,155	–	–	642,265	159	305
2.4 Others	114	–	–	155	–	–
3. Guarantees and commitments	1,537,329	35,219	3,156	1,168,673	56,857	95,593



11.6 Breakdown of assets and liabilities by maturity

									31/12/2001
									Unspecified duration

11.7 Foreign currency assets and liabilities

	31/12/2001	31/12/2000
a) Assets	1,569,828	1,089,296
1. due from other banks	458,286	215,571
2. customer loans	1,061,574	833,643
3. securities	8,293	–
4. equity investments	32,928	32,928
5. others	8,747	7,154
b) Liabilities	1,545,706	1,027,883
1. due to other banks	1,405,167	874,977
2. customer deposits	140,539	152,906
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 (66.16%), Swiss francs (18.91%), Yen (13.20%), GBP (1.35%) and others (0.38%); for liabilities they are U.S. dollars (67.91%), Swiss francs (16.88%), Yen (13.48%), GBP (1.52%) and others (0.21%).

11.8 Securitization transactions

The bank holds € 9.646 million of senior bonds as a result of carrying out securitization transactions on behalf of third parties.

Section 12 **Management and intermediation for third parties**

12.2 Portfolio management

	31/12/2001	31/12/2000
1. securities issued by the bank drawing up the financial statements	–	–
2. other securities	933,257	949,581

The total amount of cash held in relation to portfolio management contracts is € 13.871 million.

12.3 Securities custody and administration

	31/12/2001	31/12/2000
a) third-party securities on deposit	11,672,665	13,761,917
1. securities issued by the bank drawing up the financial statements	1,023,558	728,126
2. other securities	10,649,107	13,033,791
b) third-party securities on deposit with third parties	9,508,223	10,374,830
c) own securities on deposit with third parties	535,255	634,233

«Third-party securities on deposit with third parties» include € 3,065.614 million in Arca funds, for which the bank provides custody services.



12.4 Collection orders for third parties: debit and credit adjustments

	31/12/2001	31/12/2000
a) debit adjustments	1,234,279	1,079,982
1. current accounts	1,811	6,532
2. central portfolio	950,109	835,089
3. cash	7	–
4. others	282,352	238,361
b) credit adjustments	1,234,279	1,079,982
1. current accounts	843	–1,799
2. transferors of bills and documents	1,233,436	1,080,432
3. others	–	1,349

Following these adjustments, the accounts involved in the collection of loans on behalf of third parties show a residual balance under transferors of bills of € 43.380 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»

	31/12/2001	31/12/2000
a) on amounts due from other banks	22,924	22,113
of which:		
– on amounts due from central banks	3,956	2,872
b) on customer loans	318,072	267,067
of which:		
– on third-party funds under administration	–	–
c) on fixed-yield securities	68,784	58,111
d) other interest income	4	4
e) positive balance of spreads on hedging transactions	–	–
Total	409,784	347,295

This item has gone up by € 62.489 million (+17.99%) mainly due to the positive trend in funds under administration, despite the situation of falling interest rates.

Interest on customer loans includes overdue interest of € 2.898 million.

1.2 Breakdown of item 20 «Interest expense and similar charges»

	31/12/2001	31/12/2000
a) on amounts due to other banks	53,216	61,096
b) on customer deposits	144,997	103,319
c) on securities issued	21,612	18,156
of which:		
– certificates of deposit	1,428	1,361
d) on third-party funds under administration	–	–
e) on subordinated liabilities	–	–
f) negative balance of spreads on hedging transactions	–	–
Total	219,825	182,571

This item has increased by € 37.254 million (+20.41%), due to the positive trend in funds under administration, despite the decline in interest rates.

Interest income and expense relating to balances with subsidiary companies and those under significant influence amount to € 1,545 million and € 0.533 million, respectively.

1.3 Detail of item 10 «Interest income and similar revenues»

	31/12/2001	31/12/2000
a) on assets in foreign currency	51,904	60,223

This item has decreased by € 8.319 million (-13.81%) due to the fall in interest rates on loans in foreign currency. These loans are all expressed in the currencies of non-EMU member states.

1.4 Detail of item 20 «Interest expense and similar charges»

	31/12/2001	31/12/2000
a) on liabilities in foreign currency	42,818	52,831

This item has decreased by € 10.013 million (-18.95%) due to the trend in interest rates. These loans are all expressed in the currencies of non-EMU member states.

Section 2 **Commissions**

2.1 Breakdown of item 40 «Commission income»

	31/12/2001	31/12/2000
a) guarantees granted	5,216	4,567
b) credit derivatives	–	–
c) Management, intermediation and consultancy services:	43,474	55,502
1. securities trading	–	–
2. foreign currency trading	4,541	4,440
3. portfolio management	4,913	5,395
3.1 individual	4,913	5,395
3.2 collective	–	–
4. securities custody and administration	1,766	1,494
5. custodian bank	2,546	3,187
6. securities placement	17,105	19,217
7. acceptance of orders	6,980	16,480
8. consultancy	–	–
9. distribution of third party services	5,623	5,289
9.1 portfolio management	–	–
a) individual	–	–
b) collective	–	–
9.2 insurance products	4,300	3,939
9.3 other products	1,323	1,350
d) collection and payment services	18,139	15,149
e) servicing for securitization transactions	–	–
f) tax collection services	–	–
g) other services	25,112	22,923
Total	91,941	98,141

The figures for 2000 have been reclassified for comparison purposes.



2.2 Breakdown of item 40 «Commission income» – distribution channels for products and services

	31/12/2001	31/12/2000
a) Bank branches	27,641	29,901
1. portfolio management	4,913	5,395
2. securities placement	17,105	19,217
3. third-party products and services	5,623	5,289
b) door-to-door sales	–	–
1. portfolio management	–	–
2. securities placement	–	–
3. third-party products and services	–	–
Total	27,641	29,901

This item has decreased by € 6.200 million (-6.32%).

The poor performance of financial markets contributed to the negative balance of commissions for securities brokerage services, in particular order acceptance, portfolio management and distribution of mutual funds.

The figures for 2000 have been reclassified for comparison purposes.

2.3 Breakdown of item 50 «Commission expense»

	31/12/2001	31/12/2000
a) Guarantees received	2	–
b) Credit derivatives	–	–
c) management and intermediation services	1,472	1,236
1. securities trading	–	–
2. foreign currency trading	–	–
3. portfolio management	–	–
3.1 own portfolio	–	–
3.2 third-party portfolio	–	–
4. securities custody and administration	1,472	1,236
5. securities placement	–	–
6. door-to-door sales of securities, products and services	–	–
d) collection and payment services	3,562	2,890
e) other services	1,032	1,295
Total	6,068	5,421

This item has increased by € 0.647 million (+11.95%).

The figures for 2000 have been reclassified for comparison purposes.

Section 3 **Profits and losses from financial transactions**

3.1 Breakdown of item 60 «Profits/losses from financial transactions»

Item	31/12/2001			31/12/2000		
	Securities transactions	Foreign currency transactions	Other transactions	Securities transactions	Foreign currency transactions	Other transactions
A.1 Revaluations	834	–	–	948	–	–
A.2 Write-downs	9,552	–	–	6,291	–	–
B. Other profits/losses	15,392	10,292	53	10,927	9,746	46
Total	6,674	10,292	53	5,584	9,746	46
1. Government securities	10,560			4,960		
2. Other fixed-yield securities	4,272			855		
3. Variable-yield securities	– 8,384			– 551		
4. Derivative contracts on securities	226			320		

This item comes to € 17.019 million, an increase of € 1.643 million (+10.69%).

Section 4 **Administrative expenses**

This item shows a balance of € 181.362 million, an increase of € 18.292 million (+11.22%) over the 2000 figure of € 163.070 million.

The sub-item «personnel expenses» amounts € 93.456 million, an increase of € 8.128 million (+9.53%), reflecting the higher number of employees. The breakdown of this cost is as follows:

Wages and salaries	€ 61.792
Social security contributions	€ 17.579
Severance indemnities	€ 4.919
Pensions	€ 5.158
Other expenses	€ 4.008

The sub-item «other administrative expenses» has increased by € 10.164 million (+13.07%). It consists of the following:

	31/12/2001	31/12/2000
telephone, post and data transmission	7,920	7,580
maintenance of fixed assets	3,486	2,824
rent paid on buildings	8,300	6,966
surveillance	2,728	2,352
transportation	1,351	1,312
professional fees	6,176	4,649
office materials	2,526	1,976
electricity, heating and water	1,967	1,850
advertising and entertainment	2,486	2,402
legal and judicial expenses for debt collection	1,757	1,364
insurance	2,066	1,614
corporate survey and information	1,469	1,390
indirect taxes and dues	24,333	22,291
hardware rental and maintenance	4,451	3,997
software rental and maintenance	3,499	3,057
data registration with third parties	606	498
cleaning	2,041	1,751
membership fees	668	578
services received from third parties	2,250	1,900
directors' and statutory auditors' emoluments	1,301	1,217
temporary workers	1,954	2,093
other	4,571	4,081
Total	87,906	77,742



4.1 Average number of employees by category

	31/12/2001	31/12/2000
a) managers	5	5
b) executives	320	286
c) other personnel	1,434	1,356
Total	1,759	1,647

The number of employees by category is a simple average of the figures at the end of 2000 and 2001.

There were 1,830 employees at the end of the year.

Section 5 *Adjustments, write-backs and provisions*

Depreciation and amortization charged for the year on fixed and intangible assets (item 90) amount to € 15.763 million, an increase of € 1.278 million (+8.82%), and are shown in separate tables to illustrate the movements in these items.

5.1 Breakdown of item 120 «Adjustments to loans and provisions for guarantees and commitments»

	31/12/2001	31/12/2000
a) adjustments to loans	37,609	41,663
of which:		
– forfeit write-downs for country risk	–	–
– other forfeit write-downs	10,616	3,304
b) provisions for guarantees and commitments	401	517
of which:		
– forfeit provisions for country risk	–	–
– other forfeit provisions	401	517
Total	38,010	42,180

This item has decreased by € 4.170 million (-9.88%), net of € 4.132 million for the utilization of the reserve for possible loan losses set up in 2000.

Write-backs to loans and to provisions for guarantees and commitments (item 130), amounting to € 14.121 million, increased by € 3.957 million (+38.93%) and consist of the collection of € 7.032 million in loans written off in previous years, the recovery of € 1.536 million in overdue interest, write-backs to loans of € 3.315 million upon valuation, and € 2.238 million in extraordinary income on loans outstanding at the end of the prior year.

Provisions to reserves for possible loan losses (item 140), totalling € 9.398 million, have increased by € 2.752 million (+41.45%). They include € 2.898 million in respect of overdue interest pursuant to article 71.6 of Presidential Decree 917/86 and € 6.5 million in general provisions, pursuant to article 71.3 of the same Decree. Both amounts have been provided in order to gain the related tax benefit.

Section 6 **Other items in the income statement**

6.1 Breakdown of item 70 «Other operating income»

	31/12/2001	31/12/2000
Recovery of charges on deposits and overdrafts	5,332	4,533
Rent received for buildings	760	763
Recovery of customer insurance	414	360
Recovery of taxes	11,061	10,362
Financial income of the staff pension fund	1,733	–
Other	3,699	3,166
Total	22,999	19,184

This item has increased by € 3.815 million (+19.89%).

The sub-item «Other» includes financial recoveries from other banks in connection with the monetary settlement of bank transfers and trade collections.

6.2 Breakdown of item 110 «Other operating expenses»

	31/12/2001	31/12/2000
Leasing and ancillary costs	845	803
Other	2,027	2,351
Total	2,872	3,154

This item has decreased by € 0.282 million (-8.94%).

Leasing costs refer to contracts for buildings used as branch offices.

The sub-item «Other» relates almost entirely to financial charges payable to banks in connection with the monetary settlement of bank transfers and trade collections.

6.3 Breakdown of item 180 «Extraordinary income»

	31/12/2001	31/12/2000
a) Miscellaneous gains	866	1,187
b) Overprovisions	–	20
c) Gains on disposals	18	85
of fixed assets	17	43
of long-term investments	1	42
Total	884	1,292

This item has decreased by € 0.408 million (-31.58%).

6.4 Breakdown of item 190 «Extraordinary charges»

	31/12/2001	31/12/2000
a) Miscellaneous losses	1,677	634
b) Underprovisions	440	512
c) Losses on disposals	–	–
of fixed assets	–	–
of long-term investments	–	–
Total	2,117	1,146

This item has increased by € 0.971 million (+84.73%).

**6.5 Breakdown of item 220 «Income taxes for the year»**

	31/12/2001	31/12/2000
1. Current taxes	31,851	29,655
2. Change in deferred tax assets	1,475	2,968
3. Change in deferred tax liabilities	- 26	- 12
4. Income taxes for the year	33,300	32,611

Changes in deferred tax assets mainly relate to the portion of loan write-downs which exceeds the amount allowed for tax purposes, while € 0.230 million of this charge refers to the change in tax rates, as required by Bank of Italy instructions. The change in deferred tax liabilities relates to gains on the disposal of assets and long-term investments.

Section 7 Other information on the income statement**7.1 Geographical breakdown of income**

The total income of € 546.514 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**

	31/12/2001	31/12/2000
a) directors	1,148	1,062
b) statutory auditors	153	155

Emoluments paid to Directors, Statutory Auditors and the General Manager

(pursuant to article 78 of Consob Resolution 11971 of 14 May 1999)

Name and surname	Company	Office	Term of office	Emoluments for the office	Other emoluments
PIERO MELAZZINI	Banca Popolare Sondrio	Chairman - Chief Executive Officer	1/1/2001-31/12/2001	594	
	Banca Popolare Sondrio (Suisse) SA	Chairman		40	
SALVATORE BONOMO	Banca Popolare Sondrio	Deputy Chairman	1/1/2001-31/12/2001	76	229
ALDO BALGERA	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	27	
GIANLUIGI BONISOLO	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	45	
ALBERTO CREDARO	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	49	
GIUSEPPE FONTANA	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	26	
MARIO GALBUSERA	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	26	
CARLO GRASSI	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	100	
NICOLÒ MELZI DI CUSANO	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	26	
ALDO ROSSI	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	27	
RENATO SOZZANI	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	35	
	Pirovano Stelvio spa	Chairman		2	

(cont.)

Name and surname	Company	Office	Term of office	Emoluments for the office	Other emoluments
LINO ENRICO STOPPANI	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	27	
MARIO TESTORELLI	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	26	
	Pirovano Stelvio spa	Director		1	
BRUNO VANOSSI	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	26	
FRANCESCO VENOSTA	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	25	6
EGIDIO ALESSANDRI	Banca Popolare Sondrio	Chairman of the Board of Statutory Auditors	1/1/2001-31/12/2001	82	
	Sinergia Seconda srl	Auditor		2	
	Pirovano Stelvio spa	Auditor		1	
PIERGIUSEPPE FORNI	Banca Popolare Sondrio	Auditor	1/1/2001-31/12/2001	35	
ROBERTO SCHIANTARELLI	Banca Popolare Sondrio	Auditor	1/1/2001-31/12/2001	34	
	Sinergia Seconda srl	Chairman of the Board of Statutory Auditors		3	
	Pirovano Stelvio spa	Chairman of the Board of Statutory Auditors		2	
MARIO ALBERTO PEDRANZINI	Banca Popolare Sondrio	General Manager	1/1/2001-31/12/2001	403	

1.2 Loans and guarantees granted

	31/12/2001	31/12/2000
a) directors	3,070	3,168
b) statutory auditors	373	425

Loans have been granted in accordance with article 136, Legislative Decree 385 of 1 September 1993.

Section 2 **Parent company or EEC controlling bank**

2.1 Name

Banca Popolare di Sondrio Società Cooperativa a.r.l.

Banca Popolare di Sondrio, listed in the Bank Register at no. 842 and in the Banking Group Register at no. 5696.0, is the parent company of the «Banca Popolare di Sondrio Banking Group».

2.2 Head office

Piazza Garibaldi 16, Sondrio, Italy.

APPENDICES

The appendices listed below contain additional information to the notes of which they form an integral part:

- statement of changes in financial position;
- statement of changes in shareholders' equity for the years ended 31 December 2000 and 31 December 2001;
- statement of changes in the staff pension fund;
- list of equity investments;
- list of significant equity investments;
- list of revalued assets still owned by the bank (article 10, Law 72/1983);
- financial statements of the subsidiaries Banca Popolare di Sondrio (Suisse) SA, Pirovano Stelvio SpA and Sinergia Seconda Srl, and of Ripoval SpA, an associated company subject to significant influence.

STATEMENT OF CHANGES IN FINANCIAL POSITION

(in thousands of euro)

	31-12-2001		31-12-2000	
SOURCES OF FUNDS				
Funds generated by operations:				
– Net profit for the year	46,065		38,429	
– Adjustments:				
- loan write-downs and write-backs and provisions for guarantees and commitments	23,890		32,016	
- losses on securities and equity investments	9,926		6,716	
- amortization and depreciation	15,763		14,485	
– Provisions:				
- staff pension fund	4,690		5,180	
- reserve for severance indemnities	4,919		5,084	
- risks and charges	6,365		1,033	
- possible loan losses	9,398		6,644	
- general banking risks	–		4,132	
- personnel charges	258	121,274	87	113,806
Increase in shareholders' equity:				
– subscription to own shares	137,698		–	
– dividends in prescription and relating to own shares and unexercised rights	3	137,701	37	37
Increase in funding:				
– customer deposits	1,148,457		498,709	
– deposits from other banks	317,212		257,318	
– securities issued	79,426	1,545,095	15,086	771,113
Change in other liability items:				
– third-party funds under administration	(41)		(174)	
– other liabilities	(51,243)		45,275	
– accrued liabilities and deferred income	(1,618)		8,495	
– taxation reserve	1,857	(51,045)	4,406	58,002
	1,753,025		942,958	
APPLICATION OF FUNDS				
Use of funds generated by operations:				
– staff pension fund	2,082		1,808	
– reserve for severance indemnities	3,073		1,981	
– reserves for possible loan losses	6,539		1,377	
– reserves for risks and charges	310	12,004	258	5,424
Decrease in shareholders' equity:				
– dividends	20,604		15,985	
– charity fund	249	20,853	222	16,207
Increase in application of funds:				
– customer loans	1,159,090		750,681	
– cash on hand	31,083		12,002	
– due from other banks	386,322		(94,572)	
– trading securities	190,053	1,766,548	144,121	812,232
Change in other asset items:				
– other assets	(72,702)		71,768	
– accrued income and prepayments	3,959		13,556	
– equity investments and own shares	8,547		6,780	
– intangible assets	6,632		6,102	
– fixed assets	7,184	(46,380)	10,889	109,095
	1,753,025		942,958	

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDING 31 DECEMBER 2000 AND 2001

(in thousands of euro)

	Share capital	Reserve for general banking risks	Share premium reserve
BALANCE AS OF 31 DECEMBER 1999	177,617	34,602	233,401
ALLOCATION OF PROFITS, as resolved by the AGM of 4 March 2000:			
To the legal reserve			
To the statutory reserves			
Dividend of L. 450 per share			
Charity fund			
DIVIDEND ON OWN SHARES			
RESERVE FOR GENERAL BANKING RISKS		4,132	
RESERVE FOR OWN SHARES			
RESERVE AS PER ART. 13 OF LEGISLATIVE DECREE 124/93			
NET PROFIT FOR 2000			
BALANCE AS OF 31 DECEMBER 2000	177,617	38,734	233,401
ALLOCATION OF PROFITS, as resolved by the AGM of 3 March 2001:			
To the legal reserve			
To the statutory reserves			
Dividend of L. 580 per share			
Charity fund			
INCREASE IN SHARE CAPITAL, as per AGM of 3 March 2001 and unexercised rights	206,349		(68,783)
Conversion of par value of shares into euro	28,732		(28,732)
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 2001			
BALANCE AS OF 31 DECEMBER 2001	412,698	38,734	135,886

Legal reserve	Restricted reserve for own shares	Statutory reserves	Other reserves	Net profit for the year	Total shareholders' equity
31,534	178	63,100	17,123	30,556	588,111
3,061				(3,061)	
		9,167		(9,167)	
				(15,986)	(15,986)
				(258)	(258)
		37			37
					4,132
	(1)		2,067	(2,066)	
			18	(18)	
				38,429	38,429
34,595	177	72,304	19,208	38,429	614,465
3,947				(3,947)	0
		11,528		(11,528)	0
				(20,604)	(20,604)
				(258)	(258)
		132			137,698
					0
		3			3
					0
	697		1,369	(2,066)	0
			26	(26)	0
				46,065	46,065
38,542	874	83,967	20,603	46,065	777,369

STATEMENT OF CHANGES IN THE STAFF PENSION FUND

(in thousands of euro)

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, the bank has decided to adopt these regulations by identifying the assets of the staff pension fund so that it can be formally set up with an endowment fund in accordance with article 2117 of the Civil Code. Up until 2000 the fund’s assets were invested generically in the bank’s activities. Movements in the fund are provided below.

	31/12/2001
Liquid assets	360
Units of Italian mutual funds	23,532
Units of foreign mutual funds	24,970
Total	48,862
Opening balance	46,254
a) Balance of pension management	1,066
Contributions paid by the bank	2,633
Contributions paid by employees	325
Pensions paid during the year	– 1,826
Reimbursements to outgoing staff	– 66
b) Balance of financial management	1,733
c) Substitute tax to be paid	– 191
Closing balance	48,862

LIST OF EQUITY INVESTMENTS

N A M E	NUMBER OF SHARES OR QUOTAS (in thousands of euro)	BOOK VALUE (in thousands of euro)	PAR VALUE (in thousands of euro)	% HELD
SAN PAOLO - IMI SPA	627,000	303	1,755	0.045
BANCA INTESA SPA	101,520	91	53	0.002
MPS MERCHANT SPA	11,913	5	3	0.005
CENTROBANCA SPA	5,376,000	6,327	5,376	1.600
BANCA POPOLARE DI SONDRIO (SUISSE) SA	500,000	32,928	33,718	100.000
BANCA PER IL LEASING - ITALEASE SPA	1,428,776	5,255	7,372	3.750
I.C.B.P.I. SPA	125,400	33	376	1.135
BANCA POPOLARE ETICA S.C. a R.L.	500	26	26	0.232
S.I.A. SPA	5,753	4	3	0.017
CENTROSIM SPA	4,000	207	240	2.000
RIPOVAL SPA	2,500	1,291	1,291	50.000
ARCA SGR SPA	2,408,000	656	2,408	4.816
FINLOMBARDA SPA	162	50	42	0.405
BORSA ITALIANA SPA	35,000	115	18	0.250
B. & A. BROKER SPA	20,000	103	103	14.286
POLIS FONDI IMMOBILIARI DI BANCHE POPOLARI SGR.p.A.	36,400	362	364	7.000
SOCIETÀ PER IL MERCATO DEI TITOLI DI STATO - MTS SPA	202	14	10	0.075
ARCA MERCHANT SPA	15,722,690	11,672	8,176	11.604
UNIONE FIDUCIARIA SPA	43,981	193	242	4.072
FACTORIT SPA	905,691	713	906	2.415
INTESA LEASING SPA	16,000	8	8	0.025
e-M.I.D. SPA	1,200	60	60	1.000
AEM SPA	6,000,000	5,175	3,120	0.333
AVIOVALTELLINA SPA	300	155	155	8.226
PIROVANO STELVIO SPA	392,000	4,264	2,023	98.000
SOCIETÀ PER I SERVIZI BANCARI - S.S.B. SPA	17,259	1	2	0.021
CILME SPA	111,363	52	58	7.788
SPLUGA DOMANI SPA	42,857	221	111	1.490
ARCA ASSICURAZIONI SPA	354,631	2,220	1,830	7.093
ARCA VITA SPA	1,296,973	16,132	6,692	17.503
SOCIETÀ DI SVILUPPO LOCALE SPA	200	21	20	5.714
EUROS SPA	47,367	26	25	0.241
SINERGIA SECONDA SRL	10,200,000	10,329	10,200	100.000
SITEBA SPA	9,032	5	5	0.181
TELERISCALDAMENTO - COOGENERAZIONE VALCAMONICA, VALTELLINA-VALCHIAVENNA SPA	10,000	52	50	2.302
SWIFT S.C.	32	14	4	0.037
CBE SERVICE SPRL	233	6	6	23.300
SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 SRL - SINTESI 2000 SRL	25,000	87	25	33.333
CONSORZIO CASSAMERCATO	132	7	7	6.286
		99,183	86,883	

LIST OF SIGNIFICANT EQUITY INVESTMENTS

List of significant equity investments directly or indirectly held in unlisted companies by Banca Popolare di Sondrio s.c.a.r.l., in accordance with article 120 of Legislative Decree 58 dated 24 February 1998 and Consob regulation 11971 dated 14 May 1999.

Company name	country	% held	Notes
– Acquedotto dello Stelvio srl	(I)	27%	Indirectly held through Pirovano Stelvio spa
– Arca Merchant spa	(I)	11.604%	
– Arca Vita spa	(I)	17.503%	
– B. & A. Broker spa	(I)	14.286%	
– Banca Popolare di Sondrio (Suisse) SA	(CH)	100%	
– C.B.E. Service sprl	(B)	23.3%	
– Immobiliare Borgo Palazzo srl	(I)	100%	Indirectly held through Sinergia Seconda srl
– Immobiliare S. Paolo srl	(I)	100%	Indirectly held through Sinergia Seconda srl
– Pirovano Stelvio spa	(I)	98%	
– Popso (Suisse) Advisory Holding SA	(L)	100%	Indirectly held through Banca Popolare di Sondrio (Suisse) SA
– Ripoval spa	(I)	50%	
– Sifas spa	(I)	21.614%	Indirectly held through Pirovano Stelvio spa
– Sinergia Seconda srl	(I)	100%	
– Servizi Internazionali e Strutture Integrate 2000 srl - Sintesi 2000 srl	(I)	33.333%	
– Sofipo Fiduciaire SA	(CH)	30%	Indirectly held through Banca Popolare di Sondrio (Suisse) SA

LIST OF REVALUED ASSETS STILL OWNED BY THE BANK

(art. 10 of Law 72 dated 19/3/1983)
(in 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 31/12/2001	Net book value as of 31/12/2001
APRICA - Corso Roma, 140	77,469	0	356,355	146,929	580,753	292,453	288,300
BERBENNO DI VALTELLINA - Via Nazionale	12,165,610	0	0	99,417	12,265,027	3,455,887	8,809,140
BORMIO - Via Roma, 64	60,712	46,481	573,267	136,524	816,984	289,645	527,339
BORMIO - Via Roma, angolo Via Don Peccedi	2,966,334	0	361,520	301,774	3,629,628	1,241,126	2,388,502
BRENO - Piazza Ronchi, 4	666,687	0	0	87,467	754,154	349,545	404,609
CHIAVENNA - Via Dolzino, 67	1,061,378	46,481	1,149,057	1,066,173	3,323,089	2,280,083	1,043,006
CHIESA IN VALMALENCO - Via Roma, 138	35,520	17,560	664,795	133,250	851,125	290,045	561,080
COLICO - Piazza Cavour, 11	177,749	0	0	96,488	274,237	215,583	58,654
DELEBIO - Piazza S. Carpofo, 7/9	844,205	23,241	645,773	688,773	2,201,992	1,591,843	610,149
DERVIO - Via Don Invernizzi, 2	1,270,219	0	0	329,276	1,599,495	852,270	747,225
DOMASO - Via Statale Regina, 71	111,038	0	0	53,817	164,855	129,115	35,740
DONGO - Piazza V. Matteri, 14	1,567,930	0	0	415,551	1,983,481	1,246,325	737,156
EDOLO - Piazza Martiri della Libertà, 16	1,058,736	0	0	509,161	1,567,897	1,063,526	504,371
GERA LARIO - Via Statale Regina, 14	292,666	0	131,677	227,733	652,076	501,150	150,926
GRAVEDONA - Piazza Garibaldi, 10/12	903,799	0	0	223,957	1,127,756	607,272	520,484
GROSIO - Via Roma, 67	26,372	7,230	229,791	51,484	314,877	116,103	198,774
GROSIO - Via Vanoni, 5	106,041	0	0	11,595	117,636	55,174	62,462
GROSOTTO - Via Statale, 73	15,539	12,911	147,146	42,099	217,695	90,374	127,321
ISOLACCIA DI VALDIDENTRO - Via Nazionale, 31	403,787	0	290,229	272,602	966,618	678,368	288,250
LECCO - Corso Martiri della Liberazione, 63/65	9,574,331	0	351,191	2,124,557	12,050,079	5,619,302	6,430,777
LECCO - Via Galandra, 28	168,623	0	0	41,959	210,582	0	210,582
LIVIGNO - Via Prestefan	2,110,489	0	0	0	2,110,489	189,944	1,920,545
LIVIGNO - Via S. Antoni, 33	470,515	0	345,487	358,828	1,174,830	836,050	338,780
MADESIMO - Via Carducci, 3	493,542	0	0	203,733	697,275	457,705	239,570
MARCHIROLO - Via Cav. Emilio Busetti, 7/A	1,089,018	0	0	0	1,089,018	337,833	751,185
MAZZO DI VALTELLINA - Via S. Stefano, 18	11,530	16,010	163,550	48,833	239,923	107,925	131,998
MILAN - Piazza Borromeo, 1	38,217	0	0	213,722	251,939	76,728	175,211
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	3,449,795	0	0	165,381	3,615,176	1,247,931	2,367,245
MILAN - Via S. Maria Fulcorina, 1	10,867,858	159,818	3,047,096	2,461,826	16,536,598	7,273,488	9,263,110
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
MONTAGNA IN VALTELLINA - Via Stelvio, 30	472,050	0	328,458	398,008	1,198,516	837,801	360,715
MORBEGNO - Piazza Caduti della Libertà, 6	1,892,539	0	1,088,606	704,283	3,685,428	1,713,624	1,971,804
MORBEGNO - Via Garibaldi, 81	589,317	25,823	0	56,050	671,190	289,051	382,139



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 31/12/2001	Net book value as of 31/12/2001
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, 1	45,682	0	251,282	89,219	386,183	190,843	195,340
PASSO DELLO STELVIO	630,416	0	0	296,176	926,592	711,523	215,069
PONTE IN VALTELLINA - Piazza della Vittoria, 1	18,207	12,911	258,098	86,540	375,756	180,180	195,576
REGOLEDO DI COSIO VALTELLINO - Via Roma, 7	134,617	0	0	78,405	213,022	105,177	107,845
ROME - Via Di Propaganda, 27	155,625	0	350,503	88,926	595,054	403,877	191,177
ROME - Viale Appio Claudio - Via Siderno	8,470	0	0	0	8,470	0	8,470
S. CASSIANO DI PRATA CAMPORTACCIO - Via Spluga, 108	397,672	0	0	103,093	500,765	237,142	263,623
S. MARIA REZZONICO - Via Statale Regina	467,692	0	0	0	467,692	129,819	337,873
S. PIETRO DI BERBENNO - Via Nazionale Ovest, 110	67,941	22,208	328,181	122,795	541,125	268,401	272,724
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	166,114	351,927
SONDRIO - Corso Vittorio Veneto, 7	309,912	0	0	1,190,813	1,500,725	346,466	1,154,259
SONDRIO - Largo Pedrini, 8	200,617	0	0	22,527	223,144	187,313	35,831
SONDRIO - Piazza Garibaldi, 16 - Via Ragazzi del '99, 6	915,764	351,191	7,810,125	3,142,651	12,219,731	6,541,101	5,678,630
SONDRIO - Via Bernina, 1	224,721	0	82,385	45,795	352,901	133,983	218,918
SONDRIO - Via Caimi, 29	357,915	0	0	46,342	404,257	389,714	14,543
SONDRIO - Via Cesura, 4	77,236	0	0	64,149	141,385	0	141,385
SONDRIO - Via delle Prese - Piazzale Toccalli	348,608	0	0	0	348,608	146,416	202,192
SONDRIO - Via Lungomallero Cadorna, 24	1,002,455	0	196,254	451,249	1,649,958	1,235,908	414,050
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	225,978	128,210
TALAMONA - Via Cusini, 29	223,475	0	313,640	203,691	740,806	457,641	283,165
TEGLIO - Piazza S. Eufemia, 2	40,150	13,944	546,700	148,165	748,959	317,456	431,503
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	1,529,313	1,318,157
TRESENDA DI TEGLIO - Via Nazionale, 57	192,524	0	193,671	67,596	453,791	200,871	252,920
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	104,459	344,008
	63,253,223	781,632	22,496,863	19,095,719	105,627,437	48,748,316	56,879,121

Revaluations have been depreciated as follows: entirely for the 1975 revaluation, by € 12.209 million for that of 1983 and by € 5.434 million for the one made in accordance with Law 413 of 30/12/1991.

**FINANCIAL STATEMENTS OF SUBSIDIARY
AND ASSOCIATED COMPANIES:**

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

BANCA POPOLARE DI SONDRIO (SUISSE) SA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2001

(in Swiss francs)

ASSETS	2001	2000
Liquid assets	11 581 832	13 367 495
Due from other banks	150 297 801	106 860 419
Customer loans	146 469 107	134 818 047
Mortgage loans	135 637 664	80 314 339
Trading securities	902 969	994 332
Investment securities	49 067 267	51 286 015
Equity investments	459 800	853 225
Fixed assets	16 703 237	5 843 007
Accrued income and prepayments	1 442 636	1 977 232
Other assets	14 065 579	11 470 644
Total assets	526 627 892	407 784 755
Total deferred loans	12 914	300 722
Total amounts due from holders of qualifying equity investments	6 157 835	26 276 871

LIABILITIES	2001	2000
Money market securities	0	2 487
Deposits with other banks	70 715 902	55 723 228
Customer deposits - savings and investments	68 632 442	39 242 191
Other customer deposits	228 837 821	187 708 919
Cash liabilities	27 411 000	15 472 000
Accrued liabilities and deferred income	2 173 054	4 082 121
Other liabilities	24 411 261	13 195 397
Adjustments and provisions	22 883 823	19 821 219
Share capital	50 000 000	50 000 000
General legal reserve	22 537 193	14 102 307
Net profit for the year	9 025 396	8 434 886
Total liabilities	526 627 892	407 784 755
Total amounts due to holders of qualifying equity investments	25 733 011	26 035 371

OFF-BALANCE SHEET TRANSACTIONS	2001	2000
Commitments to disburse funds for uncertain use	27 089 261	27 666 937
Derivative products		
– Trading volume	797 402 630	426 084 625
– Gross positive replacement value	11 355 030	8 511 578
– Gross negative replacement value	11 559 208	8 667 334
Fiduciary transactions	455 259 573	411 021 826

INCOME STATEMENT
AS OF 31 DECEMBER 2001
(in Swiss francs)

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INCOME STATEMENT	2001	2000
PROFITS AND LOSSES FROM ORDINARY BANKING OPERATIONS		
– Interest income and discounts	15 067 157	14 347 387
– Interest income and dividends from trading securities	31 816	3 084
– Interest income and dividends from investment securities	1 477 808	949 795
– Interest expense	(6 001 389)	(6 331 408)
Net interest income	10 575 392	8 968 858
– Commissions on lending transactions	941 337	1 162 685
– Commissions on securities trading and investments	32 371 829	33 148 060
– Commissions on services	2 655 580	1 560 005
– Commission expense	(2 488 873)	(5 519 670)
Net commission income and income from services	33 479 873	30 351 080
Profits from financial transactions	3 829 141	3 458 010
– Profit (loss) on the disposal of investment securities	551 183	74 316
– Other ordinary income	2 559 886	48 887
– Other ordinary charges	(1 511 191)	(256 035)
Total other ordinary income (charges)	1 599 878	(132 832)
Net income from ordinary banking operations	49 484 284	42 645 116
– Personnel costs	(16 126 497)	(11 850 077)
– Other operating expenses	(10 010 391)	(8 972 275)
Operating expenses	(26 136 888)	(20 822 352)
Gross profit	23 347 396	21 822 764

INCOME STATEMENT	2001	2000
Depreciation and amortization	(7 500 000)	(6 140 000)
Adjustments, provisions and losses	(4 600 000)	(4 500 000)
Extraordinary income	690 000	90 539
Extraordinary charges	(600 000)	(42 417)
Income taxes	(2 312 000)	(2 796 000)
Net profit for the year	9 025 396	8 434 886
ALLOCATION OF NET PROFIT		
Retained earnings	–	–
Net profit for the year	9 025 396	8 434 886
Net profit declared	9 025 396	8 434 886
Proposal of the Board of Directors for the allocation of net profit		
– To general legal reserve	9 025 396	8 434 886
Balance carried forward	–	–

PIROVANO STELVIO SPA

FINANCIAL STATEMENTS AS OF 31 OCTOBER 2001 (in lire)

BALANCE SHEET

ASSETS	31-10-2001	31-10-2000
B NON-CURRENT ASSETS		
I INTANGIBLE ASSETS		
02 Costs for research, development and advertising	4,000,000	31,502,320
03 Industrial patent rights and use of original works	52,637,064	77,157,542
07 OTHER INTANGIBLE ASSETS	35,904,402	41,033,603
TOTAL I	92,541,466	149,693,465
II FIXED ASSETS		
01 Land and buildings	5,572,170,025	5,562,854,672
02 Equipment and machinery	330,345,671	341,556,083
03 Industrial and commercial equipment	130,825,656	199,752,021
04 Other fixed assets	14,196,750	23,693,135
TOTAL II	6,047,538,102	6,127,855,911
III FINANCIAL ASSETS		
01 Equity investments		
b in associated companies	1,786,974,132	1,484,457,000
d in other companies	580,000	580,000
TOTAL 01	1,787,554,132	1,485,037,000
02 Loans		
d to others		
due beyond 12 months	26,561,139	26,067,499
TOTAL 02	26,561,139	26,067,499
TOTAL III	1,814,115,271	1,511,104,499
TOTAL NON-CURRENT ASSETS	7,954,194,839	7,788,653,875
C CURRENT ASSETS		
I INVENTORIES		
04 Finished products and merchandise	114,768,239	119,610,608
TOTAL I	114,768,239	119,610,608
II RECEIVABLES		
01 Due from customers		
a due within 12 months	337,077,600	328,706,360
TOTAL 01	337,077,600	328,706,360
05 Due from others		
a due within 12 months	96,290,244	62,237,076
TOTAL 05	96,290,244	62,237,076
TOTAL II	433,367,844	390,943,436
IV CASH AND BANKS		
03 Cash and equivalents on hand	4,820,900	3,265,840
TOTAL IV	4,820,900	3,265,840
TOTAL CURRENT ASSETS	552,956,983	513,819,884
D ACCRUED INCOME AND PREPAYMENTS		
02 Other accrued income and prepayments	40,759,714	33,746,157
TOTAL ACCRUED INCOME AND PREPAYMENTS	40,759,714	33,746,157
TOTAL ASSETS	8,547,911,536	8,336,219,916

LIABILITIES	31-10-2001	31-10-2000
A SHAREHOLDERS' EQUITY		
I SHARE CAPITAL	4,000,000,000	4,000,000,000
III REVALUATION RESERVES	371,965,952	371,965,952
IV LEGAL RESERVE	8,000,000	8,000,000
IX PROFIT (LOSS) FOR THE YEAR	(739,648,734)	(840,640,798)
TOTAL SHAREHOLDERS' EQUITY	3,640,317,218	3,539,325,154
C RESERVE FOR SEVERANCE INDEMNITIES	95,410,274	91,368,135
TOTAL RESERVE FOR SEVERANCE INDEMNITIES	95,410,274	91,368,135
D PAYABLES		
03 DUE TO BANKS		
a due within 12 months	49,539,150	45,731,346
b due beyond 12 months	279,194,472	328,733,622
TOTAL 03	328,733,622	374,464,968
05 ADVANCE PAYMENTS		
a due within 12 months	2,419,250	3,609,231
TOTAL 05	2,419,250	3,609,231
06 DUE TO SUPPLIERS		
a due within 12 months	812,732,720	594,590,279
TOTAL 06	812,732,720	594,590,279
10 DUE TO PARENT COMPANY		
a due within 12 months	3,121,171,375	3,180,149,173
TOTAL 10	3,121,171,375	3,180,149,173
11 TAXES PAYABLE		
a due within 12 months	69,458,294	91,040,159
TOTAL 11	69,458,294	91,040,159
12 DUE TO SOCIAL SECURITY INSTITUTIONS		
a due within 12 months	55,930,159	56,689,000
TOTAL 12	55,930,159	56,689,000
13 OTHER PAYABLES		
a due within 12 months	111,467,713	114,442,649
TOTAL 13	111,467,713	114,442,649
TOTAL PAYABLES	4,501,913,133	4,414,985,459
E ACCRUED LIABILITIES AND DEFERRED INCOME		
02 Other accrued liabilities and deferred income	310,270,911	290,541,168
TOTAL ACCRUED LIABILITIES AND DEFERRED INCOME	310,270,911	290,541,168
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	8,547,911,536	8,336,219,916



MEMORANDUM ACCOUNTS	31-10-2001	31-10-2000
01 PERSONAL GUARANTEES RECEIVED		
d Sureties received from third parties	391,133,738	436,865,084
TOTAL 01	391,133,738	436,865,084
TOTAL MEMORANDUM ACCOUNTS	391,133,738	436,865,084

INCOME STATEMENT

	31-10-2001	31-10-2000
A PRODUCTION VALUE		
01 REVENUES FROM SALES AND SERVICES	3,944,543,416	3,558,893,041
05 OTHER REVENUES AND INCOME		
a Other revenues and income	124,849,224	213,598,234
TOTAL 05	124,849,224	213,598,234
TOTAL PRODUCTION VALUE	4,069,392,640	3,772,491,275
B PRODUCTION COSTS		
06 FOR RAW MATERIALS, CONSUMABLES AND GOODS	(829,645,444)	(776,255,125)
07 FOR SERVICES	(1,703,657,295)	(1,489,941,938)
09 FOR PERSONNEL		
a Wages and salaries	(1,154,292,291)	(1,217,621,605)
b Social contributions	(380,565,138)	(412,684,161)
c Severance indemnities	(60,843,343)	(65,392,946)
e Other costs		(484,300)
TOTAL 09	(1,595,700,772)	(1,696,183,012)
10 DEPRECIATION, AMORTIZATION AND WRITE-DOWNS		
a Amortization of intangible assets	(57,151,999)	(106,728,326)
b Depreciation of fixed assets	(271,224,109)	(273,786,986)
TOTAL 10	(328,376,108)	(380,515,312)
11 CHANGE IN INVENTORIES OF RAW MATERIALS, CONSUMABLES AND GOODS	(4,842,369)	64,133,687
14 SUNDRY OPERATING COSTS	(182,745,047)	(191,345,640)
TOTAL PRODUCTION COSTS	(4,644,967,035)	(4,470,107,340)
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS (A-B)	(575,574,395)	(697,616,065)
C FINANCIAL INCOME AND CHARGES		
16 OTHER FINANCIAL INCOME		
a From loans recorded among non-current assets		
a4 From third parties	493,640	315,093
TOTAL a	493,640	315,093
d Income other than above		
d4 From third parties	17,861,408	17,738,217
TOTAL d	17,861,408	17,738,217
TOTAL 16	18,355,048	18,053,310
17 INTEREST AND OTHER FINANCIAL CHARGES		
c To parent company	(105,515,542)	(86,671,875)
d To third parties	(29,016,779)	(32,850,280)
TOTAL 17	(134,532,321)	(119,522,155)
TOTAL FINANCIAL INCOME AND CHARGES	(116,177,273)	(101,468,845)
E EXTRAORDINARY ITEMS		
20 INCOME		
b Other extraordinary income		3,547,190
TOTAL 20		3,547,190
21 CHARGES		
c Other extraordinary charges	(4,184,066)	(1,620,078)
TOTAL 21	(4,184,066)	(1,620,078)
TOTAL EXTRAORDINARY ITEMS	(4,184,066)	1,927,112
PRE-TAX PROFIT (LOSS) (A-B+-C+-D+-E)	(695,935,734)	(797,157,798)
22 INCOME TAXES FOR THE YEAR	(43,713,000)	(43,483,000)
26 NET PROFIT (LOSS) FOR THE YEAR	(739,648,734)	(840,640,798)

SINERGIA SECONDA SRL

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2001 (in euro)

BALANCE SHEET

ASSETS	31-12-2001	31-12-2000
A) AMOUNTS RECEIVABLE FROM SHAREHOLDERS	0	0
B) NON-CURRENT ASSETS		
I - Intangible assets		
1) set-up and expansion costs	42,249	63,374
7) other	3,190	4,253
<i>Total intangible assets</i>	45,439	67,627
II - Fixed assets	0	0
III - Financial assets		
1) equity investments in		
a) subsidiary companies	20,000	20,000
<i>Total financial assets</i>	20,000	20,000
TOTAL NON-CURRENT ASSETS	65,439	87,627
C) CURRENT ASSETS		
I - Inventories		
4) finished products and merchandise	10,480,183	10,088,956
<i>Total inventories</i>	10,480,183	10,088,956
II - Receivables		
1) due from customers		
a - due within 12 months	130	0
2) due from subsidiary companies		
a - due within 12 months	14,316,109	0
5) due from others		
a - due within 12 months	32,823	15,975
<i>Total receivables</i>	14,349,062	15,975
III - Financial assets not held as non-current assets	0	0
IV - Cash and banks		
1) bank and postal deposits	0	206,714
2) cash and cash equivalents	22	0
<i>Total cash and banks</i>	22	206,714
TOTAL CURRENT ASSETS	24,829,267	10,311,645
D) ACCRUED INCOME AND PREPAYMENTS		
1) accrued income and prepayments	15,898	8,779
TOTAL ACCRUED INCOME AND PREPAYMENTS	15,898	8,779
TOTAL ASSETS	24,910,604	10,408,051

LIABILITIES AND SHAREHOLDERS' EQUITY	31-12-2001	31-12-2000
A) SHAREHOLDERS' EQUITY		
I - Share capital	10,200,000	10,329,138
II - Share premium reserve	0	0
III - Revaluation reserves	0	0
IV - Legal reserve	141,993	0
V - Reserve for own shares	0	0
VI - Statutory reserves	0	0
VII - Other reserves		
d) rounding difference of par value in euro	1	3
VIII - Profit (loss) carried forward		- 8,269
IX - Net profit (loss) for the year	- 290,799	21,124
TOTAL SHAREHOLDERS' EQUITY	10,051,195	10,341,996
B) RESERVES FOR RISKS AND CHARGES		
2) for taxation	1,487	1,487
TOTAL RESERVES FOR RISKS AND CHARGES	1,487	1,487
C) RESERVES FOR SEVERANCE INDEMNITIES		
TOTAL RESERVES FOR SEVERANCE INDEMNITIES	0	0
D) PAYABLES		
3) due from banks		
a - due within 12 months	14,760,118	0
6) due from suppliers		
a - due within 12 months	64,189	32,718
11) taxes payable		
a - due within 12 months	11,372	15,073
13) other payables		
a - due within 12 months	14,569	14,099
TOTAL PAYABLES	14,850,248	61,890
E) ACCRUED LIABILITIES AND DEFERRED INCOME		
1) accrued liabilities and deferred income	7,674	2,678
TOTAL ACCRUED LIABILITIES AND DEFERRED INCOME	7,674	2,678
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	24,910,604	10,408,051



MEMORANDUM ACCOUNTS	31-12-2001	31-12-2000
b) Tenant guarantees	62,943	62,943
<i>TOTAL MEMORANDUM ACCOUNTS</i>	62,943	62,943

INCOME STATEMENT

	31-12-2001	31-12-2000
A) PRODUCTION VALUE		
1) revenues from sales and services	690,524	353,954
5) other revenues and income		
c) other income	4	14
TOTAL PRODUCTION VALUE	690,528	353,968
B) PRODUCTION COSTS		
7) for services	726,504	260,180
10) depreciation, amortization and write-downs		
a) amortization of intangible assets	22,188	22,188
11) change in raw materials, consumables and goods	- 391,227	0
14) sundry operating costs		
a) other operating costs and charges	3,235	1,730
b) non-deductible charges	35,482	35,376
TOTAL PRODUCTION COSTS	396,182	319,474
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	294,346	34,494
C) FINANCIAL INCOME AND CHARGES		
16) other financial income		
d) other financial income		
3) from third parties	518	5,650
17) interest and other financial charges		
c) payable to third parties	- 584,455	- 397
TOTAL FINANCIAL INCOME AND CHARGES	- 583,937	5,253
D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS		
TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS	0	0
E) EXTRAORDINARY ITEMS		
20) income		
b) other extraordinary income	95,231	0
c) rounding difference of par value in euro	- 1	1
21) charges		
b) other non-deductible extraordinary charges	- 83,891	0
TOTAL EXTRAORDINARY ITEMS	11,339	1
PRE-TAX PROFIT (LOSS)	- 278,252	39,748
22) income taxes for the year		
b) IRPEG (corporate income tax)		17,131
c) IRAP (regional business tax)	12,547	1,493
26) Net profit (loss) for the year	- 290,799	21,124

RIPOVAL SPA

FINACIAL STATEMENTS AS OF 31 DECEMBER 2000 (in lire)

BALANCE SHEET

Assets		31-12-2000	31-12-1999
10.	CASH AND BANKS	1,472,900,282	163,698,019
20.	DUE FROM BANKS	18,391,015	2,366,060
	a) Sight	18,391,015	
40.	DUE FROM CUSTOMERS	27,206,074,218	28,884,588,736
	a) From taxpayers	0	
	b) From entities for ordinary tax rolls	2,664,177,822	
	of which:		
	for instalments paid in advance to tax authorities	2,454,113,121	
	c) From other entities for tax collection	24,541,896,396	
90.	INTANGIBLE ASSETS	35,600,809	45,009,018
	of which:		
	set-up costs	4,384,200	
100.	FIXED ASSETS	3,397,334,957	3,384,224,010
	a) Land and buildings	2,736,001,521	
	b) Equipment and machinery	420,910,922	
	c) Furniture and office machines	240,422,514	
130.	OTHER ASSETS	1,080,884,667	1,108,264,547
140.	ACCRUED INCOME AND PREPAYMENTS	16,698,795	37,148,676
	a) Prepayments	16,698,795	
Total assets		33,227,884,743	33,625,299,066

Liabilities		31-12-2000	31-12-1999
10.	DUE TO BANKS	16,635,413,118	19,977,577,429
	a) Sight	16,635,413,118	
30.	DUE TO CUSTOMERS	8,212,044,700	7,344,886,841
	a) Due to entities for ordinary tax rolls	1,457,771,515	
	b) Other amounts due to entities	6,661,966,254	
	c) Due to taxpayers	92,306,931	
50.	OTHER LIABILITIES	1,149,243,579	2,341,111,478
	a) Trade payables	442,312,441	
	b) Taxes payable	95,511,000	
	c) Other payables	611,420,138	
80.	RESERVE FOR RISKS AND CHARGES	1,254,754,236	1,086,444,960
	a) Taxation reserve	801,741,000	
	b) Other reserves	453,013,236	
120.	SHARE CAPITAL	5,000,000,000	2,000,000,000
140.	RESERVES	435,278,358	387,305,108
	a) Legal reserve	114,000,000	
	b) Other reserves	321,278,358	
170.	NET PROFIT (LOSS) FOR THE YEAR	541,150,752	487,973,250
Total liabilities		33,227,884,743	33,625,299,066

Guarantees and commitments		31-12-2000	31-12-1999
20.	COMMITMENTS	1,441,089,672	0



INCOME STATEMENT

Costs		2000	1999
10.	INTEREST EXPENSE AND SIMILAR CHARGES	385,635,660	150,443,394
	of which:		
	Interest on bank loans	385,635,660	
20.	COMMISSIONS AND FEES FOR COLLECTION SERVICES	1,006,074,252	706,712,316
	a) For collection services	721,333,145	
	b) For other services	284,741,107	
40.	ADMINISTRATIVE EXPENSES	4,090,345,363	4,604,724,771
	a) Personnel expenses	2,663,074,270	
	of which:		
	Wages and salaries	1,800,060,003	
	Social security contributions	651,607,227	
	Contribution for capital	125,607,019	
	b) Expenses for professional services	458,931,440	
	c) Consumables and miscellaneous office costs	511,436,419	
	d) Expenses for non-professional services	152,327,884	
	e) Expenses for the use of third-party assets	36,145,032	
	f) Indirect taxes and duties	268,430,318	
50.	ADJUSTMENTS TO INTANGIBLE AND FIXED ASSETS	462,636,500	299,859,937
	a) Amortization of intangible assets	31,598,209	
	b) Depreciation of fixed assets	431,038,291	
60.	ADJUSTMENTS TO EMOLUMENTS	12,982,524	20,080,158
70.	PROVISIONS FOR RISKS AND CHARGES	160,000,000	100,000,000
110.	EXTRAORDINARY CHARGES	76,341,431	6,720,689
130.	INCOME TAXES FOR THE YEAR	750,000,000	665,000,000
140.	NET PROFIT FOR THE YEAR	541,150,752	487,973,250
Total		7,485,166,482	7,041,514,515

Income		2000	1999
10.	INTEREST INCOME AND SIMILAR REVENUES	161,950,079	147,558,792
	a) From amounts due from customers	34,159,399	
	b) Other interest income	127,790,680	
30.	INCOME FROM TAX COLLECTION	7,196,211,899	6,879,443,794
	a) Primary income from rolls	872,571,908	
	b) Supplementary income from rolls	259,693,970	
	c) Income from direct payments	1,900,296,428	
	d) Other income from tax collection	4,163,649,593	
70.	OTHER OPERATING INCOME	35,374,111	8,439,378
	a) Income from capital	35,374,111	
80.	EXTRAORDINARY INCOME	91,630,393	6,072,551
Total		7,485,166,482	7,041,514,515

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 S.c.a.r.l.

1. We have audited the financial statements of Banca Popolare di Sondrio S.c.a.r.l. for the year ended 31 December 2001. 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 principles 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 the sake of comparison as required by law, please see our report dated 15 February 2001.

3. In our opinion, the financial statements of Banca Popolare di Sondrio S.c.a.r.l. as of 31 December 2001 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, 14 February 2002

ARTHUR ANDERSEN S.p.A.

Riccardo Azzali
(Partner)

**CONSOLIDATED
FINANCIAL STATEMENTS OF THE
BANCA POPOLARE DI SONDRIO
GROUP**



Banca Popolare di Sondrio

Banca Popolare di Sondrio (Suisse)

Popso (Suisse) Advisory Holding

REPORT ON PERFORMANCE

Shareholders,

As parent company of the Banca Popolare di Sondrio Banking Group, registration no. 5696.0, we are obliged to present consolidated financial statements.

COMPOSITION OF THE BANKING GROUP

The Banca Popolare di Sondrio Banking Group is made up as follows:

Parent bank:

Banca Popolare di Sondrio S.c.a.r.l. – Sondrio, Italy

Group companies:

Banca Popolare di Sondrio (Suisse) S.A. – Lugano, Switzerland.

Popso (Suisse) Advisory Holding S.A. – Luxembourg

The parent bank owns the entire share capital of Banca Popolare di Sondrio (Suisse) S.A. while Banca Popolare di Sondrio (Suisse) S.A. owns the entire share capital of Popso (Suisse) Advisory Holding S.A., both of which are fully paid in.

The scope of consolidation and the consolidation methods are specified in the notes to these consolidated financial statements.

GENERAL ECONOMIC CONTEXT

The report on performance accompanying the parent bank's financial statements contains information on the international and Italian economic situation during the year. We would, however, like to add a few comments regarding economic trends in Switzerland, even if based on

indices and information which are not yet official and definitive.

The Swiss economy also showed a distinct decline in growth during the year. GDP went up by around 1.7% compared with 3% the previous year. Inflation was very low – close to 1% – and therefore very close to what could be considered a natural minimum threshold.

This slowdown in the economy, especially the drop in exports, is not unrelated to the strengthening of the Swiss franc which, as always happens at times of international crisis, tends to benefit from its acknowledged role as a shelter currency.

This was one of the reasons why the Swiss Central Bank gradually reduced interest rates by a total of 175 basis points and setting the LIBOR fluctuation range between 1.25% and 2.25%.

The Swiss financial market followed the general trend: the Zurich Stock Exchange suffered a decline of 21%.

Conditions in the cantons where Banca Popolare di Sondrio (Suisse) S.A. is active were much like in the rest of the country.

GEOGRAPHICAL EXPANSION

Expansion of Group's branch network at the same time that the new geographical and economic entities take root forms part of the strategy that the Group is vigorously pursuing. Great attention is be paid on ensuring that each single initiative can have a positive impact on the strength and organic nature of the entire distribution system.

The report on performance accompanying the parent bank's financial statements contains information on the new branches opened during the year. It is worth mentioning here that, in addition to the constant attention that we devote



to the border areas between Italy and Switzerland, the Group's innate vocation for opening up to international markets has led to important new achievements.

Our representative office in Geneva, a city open to world-wide relations and the home of prestigious international institutions, and that of Sondrio (Suisse) SA in Montecarlo are evidence of our desire to widen our horizons to enter into contact with new situations and evaluate their potential from within. Indeed, Sondrio (Suisse) SA has also opened a branch in Basel.

GROUP PERFORMANCE

Funding

Like the parent bank, group also experienced a relative abundance of the raw material of banking intermediation.

Direct customer deposits came to € 6,035 million, +27.13%. Deposits received from other banks reached € 1,589 million, +27.69%.

Indirect customer deposits totalled € 11,049 million, -8.89%, while indirect deposits from banks fell 34% to € 2,080 million.

CONSOLIDATED DIRECT CUSTOMER DEPOSITS

(in thousands of euro)	2001	% of total	2000	% of total	% change
Savings deposits	451,971	7.49	374,827	7.90	20.58
Certificates of deposit	39,913	0.66	40,165	0.85	- 0.63
Bonds	628,936	10.42	535,245	11.28	17.50
Repo transactions	1,027,766	17.03	817,029	17.21	25.79
Bank drafts and similar	71,791	1.19	77,479	1.63	- 7.34
Current accounts	3,616,344	59.93	2,675,163	56.35	35.18
Current accounts in foreign currency	197,856	3.28	226,858	4.78	- 12.78
Total	6,034,577	100.00	4,746,766	100.00	27.13

TOTAL CONSOLIDATED FUNDING

(in thousands of euro)	2001	% of total	2000	% of total	% change
Total direct customer deposits	6,034,577	29.08	4,746,765	22.31	27.13
Total indirect customer deposits	11,049,469	53.24	12,127,827	57.02	- 8.89
Total	17,084,046	82.32	16,874,592	79.33	1.24
Due to other banks	1,588,630	7.65	1,244,178	5.84	27.69
Indirect deposits from banks	2,080,389	10.02	3,152,050	14.82	- 34.00
Third-party funds under administration	114	0.01	155	0.01	- 26.45
Grand total	20,753,179	100.00	21,270,975	100.00	- 2.43

The considerable increase in direct deposits demonstrates the group's ability not only to respond appropriately to its customers' needs, but also to win new business, partly thanks to its continued geographic expansion.

Analyzing the components of direct deposits, current accounts grew by 31.43% to € 3,814 million. Savings deposits also had a positive trend, rising by +20.58% to € 452 million, while the other components made progress with bonds up 17.50% to € 629 million and, above all, repo transactions 25.79% higher at € 1,028 million. Like current accounts, the latter undoubtedly benefited from the ongoing poor performance of stockmarkets generally, forcing investors to prefer more liquid forms of investment.

Asset management, on the other hand, has been penalised. Despite a number of new products and a great deal of effort on the part of the team, funds under management decreased by 1.85% to

€ 2,741 million. This can be considered quite normal given the overall performance of stock exchanges in general.

Loans

Lending growth continued to be robust, rising 25.77% to € 5,767 million, quite a substantial figure. Customer demand was stoked by the progressive decline in interest rates and was given considerable a boost by the newly-opened branches, which steadily built up speed in areas of major economic interest.

Of the various types of loans, of particular note in both percentage (+29.58%) and absolute terms (+ € 283 million) is the growth in foreign currency loans which amount to € 1,240 million, which at this stage represents 21.51% of total lending. There has also been a very sharp increase in drawdowns on current account overdrafts,

CONSOLIDATED CUSTOMER LOANS

(in thousands of euro)	2001	% of total	2000	% of total	% change
Current account overdrafts	2,221,843	38.53	1,858,827	40.55	19.53
Foreign currency loans	1,240,344	21.51	957,206	20.88	29.58
Advances	197,436	3.42	156,356	3.41	26.27
Advances subject to collection	86,842	1.51	67,616	1.47	28.43
Discounted portfolio	8,354	0.14	9,383	0.20	- 10.97
Artisan loans	40,496	0.70	44,111	0.96	- 8.20
Agricultural loans	3,506	0.06	2,817	0.06	24.46
Personal loans	60,839	1.05	54,022	1.18	12.62
Other unsecured loans	763,382	13.24	490,945	10.71	55.49
Mortgage loans	1,142,736	19.82	925,581	20.19	23.46
Net outstanding overdue loans	54,573	0.95	53,838	1.17	1.37
Items to be settled	619	0.01	1,060	0.02	- 41.60
- Write-downs	- 54,053	- 0.94	- 36,580	- 0.80	47.77
Total	5,766,917	100.00	4,585,182	100.00	25.77



which are up € 363 million (+19.53%) to € 2,222 million.

Outstanding overdue loans, net of write-downs, come to 0.95% of total customer loans compared with 1.17% the previous year. This improvement reflects the considerable efforts made to handle credit risk in the best way possible.

196 Securities portfolio

At the end of the year, the securities portfolio amounted to € 1,647 million after an increase of 12.26%. Movements in the portfolio are detailed in table 2.4 of the notes to the consolidated financial statements. Given the overall importance of the parent bank's portfolio relative to the total, the reader is referred to the report on performance accompanying its financial statements for information on investment policies.

The value of Banca Popolare di Sondrio's stock grew by 5.09% over the year, compared with a negative performance generally by the Over-the-Counter market, which fell by 12.18%.

As of 31 December 2000 the parent bank owned 86,248 of its own shares, worth around € 0.87 million, against a reserve for the purchase of own shares of € 14.98 million.

In 2001, own shares underwent the following movements:

The purpose of the transactions was to facilitate trading within the parent bank's body of shareholders. Banca Popolare di Sondrio (Suisse) S.A. and Popso (Suisse) Advisory Holding S.A. did not carry out any transactions in their own shares or in those of the parent bank.

The other consolidated companies – Pirovano Stelvio S.p.A., Ripoval S.p.A., Sofipo Fiduciare S.A., Sinergia Seconda S.r.l., Immobiliare San Paolo S.r.l. and Immobiliare Borgo Palazzo S.r.l. – did not carry out any transactions in their own or the parent bank's shares either.

There are no cross-holdings among the companies included within the scope of consolidation.

EQUITY INVESTMENTS

Equity investments amounted to € 65.12 million as of 31 December 2001, having increased by € 7.22 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.

	No. shares	Par value *	% of share capital	Amount of trade
Balance as of 31/12/2000	9,740	29,220	0.007	177,334
Purchases	533,787	1,601,361	0.388	6,082,076
Sales	457,279	1,371,837	0.332	5,519,858
Profit from trading				134,417
Balance as of 31/12/2001	86,248	258,744	0.063	873,969

** For comparison purposes, the par value has conventionally been considered 3 euro, the equivalent of L. 5,808.81 following the redenomination in euro of the stock's par value of L. 5,000 carried out on 11 April 2001 with a simultaneous increase in capital.*

The table below sets out the balances with non-consolidated subsidiaries and associated companies:

benefit from career paths designed to enhance their skills, while new hires have to go through a tried-and-tested selection process.

BALANCES WITH NON-CONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES AS OF 31 DECEMBER 2001

(in thousands of euro)

	Subsidiaries of the parent bank		Subsidiaries of other subsidiaries		Associated companies of the parent bank		Associated companies of subsidiaries	
	2001	2000	2001	2000	2001	2000	2001	2000
ASSETS								
Due from other banks	–	–	–	–	–	–	–	–
Customer loans	16,513	1,669	58	14,335	4,854	3,674	144	2,062
Securities	–	–	–	–	–	–	–	–
LIABILITIES								
Due to other banks	–	–	–	–	–	–	–	–
Customer deposits	–	207	207	–	59	139	258	135
GUARANTEES AND COMMITMENTS								
Guarantees granted	202	226	–	–	6,557	6,464	618	1,689
Commitments	–	–	–	–	–	–	–	–

Related party transactions form part of the group's ordinary operations and are regulated at arm's-length conditions or, if no suitable parameters exist, at cost. Intercompany transactions form part of the group's ordinary operations and concern correspondence relationships for services rendered, deposit accounts, or financial support for the activities carried out by the various companies concerned. No atypical or unusual transactions that could have a significant impact on the group's results, assets or finances were carried out during the year.

HUMAN RESOURCES

Human resources constitute a key element for the group's development. Members of staff

The increases in personnel mainly relate to the expansion of the distribution network.

As of 31 December 2001, the group's headcount came to 1,992, up 9.57% on the figure of 1,818 reported at the end of 2000.

EQUITY

Consolidated shareholder's equity came to € 800 million as of 31 December 2001, an increase of 27.04% over the year, above all thanks to the increase in capital carried out by the parent bank.

The ratios between capital and the main balance sheet items are as follows:

- *capital/direct customer deposits*
12.40% v 12.32%
- *capital/customer loans*
12.98% v 12.75%



- *capital/financial investments*
27.73% v 28.10%
- *capital/total assets*
8.42% v 8.21%

RECONCILIATION BETWEEN THE PARENT BANK'S AND THE CONSOLIDATED FINANCIAL STATEMENTS

Because of the difference in size between the parent bank Banca Popolare di Sondrio and the other companies being consolidated, the individual contributions of the latter are not very significant, although certainly not negligible either. The following table reconciles the items «net profit for the year» and «shareholders' equity» as shown in the parent bank's and in the consolidated financial statements.

RECONCILIATION BETWEEN SHAREHOLDERS' EQUITY AND NET PROFIT FOR THE YEAR AS SHOWN IN THE PARENT BANK'S AND THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of euro)

	Shareholders' equity	of which: net profit for the year
Shareholders' equity of the parent bank as of 31/12/2001	777,369	46,065
Difference with respect to carrying values of equity investments in:		
– companies consolidated on a line-by-line basis	23,822	5,691
– companies valued at net equity	(1,169)	(250)
Balance as of 31/12/2001, as shown in the consolidated financial statements	800,022	51,506

Consolidated shareholders' equity, including the reserve for possible loan losses, amounts to € 825 million, while the parent bank's shareholders' equity, including the reserve for possible loan losses, amounts to € 795 million.

INCOME STATEMENT

In a situation that was far from easy, the group achieved a 14.59% increase in consolidated net profit for the year, coming in at € 51.506 million.

Trends in the consolidated income statement aggregates mostly reflect those reported by the parent bank.

At € 201.823 million, net interest income was 15.63% higher, particularly thanks to the growth in volumes handled which offset the drop in interest rates and related spreads. Income from customer loans rose by 17.91% to € 419.179 million, while the cost of funding increased by 20.19% to € 222.127 million.

The reduction in commission income, down 4.04% to € 108.519 million, was mainly due to the negative performance of stockmarkets which penalised the revenues from securities intermediation.

Profits from financial transactions improved 7.47% to € 18.870 million, while gains on securities increased 43.62% to € 15.764 million.

Capital losses on securities totalled € 10.564 million, an increase of 64.32%, while write-backs

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

	2001	2000	% change
(in thousands of euro)			
Interest income and similar revenues	419,179	355,497	17.91
Interest expense and similar charges	(222,127)	(184,808)	20.19
Dividends and other revenues	4,771	3,848	23.99
NET INTEREST INCOME	201,823	174,537	15.63
Net commission income	108,519	113,086	- 4.04
Profits from financial transactions	18,870	17,558	7.47
– profit from trading securities and derivatives on securities	15,764	10,976	43.62
– profit from trading currency and derivatives on currency	12,784	12,017	6.38
– profit from trading other derivatives	53	46	15.22
– gain (loss) on valuing securities	(9,731)	(5,481)	77.54
INCOME FROM BANKING ACTIVITIES	329,212	305,181	7.87
Other operating income	24,790	20,208	22.67
Administrative expenses	(199,478)	(177,090)	12.64
– personnel expenses	(104,169)	(92,958)	12.06
– other administrative expenses	(70,200)	(61,375)	14.38
– indirect taxes and duties	(25,109)	(22,757)	10.34
Other operating expenses	(2,872)	(3,176)	- 9.57
OPERATING PROFIT	151,652	145,123	4.50
Adjustments to intangible and fixed assets	(20,820)	(18,515)	12.45
Provisions for risks and charges	(8,060)	(2,077)	288.06
Loan write-downs and provisions for guarantees and commitments			
– loan write-downs	(38,033)	(41,691)	- 8.77
– provisions for guarantees and commitments	(401)	(516)	- 22.29
Write-backs to loans and provisions for guarantees and commitments	14,324	10,200	40.43
Provisions to reserves for possible loan losses	(10,383)	(8,427)	23.21
Adjustments to the value of long-term financial assets	(516)	(563)	- 8.35
Losses on investments valued at net equity	(250)	(125)	100.00
PROFIT FROM ORDINARY OPERATIONS	87,513	83,409	4.92
Extraordinary income	969	1,352	- 28.33
Extraordinary charges	(2,117)	(1,233)	71.70
PROFIT BEFORE TAX	86,365	83,528	3.40
Provision to the reserve for general banking risks	–	(4,132)	–
Income taxes	(34,859)	(34,447)	1.20
NET PROFIT FOR THE YEAR	51,506	44,949	14.59



relating to prior year write-downs, came to € 0.834 million compared with € 0.948 million in the prior year. Profits from currency trading were 6.38% higher at € 12.784 million.

The above increases were reflected in income from banking activities, which rose 7.87% to € 329.212 million.

Other operating income rose 22.67% to € 24.790 million.

Administrative expenses came to € 199.478 million (+12.64%). A significant amount of the increase was the cost of switching over to the euro, though this was all absorbed by the parent bank.

Personnel expenses were 12.06% higher at € 104.169 million, reflecting the new hires required due to expansion of the branch network. However, as a proportion of total administrative expenses, personnel costs fell from 52.49% to 52.22%.

Other administrative expenses rose 13.29% to € 95.309 million, which can be considered normal in view of the group's expansion. Total administrative expenses accounted for 60.59% of income from banking activities, compared with last year's figure of 58.03%.

Other operating expenses fell by 9.57% to € 2.872 million.

As a result, operating profit came to € 151.652 million, 4.50% up on last year's figure of € 145.123 million.

The following items have been deducted from operating profit to arrive at the profit before tax:

- adjustments to intangible and fixed assets of € 20.820 million (+12.45%);
- provisions for risks and charges of € 8.060 million (+288.06%);
- loan write-downs and provisions for guarantees and commitments of € 38.434 million (+8.94%). The write-downs are based on a reasonable forecast of the possible write-offs arising from any loans classified as outstanding, non-performing and restructured. The write-

downs also include a forfeit provision against the risk that performing loans might turn bad;

- write-backs to loans and provisions for guarantees and commitments, totalling € 14.324 million (+40.43%);
- provisions to reserves for possible loan losses of € 10.383 million (+23.21%); these partly refer to overdue interest which is expected to be recovered, but which is provided against for the sake of prudence and to obtain the related tax benefits;
- adjustments to the value of long-term financial assets and losses on investments valued at net equity of € 0.516 million (-8.35%) and € 0.250 million (+100%) respectively;
- extraordinary income of € 0.969 million and extraordinary charges of € 2.117 million.

As a result, profit before tax rose 3.40% to € 86.365 million.

After deducting income taxes (IRPEG and IRAP) for a total of € 34.859 million (+1.20%), this led to the net profit for the year mentioned earlier of € 51.506 million.

SUBSEQUENT EVENTS AND BUSINESS PROSPECTS

The reader is referred to the report accompanying the parent bank's financial statements for information on events taking place after 31 December 2001. As regards Switzerland, there is nothing to report that may significantly change the context in which Banca Popolare di Sondrio (Suisse) S.A. operates.

In terms of the business prospects for 2002, we expect volumes to carry on increasing, generating a beneficial effect on the group's profitability.

Sondrio, 28 January 2002

THE BOARD OF DIRECTORS

REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS

Shareholders,

The 2001 consolidated financial statements, which the Board of Directors of the parent company, Banca Popolare di Sondrio, made available to us within the legal deadline, close with a net profit of € 51,506 thousand, total assets of € 8,889,309 thousand, consolidated shareholders' equity of € 800,022 thousand, reserve for possible loan losses of € 24,660 thousand, and memorandum accounts of € 1,812,376 thousand.

We have examined these documents and can confirm that they have been prepared in compliance with the provisions of D.Lgs. 87 of 27 January 1992 and the principles laid down in this connection by the Bank of Italy. The consolidated financial statements include all of the required documents, namely balance sheet, income statement, notes and directors' report on group operations.

As regards the results achieved during the year, we would highlight the significant increases in operating volumes and margins, reflecting the positive trend in the group's activities.

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 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 financial statements of the parent bank, of the Swiss subsidiary and of Popso (Suisse) Advisory Holding SA have been consolidated on a line-by-line basis.

The consolidation area has not changed during the year. The consolidation methods, as explained in the notes, comply with current regulations and are based on the accounting policies recommended therein. The accounting principles used in the valuation of balance sheet items have our consent.

The above matters are confirmed in the auditors' report issued by Arthur Andersen SpA which accompanies the consolidated financial statements.

We would add that there are no cross holdings between companies included in the consolidated and all transactions and balances between them have been eliminated.

Sondrio, 13 February 2002

THE STATUTORY AUDITORS

Egidio Alessandri, chairman

Piergiuseppe Forni, auditor

Roberto Schiantarelli, auditor

**CONSOLIDATED
FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2001**

CONSOLIDATED BALANCE SHEET

(in thousands of euro)

ASSETS

31-12-2001

31-12-2000

10.	CASH ON HAND AT CENTRAL BANKS AND POST OFFICES		87,952		57,833
20.	TREASURY AND SIMILAR BILLS ELIGIBLE FOR REFINANCING AT CENTRAL BANKS		404,324		469,531
30.	DUE FROM OTHER BANKS:		986,713		556,033
	a) sight	98,515		125,038	
	b) others	888,198		430,995	
40.	CUSTOMER LOANS		5,766,917		4,585,182
	of which:				
	– from third-party funds under administration	119		135	
50.	BONDS AND OTHER FIXED-YIELD SECURITIES:		1,126,150		936,713
	a) from public issuers	1,060,093		822,318	
	b) from banks	38,692		86,226	
	of which:				
	– own securities	3,264		2,880	
	c) from financial institutions	3,123		1,682	
	d) from other issuers	24,242		26,487	
60.	SHARES, QUOTAS AND OTHER VARIABLE-YIELD SECURITIES		116,217		60,573
70.	EQUITY INVESTMENTS:		65,120		57,902
	a) valued at net equity	14,716		14,975	
	b) others	50,404		42,927	
110.	INTANGIBLE ASSETS		12,664		12,000
120.	FIXED ASSETS		76,804		71,987
140.	OWN SHARES (par value 259)		874		177
150.	OTHER ASSETS		195,164		263,864
160.	ACCRUED INCOME AND PREPAYMENTS:		50,410		46,884
	a) accrued income	48,822		45,129	
	b) prepayments	1,588		1,755	
TOTAL ASSETS			8,889,309		7,118,679

THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER
Piero Melazzini

THE STATUTORY AUDITORS
Egidio Alessandri, Chairman
Piergiuseppe Forni - Roberto Schiantarelli

LIABILITIES

31-12-2001

31-12-2000

10.	DUE TO OTHER BANKS:	1,588,630		1,244,178
	a) sight	244,905		268,688
	b) time or with notice	1,343,725		975,490
20.	CUSTOMER DEPOSITS:	5,293,937		4,093,876
	a) sight	4,203,444		3,210,030
	b) time or with notice	1,090,493		883,846
30.	SECURITIES ISSUED:	740,640		652,888
	a) bonds	628,936		535,244
	b) certificates of deposit	39,913		40,165
	c) other securities	71,791		77,479
40.	THIRD-PARTY FUNDS UNDER ADMINISTRATION	114		155
50.	OTHER LIABILITIES	276,206		320,634
60.	ACCRUED LIABILITIES AND DEFERRED INCOME:	22,658		25,795
	a) accrued liabilities	20,303		23,697
	b) deferred income	2,355		2,098
70.	RESERVE FOR SEVERANCE INDEMNITIES	32,281		30,435
80.	RESERVES FOR RISKS AND CHARGES:	110,161		98,378
	a) staff pension fund	48,862		46,254
	b) taxation reserve	40,165		38,799
	d) other reserves	21,134		13,325
90.	RESERVES FOR POSSIBLE LOAN LOSSES	24,660		22,596
100.	RESERVE FOR GENERAL BANKING RISKS	38,734		38,734
130.	NEGATIVE DIFFERENCES ARISING ON APPLICATION OF NET EQUITY METHOD	123		134
150.	SHARE CAPITAL	412,698		177,617
160.	SHARE PREMIUM RESERVE	135,886		233,401
170.	RESERVES:	160,677		134,545
	a) legal reserve	53,759		43,872
	b) reserve for own shares	874		177
	c) statutory reserves	83,967		72,304
	d) other reserves	22,077		18,192
190.	RETAINED EARNINGS	398		364
200.	NET PROFIT FOR THE YEAR	51,506		44,949
TOTAL LIABILITIES		8,889,309		7,118,679

THE GENERAL MANAGER
Mario Alberto Pedranzini

THE CHIEF ACCOUNTANT
Maurizio Bertoletti

**GUARANTEES AND COMMITMENTS****31-12-2001****31-12-2000**

10.	GUARANTEES GRANTED	1,389,485	1,043,373
	of which:		
	– acceptances	4,527	4,531
	– other guarantees	1,384,958	1,038,842
20.	COMMITMENTS	422,891	240,280

CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

		2001	2000
10.	INTEREST INCOME AND SIMILAR REVENUES	419,179	355,497
	of which:		
	– on customer loans	325,576	273,005
	– on fixed-yield securities	69,802	58,736
20.	INTEREST EXPENSE AND SIMILAR CHARGES	(222,127)	(184,808)
	of which:		
	– on customer deposits	146,268	104,171
	– on securities issued	22,129	18,366
30.	DIVIDENDS AND OTHER INCOME:	4,771	3,848
	a) from shares, quotas and		
	other variable-yield securities	743	583
	b) from equity investments	4,028	3,265
40.	COMMISSION INCOME	116,266	122,130
50.	COMMISSION EXPENSE	(7,747)	(9,044)
60.	PROFITS FROM FINANCIAL TRANSACTIONS	18,870	17,558
70.	OTHER OPERATING INCOME	24,790	20,208
80.	ADMINISTRATIVE EXPENSES:	(199,478)	(177,090)
	a) Personnel expenses	104,169	92,958
	of which:		
	– wages and salaries	70,784	62,712
	– social security contributions	19,300	17,070
	– severance indemnities	4,919	5,083
	– pensions	5,158	5,129
	b) Other administrative expenses	95,309	84,132
90.	ADJUSTMENTS TO INTANGIBLE AND FIXED ASSETS	(20,820)	(18,515)
100.	PROVISIONS FOR RISKS AND CHARGES	(8,060)	(2,077)
110.	OTHER OPERATING EXPENSES	(2,872)	(3,176)
120.	ADJUSTMENTS TO LOANS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS	(38,434)	(42,207)
130.	WRITE-BACKS TO LOANS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS	14,324	10,200
140.	PROVISIONS TO RESERVES FOR POSSIBLE LOAN LOSSES	(10,383)	(8,427)
150.	ADJUSTMENT TO THE VALUE OF LONG-TERM FINANCIAL ASSETS	(516)	(563)
170.	LOSS ON INVESTMENTS VALUED AT NET EQUITY	(250)	(125)
180.	PROFIT FROM ORDINARY OPERATIONS	87,513	83,409
190.	EXTRAORDINARY INCOME	969	1,352
200.	EXTRAORDINARY CHARGES	(2,117)	(1,233)
210.	NET EXTRAORDINARY ITEMS	(1,148)	118
230.	CHANGE IN THE RESERVE FOR GENERAL BANKING RISKS		(4,132)
240.	INCOME TAXES FOR THE YEAR	(34,859)	(34,447)
260.	NET PROFIT FOR THE YEAR	51,506	44,949

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

The notes comment on the data in the financial statements, and contain the information required by current legislation.

All figures contained in the notes are in thousands of euro.

The consolidated financial statements, as well as the bank's statutory financial statements, have been audited by Arthur Andersen S.p.A.

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CONSOLIDATION AREA

The consolidated financial statements include the data of the Banca Popolare di Sondrio S.c.a.r.l. and of the Banca Popolare di Sondrio (Suisse) SA, the latter operating in the area of credit and loans. Banca Popolare di Sondrio holds 100% of its share capital. The consolidated financial statements also include the data of Popso (Suisse) Advisory Holding SA, which is wholly-owned by Banca Popolare di Sondrio (Suisse) SA.

The consolidation is made on the basis of the annual accounts as of 31 December 2001 as approved by the respective Boards of Directors.

The subsidiary Sinergia Seconda Srl, a real estate company headquartered in Milan and wholly-owned by the bank, has been excluded from full consolidation and valued under the net equity method, as it does not meet the requirements of article 28 of Legislative Decree 87/92. The company owns 100% of Immobiliare San Paolo srl and Immobiliare Borgo Palazzo srl, both carried at equity.

The associated company Ripoval S.p.A., a company over which the bank exercises considerable influence because of its 50% ownership, has been valued under the net equity method on the basis of its latest approved financial statements, which are those for the year ended on 31 December 2000.

The subsidiary Pirovano Stelvio S.p.A. has been excluded from full consolidation as it does not meet the requirements of article 28 of Legislative Decree 87/92, not being a credit or financial institution; nor is its business instrumental to the activity of the banking group. It has therefore also been valued under the net equity method on the basis of its financial statements for the year ended 31 October 2001.

Sofipo Fiduciaire SA, an indirectly held associated company of Banca Popolare di Sondrio (Suisse) SA, which owns 30% of the share capital, has been written down to zero as it closed its first years of operation with a loss.

CBE Service sprl and Sintesi 2000 srl, the associated companies in which the bank holds interests of 23.30% and 33.33% respectively, have been valued at cost, in accordance with article 36.4 of Legislative Decree 87/92, as they are not considered significant.

CONSOLIDATION POLICIES

The book value of the investments in Banca Popolare Sondrio (Suisse) SA and Popso (Suisse) Advisory Holding SA is eliminated against their net equity.

Intercompany balances and transactions are eliminated.



Insignificant income and charges pertaining to transactions carried out at normal market conditions have not been eliminated.

OTHER CONSOLIDATION OPERATIONS

The valuation in euro of the figures in the financial statements of Banca Popolare di Sondrio (Suisse) SA and Popso (Suisse) Advisory Holding SA has been made applying the official exchange rate ruling at the year end. Their financial statements have been duly reclassified and adjusted, where necessary, to bring them into line with the accounting principles of the Group. The same format is used as for the financial statements of Banca Popolare di Sondrio S.c. a r.l.

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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 other banks and customer loans

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

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

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

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

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

Other receivables

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

Guarantees and commitments

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

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

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

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

2.2 Trading securities

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

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

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

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

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

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

3. Equity investments

Item 70 includes:

under sub-item a) equity investments valued under the net equity method, namely Pirovano Stelvio S.p.A., Ripoval S.p.A., Sinergia Seconda s.r.l., Immobiliare San Paolo s.r.l. and Immobiliare Borgo Palazzo s.r.l., to which the value attributed is determined according to article 19 of Legislative Decree 87/92;

under sub-item b) others; the remaining equity investments are valued using the methods indicated below:

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

Equity investments in listed companies are valued at the lower of purchase or subscription price and market value, defined as the average quoted price in the second half of the year.

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

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

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

Assets, liabilities and «off-balance sheet» spot transactions in foreign currency are converted into 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.



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

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

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

5. Fixed assets

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

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

Moreover, within the limits of the law, accelerated depreciation has been charged in order to take advantage of the tax benefit on property, as well as to counter the obsolescence of high-tech goods shown under machines and equipment.

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

6. Intangible assets

These are booked at purchase cost, inclusive of ancillary charges, and are written off systematically over their estimated useful life. They consist of costs for setting-up and refurbishing branches in rented buildings and costs for the purchase of software utilization rights.

7. Others

Payables

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

Accruals and deferrals

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

Reserve for severance indemnities

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

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

Reserves for risks and charges

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

The taxation reserve provides for income tax on the basis of a reasonable forecast of current and deferred tax charges in accordance with current fiscal laws, taking into consideration any exemptions and tax credits due.

The prudence principle dictates that deferred tax assets should only be recognized if it is reasonably certain they will be recovered. Accordingly, account has been taken of only those timing differences between the statutory and fiscal results giving rise to deferred tax assets, that are certain to reverse; accordingly no such timing differences have been recognized on provisions with an unspecified date of reversal.

Deferred 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, during the current and previous years, for € 9.059 million (€ 0.118 million charged to the year) in accordance with article 67.3 of Presidential Decree 917/86. They have been charged to the maximum extent allowed by tax laws, in order to receive a tax benefit that was not otherwise obtainable.

The potential deferred tax liability amounts to € 3.103 million (€ 40,000 relating to 2001) 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 € 24.660 million, and other reserves for € 4.046 million (an increase of € 3.149 million, net of utilizations); these reserves have not been deducted from assets, but booked as separate items under liabilities.

These provisions were made in order to receive a tax benefit that was not otherwise obtainable.

The potential deferred tax liability amounts to € 8.912 million (€ 1.055 million relating to 2001) 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»

	31/12/2001	31/12/2000
a) deposits with central banks	215,093	15,289
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 for € 66.231 million and the guarantee deposit for the advance delivery of euros for € 148.862 million.

1.2 Breakdown of item 40 «Customer loans»

	31/12/2001	31/12/2000
a) assets eligible for refinancing at central banks	1,270	687
b) receivables from leasing contracts	–	–
c) repo transactions	–	–
d) securities lent	–	–

The following table illustrates the loan situation:

	31/12/2001			31/12/2000		
Categories	Gross exposure	Total writedowns	Net exposure	Gross exposure	Total writedowns	Net exposure
A. Doubtful loans	201,167	61,558	139,609	193,368	56,368	137,000
A.1. Outstanding	94,981	40,408	54,573	93,095	39,258	53,837
A.2. Non-performing	72,372	11,126	61,246	68,108	10,477	57,631
A.3. Loans being restructured	–	–	–	–	–	–
A.4. Restructured loans	33,151	9,825	23,326	31,861	6,597	25,264
A.5. Unsecured loans exposed to country risk	663	199	464	304	36	268
B. Performing loans	5,660,211	32,903	5,627,308	4,467,848	19,666	4,448,182
Total	5,861,378	94,461	5,766,917	4,661,216	76,034	4,585,182

Movements in doubtful loans

	31/12/2001				
Categories	Out-standing loans	Non-performing loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk
A. Gross exposure as of 31/12/2000	93,095	68,108	0	31,861	304
A.1. of which: overdue interest	13,060	–	–	–	–
B. Increases	33,405	28,506	0	1,395	372
B.1. transfers from performing loans	14,492	21,766	–	–	47
B.2. overdue interest	3,967	3	–	–	–
B.3. transfers from other categories of doubtful loans	10,620	–	–	–	–
B.4. other increases	4,326	6,737	–	1,395	325
C. Decreases	31,519	24,242	0	105	13
C.1. transfers to performing loans	–	2,838	–	104	–
C.2. write-offs	22,108	–	–	–	–
C.3. collections	9,411	10,784	–	1	13
C.4. proceeds from factored loans	–	–	–	–	–
C.5. transfers to other categories of doubtful loans	–	10,620	–	–	–
C.6. other decreases	–	–	–	–	–
D. Gross exposure as of 31/12/2001	94,981	72,372	0	33,151	663
D.1. of which: overdue interest	13,786	3	–	–	–

	31/12/2000				
Categories	Out-standing loans	Non-performing loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk
A. Gross exposure as of 31/12/1999	99,169	62,191	44,334	461	198
A.1. of which: overdue interest	11,414	–	–	–	–
B. Increases	54,529	42,608	–	33,005	117
B.1. transfers from performing loans	27,416	22,950	–	105	–
B.2. overdue interest	3,623	–	–	–	–
B.3. transfers from other categories of doubtful loans	21,790	14,023	–	32,588	–
B.4. other increases	1,700	5,635	–	312	117
C. Decreases	60,603	36,691	44,334	1,605	11
C.1. transfers to performing loans	168	7,768	1,252	–	–
C.2. write-offs	33,786	–	–	–	–
C.3. collections	20,342	7,470	2,778	124	11
C.4. proceeds from factored loans	–	–	–	–	–
C.5. transfers to other categories of doubtful loans	6,307	21,453	40,304	337	–
C.6. other decreases	–	–	–	1,144	–
D. Gross exposure as of 31/12/2000	93,095	68,108	0	31,861	304
D.1. of which: overdue interest	13,060	–	–	–	–



Movements in total adjustments

Categories	31/12/2001					
	Out-standing loans	Non-performing loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk	Performing loans
A. Opening total adjustments as of 31/12/2000	39,258	10,477	0	6,597	36	19,666
A.1. of which: overdue interest	2,498	–	–	–	–	–
B. Increases	24,229	5,222	0	3,247	167	16,970
B.1. adjustments	21,609	5,192	–	3,247	167	14,512
B.1.1. of which: overdue interest	1,969	3	–	–	–	–
B.2. use of reserves for possible loan losses	–	–	–	–	–	–
B.3. transfers from other categories of loans	2,620	30	–	–	–	5
B.4. other increases	–	–	–	–	–	2,453
C. Decreases	23,079	4,573	0	19	4	3,733
C.1. write-backs on valuation	405	586	–	18	–	316
C.1.1. of which: overdue interest	6	–	–	–	–	–
C.2. write-backs due to collections	566	1,421	–	1	4	3,328
C.2.1. of which: overdue interest	157	–	–	–	–	–
C.3. write-offs	22,108	–	–	–	–	–
C.4. transfers to other categories of loans	–	2,566	–	–	–	89
C.5. other decreases	–	–	–	–	–	–
D. Closing total adjustments as of 31/12/2001	40,408	11,126	0	9,825	199	32,903
D.1. of which: overdue interest	2,734	3	–	–	–	–

Categories	31/12/2000					
	Out-standing loans	Non-performing loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk	Performing loans
A. Opening total adjustments as of 31/12/1999	42,024	8,885	6,292	199	59	16,387
A.1. of which: overdue interest	1,987	–	–	–	–	–
B. Increases	16,092	8,043	0	6,597	29	7,535
B.1. adjustments	10,554	5,160	–	820	26	3,311
B.1.1. of which: overdue interest	1,043	–	–	–	–	–
B.2. use of reserves for possible loan losses	–	–	–	–	–	–
B.3. transfers from other categories of loans	4,718	2,337	–	3,475	–	6
B.4. other increases	820	546	–	2,302	3	4,218
C. Decreases	18,858	6,451	6,292	199	52	4,256
C.1. write-backs on valuation	1,353	–	–	–	–	–
C.1.1. of which: overdue interest	119	–	–	–	–	–
C.2. write-backs due to collections	275	1,921	480	4	52	4,178
C.2.1. of which: overdue interest	83	–	–	–	–	–
C.3. write-offs	17,230	–	–	–	–	–
C.4. transfers to other categories of loans	–	4,530	5,812	195	–	–
C.5. other decreases	–	–	–	–	–	78
D. Closing total adjustments as of 31/12/2000	39,258	10,477	0	6,597	36	19,666
D.1. of which: overdue interest	2,498	–	–	–	–	–

1.3 Secured customer loans

	31/12/2001	31/12/2000
a) by mortgages	1,605,617	1,348,241
b) by liens on:	194,513	193,687
1. cash deposits	48	45
2. securities	180,488	193,642
3. other assets	13,977	–
c) by guarantees from:	1,284,463	1,627,882
1. governments	41	–
2. other public entities	4,132	–
3. banks	36,325	31,433
4. other operators	1,243,965	1,596,449
Total	3,084,593	3,169,810

1.4 Doubtful loans (including overdue interest)

	31/12/2001	31/12/2000
Doubtful loans (including overdue interest)	54,573	53,837

1.5 Receivables for overdue interest

	31/12/2001	31/12/2000
a) doubtful loans	11,052	10,562
b) other loans	–	–

Section 2 **Securities**

2.3 Trading securities

	31/12/2001		31/12/2000	
	Book value	Market value	Book value	Market value
1. Fixed-yield securities	1,530,474	1,533,215	1,406,244	1,407,777
1.1 Government securities	1,464,349	1,466,962	1,290,192	1,290,860
– listed	1,464,349	1,466,962	1,290,192	1,290,860
– unlisted	–	–	–	–
1.2 Other securities	66,125	66,253	116,052	116,917
– listed	29,097	29,222	47,659	48,513
– unlisted	37,028	37,031	68,393	68,404
2. Variable-yield securities	116,217	119,625	60,573	67,221
– listed	37,174	40,582	29,775	36,423
– unlisted	79,043	79,043	30,798	30,798
Total	1,646,691	1,652,840	1,466,817	1,474,998



2.4 Change for the year in trading securities

	31/12/2001	31/12/2000
A. Opening balance	1,466,817	1,310,293
B. Increases	13,420,599	12,007,347
B1. Purchases	13,401,612	11,993,597
– Fixed-yield securities	13,085,503	11,550,746
government securities	11,654,773	10,843,780
other securities	1,430,730	706,966
– Variable-yield securities	316,109	442,851
B2. Write-backs and revaluations	834	948
B3. Transfers from investment portfolio	–	–
B4. Other changes	18,153	12,802
C. Decreases	13,240,725	11,850,823
C1. Sales and redemptions	13,229,834	11,843,874
– Fixed-yield securities	12,977,872	11,435,891
government securities	11,492,128	10,731,870
other securities	1,485,744	704,021
– Variable-yield securities	251,962	407,983
C2. Write-downs	10,565	6,429
C3. Transfers to investment portfolio	–	–
C5. Other changes	326	520
D. Closing balance	1,646,691	1,466,817

Section 3 *Equity investments*

3.1 Main equity investments

	Location	Type of relationship (1)	Shareholders' equity	Profit/Loss	Type of investment		% of votes at the AGM	Book value
					Parent company	% held		
A. Companies included in the consolidation area								
A1. Full consolidation method								
1. Banca Popolare di Sondrio (Suisse) SA	Lugano	1	55,002	6,086	Banca Popolare di Sondrio	100	100	–
2. Popso (Suisse) Advisory Holding SA	Luxembourg	1	1,824	1,325	Banca Popolare di Sondrio (Suisse) SA	100	100	–
B. Net equity method								
1. Pirovano Stelvio spa	Tirano	1	1,880	-382	Banca Popolare di Sondrio	98	98	3,225
2. Ripoval spa	Sondrio	8	3,087	279	Banca Popolare di Sondrio	50	50	1,414
3. Sinergia Seconda srl	Milan	1	10,051	-291	Banca Popolare di Sondrio	100	100	10,077

(1) 1 - Control as per article 2359.1.1 of the Italian Civil Code (majority of voting rights at the AGM)

8 - Associated company

The equity investment in Sofipo Fiduciaire SA is not reported since it has been written down to zero having closed its first years of operations with a loss.

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

	31/12/2001	31/12/2000
a) Assets	214,653	115,151
1. Due from other banks	128,015	90,855
of which:		
– subordinated	–	–
2. Due from financial institutions	57,953	18,977
of which:		
– subordinated	–	–
3. Customer loans	17,227	5,319
of which:		
– subordinated	140	140
4. Bonds and other fixed-yield securities	11,458	–
of which:		
– subordinated	1,020	–
b) Liabilities	256,210	94,591
1. Due to other banks	1,930	4,006
2. Due to financial institutions	237,316	85,921
3. Customer deposits	16,964	4,664
4. Securities issued	–	–
5. Subordinated liabilities	–	–
c) Guarantees and commitments	189,251	58,357
1. Guarantees granted	188,108	58,357
2. Commitments	1,143	–

3.4 Breakdown of item 70 «Equity investments»

	31/12/2001	31/12/2000
a) in banks	12,040	10,263
1. listed	394	303
2. unlisted	11,646	9,960
b) in financial institutions	14,961	12,188
1. listed	–	–
2. unlisted	14,961	12,188
c) others	38,119	35,451
1. listed	5,175	5,175
2. unlisted	32,944	30,276
Total	65,120	57,902

The figures for 2000 have been reclassified for comparison purposes.

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

	31/12/2001	31/12/2000
a) in banks	–	–
1. listed	–	–
2. unlisted	–	–
b) in financial institutions	–	–
1. listed	–	–
2. unlisted	–	–
c) others	–	–
1. listed	–	–
2. unlisted	–	–
Total	–	–



3.6 Changes for the year in equity investments

3.6.1 Equity investments in Group companies

	31/12/2001	31/12/2000
A. Opening balance	0	74
B. Increases	0	0
B1. Purchases	–	–
B2. Write-backs	–	–
B3. Revaluations	–	–
B4. Other changes	–	–
C. Decreases	0	74
C1. Sales	–	–
C2. Write-downs	–	–
of which:		
– permanent write-downs	–	–
– other adjustments	–	–
C3. Other changes	–	74
D. Closing balance	0	0
E. Total revaluations	–	–
F. Total write-downs	–	–

The amount refers to Popso (Suisse) Advisory Holding SA, which has been fully consolidated.

3.6.2 Other equity investments

	31/12/2001	31/12/2000
A. Opening balance	57,902	51,605
B. Increases	8,004	6,867
B1. Purchases	7,994	6,834
B2. Write-backs	–	–
B3. Revaluations	–	–
B4. Other changes	10	34
C. Decreases	786	570
C1. Sales	1	19
C2. Write-downs	577	487
of which:		
– permanent write-downs	–	–
– other adjustments	577	487
C3. Other changes	208	64
D. Closing balance	65,120	57,902
E. Total revaluations	–	–
F. Total write-downs	3,882	3,359

Section 4 **Fixed and intangible assets**

4.1 Changes for the year in fixed assets

	31/12/2001				
	Buildings	Furniture and fittings	Machines and equipment	Others	Total
A. Opening balance	59,487	4,428	4,377	3,695	71,987
B. Increases	7,501	2,161	3,671	3,736	17,069
B1. Purchases	7,501	2,150	3,658	3,726	17,035
B2. Write-backs	–	–	–	–	–
B3. Revaluations	–	–	–	–	–
B4. Other changes	–	11	13	10	34
C. Decreases	3,326	2,152	3,830	2,944	12,252
C1. Sales	–	–	–	–	–
C2. Write-downs:	3,326	2,152	3,830	2,944	12,252
a) depreciation	3,326	2,152	3,830	2,944	12,252
b) permanent write-downs	–	–	–	–	–
C3. Other changes	–	–	–	–	–
D. Closing balance	63,662	4,437	4,218	4,487	76,804
E. Total revaluations	42,374	–	–	–	42,374
F. Total write-downs:	49,097	13,629	20,940	21,405	105,071
a) depreciation	49,097	13,629	20,940	21,405	105,071
b) permanent write-downs	–	–	–	–	–

	31/12/2000				
	Buildings	Furniture and fittings	Machines and equipment	Others	Total
A. Opening balance	59,571	3,503	3,006	3,346	69,426
B. Increases	2,817	2,764	4,286	2,541	12,408
B1. Purchases	2,817	2,754	4,286	2,519	12,376
B2. Write-backs	–	–	–	–	–
B3. Revaluations	–	–	–	–	–
B4. Other changes	–	10	–	22	32
C. Decreases	2,901	1,839	2,915	2,192	9,847
C1. Sales	–	–	–	–	–
C2. Write-downs:	2,901	1,839	2,915	2,192	9,847
a) depreciation	2,901	1,839	2,915	2,192	9,847
b) permanent write-downs	–	–	–	–	–
C3. Other changes	–	–	–	–	–
D. Closing balance	59,487	4,428	4,377	3,695	71,987
E. Total revaluations	42,374	–	–	–	42,374
F. Total write-downs:	45,771	11,452	17,074	18,622	92,919
a) depreciation	45,771	11,452	17,074	18,622	92,919
b) permanent write-downs	–	–	–	–	–

The figures for 2000 have been reclassified for comparison purposes.



4.2 Changes for the year in intangible assets

	31/12/2001			
	Software purchases	Leasehold improvements	Set-up costs	Total
A. Opening balance	3,148	8,852	0	12,000
B. Increases	4,072	6,304	0	10,376
B1. Purchases	4,048	6,257	–	10,305
B2. Write-backs	–	–	–	–
B3. Revaluations	–	–	–	–
B4. Other changes	24	47	–	71
C. Decreases	4,014	5,698	0	9,712
C1. Sales	–	–	–	–
C2. Write-downs:	3,400	5,168	–	8,568
a) amortization	3,400	5,168	–	8,568
b) permanent write-downs	–	–	–	–
C3. Other changes	614	530	–	1,144
D. Closing balance	3,206	9,458	0	12,664
E. Total revaluations	–	–	–	–
F. Total write-downs:	21,648	26,373	589	48,610
a) amortization	21,648	26,373	589	48,610
b) permanent write-downs	–	–	–	–

	31/12/2000			
	Software purchases	Leasehold improvements	Set-up costs	Total
A. Opening balance	3,509	7,227	0	10,736
B. Increases	3,318	6,615	0	9,933
B1. Purchases	3,274	6,557	–	9,831
B2. Write-backs	–	–	–	–
B3. Revaluations	–	–	–	–
B4. Other changes	44	58	–	102
C. Decreases	3,679	4,990	0	8,669
C1. Sales	–	–	–	–
C2. Write-downs:	3,679	4,990	–	8,669
a) amortization	3,679	4,990	–	8,669
b) permanent write-downs	–	–	–	–
C3. Other changes	–	–	–	–
D. Closing balance	3,148	8,852	0	12,000
E. Total revaluations	–	–	–	–
F. Total write-downs:	18,148	21,103	574	39,825
a) amortization	18,148	21,103	574	39,825
b) permanent write-downs	–	–	–	–

Section 5 **Other asset items**

5.1 Breakdown of item 150 «Other assets»

	31/12/2001	31/12/2000
Taxes withheld	181	200
Tax credits on dividends	1,601	1,310
Deferred tax assets	5,381	6,856
Advances paid to tax authorities	27,880	23,219
Withholdings on interest due to customers	129	128
Tax credits and related interest	2,646	2,533
Miscellaneous cash equivalents	1	2
Bills with the cashier	44	136
Outstanding cheques and bills	2,979	3,168
Current account cheques drawn on third parties	37,542	39,117
Current account cheques drawn on Group banks	2,326	15,020
Securities transactions	4,021	13,956
Transit account for Arca funds	–	1,001
Items in transit with branches	465	892
Inventories	921	939
Contra-item for valuation of off-balance sheet transactions	38,655	80,991
Costs pertaining to 2002	809	1,142
Advances to suppliers	14,659	9,805
Advances to customers on loans	23,100	24,090
Value date differentials on portfolio transactions	–	6,537
Miscellaneous debits in transit	13,763	21,270
Premiums for exchange and securities options to be exercised	3,472	2,594
Guarantee deposits	203	320
Liquid assets belonging to the staff pension fund	360	–
Differences on elimination	1,939	–
Residual items	12,087	8,638
Total	195,164	263,864

5.2 Breakdown of item 160 «Accrued income and prepayments»

	31/12/2001	31/12/2000
a) Accrued income	48,822	45,129
Interest receivable on securities	17,527	17,264
Interest on euro and foreign currency loans to customers	6,925	8,363
Interest on euro and foreign currency deposits and loans to other banks	3,477	1,513
Interest on customer mortgages and loans	13,036	10,878
Commissions receivable	6,447	5,441
Forward currency transactions	183	–
Other accrued income	1,227	1,670
b) Prepayments	1,588	1,755
Invoices received not pertaining to this financial year	1,502	1,755
Other prepaid expenses	86	–
Total accrued income and prepayments	50,410	46,884

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



5.4 Distribution of subordinated assets

	31/12/2001	31/12/2000
a) Due from other banks	–	–
b) Customer loans	140	140
c) Bonds and other fixed-yield securities	1,725	3,405

Section 6 Payables

6.1 Breakdown of item «Due to other banks»

	31/12/2001	31/12/2000
a) Repo transactions	–	–
b) Securities lent	–	–

6.2 Breakdown of item «Customer deposits»

	31/12/2001	31/12/2000
a) Repo transactions	1,027,766	817,028
b) Securities lent	–	–

Item 20 amounts to € 5,293.937 million.

Item 30 «securities issued» amounts to € 740.640 million and is made up of the sub-items «bonds, certificates of deposit, and others».

The sub-item «bonds» is made up of:

	Nominal value	Book value
<i>Issued by Banca Popolare di Sondrio:</i>		
Floating-rate bond issues	260,611	234,925
Fixed-rate bond issues	102,870	100,178
Zero-coupon bond issues	297,840	275,348
Total	661,321	610,451
<i>Issued by Banca Popolare di Sondrio (Suisse) SA:</i>		
Floating-rate bond issues	18,485	18,485
Total	679,806	628,936

Floating-rate bond issues also include structured bonds with a nominal value of € 77.149 million.

The sub-item «certificates of deposit» totals € 39.913 million and consists of € 36.717 million in short-term fixed-rate certificates, € 1.539 million in medium-term fixed-rate certificates, € 1.573 million in medium-term floating-rate certificates and € 84,000 in zero-coupon certificates.

The sub-item «other securities» totals € 71.791 million and is made up of banker's drafts and others.

Item 40, «third-party funds under administration», totalling € 114,000, with a decrease of € 41,000 (-26.45%), consists of public funds to be used for assisted loans.

Section 7 Reserves

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

This item amounts to € 24.660 million, of which € 11.052 million refers to that portion of the reserve for overdue interest deemed recoverable.

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

	31/12/2001	31/12/2000
A. Opening balance	22,596	15,290
B. Increases	10,671	8,862
B1. Provisions	10,383	8,427
B2. Other changes	288	435
C. Decreases	8,607	1,556
C1. Utilizations	5,199	451
C2. Other changes	3,408	1,105
D. Closing balance	24,660	22,596

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

	31/12/2001	31/12/2000
a) Charity fund	393	384
b) Reserve for guarantees granted	3,500	3,099
c) Reserve for personnel expenses	3,194	3,246
d) Reserve for litigation costs	10,000	3,635
e) Reserve for fluctuation in securities value	4,047	2,961
Total	21,134	13,325

Deferred tax liabilities

	31/12/2001	31/12/2000
1. Opening balance	69	80
2. Increases	5	25
2.1. Deferred taxes liabilities arising during the year	5	25
2.2. Other increases	–	–
3. Decreases	31	36
3.1. Deferred taxes liabilities reversing during the year	29	25
3.2. Other decreases	2	11
4. Closing balance	43	69

Deferred tax assets

	31/12/2001	31/12/2000
1. Opening balance	6,856	9,824
2. Increases	1,282	628
2.1. Deferred taxes assets arising during the year	1,282	628
2.2. Other increases	–	–
3. Decreases	2,757	3,596
3.1. Deferred taxes assets reversing during the year	2,527	2,231
3.2. Other increases	230	1,365
4. Closing balance	5,381	6,856



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	31/12/2001	31/12/2000
Item 100 Reserve for general banking risks	38,734	38,734
Item 130 Negative differences arising on application of net equity method	123	134
Item 150 Share capital	412,698	177,617
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	233,401
Item 170 Reserves	160,677	134,544
of which:		
a) legal	53,759	43,872
b) for own shares	874	177
c) statutory	83,967	72,304
d) others	22,077	18,192
Item 190 Retained earnings	398	364
Item 200 Net profit for the year	51,506	44,949
Total shareholders' equity	800,022	629,744

Consolidated capital ratios: solvency ratio as of 31 December 2001

Categories	31/12/2001	31/12/2000
A. Capital for supervisory purposes		
A.1 Basic capital (tier 1)	761,473	596,704
A.2 Supplementary capital (tier 2)	26,872	28,299
A.3 Amounts to be subtracted	13,190	22,605
A.4 Capital for supervisory purposes	775,155	602,398
B. Precautionary requirements for supervisory purposes		
B.1 Credit risks	543,767	429,995
B.2 Market risks	21,982	22,582
of which:		
– risks to the trading securities portfolio	21,982	13,492
– exchange risks	–	–
B.3 Other precautionary requirements	4,653	7,289
B.4 Total precautionary requirements	570,402	459,866
C. Risk assets and capital ratios		
C.1 Risk-weighted assets	7,130,025	5,748,325
C.2 Tier 1 capital /Risk-weighted assets	10.68%	10.38%
C.3 Capital for supervisory purposes /Risk-weighted assets	10.87%	10.48%

This is the minimum consolidated capital ratio requirement which banking groups must constantly meet to cover counterparty solvency risk.

The minimum prescribed level for the solvency ratio (total capital for supervisory purposes to weighted assets) is 8% for banking groups.

Section 9 **Other liability items**

9.1 Breakdown of item 50 «Other liabilities»

	31/12/2001	31/12/2000
Amounts at the disposal of third parties	26,272	32,633
Taxes to be paid on behalf of third parties	24,317	26,040
Taxes to be paid	2,368	1,251
Employee salaries and contributions	10,179	9,801
Trade payables	8,904	7,732
Transit accounts for sundry entities	13,483	24,059
Advance delivery of euros	1,844	–
Invoices receivable	2,467	7,317
Securities transactions	8,559	15,141
Transit accounts for Arca funds	–	27,279
Value date differentials on portfolio transactions	43,380	–
Directors' and statutory auditors' emoluments	773	763
Loans disbursed to customers to be finalized	8,242	9,622
Miscellaneous debits being settled	75,042	72,210
Premiums for exchange, derivatives and securities options sold and not exercised	3,534	2,669
Contra-item of valuation of off-balance sheet transactions	38,295	79,514
Miscellaneous items to be settled	–	683
Consolidation differences	–	527
Items in transit with branches	1,198	–
Residual items	7,349	3,393
Total	276,206	320,634

9.2 Breakdown of item 60 «Accrued liabilities and deferred income»

	31/12/2001	31/12/2000
a) Accrued liabilities	20,303	23,697
Interest on bonds	8,760	7,387
Interest on certificates of deposit	456	836
Interest on customer deposits in euro and foreign currency	90	227
Interest on deposits from other banks in euro and foreign currency	5,384	7,520
Repo transactions	44	4,057
Commission	4,108	–
Other accrued liabilities	1,461	3,670
b) Deferred income	2,355	2,098
Interest on portfolio, mortgages and loans	407	544
Commission on guarantees	1,807	1,554
Other deferred income	141	–
Total	22,658	25,795

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»

	31/12/2001	31/12/2000
a) commercial endorsement credits	727,635	594,440
b) financial endorsement credits	653,625	440,708
c) assets given in guarantee	8,225	8,225
Total	1,389,485	1,043,373



10.2 Breakdown of item 20 «Commitments»

	31/12/2001	31/12/2000
a) commitments to disburse funds (certain to be called on)	364,398	216,033
b) commitments to disburse funds (not certain to be called on)	58,493	24,247
Total	422,891	240,280

10.3 Collateral for own payables

The collateral provided by Group banks for their own liabilities consists of government securities: € 1,027.354 million relates to securities given to customers for repo transactions while € 18.702 million is for the deposit paid against the issue of banker's cheques.

10.4 Margins usable on credit lines

	31/12/2001	31/12/2000
a) central banks	66,231	15,289
b) other banks	3,568	–

10.5 Forward transactions

Type of transaction	31/12/2001			31/12/2000		
	For hedging	For trading	Other	For hedging	For trading	Other
1. Buying and selling						
1.1 Securities						
– purchases	–	50,080	–	–	116,093	–
– sales	–	38,963	–	–	106,743	–
1.2 Foreign currency						
– currency against currency	–	197,230	–	–	10,857	–
– purchases against euro	–	1,676,146	–	–	1,507,834	–
– sales against euro	–	1,604,267	–	–	1,566,179	–
2. Deposits and loans						
– to be disbursed	–	–	95,057	–	–	60,580
– to be received	–	–	143,973	–	–	77,880
3. Derivative contracts						
3.1 With exchange of capital						
a) securities						
– purchases	–	5,453	–	–	20,006	–
– sales	–	5,453	–	–	20,006	–
b) foreign currency						
– currency against currency	–	11,556	–	–	–	–
– purchases against euro	–	20,847	–	–	30,912	–
– sales against euro	–	20,847	–	–	30,912	–
c) other instruments						
– purchases	–	34,225	–	–	95,894	–
– sales	–	34,225	–	–	95,894	–
3.2 Without exchange of capital						
a) foreign currency						
– currency against currency	–	–	–	–	–	–
– purchases against euro	–	–	–	–	–	–
– sales against euro	–	–	–	–	–	–
b) other instruments						
– purchases	77,149	195,641	–	77,149	125,100	–
– sales	104,088	195,641	–	87,849	125,100	–

The figures for 2000 have been reclassified for comparison purposes.

Section 11 **Concentration and distribution of assets and liabilities**

11.1 Significant risk accounts

	31/12/2001	31/12/2000
a) Amount	561,219	284,214
b) Number	5	4

11.2 Breakdown of customer loans by main borrower categories

	31/12/2001	31/12/2000
a) governments	95	–
b) other public entities	40,961	79,330
c) non-financial businesses	3,565,505	2,867,174
d) financial businesses	305,661	193,995
e) family businesses	429,502	351,809
f) other businesses	1,425,193	1,092,874
Total	5,766,917	4,585,182

11.3 Breakdown of loans to resident non-financial companies and family businesses

	31/12/2001	31/12/2000
a) other services for sale	1,057,029	840,334
b) wholesale and retail services, recoveries and repairs	596,859	499,872
c) construction and public works	400,754	311,655
d) metal products excluding cars and transportation	194,637	191,509
e) textiles, leather and footwear, clothing	164,136	135,265
f) other sectors	1,437,518	1,048,952
Total	3,850,933	3,027,587

11.4 Distribution of guarantees granted by main categories of counterparty

	31/12/2001	31/12/2000
a) governments	251	–
b) other public entities	15,833	87,594
c) Banks	95,772	20,715
d) non-financial businesses	1,019,183	755,524
e) financial businesses	99,806	69,328
f) family businesses	31,908	27,597
g) other businesses	126,732	82,615
Total	1,389,485	1,043,373

11.5 Geographical breakdown of assets and liabilities

Item	31/12/2001			31/12/2000		
	Italy	Other EU countries	Other countries	Italy	Other EU countries	Other countries
1. Assets	7,854,474	233,637	312,210	6,206,268	171,177	230,583
1.1 Due from other banks	841,524	34,691	110,498	461,856	31,490	62,687
1.2 Customer loans	5,427,199	150,170	189,548	4,319,172	114,456	151,552
1.3 Securities	1,585,751	48,776	12,164	1,425,240	25,231	16,344
2. Liabilities	6,170,383	946,647	506,291	4,957,818	503,328	529,951
2.1 Due to other banks	373,370	878,893	336,367	384,061	480,111	380,006
2.2 Customer deposits	5,074,744	67,754	151,439	3,931,337	23,058	139,481
2.3 Securities issued	722,155	–	18,485	642,265	159	10,464
2.4 Others	114	–	–	155	–	–
3. Guarantees and commitments	1,551,545	125,394	135,437	1,181,232	72,993	29,428



								31/12/2000
				Fixed duration				Unspecified duration
	Sight	Up to 3 months	3 to 12 months		1 to 5 years		Over 5 years	
					Fixed rate	Floating rate	Fixed rate	Floating rate
1. Assets	2,074,795	1,504,901	619,072	521,147	1,124,368	190,052	1,095,988	103,891
1.1 Re-financeable treasury bills	79	1,361	62,743	107,460	147,536	19,772	130,580	–
1.2 Due from other banks	125,038	393,312	18,738	3,282	374	–	–	15,289
1.3 Customer loans	1,939,229	840,090	487,670	202,893	418,554	106,819	501,325	88,602
1.4 Bonds and other fixed-yield securities	120	1,569	3,150	27,472	436,304	11,673	456,425	–
1.5 Off-balance sheet items	10,329	268,569	46,771	180,040	121,600	51,788	7,658	–
2. Liabilities	3,567,252	2,058,532	357,139	324,640	170,314	96,899	102,921	–
2.1 Due to other banks	268,436	889,645	74,969	11,128	–	–	–	–
2.2 Customer deposits	3,210,030	800,797	82,130	919	–	–	–	–
2.3 Securities issued	78,457	92,814	98,677	122,971	123,703	35,904	100,362	–
– bonds	260	71,485	83,617	121,467	122,149	35,904	100,362	–
– certificates of deposit	720	21,327	15,060	1,504	1,554	–	–	–
– other securities	77,477	2	–	–	–	–	–	–
2.4 Subordinated liabilities	–	–	–	–	–	–	–	–
2.5 Off-balance sheet items	10,329	275,276	101,363	189,622	46,611	60,995	2,559	–

11.7 Foreign currency assets and liabilities

	31/12/2001	31/12/2000
a) Assets	1,747,479	1,209,715
1. due from other banks	466,731	214,477
2. customer loans	1,231,185	957,206
3. securities	33,623	24,519
4. equity investments	34	33
5. others	15,906	13,480
b) Liabilities	1,689,869	1,129,726
1. due to other banks	1,433,147	892,708
2. customer deposits	238,237	226,859
3. securities issued	18,485	10,159
4. others	–	–

11.8 Securitization transactions

The bank holds € 9.646 million of senior bonds as a result of carrying out securitization transactions on behalf of third parties.

Section 12 *Management and intermediation for third parties*

12.1 Securities trading

	31/12/2001	31/12/2000
a) Purchases	2,776,151	968,709
1. regulated	1,869,129	966,130
2. non regulated	907,022	2,579
b) Sales	2,186,288	715,071
1. regulated	1,448,525	713,987
2. non regulated	737,763	1,084

12.2 Portfolio management

The total of € 1,388.925 million represents the market value of securities managed on behalf of customers. The total amount relating to portfolio management is € 45.286 million.

12.3 Securities custody and administration

	31/12/2001	31/12/2000
a) Third-party securities on deposit	12,831,425	14,824,829
b) Third-party securities on deposit with third parties	10,619,625	11,397,926
c) Own securities on deposit with third parties	560,767	658,878

12.4 Collection orders for third parties: debit and credit adjustments

	31/12/2001	31/12/2000
a) debit adjustments	1,234,279	1,079,982
1. current accounts	1,811	6,532
2. central portfolio	950,109	835,089
3. cash	7	–
4. others	282,352	238,361
b) credit adjustments	1,234,279	1,079,982
1. current accounts	843	– 1,799
2. transferor of bills and documents	1,233,436	1,080,432
3. others	–	1,349



PART C **Information on the consolidated income statement**

Section 1 **Interest**

1.1 Breakdown of item 10 «Interest income and similar revenues»

	31/12/2001	31/12/2000
a) on amounts due from other banks	23,782	23,752
of which:		
– on amounts due from central banks	3,956	2,872
b) on customer loans	325,576	273,005
of which:		
– on third-party funds under administration	–	–
c) on fixed-yield securities	69,802	58,736
d) other interest income	19	4
e) positive balance of spreads on hedging transactions	–	–
Total	419,179	355,497

1.2 Breakdown of item 20 «Interest expense and similar charges»

	31/12/2001	31/12/2000
a) on amounts due to other banks	53,719	62,271
b) on customer deposits	146,268	104,171
c) on securities issued	22,129	18,366
of which:		
– certificates of deposit	1,428	1,361
d) on third-party funds under administration	–	–
e) on subordinated liabilities	–	–
f) negative balance of spreads on hedging transactions	11	–
Total	222,127	184,808

1.3 Detail of item 10 «Interest income and similar revenues»

	31/12/2001	31/12/2000
a) on assets in foreign currency	52,126	65,879

1.4 Detail of item 20 «Interest expense and similar charges»

	31/12/2001	31/12/2000
a) on liabilities in foreign currency	44,327	55,303

Section 2 **Commissions**

2.1 Breakdown of item 40 «Commission income»

	31/12/2001	31/12/2000
a) guarantees granted	5,216	4,686
b) credit derivatives	–	–
c) management, intermediation and consultancy services:	66,132	68,015
1. securities trading	15,282	14,888
2. foreign currency trading	4,541	4,440
3. portfolio management	8,141	9,577
3.1 individual	8,141	9,577
3.2 collective	–	–
4. securities custody and administration	4,238	3,413
5. custodian bank	2,546	3,187
6. securities placement	17,105	19,217
7. acceptance of orders	8,656	16,480
8. consultancy	–	–
9. distribution of third party services	5,623	5,289
9.1 portfolio management	–	–
a) individual	–	–
b) collective	–	–
9.2 insurance products	4,300	3,939
9.3 other products	1,323	1,350
d) collection and payment services	18,139	15,149
e) servicing for securitization transactions	–	–
f) tax collection services	–	–
g) other services	26,779	25,894
Total	116,266	122,130

The figures for 2000 have been reclassified for comparison purposes.

2.2 Breakdown of item 40 «Commission income» – distribution channels for products and services

	31/12/2001	31/12/2000
a) Bank branches	30,869	34,083
1. portfolio management	8,141	9,577
2. securities placement	17,105	19,217
3. third-party products and services	5,623	5,289
b) door-to-door sales	–	–
1. portfolio management	–	–
2. securities placement	–	–
3. third-party products and services	–	–
Total	30,869	34,083



2.3 Breakdown of item 50 «Commission expense»

	31/12/2001	31/12/2000
a) Guarantees received	2	–
b) Credit derivatives	–	–
c) management and intermediation services:	3,077	4,743
1. securities trading	1,026	3,507
2. foreign currency trading	–	–
3. portfolio management	445	–
3.1 own portfolio	–	–
3.2 third-party portfolio	445	–
4. securities custody and administration	1,604	1,236
5. securities placement	2	–
6. door-to-door sales of securities, products and services	–	–
d) collection and payment services	3,562	2,993
e) other services	1,106	1,308
Total	7,747	9,044

Section 3 *Profits and losses from financial transactions*

3.1 Breakdown of item 60 «Profits/losses from financial transactions»

Item	31/12/2001			31/12/2000		
	Securities transactions	Foreign currency transactions	Other transactions	Securities transactions	Foreign currency transactions	Other transactions
A.1 Revaluations	834	–	–	948	–	–
A.2 Write-downs	10,565	–	–	6,429	–	–
B. Other profits/losses	15,764	12,784	53	10,976	12,017	46
Total	6,033	12,784	53	5,495	12,017	46
1. Government securities	10,560			4,960		
2. Other fixed-yield securities	3,631			766		
3. Variable-yield securities	– 8,384			– 551		
4. Derivative contracts on securities	226			320		

Section 4 *Administrative expenses*

This item shows a balance of € 199.478 million.

The sub-item «personnel expenses» amounts to € 104.169 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:

	31/12/2001	31/12/2000
telephone, post and data transmission	8,426	8,199
maintenance of fixed assets	3,674	2,931
rent paid on buildings	9,671	7,972
surveillance	2,947	2,471
transportation	1,520	1,312
professional fees	6,491	4,659
office materials	2,833	2,236
electricity, heating and water	2,084	1,922
advertising and entertainment	3,125	3,292
legal and judicial expenses for debt collection	1,757	1,365
insurance	2,137	1,675
corporate survey and information expenses	2,026	1,425
indirect taxes and dues	25,109	22,757
hardware rental and maintenance	4,552	4,087
software rental and maintenance	3,937	3,266
data registration with third parties	606	498
cleaning	2,235	1,901
membership fees	698	578
services received from third parties	2,250	1,900
directors' and statutory auditors' emoluments	1,463	1,366
temporary workers	1,954	2,093
other	5,814	6,227
Total	95,309	84,132

4.1 Average number of employees by category

	31/12/2001	31/12/2000
a) managers	6	6
b) executives	370	323
c) other personnel	1,530	1,428
Total	1,906	1,757

The number of employees by category is the average of the figures at the end of 2000 and 2001.

At the end of the year there were 1,830 employees with the parent bank and 162 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»

	31/12/2001	31/12/2000
a) adjustments to loans	38,033	41,690
of which:		
– forfeit write-downs for country risk	–	–
– other forfeit write-downs	10,616	3,304
b) provisions for guarantees and commitments	401	517
of which:		
– forfeit write-downs for country risk	–	–
– other forfeit write-downs	401	517
Total	38,434	42,207

Section 6 **Other items in the income statement**

6.1 Breakdown of item 70 «Other operating income»

	31/12/2001	31/12/2000
Recovery of charges on deposits and overdrafts	6,284	4,914
Rent received for buildings	760	763
Recovery of customer insurance	414	360
Recovery of taxes	11,061	10,362
Financial income of the staff pension fund	1,733	–
Other	4,538	3,809
Total	24,790	20,208

6.2 Breakdown of item 110 «Other operating expenses»

	31/12/2001	31/12/2000
Leasing and ancillary costs	845	803
Others	2,027	2,373
Total	2,872	3,176

6.3 Breakdown of item 190 «Extraordinary income»

	31/12/2001	31/12/2000
a) Miscellaneous gains	866	1,247
b) Overprovisions	–	20
c) Gains on disposal	18	85
of fixed assets	17	43
of long-term investments	1	42
d) Consolidation differences	85	–
Total	969	1,352

6.4 Breakdown of item 200 «Extraordinary charges»

	31/12/2001	31/12/2000
a) Miscellaneous losses	1,677	662
b) Underprovisions	440	512
c) Losses on disposals	–	–
of fixed assets	–	–
of long-term investments	–	–
d) Consolidation differences	–	59
Total	2,117	1,233

6.5 Breakdown of item 240 «Income taxes for the year»

	31/12/2001	31/12/2000
1. Current taxes	33,410	31,491
2. Change in deferred tax assets	1,475	2,968
3. Change in deferred tax liabilities	– 26	– 12
4. Income taxes for the year	34,859	34,447

Changes in deferred tax assets mainly relate to the portion of loan write-downs which exceeds the amount allowed for tax purposes, while € 0.230 million of this charge refers to the change in tax rates, as required by Bank of Italy instructions.

The change in deferred tax liabilities relates to gains on the disposal of assets and long-term investments.

Section 7 **Other information on the income statement**

7.1 Geographical breakdown of income

Item/Countries	31/12/2001			31/12/2000		
	Italy	E. U. countries	Other countries (non-EU)	Italy	E. U. countries	Other countries (non-EU)
Interest income and similar revenues	408,975	46	10,158	346,166	15	9,316
Dividends and other income	4,771	–	–	3,848	–	–
Commission income	91,941	1,860	22,465	98,141	1,464	22,525
Profits from financial transactions	17,019	-90	1,941	15,377	1	2,180
Other operating income	22,999	–	1,791	19,184	–	1,024
Total	545,705	1,816	36,355	482,716	1,480	35,045

The total income of € 583.876 million relates to the business activities carried out by the parent bank mainly in the province of Lombardy, with a significant presence in Milan, as well as in Rome, to business carried out in Switzerland by the subsidiary Banca Popolare di Sondrio (Suisse) S.A and in Luxembourg by Popso (Suisse) Advisory Holding SA. Banca Popolare di Sondrio (Suisse) S.A accounted for 2.42% of net interest income, 19.32% of commission income and 10.29% of profits from financial transactions. The percentage contribution by Popso (Suisse) Advisory Holding SA is not significant.



PART D *Other information*

Section 1 *Directors and statutory auditors*

1.1 Emoluments

	31/12/2001	31/12/2000
a) directors	1,310	1,211
b) statutory auditors	153	155

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Emoluments paid to Directors, Statutory Auditors and the General Manager

(pursuant to article 78 of Consob Resolution 11971 of 14 May 1999)

Name and surname	Company	Office	Term of office	Emoluments for the office	Other emoluments
PIERO MELAZZINI	Banca Popolare Sondrio	Chairman - Chief Executive Officer	1/1/2001-31/12/2001	594	
	Banca Popolare Sondrio (Suisse) SA	Chairman		40	
SALVATORE BONOMO	Banca Popolare Sondrio	Deputy Chairman	1/1/2001-31/12/2001	76	229
ALDO BALGERA	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	27	
GIANLUIGI BONISOLO	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	45	
ALBERTO CREDARO	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	49	
GIUSEPPE FONTANA	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	26	
MARIO GALBUSERA	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	26	
CARLO GRASSI	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	100	
NICOLÒ MELZI DI CUSANO	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	26	
ALDO ROSSI	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	27	
RENATO SOZZANI	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	35	
	Pirovano Stelvio spa	Chairman		2	
LINO ENRICO STOPPANI	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	27	
MARIO TESTORELLI	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	26	
	Pirovano Stelvio spa	Director		1	
BRUNO VANOSSI	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	26	
FRANCESCO VENOSTA	Banca Popolare Sondrio	Director	1/1/2001-31/12/2001	25	6
EGIDIO ALESSANDRI	Banca Popolare Sondrio	Chairman of the Board of Statutory	1/1/2001-31/12/2001	82	
	Sinergia Seconda srl	Auditor		2	
	Pirovano Stelvio spa	Auditor		1	
PIERGIUSEPPE FORNI	Banca Popolare Sondrio	Auditor	1/1/2001-31/12/2001	35	
ROBERTO SCHIANTARELLI	Banca Popolare Sondrio	Auditor	1/1/2001-31/12/2001	34	
	Sinergia Seconda srl	Chairman of the Board of Statutory		3	
	Pirovano Stelvio spa	Chairman of the Board of Statutory		2	
MARIO ALBERTO PEDRANZINI	Banca Popolare Sondrio	General Manager	1/1/2001-31/12/2001	403	

1.2 Loans and guarantees granted

	31/12/2001	31/12/2000
a) directors	3,070	3,168
b) statutory auditors	373	425

REPORT OF THE INDEPENDENT AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS

IN ACCORDANCE WITH ART. 156 OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998
(Translation from the original issued in Italian)

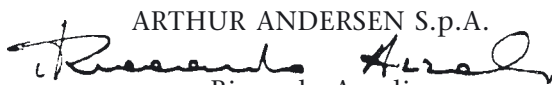
To the Shareholders of
Banca Popolare di Sondrio S.c. a r.l.

1. We have audited the consolidated financial statements of Banca Popolare di Sondrio S.c. a r.l. and its subsidiaries for the year ended 31 December 2001. 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 consolidated financial statements, whose figures are presented for the sake of comparison as required by law, please see our report dated 15 February 2001.

3. In our opinion, the financial statements of Banca Popolare di Sondrio S.c.a.r.l. and its subsidiaries as of 31 December 2001 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, 14 February 2002

ARTHUR ANDERSEN S.p.A.

Riccardo Azzali
(Partner)

STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

(in thousands of euro)

	31-12-2001	31-12-2000
SOURCES OF FUNDS		
Funds generated by operations:		
– Net profit for the year	51,506	44,949
– adjustments:		
- loan write-downs and write-backs and provisions for guarantees and commitments	24,110	32,007
- losses on securities and equity investments	11,081	6,993
- amortization and depreciation	20,820	18,515
- amortization and differences on value of investments stated at net equity	250	125
– Provisions:		
- staff pension fund	4,690	5,180
- reserve for severance indemnities	4,919	5,084
- risks and charges	8,060	2,077
- possible loan losses	10,383	8,427
- general banking risks	–	4,132
- personnel charges	258	87
	136,077	127,576
Increase in shareholders' equity:		
– underwriting of own shares	137,698	
– dividends in prescription	3	37
– exchange differences from conversion of balance sheets	1,333	2,148
– other changes	(67)	75
	138,967	2,260
Increase in funding:		
– customer deposits	1,200,061	515,285
– deposits from other banks	344,452	270,583
– securities issued	87,752	17,694
	1,632,265	803,562
Change in other liability items:		
– third-party funds under administration	(41)	(174)
– other liabilities	(44,428)	49,005
– accrued liabilities and deferred income	(3,137)	10,606
– taxation reserve	1,366	4,314
	(46,240)	63,751
	1,861,069	997,149
APPLICATION OF FUNDS		
Use of funds generated by operations:		
– staff pension fund	2,082	1,808
– reserve for severance indemnities	3,073	1,981
– reserves for possible loan losses	8,319	1,121
– reserve for risks and charges	252	(185)
	13,726	4,725
Decrease in shareholders' equity:		
– dividends	20,604	15,985
– charity fund	249	222
	20,853	16,207
Increase in application of funds:		
– customer loans	1,205,444	797,567
– cash on hand	30,119	7,653
– due from other banks	430,680	(113,817)
– trading securities	190,440	162,953
	1,856,683	854,356
Change in other asset items:		
– other assets	(68,700)	78,240
– accrued income and prepayments	3,526	14,369
– equity investments and own shares	8,680	6,910
– intangible assets	9,232	9,934
– fixed assets	17,069	12,408
	(30,193)	121,861
	1,861,069	997,149

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDING 31 DECEMBER 2000 AND 2001

(in thousands of euro)

	Share capital	Reserve for general banking risks	Share premium reserve
BALANCE AS OF 31 DECEMBER 1999	177,617	34,602	233,401
ALLOCATION OF PROFITS, as resolved by the AGM of 4 March 2000:			
To the legal reserve			
To the statutory reserves			
Dividend of L. 450 per share			
Charity fund			
Exchange difference on conversion of balance sheets denominated in foreign currency			
Change in net equity of companies included in the consolidation area			
DIVIDEND ON OWN SHARES			
RESERVE FOR GENERAL BANKING RISKS		4,132	
RESERVE FOR OWN SHARES			
RESERVE AS PER ART. 13 OF LEGISLATIVE DECREE 124/93			
RETAINED EARNINGS			
OTHER CHANGES			
NET PROFIT FOR 2000			
BALANCE AS OF 31 DECEMBER 2000	177,617	38,734	233,401
ALLOCATION OF PROFITS, as resolved by the AGM of 3 March 2001:			
To the legal reserve			
To the statutory reserves			
Dividend of L. 580 per share			
Charity fund			
INCREASE IN SHARE CAPITAL, as per AGM and EGM of 3 March 2001	206,349		(68,783)
Conversion of par value of shares into euro	28,732		(28,732)
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			
RETAINED EARNINGS			
OTHER CHANGES			
NET PROFIT FOR 2001			
BALANCE AS OF 31 DECEMBER 2001	412,698	38,734	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
35,995	178	63,100	14,489		100	34,818	594,300
7,404		9,167				(7,385)	19
						(9,167)	
						(15,985)	(15,985)
						(258)	(258)
473			1,679				2,152
					34		34
		37					37
							4,132
	(1)		2,067			(2,066)	
			18			(18)	
				364			364
			(61)			61	
						44,949	44,949
43,872	177	72,304	18,192	364	134	44,949	629,744
9,483		11,528				(9,483)	
						(11,528)	
						(20,604)	(20,604)
						(258)	(258)
		132					137,698
404			895	34			1,333
					(11)		(11)
		3					3
	697		1,369			(2,066)	
			26			(26)	
			1,719			(1,108)	611
			(124)			124	
						51,506	51,506
53,759	874	83,967	22,077	398	123	51,506	800,022

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2000 IN EURO

Figures have been converted into euros using the irrevocable exchange rate of
L. 1,936.27 to the euro.

CONSOLIDATED BALANCE SHEET

(in thousands of euro)

ASSETS

31-12-2000

31-12-1999

10.	CASH ON HAND AT CENTRAL BANKS AND POST OFFICES	57,833		50,180
20.	TREASURY AND SIMILAR BILLS ELIGIBLE FOR REFINANCING WITH CENTRAL BANKS	469,531		502,341
30.	DUE FROM OTHER BANKS:	556,033		669,850
	a) sight	125,038	199,973	
	b) others	430,995	469,877	
40.	CUSTOMER LOANS	4,585,182		3,819,105
	of which:			
	– from third-party funds under administration	135	307	
50.	BONDS AND OTHER FIXED-YIELD SECURITIES:	936,712		781,232
	a) from public issuers	822,317	676,068	
	b) from banks	86,226	81,189	
	of which:			
	– own securities	2,880	1,656	
	c) from financial institutions	1,682	13,769	
	d) from other issuers	26,487	10,206	
60.	SHARES, QUOTAS AND OTHER VARIABLE-YIELD SECURITIES	60,572		26,719
70.	EQUITY INVESTMENTS	57,903		51,605
	a) valued at net equity	14,976	3,963	
	b) others	42,927	47,642	
80.	EQUITY INVESTMENTS IN GROUP COMPANIES	0		74
	a) valued at net equity	0	0	
	b) others	0	74	
110.	INTANGIBLE ASSETS	12,000		10,736
120.	FIXED ASSETS	71,987		69,426
140.	OWN SHARES (par value 25.15)	177		179
150.	OTHER ASSETS	263,863		185,623
160.	ACCRUED INCOME AND PREPAYMENTS:	46,884		32,515
	a) accrued income	45,129	30,682	
	b) prepayments	1,755	1,833	
TOTAL ASSETS		7,118,677		6,199,585

THE CHAIRMAN
AND CHIEF EXECUTIVE OFFICER
Piero Melazzini

THE STATUTORY AUDITORS
Egidio Alessandri, Chairman
Piergiuseppe Forni - Roberto Schiantarelli

LIABILITIES

31-12-2000

31-12-1999

10.	DUE TO OTHER BANKS:		1,244,178		973,596
	a) sight	268,688		158,783	
	b) time or with notice	975,490		814,813	
20.	CUSTOMER DEPOSITS:		4,093,876		3,578,591
	a) sight	3,210,030		2,825,055	
	b) time or with notice	883,846		753,536	
30.	SECURITIES ISSUED:		652,888		635,194
	a) bonds	535,245		517,365	
	b) certificates of deposit	40,165		51,609	
	c) other securities	77,478		66,220	
40.	THIRD-PARTY FUNDS UNDER ADMINISTRATION		155		329
50.	OTHER LIABILITIES		320,633		271,628
60.	ACCRUED LIABILITIES AND DEFERRED INCOME:		25,795		15,189
	a) accrued liabilities	23,697		13,125	
	b) deferred income	2,098		2,064	
70.	RESERVE FOR SEVERANCE INDEMNITIES		30,435		27,332
80.	RESERVES FOR RISKS AND CHARGES:		98,378		88,135
	a) staff pension fund	46,254		42,882	
	b) taxation reserve	38,799		34,484	
	d) other reserves	13,325		10,769	
90.	RESERVES FOR POSSIBLE LOAN LOSSES		22,596		15,290
100.	RESERVE FOR GENERAL BANKING RISKS		38,734		34,603
130.	NEGATIVE DIFFERENCES ARISING ON APPLICATION OF NET EQUITY METHOD		134		100
150.	SHARE CAPITAL		177,617		177,617
160.	SHARE PREMIUM RESERVE		233,401		233,401
170.	RESERVES:		134,544		113,761
	a) legal reserve	43,872		35,995	
	b) reserve for own shares	177		179	
	c) statutory reserves	72,303		63,099	
	d) other reserves	18,192		14,488	
190.	RETAINED EARNINGS		364		
200.	NET PROFIT FOR THE YEAR		44,949		34,819
TOTAL LIABILITIES			7,118,677		6,199,585

THE GENERAL MANAGER
Mario Alberto Pedranzini

THE CHIEF ACCOUNTANT
Maurizio Bertoletti

**GUARANTEES AND COMMITMENTS****31-12-2000****31-12-1999**

10.	GUARANTEES GRANTED	1,043,373	979,071
	of which:		
	– acceptances	4,531	12,872
	– other guarantees	1,038,842	966,199
20.	COMMITMENTS	240,280	378,447

CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

		2000	1999
10.	INTEREST INCOME AND SIMILAR REVENUES	355,497	256,413
	of which:		
	– on customer loans	272,882	193,299
	– on fixed-yield securities	58,736	47,782
20.	INTEREST EXPENSE AND SIMILAR CHARGES	(184,808)	(111,867)
	of which:		
	– on customer deposits	104,171	61,667
	– on securities issued	18,366	15,397
30.	DIVIDENDS AND OTHER INCOME:	3,848	3,125
	a) from shares, quotas and		
	other variable-yield securities	583	178
	b) from equity investments	3,265	2,947
40.	COMMISSION INCOME	122,130	93,079
50.	COMMISSION EXPENSE	(9,044)	(5,787)
60.	PROFITS FROM FINANCIAL TRANSACTIONS	17,558	12,368
70.	OTHER OPERATING INCOME	20,208	18,252
80.	ADMINISTRATIVE EXPENSES:	(177,090)	(156,984)
	a) Personnel expenses	92,958	83,600
	of which:		
	– wages and salaries	62,712	55,645
	– social security contributions	17,070	15,713
	– severance indemnities	5,083	4,082
	– pensions	5,129	4,425
	b) Other administrative expenses	84,132	73,384
90.	ADJUSTMENTS TO INTANGIBLE AND FIXED ASSETS	(18,515)	(15,554)
100.	PROVISIONS FOR RISKS AND CHARGES	(2,077)	(704)
110.	OTHER OPERATING EXPENSES	(3,176)	(3,581)
120.	ADJUSTMENTS TO LOANS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS	(42,207)	(33,062)
130.	WRITE-BACKS TO LOANS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS	10,200	11,924
140.	PROVISIONS TO RESERVES FOR POSSIBLE LOAN LOSSES	(8,427)	(3,815)
150.	ADJUSTMENT TO THE VALUE OF LONG-TERM FINANCIAL ASSETS	(563)	(339)
170.	LOSS ON INVESTMENTS VALUED AT NET EQUITY	(125)	(61)
180.	PROFIT FROM ORDINARY OPERATIONS	83,410	63,407
190.	EXTRAORDINARY INCOME	1,352	12,140
200.	EXTRAORDINARY CHARGES	(1,233)	(595)
210.	NET EXTRAORDINARY ITEMS	119	11,545
230.	CHANGE IN THE RESERVE FOR GENERAL BANKING RISKS	(4,132)	(11,362)
240.	INCOME TAXES FOR THE YEAR	(34,447)	(28,771)
260.	NET PROFIT FOR THE YEAR	44,949	34,819

EXTRAORDINARY PART

REPORT OF THE BOARD OF DIRECTORS

EXTRAORDINARY PART

Shareholders,

Today's extraordinary shareholders' meeting has been called to approve the proposal to convert the bank's share capital into euros, in implementation of Legislative Decree 213 of 24 June 1998, which introduced EU regulation 1103/97 of 17 June 1997. The meeting is also called to vote on the proposal to increase share capital, which the Board of Directors submits for your approval, having obtained the necessary authorization from the Bank of Italy.

The first proposal is dictated by the need for legal compliance, whilst the second proposal is aimed at providing effective support to the bank's expansion plans. The latter takes account of both the bank's need for capital whilst making shareholders an attractive, simple and easily understood offer.

This will also involve updating article 6 of the bank's by-laws for the new par value of the stock.

The matters set out in the meeting's agenda are explained in greater detail below.

* * *

The principal terms of the share capital increase are as follows:

- 1) redenomination in euros, at the fixed lira/euro conversion rate of L. 1,936.27, of the par value of each ordinary share in Banca Popolare di Sondrio, currently equal to L. 5,000, and simultaneous bonus increase in the par value to Euro 3 by transferring the amount required from the «share premium reserve» to «share capital»;
- 2) a bonus issue of one new share of par value Euro 3, carrying dividend rights from 1 January 2001, for every two shares held, with a transfer of the amount required from the «share premium reserve» to «share capital»;
- 3) a simultaneous extraordinary rights issue of one new share of par value Euro 3, carrying dividend rights from 1 January 2001, for every two shares held prior to the above bonus issue, at the price of Euro 4, of which Euro 3 is to be allocated to «share capital» and Euro 1 to the «share premium reserve»;
- 4) correlated payment of an expense reimbursement, calculated as Euro 0.04 for every new share subscribed under the rights issue, up to a maximum of Euro 80.

The increase in capital responds to shareholders' expectations, also demonstrated in general meeting, and reflects the desire, voiced several times by the directors and always shared by the bank's shareholders, to pursue an independent strategy of internally-driven expansion. Given the rapid changes currently affecting the domestic banking system, the aim is to fulfil our potential as a regional bank, thereby creating an effective interface between the local area served and the global market. By improving the bank's institutional, organizational and operational aspects, we believe we can offer services and products capable of fully satisfying the banking and financial requirements of our customers, particularly households and small and medium-sized companies.

In view of this goal, aimed at giving a decisive boost to the bank's size and scale of operations, the share capital increase is both a pre-condition and guarantee of its growth. The new financial resources, which will supplement the more limited funds raised from self-financing, will be used to help boost growth in the fundamental aggregates shown in the financial statements, allowing them to maintain a consistent ratio to equity in order to satisfy the capital adequacy requirements laid down by the supervisory authorities. Capital adequacy is central to the policy of the supervisory authorities and is reflected in the minimum capital



requirements. Such requirements in turn affect all a bank's operating decisions in areas such as growth in size, lending, investment in securities, currency management, investment in equity interests, purchase of property etc. Whilst the bank's capital adequacy ratios are still good relative to the minimum requirements, they have tended to decrease as the growth in capital has been outpaced by that in other components of the financial statements.

The capital increase is also required to deal with the various types of risk that the bank needs to monitor in an increasingly systematic and efficient manner. The new resources will enable the bank to put in place the necessary precautions, whilst introducing techniques and instruments for risk measurement and management needed to cope confidently with the development of new business areas. We should also recall that the scale of operations in the sectors of lending and equity and property investments depends on the amount of capital, which in turn restricts the degree of management autonomy.

The decision to propose the capital increase has been taken on the basis of the major expansion plans, both in progress and projected for the future. It is also the fruit of the results achieved in recent years, which in some cases have exceeded expectations. In fact, it is the bank's current size that signals the opportunity, indeed the need for this increase. The comparison between some of the key figures in 2000 with those as of 31 December 1998, the year when the last capital increase took place, is extremely relevant. There has been a significant increase in both direct deposits, up 30.88% to L. 8,883 billion, and indirect deposits, 52.76% higher at L. 20,768 billion. Loans have soared 48.61% to L. 8,605 billion, while their quality has been maintained. This is demonstrated by the ratio of outstanding overdue loans to total loans, which at 1.21% is far better than the industry average. Net interest income has climbed 16.54% to L. 326 billion, despite the structural decline in

interest rate spreads. Income from banking activities has risen 19.29% to L. 536 billion, partly thanks to the contribution from services, which account for 39.07% of the total result. Net profit has benefited, up 55.05% to L. 74 billion, confirming that growth in size and profitability can go hand in hand provided management policy is both prudent and dynamic.

Accordingly, the market has afforded a positive opinion to our stock, as reflected in its exponential growth, stable rating and satisfactory, constant return. In fact, over the last five years the stock has reported a gross annual return, taking account of both dividends and capital gains, of 22.44%. The Stock Exchange has also reacted positively to the news of the proposed capital increase, demonstrating the general confidence in the bank's prospects and its solid relationship with its shareholders.

These are the general reasons for this operation. Now we shall outline the plans for the sectors where the bank intends to focus its future development. The amount of the related investments has been valued in detail in order to establish the size of the capital increase.

In terms of geographical expansion, the plans are to maintain the same rate of growth in the branch network as in the past. This is a considerable undertaking, but it should be remembered that the establishment of regional status represents the necessary cornerstone on which to base the bank's entire development plans. The positive results reported by the newly-opened branches are also a source of encouragement. In fact, geographical expansion has proved to be a self-sufficient process, without depressing overall profitability.

In the area of distribution channels, considerable attention will be dedicated to the virtual bank, with the offer of new, specialized services aimed at both corporate and individual customers. Growth in this strategic sector is the result of continuous investment in technology and

the establishment of agreements with recognized counterparties.

Still in the technology area, important investments will be made in redesigning the «standard branch», involving changes to the physical layout, working procedures and architecture of the computer systems. The objectives include: a drastic reduction in administrative functions in favour of commercial ones; the development of more sophisticated, profitable activities; the integration between services provided in the branch and those on-line.

Another purpose of the capital increase is to extend our relationships with partner companies, considered essential for completing and maintaining the high quality of the range of products and services we offer. We refer to the so-called product companies, which have enabled the bank to enter new areas with high value-added products and solutions. We want to give continuity to the decisions taken, supporting the growth of these affiliates, and possibly, with a view to consolidating their management structures, purchasing the holdings of shareholders who are no longer interested in these joint ventures. The purpose of these actions is to establish a strong foothold in areas of business, which we cannot ignore in terms of winning and keeping customers, the volumes generated and the related profitability.

Banca Popolare di Sondrio (Suisse) S.A. warrants a word apart. Although the company currently has enough equity, thanks to its proficiency in generating profits, we are not ruling out the possibility of increasing its share capital in the future in order to allow its rapid pace of growth to continue.

As part of the plans to improve bank procedures, a major effort will be dedicated to the «Credit Risk Management» project. Given the continuing overall importance of lending activities, the bank needs to acquire new instruments and adopt procedures and techniques in line with the best practices being established in

the banking industry if it is to achieve optimum management of its credit risks.

Lastly, we wish to point out that the «degree of capitalization» represents a fundamental credential in respect of both Italian and foreign institutional customers, with whom we intend to develop already very important existing working relationships. These customers are leading players, who work exclusively with financial counterparties of proven solidity and efficiency. The capital increase will therefore help enhance the bank's competitiveness in this respect.

The new resources will allow the bank to implement projects, which have also been planned on the basis of growing profitability. An important contribution in this respect is expected from the synergies deriving from a more organized, widespread branch network, from technological advances, the expansion of lending activities, higher commissions as a result of marketing a wider range of products and services including those containing higher value-added, from the enhancement of innovative distribution channels, and lastly, from the improved efficiency of operating procedures, which is also hoped to reduce costs.

Based on these observations, the Board of Directors is proposing an operation, that is deliberately simple in structure but also capable of supporting the bank's growth, whilst offering shareholders an attractive investment opportunity. The capital increase will help raise new funds totalling around L. 266,365 million as a result of issuing 34,391,516 new shares purchased at a price of Euro 4 each, of which Euro 3 will be allocated to «share capital» and Euro 1 to the «share premium reserve». The amount of the share premium has been determined taking account of book shareholders' equity, the date from which the new shares will enjoy dividend rights and the trends in the stock's price. The bonus component, involving the increase in the par value of the 68,783,032 shares in circulation to Euro 3 and the issue of



34,391,516 ordinary shares of par value Euro 3 each in the ratio of one new share for every two in circulation, will entail transferring the amount of L. 255,406,186,175 from the «share premium reserve» to «share capital». Equity will increase from L. 1,115,361,867,133 to L. 1,381,726,909,874, whilst the value of share capital will rise from L. 343,915,160,000 to L. 799,095,128,223. The number of shares will double from 68,783,032 to 137,566,064. We would like to point out that these will be ordinary shares, with the same par value and identical rights to those already in circulation.

If the capital increase is approved, we shall ask the shareholders' meeting to grant the Board of Directors and/or the Chairman's Committee, and on their behalf the Chairman and Deputy Chairman, the power to carry out separately all the actions required to complete and implement the related resolution. Taking account of the legal and technical requirements, and provided that no currently unforeseeable events advise that the operation be delayed, it is reasonable to assume that the capital increase will take place between the end of May and beginning of June 2001. No placement or underwriting syndicates are required for this operation to take place; shareholders may

exercise their rights either directly at the branches of Banca Popolare di Sondrio or via Monte Titoli SpA in respect of the shares that the latter manages. The rights will be traded on Milan's Restricted (Over-the-Counter) Market and those that are not exercised will be offered in accordance with art. 2441.3 of the Italian Civil Code, which applies to all companies with shares listed on regulated markets in Italy as dictated by article 206 of Legislative Decree 58 of 24 February 1998 (Financial brokerage act) pursuant to articles 8 and 21 of Law 52 of 6 February 1996.

The bank will be responsible for giving due notice of the operation in the press, communicating to individual shareholders the terms and procedures of participation, and fulfilling all the related formalities.

* * *

The following proposal relates to the alteration to article 6 of the by-laws to update it for the new par value of the shares. The current text of this article is compared with the proposed text below.

CURRENT TEXT

PROPOSED TEXT

Article 6

Article 6

**Share capital
Procedures for new issues
Share price**

**Share capital
Procedures for new issues
Share price**

Share capital is variable and represented by registered shares with a par value of *L. 5,000 each (five thousand lire)*.

Share capital is variable and represented by registered shares with a par value of *Euro 3 each (three euros)*.

The issue of new shares, which in principle has no limit, may be approved:

The issue of new shares, which in principle has no limit, may be approved:

- 1 - in the case of ordinary issues, by the Board of Directors;
- 2 - in the case of extraordinary issues, by the extraordinary meeting of shareholders, in accordance with the provisions of article 2441 of the Italian Civil Code.

- 1 - in the case of ordinary issues, by the Board of Directors;
- 2 - in the case of extraordinary issues, by the extraordinary meeting of shareholders, in accordance with the provisions of article 2441 of the Italian Civil Code.

Unless otherwise required in law and/or by the banking supervisory authorities, if the shares of the company are listed on official markets, the ordinary issue of new shares is to allow the entry of new shareholders and takes place via subscription to a single share. In this regard, every year after the shareholders have approved the annual financial statements, the Board of Directors establishes:

Unless otherwise required in law and/or by the banking supervisory authorities, if the shares of the company are listed on official markets, the ordinary issue of new shares is to allow the entry of new shareholders and takes place via subscription to a single share. In this regard, every year after the shareholders have approved the annual financial statements, the Board of Directors establishes:

- a) the amount which, taking account of the equity reserves shown in the financial statements, must be paid in at the time of subscription in addition to the par value of every new share;
- b) the amount of the additional payment referred to in article 13 below, in order to obtain dividend rights for the entire year.

- c) the amount which, taking account of the equity reserves shown in the financial statements, must be paid in at the time of subscription in addition to the par value of every new share;
- d) the amount of the additional payment referred to in article 13 below, in order to obtain dividend rights for the entire year.

Comment

The first paragraph has been changed for the new par value of the shares expressed in euros.



Shareholders,

As indicated in point 3 on the agenda, we now invite you to vote on the matters proposed by the Board of Directors, approving the following resolutions, which include the granting of powers to legal representatives:

Resolutions relating to points 1 and 2 on the agenda:

- Redenomination of share capital and the par value of shares into euros, with a simultaneous bonus increase in the par value of every share to Euro 3. Related amendment to article 6 of the by-laws.
- Mixed-form capital increase.

«The shareholders of Banca Popolare di Sondrio in extraordinary meeting:

- having heard the report of the Board of Directors;
- having taken note of the report of the Board of Statutory Auditors;

hereby resolve

- 1) - to approve the redenomination of share capital and the par value of shares into euros, with a simultaneous bonus increase in the par value of every share to Euro 3, by transfer of the related amount from the «share premium reserve» to «share capital»;
- to approve the related amendment to paragraph 1 of article 6 of the bank's by-laws, with the new text reading as follows «Share capital is variable and represented by registered shares with a par value of Euro 3 (three euros) each»;
- 2) to approve the mixed-form capital increase as proposed by the Board of Directors, described below:
 - a bonus issue of one new share of par value Euro 3, carrying dividend rights from 1

January 2001, for every two shares held, with a transfer of the amount required from the «share premium reserve» to «share capital»;

- a simultaneous extraordinary rights issue of one new share of par value Euro 3, carrying dividend rights from 1 January 2001, for every two shares held prior to the above bonus issue, at a price of Euro 4, of which Euro 3 is to be allocated to «share capital» and Euro 1 to the «share premium reserve»;
- correlated payment of an expense reimbursement, equal to Euro 0.04 for every new share subscribed under the rights issue, up to a maximum of Euro 80.

- 3) to grant the Board of Directors and/or the Chairman's Committee, the widest possible powers to fix the period within which to resolutions in points 1) and 2) must be implemented and to establish all the other related terms, procedures and conditions, including those for the use of split shares arising under the bonus issue and for offering unexercised rights, in accordance with article 2441.3 of the Italian Civil Code which applies to all companies with shares listed on regulated markets in Italy as dictated by article 206 of Legislative Decree 58 of 24 February 1998 (Financial brokerage act) pursuant to articles 8 and 21 of Law 52 of 6 February 1996; these powers are also to include all those required to transfer the amounts relating to the bonus part of the operation from the «share premium reserve» to «share capital».

Resolution relating to points 3 on the agenda:

- Granting of powers

«The shareholders of Banca Popolare di Sondrio in extraordinary meeting, in addition to the resolutions taken this day in relation to points 1 and 2 on the agenda:

hereby resolve

to delegate to the Chairman and to the Deputy Chairman, separately, the powers needed to render public and executive, in accordance with the law, the above shareholders' resolutions; in addition, to make to them any amendments, deletions and/or additions that may be required by the

Authorities for the purposes of their approval, transcription, publication and legal authorization, as well as for the procedures as per art. 2436 of the Italian Civil Code, all with the promise of full ratification and approval.»

Sondrio, 30 January 2001

THE BOARD OF DIRECTORS

REPORT OF THE BOARD OF STATUTORY AUDITORS

EXTRAORDINARY PART

Shareholders,

The Board of Directors is submitting for your approval the modification to article 6 of the bank's by-laws, in implementation of the provisions of Legislative Decree 213/1998, which require that share capital and the par value of shares be redenominated in euros.

In addition to the conversion of the par value of the shares into euros, the Board of Directors is proposing a bonus increase in their par value from L. 5,000 to Euro 3. Based on the fixed exchange rate of L. 1,936.27 to the euro, this means that the par value of each share will increase by L. 808.81. This amount will be booked to share capital by transferring the corresponding figure from the "share premium reserve".

At the same time as this operation, you are requested to examine and approve a mixed-form capital increase as follows:

- a bonus issue of one new share of par value Euro 3, carrying dividend rights from 1 January 2001, for every two shares held, with a transfer of the amount required from the "share premium reserve" to "share capital";
- a simultaneous extraordinary rights issue of one new share of par value Euro 3, carrying dividend rights from 1 January 2001, for every two shares held prior to the above bonus issue, at a price of Euro 4, of which Euro 3 is to be allocated to "share capital" and Euro 1 to the "share premium reserve";
- payment of an expense reimbursement, equal to Euro 0.04 for every new share subscribed under the rights issue, up to a maximum of Euro 80.

Shareholders,

We have carefully assessed and fully agree with the reasons and explanations given by the Board of Directors in support of the capital increase.

The new resources to be raised thanks to your contribution have a precise purpose, helping strengthen the bank's capital base. This is essential for ensuring the bank's solidity and for giving continuity and security to the implementation of its planned strategy, which has been in place for some time now with pleasing results.

The expected benefits are so clear that they cannot be ignored: the bank's interests are at stake, meaning the interests of its shareholders. Everyone wants the bank to continue to grow at the healthy pace for which it is known and respected.

Based on our review, we can confirm that the manner of performing this clear and simple operation is in perfect compliance with the regulations governing such matters; we are also reassured by the approval received from the Bank of Italy.

We can only hope that you support this operation in order to ensure its best possible outcome.

Sondrio, 15 February 2001

THE STATUTORY AUDITORS

Egidio Alessandri, chairman

Piergiuseppe Forni

Roberto Schiantarelli

**RESOLUTIONS OF THE ORDINARY
AND EXTRAORDINARY
ANNUAL GENERAL MEETING OF THE SHAREHOLDERS**
held on 3 March 2001 (at second calling)



AGENDA

Ordinary part

- 1) Presentation of the financial statements as of 31/12/2000: report of the Board of Directors and proposed allocation of net profit; report of the Board of Statutory Auditors; related resolutions;
- 2) Determination of directors' emoluments;
- 3) Appointment of directors;
- 4) Appointment of acting and substitute members of the Advisory Committee.

Extraordinary part

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

The shareholders' meeting, legally convened, was chaired by Piero Melazzini, Chairman of the bank's Board of Directors.

After appointing Francesco Surace, notary public, as secretary, and the scrutineers, the Chairman began to deal with the items on the agenda.

For the ordinary part, having listened to the report of the Board of Directors on performance in 2000 and their proposed allocation of the net profit for the year, having taken note of the report of the Board of Statutory Auditors and that of the Independent Auditors, having taken as read the balance sheet, income statement

and explanatory notes, as well as the financial statements of the subsidiary and associated companies, the shareholders

approved

- 1) the report of the Board of Directors on performance in 2000;
- 2) the financial statements as of 31 December 2000 with the results shown in the balance sheet, income statement and explanatory notes: a net profit of Lire 74,408,471,259.

The shareholders also approved the allocation of the net profit for the year of Lire 74,408,471,259 as proposed by the Board of Directors in compliance with the law and the bank's by-laws, namely:

a) to allocate:

- | | |
|--------------------------------|-------------------|
| – 10% to the legal reserve | L. 7,440,847,126 |
| – 30% to the statutory reserve | L. 22,322,541,378 |

b) to pay a dividend of L. 580 to each of the 68,783,032 shares in circulation as of 31/12/2000 with dividend rights as of 1/1/2000, transferring to the statutory reserve the dividends due to any own shares that the bank may hold on the day prior to the date on which the shares go ex-dividend, for a total of

L. 39,894,158,560

c) to allocate to the reserve for own shares

L. 4,000,000,000

d) to allocate the residual profit:

- | | |
|---|----------------|
| – to the charity fund | L. 500,000,000 |
| – to the reserve as per art. 13 Legislative Decree 124/93 | L. 50,027,279 |
| – to the legal reserve, an additional | L. 200,896,916 |

The shareholders also set at Lire 29 billion – booked in the balance sheet under «Reserve for own shares» for Lire 343.4 million and «Other reserves» for the remainder – the amount at the disposal of the Board of Directors to carry out, in accordance with art. 21 of the by-laws, purchases and sales of the bank's shares at market prices, within the limit of the above amount and that part of it that may subsequently become available as a result of selling the shares previously purchased; all as part of the normal activity of intermediation designed to encourage circulation of the bank's shares.

- 3) determination of the directors' emoluments;
- 4) the appointment of Mario Galbusera, Nicolò Melzi di Cusano, Mario Testorelli, Bruno Vanossi and Francesco Venosta as members of the Board of Directors for the three-year period 2001-2003;



- 5) the appointment of Alberto Crespi, Giuseppe Guarino and Andrea Monorchio as acting members of the Advisory Committee and of Susanna Agnelli and Ettore Gallo as alternate advisors for the three-year period 2001-2003.

For the extraordinary part, having listened to the report of the Board of Directors and taken note of the report of the Board of Statutory Auditors, the shareholders

resolved:

- 1) – to approve the redenomination of share capital and the par value of shares into euros, with a simultaneous bonus increase in the par value of every share to Euro 3, by transfer of the related amount from the «share premium reserve» to «share capital»;
 - to approve the related amendment to paragraph 1 of article 6 of the bank's by-laws, with the new text reading as follows «Share capital is variable and represented by registered shares with a par value of Euro 3 (three euros) each»;
- 2) to approve the mixed-form capital increase as proposed by the Board of Directors, described below:
 - a bonus issue of one new share of par value Euro 3, carrying dividend rights from 1 January 2001, for every two shares held, with a transfer of the amount required from the «share premium reserve» to «share capital»;
 - a simultaneous extraordinary rights issue of one new share of par value Euro 3, carrying dividend rights from 1 January 2001, for every two shares held prior to the above bonus issue, at a price of Euro 4, of which Euro 3 is to be allocated to «share capital» and Euro 1 to the «share premium reserve»;
 - correlated payment of an expense reimbursement, equal to Euro 0.04 for every new share subscribed under the rights issue, up to a maximum of Euro 80;
- 3) – to grant the Board of Directors and/or the Chairman's Committee, the widest possible powers to fix the period within which to resolutions in points 1) and 2) must be implemented and to establish all the other related terms, procedures and conditions, including those for the use of split shares arising under the bonus issue and for offering unexercised rights, in accordance with article 2441.3 of the Italian Civil Code, which applies to all companies with shares listed on regulated markets in Italy, as dictated by article 206 of Legislative Decree 58 of 24 February 1998 (Financial brokerage act) pursuant to articles 8 and 21 of Law 52 of 6 February 1996; these powers are also to include all those required to transfer the amounts

relating to the bonus part of the operation from the «share premium reserve» to «share capital»;

- to delegate to the Chairman and to the Deputy Chairman, separately, the powers needed to render public and executive, in accordance with the law, the above shareholders' resolutions; in addition, to make to them any amendments, deletions and/or additions that may be required by the Authorities for the purposes of their approval, transcription, publication and legal authorization, as well as for the procedures as per art. 2436 of the Italian Civil Code, all with the promise of full ratification and approval.

THE BANK'S GROWTH SINCE ITS FOUNDATION

KEY FINANCIAL DATA

Year	Financial investments lire	Customer loans lire	Fiduciary funds lire	Shareholders' equity (capital & reserves) lire	Net profit for the year lire	Dividend lire
1871	50,511	180,633	72,157	90,243	1,431	2.40
1875	210,534	1,306,146	1,101,140	349,667	40,958	4.80
1880	89,960	1,982,008	1,504,015	696,182	63,949	4-
1885	413,293	2,770,282	2,247,403	792,962	81,130	4-
1890	887,984	3,495,003	3,187,972	884,545	95,210	4-
1895	1,626,468	2,672,099	3,158,173	877,596	69,048	3.50
1900	1,665,567	3,150,636	3,846,521	900,506	82,843	3.75
1905	1,820,120	4,511,953	5,487,128	976,050	102,815	4-
1910	2,826,143	7,197,912	9,174,175	1,089,486	130,910	5-
1915	4,695,275	6,580,483	10,025,751	1,274,266	114,947	4-
1920	15,308,840	17,619,325	43,217,328	2,386,350	360,233	10-
1925	17,647,206	69,110,205	77,303,591	4,459,907	1,012,629	11-
1930	24,976,137	84,395,615	106,028,097	6,253,905	1,086,786	11-
1935	41,440,233	59,853,760	102,990,686	6,859,473	656,938	7-
1940	47,238,634	63,524,949	110,492,224	5,985,029	604,102	4.375
1945	217,324,768	197,190,394	371,025,910	12,567,533	1,581,275	4.50
1950	1,178,143,464	1,728,004,559	2,633,063,277	97,774,822	20,977,987	80-
1955	2,736,652,595	4,593,101,812	6,919,258,008	507,538,163	50,339,685	240-
1960	6,728,341,569	11,354,894,711	17,666,877,226	960,311,990	89,062,532	290-
1965	12,709,787,718	19,095,407,878	35,315,339,189	1,297,813,485	116,261,503	330-
1970	21,741,812,203	40,933,641,636	66,685,141,779	3,054,405,662	168,067,728	380-
1975	95,357,422,047	89,956,111,500	199,699,178,214	9,565,973,510	651,267,178	550-
1980	481,894,450,213	262,074,902,032	747,648,563,276	86,393,967,075	4,451,036,002	1,200-
1981	587,130,515,183	290,163,138,950	844,132,823,461	136,109,787,538	6,860,449,121	1,700-
1982	841,319,962,820	327,213,343,582	1,092,908,835,203	181,987,626,486	11,379,406,505	1,800-
1983	1,068,301,667,994	390,912,156,043	1,399,683,630,343	204,274,016,662	18,967,163,218	2,700-
1984	1,272,756,173,430	473,053,876,174	1,714,839,497,963	227,098,808,780	22,759,441,699	3,700-
1985	1,296,862,890,008	634,268,654,746	1,908,105,269,710	238,833,497,680	25,814,463,183	5,000-
1986	1,655,469,622,446	738,390,550,644	2,145,616,271,302	249,984,598,045	26,300,274,304	4,200-
1987	1,848,034,028,398	789,308,725,745	2,333,218,913,595	260,402,944,713	26,311,307,976	4,200-
1988	1,840,357,492,343	987,816,483,788	2,488,897,938,830	270,555,622,507	26,460,190,701	4,400-
1989	1,855,483,777,942	1,229,068,595,740	2,771,036,101,389	280,954,624,043	27,076,827,754	4,500-
1990	1,779,938,246,983	1,587,503,964,300	3,035,178,934,286	329,179,378,297	28,888,504,956	3,200-
1991	1,716,466,230,069	1,964,123,977,869	3,307,699,544,754	373,203,755,104	31,016,836,077	3,200-
1992	2,250,454,029,374	2,327,911,489,007	4,166,439,336,756	385,278,450,381	31,570,877,483	3,300-
1993	3,243,379,866,344	2,790,472,026,444	5,542,593,261,318	485,836,596,464	34,583,536,271	2,200-
1994	2,784,843,989,314	3,293,998,587,247	5,659,197,288,560	499,753,074,615	32,871,283,788	2,200-
1995	3,540,227,650,239	3,685,748,248,735	6,586,353,793,548	649,580,572,653	36,185,696,721	800-
1996	3,519,166,343,630	4,106,522,751,782	6,951,670,548,845	668,260,897,374	40,052,942,650	850-
1997	3,351,567,955,095	4,812,999,288,336	7,444,534,266,360	684,485,542,534	40,266,832,761	850-
1998	3,882,612,551,411	5,790,092,272,246	8,409,615,557,406	1,036,219,004,464	47,989,918,458	380-
1999	3,860,010,617,593	7,212,148,295,916	9,795,513,852,990	1,079,578,367,282	59,163,759,221	450-
2000	3,956,073,788,698	8,604,678,323,034	11,288,262,476,571	1,115,361,867,133	74,408,471,259	580-

The figures for the years prior to 1993 have not been adjusted to make them comparable with those of subsequent years which have been classified differently in accordance with Legislative Decree 87/92.

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RENATO BOGIALLI
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