



CARIM
CASSA DI RISPARMIO DI RIMINI SpA

ANNUAL REPORT

2001

CARIM
CASSA DI RISPARMIO DI RIMINI S.p.A.

**FINANCIAL STATEMENT AS OF
DECEMBER 31, 2001**

Report on Operation
Financial statements
Notes on the financial statements

Abridged English translation of an original issued in Italian



CARIM
CASSA DI RISPARMIO DI RIMINI S.p.A.

Honorary Chairman

Cav.Lav.Dott.Ing. Giuseppe Gemmani

Board of Directors

Chairman

Dott. Fernando Maria Pelliccioni

Vice-Chairman

Geom. Serafino Succi

Senior Advisor

Rag. Giancarlo Bonori

Advisor

Avv. Roberto Ferrari

Dott. Mauro Gardenghi

Avv. Mauro Ioli

Cav.Rag. Luciano Liuzzi

Ing. Raffaele Mussoni

Cav. Franco Paesani

Dott. Gianfranco Vanzini

Ing. Ulderico Vicini

Executive Committee

Chairman

Dott. Fernando Maria Pelliccioni

Vice-Chairman

Geom. Serafino Succi

Members

Rag. Giancarlo Bonori

Dott. Mauro Gardenghi

Cav.Rag. Luciano Liuzzi

Board of Auditors

Auditors

Rag. Giuliano Ioni

Dott. Marcello Pagliacci

Dott. Bruno Piccioni

General Management

General Manager

Dott. Alberto Roccati

Deputy General Manager

Rag. Alberto Martini

Abridged Report on Operations

Carim is the foremost bank serving the community in the Rimini area of Italy. Aware of the responsibilities this involves, the bank seeks to create a climate of trust and mutual respect with operators in all sectors, from families and professionals, to small and medium-sized businesses. Against an increasingly competitive background, Carim's commitment is, as ever, to operate with efficiency and care, focusing on the needs of customers with the professionalism and skill that derive from intensive training and the application of advanced technology.

In 2001 economic activity slowed throughout the world, with global GDP growth falling from 4.7% in 2000 to early estimates of 2.4% in 2001. Growth retreated even more dramatically in the OECD countries, from 4% in 2000 to 1% this past year.

As usual, it was the United States economy (1.1% estimated growth for the year) that conditioned all the others. This was especially true during the period after the attacks of 11 September, when the US suffered a quarterly decline in GDP for the first time since 1991. The difficult period encountered by the world's leading power coincided with conditions of ongoing crisis in other countries. Especially worrisome is the situation in Japan, which was in a recession throughout the second half of the year. Even the "emerging economies", some more notably than others, showed signs of serious tension.

In the Euro area, GDP growth stopped at 1.6%, compared with 3.4% in 2000 (forecast GDP for 2001 was 3%). Germany abandoned its traditional role as the driver of the European economy, its own growth figures especially disappointing (GDP is estimated at 0.5-0.7% for the year). Although the underlying economy was slightly more dynamic, the Euro continued to lose ground against the dollar and even fell below 90 cents.

Italy should have closed the year with GDP growth of 2%, the result of moderate growth during the first half of the year and an essential standstill during the second. Compared with the other industrialized nations, this time Italy, along with France, was at the head of the class and outdid the US, Japan and Germany (which had serious difficulties complying with the European stability pact). In greater detail, growth in Italy's industrial output went from 3.1% in 2000 to 0.6% in 2001; inflation rose from 2.6% to 2.7%, but there was also a steep drop in producer price increases, from 6% to 1.9%. The unemployment rate fell from 10.6% to 9.3%, and the balance of payments should be even for the year after a negative result in 2000.

The local economy, strongly export-oriented, has continued to maintain its ranking in terms of quality of life. This situation has been achieved thanks to an efficient manufacturing system, adequate infrastructures and high quality services. The province of Rimini, in particular, rose from 9th to 7th place in the quality of life classification. Value added in the province, an indicator of the state of the local economy, continued to grow, mainly fueled by an increase in manufacturing and despite a decline in domestic demand and exports. This in turn led to a decrease in unemployment from 7.1% to 5.3%. The holiday industry did well, with an increase both in visitors (+1.6%) and in hotel occupancy (+1.4%). The breakdown of visitors was split evenly between Italians and foreigners, although the latter generated a 4.1% rise in hotel occupancy compared with 0.6% for Italians. Tourism is the industry most strongly affected by the events of 11 September, but the reluctance of Europeans to embark on intercontinental flights could mean an influx of tourists to our province.

During 2001 the local lending market reflected the trends seen nationwide; loans continued to grow, although at a slower pace than in previous years. The growth in deposits was limited as customers reallocated their portfolios, disinvesting heavily from the riskier kinds of investment and putting their savings into easily liquidated forms.

In continuing to pursue its objectives of operational stability during the year, the Bank improved its ability to respond to customers' needs. Efficient use of its resources enabled it to tackle a constantly changing and increasingly competitive banking market, as well as consolidate its position as reference bank in the province of Rimini.

Attention was focused on commercial activities, with a special emphasis on services of high technological content. This involved both the procurement of innovative products and the creation and implementation of an Internet banking service.

In late 2001 the bank was busy dealing with two enormous transformations. November saw the "migration" of its computer system, an event that affected almost all banking procedures, which will make it easier for branch personnel to pursue commercial development efforts. A few weeks later, the bank successfully handled the conversion to the Euro, a task that involved both the material replacement of lire with the new currency and some additional procedural adjustments. Naturally, two such important events required a significant increase in training activities.

Since 1 December 2001 Carim has used the Euro as its reporting currency. Starting with the 2001 financial statements, all public accounts will be drawn up in the new currency.

With regard to funding activities, investors' interest turned to the more easily liquidated forms of deposit, including Carim bonds. Intense growth was again seen in the volume of loans granted, although such performance did not alter loan quality.

The key statistics of the Bank are presented in the following financial profile (in millions of Euro):

	2001	2000
Net income for the year	15	12
Dividend declared	12	9
Stockholders' equity, including reserve for general banking risks	267	252
Subordinated loan	0	0
Total assets	1,904	1,780
Lending:		
Loans to customers	1,356	1,193
Due from banks	59	65
Funding:		
Due to customers	874	799
Due to banks	111	113
No. of employees	506	486
No. of branches	62	59

As of December 31, 2001, stockholders' equity, including the "Reserve for general banking risks" and net of net income for the year and its allocation to reserves, came to Euro 251,89 million, up over Euro 11.82 million. Stockholders' equity adjusted for Bank of Italy reporting purposes once again demonstrates the solidity of the Bank's position.

Total funding as of December 31, 2001, including insurance deposits, came to Euro 2,885.66 million, an increase of 1.37% on the prior year. Direct deposits (net of repurchase agreements) totaled Euro 1,241.16 million (+9.42%); within this balance demand deposits gained 13.56%, with an especially good performance by current accounts and savings deposits. There was an increase in all forms of term

deposit; Carim bonds were up 5.90% to Euro 420.4 million, while certificates of deposit increased by 6.66%. Indirect deposits fell by 3.96% to Euro 1,644.50 million, including repurchase agreements which decreased 7.30% to Euro 92.13 million.

Deposits from banks totaled Euro 111.96 million at year end (Euro 112.51 million in 2000); the main component, Euro 73.9 million, was represented by foreign currency balances.

Loans to customers, before writedowns, amounted to Euro 1,398.21 million, up 13.61%; an improvement on both the national and provincial average. The ratio of gross lending to direct deposits, 108.50% at the end of the previous year, rose further to 112.65%.

Total lending was boosted above all by medium/long-term transactions, the majority of which assisted by guarantees and well covered with regard to risk; the latter component rose 13.08% to Euro 780.1 million. Short-term lending also saw strong growth of 13.96%. More in detail, lending continued to be concentrated on households (+21.37%) and businesses (+17.07%). Foreign currency loans to customers were up 5.61% to Euro 62.6 million. At year-end, lending was split as follows: 98.09% to the private sector and 1.91% to the public administration.

Non-performing positions, net of writedowns, totaled Euro 2.98 million; the ratio to gross lending, 0.22%, continued to improve. Problem loans and loans being restructured, gross of specific writedowns, fell 9.61% to Euro 32.02 million at year end, or 2.29% of gross lending. This total also includes watch-list loans of Euro 20.6 million.

Considerable growth in customer lending meant less resources available for financial investments which, net of compulsory reserves, fell from Euro 305.9 million in 2000 to Euro 222.80 million (-27.17%). With a view to careful analysis of the more remunerative alternatives offered by the market, loans to banks, net of compulsory reserves, decreased from Euro 34.05 million to Euro 16.6 million in 2001.

Financial investment as of 31 December 2001 were made up of Euro 225.11 million in portfolio securities, net of repurchase agreements; Euro 92.13 million in portfolio securities covered by repurchase agreements; Euro 16.6 million in loans to banks as above; and Euro 42.2 million in compulsory reserves with the Bank of Italy.

Deposits from banks totaled Euro 111.0 million (Euro 112.5 million in 2000).

Looking now at the statement of income, thanks to the increase in lending and overall volumes administered, the trend in the interest margin improved further on the previous year, gaining 12.90% to Euro 70.22 million. Income from services fell 6.24% to Euro 28.25 million. In greater detail, this element saw a decrease in profits on financial transactions, from Euro 4.12 million to Euro 3.26 million (-20.80%). Net commission income was essentially stable at Euro 24.99 million.

Net interest and other banking income, i.e. total profit on banking activities, came to Euro 98.47 million, up 6.65% on the previous year.

Operating expenses, Euro 47.93 million, were essentially in line with the previous year's (+0.22%). Of this total, other administrative costs came to Euro 19.02 million, an increase of 5.72% due in part to the expansion of operations. Amortization and depreciation rose to Euro 2.57 million (+17.65%).

The operating margin was up at Euro 47.98 million (+13.35%).

Adjustments to loans and provisions for guarantees, which also include loan losses of Euro 1.04 million, came to Euro 12.53 million (+7.33%). Writebacks on loans totaled Euro 3.67 million.

In light of the above, income from operating activities rose in total by 17.19%, from Euro 33.38 million to Euro 39.12 million. Extraordinary income and expense amounted to Euro 2.73 million and Euro 0.31 million, respectively.

The reserve for general banking risks increased by Euro 9.30 million.

In conclusion, net income for the year amounted to Euro 15.31 million, up 31.70% on the previous year.

There were no subsequent events of significance after the year end. The outlook for 2002 suggests another very demanding year for the banking industry as the economic downturn continues. Since this may also affect the interest margin, Carim will have to maintain its policies of cost cutting and a steady improvement in profitability, mainly through the expansion of services. As in previous years, the best response will be to pursue maximum efficiency and develop solid customer relations.

BALANCE SHEETS AS OF DECEMBER 31, 2001 AND 2000

(in Euro)

Assets		December 31, 2001		December 31, 2000	
10	Cash and deposits with central banks and post offices		19,317,572		12,986,582
20	Treasury bills and similar bills eligible for refinancing with central banks		67,002,599		153,302,786
30	Due from banks:		58,744,940		64,745,006
	a) repayable on demand	15,738,378		24,449,191	
	b) other deposits	43,006,562		40,295,815	
40	Loans to customers		1,356,254,353		1,193,438,290
	including:				
	- loans using public funds	3,415		10,859	
50	Bonds and other debt securities:		245,450,996		227,252,328
	a) public entities	163,702,094		137,346,555,	
	b) banks	40,103,927		58,597,263	
	including:				
	- treasury bonds	533,111		7,298,682	
	c) financial institutions	27,090,707		12,100,501	
	including:				
	- treasury bonds				
	d) other issuers	14,554,268		19,208,009	
60	Shares, quotas and other forms of capital		4,781,857		3,904,495
70	Equity investments		8,259,830		8,734,810
80	Investments in Group companies		517,490		517,490
90	Intangible fixed assets		1,049,431		1,045,579
	including:				
	- start-up costs				
	- goodwill				
100	Tangible fixed assets		42,760,362		42,019,928
130	Other assets		93,391,196		63,268,074
140	Accrued income and prepaid expenses:		6,371,134		8,864,017
	a) accrued income	6,165,449		8,695,477	
	b) prepaid expenses	205,685		168,540	
	including:				
	- discounts on bond issues				
Total assets			1,903,901,760		1,780,079,385

BALANCE SHEETS AS OF DECEMBER 31, 2001 AND 2000

(in Euro)

Liabilities and stockholders' equity		December 31, 2001		December 31, 2000	
10	Due to banks:		110,964,443		112,512,644
	a) repayable on demand	38,981,529		6,394,688	
	b) time deposits or with notice period	71,982,914		106,117,956	
20	Due to customers:		873,754,401		798,787,364
	a) repayable on demand	765,370,685		673,957,225	
	b) time deposits or with notice period	108,383,716		124,830,139	
30	Securities issued:		459,538,617		434,886,146
	a) bonds	420,427,250		396,994,773	
	b) certificates of deposit	21,365,753		20,031,480	
	c) other	17,745,614		17,859,893	
40	Public funds administered		3,488		11,084
50	Other liabilities		105,364,931		98,051,363
60	Accrued expenses and deferred income:		7,623,132		7,504,798
	a) accrued expenses	6,788,232		6,805,013	
	b) deferred income	834,900		699,785	
70	Provision for termination indemnities		10,814,351		10,516,547
80	Provisions for risks and charges:		68,633,551		66,113,902
	a) pensions and similar commitments	37,393,903		39,716,989	
	b) taxation	19,792,240		18,027,444	
	c) other	11,447,408		8,369,469	
100	Reserve for general banking risks		47,879,330		38,579,330
120	Capital stock		117,498,000		121,365,305
130	Additional paid-in capital		41,572,095		41,572,095
140	Reserves:		44,943,714		38,552,650
	a) legal reserve	28,530,572		23,500,651	
	b) reserve for treasury stock				
	c) statutory reserves	2,536,171		2,536,171	
	d) other reserves	13,876,971		12,515,828	
170	Net income for the year		15,311,707		11,626,157
Total liabilities and stockholders' equity			1,903,901,760		1,780,079,385

GUARANTEES AND COMMITMENTS
(in Euro)

	Items	December 31, 2001		December 31, 2000	
10	Guarantees given		221,015,792		212,244,164
	including:				
	- acceptances				
	- other guarantees	221,015,792		212,244,164	
20	Commitments		87,764,381		95,668,575
	including:				
	- repurchase agreements	3,986,388		11,392,373	

STATEMENTS OF INCOME FOR THE YEARS ENDED
(in Euro)

	Items	December 31, 2001		December 31, 2000	
10	Interest income and similar revenues		109,420,960		94,439,410
	including from:				
	- loans to customers	89,524,816		71,220,721	
	- debt securities	17,152,951		21,377,684	
20	Interest expense and similar charges		-39,900,037		-33,461,810
	including on:				
	- deposits from customers	-19,789,511		-16,810,508	
	- securities issued	-15,342,509		-12,228,943	
30	Dividends and other revenues:		700,136		1,221,439
	a) from shares, quotas and other forms of capital	125,170		116,117	
	b) from equity investments	574,966		941,040	
	c) from investments in Group companies			164,282	
40	Commission income		19,914,163		20,405,021
50	Commission expense		-2,348,472		-1,698,435
60	Profits (losses) on financial transactions		3,264,526		4,121,392
70	Other operating income		7,423,001		7,305,112
80	Administrative costs:		-47,928,426		-47,821,150
	a) payroll	-28,907,474		-29,829,977	
	including:				
	- wages and salaries	-20,420,299		-19,746,865	
	- social security charges	-5,203,173		-5,307,369	
	- termination indemnities	-1,231,748		-1,496,924	
	- pensions and similar commitments	-2,052,254		-3,278,819	
	b) other	-19,020,952		-17,991,173	
90	Adjustments to intangible and tangible fixed assets		-2,566,486		-2,181,560
100	Provisions for risks and charges				-9,563
120	Adjustments to loans and provisions for guarantees and commitments		-12,525,306		-11,670,942
130	Writeback of loans and provisions for guarantees and commitments		3,669,606		2,738,833
150	Adjustments to financial fixed assets				-2,235
170	Income (loss) from operating activities		39,123,665		33,385,512
180	Extraordinary income		2,729,658		1,301,207
190	Extraordinary charges		-313,898		-450,617
200	Extraordinary income, net		2,415,760		850,590
210	Change in reserve for general banking risks		-9,300,000		-6,713,940
220	Income taxes		-16,927,718		-15,896,005
230	Net income for the year		15,311,707		11,626,157

EXPLANATORY NOTES

EXPLANATORY NOTES - INTRODUCTION

Form and content of the financial statements

The financial statements for the year ended December 31, 2001 comprise the balance sheet, the statement of income and these explanatory notes, and are accompanied by the report on operations. They have been prepared in compliance with Decree 87/92, which implemented EC Directive No. 86/635, and regulates the statutory and consolidated accounts of banks and lending institutions.

These notes explain and analyze the financial results reported; they also include all the information required by the provisions of Decree 87/1992, and by the implementation Instructions and Circulars issued by the Bank of Italy, the latest of which relate to "The financial statements of banks: formats and rules for compilation", "Transparency of bank financial statements" and "Deferred taxation and change in accounting policies". In addition, they contain all the supplementary information required to give a true and fair view of the financial and operating position of the Bank, even though such information may not be specifically required by law. The annual financial statements are expressed in Euro, without decimals. For this purpose figures in the captions and sub-captions and "including" have been rounded off, disregarding amounts that are equal to or less than 50 cents and rounding up amounts over 50 cents to the next Euro. The sum of these rounding differences has been allocated to "other assets/liabilities" in the balance sheet and to extraordinary income/expense in the statement of income. The breakdown between the Euro and foreign currency, as indicated in the explanatory notes, is understood as being between EMU participating and non-participating currencies.

Presentation of the explanatory notes

The explanatory notes are divided into sections, each of which illustrates aspects of the Bank's operations.

As a rule, each section comprises the financial statement captions and tables. Captions and tables with zero balances are not included in the notes. The tables are prepared in accordance with the formats required by the instructions relating to bank financial statements even if they only contain some of the captions listed.

The sections also contain comments on the captions and tables or descriptions of the issues involved.

In order to improve the clarity and immediacy of disclosures in the explanatory notes, additional information has been provided.

In compliance with current legislation, the explanatory notes are expressed in thousands of Euro, unless stated otherwise.

For this purpose the captions, sub-captions and "including" have been rounded off, disregarding amounts equal to or less than Euro 500 and rounding up amounts over Euro 500 to the next thousand. The rounded amount of the captions has been obtained by adding together the rounded balances of the sub-captions.

Attachments

The attachments are shown at the end of the notes with an introductory list.

PART A – ACCOUNTING POLICIES

The financial statements have been prepared in accordance with current legislative requirements, making reference to the accounting principles established by the Italian Accounting Profession. The accounting policies adopted have been agreed with the Board of Statutory Auditors, where this is required by current regulations.

Section 1 – Description of accounting policies

1. LOANS, GUARANTEES AND COMMITMENTS

1.1 Due to and from banks

Transactions with banks are recorded with reference to the time of settlement. Amounts due from banks are stated at their estimated realizable value, while amounts due to banks are recorded at nominal value. Outstanding balances include accrued interest, net of payments made.

Amounts due to and from banks are valued at nominal value plus interest accrued at the balance sheet date, net of repayments. For balances due from banks, this reflects their estimated realizable value.

1.2 Due to and from customers

Current account transactions with customers are recorded at the time they are carried out. Other transactions (portfolio, foreign, security transactions etc.) are recorded with reference to the time of settlement.

Loans, including related interest, are stated at their estimated realizable value. The writedowns reflect the estimated losses of principal and interest determined following specific analyses, on a case-by-case basis, of non-performing and problem loans (the latter, as illustrated in full in Part B, Caption 40, are classified by type of problem), and restructured loans, as well as general losses which may occur in the future on other loans taking into account the inherent lending risk and the occurrence of losses in the past.

The original value of loans is reinstated in subsequent years if the reasons for any writedowns no longer apply.

Amounts due to customers are stated at nominal value, including interest accrued through year-end.

1.3 Other amounts due or payable

Other amounts due are stated at their estimated realizable value, while payables are stated at their nominal value, including any accrued interest at the balance sheet date.

1.4 Guarantees and commitments

Guarantees given are recorded at the value of the related commitment.

Securities and currency to be received are stated using the forward rates contracted with the counterparties.

Commitments to grant loans are stated at the amount still to be paid to the customer. Guarantees given and commitments that involve lending risk are valued in the same way as loans. Forecast losses on guarantees are calculated in lump measure and covered by the "provisions for risks and charges" in liabilities included in "other provisions".

2. SECURITIES AND OFF-BALANCE SHEET TRANSACTIONS (other than those in foreign currency)

2.1 Investment securities

As in the prior year, the Bank did not hold any investment securities at any time during 2001.

2.2 Dealing securities

Transactions in securities and similar instruments are recorded with reference to the time of settlement.

Securities are held for treasury and dealing purposes; they are valued at the lower of cost or market value. Cost is determined using weighted-average cost, calculated on a daily basis.

Market value is determined as follows:

- Italian and foreign securities quoted on organized markets are stated at their average prices during the last month of the year;
- unquoted Italian and foreign securities are stated at their estimated realizable value, obtained by discounting the future financial flows at an appropriate rate.

The original cost is reinstated in subsequent years if the reasons for any writedowns no longer apply.

The cost of borrowing and income from lending, comprising interest coupons on securities and the differential between the spot and forward prices for such securities, are recorded as interest in the statement of income.

Discounts/premiums on the issue of securities are recognized on an accruals basis, in conformity with Decree 250 of June 28, 1995 as converted by Law 349 of August 8, 1995, and Bank of Italy directives.

The value of zero coupon securities includes accrued interest in accordance with Bank of Italy instructions.

2.3 Off-balance sheet transactions

Off-balance sheet transactions include guarantees given as well as all forward and spot transactions, including those denominated in foreign currency, which should not be recorded among the assets or liabilities, but in a specific section "Guarantees and commitments" or in the explanatory notes (part B - section 10).

Forward or spot commitments to buy/sell securities not yet settled, are stated in a specific section relating to commitments at the lower of the forward purchase/sale price or their year-end market value (quoted securities), or their estimated realizable value (unquoted securities) determined by discounting the future financial flows at an appropriate rate on a consistent basis

with securities held in the dealing portfolio; any adjustments are reflected among the provisions for risks and charges.

Repurchase agreements are treated as loans against securities and the amounts received and paid are recorded as payables and loans.

3. EQUITY INVESTMENTS

Equity investments are all stated at cost, determined with reference to their purchase, subscription or conferral value.

Cost is reduced to reflect permanent losses that will not be absorbed by earnings in the near future. Current legislation requires that the original values should be reinstated in future accounting periods if the reasons for any writedowns cease to apply - this was not the case in 2001.

While Bank of Italy instructions have been complied with as regards reporting on a consolidated basis, consolidated financial statements have not been prepared. This is partly because the financial statements of CO.RI.T. Rimini e Forlì-Cesena S.p.A., the tax collection subsidiary, are not significant for a true and fair view of the Group's financial and operating position and results for the year, as required by art 29.1 (a) of Decree 87/92; and partly because of the particular nature of activities carried on by this subsidiary.

Dividends and the related tax credits are recognized on an accruals basis.

4. FOREIGN CURRENCY ASSETS AND LIABILITIES

(Including off-balance sheet transactions)

4.1 Due to and from banks and customers – Other amounts due or payable – Guarantees and commitments

Transactions in foreign currency are recorded with reference to the settlement date.

Assets, liabilities and spot off-balance sheet transactions not hedged against exchange risks are translated to Euro using the year end exchange rates; any exchange differences are recorded in full in the statement of income among profits (losses) on financial transactions, in compliance with art. 21.3 of Decree 87/92.

4.2 Foreign currency investment securities

The Bank did not hold any foreign currency investment securities at any time during 2001.

4.3 Foreign currency dealing securities

These are stated on the same basis as the dealing securities expressed in Euro in point 2.2. Prices are converted into Euro using year-end exchange rates; any exchange differences are recorded in full in the statement of income among profits (losses) on financial transactions, in compliance with art. 21.3 of Decree 87/92.

4.4 Off-balance sheet transactions denominated in foreign currency

Forward off-balance sheet transactions are valued as follows:

- hedging transactions, at the spot year-end exchange rates consistent with the treatment of the underlying assets, liabilities and other off-balance sheet transactions;
- transactions on own account, at the corresponding forward exchange rates prevailing at year-end.

The effect of any adjustments is recorded in the statement of income.

Foreign currency revenues and expenses are stated using the exchange rates applicable at the time they were recorded.

4.5 Derivatives

The differentials arising on derivative contracts are recognized as follows:

- hedging contracts: assets, liabilities and the related contracts are valued separately. The net differentials are recognized on an accruals basis as either interest income or expense, as appropriate, to match the revenues and expenses generated by the hedged items;
- dealing contracts on own account: these are valued at the lower of cost and market value. Net differentials are reported as "Profits (losses) on financial transactions";
- dealing contracts on behalf of customers: commission is recorded in the year the contracts are signed.

5. TANGIBLE FIXED ASSETS

These are recorded at purchase cost, including related charges, adjusted in certain cases in accordance with specific revaluation laws, or at the value attributed at the time the assets were contributed. Book value is stated net of accumulated depreciation. Fixed assets are systematically depreciated each year on a straight-line basis, using rates that reflect the residual technical and economic useful lives of the related assets. Regardless of the depreciation already accumulated, fixed assets are written down to reflect any permanent loss in their value; such writedowns are reinstated if the applicable conditions cease to apply - this was not the case in 2001.

Accelerated depreciation is also provided in order to obtain the fiscal benefits available under tax law, and to reflect the higher risk of obsolescence in high technology assets. Assets with a value of less than Lire 1 million (Euro 516) are depreciated 100% in the year of purchase considering their limited value and useful life.

The cost of improvements is allocated to the fixed assets concerned and depreciated over their remaining useful lives.

6. INTANGIBLE FIXED ASSETS

These are recorded, subject to the approval of the Board of Statutory Auditors, at purchase or production cost, including related charges, and amortized on a systematic basis over the period they are expected to benefit, based on the year each cost arose, and in any case over a period of not more than five years. The only exception to this rule concerns the corporate trade mark which is amortized over a period of ten years (in compliance with fiscal legislation).

7. OTHER POLICIES

7.1 Accruals and deferrals

These reflect the allocation of income and expenses relating to more than one accounting period in accordance with the matching principle. Accruals and deferrals have not been classified together with the accounts to which they relate during 2001 with the sole exception of accrued interest income on zero coupon portfolio securities and accrued interest expense on zero coupon bonds issued.

7.2 Public funds administered

These represent the liability at year-end to public agencies that allocate funds through the Bank. Movements reflect:

- the nominal value of funds received from agencies and deployed on their behalf;
- accrued interest income, net of administration charges;
- amounts withdrawn by the agencies concerned and/or repayments of amounts previously credited.

7.3 Provisions for termination indemnities

The provision for termination indemnities covers the liability to all employees, accrued in accordance with existing legislation and collective labor and supplementary bank agreements. This liability is subject to annual revaluation using indices.

7.4 Provisions for liabilities and charges

7.4.1 Pensions

The pension fund covers the liability accrued at year end for the supplementary pension rights of eligible employees and pensioners. As part of the provisions of Legislative Decree 124/93 and subsequent amendments and integrations, as a result of the agreement stipulated during the year with the Trade Unions, the fund currently comprises two separate sections administered by the Bank's Board of Directors

A fixed-contribution section, divided up into individual units to which contributions are made by the Bank and by personnel, as well as income generated by investing the fund's resources

A fixed-benefit section which concerns retired staff who have the right to a supplementary pension on the basis of the original regulations, as well as certain employees still in service who opted to remain in the existing fund. Periodically an independent professional actuary is required under the regulations to check the adequacy of the section's mathematical reserve, on the assumption of changing salary and social security levels

7.4.2 Taxation

The reserve comprises the provision for direct and indirect taxation for 2000 and the provision for deferred taxes, as introduced by the Bank of Italy Instructions dated 3 August 1999, deriving from timing differences taxable in future years (deferred tax liabilities). Timing differences that are deductible in future years (deferred tax assets) are booked to caption 130 "Other assets".

Deferred taxes are recognized on the following bases:

- deferred tax liabilities are recorded in full;
- deferred tax assets deriving from costs charged to the statement of income but not immediately deductible for tax purposes are recorded in full to the extent that they are expected to be recovered, as deductible charges, against future taxable income.

Given that there is no evidence to suggest that the Bank's future taxable income will not be sufficient to absorb such costs, the treatment appears to be adequate. Past experience also suggests that this is a fair approach.

Based on the Instructions of the Bank of Italy on deferred taxation and Accounting Standard No. 25 issued by the Italian Accounting Profession, deferred tax assets and liabilities are calculated by taking the nominal values of the various timing differences and applying the tax rates which, based on the tax regulations in force at the time of the calculation, will be applicable in the accounting periods when it is assumed that the timing differences will reverse. In cases where tax law envisages different rates of tax for portions of the same income (as for the Dual Income Tax mechanism introduced by Legislative Decree 466/97 in 1997, but only applicable by banks from 2000 onwards), it is possible to apply the weighted average rate for the current financial year to the periods when the timing differences are expected to reverse.

Any balance on the reserve that appears to be surplus to requirements is still maintained for prudence sake to cover any liabilities that may arise from tax years that are still to be settled.

7.4.3 Other provisions

The other provisions cover losses that may arise in relation to guarantees given and other commitments, as well as known or likely liabilities whose timing and extent cannot be determined at year-end or at the time the financial statements are prepared. Such provisions represent the best estimate, based on available information, of the contingencies concerned. These provisions also include definite liabilities in relation to assessments received in previous years; specific appeals have been made against such assessments.

7.5 Subordinated loans

If any, these are stated at nominal value; unsettled interest accrued as of December 31, 2001 is stated separately.

7.6 Reserve for general banking risks

This reserve covers general business risks and, as such, forms part of stockholders' equity.

Section 2 – Adjustments and provisions recorded for tax purposes

2.1 Adjustments recorded solely for tax purposes

None.

2.2 Provisions recorded solely for tax purposes

None.