

**consolidated financial
statements for 2002**



**consolidated
additional notes
of financial
statement**



>>> SCOPE AND METHODS OF CONSOLIDATION

Scope of consolidation

The consolidated financial statements have been prepared by aggregating the financial statements of the following companies and groups:

on a line-by-line basis

- > Banca popolare dell'Emilia Romagna s.c.r.l., the parent bank;
- > Banca popolare di Ravenna s.p.a.;
- > Banca popolare di Lanciano e Sulmona s.p.a.;
- > Banca popolare del Materano s.p.a.;
- > Banca CRV Cassa di Risparmio di Vignola s.p.a.;
- > Banca popolare di Crotone s.p.a.;
- > Banca del Monte di Foggia s.p.a.;
- > Banca popolare di Aprilia s.p.a.;
- > Banca popolare dell'Emilia Romagna (Europe) International s.a.;
- > Banca popolare di Salerno s.p.a.;
- > CARISPAQ Cassa di Risparmio della provincia dell'Aquila s.p.a.;
- > Banca Popolare dell'Irpinia s.p.a.;
- > Banco di Sardegna s.p.a. and its subsidiaries (consolidated financial statements);
- > Finbanche d'Abruzzo s.p.a.;
- > Em.Ro. popolare s.p.a.;
- > EMRO Finance Ireland Ltd.;
- > Nadia s.p.a.;
- > Metelliana s.p.a.;
- > EM.RO Immobiliare s.p.a.;
- > Mutina s.r.l.;
- > Nettuno Gestione Crediti s.p.a.;
- > Optima s.p.a. SGR;
- > Ri.Tri.Mat. s.p.a.;
- > IM.P.I. s.r.l.;

on a proportional basis

- > ABF Leasing s.p.a.;

at net equity

- > BPER International Advisory Company s.a.;
- > Modena Terminal s.r.l.;
- > S.I.M.A. s.p.a.;
- > FIN.ROMA s.r.l.;

even though these companies belong to the Group, they have been consolidated at net equity since their inclusion would have been irrelevant for the purposes of

presenting a true and fair view of the Group's financial position and results. Significant investments or subsidiary companies operating in unconnected businesses have also been consolidated using the net equity method. They are:

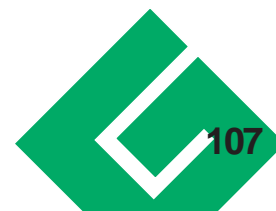
- > Co.Ba.Po. - Consorzio Banche Popolari;
- > Sintesi 2000 s.r.l.;
- > ABF Factoring s.p.a.;
- > Leasinvest s.p.a.;
- > ARCA VITA s.p.a.;
- > B. & A. Broker s.p.a.;
- > Progetto Immobiliare s.r.l.;
- > Sofipo Fiduciaire s.a.;
- > Swiss Forfaiting Company Ltd;
- > CONFORM – Consorzio Formazione Manageriale;
- > C.A.T. Progetto Impresa Modena s.c.r.l.;
- > Forum Guido Monzani s.r.l.;
- > Immobiliare Reiter s.p.a..
- > ABF Finance s.p.a..

The equity figures used for consolidation purposes are those reported in the financial statements at 31 December 2002. Exceptions to this are Leasinvest s.p.a., C.A.T. Progetto Impresa Modena s.c.r.l. and Swiss Forfaiting Company Ltd; in this case, the calculation of net equity has been based on their 2001 financial statements, being the latest ones approved.

>>> **CONSOLIDATION METHODS**

The methods adopted for preparing the consolidated financial statements are as follows:

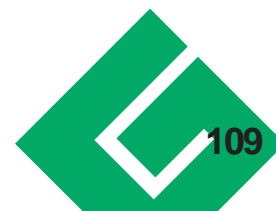
- > on first-time consolidation, the carrying value of the investments in companies consolidated on a line-by-line or proportional basis is eliminated against the shareholders' equity in these companies (or the portion of shareholders' equity that the equity investments themselves represent).
- > Where not attributable to assets or liabilities or not offset against revaluation reserves or provisions for loan losses of the companies to which they refer, any positive differences between book value and the corresponding portion of shareholders' equity are classified as assets among "Goodwill arising on consolidation". These amounts are amortized over five years, except in the case of banks, for whom the amortization period is ten years, reflecting the duration of this goodwill over time.
- > Negative differences between the book value of equity investments and the corresponding portion of shareholders' equity are classified as "Negative goodwill arising on consolidation";





- > significant debit and credit balances, off-balance sheet transactions and income and costs arising from transactions between consolidated companies are eliminated;
- > the financial statements used for consolidating the Group's leasing companies are prepared using the financial method;
- > the portion of shareholders' equity and net income for the year pertaining to minority interests in the consolidated companies, are shown separately on the liabilities side of the balance sheet and in the statement of income;
- > the book value of significant equity investments, held by the parent bank or by other group companies, carried at net equity, is compared with the relevant share of equity in the related associated companies. The higher book value, resulting from the first-time consolidation, with respect to the corresponding portion of shareholders' equity is classified as "Goodwill arising on application of the equity method" and amortized over five years; negative differences between the book value and shareholders' equity of the investments at the time they were purchased are classified as "Goodwill arising on the application of the equity method". –changes in shareholders' equity after the date used to calculate the above-mentioned differences are classified in caption 170 of the statement of income as "Profits/losses from investments valued using the equity method" if they relate to the profits or losses of associated companies.

Section 1 - Description of accounting policies



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The financial statements have been prepared in accordance with current laws and with reference to accounting principles currently applied in Italy.

>>> 1. LOANS, GUARANTEES AND COMMITMENTS

Customer loans, adjusted for accrued and deferred interest, are stated at their estimated realisable value.

Problem loans are valued on a case-by-case basis and are shown net of expected losses, with loan writedown provisions used up to their maximum amount. Unsecured loans to residents in countries at risk are written down on an overall basis, using a detailed method, and making use of the provisions mentioned above. For the sake of prudence and taking account of risks that might emerge in the future, a general writedown has been made to those loans which are currently performing normally, in order to cover the "natural risk" that they might turn bad. The same principles have been applied to the valuation of endorsement credits, while also taking account of the risks associated with bankruptcy or current legal disputes; these risks have been covered by charges to "provisions for risks and charges - other" (liability caption 80d).

Amounts due from banks, including interest due, and other receivables are stated at their estimated realisable value, corresponding to their nominal value less the general writedown calculated in respect of any "country risk", calculated as stated above. Exceptions are amounts due from banks to the Luxembourg subsidiary, B.P.E.R. (Europe) International, for which a general writedown has been booked even for those loans that are "performing".

The original value of loans is written back if the reasons for writedowns no longer apply. Guarantees given are shown at the total value of the commitment.

Securities to be received are booked at the forward price agreed in the contract.

Commitments to disburse funds to counterparties are shown at the amount to be settled.

>>> 2. SECURITIES AND OFF-BALANCE SHEET TRANSACTIONS (OTHER THAN THOSE IN FOREIGN CURRENCY)

2.1 Investment securities

Securities, which have been placed in the investment portfolio following specific



resolutions by the Board, are valued at purchase cost, adjusted - according to the time they have been held - for any issue and trading discounts by making additions to or subtractions from the interest on these securities. They are written down in the case of a permanent decline in the issuer's solvency, or in the debt-paying capacity of the issuer's country of residence. The original value is subsequently written back if the reasons for the writedown cease to apply.

Any transfers from the investment to the trading securities portfolio are made at purchase cost, while transfers from the trading to the investment portfolio are made at the lower of cost and market value, with any profits or losses booked to the statement of income.

2.2 Trading securities

Listed trading securities are valued at the lower of cost, calculated using the LIFO method with annual increments (adjusted for the issue discount), and market value, given as the average price reported in December; the exception is the subsidiary EMRO Finance Ireland, which marks its securities to market, in accordance with the regulations applying in the country where it is headquartered; the related effect is indicated in section 3 of part C of the explanatory notes.

Unlisted securities are valued at the lower of cost and the value, calculated on the basis of prices provided by "information providers" or, if unavailable, by discounting at market rates the future financial flows for interest and capital generated by the securities themselves.

The original value is subsequently written back if the reasons for the writedown cease to apply.

Own shares are valued at the lower of cost and market price; the related investment is covered in full by the special equity reserve, formed from net earnings, in accordance with article 2357 ter of the Italian Civil Code.

2.3 Off-balance sheet transactions

Hedging transactions are valued in the same way as the assets and liabilities being hedged, either on or off-balance sheet, and give rise to the recognition of interest, income or similar charges in the statement of income.

Transactions not undertaken for hedging purposes are valued at the lower of cost and market value and give rise to the recognition of "profits (losses) on financial transactions" in the statement of income.

Commitments for the purchase/sale of securities that have not yet been settled are valued using the same principles applied to the securities portfolio.

Complex financial transactions relating to the securities portfolio, mostly comprising derivative contracts, are valued using the same principles applied to off-balance sheet transactions.



>>> 3. EQUITY INVESTMENTS

Equity investments not included in the scope of consolidation and not valued at net equity (insofar as they relate to dormant companies, those undergoing bankruptcy proceedings or not subject to dominant influence) are booked, insofar as they are fixed financial investments, at their purchase and/or subscription price, including any related charges and adjusted for any losses in value considered to be permanent.

The original value is written back in future years if the reasons for the writedown no longer apply.

Dividends are booked in the year they are collected, also taking into account the related tax credit.

>>> 4. ASSETS AND LIABILITIES IN FOREIGN CURRENCY (INCLUDING OFF-BALANCE SHEET TRANSACTIONS)

Foreign currency assets and liabilities are translated into euro at year-end spot exchange rates, with any gains/losses recorded in the statement of income.

Costs and income in foreign currency are translated using the exchange rate prevailing at the time of their settlement.

Foreign currency off-balance sheet spot transactions, not undertaken for hedging purposes, are valued using the same method applying to other foreign currency balances; if they are forward transactions, they are valued using the forward exchange rates at year end, for maturities corresponding to those of the transactions being valued. The effects of these valuations are recorded in the statement of income under "profits (losses) from financial transactions".

Foreign currency off-balance sheet transactions, undertaken for hedging purposes, are valued in the same manner as the assets or liabilities, whether on or off-balance sheet, being hedged. They give rise to the recognition of interest, income or similar charges in the statement of income.

>>> 5. TANGIBLE FIXED ASSETS

Tangible fixed assets are shown at cost, including ancillary charges and any improvement expenditure, as adjusted in certain cases in accordance with specific monetary revaluation laws, or for the value determined at the time of conferrals. The amount shown in the financial statements corresponds to the book value of the assets, less accumulated depreciation, calculated in the manner described below. Tangible fixed assets are depreciated on a straight-line basis over their estimated useful lives

In addition, within the limitations set by law, accelerated depreciation is charged to take account of the rapid obsolescence of assets with a high technological content.



>>> 6. INTANGIBLE FIXED ASSETS

These are booked at cost, including any related charges; they are amortized on a straight-line basis over the period they are expected to benefit.

Start-up and expansion costs, as well as goodwill are capitalised and amortized over a period of no more than five years.

>>> 7. OTHER CATEGORIES

Payables

Payables are stated at their face value, plus any matured interest.

Subordinated liabilities are shown at their face value.

Repurchase agreements

Outstanding repurchase agreements at year end on securities, involving commitments to sell forward, are treated as funding and lending transactions; the related income or costs are recorded on an accruals basis among interest income or expense.

Accruals and deferrals

These relate to transactions associated with more than one accounting period and are recorded in accordance with the matching principle.

These balances are stated net of those accruals and deferrals which have been reallocated to the relevant category of loans or deposits.

Provision for termination indemnities

The provision for termination indemnities covers the related liability to all employees in accordance with current laws and/or national and in-house labour contracts, net of any advances. The allocation of part of this provision to the supplementary pension fund, introduced under Decree 124 of 21 April 1993, does not pass through this account but is booked directly to the supplementary pension fund itself.

Provisions for risks and charges:

Employee pension fund

The pension funds comprise a so-called "defined benefit" part, referring to the parent bank, Banca CRV di Vignola and Carispaq, which is valued annually by external actuaries, and a "defined contribution" part. The latter refers to the parent bank only and represents the sum of several individual accounts, which are credited with payments by employees, the Bank's contributions and the return maturing on the associated investments.

Provision for taxation

The provision for corporate (IRPEG) and regional (IRAP) taxes is based on a pru-

dent estimate of current and deferred income taxes in accordance with current tax regulations, taking account of any exemptions and tax credits.

No provision has been made in respect of the equity reserves subject to deferred taxation since no operations will be carried out that would crystallise the related tax charge.

Deferred tax assets are recorded among assets in the year that they arise, provided it is reasonably certain they will be recovered in the future, hence implying their reversal.

Other provisions

Other provisions cover losses on guarantees given, bankruptcies, other commitments or outstanding legal disputes as well as known or probable liabilities whose extent or timing could not be determined at period end or by the date of preparing these financial statements.

These provisions represent the best possible estimate of these liabilities, based on current information.

Provisions for loan losses

These refer to provisions in respect of lending risks that are only probable and do not adjust the value of the loans themselves.





Section 2 - Adjustments and provisions for tax purposes

2.1 Adjustments made exclusively for tax purposes.

None.

2.2 Provisions made exclusively for tax purposes.

Any provisions of this sort in the financial statements of companies consolidated on a line-by-line or proportional basis have been reversed from the consolidated statement of income. The related tax effect has been disclosed, calculated using the information contained in the explanatory notes to the financial statements of the individual companies.

Reclassified consolidated Statement of Income as of December 31, 2002

(in thousands of euro)

consolidated
financial statements
for 2002
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financial statement



▶ CAPTIONS	31/12/02	31/12/01	Change	Change %
10. INTEREST INCOME AND SIMILAR REVENUES	1,726,761	1,828,289	(101,528)	-5.55
including from: loans to customers	1,379,984	1,408,869	(28,885)	-2.05
debt securities	217,511	278,082	(60,571)	-21.78
20. INTEREST EXPENSE AND SIMILAR CHARGES	(781,497)	(906,572)	125,075	-13.80
including on: due to customers	(335,947)	(402,234)	66,287	-16.48
securities issued	(290,460)	(302,162)	11,702	-3.87
INTEREST MARGIN	945,264	921,717	23,547	2.55
30. DIVIDENDS AND OTHER REVENUE:	63,516	25,457	38,059	149.50
(a) from shares, quotas and other forms of capital	16,192	4,747	11,445	241.10
(b) from equity investments	47,324	20,710	26,614	128.51
(c) from investments in group companies	-	-	-	-
OVERALL INTEREST MARGIN	1,008,780	947,174	61,606	6.50
40. COMMISSION INCOME	405,179	381,874	23,305	6.10
50. COMMISSION EXPENSE	(37,922)	(32,765)	(5,157)	15.74
60. PROFITS (LOSSES) ON FINANCIAL TRANSACTIONS	(22,276)	8,497	(30,773)	-362.16
70. OTHER OPERATING INCOME	184,510	174,754	9,756	5.58
EARNING MARGIN	1,538,271	1,479,534	58,737	3.97
80. ADMINISTRATIVE COSTS:	(917,943)	(880,043)	(37,900)	4.31
(a) payroll	(578,005)	(550,774)	(27,231)	4.94
including: wages and salaries	(412,037)	(392,902)	(19,135)	4.87
social security charges	(112,112)	(107,975)	(4,137)	3.83
termination indemnities	(27,476)	(31,730)	4,254	-13.41
pensions and similar commitments	(19,909)	(10,734)	(9,175)	85.47
(b) other	(339,938)	(329,269)	(10,669)	3.24
OPERATING RESULT	620,328	599,491	20,837	3.48
90. ADJUSTMENTS TO INTANGIBLE AND TANGIBLE FIXED ASSETS	(107,985)	(109,431)	1,446	-1.32
100. ALLOCATION TO RISKS AND CHARGES	(19,874)	(33,263)	13,389	-40.25
110. OTHER OPERATING EXPENSES	(16,504)	(14,026)	(2,478)	17.67
NET RESULT	475,965	442,771	33,194	7.50
120. ADJUSTMENTS TO LOANS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS	(243,293)	(278,744)	35,451	-12.72
130. WRITEBACK OF LOANS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS	87,802	76,352	11,450	15.00
150. ADJUSTMENTS TO LONG-TERM INVESTMENTS	(3,163)	(4,395)	1,232	-28.03
160. WRITEBACK OF LONG-TERM INVESTMENTS	4,889	-	4,889	100.00
170. INCOME FROM INVESTMENTS CARRIED AT EQUITY	3,763	4,207	(444)	-10.55
180. INCOME FROM OPERATING ACTIVITIES	325,963	240,191	85,772	35.71
190. EXTRAORDINARY INCOME	33,903	105,090	(71,187)	-67.74
200. EXTRAORDINARY EXPENSE	(14,583)	(20,486)	5,903	-28.81
210. EXTRAORDINARY INCOME	19,320	84,604	(65,284)	-77.16
TOTAL ORDINARY AND EXTRAORDINARY INCOME	345,283	324,795	20,488	6.31
220. CHANGE IN RESERVE FOR GENERAL BANKING RISKS	(4,102)	(18,306)	14,204	-77.59
230. INCOME TAXES	(171,294)	(166,817)	(4,477)	2.68
250. THIRD PARTY INCOME	(49,897)	(40,429)	(9,468)	23.42
260. NET INCOME	119,990	99,243	20,747	20.91