# GRUPPO BANCA SELLA

# CONSOLIDATED ANNUAL REPORT

# 2007

Drawn up by the Parent Company

BANCA SELLA HOLDING S.p.A.
(formerly Sella Holding Banca S.p.A)

# CONSOLIDATED ANNUAL REPORT-CONTENTS

## BOARD OF DIRECTORS OF THE PARENT COMPANY BANCA SELLA HOLDING S.p.A. (former Sella Holding Banca S.p.A.)

**appointed up to the approval of the 2009 financial statements**

| | | |
|---|---|---|
| Chairman | * | Maurizio Sella |
| Vice-Chairman | * | Lodovico Sella |
| Vice-Chairman | * | Franco Sella |
| Chief Executive Officer and General Manager | * | Pietro Sella |
| Director | | Mario Cattaneo |
| " | | Mario Renzo Deaglio |
| " | | Pier Vittorio Magnani |
| " | | Enzo Panico |
| " | | Giovanni Rosso |
| " | | Marco Scarzella |
| " | * | Federico Sella |
| " | * | Sebastiano Sella |
| " | | Vittorio Sella |
| " | | Marco Weigmann |
| " | | Giovanni Zanetti |

* Member of the Executive Committee

## BOARD OF STATUTORY AUDITORS OF THE PARENT COMPANY BANCA SELLA HOLDING S.p.A. (former Sella Holding Banca S.p.A.)

**Appointed up to the approval of the 2008 financial statements**

| | |
|---|---|
| Auditor - Chairman | Alessandro Rayneri |
| " | Paolo Piccatti |
| " | Alberto Rizzo |
| Supplementary Auditor | Mario Pia |
| " | Riccardo Foglia Taverna |

## AUDIT COMMITTEE

| | |
|---|---|
| Chairman | Marco Weigmann |
| | Mario Cattaneo |
| | Giovanni Zanetti |

# BOARD OF DIRECTORS' REPORT ON ACCOUNTS

# BANCA SELLA GROUP FINANCIAL HIGHLIGHTS

| BALANCE SHEET (euro million) | 31/12/2007 | 31/12/2006 | % change |
|---|---|---|---|
| Total assets | 12.481,5 | 11.363,0 | 9,8% |
| Cash loans | 7.231,1 | 6.596,7 | 9,6% |
| Guarantees granted | 307,6 | 285,1 | 7,9% |
| Financial assets | 2.364,6 | 2.407,9 | -1,8% |
| Equity investments | 12,0 | 7,0 | 72,0% |
| Tangible and intangible fixed assets | 242,9 | 223,3 | 8,8% |
| Direct deposits from customers | 9.294,1 | 8.642,1 | 7,5% |
| Indirect deposits from customers (1) | 19.414,5 | 20.028,0 | -3,1% |
| Total deposits | 28.708,6 | 28.670,2 | 0,1% |
| Capital for supervisory purposes | 788,4 | 649,4 | 21,4% |

| INCOME STATEMENT (2) *(euro million)* | 31/12/2007 | 31/12/2006 | & change |
|---|---|---|---|
| Net interest income (3) | 282,1 | 262,7 | 7,4% |
| Net other banking income | 221,9 | 225,5 | -1,6% |
| Net insurance activity income | 19,0 | 16,8 | 13,1% |
| Net banking and insurance activity income | 523,0 | 504,9 | 3,6% |
| Operating costs | 365,2 | 337,2 | 8,3% |
| Operating profits | 157,8 | 167,8 | -6,0% |
| Write downs/Write ups for credit impairment | 47,1 | 52,7 | -10,6% |
| Income tax | 55,5 | 52,3 | 6,1% |
| Parent company (net) income for the year | 120,8 | 49,8 | 142,6% |

(1) *The aggregate, excluding "cash" (included in direct deposits from customers), is the sum of the following items of the section "Other Information" of the Notes to the Financial Statements: "asset management", "third-party securities held in deposit related to the management of the Custodian Bank", "Other third-party securities held in deposit (net of securities issued by the companies included in the consolidation)".*

(2) *As per items reported in the reclassified consolidated Income Statement.*

(3) *The aggregate does not include the part related to the insurance sector.*

| STAFF AND BRANCHES *(year end)* | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|---|---|
| Staff- banking group | 4.325 | 4.027 | 3.765 | 3.714 | 3.579 | 3.467 | 3.355 |
| Staff - Consolidated group as per Civil Law prescriptions (4) | 4.368 | 4.065 | 3.800 | 3.745 | 3.611 | 3.500 | 3.383 |
| Branches (Italy and abroad) | 332 | 313 | 296 | 277 | 269 | 259 | 246 |
| Financial promoters | 351 | 390 | 457 | 540 | 603 | 684 | 713 |

(4) *Employees of the banking group plus employees of the insurance group*

# ALTERNATIVE PERFORMANCE INDICATORS BANCA SELLA GROUP

| PROFITABILITY RATIOS (%) | 31/12/2007 | 31/12/2006 |
|---|---|---|
| R.O.E. (return on equity) (1) | 27,4% | 13,7% |
| R.O.A.A. (return on average assets) (2) | 1,13% | 0,52% |
| Net interest income/ Net banking and insurance activity income | 54,0% | 52,0% |
| Net other banking income (3) / Net banking and insurance activity income (3) | 42,4% | 44,6% |
| Net insurance activity income (3) / Net banking and insurance activity income (3) | 3,6% | 3,3% |
| Cost to income (4) | 68,3% | 65,3% |

| PRODUCTIVITY RATIOS *(figures in thousands of euros)* | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Net banking and insurance activity income (3) / Average No. of employees | 124,0 | 128,4 |
| Gross operating income (3) / Average No. of employees | 37,4 | 42,7 |
| Cash loans / No. of employees at year end | 1.655,5 | 1.622,8 |
| Direct deposits from customers / No. of employees at year end | 2.127,8 | 2.126,0 |
| Total deposits from customers / No. of employees at year end | 6.572,5 | 7.052,9 |

| BALANCE-SHEET RATIOS *(%)* | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Cash loans / Direct deposits from customers | 77,8% | 76,3% |
| Cash loans / Total assets | 57,9% | 58,1% |
| Direct deposits from customers / Total assets | 74,5% | 76,1% |

| CREDIT RISK RATIOS *(%)* | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Impaired assets / Cash loans | 2,0% | 2,0% |
| Net write-downs to loans / Cash loans | 0,7% | 0,8% |

| CAPITAL ADEQUACY RATIOS *(%)* | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Tier 1 | 7,32% | 5,82% |
| Total Capital Ratio | 11,17% | 10,21% |

*(1) Ratio between operating profit and equity, net of valuation reserves, both including minority interests.*
*(2) Ratio between "Net income, including minority interests" and "Total average assets".*
*(3) As per item reported in the reclassified consolidated Income Statement*
*(4) Ratio between operating costs before IRAP and net banking and insurance income.*

# STRATEGIC ISSUES

Over the year the Group continued the structural development envisaged by the Strategic Plan 2007-2009, which is based on the strategic growth **guidelines**, both in terms of size and in terms of the number of customers, efficiency and excellence.

This development was also marked by reinforcement of the systems for risk management, efficacy of controls and consolidation of certain processes and organisational features.

The Group has accordingly continued to review and rationalise its **company structure**, progressively reducing the number of companies over the last few years from 43 in 2004 to 28 (three of which were being wound up) at the end of 2007. All this has not only simplified the structure but has also improved the selection of services and products on offer.

In order to reinforce the **organisational model** in order to improve the services offered by the Group to its customers and to provide more effective control and coordination, in the year that has just closed the various functions have been further concentrated in the parent company that had already been centralised in the parent company in previous years and at the same time new functions were centralised.

The parent company has also initiated the process of re-examining the governance of the Group, also in order to comply with the recent supervisory directives of the Banca d'Italia.

These guidelines set out above were achieved through:

- completing the rationalisation of the company structure in the manner illustrated above, by reducing the number of companies still further;
- consolidating and perfecting the operations and role of the parent company by implementing further governance and control processes in order to provide appropriate support in the development of the companies of the Group;
- simplifying and innovating operating processes;
- a high and constant investment in training and growth of human resources;
- constant fine-tuning of the governance rules for optimum delegation and assignment of responsibilities.

The **company operations** described below were initiated over the course of the year.

- On 13 February 2007, Selgest S.A., a Luxembourg-based company, started operations. This new company manages the Group's three open-end investment companies.
- On 28 February 2007 the insurance company InChiaro Assicurazioni S.p.A. (authorised by Isvap last September) was set up. C.B.A Vita S.p.A. has a 49% holding and HDI Assicurazioni S.p.A. has a 51% holding in the new company, which provides bank insurance.
- The two savings management companies of the Group were concentrated in Sella Gestioni SGR S.p.A. The concentration was achieved by Sella Gestioni SGR S.p.A. acquiring, on 1 June 2007, the savings management and consultancy activities originally conducted by Sella Capital Management SGR S.p.A. Pooling the activities of the two savings management companies in a single company has enabled a single body to be created for managing collective and individual products aimed at retail and institutional customers. On 1 October 2007, Sella Capital Management SGR S.p.A. was wound up.
- Sella Consult SIM S.p.A. was taken over by Banca Patrimoni S.p.A. The takeover was completed on 12 November 2007 and the incorporating company was at the same time given the new name of Banca Patrimoni Sella & C. S.p.A. The new company is a bank that is even more specialised in advanced asset management and in private banking services that offer customers highly specialised assistance through private bankers and financial promoters.
- Takeover of Sella South Holding S.p.A. (finance company managing the Group's shareholdings in southern Italy) by Sella Holding Banca S.p.A. The takeover

was completed on 29 November 2007 and shortened the control chain.

- The winding up of Sella Capital Markets Sim S.p.A. was completed.
- On 29 June 2007, as part of the process of restructuring foreign holdings, Sella Holding NV sold 100% of the share capital of International Capital Holding S.A. to Invest Securities Corporate S.A.

On 20 December 2007, Consel S.p.A., Group company operating in the consumer credit sector, signed a long-term industrial partnership agreement with Toro Assicurazioni S.p.A. in order to obtain synergies between products and sales networks.

This agreement provides for:

- using Toro insurance products for Consel loans;
- using Consel payment instalments for Toro insurance premiums;
- distributing Consel consumer credit products through the Toro sales networks;
- Toro Assicurazioni acquiring a 28.00% share in Consel through a total payment of €32.5 million with an increase in the reserved capital;
- by 31 December 2008, if Consel S.p.A. has achieved given half-yearly profits, a further capital increase amounting to €4 million will be subscribed to, bringing Toro Assicurazioni's holding to 30.23% and bringing the holding of the Banca Sella Group (Sella Holding Banca) to 53.66%;
- by 31 December 2009, if Consel S.p.A. has achieved given half-yearly profits, a further capital increase amounting to €4 million will be subscribed to, increasing Toro Assicurazioni's holding to 32.50% and increasing the holding of the Banca Sella Group (Sella Holding Banca) to 51.92%;

The expansion envisaged by the Strategic Plan was implemented through:

- opening 19 new branches, bringing the Group's total number of outlets to 332, and further enhancing its geographical diversification;
- opening 4 Consel branches. This increased the total number of branches of this consumer credit company to 23, distributed throughout Italy; a branch of Biella Leasing was also opened, giving it a total of 11 branches;
- the number of customers increased by 6.3%;
- the range of products and services offered and their use were extended;
- staff increased by 303 people to a total of 4,368.

# RATING

At the end of March 2008 the annual meeting with Moody's took place in which the Group's performance in 2007 was analysed. Following the meeting a new credit opinion was published on 28 March that confirmed the following ratings that had been previously assigned:

| RATING | | |
|---|---|---|
| **Long Term Global local currency deposit rating** | **A2** | unchanged |
| **Short term** | **P–1** | unchanged |
| **Bank Financial Strength Rating** | **C–** | unchanged |
| **Outlook** | **Stable** | unchanged |

# FINANCIAL YEAR RESULT

Despite a global situation influenced by the financial crisis connected to the subprime mortgages and in which the economy of the eurozone grew significantly, the Group closed 2007 with profits of €120.8 million, a clear increase on the previous year, where profits amounted to just €49.8 million.

The main factors which determined the performance of the financial year are set out in the analysis of the reclassified Income Statement. They were:

- a 3.6% increase in net interest and other banking and insurance income, which is mainly due to the net interest income component;
- costs increased significantly, partially because of the reinforcement of the control and compliance structures, which on the other hand brought benefits in terms of lower burdens from operating risk and credit risk;
- the sale of holdings, arising above all from swapping Borsa Italiana shares for London Stock Exchange shares amounting to €86.6 million, had a particularly positive impact on the item "proceeds from sale of shareholdings";
- the tax burden increased because the deferred tax was redefined owing to the reduction in the IRES tax rates that is due to come into effect from 2008.

The aforesaid exceptional Borsa Italiana event boosted consolidated ROE to 27.4% as opposed to 13.7% in 2006.

Capital adequacy ratios were positive: tier 1 grew from 5.8% at the end of 2006 to 7.3% at 31 December 2007 and the Total Capital Ratio followed the same trend, growing from 10.2% at the end of 2006 to 11.2% at 31 December 2007.

A short description of the main companies of the Group follows. For a more detailed analysis of the results of the single companies, see the specific section of this report entitled "Group Companies".

The best results were achieved by the Group banks operating in Italy mainly in the retail sector, where, although they grew in different ways, they significantly contributed to consolidated profits.

Performance of foreign banks: Sella Bank AG significantly improved its performance over the previous year, whereas Sella Bank Luxembourg, which is still suffering from the negative effects of previous years, closed with a loss that was nevertheless significantly lower than the loss reported for the previous year.

In the insurance field, the profits of C.B.A. Vita, which specialises in life-assurance policies, declined compared with 2006, a year in which it had enjoyed windfall profits.

Biella Leasing S.p.A. is a company that works in the leasing field. Although its profits were slightly lower than in the previous year it still confirmed itself as one of the main sources of income for the Group.

Consel, which specialises in consumer credit, recorded a result that was not as outstanding as the previous year. This was due to the spreads reduction in the segment in which it operates.

Sella Gestioni and Banca Patrimoni Sella & C. reported results that were significantly better than in 2006 owing to the capital gains achieved from the swap of Borsa Italiana shares against London Stock Exchange shares and subsequent sales: without these windfall profits, the results are not substantially different from those of the previous year.

The following table contains the return on equity (R.O.E.) of the main Group companies, except for investment holdings and real-estate companies; the aggregates considered for the calculation base are those determined by applying the accounting policies used in the drafting of the individual financial statements:

| R.O.E. (1) | 2007 | 2006 |
|---|---|---|
| Banca Arditi Galati S.p.A. | 11,2% | 8,3% |
| Banca di Palermo S.p.A. | 8,3% | 14,4% |
| Banca Patrimoni Sella & C. S.p.A. | 42,2% | 6,7% |
| Banca Sella S.p.A. | 11,7% | 11,7% |
| Banca Sella Nordest Bovio Calderari S.p.A. | 3,6% | 10,0% |
| Biella Leasing S.p.A. | 13,7% | 18,2% |
| Brosel S.p.A. | 26,3% | 37,1% |
| CBA Vita S.p.A. | 5,4% | 10,1% |
| Consel S.p.A. | 2,5% | 11,8% |
| Easy Nolo S.p.A. | 11,8% | 14,2% |
| Selfid S.p.A. | 11,4% | 12,7% |
| Selgest S.A. | -14,4% | -17,3% |
| Sella Synergy India Ltd | 4,3% | 67,9% |
| Selir S.r.l. | 11,6% | 30,2% |
| Sella Bank A.G. | 12,7% | 4,2% |
| Sella Bank Luxembourg S.A. | -6,0% | -28,3% |
| Sella Capital Management SGR S.p.A. (in liquidation) | -0,7% | 7,8% |
| Sella Corporate Finance S.p.A. | 16,4% | 15,2% |
| Sella Gestioni SGR S.p.A. | 151,9% | 7,1% |
| Sella Life Ltd | -8,9% | -4,9% |

1 *Ratio between "Net income" and "Equity less revaluation reserves". The impact of the capital increase made during the year has been taken into consideration in proportion to the months of actual pre-existence.*

# INCOME DATA

| | Reclassified consolidated income statement *(dati in milioni di euro)* | 2007 | 2006 | % change over 2006 |
|---|---|---|---|---|
| 10 | Interest receivable and similar income (1) | 572,7 | 465,3 | 23,1% |
| 20 | Interest payable and similar expense (1) | (299,3) | (208,9) | 43,3% |
| 70 | Dividends and other income | 8,7 | 6,3 | 38,1% |
| | **NET INTEREST INCOME AND DIVIDENDS** | **282,1** | **262,7** | **7,4%** |
| 40 | Commission income (1) | 291,2 | 301,1 | -3,3% |
| 50 | Commission expense (1) | (91,6) | (96,7) | -5,3% |
| 80 | Net income from trading (1) | 21,8 | 21,8 | 0,0% |
| 90 | Net income from hedging | 0,5 | (0,9) | -155,6% |
| | **Net other banking income** | **221,9** | **225,4** | **-1,6%** |
| 150 | Net premiums | 151,3 | 139,2 | 8,7% |
| | Other net income from insurance activities (1) | 26,3 | 24,2 | 8,7% |
| 110 | Net income of financial assets and financial liabilities stated at fair value | (15,6) | (10,9) | 43,1% |
| 160 | Balance of other income/expenses from insurance operations | (143,0) | (135,7) | 5,4% |
| | **Net insurance activity income** | **19,0** | **16,8** | **13,1%** |
| | **OPERATING REVENUES** | **523,0** | **504,9** | **3,6%** |
| 180 | Administrative expenses: | | | |
| | a) Staff expenses | (229,9) | (207,6) | 10,7% |
| | IRAP relevant to staff and attached staff net expenses (2) | (7,9) | (7,5) | 5,3% |
| | b) Other administrative expenses | (154,7) | (141,6) | 9,3% |
| | Recovery of stamp duty and other taxes (3) | 23,6 | 24,5 | -3,7% |
| 200 | Write downs to tangible fixed assets | (19,3) | (16,5) | 17,0% |
| 210 | Write downs to intangible fixed assets | (9,4) | (9,0) | 4,4% |
| 220 | Other operating charges/income (excluding recovery of stamp duty and other taxes “) | 32,4 | 20,5 | 58,0% |
| | **Operating costs** | **(365,2)** | **(337,2)** | **8,3%** |
| | **OPERATING RESULT** | **157,8** | **167,7** | **-5,9%** |
| 190 | Net allocations to provisions for risks and charges | (8,0) | (55,6) | -85,6% |
| 130 | Net adjustments for impairment of: | | | |
| | - loans | (47,1) | (52,7) | -10,6% |
| | - financial assets available for sale | (0,6) | - | - |
| | - other financial operations | (1,5) | 0,5 | -400,0% |
| 100 | Profit (losses) from sale or repurchase of: | | | |
| | - financial assets available for sale | 88,5 | 49,4 | 79,1% |
| | - financial liabilities | 0,4 | 0,1 | 300,0% |
| 240 | Profit (losses) on equity investments | 0,7 | 0,2 | 250,0% |
| 260 | Adjustments for goodwill | - | (0,1) | - |
| 270 | Profit (losses) on disposal of investments | - | (0,3) | - |
| | **INCOME FROM CURRENT OPERATIONS BEFORE TAXES** | **190,2** | **109,1** | **74,3%** |
| 290 | Profit taxes for the year on current operations (“Irap relevant to staff and attached staff net expenses” deducted) | (55,5) | (52,3) | 6,1% |
| | **PROFIT FROM CURRENT OPERATIONS AFTER TAXES** | **134,7** | **56,8** | **137,1%** |
| 310 | After tax income (loss) of groups of assets in course of divestment | (0,1) | - | - |
| | **PROFIT (LOSS) FOR THE YEAR** | **134,6** | **56,8** | **137,0%** |
| **330** | **Parent company income (losses) for the period** | **120,8** | **49,8** | **142,6%** |
| **340** | **Profit (losses) of minority interests for the year** | **13,8** | **7,0** | **97,1%** |

*(1) The insurance sector items have been separated from the Income Statement items and grouped under a specific item called “Other net income from insurance activities”.*
*(2) Without the item “Taxes on current year's operations”.*
*(3) Separated from “Other operating charges/income”.*

The following remarks relate to the Reclassified Consolidated Income Statement tables previously reported.

## NET INTEREST INCOME

Net interest income at 31 December, 2007 stood at €282.1 million, up 7.4% on the previous financial year, mainly thanks to the increased banking and insurance income from customers, together with a slightly improved spread, especially in relation to mark down.

The details of the items contributing to net interest income highlight how transactions with customers produced net interest totalling €312.1 million. This constitutes an 18% increase.

At the end of 2007 net interest income was 53.9% of net income from banking and insurance activities, compared to 52% the previous year.

| **NET INTEREST INCOME** *(euro million)* | **31/12/2007** | **31/12/2006** | **% change** |
|---|---|---|---|
| **Net interest with customers** | **312,1** | **264,4** | **18,0%** |
| - Interest receivable | 437,6 | 346,9 | 26,1% |
| - interests payable | (125,5) | (82,5) | 52,1% |
| **Interest receivable on financial assets** | **39,8** | **56,2** | **-29,2%** |
| **Interest payable on securities** | **(121,1)** | **(86,4)** | **40,2%** |
| **Interbank net interests** | **47,2** | **29,5** | **60,0%** |
| - Interest receivable | 90,0 | 60,5 | 48,8% |
| - interests payable | (42,8) | (31,1) | 37,6% |
| **Differentials on hedging transactions** | **(5,8)** | **(8,2)** | **-29,3%** |
| **Other net interests** | **1,3** | **0,9** | **44,4%** |
| **Total net interests** | **273,4** | **256,4** | **6,7%** |
| **Dividends and other income** | **8,7** | **6,3** | **38,1%** |
| **BANKING GROUP NET INTEREST INCOME AND DIVIDENDS** | **282,1** | **262,7** | **7,4%** |
| **Net interests from insurance activity** | **29,2** | **6,4** | **356,3%** |
| **TOTAL NET INTEREST INCOME** | **311,3** | **269,1** | **15,7%** |

## NET INCOME FROM BANKING AND INSURANCE ACTIVITIES

Net consolidated income from banking and insurance activities in 2007 stood at €523 million, 3.6 % up on the previous year, confirming the Group's ability to increase profitability in all fields constantly.

### Net other banking income

The total result amounted to €221.9 million, 1.6% down on the previous year, in which it amounted to €225.4 million.

This result was affected by the contraction in revenue from the managed-savings sector, following a progressive reorganisation of savers' portfolios. Savers preferred financial instruments with a greater bond and monetary content and moved part of what they had invested in investment funds and asset management to deposit accounts.

| NET FEES *(euro million)* | 31/12/2007 | 31/12/2006 | Variazione % |
|---|---|---|---|
| **Banking and commercial activity** | **47,7** | **46,5** | **2,6%** |
| - guarantees | 2,8 | 2,8 | - |
| - collection and payment services | 44,9 | 43,7 | 2,7% |
| **Asset management, dealing and advisory service** | **108,8** | **116,1** | **-6,3%** |
| - customer indirect deposits (asset management, custody and administration of securities, advisory, dealing and placement of securities | 94,2 | 99,1 | -4,9% |
| - dealing in currencies | 1,4 | 1,7 | -17,6% |
| - custodian bank | 6,8 | 7,9 | -13,9% |
| - other fees on asset management, dealing and advisory service | 6,4 | 7,4 | -13,5% |
| **Other net fees** | **43,2** | **41,8** | **3,3%** |
| **BANK GROUP TOTAL NET FEES** | **199,7** | **204,4** | **-2,3%** |
| **Insurance activity net fees** | **3,0** | **2,3** | **30,4%** |
| **TOTAL NET FEES** | **202,6** | **206,7** | **-2,0%** |

### Net insurance activity income

The comprehensive aggregate reached €19.0 million. This was a significant increase on the €16.8 million of the year before and was the reward for focusing more on this sector.

## OPERATIONAL COSTS

Operating costs amounted to €365.2 million, an increase of 8.3% on the previous year. This was mainly due to the commitment to development and to the expansion of the structures dedicated to control and compliance.

**Administrative expenses (net of the recovery of stamp duty and other taxes and including IRAP on the net cost of staff and attached staff)**

Administrative expenses (net of the recovery of stamp duty and other taxes and including IRAP on net staff and attached staff costs) amounted to €368.9 million and grew by 12.1%.

"Staff costs", including IRAP on staff costs, amounted to €237.8 million. This is a 10.6% increase that is basically due to the increase in the Group's workforce by 303 people and salary increases arising from the renewal of the labour contract, promotions, and seniority increments.

The item "Other administrative expenses" (excluding the recovery of indirect taxes) increased by 12.0% to €131.1 million.

**Write-downs to tangible and intangible fixed assets**

Write downs to tangible and intangible fixed assets amounted to €28.7 million an increase of 12.5% on the previous year.

During 2007 investments were made amounting to €52.8 million, mainly related to electronic payments systems, online banking, traditional distribution (following the opening of new branches) and IT.

## ALLOCATIONS, ADJUSTMENTS TO VALUE NET OF WRITE-UPS, PROFITS FROM THE SALE/REAQUISITION OF FINANCIAL ASSETS/FINANCIAL LIABILITIES

The new allocations to provision for risks and charges amounted to €8.0 million a significant decrease on the €55.6 million of the previous year. This decrease is due both to the smaller allocations for disputes and complaints arising from the reinforcement of the control structures, and to the fact that there was no need to make further allocations to cover claims against Sella Bank Luxembourg S.A. that are illustrated in the section "Group companies" of this report.

Net write-downs to loans amounted to €47.1 million compared to the €52.7 million of the previous year (down 10.6%).

The ratio between net write-downs and loans to customers amounted to 0.7% compared with the 0.8% of the previous year, whilst the quality of assets remained stable, as illustrated by the ratio of net impaired credits to loans, which remained unchanged at 2.0%.

The item "income from transfer of assets available for sale" increased significantly from €49.4 million in 2006 to €88.5 million, largely owing to the swap of Borsa Italiana shares against London Stock Exchange shares and the subsequent sale of about two thirds of the latter at higher values than those recorded at the moment of the share swap.

## INCOME TAXES

Income taxes (net of IRAP on staff costs, which increased this item) amounted to €55.5 million compared to €52.3 the previous year, an increase of 6.1%, whilst income on current operation increased by 74.3%.

The tax rate, net of the IRAP component in staff costs, thus fell from 47.9% last year to 29.2% in 2007.

This reduction is mainly due to the fact that a significant part of the income on current operations mostly consists of dividends and profits from the sale of capital securities classified as financial assets available for sale, which proceeds are of course almost totally excluded or free of tax.

On the other hand, it should be pointed out that the decrease in the IRES rate by 5.5 percentage points from 2008 made it necessary to adjust prepaid tax and previous deferred tax and the tax liability generated in the current year. This adjustment produced a total charge on the current Income Statement amounting to approximately €8 million.

# BALANCE SHEET DATA

## FINANCIAL ASSETS

Financial assets are divided into five categories:

- financial assets held for trading;
- financial assets evaluated at fair value;
- financial assets available for sale;
- financial assets held to maturity;
- Due from banks and customers;

Details of the above categories follow:

**FINANCIAL ASSETS/LIABILITIES HELD FOR TRADING** *(euro million)*

| | 31/12/2007 | 31/12/2006 | Absolute changes | % change |
|---|---|---|---|---|
| Debt securities | 553,5 | 542,9 | 10,6 | 2,0% |
| Debt equities | 0,4 | 1,6 | (1,2) | -75,0% |
| OICR units | 85,5 | 97,1 | (11,6) | -11,9% |
| **Total securities for trading** | **639,4** | **641,6** | **(2,2)** | **-0,3%** |
| **Derivatives** | **22,6** | **25,3** | **(2,7)** | **-10,7%** |
| *- of which financial derivatives* | *22,6* | *25,3* | *(2,7)* | *-10,7%* |
| *- of which credit derivatives* | - | - | - | - |
| **Asset sold and not cancelled** | **490,0** | **530,3** | **(40,3)** | **-7,6%** |
| **Detail securities for trading for main Group companies** | | | | |
| Sella Holding Banca S.p.A. | 362,2 | 425,5 | (63,3) | -14,9% |
| Banca Arditi Galati S.p.A. | 9,2 | 4,2 | 5,0 | 119,0% |
| Banca di Palermo S.p.A. | 12,2 | 2,6 | 9,6 | 369,2% |
| Banca Patrimoni Sella & C. S.p.A | 133,8 | 109,3 | 24,5 | 22,4% |
| Banca Sella S.p.A. | 27,7 | 34,1 | (6,4) | -18,8% |
| Banca Sella Nordest Bovio Calderari S.p.A. | 16,0 | 14,1 | 1,9 | 13,5% |
| C.B.A. Vita S.p.A. | 57,5 | 28,7 | 28,8 | 100,3% |
| Sella Life Ltd | 2,8 | 0,4 | 2,4 | 600,0% |
| Other Group companies | 18,0 | 22,7 | (4,7) | -20,7% |
| **Total securities for trading** | **639,4** | **641,6** | **(2,2)** | **-0,3%** |

The securities trading portfolio remained substantially unvaried (down 0.3%) compared with the previous year.

The fair value of derivative instruments in terms of the net value between assets (€64 million) and liabilities (€41.4 million) amounted to €22.6 million, a 10.7% decrease compared with 2006.

Non-cancelled transferred assets consisted of securities that at 31 December 2007 were collateral for swap, sale and repurchase transactions conducted mainly with customers and decreased by 7.6% compared with the previous year.

For fuller details on the composition for debtors/issuers, see Table 2.2 of Section B of the Notes to the Financial Statements: Consolidated Balance Sheet - Assets.

## FINANCIAL ASSETS AVAILABLE FOR SALE *(euro million)*

| Items | 31/12/2007 | 31/12/2006 | Absolute changes | % change |
|---|---|---|---|---|
| Debt securities | 225,0 | 206,6 | 18,4 | 8,91% |
| Equities | 57,3 | 92,8 | (35,5) | -38,25% |
| Mutual funds (OICR) | - | 0,2 | (0,2) | -100,00% |
| **Total securities available for sale** | **282,2** | **299,6** | **(17,4)** | **-5,81%** |
| **Details for main Group companies** | | | | |
| Sella Holding Banca S.p.A. | 40,3 | 50,6 | (10,3) | -20,36% |
| Banca Arditi Galati S.p.A. | 0,1 | 0,4 | (0,3) | -75,00% |
| Banca di Palermo S.p.A. | 0,1 | 0,3 | (0,2) | -66,67% |
| Banca Patrimoni Sella & C. S.p.A. | 6,2 | 12,7 | (6,5) | -51,18% |
| Banca Sella S.p.A. | 10,2 | 10,5 | (0,3) | -2,86% |
| Banca Sella Nordest Bovio Calderari S.p.A. | 0,6 | 1,1 | (0,5) | -45,45% |
| Biella Leasing S.p.A. | 12,2 | 11,3 | 0,9 | 7,96% |
| CBA Vita S.p.A. | 202,5 | 195,2 | 7,3 | 3,74% |
| Other Group companies | 10,1 | 17,5 | (7,4) | -42,29% |
| **Total securities available for sale** | **282,2** | **299,6** | **(17,4)** | **-5,81%** |

Financial assets available for sale amounted to €282.2 million compared with the €299.6 million of 2006 (down 5.81%): the main part consisted of debt securities amounting to €225 million, whilst equities mainly consisted of minority interest. Per fuller details on the composition of debtors/issuers, see Table 4.2 of Section B of the Notes to the Financial Statements: Consolidated Balance Sheet - Assets.

## FINANCIAL ASSETS HELD TO MATURITY *(euro million)*

| Items | 31/12/2007 | 31/12/2006 | Absolute changes | % change |
|---|---|---|---|---|
| Debt securities (book value) | 92,6 | 82,7 | 9,9 | 12,0% |
| Debt securities (fair value) | 93,5 | 83,8 | 9,7 | 11,6% |
| **Details of Group companies** | | | | |
| Sella Holding Banca S.p.A. | 70,4 | 60,5 | 9,9 | 16,4% |
| Banca di Palermo S.p.A. | 2,5 | 2,5 | - | - |
| Banca Arditi Galati S.p.A. | 5,0 | 5,0 | - | - |
| Banca Sella Nordest Bovio Calderari S.p.A. | 12,0 | 12,0 | - | - |
| Sella Bank A.G. | 2,7 | 2,7 | - | - |
| **Total debt securities (book value)** | **92,6** | **82,7** | **9,9** | **12,0%** |

The item includes debt securities of the Group companies, which the respective Boards of Directors have formally decided to hold until their natural expiry. The €9.9 million increase for Sella Holding Banca was decided by the Board of Directors on 28 June 2007. This investment was made in the light of the good interest earned from long-term BTPs (multi-year treasury bonds).

The following table breaks them down by maturity date:

## DISTRIBUTION BY MATURITY OF FINANCIAL ASSETS HELD TO MATURITY *(euro million)*

| Group companies | January 2008 | May 2008 | May 2009 | November 2009 | November 2010 | February 2015 | Total |
|---|---|---|---|---|---|---|---|
| Sella Holding Banca S.p.A. | - | 7,5 | 3,0 | 50,0 | - | 9,9 | 70,4 |
| Banca di Palermo S.p.A. | - | - | 2,5 | - | - | - | 2,5 |
| Banca Arditi Galati S.p.A. | - | - | - | - | 5,0 | - | 5,0 |
| Banca Sella Nordest Bovio Calderari S.p.A. | - | - | 12,0 | - | - | - | 12,0 |
| Sella Bank A.G. | 2,7 | - | - | - | - | - | 2,7 |
| **Total debt securities (by maturity)** | **2,7** | **7,5** | **17,5** | **50,0** | **5,0** | **9,9** | **92,6** |

## FINANCIAL ASSETS EVALUATED AT FAIR VALUE *(euro million)*

| Items | 31/12/2007 | 31/12/2006 | Absolute changes | % change |
|---|---|---|---|---|
| Debt securities (book value) | 376,1 | 377,4 | (1,3) | -0,3% |
| Equities | 2,2 | 1,9 | 0,3 | 15,8% |
| Mutual funds (OICR) | 418,1 | 373,9 | 44,2 | 11,8% |
| **Total** | **796,4** | **753,2** | **43,2** | **5,7%** |
| **Details of Group companies** | | | | |
| C.B.A. Vita S.p.A. | 378,6 | 379,4 | (0,8) | -0,2% |
| Sella Life Ltd | 417,8 | 373,8 | 44,0 | 11,8% |
| **Total** | **796,4** | **753,2** | **43,2** | **5,7%** |

Financial assets evaluated at fair value include investments on behalf of policy-holders who have taken out unit and index-linked policies and investments arising from managed pension funds in the life-assurance field.

Assets have been classified under this item from this year and in order to make the comparison suitable and homogenous the entries for 2006 have also been reclassified (taken from the item "financial assets held for trading").

In particular, Sella Life's increase of €44 million over the previous year is due to the valuation at fair value of the financial assets including costs and disinvestments and new subscriptions by customers; in addition, during 2007, the cash flow of the company was positive inasmuch as premiums exceeded the surrenders.

## DUE FROM CUSTOMERS

**DUE FROM CUSTOMERS** *(euro million)*

| Items | 31/12/2007 | 31/12/2006 | Absolute changes | % change |
|---|---|---|---|---|
| Current accounts | 1.276,9 | 1.129,4 | 147,5 | 13,1% |
| Mortgages | 2.496,5 | 2.281,3 | 215,3 | 9,4% |
| Credit cards, consumer credits, loans to employees (1/5 of the wage) | 1.037,2 | 925,4 | 111,8 | 12,1% |
| Leasing | 1.013,3 | 878,4 | 134,9 | 15,4% |
| Debt securities | 14,9 | 12,9 | 2,0 | 15,6% |
| Other operations | 1.049,5 | 1.010,2 | 39,3 | 3,9% |
| Impaired assets | 147,3 | 130,8 | 16,6 | 12,7% |
| Assets sold not derecognised | 195,5 | 228,5 | (33,0) | -14,4% |
| **Total** | **7.231,1** | **6.596,7** | **634,4** | **9,6%** |
| **Details for main Group companies** | | | | |
| Sella Holding Banca S.p.A. | 93,1 | 89,6 | 3,5 | 3,9% |
| Banca Arditi Galati S.p.A. | 559,5 | 505,0 | 54,5 | 10,8% |
| Banca di Palermo S.p.A. | 311,0 | 266,6 | 44,4 | 16,7% |
| Banca Patrimoni Sella & C. S.p.A. | 52,0 | 42,7 | 9,3 | 21,8% |
| Banca Sella S.p.A. | 3.887,1 | 3.592,3 | 294,8 | 8,2% |
| Banca Sella Nordest Bovio Calderari S.p.A. | 563,9 | 536,9 | 27,0 | 5,0% |
| Sella Bank A.G. | 10,7 | 13,6 | (2,9) | -21,3% |
| Sella Bank Luxembourg S.A. | 38,8 | 82,7 | (43,9) | -53,1% |
| Consel S.p.A. | 754,1 | 603,4 | 150,7 | 25,0% |
| Biella Leasing S.p.A. | 960,9 | 862,9 | 98,0 | 11,4% |
| Other Group companies | - | 1,0 | (1,0) | -100,0% |
| **Total Group companies** | **7.231,1** | **6.596,7** | **634,4** | **9,6%** |

In 2007 loans to customers continued to achieve good growth rates totalling €7,231.1 million, 9.6% more than the previous year, when they had already achieved a 13% increase: in spite of the not particularly favourable Italian economic scenario, the focus was on the local level, which mainly consists of small and medium businesses and families.

The positive aggregate result is characterised by the positive mortgage trend (up 9.4%): the disbursement policies of the Banca Sella Group have always been prudent and have not been restricted following the crisis generated by the subprime mortgages; in this new situation the request for new loans has in fact remained healthy.

In this general situation financial leasing also remained at significant levels (up 15.4%).

The mortgages that were subject to the securitisation operation that took place in 2005 that had been reported under “Non-cancelled sold assets” of the “Due from customers” (not qualifying for cancellation according to IAS/IFRS principles, as the sale did not involve a complete transfer of the credit risk) remained in this category and amounted to €195.7 million.

## CREDIT QUALITY

The Group's credit portfolio has the following features:

**Loans by sector:** as regards the banks of the Group loans at 31 December 2007, amounting to €5,395.7 million, were appropriately divided; apart from the macrosector of the consumer families that covers 41.3% of the loans (€2,228.5 million), no other sector exceeded 12%. After families, the second largest sector were sales services with loans amounting to €631 million or 11.7% of total loans. The remaining €2,536.5 million are divided between widely differing sectors: food, transport, textiles, footwear, hotels, wholesaling and retailing and finance companies.

A similar situation applied to Biella Leasing, where the €947.7 million of loans were divided between very different sectors. The main sectors were: consumer families amounting to €144.4 million (amounting to 15.2% of the company's loans), property leasing services amounting to €117 million and the financial/insurance sector amounting to €100.1 million.

On the other hand, Consel, the Group company that deals with consumer credit, had €740.4 million of loans at 31 December 2007. The macrosector of families accounted for most of the loans and amounted to €676.3 million (91.3% of the company's loans). The remaining €64.1 million was divided amongst different sectors.

**Loans by duration:** the structure of the credit portfolio is balanced. The ratio of medium to long-term loans to total loans was 54%, in line with 2006, when it amounted to 53.7%. Exposure between 20 and 30 years represented 17.7% of total medium to long-term loans, an increase of 15.9% on 2006; total loans with exposure between 20 and 30 years increased from 8.5% in 2006 to 9.6%.

**CREDIT QUALITY** *(euro million)*

| Items | 31/12/2007 | 31/12/2006 | Absolute changes | % change |
|---|---|---|---|---|
| **Loans to customers** | **7.231,1** | **6.596,7** | **634,4** | **9,6%** |
| Performing loans | 7.083,8 | 6.468,5 | 615,3 | 9,5% |
| Impaired loans | 147,3 | 128,2 | 19,1 | 14,9% |
| *of which net doubtful loans* | *66,8* | *55,5* | *11,3* | *20,4%* |
| *of which net watchlist loans* | *38,2* | *34,4* | *3,8* | *11,0%* |
| impaired loans/loans to customers | 2,04% | 1,94% | X | X |
| net non performing loans/ loans to customers | 0,92% | 0,84% | X | X |
| net watchlist loans/ loans to customers | 0,53% | 0,52% | X | X |

**Impaired loans:** net non performing loans at 31 December 2007 amounted to €66.8 million, an increase of 20.4% compared with 2006. This was mainly due to the Banca Sella aggregate, so there was an increase of €7 million on the previous year (the number of loans that became non-performing was nevertheless less than in 2006), and the Consel aggregate, for which the increase amounted to €5 million.

At 31 December 2007 watchlist loans amounted to €38.2 million, an increase compared with the €34.4 million of 2006. The total of non-performing and watchlist loans, restructured loans and the exposure that had fallen due at 31 December 2007 amounted to €147.3 million, which, compared with the net due from customers (€7,231.1 million), constitutes 2.04%, a slight deterioration compared with the 1.94% of the previous year.

## DIRECT DEPOSITS FROM CUSTOMERS

| **DIRECT DEPOSITS** *(euro million)* | | | | |
|---|---|---|---|---|
| Items | 31/12/2007 | 31/12/2006 | Absolute changes | % change |
| Due to customers | 7.534,3 | 6.974,5 | 559,8 | 8,0% |
| Securities in circulation | 1.759,8 | 1.667,6 | 92,2 | 5,5% |
| **Total direct deposits from customers** | **9.294,1** | **8.642,1** | **651,9** | **7,5%** |
| **Details on item Due to customers** | | | | |
| Current accounts and sight deposits | 5.842,7 | 5.466,8 | 375,9 | 6,9% |
| Term current accounts and deposits | 325,9 | 272,7 | 53,2 | 19,5% |
| Liabilities related to assets sold not cancelled | 694,3 | 768,5 | (74,2) | -9,7% |
| *- of which repo* | *504,7* | *515,8* | *(11,1)* | *-2,2%* |
| *- of which due to securitization company* | *189,6* | *224,1* | *(34,5)* | *-15,4%* |
| Other | 671,4 | 466,5 | 204,9 | 43,9% |
| **Total due to customers** | **7.534,3** | **6.974,5** | **559,8** | **8,0%** |

At the end of 2007 direct deposits from customers amounted to €9.294,1 million, an increase of 7.5% compared to the previous year.

Due to customers (mainly in the form of current accounts, deposits and swap, sale and repurchase agreements), amounted to €7.534,3 million, which corresponds to growth of 8.0%. Current accounts grew by 6.9%. The other component of direct deposits from customers are securities in circulation, which amounted to €1.759.8 million, which is an increase of 5.5%.

## FINANCIAL LIABILITIES EVALUATED AT FAIR VALUE

| **FINANCIAL LIABILITIES EVALUATED AT FAIR VALUE** *(euro million)* | | | | |
|---|---|---|---|---|
| Items | 31/12/2007 | 31/12/2006 | Absolute changes | % change |
| Due to banks | - | - | - | - |
| Due to customers | 592,0 | 553,0 | 39,0 | 7,1% |
| Securities in circulation | - | - | - | - |
| **Total** | **592,0** | **553,0** | **39,0** | **7,1%** |
| **Details of Group companies** | | | | |
| C.B.A. Vita S.p.A. | 174,3 | 179,6 | (5,3) | -3,0% |
| Sella life Ltd | 417,7 | 373,4 | 44,3 | 11,9% |
| **Total** | **592,0** | **553,0** | **39,0** | **7,1%** |

The Group availed itself of the possibility of reporting at fair value the financial liabilities relating to the deposit of unit and index-linked insurance contracts, which were stated at the fair value of the assets.

Liabilities have been classified under this item from this year and in order to make the comparison suitable and homogenous, the entries for 2006 have also been reclassified (both the entries from the item “technical reserves” and from the item “Other liabilities”).

In particular, Sella Life’s increase of €44 million over the previous year is due to the valuation at fair value of the financial liabilities including costs and disinvestments and the new subscriptions by customers; in addition, during 2007, the cash flow of the company was positive inasmuch as the premiums exceeded the surrenders.

## INDIRECT DEPOSITS FROM CUSTOMERS

| **INDIRECT DEPOSITS** *(euro million)* | | | | |
|---|---|---|---|---|
| Items | 31/12/2007 | 31/12/2006 | Absolute changes | % change |
| Asset menaged | 5.273,4 | 6.212,7 | (939,3) | -15,1% |
| Assets under administration | 14.141,1 | 13.815,3 | 325,8 | 2,4% |
| **Total indirect deposits from customers** | **19.414,5** | **20.028,0** | **(613,5)** | **-3,1%** |

At 31 December, 2007 the total stock of indirect deposits from customers stood at €19,414.5 million, up by 3.1% on a yearly basis. Within this heading, managed savings amounted to €5,273.4 million, and therefore decreased compared with the previous year (down 15.1%). This was due to a progressive rearrangement of the portfolios of savers, who preferred financial instruments with a greater bond and monetary component and to a move away from investment funds and assets management to assets under administration. As a result, assets under administration grew by 2.4%.

## CAPITAL FOR SUPERVISORY PURPOSES

| **CAPITAL FOR SUPERVISORY PURPOSES** *(euro million)* **and CAPITAL ADEQUACY RATIO** *(%)* | | | | |
|---|---|---|---|---|
| Items | 31/12/2007 | 31/12/2006 | Absolute changes | % change |
| Tier 1 capital | 516,80 | 377,10 | 139,69 | 37,04% |
| Tier 2 capital | 302,69 | 321,21 | -18,53 | -5,77% |
| Items to be deducted | -38,63 | -48,94 | 10,31 | -21,06% |
| Tier 3 capital | 7,50 | - | - | - |
| **Capital for supervisory purposes including TIER 3** | **788,35** | **649,37** | **138,98** | **21,40%** |
| Credit risks | 545,11 | 500,34 | 44,76 | 8,95% |
| Markets risks | 14,16 | 12,45 | 1,71 | 13,75% |
| Tier 3 conditional loans | 7,50 | 12,45 | -4,95 | -39,76% |
| Other prudential requirements | 5,55 | 5,55 | - | - |
| Prudential requirements | 564,82 | 518,34 | 46,48 | 8,97% |
| Risk-weighted assets | 7.060,24 | 6.479,29 | 580,95 | 8,97% |
| **Tier 1 capital / total risk-weighted assets (Tier 1 Capital Ratio)** | **7,32%** | **5,82%** | | |
| **Total capital / total risk-weighted assets (Total Capital Ratio)** | **11,17%** | **10,21%** | | |

Capital for supervisory purposes and the coefficients at 31 December 2007 were determined by applying IAS/IFRS International Accounting Standards, in compliance with memorandum 155/91 of the Banca d'Italia. The latest version of this memorandum introduced some changes to the calculation of capital for supervisory purposes. The main changes altered the way in which the following information is reported:

- 50% of holdings in finance and banking companies was deducted from Tier 1 and the remaining 50% was deducted from Tier 2 rather than being deducted in full from the sum of the two;
- Tier 3 capital was introduced.

At year's end the Group's consolidated capital for supervisory purposes amounted to €788.4 million, €516.8 million of which was Tier 1 (share capital and capital reserves), €302.7 million Tier 2 and €7.5 million Tier 3, net of the €38.6 million of elements to be deducted (consisting almost totally of holdings in the Group's insurance companies). Weighted-risk assets amounted to €7,060 million. At 31 December 2007 the total ratio between consolidated capital for supervisory purposes of the Group and total weighted-risk assets (total capital ratio) constituted a total capital adequacy ratio of 11.17%, compared with 10.21% at the end of 2006 (which would have been 10.13% according to the new criteria). At year's end the ratio between Tier 1 of the Group and total weighted-risk assets (Tier 1 capital ratio) amounted to 7.32% compared with 5.82% at the end of 2006 (which would have been 5.76% according to the new criteria).

## PROFIT DISTRIBUTION POLICY

The income distribution policy within the Group is based on a method whereby the dividend distributed by each company on a yearly basis depends on the risk-free interest rate, on a share of the risk premium and on the average equity of partecipated companies.

In any case the maximum distributable dividends amount to the income for the year less the provisions established by the articles of association and allocated to legal and statutory reserves.

For the year ended 31 December 2007 the parent company will distribute €6.5 million, amounting to 5.4% of consolidated net profit, amounting to €120.8 million. The increased dividend compared with the dividend distributed in 2006 (€4.6 million) is connected to the extraordinary profit arising from the swap of Borsa Italiana shares and their subsequent partial disposal.

In order to guarantee an optimal allocation of capital within the Group, periodical controls are carried out to assess the capital adequacy of the partecipated companies.

# COMMERCIAL AND DISTRIBUTION POLICIES

## COMMERCIAL POLICIES

The multifunctional character of the Group, which is made up of 25 companies operating in many geographical areas with a wide range of products and services, combines the advantages of diversification and territorial franchise with a global and specialised service.

Structures dedicated to corporate and private customers, branches and services are always available thanks to the multi-channel set-up, where specialised professionals are present to build up a tailored relationship with the customer.

For over 120 years the Group has been indipendent, an innovative, professional and dynamic business.

The results achieved were reached by drawing, always, on the Group's distinctive features:

- strong local franchise;
- transparency, professionalism and experience in customer relationships;
- tailored and high quality services;
- constant commitment and dedication to the values of confidentiality and correctness in dealings with customers;
- constant innovation to improve the quality of products and services.

True to the above principles, the Group's commercial activities achieved the following objectives:

- gaining new customers through continuous development of the distribution network;
- increasing choices for existing customers by improving cross selling, also through centralised actions (direct marketing campaigns);
- extending the range of online products and services both in order to increase customer choice and to support traditional channels. "WebSella.it" continues to be developed. It is designed for customers who desire to conduct their transactions only via the Internet without going through traditional high-street branches;
- increasing the range of funds and open-end investment companies, introducing in our high-street branches products of famous brands that are recognised on the world market. Alongside the already wide range of Group products offered by Sella Gestioni and Banca Patrimoni Sella & C., 304 new funds and/or open-end investment companies of selected fund-management specialists (Carmignac Gestion, Morgan Stanley, Schroders, Franklin Templeton and Fidelity) will be available on the high street;
- InChiaro, the new Group company dedicated to bank indemnity insurance, was set up through the synergy between the Banca Sella Group and HDI Assicurazioni;
- the CONTO TUO product line was also set up. This is the family of current accounts for retail customers.

The commercial initiatives include the sponsorship of the local basketball team, which plays in the A1 series, and participation in the online trading fairs "Internet Trading Forum" in Rimini and "Tol Expo" in Milan.

During the year the Group received the following awards:

- in 2006 Sella Gestioni was placed third on the Alpha League Table of share funds by EuroPerformance, a French share analysis company. The previous year it had ranked tenth;
- for the second year in a row Sella Gestioni's pension fund, "Eurorisparmio Azionario Europa", was awarded the Triple AAA Prize by Milano Finanza. This is the highest award in the category and is awarded only to the best asset managers in the field of separate management, unit-linked investments and pension funds;
- Banca Sella was awarded the AIFIN Prize entitled "Banca e Territorio" in the category "social initiatives" for its "Support of Basket Biella", the Biella basketball team.

In 2007 Sella.it, the Group's Internet portal, celebrated its tenth birthday. This portal has marked out the Group to be distinguished in terms of great innovative capacity, nearness to customers, levels of service and product quality. The online bank had already reached break-even point in 2000 and is today an important source of customer income and acquisition. The range of online products and services continues to grow, both in order to increase customer choice and to support traditional channels. In 2006 Sella.it's multichannel strategy was complemented by the portal "WebSella.it". This offers services and products to customers who wish to operate exclusively through the Internet without going through traditional high-street outlets.

In February 1997, Banca Sella started up the first home banking information service via the Internet. This then passed through important stages and the Group pioneered current accounts for online customers (1998 - Winconto), e-commerce (1997, the first European initiative), trading online (1998 - first share trading in Italy; 2000 - first bank to trade in derivatives online) and online funds (2000 - second in Italy to launch an online funds platform). The celebrations were above all commercial to emphasise the leading role in Italy of the Group's online bank.

## DISTRIBUTION POLICIES

**Bank branches**

Over the year, the Group increased its number of branches to 332, a 6.1% increase on the previous year.

Banca Sella increased its number of branches by 15, from 201 to 216, increasingly expanding nationally and opening its first branches in the Marche and Abruzzo regions. Branches were opened in the following places: one in Lombardy in the province of Pavia, one in Emilia Romagna in the province of Modena, two in Campania in the provinces of Benevento and Naples, one in Liguria in the province of Savona, seven in Tuscany in the provinces of Arezzo, Siena and Grosseto, two in Marche in the province of Ascoli Piceno and one in Sardinia in the province of Sassari. In order to reinforce more recent areas, Banca Sella also transferred five branches: two in Marche in the province of Macerata, one in Lombardy in the province of Milano, one in Abruzzo in the province of Teramo and one in Tuscany in the province of Pistoia. At the same time, as part of the reorganisation the Group maintained its presence in the more mature areas but five branches were transferred: four from Piedmont (Ivrea, Ronco Biellese, Turin, Vercelli) and one from the Valle d'Aosta (Aosta).

Banca Arditi Galati increased its branches in Puglia, opening a branch in the province of Lecce.

Banca di Palermo continued to expand in Sicily, opening a second branch in the province of Catania.

Banca Sella Nordest Bovio Calderari increased its branches from 39 to 41: a branch was opened in Veneto in the province of Padua and a branch was opened in the Trentino Alto Adige region in the province of Bolzano. At the same time a branch was transferred in this region from Trento to Vigo di Fassa.

The following table shows the geographical distribution of Banca Sella Group branches throughout Italy:

**GROUP BRANCHES**

| | 2007 | % out of total branches | 2006 | % out of total branches |
|---|---|---|---|---|
| **Banks in Italy** | | | | |
| Banca Arditi Galati S.p.A. | 37 | 11,1% | 36 | 11,5% |
| Banca di Palermo S.p.A. | 21 | 6,3% | 20 | 6,4% |
| Banca Patrimoni Sella & C. S.p.A. | 11 | 3,3% | 11 | 3,5% |
| Banca Sella S.p.A. | 216 | 65,1% | 201 | 64,2% |
| Banca Sella Nordest Bovio Calderari S.p.A. | 41 | 12,3% | 39 | 12,5% |
| Sella Holding Banca S.p.A. | 1 | 0,3% | 1 | 0,3% |
| **Total branches in Italy** | **327** | **98,5%** | **308** | **98,4%** |
| **Foreign banks** | | | | |
| Sella Bank A.G. - Switzerland | 3 | 0,9% | 3 | 1,0% |
| Sella Bank Luxembourg S.A. - Luxembourg | 1 | 0,3% | 1 | 0,3% |
| Sella Holding Banca S.p.A. – Miami Usa | 1 | 0,3% | 1 | 0,3% |
| **Total branches abroad** | **5** | **1,5%** | **5** | **1,6%** |
| **Total Group branches** | **332** | **100,0%** | **313** | **100,0%** |
| **Geographical distribution of branches in Italy** | | | | |
| North West (*Piemonte, Valle d'Aosta, Lombardia, Liguria*) | 165 | 50,5% | 167 | 54,2% |
| North East (*Veneto, Trentino, Emilia Romagna*) | 58 | 17,7% | 55 | 17,9% |
| Centre (*Toscana, Lazio, Molise, Abruzzo, Marche*) | 34 | 10,4% | 21 | 6,8% |
| South and islands (*Campania, Puglia, Sicilia, Sardegna*) | 70 | 21,4% | 65 | 21,1% |
| **Total branches in Italy** | **327** | **100,0%** | **308** | **100,0%** |

During the year, as a support to the traditional distribution structure, the number of registered customers of the Internet channel with a multichannel strategy also grew significantly.

**Financial promoters**

The Group's distribution network is entrusted also to 351 financial promoters working in the following companies:

**FINANCIAL PROMOTERS - GROUP COMPANIES**

| | Financial promoters 2007 | Financial promoters 2006 |
|---|---|---|
| Sella Consult SIM S.p.A.* | - | 254 |
| Banca Patrimoni Sella & C. S.p.A. | 349 | 134 |
| Sella Gestioni SGR S.p.A. | 2 | 2 |
| **Totale promotori Gruppo** | **351** | **390** |

** on November 12 2007 Sella Consult SIM S.p.A. merged into Banca Patrimoni S.p.A.; at the same time Banca Patrimoni S.p.A. changed its company name into Banca Patroni Sella & C. S.p.A.*

The number of financial promoters in the Group at 31 December 2007 fell by 39 units, from 390 in the previous year to 351; the decline was mainly due to the transfer of financial promoters with a low turnover, in line with the Group's quality strategic policy. 349 of the total number of financial promoters work for the new company, Banca Patrimoni Sella & C. S.p.A. (created by the merger of Banca Patrimoni S.p.A. and Sella Consult SIM S.p.A.). This company has 11 branches and 40 financial promotion offices throughout Italy. For fuller details on the above operation, see the section "Group companies" in this report.

## Other information

The Group commercial activity is carried out also through 23 branches of Consel, a company specialising in consumer credit, and 11 branches of Biella Leasing, which provides financial leasing.

The Group also operates through the offices of its companies that are active in asset management, corporate finance, IT services and insurance brokerage.

The distribution structure also includes corporate and private banking, online banking operators, as well as a network of agents placing POS (points of sale) in Italy.

As regards the innovative channels, the functions available on the Internet banking service were enhanced to allow online access to products and services of the Group, together with telephone banking and mobile banking services.

# HUMAN RESOURCES

## MANAGEMENT AND DEVELOPMENT OF HUMAN RESOURCES

At 31 December 2007 Banca Sella Group had 4,368 employees (including those in the insurance division), an increase of 303 compared with 31 December 2006.

The following table contains the subdivision of staff per company, with the corresponding percentage of the workforce total:

**BANCA SELLA GROUP - GROUP WORKFORCE**

| Group Staff (1) | Employees at 31/12/2007 | Employees at 31/12/2006 | Total change compared with 2006 | Percentage of overall total |
|---|---|---|---|---|
| **Parent company** | | | | |
| Sella Holding Banca S.p.A. (2) | 1.159 | 1.105 | 54 | 26,53% |
| **Banca Sella Group** | | | | |
| Banca Arditi Galati S.p.A. | 232 | 231 | 1 | 5,31% |
| Banca di Palermo S.p.A. | 130 | 130 | - | 2,98% |
| Banca Patrimoni Sella & C. S.p.A. | 176 | 154 | 22 | 4,03% |
| Banca Sella S.p.A. | 1.560 | 1.404 | 156 | 35,71% |
| Banca Sella Nordest Bovio Calderari S.p.A. | 229 | 219 | 10 | 5,24% |
| Biella Leasing S.p.A. | 59 | 55 | 4 | 1,35% |
| Consel S.p.A. | 216 | 191 | 25 | 4,95% |
| Easy Nolo S.p.A. | 6 | 4 | 2 | 0,14% |
| Selir S.r.l. | 179 | 142 | 37 | 4,10% |
| Sella Bank A.G. | 34 | 32 | 2 | 0,78% |
| Sella Bank Luxembourg S.A. | 86 | 96 | -10 | 1,97% |
| Sella Capital Management SGR S.p.A | 1 | 13 | -12 | 0,02% |
| Sella Consult SIM S.p.A. (3) | - | 25 | -25 | - |
| Sella Gestioni S.p.A. | 89 | 76 | 13 | 2,04% |
| Sella Synergy India Ltd | 169 | 150 | 19 | 3,87% |
| Selsoft Direct Marketing S.r.l. | - | - | - | - |
| **Total Banca Sella Group** | **4.325** | **4.027** | **298** | **99,02%** |
| **Average total Banca Sella Group** | **4.176** | **3.896** | **280** | **95,60%** |
| Brosel S.p.A. | 15 | 15 | 0 | 0,34% |
| CBA Vita S.p.A. | 21 | 19 | 2 | 0,48% |
| Sella Life Ltd | 7 | 4 | 3 | 0,16% |
| **Total Banca Sella Group (as prescribed by the Italian Civil Code)** | **4.368** | **4.065** | **303** | **100,00%** |
| **Average total Banca Sella Group** | **4.217** | | | |

(1) *The table does not include the following companies, which do not employ their own staff, but which manage their activities with the collaboration of attached staff and/or external corporate advisers: BC Finanziaria S.p.A., Immobiliare Lanificio Maurizio Sella S.p.A., Immobiliare Sella S.p.A., Secursel S.r.l., Selfid S.p.A., Sella Corporate Finance S.p.A., Sella Holding N.V.*

(2) *Sella Holding Banca employees include the 9 employees of the Miami Agency.*

(3) *On 12 November 2007 Sella Consult SIM S.p.A. was taken over by Banca Patrimoni S.p.A.; at the same time Banca Patrimoni S.p.A. changed its name to Banca Patrimoni Sella & C. S.p.A.*

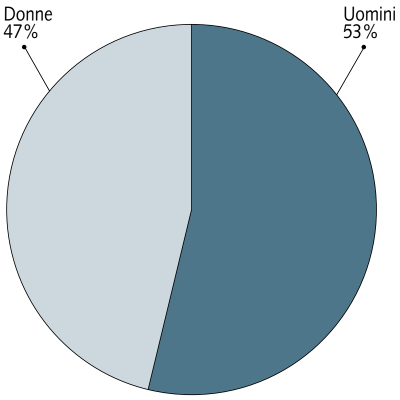
The average age of the Group's employees was 35 years 7 months. At 31 December 2007 approximately 47% of the workforce was female, which was an increase on the previous year.

The following table breaks down staff by job category:

| GRUPPO BANCA SELLA | 2007 | | 2006 | |
|---|---|---|---|---|
| Roles | Number of employees | Percentage | Number of employees | Percentage |
| Administration | 692 | 15,84% | 626 | 15,40% |
| Commercial | 1.746 | 39,97% | 1.733 | 42,60% |
| Finance Professional | 112 | 2,56% | 92 | 2,30% |
| Executive/Managerial* | 954 | 21,84% | 768 | 18,90% |
| IT | 465 | 10,65% | 448 | 11,00% |
| Organisational | 49 | 1,12% | 54 | 1,30% |
| Specialist | 291 | 6,66% | 290 | 7,10% |
| Juridical/legal | 30 | 0,69% | 31 | 0,80% |
| Logistics support | 29 | 0,67% | 23 | 0,60% |
| **Total** | **4.368** | **100%** | **4.065** | **100%** |

**The item "Executive/Managerial" also includes professionals with permanent staff positions.*

**COMPOSIZIONE DEL PERSONALE**
(dati in percentuale)




## TRAINING

The constant changes in the banking system and the dynamism of the Banca Sella Group make it increasingly important to achieve goals such as retention of talent, motivating staff and the continuous improvement of the skills of human resources.

In 2007 the project of defining roles continued, tailored development paths were mapped and in addition training in the new regulations (Mifid) and safety was given in order to obtain insurance certification.

Training initiatives, comprising more in-depth study of regulatory, operational and management matters, enabled 162,900 hours of training to be dispensed (about 70,000 through e-learning). The hours consisted of: 59,883 hours of company courses and 103,017 hours of outside courses.

Approximately 75% of the Group's workforce underwent training, which cost €1.6 million (an increase of 45% compared with 2006). 1,220 colleagues were certified to sell insurance products.

Distance-learning tools (e-learning) were improved significantly through the acquisition of a new IT platform that enabled online courses to be provided that can be exploited better and are more didactically effective for the user: group learning is promoted (forums, chat lines, exercises) and the use of contents (courses and teaching materials) has been improved thanks to a clear indication of course progress (in progress/finished).

# RESEARCH AND DEVELOPMENT ACTIVITIES

Even though the companies of the Group do not engage in pure research and development activities, they focus on innovation related to new products and channels and on technological upgrading.

Over the year Group companies participated in working parties within the A.B.I. (Italian Banking Association). They included the following:

- the ABILAB Committee, which engages in "precompetitive technological research in the banking field" and in particular the working party on IT safety and business continuity;
- the working party "Private Segment - Customer Retention and Commercial Performance of Banks" enabled the companies involved to compare various performance indicators that would otherwise have no benchmarking parameters and also enabled a reference point to be created for exchanging opinions and methods for interpreting and constructing performance indicators and enabling a database to be created that is sufficient for assessing the cause-effect relationship between the performance indicators under observation;
- the working party "Purchase patterns of financial services";
- the working group "Customer Retention and Commercial Performance - Small Business Segment". The objective of the assessment was to provide the banks taking part with a tool for measuring the distribution of the main products amongst the various segments of customers;
- the working group "Consultative Committee for Collecting Payment Authorisations";
- the working group belonging to the credit sector: "Leasing and Factoring", "Food and Agriculture", "Consumer Credit", "Land and Buildings", "International Relations";
- the working groups belonging to the tax sector "Banking Investigations by the Financial Authorities", "VAT", "Working Income Taxation", "Taxation of Financial Assets";
- the working groups belonging to the payments and coinage sector: "Consultative Committee for Collecting Delegated Payments", "Direct Debit", "Infrastructures for SEPA (single euro payments area), "pilot TUG";
- the working group "Corporate Governance".

The introduction of open source software strongly continued in production sectors, especially in reference to systems management and monitoring, software development tools, office automation application solutions.

## INFORMATION TECHNOLOGY

Continuing the strategy that prioritises developing application software within the Group, during the year the IT companies Sella Synergy India and Selir, in cooperation with the Information Technology and Development sector of the parent company, continued the development of numerous applications, with continuous focus on product quality staff skill promotion, availability of resources allocated to analysis and programming and the flexibility of the IT system architecture.

The various activities include the following:

- devising the procedures and activities required for the merger between Banca Patrimoni and Sella Consult;
- implementing the instruments required to comply with Mifid;
- extending the instruments required to improve information to customers and control better the administered portfolios;
- reinforcing the systems of automatic control in the technological infrastructures of the Printing Centre and certification for bulk mail shots;
- extending the automatic controls in the IT procedures and extending these controls to the use of operating masks;
- maintaining and increasing the efficiency of the central infrastructures of the Data Centre in order to keep them technologically up to date and make them suitable for supporting the growth of volumes and reduce their energy consumption;
- implementing the instruments required to comply with BASEL II;
- launching "Carta Lis", the electronic coinage institute created in collaboration with Lottomatica;
- continuing the changeover of information system procedures to the new "open" technology based on three-level architecture that constitutes the implementation of the "service system" concept that is reusable to generate operating efficiency, an activity that it will continue until the project is completed in 2008;
- reviewing the AS400 infrastructure dedicated to the Group companies that has consolidated existing ma-

chines into a single central structure with redundancy;

- continuing collaboration with the University of Trento to train foreign staff, in particular Indian staff, with the participation in a master's degree financed by Sella Holding Banca through scholarships in Italy;
- continuing to optimise procedures for improving processes whilst using analysis controls, architecture and code quality envisaged in the Development Process to improve governance of the Group's application portfolio;
- modernising Microsoft office automation infrastructures and the Group's mail systems, a project that includes renewing the branch terminals, with the introduction of LCD monitors instead of traditional CRT monitors, and which will continue in the first six months of 2008;
- introducing "virtualisation" techniques in the central systems to improve computer capacity.

# INTERNAL CONTROLS

The Banca Sella Group continued to assign central importance to controls and also in 2007 it invested in reinforcing the efficiency and efficacy of the “System of Internal Controls”, concentrating on reinforcing the quality and quantity of the control structures and at the same time ensuring continual compliance with the reference standards. This approach is in particular reflected in a complex plan of action that has been in operation since the middle of 2005 and has been continuously updated since then to incorporate the experience acquired and the best practice found in the System.

This action plan includes various projects in four sectors of activity:

a) control of rules and processes
b) continuous monitoring of appropriacy of rules;
c) controls execution and verification of compliance with rules;
d) growth of professionalism and control culture.

It should also be remembered that these actions are part of the review of the Group's structure and organisation aimed at:

- getting single procedural platforms adopted inside the Group,
- concentrating functions in the parent company,
- adopting the same rules and conventions to define the seriousness and types of anomalies that are geared to prioritising interventions, improving information flows and improving the efficacy of follow-up activities.

The main activities carried out are:

**a) Control of rules and processes**

The activity has the objective of improving the Group's operational organisation by acting on the elements that expose to operating risk and influence risk management. During the year complete recognition of the risk exposure of the Group's company processes was achieved. Particular attention was paid to the cohesion between the operating map and the underlying process. Mapping the processes and their constant and systematic maintenance permits:

- an objective measurement of inherent and residual risk (considering the efficacy of controls) on a risk scale in ascending order from1 to 5;
- planning corrective interventions, giving priority to situations of greater exposure to risk that is not effectively lessened and intervening consistently to improve the remaining situations;
- monitoring the exposure to risk of the Group's organisational setups.

These are some of the main interventions:

- upgrading and standardising the process of accepting new prospective customers at the Group level, with the concurrent introduction of new assessments to be made during evaluation, registration and account opening;
- completion of a project aimed at changing the work tools to introduce more constraints which prevent, upstream, operations not complying with internal rules;
- identifying and subsequently creating new automatic indicators for the prevention of potential risk.

**b) Continuous monitoring of appropriacy of rules**

The organisational and internal rules setup requires continuous evolution in time to adapt to changes to rules and to the evolution of technology, products and risks themselves, also based on the experience accrued.

In this context, particular attention has been paid to the compliance function, both by continuing to reinforce the existing structure and activities and complying with the “Compliance with Supervision Regulations” issued by the Banca d'Italia in July 2007.

In relation to risk identification and mitigation and the elimination of causes of possible anomalous events, an internal process has been adopted for the whole Group, which is known as a “control cycle”, regulating the treatment of anomalies and the removal of the effects and causes which generated them. This process is coordinated by the Risk Management and Controls Service of the parent company; through a dedicated IT procedure, it monitors the registration, monitoring and management activities of all anomalous events which occur in each Group company so as to promote the subsequent follow-up activities.

The inputs of the "Control Cycle" process are anomalous events recorded in the previously mentioned IT procedure. The anomalous events include: auditing-control and audit findings, poor service and malfunctions, advertisements, lawsuits brought against the Group, operating losses, warnings generated by the alarm-bell procedures, vulnerability of a process and exposure to risk following non-compliance with internal and external standards.

The anomalous event gives rise to:

- immediate evaluation of the corresponding degree of seriousness. Each anomaly is classified on the basis of a scale of risk from 1 to 5;
- immediate solution (so-called "left cycle"). The objective is to neutralise immediately the effects of the anomaly by simultaneously implementing continuous and/or extraordinary supervision until the causes of the anomalous event have definitively dealt with;
- definitive solution (so-called "right cycle"). The objective is to remove definitively the causes of the event to prevent it occurring in future. As a consequence, interventions may be required to organise processes or information systems, modify controls and/or modify internal standards.

Adopting the "Control Cycle" has achieved the following aims:

- improving the culture of operating risks, management of anomalies and of excellence;
- identifying, recording and analysing anomalies to create a statistical base that is also useful for assessing the vulnerability of the single processes and the exposure to risk of single sectors, activities, businesses, companies;
- rigorously tracking the responsibilities for and progress in eliminating anomalies;
- making the anomalies follow-up process more effective and controlled;
- controlling and supervising implementation of the interventions;
- reducing operating losses significantly compared with 2006;
- laying the foundations for the new information flow rules.

In order to control the effects of technological, process, business and product innovations, before the innovations are released, quality controls and tests are run by second-tier control structures.

**c) Controls execution and verification of rules compliance**

In 2007, second and third-tier qualitative and quantitative control services were further widely reinforced and the definition of activities and division of tasks have been continuously refined without neglecting the adoption of modern automation and tools for supporting the activity. Refining the three tiers of the internal control systems downstream of the adoption of the new Group Direction, Coordination and Control Map continued. In particular, attention has focussed on the progressive centralisation of the actual line and risk controls by tailored structures at the parent company. These are the central second-tier structures: Network Control, Product Company Controls, Banking Services Controls were activated by the respective departments at the parent company and were provided with an appropriate number of resources. None of the controls run the risk of overlapping but on the contrary provide a useful addition to the Risk Management and Controls function and to the Compliance function.

The organisational set-up of the "Internal Controls System" divides controls into three levels, as per the Supervisory Authority's provisions.

<u>The first-tier or line controls</u> aim at:

- automating manual controls;

- introducing new controls deriving from the aforementioned comprehensive analysis of processes and risks;
- reinforcing central monitoring of the outcome of peripheral controls;
- verifying the appropriacy of existing controls carried out by Internal Review, in relation to the Group's own independent auditing-control and auditing activity;
- eliminating from the origin, changing processes, risks points requiring control.

In the field of second-tier, or risk, controls the main guideline was followed to enable maximum coverage of central monitoring in real time, to improve constantly the quantitative and qualitative instruments for measuring exposure to risk and to extend the professional skills of the designated structures through appropriate internal and external training.

The main innovations include:

- consolidating second-tier specialised control services per single business line that in close cooperation with Risk Management and Controls monitor operational risks and follow-up of risk indicators of any operational irregularity found;
- creating "alarm bells" (preventive anomaly indicators), the objective of which is constant monitoring of the behaviour of employees and customers in order to identify anomalous and fraudulent behaviour as soon as possible;
- creating a series of automatic monitors of service levels in order immediately to report a system fault to the IT structure and to provide Risk Management and Controls with an instrument for automatically measuring the availability and basic performance of the main information systems;
- completing the assessment of the processes and determining a procedure aimed at improving processes with a high "residual process risk rating";
- constant improvement of the "Control Cycle" organisation process mentioned before;
- calculating internal operating risk ratings for management measuring and reporting of operating risk exposure of a service, area or Group company;
- continuous, proactive and effective supervision for preventing the external IT attacks known as phishing;
- extending to all Group companies of the CSSE (Control of Entities Subject to Embargo), reinforcing money laundering and KYC (Know Your Customer) measures;
- developing and improving credit risk measurement and management techniques, in order to implement the standard (Basel II). The implemented improvements include: quantitative analysis of portfolio credit risk; development of a performance scoring model for retail customers and for minor financial operators.

Third-tier or internal auditing controls

**The Group Internal Auditing**, in the new set-up started in 2005, consists of two services, the **Group Auditing Control Department** and **Internal Audit**. Their task is to detect irregularities, infringements of procedures and of external and internal regulations, evaluating the working and appropriacy of the whole system of internal controls and to report potential risks detected through their auditing activity. Internal Auditing reports to the Board of Directors of the parent company; its two services carry out their activity in strict compliance with their respective remits in close cooperation with and under the supervision of the Head of Internal Auditing, who in turn assists the **Audit Committee**(1), whose liaison officer he is.

The **Internal Review** audits both the areas and services of the parent company and of the other Group companies as part of the role assigned to the parent company. The Internal Review, together with its services, the Group Auditing Control Department and Internal Audit, also liaises with the auditing control/audit services of the Group companies so as to make the supervision and monitoring of the risk areas more effective.

In 2007 it worked to:

- promote the qualitative and quantitative performance of the staff of the two services, Group Auditing Control Department and Internal Audit;
- improve the effectiveness of the information flows regarding the detected shortcomings, both by classifying the shortcomings according to a "seriousness index" according to a scale that is identical to the scale used in the Group for all types of anomalous event that have emerged and by using the "Control Cycle" platform;
- reinforce monitoring of the implementation of the correctional steps by the inspected bodies (follow up);
- reinforce the coordination and auditing-control and audit functions in the other Group bodies by common examination of figures for the year and annual testing plans. The normal periodical meetings with the heads of the auditing-control/audit functions of the other Group companies are an important opportunity to exchange information on the outcomes of the tests and on the anomalies that have arisen, to share and streamline working and updating methods.

The **Group Auditing Control Department** checks compliance with internal regulations, supervisory regulations and laws (from a formal and substantial point of view), and the equity and income aspect, and the operation-related risks; during its activity, it also makes sure that line and risk controls are carried out in an optimal and thorough manner.

In 2007 it worked to:

- consolidate the parent company auditing in the Group entities;
- consolidate the parent company's auditing in the parent-company facilities which provide services for the Group;
- upgrade the structure's staff by recruiting highly skilled employees.

The audits carried out by the Service on site and remotely can be summarised as follows, from an exclusively quantitative statistical point of view.

**GROUP AUDITING CONTROL DEPARTMENT ACTIVITY**

| Controls on: | 2007 | 2006 | 2005 |
|---|---|---|---|
| - Parent company areas/services | 43 | 48 | 52 |
| - Banca Sella peripheral units (in outsourcing contract) | 24 | 21 | 24 |
| - Other Group companies and/or their Central Services | 14 | 14 | 23 |
| - Peripheral units of other Group companies | - | 2 | - |

*[(1)] The Audit Committee consists of three independent directors. It was set up by the Board of Directors of the parent company to assist the directors in monitoring the controls system. It has been in operation since the second quarter of 2005 and in 2007 it mainly addressed the following matters:*

- *action plans and periodical reports of the Internal Audit indicating the greatest shortcomings to have emerged and the state of progress of the follow-up;*
- *updating by the Risk Management and Controls service of operating risks indicating the greatest shortcomings to have emerged and updating the state of progress of the follow-up;*
- *examining the drafts of the intermediate and annual consolidated financial statements, focussing on the main items and the process by which they were compiled;*
- *risks for the Group companies arising from legal disputes and corresponding provisions;*
- *complaints received from the Group companies.*

*The Committee also studied various specific topics in detail over the year.*

The **Internal Audit Service** performs process analyses to evaluate process risk areas, the efficiency and efficacy of controls, the operation and adequacy of organisational processes, their efficiency and suitability for the type of operations of the structure/company.

In 2007 it worked to:

- define an intervention plan based on the annual macroanalysis forecast of Group risks;
- upgrade the service workforce by hiring professionally qualified staff;
- extend the service both with regard to processes conducted by the parent company and in relation to the other Group companies.

The audits carried out by the Service on site and remotely can be summarised as follows, from an exclusively quantitative statistical point of view.

**INTERNAL AUDIT ACTIVITY**

| controls for: | 2007 | 2006 |
|---|---|---|
| - Processes "owned" by the Parent Company | 15 | 10 |
| - Processes "owned" by other Group companies | 7 | 6 |

Internal Controls also involve the Controls Committee, which is active in systematically monitoring risks and deciding and taking the appropriate corrective measures to remedy detected shortcomings. All the services engaged in second and third-tier controls are members of the Committee, which since 2006 has worked to optimise the internal controls system.

* * *

Since legislative decree D.Lgs. 231/01 came into force, the parent company set up the Supervision and Control Committee to which the tasks prescribed by the decree were assigned.

The Committee's work consists of:

- examining new laws and the most significant rulings,
- assessing whether the "Organisation, Management and Control Models" should be supplemented in order to ensure their constant compliance with changes to legislation and the evolution of the organisation and company procedures. We should mention the recent additions to the Models following their inclusion in legal decree D.Lgs 231/01 article 25 septies (manslaughter and injury or grievous bodily harm caused in violation of health and safety regulations) and 25 octies (receipt, laundering and use of money, goods or services of illicit origin),
- recommending new controls to the competent areas and services,
- ensuring the functionality and compliance of the "Models".

Each year, the Committee schedules the audits by drawing up a suitable programme that will become the subject of the report on the past year submitted to the Board of Directors by the Chairman of the Committee.

The Committee has set up a reporting system defined as the "alert procedure", by means of which each employee or collaborator should promptly report matters that could lead to the offences specified by the legislative decree. The reports received have to be examined carefully by the Committee, which will recommend the required remedies.

# CHANGES IN THE GROUP STRUCTURE AND IN EQUITY INVESTMENTS

## CHANGES TO THE CONSOLIDATION AREA

These are the most significant events that led to changes in the consolidation area during 2007:

- the takeover of Sella Consult SIM S.p.A. by Banca Patrimoni S.p.A., and the change of the latter's name to Banca Patrimoni Sella & C. S.p.A.;
- the transfer of the entire holding in International Capital Holding S.A. by Sella Holding N.V.;
- the takeover of Sella South Holding S.p.A. by its parent company Sella Holding Banca S.p.A.

During the year, the following changes in the Group interest percentages have occurred:

**CHANGE IN INTEREST PERCENTAGE**

| Company | From | to | Operations |
|---|---|---|---|
| Banca Patrimoni Sella & C. S.p.A. | 63,33% | 71,29% | Increase subsequent to takeover of Sella Consult SIM S.p.A |
| Banca di Palermo S.p.A. | 75,34% | 98,20% | Purchases |
| Biella Leasing S.p.A. | 76,84% | 76,91% | Purchases |
| Sella Gestioni SGR S.p.A. | 85,55% | 85,68% | Purchases |
| Brosel S.p.A. | 70,50% | 71,00% | Purchases |
| Sella Capital Management SGR S.p.A. | 98,43% | 98,47% | Purchases |
| Easy Nolo S.p.A. | 84,44% | 84,74% | Increase following subscription of non-exercised share options to increase capital |
| Consel S.p.A. | 76,84% | 55,53% | Initial increase following non-exercised share option to increase capital and following acquisitions; subsequent decrease following entry of a new shareholder, as explained more fully below. |

Sella Holding Banca S.p.A., which controls Consel S.p.A., a company operating in the consumer credit field, and Toro Assicurazioni S.p.A. (Assicurazioni Generali Group) signed a multi-year industrial partnership agreement.

This agreement was signed in December 2007 and gave rise to cooperation in the form of an industrial plan for obtaining significant synergy between Consel and the Toro Assicurazioni sales network that will enable the Turin insurance company to acquire a 32.5% shareholding in Consel and the reserved capital to be increased by €40 million, €32.6 million of which to be paid in three tranches as a share premium, by 31 December 2009.

The first tranche of the operation was completed and resulted in an €32-million allocation of share capital and share premium corresponding to 27.8075% of share capital. This reduced Banca Sella Group's shareholding in Consel to 55.525%.

The next two tranches are payable:

- by 31 December 2008 (second tranche), provided that net income reported in the half-yearly financial statements for the period ended 30 June 2008 amount to at least €420 thousand. The subscription to this tranche, amounting to €4 million in all, would increase Toro Assicurazioni's holding to 30.23% and reduce Banca Sella Group's shareholding (Sella Holding Banca's holding) to 53.66%;
- by 31 December 2009 (third tranche), provided that net income reported in the half-yearly financial statements for the period ended 30 June 2009 amounts to at least €500 thousand. The subscription to this

tranche, totalling €4 million, would increase Toro Assicurazioni's holding to 32.50% and reduce Banca Sella Group's shareholding (Sella Holding Banca's holding) to 51.92%.

Other events:

- the winding up of Sella Capital Markets Sim S.p.A. was completed.
- C.B.A. Vita S.p.A. set up an associated (49%) (damage insurance) company by the name of InChiaro Assicurazioni S.p.A.

## COMPANY REORGANISATION OPERATIONS

A major reorganisation of Group companies is planned in 2008 in order to "reinforce" the Group's presence and future prospects in Southern Italy by setting up a single bank that is able to ensure greater competitivity and higher levels of efficiency.

After careful analysis, the Boards of Directors of the parent company, of Banca Sella S.p.A., Banca Arditi Galati S.p.A. and Banca di Palermo S.p.A. have decided to set up this new institute through two company operations, subject to obtaining the required authorisation:

- transferring to Banca di Palermo S.p.A. the branches of Banca Sella S.p.A. in the Campania region;
- merging Banca di Palermo S.p.A. with Banca Arditi Galati S.p.A. as soon as the branches specified in the previous point have been transferred.

Important facts emerged from the analysis of the individual plans of the banks in question that positively influenced the decision in favour of the "Banca Sella Sud". They included the following:

- streamlining customer strategies, models and targets: the institutes concentrate on the development of their business, positioning themselves as the "local bank"; this is a tried and tested model that is considered will be a success both in the immediate present and in the future and is mainly aimed at retail customers, private banking customers and small/medium companies;
- the nearness and complementary geographical nature of the areas of Southern Italy in which the banks operate: Banca Arditi Galati is located in Campania, Molise and Puglia, whilst Banca di Palermo is located in Sicily;
- identical organisational set-up for "Network Bank": owing to the process of "centralising" technical/administrative services at the parent company, the two banks in question have an almost identical organisational structure that is slim and strongly geared exclusively to development and customer relations.

This project will above all enable the Banca Sella Group, and the new banking entity, to:

- rationalise the supervision and the control of activities in the South of Italy;
- achieve greater critical mass and synergies in terms of lower costs and higher earnings;
- continue the rationalisation of the company structure.

The bank with which the other banks merge will change its name to "Banca Sella Sud Arditi Galati S.p.A." in order to represent the new entity better.

The Group will have a 69.20% holding in the new bank.

## DEALINGS WITH MINORITY SHAREHOLDERS

It was noted that the wording of certain agreements that we called "commitments to place" that Banca Sella S.p.A. (and subsequently Sella Holding Banca) had signed first in 1996 with minority shareholders of some of the companies in our Group (Banca Arditi Galati S.p.A., Banca Patrimoni Sella S.p.A. and B.C. Finanziaria S.p.A.) could give rise to interpretations that were certainly not compatible with the parties' intentions.

These "commitments", owing to the "closed" nature of the shareholdings of the banks concerned, which are not listed, aimed to facilitate disinvestment by the minority shareholders. These shareholders had in fact been allowed to sell some or all of their shares because the majority shareholder (Sella Holding Banca) undertook to place the shares with third parties (at a given minimum floor price), with the obligation to advance the amount after a certain period had elapsed (the advance being equal to the value of the shares that had not been placed) in the form of a credit issued by Sella Holding Banca to the minority shareholder.

The intention was to explain a constant and coherent policy of cooperation between majority and minority shareholders that would guarantee, without explicit obligations, concrete help if unforeseeable needs were to oblige shareholders to seek even temporary liquidity. This spirit of collaboration is the cement of the shareholding structure, as is demonstrated by the constant support that the minority shareholders give to all new Group reorganisation projects that involve assigning roles and responsibilities to the different shareholders.

The analyses conducted by the parent company led to the conclusion that the total amount of "commitments" should be reported in the financial statements in part B of the Notes to the Financial Statements (table "Guarantees issued and other Commitments" of the section "Other Information").

In order to remove all interpretive uncertainties regarding the nature of the aforesaid "commitments to place", in 2006 the parent company replaced the previous existing agreements, apart from two that were replaced within the first two months of 2007, with other differently formulated agreements that could not give rise to doubts as to their interpretation. The new agreements were in fact defined as no longer being commitments to place with third parties but "mandates to assist" placements; we considered that the replacement without any charges endorsed the manner of representation of the previous agreements. For this reason in the consolidated financial statements for the year ended 31 December 2006 the two agreements that still existed were reported as in previous years in the Notes to the Financial Statements in the table "Guarantees issued" of the section "Other information". As mentioned in the comments, the balance stated under "Other commitments" on the table comprises the €34,953 thousand arising from the reporting of the two aforementioned agreements that were still in force at 31 December 2006 according to the contractual rules for determining the advance due to subscribing minority shareholders if it had been requested by that date.

Another interpretation and consequently a compliant method of the Supervisory Organ led to the two "commitments to be placed" being treated on the basis of the "New governance for prudential filters" (December 2005) and of the "New prudential arrangements for banks" (Memorandum 263 of 27 December 2006) that would have classed the contracts as put options, reported under financial liabilities and would have caused the following to be stated:

- greater "due to customers" amounting to €34,953 thousand, equal to the amount of the advance if it had been granted by Sella Holding Banca;
- less minority interest amounting €16,709 thousand, which was equal to the amount of shareholders' equity corresponding to the shareholding of the minority shareholders owning the "commitments to place";
- a "negative reserve of Group shareholders' equity" amounting to €18,244 thousand, the difference between the value of the advance and the shareholders' equity share belonging to the minority shareholders owning the "commitments to place".

To sum up, reporting the "mandates to place" according to the above method would have reduced the consolidated capital for supervisory purposes at 31 December 2006 amounting to the sum of the lesser of "shareholders' equity belonging to third parties" (amounting to €16,709 thousand) and the "negative reserve of Group shareholders' equity" (amounting to €18,244 thousand) totalling €34,953 thousand compared with what was reported by Sella Holding Banca.

The table of the consolidated capital for supervisory purposes (figures in thousands of euros) is set out below, as published in section F of the financial statements for the year ended December 2006. The column "Adjusted total 2006" shows the values that would have been reported using the criteria of the Supervisory Organ.

| CAPITAL FOR SUPERVISORY PURPOSES | Total 2006 | Adjusted Total 2006 |
|---|---|---|
| A. Tier 1 before prudence | 380.581 | 345.628 |
| Prudence on base equity: | | |
| - Positive IAS/IFRS prudential filters | - | - |
| - Negative IAS/IFRS prudential filters | 3.474 | 3.474 |
| B. Base equity after prudence | 377.107 | 342.154 |
| C. Supplementary equity before prudence | 352.154 | 352.154 |
| Prudence on supplementary equity: | | |
| - Positive IAS/IFRS prudential filters | - | - |
| - Negative IAS/IFRS prudential filters | 30.942 | 30.942 |
| D. Supplementary equity after prudence | 321.212 | 321.212 |
| E. Total base equity after prudence | 698.319 | 663.366 |
| Deductions from total base and supplementary equity | 48.941 | 48.941 |
| F. Capital for supervisory purposes | 649.378 | 614.425 |

As a result, the supervisory ratios shown in the paragraph on equity adequacy of Section F of the financial statements for the year ended December 2006, would have been modified in the following manner (figures in thousands of euros):

| C. RISK ASSETS AND REGULATORY RATIOS | 2006 | Adjusted Total 2006 |
|---|---|---|
| C.1 Weighted risk assets | 6.479.285 | 6.479.285 |
| C.2 Tier 1 capital/Weighted risk assets (Tier 1 capital ratio) | 5,82% | 5,28% |
| C.3 Regulatory capital/Weighted risk assets (Total capital ratio) (*) | 10,21% | 9,68% |

As already mentioned, between February 2007, and therefore before the meeting of the Board of Directors that approved the 2006 financial statements, the two agreements that were still in force at year's end 2006 were terminated and replaced without charge.

Regardless of the wording of the contractual clauses, (the involuntary classification error was the reason for the cancelled fine) the parties' wish simply to undertake to assist in the "placement" was confirmed. All this gives us causes to regret what has happened.

€34,953 thousand should have been eliminated from the item "commitments", as can be seen from the following table (figures in thousands of euros).

### 1. Guarantees given and commitments

| Transactions | Banking Group | Insurance companies | Other companies | Total 31/12/2006 | Adjusted Total 31/12/2006 |
|---|---|---|---|---|---|
| **a) Guarantees of a financial nature** | **46.355** | **-** | **-** | **46.355** | **46.355** |
| i) banks | 8 | - | - | 8 | 8 |
| i) customers | 46.347 | - | - | 46.347 | 46.347 |
| **a) Guarantees of a commercial nature** | **238.722** | **-** | **-** | **238.722** | **238.722** |
| i) banks | 144 | - | - | 144 | 144 |
| i) customers | 238.578 | - | - | 238.578 | 238.578 |
| **3) Irrevocable commitments to lend funds** | **494.310** | **-** | **-** | **494.310** | **494.310** |
| a) banks | 199.698 | - | - | 199.698 | 199.698 |
| i) certain to be called on | 198.465 | - | - | 198.465 | 198.465 |
| ii) not certain to be called on | 1.233 | - | - | 1.233 | 1.233 |
| b) customers | 294.612 | - | - | 294.612 | 294.612 |
| i) certain to be called on | 140.750 | - | - | 140.750 | 140.750 |
| ii) not certain to be called on | 153.862 | - | - | 153.862 | 153.862 |
| **4) Commitments underlying credit derivatives: protection sales** | **-** | **-** | **-** | **-** | **-** |
| **5) Asset given as collateral for third-party obligations** | **87.420** | **-** | **-** | **87.420** | **87.420** |
| **6) Other commitments** | **139.605** | **-** | **-** | **139.605** | **104.652** |
| **Total** | **1.006.412** | **-** | **-** | **1.006.412** | **971.459** |

As a result, if the “commitments to place” had been reported according to the criteria of the Supervisory Organ, the replacement of the two residual agreements within the first two months of 2007 would merely have deleted on that date the entries made previously and reinstated the “shareholders’ equity belonging to third parties” amounting to €16,709 million and eliminated the “negative reserve of Group shareholders’ equity” amounting to €18,244 million whilst increasing the consolidated capital for supervisory purposes.

# GROUP COMPANIES

In order to give a more complete picture of the performance of the individual companies included within the integral consolidation area and of those evaluated on the principle of net worth, this section includes a brief comment on the work performed and the operating results achieved during 2007 (applying the accounting policies used for the preparation of the individual financial statements) of the controlled and subsidiary companies, with a description of the performance over the year and overall results of the same, divided by business sector.

## BANKS AND ITALIAN DISTRIBUTION NETWORK

**Banca Arditi Galati S.p.A.**

At 31 December 2007 the distribution network of Banca Arditi Galati, the head office of which is in Lecce, had 37 branches following the opening of the fourth branch in Lecce.

The interest income amounted to €25 million gross of dividends. This was an 11% increase that was due entirely to the growth in volumes, both in terms of direct deposits and loans.

Net interest and other banking income reached €32.1 million, up 7.8% on the previous year. Net other banking income declined by 2.2% compared with 2006 to €7.1 million, compared with the €7.3 million of the previous year. The fall occurred in the area of electronic payment systems and commissions from bestowals of powers of attorney.

Operating costs, amounting to €19.7 million, increased by 10.8% compared with the previous year, when they amounted to €17.8 million. The cost to income ratio was therefore 61.3%, a deterioration compared with the 59.6% ratio reported in 2006.

Provisions for risks and charges and net write-downs to loans decreased by €1.5 million compared with 2006, which was a 32% improvement.

The above trends enabled the bank to achieve profits before tax amounting to €9.5 million, an increase of 29.8% on the previous year.

The profit net of taxes and charges was €5.4 million, an increase of 40.7% compared with the €3.8 million of 2006.

Customers' deposits amounted to €719.2 million. This was an increase of 16.6% compared with 2006, while indirect deposits amounted to €371.5 million, a 1.4% decrease.

Cash loans to customers amounted to €559.5 million, a 10.8% increase.

The ratio between net non-performing loans and cash loans to customers improved from 1.4% in 2006 to 1.2% in 2007.

**Banca di Palermo S.p.A.**

At 31 December 2007 the distribution network of Banco di Palermo, the head office of which is in Palermo, consisted of 21 branches located in the provinces of Palermo, Agrigento, Catania, Ragusa, Trapani and Syracuse, the latter having been opened during 2007.

Net interest income, amounting to €14 million net of dividends, increased 17% compared with the previous year. In order to meet the numerous requests from customers, loan development focussed on mortgages and the corporate sector.

Net interest and other banking income amounted to €19.6 million, an increase of 13.2% compared with 2006, while net other banking income, standing at €5.6 million, increased by 4.7%. The main contribution to income derives from individual asset management.

Operating costs amounted to €13.9 million, a 19.3% increase on the previous year. This was mainly due to the increase in staff costs and fees due for the increased number of outsourced services.

Consequently the cost to income ratio reached 70.8%, a deterioration compared with the 67.1% in 2006.

This performance enabled the bank to achieve net profit of €1.8 million – compared with the €2.8 million reported in 2006 (down 37.7%) – and reduced the R.O.E. to 8.3% compared with 14.4% reported in 2006.

Customers' deposits, amounting to €373.2 million, grew by 7.8% compared with 2006, while indirect deposits increased by 8.9% to €281.3 million.

Cash loans to customers amounted to €311.8 million, a 16.5% increase, whilst net non-performing loans amounted to €6.9 million compared with the €8.9 million of 2006.

**Banca Sella S.p.A.**

At 31 December 2007 Banca Sella had 216 branches, fifteen more than the previous year. This was because 20 new branches opened. Five of them already existed but were transferred.

Net interest income, amounting to €174.7 million, had grown from the €159.6 million of the previous year. It was influenced by positive volumes growth, both in terms of deposits from customers and loans and spread performance. Owing to the increase in the structure of the rates, mark-up in fact became less profitable than mark-down.

Banking and insurance net income amounted to €267.1 million, an increase of 3.5% compared to 2006, when it amounted to €258.1 million.

Net other banking income fell by 6.2% compared with the previous year. This was mainly due to the managed savings component, which amounted to €92.4 million compared with the €98.5 million of 2006.

Operating costs, amounting to €161.5 million net of the positive contribution of €7.8 million from "Other charges/income", increased by 7.9% compared with the previous year, when they amounted to €149.7 million. This was due to the reinforcement of the control structure and of the distribution network. The operating costs largely consist of "Other administrative expenses", which, net of the "Recovered stamp duty and other taxes" amounted to €84.1 million, and "Staff costs" (including the relative IRAP), which amounted to €82.6 million.

Cost to income was thus 59.3%, a deterioration compared with the 57% of the previous year. This is due to the fact that part of the costs that are part of the calculation of this indicator had grown, generating improvements in the above controls, with positive repercussions on the financial components connected to the impact of risk, which, however, are not part of the calculation of cost to income.

Owing to the above trends the operating result amounted to €105.6 million compared with €108.5 million the previous year, a decrease of 2.7%.

The bank's cash loans to customers amounted to €3,911.9 million, growing by approximately 8% over the year. Endorsement commitments grew by 7.9% to €266.4 million.

Total deposits from customers reached €16,589 million, an increase of 4.5% compared with the previous year; indirect deposits amounted to €10,468.5 million (€4,421.4 million of which were in managed savings) remaining substantially the same as at 31 December 2006. The managed savings trend reflects the general contraction in volumes, especially in relation to monetary and bond products.

The bank closed the year with a net profit of €37.5 million and an ROE of 11.7%.

**Banca Sella Nordest Bovio Calderari S.p.A.**

Over the year the bank opened two new branches and transferred an existing one, increasing the distribution network to a total of 41 branches in Trentino Alto Adige (17) and Veneto (24).

Net interest income, amounting to €16 million, increased by 10.6% compared with the previous year. Net interest and other banking income accounted for 64.6% of this figure, compared with 62.6% in 2006.

Net other banking income amounted to €8.8 million, an increase of 1.7%. Net interest and other banking income, amounting to €24.7 million, increased by 7.3% on the previous year, when it amounted to €23.1 million.

Operating costs, net of the positive contribution of €0.9 million to the item "Other charges/income", amounted to €20.5 million, an increase of 15.7% compared with 2006, which was mainly due to "Other administrative expenses", which, net of "Recovery of stamp duty and other taxes" amounted to €8.6 million (up 17.4% on 2006) and to "Staff costs" (including the relative IRAP), and closed the year at €12.1 million (up 23.3% compared with 2006).

Direct deposits, amounting to €574.7 million, increased by 1.9% compared with 2006, whereas indirect deposits amounted to €700 million. This was a decrease of 3.4% that was mainly due to the managed savings component (down 18.6%), which was only partially compensated by the increase in the administered component (up 5%).

Cash loans to customers amounted to €563.9 million and increased by 5.0% compared to 2006, while endorsement commitments, amounting to €26.2 million, decreased by 2.8%.

The ratio between net non-performing loans and loans deteriorated compared with last year's figure, increasing from 0.49% in 2006 to 0.54%.

This trend allowed the bank to achieve net profit of €1.3 million in 2007, compared with €3 million in the previous year (a 56.1% fall). This corresponded to a 3.6% R.O.E.

**Biella Leasing S.p.A.**

The company, the head office of which is in Biella, operates in the sector of financial leasing of motor vehicles, instrumental goods, real estate and leisure craft. It has 10 branches in Italy in addition to its head office in Biella. The Florence branch became operative over the year.

Over the year the company signed 4,566 contracts totalling €381.4 million, 12% more than the previous year.

The market share of stipulated contracts within the system was 0.78%, an increase on last year's percentage (0.70%).

Operating revenues, amounting to €17.1 million, was slightly greater than the previous year (€16.8 million), and operating costs, amounting to €4.5 million, were in line with the figure for the previous year (€4.4 million).

The ratio of net non-performing loans to loans changed from 0.74% in 2006 to 0.73% in 2007.

The company thus closed the year with a net profit of €5.4 million compared with the €6.4 million of 2006 (down 15.5%).

## LARGE CORPORATE AND ASSET MANAGEMENT

**Banca Patrimoni Sella & C. S.p.A.**

Merger of Banca Patrimoni S.p.A. with Sella Consult SIM S.p.A.

With effect from 12 November 2007 and, only for accounting and fiscal purposes, from 1 January 2007, Banca Patrimoni S.p.A. took over Sella Consult SIM S.p.A., at the same time changing its name to Banca Patrimoni Sella & C. S.p.A.

Sella Consult SIM S.p.A. was a company of the Banca Sella Group that managed a network of financial promoters with the mandate to place products of the Group and of outside companies.

The Sella Consult network was thus integrated into that of Banca Patrimoni Sella & C., which at 31 December 2007 had 350 financial promoters and 176 employees.

Following the merger, the financial promotion offices grew to 40 whereas the 11 branches remained. The merger with Sella Consult SIM S.p.A. occurred as part of an overhaul of the role of the bank within the Group in order to give it the role of an entity that not only offered services to the public through its private bankers but also acted as a "product factory" through its asset management structure.

The Group's financial strategy has in fact earmarked Banca Patrimoni Sella & C. as the supplier of the entire Group's private banking instruments, services and products.

At the same time as the merger, share capital was increased to €26.5 million.

Operating results

In 2007 the net profit was €17 million, which was particularly high compared with the previous year, when it amounted to €2 million. The size of the net profit was influenced by the capital gain from the sale of part of the securities acquired following the swap of the interest in Borsa Italiana S.p.A. for London Stock Exchange Group Plc shares. It should also be noted that the takeover of Sella Consult SIM S.p.A., became effective for accounting and fiscal purposes only on 1 January 2007. The main factors that enabled this result to be obtained included the particularly positive growth in net interest income, amounting to €7.5 million, which grew by more than 44.8% compared with 2006, the positive trend of net commission receivable and thus of operating revenues, which reached €33.5 million.

Operating costs, amounting to €27.5 million, increased by 27.5% compared with 2006.

Total customer deposits and administered customer assets for the year (€1.8 million at nominal value) fell by 15.9% on the previous year.

On 15 November 2007 the Banca d'Italia started an inspection that terminated on 13 February 2008. The inspection report findings had not been received by the date of approval of the financial statements.

**Sella Bank AG**

The Swiss bank of the Group operates out of its head office in Zurich and its agencies in Lugano and Geneva.

Net interest income, amounting to €1.3 million, increased by 44.4% compared with 2006.

Net other banking income amounted to €6.8 million, an increase of 51.1% over the previous year.

Operating revenues, amounting to €8.9 million, increased by 53.4% compared with 2006.

Organisation costs amounted to €4.5 million, an increase of 4.6%. This increase is mainly due to the increase in volumes that enabled the cost to income ratio to be optimised, so that it amounted to 51.7%, a decrease of 22.8% compared with 2006.

The above performance has enabled the bank to achieve a net profit of €3.2 million, a considerable improvement on the €1.1 million of the previous year.

**Sella Bank Luxembourg S.A.**

The bank pursued the following objectives in 2007:

- consolidation of the organisational structures and internal processes with particular focus on the control of operating risks;
- qualitative selection of assets and current operations, especially in the field of OPCs;
- defining and discarding old dossiers that are still open relating both to off-shore funds and open-end investment companies that are no longer operative;
- setting a new strategy for commercial development.

Net interest income exceeded €2 million, an increase of over 15% compared with 2006. Operating revenues reflected the decline in financial activities on the part of institutional customers and amounted to €10.8 million (down 4% on the previous year). Income from core services was nevertheless good, and was above all due to the administration of investment funds and from dealings with private and company customers.

Organisation costs rose by about 5% overall through expenditure on professional advice, adjustments to the fee levels requested and the charges sustained for outsourced work, greater current expenditure on legal advice and costs arising from sundry operating costs. Staff costs amounted to €6.9 million and decreased by 2.6%.

After amortisation and depreciation amounting to €1.5 million, the year closed with a negative result of €1.1 million, a clear improvement on the €4 million loss reported for 2006.

At the end of December total fiduciary assets exceeded €3,400 million, €450 million of which consisted of deposits. Cash loans to customers fell to €43 million (down 42%) as some significant loans had been repaid by the end of the year.

In the second half of the year a commercial development plan was set up in coordination with the parent company Sella Holding Banca. This will run over three years from 2008 to 2010. The main objective is to provide brokerage to leading Italian customers through the wide range of services offered by the Luxembourg market in the field of consultancy and company registration for tax purposes and in the fields of private banking and investment funds. The bank is run by a new CEO. The commercial sectors are being expanded and reorganised so that they will form a single department.

As regars operating risks, the previous management of Sella Bank Luxembourg was replaced by the parent company following investigations by inspectors that took place in November 2003 and the decision was then taken to prosecute. This was why the subsidiary was involved in legal disputes and out-of-court claims from third parties, both of which largely took place in previous years and which have been discussed in the corresponding financial statements. Trial and substantial considerations lead us to distinguish two different types of dispute. The first type arises from the role of Sella Bank Luxembourg as the host bank for the open-end investment companies Amis and TTM, which led to its being indirectly involved in the activities of the Amis AG group on the Austrian and German markets. The second type of dispute arises from the role of Sella Bank Luxembourg in certain BVI funds and corresponding management companies and/or sub-management companies.

In the dispute arising from the open-end investment companies Amis and TTM, in 2007 claims totalling €12,396,063.54 were made against Sella Bank Luxembourg by Austrian and German purchasers of the "Vario Invest" product marketed by Amis AG (and by subsidiaries and associated companies) and for which until 4 March 2004, Sella Bank Luxembourg merely acted as a "collector" of money paid by the investors through "our" accounts at the RaffaisenBank and Deutsche Bank.

In the dispute generated by the BVI funds, again in 2007, claims totalling US$1,766,758.22 were made against Sella Bank Luxembourg in addition to a claim for US$18,362,228.63 and €470,811.96 plus interest. Sella Bank Luxembourg had already been subject to a previous claim and risk evaluation.

At 31 December 2007, the total maximum risk from theoretical contingent charges on Sella Bank Luxembourg totalled €113,104 thousand and Sella Holding Banca renewed its letter of financial support and guarantee to its subsidiary for this amount to enable it to ensure minimum equity limits. The charges and contingent liabilities arising from the commitment to supporting the subsidiary financially were evaluated by resources belonging to the Group and checked by external auditing companies and were supported by the legal opinions of experts in the sector.

It should be underlined that in view of the above claims Sella Bank Luxembourg, – with the support of the parent company, immediately appointed legal experts in the sectors concerned in the different countries where the risk was located (Austria and Luxembourg) to conduct the relative examinations and draw up the most effective defences for the subsidiary. In view of the international scale of the dispute and the consequent need for coordination, Sella Holding Banca decided to assist the lawyers in situ with other professionals (Italian and Belgian) in order to avoid the risks of a "fragmentary" legal defence that is limited only to the national juridical and judicial dimension and in order to ensure that rulings on jurisdiction and/or the possibility of challenging compromise agreements are recognised that are different from the original ones and are equally relevant for the activities of Sella Bank Luxembourg.

The open-end investment companies Amis and TTM were wound up by the court, which in 2006 had initiated proceedings regarding a total of €70,176,545.68 (including expenses amounting to €9,000,000). A compromise was reached on 21 March 2008 whereby €25,500,000.00 was paid by Sella Bank Luxembourg that was intended to cover the lawsuits (and fully settle the relative disputes) filed by the court winding up the company and to cover the claims from the customers of Vario Invest who had invested in the product until 4 March 2004 (the date on which the open-end investment companies were suspended from trading by the CSSF and beyond which the legal liability of the subsidiary ceases). The receivers agreed to "manage" these claims within the winding-up procedure owing to the confusion between the assets of the open-end investment companies and the money originating from the Vario Invest investors. The settlement is now the object of a parallel case before the Luxembourg court, where Sella Bank Luxembourg will probably be a party. That is why the aforementioned financial support will continue to be provided to cover the entire amount requested by the receivers in the cases.

There may still be a negotiated settlement between all parties concerned regarding the BVI funds. This will enable the role of the bank to be better coordinated in relation to the funds on the one hand and on the other hand in relation to the management companies or other companies concerned in different ways with managing and giving management advice.

In the light of the activities conducted and described briefly above, the allocated amount indicated in Table 12.1 "Composition of provisions for risks and charges" of section 12 in part B of the Notes to the Financial Statements is deemed to be appropriate.

**Sella Corporate Finance S.p.A.**

The Company, the head office of which is in Biella, performs consultancy work regarding extraordinary finance operations (corporate finance, M&A, capital market and structured finance) consultancy work, as well as setting up and running trusts.

In the financial year 2007 revenue amounting to €802 million was earned by the various business lines. This was 16.7% more than the previous year.

Organisation costs increased by 16.9% to €572 million. They were mainly due to the growth in the size of the workforce.

The company closed the year with net income of €115 thousand, an increase of 12.7% compared with the €102 thousand of the previous year.

**Selfid S.p.A.**

The company's head office is in Biella and the company aim is to engage in so-called "static" trust activity (as per Law 1966/39). During 2007 the main activity was the registration as trustee of securities capital, insurance products and also the taking over of trustee functions relating to the registration of company shares and quotas.

Over the year, the number of fiduciary warrants totalled 677, a drop of 5.7%, whilst the total deposits and current accounts at 31 December 2007 amounted to approximately €972 million, 4% up on 31 December 2006.

Commission receivable on trustee work amounted to €580 thousand, a decrease of about €15 thousand on the previous year; the costs for services - the largest cost item - amounted to €407 thousand.

The company closed the year with net profit of €127 thousand, compared with €132 thousand the previous year.

**Selgest S.A.**

Selgest started operations on 13 February 2007, as established by the Luxembourg Supervisory Authority. In compliance with Luxembourg regulations, the company manages the open-end investment companies of the Banca Sella Group. Its total deposits and current accounts for the year are as follows:

- first quarter: €1,850 million;
- second quarter: €1,813 million;
- third quarter: €1,654 million;
- fourth quarter: €1,598 million.

Selgest closed the year with a loss of €132 thousand. This was due to the fact that the costs of the minimum structure required by the supervisory authorities exceeded the commission that the company earned from the open-end investment companies for its control activities.

The 2008 budget nevertheless envisages an increase in volumes for the open-end investment companies that it manages. This, together with Selgest's commission income for certain sections, should ensure that the company makes a profit.

**Sella Gestioni SGR S.p.A.**

The company's head office is in Milan and it has been operating since 1983 in the sector of collective savings management; since 1999 it has also operated in the areas of individual savings management and complementary private pension funds. At the end of the year it was managing 24 open funds, 1 fund of funds with six sections and 1 pension fund with five sections. It also managed, by proxy, 3 Luxembourg open-end investment companies and 2 Monaco funds. For the placement of its own products, the company uses banks and stock brokerage companies, some of which belong to the Group and others which do not.

On 1 June 2007 it acquired from Sella Capital Management S.G.R. S.p.A., the asset management and consultancy division of the sections of the Luxembourg open-end investment company Sella Capital Management.

As regars managed products and open funds, in its meeting of 20 June 2007 the Board of Directors decided the merger from 1 January 2008 of some funds and sections of the Fund of Funds by merging them with other funds and sections subject to the same regulations. This merger was authorised by the Banca d'Italia on 29 August 2007 and meets the objective of rationalising and simplifying the products on offer. In other words, from the date when the operation became effective, i.e. 1 January 2008, the number of investment funds was reduced from 24 to 16 and the number of harmonised open funds in the sections of the Fund of Funds was reduced from 6 to 2.

As far as the collective management is concerned, at year end the funds had the following composition: 77.8% in bond funds, 10.9% in balanced flexible funds and 11.3% in share funds.

At 31 December 2007 total managed equity (net of duplications) amounted to €4,531.1 million, an increase of 18.6% on 2006. Without the open-end investment company SCM this result would have constituted a drop of 16.5% on the previous year. This drop was caused by the decline in deposits, which fell by €967.22 million. This drop was partially due to the general decline of the funds market and to the Group's distribution policies in relation to the opening to third-party UCIs (undertakings in collective investment).

The market share held by the company in the sphere of collective savings was 0.67% at year end, compared with 0.51% at the end of 2006.

As a Borsa Italiana shareholder, the company took part in the swap with London Stock Exchange Group (LSEG) shares, acquiring 686,000 LSEG shares, amounting to 0.25% of the capital of the latter. This operation took account of the difference between the book value of Borsa Italiana shares reported in the financial statements and the listed value of the shares of the London Stock Exchange Group. This led to a "profit from transfer of financial assets available for sale" of €15.7 million. In October, the company then sold 456,000 shares, generating further profits amounting to €0.3 million.

At the end of December 2007 the shareholding in the London Stock Exchange Group consisted of 230,000 shares, amounting to 0.08% of the capital, and was worth €6.2 million.

At 31 December 2007 profit stood at €16.9 million as opposed to € 1.4 million in 2006. Without the Borsa Italiana/London Stock Exchange Group swap, net income at 31 December 2007 amounted to €1.5 million.

Operating revenues, net of the above operation, amounted to €11.3 million, an 11.1% increase on 2006. This increase was to due to the greater income from the acquisition of the division from Sella Capital Management S.G.R. S.p.A. and financial management, which compensated for the negative effects of the decrease in the size of managed equity.

Organisation costs amounted to €10.1 million. This was an 18.6% increase and was mainly due to the acquisition of the division from Sella Capital Management S.G.R. S.p.A. as 12 people were taken over and costs also grew physiologically because of the hiring of new staff to expand the control and organisation areas.

Particular attention was also paid in 2007 to continuing the implementation of the intervention plan on several fronts in response to the findings of the Consob inspection.

Immediately after balance-sheet date, on 2 January 2008, the company received a communication from Consob dated 21 December 2007 in which the Supervisory Organ notified the company that it was fining 29 members of the company in accordance with article 190 of legislative decree D.Lgs 58 of 24 February 1998. The fine was paid on 25 January 2008.

## CONSUMER CREDIT

### Consel S.p.A.

The company is based in Turin and operates in the field of consumer credit. It provides customers with a wide range of credit products, in particular loans for purchases by instalment, credit cards, loans against a fifth of monthly salary and motor car leasing. The company has 218 employees, 23 branches and over 2500 authorised sales outlets that in 2007 were located throughout Italy. The company's consumer credit business continued to grow compared with the previous year, both in terms of numbers of customers and loans. It dealt with 141,708 loan applications amounting to a total of €627.9 million (up 17.8% on 2006) and issued 104,727 loans totalling €425 million, an increase of 10.3% on the previous year. This result was obtained despite the slight slowdown in the growth of consumer credit on the Italian market; consumer credit grew by 11.9% in 2006 and by 9.5% in 2007. Consel's market share was 0.78%.

Net interest income amounted to €17.5 million, a decrease of 1.1% over 2006, while operating revenues, amounting to €32.4 million, showed an improvement of 21.4% compared with the previous year; this was also due to the increase in total revenue amounting to €16.8 million (up 51.4%).

Organisation costs amounted to €18.9 million, an 18.9% increase over 2006, and this is in line with the company's growth and development percentages.

Net income amounted to €1.1 million, which was a fall from the previous year, when it amounted to €2.1 million. The 2007 result was affected by the increase in interest charges and the heavier tax burden arising from the decline in prepaid taxes that was due to the application of the 2008 financial law.

## BANK ASSURANCE

### Brosel S.p.A.

The company, whose head office is in Biella, operates in the field of insurance brokerage and consultancy work.

In 2007 the company brokered a volume of premiums amounting to €25.9 million.

Net insurance brokerage commission amounted to €2.2 million, basically in line with the previous year. The stability of net revenue, which was nevertheless a positive result compared with budget forecasts, and the albeit moderate increase in organisation costs, which was basically due to staff costs linked to the need to maintain high service quality and to comply with the new industry regulations, caused net profit to fall by 8% to €514 thousand.

The business continued to develop mainly in the corporate business sector and in the financial and credit institutions sector, where the company boasts special knowledge and professionalism.

The main future projects relate to the commercial and organisational aspects. In the first project activities relating to Basel 2 and small businesses are being studied whilst the second will review all company processes in the light of the new industry regulations.

### C.B.A. Vita S.p.A.

The company, the head office of which is in Milan, operates in the sector of life, sickness and personal accident insurance with an overall insurance portfolio, at the end of 2007, amounting to €670.7 million, 2.7% more than in 2006.

During the year the company achieved an overall net collection of €151.3 million, deriving mainly from traditional life policies (€51.7 million) and index-linked policies (€93.2 million); premiuns ceded amount to €5.6 million.

The net result of the financial and insurance business was €8.9 million, as opposed to the €10.6 million of the previous year.

Organisation costs amounted to €3.3 million, of which €2 million related to staff and €1.3 million related to administration expenses, and constituted an increase of 12% over the figure for 2006, mainly as a result of the increased staff costs.

The number of employees compared with the previous year increased by three, from 18 to 21, and as four people were hired and one person left the company.

The company thus closed the year with a net profit of €2.2 million compared with the €4.1 million of the previous year.

During the first half of 2007 the insurance company InChiaro Assicurazioni S.p.A. was set up, in which CBA Vita S.p.A. has a 49% holding. InChiaro requested authorisation from Isvap to provide insurance against damage and received this authorisation in September. Owing to organisational and staff-training needs the company started selling in 2008.

With regard to life-assurance products, in 2007 CBA Vita S.p.A. launched 7 different index-linked products that not only refund the capital upon maturity but also pay periodical dividends partly at preset dates and partly according to the performance of the share indices. These new products were, as in the past, very carefully tailored to provide the insured shareholder with opportunities to make profits.

In addition, the product catalogue distributed over the year by the parent company is very comprehensive and has been updated to include the new pension product called "CBA Previdenza". This product was devised to respond to the recent changes to the rules governing supplementary pensions and was authorised by the COVIP on 17 April 2007 and registered in the register as number 5001. Since July 2007 a segment I product has also been marketed that provides specific assets to cover commitments that lasts two years and is designed to cater for customers who use short-term investment instruments.

### Sella Life Ltd

Sella Life Ltd, the head office of which is in Dublin, specialises in the issue of unit-linked policies, distributed mainly by the Group's network in Italy and abroad. In particular, the company offers customised policies, which are known in English-speaking countries as personal portfolio bonds and are aimed at private customers.

During the year the company collected premiums worth €86 million, achieving an overall insurance portfolio of about €417 million.

Operating revenues amounted to €1.5 million, which was a slight drop compared with the previous year and was due to a significant reduction in the retail portfolio, which had reached maturity. Organisation costs amounted to €1.8 million and were therefore 5.2% down on the previous year

The combination of these effects means that the company closed the year with a loss of approximately €566 thousand (the previous year's loss was €315 thousand).

In 2007 the company's structure was reinforced through the appointment of a new financial controller and an operations manager.

## BANKING SERVICES

### Sella Synergy India Ltd

The company, the head office of which is in Chennai (Madras, India), operates in the field of design and development of IT products for the Group's companies and banks. Operating revenues, amounting to €2.7 million, was 4% greater than in 2006.

The organisation costs amounted €2.4 million and rose by 19% compared with the previous year mainly due to increased staff costs of €1.8 million due to increases in local salaries, while the rise in other administrative costs, amounting to €0.6 million, was essentially due to costs sustained following expansion of the working areas.

The company closed the year with net profit of €152 thousand, compared with €538 thousand the previous year.

### Selir S.r.l.

The Company, whose head office is in Galati (Rumania), operates in the field of design and development of IT products and the provision of administrative services exclusively for the Group's banks, Easy Nolo and Consel.

Operating revenues, amounting to €2.8 million, grew by 57.2% compared with 2006, with net revenue from services rising by 52% following the increase in the work performed by the Service Centre (up 124%) and invoicing connected to software development (up 33%).

Organisation costs amounted to 2.6 million, an increase of 82% over 2006. This is due to a 51% increase in staff costs, amounting to €1.4 million, following the hiring of 64 new employees, and the 114% increase in other administrative costs.

The company closed the financial year with net profit of €103,000, an increase over last year's profits of €239 thousand.

### Easy Nolo S.p.A.

The company, the head office of which is in Biella, operates in the field of electronic payment systems and specialises in the sector of e-commerce-gateway payment, POS, fidelity solutions and mobile services. Its activities include: developing software for systems for accepting online and offline payments on national and international circuits; hiring, installing and maintaining POS equipment for businesses and banks; creating and managing services with added value that can be provided on POS (telephone recharges, payment of bills, customised fidelity services, creation of Easy Più national fidelity circuit, consultancy and assistance in the creation of complex projects for managing payments received).

Production value amounted to €11.1 million, and represented an increase of 32.1% compared with the previous year.

Production costs amounted to €10.5 million. They represented a 38.2% increase on the previous year, also because of the depreciation of certain receivables.

Consequently, the difference between revenue and production costs amounting to €643,000 constituted a fall of 16.6% compared with the previous year.

The company closed the year with net profit of €354 thousand, compared with the €274 thousand of the previous year.

## COMPANIES BEING WOUND UP

### Sella Austria Financial Services AG

The company started winding-up procedures in October 2005 and they should be completed in 2008. At 31 December 2007 the company's net profit amounted to approximately €10 thousand.

### Sella Capital Management SGR S.p.A.

Further to the motion passed by the Shareholders' Meeting of 23 April 2007 that came into effect on 1 June 2007, the company transferred to Sella Gestioni SGR, the company's asset management and consultancy division, except for the private equity project and the equity.

Further to the motion passed by the Shareholders' Meeting of 18 September 2007 that came into effect on 1 October 2007, the company went into voluntary liquidation following the transfer of the company's asset management and consultancy division, and after forgoing setting up the closed fund "Sella Private Equity Fund".

Following the request for deletion from the register pursuant to article 35 of legislative decree 58/98, Banca d'Italia, having consulted CONSOB, found no reasons to refuse the request and ordered the deletion of the company from the Register of Savings Management Companies in its ruling of 6 December 2007.

Following the above ruling, the company finished the year 2007 with a simplified organisation geared to assisting the activities connected with the winding-up of the company and handling remaining claims and lawsuits relating to the previous activities of Sella Capital Markets SIM, a company that had already ceased trading and from which the company acquired the business on 23 November 2003.

The above events adversely affected the company, which closed the year at a loss amounting to €133 thousand whereas it finished the previous year with a profit of €442 thousand.

**Selsoft Direct Marketing S.p.A.**

The company completed winding-up operations and the final statement of realisation and liquidation will be drawn up in the first half of 2008. At 31 December 2007 the loss amounted to €42 thousand.

# OUTLOOK

## SCENARIO

The world economy may slow down in 2008 because of the financial crisis generated by the subprime mortgages in the USA.

Consumer consumption could be adversely affected by the expected deterioration in the labour market, inflationary pressure the main drivers of which are food and energy and by the continuing credit squeeze. The last factor could also affect companies' investment plans; they are already showing signs of declining confidence. The residential housing market is expected to remain weak in both the USA and in eurozone countries, where housing-market growth rates had been significant.

In the euro area, and in particular Italy, exports are likely to fall because of the slowdown in global growth and the growing strength of the euro.

Growth prospects for emerging countries depend on how the world economy will develop. A slowdown in exports and in the growth of the price of raw materials are risk factors that cannot be ignored. Nevertheless, the improved macroeconmic fundamentals of most emerging countries and above all the emergence of significant domestic demand should ensure a good level of growth.

Consumer prices. Although the prices of both energy and food commodities prices are expected to stabilise gradually, the basic effect of these two items is likely to keep inflation high in 2008.

Short-term interest rates in the USA and the eurozone will probably be influenced by the FED's expansionary monetary policy and by the ECB's moving to a more open position with regard to expansionary measures. After a period of initial weakness, long-term interest rates should start to rise both in the USA and in the eurozone in 2008 as concerns over growth and inflationary pressure alter.

On the basis of the foregoing remarks, the following development of the Italian credit and finance system could be supposed:

- moderate growth in revenue in view of Italy's economic performance and the turmoil on the financial markets;
- a slight deterioration in credit risk due to slower economic growth;
- fiercer competition and a different type of competition due to the concentration of banking groups through mergers and the strengthening of foreign operators; however, these factors should create opportunities for banks that are well established in the country, especially in dealings with customers;
- a constant increase in compliance costs deriving from the implementation of numerous European regulatory innovation programmes (Basel II, Mifid, Sepa) and deriving from the necessary control structures and organisational modifications;
- transformation of the consultancy and savings management activities brought about by the new standards (MiFid) and by the evolution of the financial markets, and the simultaneous gradual development of pension funds and similar benefit instruments;
- changes to the social fabric and demographic effects with an increasing number of customers who are "over 50" and of immigrants;
- gradual growth in technological innovation as a determining factor for the banking and finance sector, in terms of both corporate organisation the control of risks and customer interaction methods;
- increased operating risk.

## STRATEGY AND PROFITABILITY OF THE GROUP

The Banca Sella Group has always had the vocation of being a bank and providing financial services, to generate profits and to create value over time, drawing its inspiration from ethical values and at the same time furthering the interests of the customers, whilst taking a long-term view.

In order to achieve this goal again for the three-year period 2008 to 2010, in the light of the general picture that has been painted, the Group will continue to focus its strategies on the following three directions:

- **growth**
- **efficiency and control**
- **excellence**

**Growth,** both in terms of size with the opening of new branches and the development of sales outlets of the credit networks (Consel and Biella Leasing), and in the number of customers, also through the development of telematic and alternative channels.

In particular, in order to increase customer numbers, there will be greater focus on:

- innovation of services offered;
- a new approach to management of customer deposits to maximise the performance of customer portfolios;
- winning customer loyalty and retaining existing customers;
- commercial organisation of specialised distribution networks by customer target (Private customers: Retail, Affluent, Private, Family Office; Corporate: Small Businesses, Small to Medium Business, Corporate and Large Corporate).

Cross-selling will also be increased in order to promote product quality and competitive and geographical diversification.

**Efficiency,** through continuous reinforcing and profound innovation of the organisational model and by ever more effective controls.

In particular, the main guidelines for achieving efficiency will focus on:

- reinforcing internal control activities through:
  - getting the Compliance Service running
  - completing the "iron-cladding the foundations" projects (efficacy, automation and comprehensiveness of controls)
  - adopting a high-level ICAAP process
  - reviewing and overhauling the organisation of credit management;
- further rationalisation of company arrangements;
- outsourcing of administrative activities to Romania.

The Group's objective of recovering productivity and efficiency aims at a ratio of cost to income from banking and insurance of 68.4% at the end of the three-year period; at the same time all the planned development projects will have been implemented.

**Excellence.** This is the principle that is behind organisational choices relating to product range and staff recruitment. Our objective is to distinguish ourselves in customers' eyes through the high quality of the service provided and increasingly great risk-control capacity.

In addition to ordered and controlled development, the structure of the Group must always ensure that distinguishing features are maintained and respected at all times:

- personal relation,
- trust,
- innovation,
- quality.

The above guidelines will be implemented through:

- completing the rationalisation of the Group structure by reducing the number of companies still further;
- consolidating and perfecting the activities and role of the parent company by implementing further governance, planning and control processes in order to provide appropriate support in the development of the companies of the Group;
- simplifying and innovating operating processes;
- a continuation of the automation plan aimed at reducing the use of human resources for performing administration work;
- high and constant investment in training and developing human resources;
- constant revising of the Management and Coordination Chart in order to have the best distribution of delegation and responsibility.

Achieving the strategic plan objectives, activities for regaining efficiency and improving the risk management will enable the Group to have high income capacity structurally: the objective is to maintain an average ROE (considering the profit before the effect of equity management and prudential policies) of about 9% over the three-year period.

# SIGNIFICANT EVENTS OCCURRED AFTER THE CLOSE OF THE FINANCIAL YEAR

During the first part of the financial year 2008 the following important facts occurred:

- the InChiaro damage insurance company started operations;
- in February Banca d'Italia completed its inspection of the Group company Banca Patrimoni Sella & C. that had started in the last months of 2007;
- on 21 March 2008 a final settlement was reached with the receivers of the open-end investment companies Amis and TTM that had in 2006 caused Sella Bank Luxembourg, to be sued for a total of €70,176,545.68.

  This settlement was also enforced by the Luxembourg court and involves Sella Bank Luxembourg paying out €25.5 million to cover (in full settlement of the relative disputes) both the lawsuits filed by the receivers and the claims from customers who had invested in the Vario Invest product.

  In the light of the activities conducted and described briefly above, the allocated amount indicated in Table 12.1 "Composition of provisions for risks and charges" of section 12 in part B of the Notes to the Financial Statements appears to be appropriate.

  For fuller details on the operation, see the part dedicated to Sella Bank Luxembourg in the section "Group companies" of this Report of the Directors.
- On 31 March, the parent company, Sella Holding Banca, changed its name to Banca Sella Holding S.p.A.

As part of the rationalisation of the Group companies, the following processes were started:

- the American branch Banca Sella Miami was shut down;
- Banca Arditi Galati S.p.A., Banca di Palermo S.p.A. and the branches of Banca Sella S.p.A. in Campania joined together to form a single entity known as "Banca Sella Sud Arditi Galati S.p.A", as explained more fully in the section "Change in the Group structure and in equity investment".

Lastly, the Group's distribution network was extended through the Group's distribution network with the opening, in the first months of the year, of the Banca Sella branch in Gallarate, the opening of a branch of Banca Arditi Galati in Foggia, and the opening of two new Consel branches in Brescia and Modena.

# OWN SHARES

Neither Sella Holding Banca SpA nor any other company included in the consolidation has, during the course of the financial period, held, purchased or sold its own shares or those of the parent company.

Sella Consult SIM S.p.A. was taken over by Banca Patrimoni S.p.A. solely for accounting and tax purposes with effect from 1 January 2007. This technical accounting move caused the shares of Banca Patrimoni S.p.A. to be transferred. They had previously been held by Sella Consult SIM S.p.A. but had been transferred to Sella Holding Banca before the date of the merger.

# RECONCILIATION STATEMENT BETWEEN SHAREHOLDERS' EQUITY AND INCOME OF THE PARENT COMPANY AND CONSOLIDATED SHAREHOLDERS' EQUITY AND INCOME

| *(euro thousand)* | Profit for the year 31/12/2007 | Net equity at 31/12/2007 |
|---|---|---|
| **Balances as per parent company financial statements** | **65.713** | **455.238** |
| Own shares deduction | - | - |
| Group profit of the companies consolidated with line by line method and equity method | - | 13.810 |
| Income for the period of the consolidated subsidiaries, after deducting minority interest profit for the period | 84.982 | 84.982 |
| Income for the period of investments carried at equity | 600 | 600 |
| Elimination of intragroup dividends collected during the period | (30.411) | - |
| Consolidations adjustments: | | |
| Depreciations of goodwills made before 1.1.2004 | - | (16.412) |
| Write-off of the revenues of sales made between group companies | - | (16.236) |
| Other adjustments | (77) | 388 |
| **Balances as per consolidated financial statements** | **120.807** | **522.370** |

The difference between the shareholders' equity reported in the company's financial statements and the shareholders' equity reported in the consolidated financial statements is due to the application of the criteria and methods described in part A "Accounting Policies" of the Notes to the Consolidated Financial Statements. These comply with regulatory requirements and represent the assets and liabilities and the results of the Group as if it were a single company entity.

Biella, 28 March 2008

In the name and on behalf of the Board of Directors
The Chairman of the Board of Directors
**Maurizio Sella**

# REPORT OF THE BOARD OF STATUTORY AUDITORS

**On the financial statements for the year ended 31 december 2007**

# REPORT OF THE BOARD OF STATUTORY AUDITORS

Dear Shareholders,

During the year, the Board of Statutory Auditors has scrutinised all important operations, directly and based on information provided as per article 2381, paragraph 5, of the Italian Civil Code.

The following operations were of particular note.

- On 13 February 2007, Selgest S.A., a Luxembourg-based company, started operations. This new company manages the Group's three open-end investment companies.
- On 28 February 2007 the insurance company InChiaro Assicurazioni S.p.A. (authorised by Isvap last September) was set up. C.B.A Vita S.p.A. has a 49% holding and HDI Assicurazioni S.p.A. has a 51% holding in the new company, which provides bank insurance.
- The two savings management companies of the Group were concentrated in Sella Gestioni SGR S.p.A. The concentration was achieved by Sella Gestioni SGR S.p.A. acquiring, on 1 June 2007, the asset management and consultancy activities originally conducted by Sella Capital Management SGR S.p.A. Pooling the activities of the two savings management companies into a single company enabled a single entity to be created for managing collective and individual products aimed at retail institutional customers. On 1 October 2007, Sella Capital Management SGR S.p.A. was wound up.
- Sella Consult SIM S.p.A. was taken over by Banca Patrimoni S.p.A. The takeover was completed on 12 November 2007 and at the same time Banca Patrimoni S.p.A. became Banca Patrimoni Sella & C. S.p.A. The new company is a bank that is even more specialised in advanced asset management and in private banking services that offer customers highly specialised assistance through private bankers and financial promoters.
- Takeover of Sella South Holding S.p.A. (finance company managing the Group's shareholdings in Southern Italy) by Sella Holding Banca S.p.A. The takeover was completed on 29 November 2007 and shortened the control chain.
- The winding up of Sella Capital Markets Sim S.p.A. was completed.
- On 29 June 2007, as part of the process of restructuring foreign holdings, Sella Holding NV sold 100% of the share capital of International Capital Holding S.A. to Invest Securities Corporate S.A.
- On 20 December 2007, Consel S.p.A., a Group company operating in the consumer credit sector, signed a long-term industrial partnership agreement with Toro Assicurazioni S.p.A in order to obtain synergies between products and sales networks.

* * *

The consolidated financial statements for the year ended December 2007, which are submitted for your examination, consist of the consolidated Balance Sheet, the Consolidated Income Statement, the statement of changes to shareholders' equity, the Cash Flow Statement and the notes to the consolidated financial statements (supplementary note). It is accompanied by the Report of the Directors. The year closed with a comprehensive net income amounting to €134,601 thousand, 120,807 thousand of which is Group income, whilst net income attributable to minority interests amounted to €13,794 thousand. Shareholders' equity totalled €645,899 thousand, €123,529 thousand of which is attributable to minority interests.

The Balance Sheet, the Income Statement, the statement of changes to shareholders' equity, the Cash Flow Statement and the Notes to the Financial Statements were drawn up in compliance with the International Accounting Standards and according to the instructions contained in Memorandum 262 of 22 December 2005 issued by the Banca d'Italia.

The results and the statements sent by the subsidiaries have been prepared by their respective boards of directors.

They have been scrutinised by the outside auditing company in compliance with the set procedures for auditing consolidated financial statements and the bookkeeping entries have been scrutinised by the bodies and/or people responsible for the control of the individual companies, according to the respective regulations.

The board of statutory auditors has not therefore extended its auditing to these entries and information, and therefore to the consolidated financial statements, except for what is illustrated here, as per article 41 of legislative decree 127/1991.

Based on direct information and the elements gathered, we acknowledge the following:

- The financial years of all the companies that are part of the Banca Sella Group end at 31 December each calendar year, except for Brosel S.p.A., the financial year of which ends at 30 November. In fact also Sella Synergy India Ltd, which used to close its financial year at 31 March, changed it balance-sheet date to 31 December to bring it into line with the other companies.
- The consolidated financial statements of the Group (consisting of 27 subsidiaries and 3 associated companies) have been prepared through line – by - line consolidation of all the subsidiaries; the three associated companies have been consolidated under the equity method.
- The consolidation area, evaluation criteria and principles adopted are fully explained by the directors in the Notes to the Financial Statements.
- The explanatory note and the Report of the Directors contain all the information required by law and are consistent with the financial-statement entries.
- The outside auditors, Reconta Ernst & Young S.p.A., were appointed to audit the financial statements in accordance with article 2409 b of the Italian Civil Code. – At today's meeting to discuss the reciprocal activities for 2007 the outside auditors informed us that they would issue a favourable opinion without any comments on the consolidated financial statements that was based on the findings of the work performed until now.

Lastly, we confirm that all information on the consolidated financial statements for the year ended 31 December, 2007 was presented to the shareholders together with the information on the financial statements at that date.

Biella, 2 April 2008

The statutory auditors

Alessandro Rayneri    Paolo Piccatti    Alberto Rizzo

# CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2007

# CONSOLIDATED BALANCE SHEET

| **ASSETS** *(euro thousand)* | **31/12/2007** | **31/12/2006** | **Differences %** |
|---|---|---|---|
| 10. Cash and available liquidity | 119.713 | 100.372 | 19,27% |
| 20. Financial assets held for trading | 1.193.384 | 1.243.021 | -3,99% |
| 30. Financial assets accounted for at fair value | 796.365 | 782.619 | 1,76% |
| 40. Financial assets available for sale | 282.237 | 299.610 | -5,80% |
| 50. Financial assets held to maturity | 92.570 | 82.655 | 12,00% |
| 60. Due from banks | 1.920.712 | 1.510.120 | 27,19% |
| 70. Due from customers | 7.231.088 | 6.596.710 | 9,62% |
| 80. Hedging derivatives | 13.388 | 7.621 | 75,67% |
| 100. Equity investments | 11.973 | 6.977 | 71,61% |
| 110. Reinsurers' share of technical reserves | 4.502 | 3.466 | 29,89% |
| 120. Tangible assets | 167.108 | 157.402 | 6,17% |
| 130. Intangible assets | 75.806 | 65.892 | 15,05% |
| of which: | | | |
| - goodwill | 47.779 | 44.559 | 7,23% |
| 140. Tax assets | 151.353 | 145.760 | 3,84% |
| a) current | 97.602 | 87.189 | 11,94% |
| b) prepaid | 53.751 | 58.571 | -8,23% |
| 150. Non-current assets and groups of assets from discontinued operations | 2.794 | - | - |
| 160. Other assets | 418.508 | 360.756 | 16,01% |
| **Total assets** | **12.481.501** | **11.362.981** | **9,84%** |

| **LIABILITIES AND SHAREHOLDERS' EQUITY** *(euro thousand)* | **31/12/2007** | **31/12/2006** | **Differences %** |
|---|---|---|---|
| 10. Due to banks | 650.226 | 497.017 | 30,83% |
| 20. Due to customers | 7.534.294 | 6.974.506 | 8,03% |
| 30. Securities in circulation | 1.759.778 | 1.667.618 | 5,53% |
| 40. Financial liabilities held for trading | 41.418 | 37.604 | 10,14% |
| 50. Financial liabilities accounted for at fair value | 591.951 | 561.115 | 5,50% |
| 60. Hedging derivatives | 9.902 | 1.786 | 454,42% |
| 80. Tax liabilities | 71.548 | 70.532 | 1,44% |
| a) current | 60.052 | 55.648 | 7,91% |
| b) deferred | 11.496 | 14.884 | -22,76% |
| 100. Other liabilities | 559.539 | 406.024 | 37,81% |
| 110. Employee severance payment fund | 39.709 | 47.718 | -16,78% |
| 120. Provisions for risks and charges: | 79.738 | 82.847 | -3,75% |
| a) retirement and similar obligations | - | - | - |
| b) other provisions | 79.738 | 82.847 | -3,75% |
| 130. Technical reserves | 497.499 | 467.091 | 6,51% |
| 140. Valuation reserves | 34.327 | 85.179 | -59,70% |
| 170. Reserves | 237.822 | 188.821 | 25,95% |
| 180. Share premiums | 49.414 | 49.414 | - |
| 190. Capital | 80.000 | 80.000 | - |
| 210. Minority interest profit (+/-) | 123.529 | 95.920 | 28,78% |
| 220. Profit for the year | 120.807 | 49.789 | 142,64% |
| **Total liabilities** | **12.481.501** | **11.362.981** | **9,84%** |

# CONSOLIDATED INCOME STATEMENT

| ITEMS *(euro thousand)* | YEAR 2007 | YEAR 2006 | Differences % |
|---|---|---|---|
| 10. Interests receivable and similar income | 604.782 | 471.754 | 28,20% |
| 20. Interests payable and similar expenses | (302.156) | (208.944) | 44,61% |
| **30. Net interest income** | **302.626** | **262.810** | **15,15%** |
| 40. Commission income | 294.519 | 303.628 | -3,00% |
| 50. Commission expense | (91.881) | (96.944) | -5,22% |
| **60. Net commissions** | **202.638** | **206.684** | **-1,96%** |
| 70. Dividends and similar income | 8.731 | 6.286 | 38,90% |
| 80. Net income from trading | 15.945 | 43.674 | -63,49% |
| 90. Net income from hedging | 492 | (872) | -156,42% |
| 100. Income (losses) from sale or repurchase of: | 88.834 | 49.535 | 79,34% |
| a) receivables | - | - | - |
| b) financial assets held for sale | 88.458 | 49.472 | 78,80% |
| c) financial assets held to maturity | - | - | - |
| d) financial liabilities | 376 | 63 | - |
| 110. Net income from financial assets and liabilities accounted for at Fair Value | (15.647) | (10.870) | 43,95% |
| **120. Operating revenues** | **603.619** | **557.247** | **8,32%** |
| 130.Net adjustments for impairment of: | (49.172) | (52.226) | -5,85% |
| a) receivables | (47.103) | (52.709) | -10,64% |
| b) financial assets held for sale | (603) | - | - |
| c) financial assets held to maturity | - | - | - |
| d) other financial operations | (1.466) | 483 | -403,52% |
| **140. Net income for banking activity** | **554.447** | **505.021** | **9,79%** |
| 150. Net premiums | 151.277 | 139.247 | 8,64% |
| 160. Balance of other income/expenses from insurance operations | (143.027) | (142.135) | 0,63% |
| **170. Net income for financial and insurance operations** | **562.697** | **502.133** | **12,06%** |
| 180. Administrative expenses | (384.586) | (349.114) | 10,16% |
| a) staff expenses | (229.886) | (207.559) | 10,76% |
| b) other administrative expenses | (154.700) | (141.555) | 9,29% |
| 190. Net allocations to provisions for risks and charges | (8.010) | (55.605) | -85,59% |
| 200. Net adjustments to tangible assets | (19.263) | (16.448) | 17,11% |
| 210. Net adjustments to intangible assets | (9.442) | (9.047) | 4,37% |
| 220. Other operating expenses/income | 56.005 | 44.944 | 24,61% |
| **230. Operating costs** | **(365.296)** | **(385.270)** | **-5,18%** |
| 240. Income (losses) of equity investments | 700 | 172 | 306,98% |
| 260. Adjustments for goodwill | - | (102) | - |
| 270. Income (losses) from sale of investments | 39 | (312) | -112,50% |
| **280. Pre-tax income (losses) from current operations** | **198.140** | **116.621** | **69,90%** |
| 290. Income taxes for the year on current operations | (63.439) | (59.834) | 6,03% |
| **300. After tax income for the year on current operations** | **134.701** | **56.787** | **137,20%** |
| 310. After tax income (loss) of groups of assets in course of divestment net of taxes | (100) | - | - |
| **320. Profit (loss) for the year** | **134.601** | **56.787** | **137,03%** |
| 330. Profit (loss) of minority interests for the year | 13.794 | 6.998 | 97,11% |
| **340. Parent company profits (losses) for the period** | **120.807** | **49.789** | **142,64%** |

# CONSOLIDATED CASH FLOW STATEMENT
## Direct method

| A) OPERATING ACTIVITY *(euro thousand)* | 31/12/2007 | 31/12/2006 |
|---|---|---|
| **1. Operations** | **126.372** | **99.766** |
| Interest income collected (+) | 604.782 | 464.587 |
| Interest expense paid (-) | (302.156) | (208.181) |
| Dividends and similar income | 8.630 | 1.815 |
| Net commissions (+/-) | 202.638 | 204.900 |
| Staff expenses | (233.573) | (201.195) |
| Net premiums collected (+) | 151.277 | 139.247 |
| Other insurance income/expenses (+/-) | (143.027) | (144.818) |
| Other costs (-) | (154.765) | (141.555) |
| Other revenues (+) | 56.005 | 44.800 |
| Taxes (-) | (63.439) | (59.834) |
| **2. Liquidity generated (absorbed) by financial assets** | **(1.020.210)** | **(784.850)** |
| Financial assets held for trading | 65.582 | (69.955) |
| Financial assets accounted for at fair value | (29.393) | - |
| Financial assets available for sale | 110.272 | 64.351 |
| Due from customers | (681.481) | (742.541) |
| Due from banks | (410.592) | (11.495) |
| Other assets | (74.598) | (25.210) |
| **3. Liquidity generated (absorbed) by financial liabilities** | **986.986** | **716.816** |
| Due to banks | 153.209 | 27.512 |
| Due to customers | 559.788 | 265.152 |
| Securities in circulation | 92.536 | 319.762 |
| Financial liabilities held for trading | 3.814 | 4.958 |
| Financial liabilities accounted for at fair value | 30.836 | - |
| Other liabilities | 146.803 | 99.432 |
| **Net liquidity generated (absorbed) by operating activity** | **93.148** | **31.732** |

| B. INVESTMENT ACTIVITIES *(euro thousand)* | 31/12/2007 | 31/12/2006 |
|---|---|---|
| **1. Liquidity generated by:** | **1.504** | **18.060** |
| Sales of equity stakes | 1.108 | 854 |
| Dividends collected on equity investments | 101 | 4.471 |
| Sales/redemptions of financial assets held to maturity | - | - |
| Sales of tangible assets | 295 | 13.351 |
| Sales of intangible assets | - | (616) |
| Sales of subsidiaries and company branches | - | - |
| **2. Liquidity (absorbed) by:** | **(67.346)** | **(36.425)** |
| Purchases of equity investments | (5.404) | - |
| Purchases of financial assets held to maturity | (9.693) | 247 |
| Purchases of tangible assets | (32.893) | (21.663) |
| Purchases of intangible assets | (15.538) | (15.009) |
| Purchases of subsidiaries and company branches | (3.818) | - |
| **Net liquidity generated (absorbed) by investment activity** | **(65.842)** | **(18.365)** |

| C. FUNDING ACTIVITY *(euro thousand)* | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Issue/purchase of own shares | - | - |
| Issue/purchase of capital instruments | - | - |
| Distribution of dividends and other destinations | (7.965) | (4.549) |
| **Net liquidity generated (absorbed) by funding activity** | **(7.965)** | **(4.549)** |
| | | |
| **NET LIQUIDITY GENERATED (ABSORBED) IN THE PERIOD** | **19.341** | **8.818** |

| RECONCILIATION *(euro thousand)* | 31/12/2007 | 31/12/2006 |
|---|---|---|
| **Cash and available liquidity at year start** | **100.372** | **91.554** |
| Total net liquidity generated (absorbed) during the year | 19.341 | 8.818 |
| **Cash and available liquidity at year end** | **119.713** | **100.372** |

# CHANGES TO CONSILIDATED SHAREHOLDERS' EQUITY

## CHANGES TO SHAREHOLDERS' EQUITY 2006 *(euro thousand)*

| | Cash balance at 31/12/2005 of the group | Cash balance 31/12/2005 of minority interest | Changes to opening balance | Cash balance at 1/1/06 of the group | Cash balance 01/01/2006 of minotiry interest | Allocation from previous period: Group provisions | Allocation from previous period: Minority interest provisions | Allocation from previous period: Dividends and other appropriations | Changes for the period: Changes in group provisions | Changes for the period: Changes in minority interest provisions |
|---|---|---|---|---|---|---|---|---|---|---|
| **Share capital:** | | | | | | | | | | |
| a) common shares | 20.000 | 44.450 | 60.000 | 80.000 | 44.450 | - | - | - | - | 862 |
| b) other shares | - | - | - | - | - | - | - | - | - | - |
| **Share premiums** | **-** | **15.316** | **49.414** | **49.414** | **15.316** | **-** | **-** | **-** | **-** | **898** |
| **Reserves:** | | | | | | | | | | |
| a) profits | 275.731 | 9.129 | (110.393) | 165.338 | 9.129 | 28.025 | 6.471 | - | (4.542) | (5.053) |
| b) other | - | - | - | - | - | - | - | - | - | - |
| **Valuation reserves:** | | | | | | | | | | |
| a) assets available for sale | 4.922 | 68 | - | 4.922 | 68 | - | - | - | 49.998 | 6.612 |
| b) cash flow hedging | - | - | - | - | - | - | - | - | - | - |
| c) special revaluation laws | 30.256 | 4.345 | - | 30.256 | 4.345 | - | - | - | 3 | (1.000) |
| **Capital instruments** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Own shares** | **(979)** | **-** | **979** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Profit (loss) for the year** | **30.938** | **6.471** | **-** | **30.938** | **6.471** | **(28.025)** | **(6.471)** | **(2.913)** | **-** | **-** |
| **Shareholders' equity** | **360.868** | **79.779** | **-** | **360.868** | **79.779** | **-** | **-** | **(2.913)** | **45.459** | **2.319** |

Continued

| | Changes for the period – Operations on shareholders' equity: Issue of new Group shares | Issue of new minority interest shares | Purchase of Group own shares | Purchase of minority interest own shares | Extraordinary dividend payout | Change in capital instruments | Derivatives on own shares | Stock options | Group net profit at 31/12/2006 | Minority interest net profit at 31/12/2006 | Group shareholders' equity at 31/12/2006 | Minority interest shareholders' equity at 31/12/2006 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Share capital:** | | | | | | | | | | | | |
| a) common shares | - | 2.264 | - | - | - | - | - | - | - | - | 80.000 | 47.576 |
| b) other shares | - | - | - | - | - | - | - | - | - | - | - | - |
| **Share premiums** | **-** | **4.560** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **49.414** | **20.774** |
| **Reserves:** | | | | | | | | | | | | |
| a) profits | - | - | - | - | - | - | - | - | - | - | 188.821 | 10.547 |
| b) other | - | - | - | - | - | - | - | - | - | - | - | - |
| **Valuation reserves:** | | | | | | | | | | | | |
| a) assets available for sale | - | - | - | - | - | - | - | - | - | - | 54.920 | 6.680 |
| b) cash flow hedging | - | - | - | - | - | - | - | - | - | - | - | - |
| c) special revaluation laws | - | - | - | - | - | - | - | - | - | - | 30.259 | 3.345 |
| **Capital instruments** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Own shares** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Profit (loss) for the year** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **49.789** | **6.998** | **49.789** | **6.998** |
| **Shareholders' equity** | **-** | **6.824** | **-** | **-** | **-** | **-** | **-** | **-** | **49.789** | **6.998** | **453.203** | **95.920** |

# CHANGES TO SHAREHOLDERS' EQUITY 2007

**CHANGES TO SHAREHOLDERS' EQUITY 2007** *(euro thousand)*

| | Cash balance at 31/12/2005 of the group | Cash balance 31/12/2005 of minority interest | Changes to opening balance | Cash balance at 1/1/06 of the group | Cash balance 01/01/2006 of minotiry interest | Allocation from previous period: Group provisions | Allocation from previous period: Minority interest provisions | Allocation from previous period: Dividends and other appropriations | Changes for the period: Changes in group provisions | Changes for the period: Changes in minority interest provisions |
|---|---|---|---|---|---|---|---|---|---|---|
| **Share capital:** | | | | | | | | | | |
| a) common shares | 80.000 | 47.576 | - | 80.000 | 47.576 | - | - | - | - | (6.594) |
| b) other shares | - | - | - | - | - | - | - | - | - | - |
| **Share premiums** | **49.414** | **20.774** | **-** | **49.414** | **20.774** | **-** | **-** | **-** | **-** | **(8.416)** |
| **Reserves:** | | | | | | | | | | |
| a) profits | 188.821 | 10.547 | - | 188.821 | 10.547 | 45.696 | 3.773 | - | 3.305 | 4.746 |
| b) other | - | - | - | - | - | - | - | - | - | - |
| **Valuation reserves:** | | | | | | | | | | |
| a) assets available for sale | 54.920 | 6.680 | - | 54.920 | 6.680 | - | - | - | (49.876) | (6.412) |
| b) cash flow hedging | - | - | - | - | - | - | - | - | - | - |
| c) special revaluation laws | 30.259 | 3.345 | - | 30.259 | 3.345 | (647) | - | - | (329) | (440) |
| **Capital instruments** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Own shares** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Profit (loss) for the year** | **49.789** | **6.998** | **-** | **49.789** | **6.998** | **(45.049)** | **(3.773)** | **(7.965)** | **-** | **-** |
| **Net equity** | **453.203** | **95.920** | **-** | **453.203** | **95.920** | **-** | **-** | **(7.965)** | **(46.900)** | **(17.116)** |

Continued

| | Changes for the period: Operations on shareholders' equity: Issue of new Group shares | Issue of new minority interest shares | Purchase of Group own shares | Purchase of minority interest own shares | Extraordinary dividend payout | Change in capital instruments | Derivatives on own shares | Stock options | Group net profit at 31/12/2006 | Minority interest net profit at 31/12/2006 | Group shareholders' equity at 31/12/2006 | Minority interest shareholders' equity at 31/12/2006 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Share capital:** | | | | | | | | | | | | |
| a) common shares | - | 7.677 | - | - | - | - | - | - | - | - | 80.000 | 48.659 |
| b) other shares | - | - | - | - | - | - | - | - | - | - | - | - |
| **Share premiums** | **-** | **26.479** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **49.414** | **38.837** |
| **Reserves:** | | | | | | | | | | | | |
| a) profits | - | - | - | - | - | - | - | - | - | - | 237.822 | 19.066 |
| b) other | - | - | - | - | - | - | - | - | - | - | - | - |
| **Valuation reserves:** | | | | | | | | | | | | |
| a) assets available for sale | - | - | - | - | - | - | - | - | - | - | 5.044 | 268 |
| b) cash flow hedging | - | - | - | - | - | - | - | - | - | - | - | - |
| c) special revaluation laws | - | - | - | - | - | - | - | - | - | - | 29.283 | 2.905 |
| **Capital instruments** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Own shares** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Profit (loss) for the year** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **120.807** | **13.794** | **120.807** | **13.794** |
| **Net equity** | **-** | **34.156** | **-** | **-** | **-** | **-** | **-** | **-** | **120.807** | **13.794** | **522.370** | **123.529** |

# EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

# PART A – ACCOUNTING POLICIES

# A.1 GENERAL SECTION

# SECTION 1
# DECLARATION OF CONFORMITY TO INTERNATIONAL ACCOUNTING STANDARDS

These consolidated financial statements have been drafted according to the international IAS/IFRS principles validated by the European Union and in force at the time of their approval.

The financial statements reflect, on a consolidated basis, the equity, income and finances of the companies belonging to Banca Sella Group. The financial statements used for drafting the consolidated financial statements were those drafted by the companies of the Group with reference to the 2007 accounting period and rectified, wherever necessary, to adjust them to the IAS/IFRS.

The IAS/IFRS principles in force on the date of drafting of the financial statements and the relevant interpretations, adopted within these financial statements with regard to the events established by these principles, are listed hereunder.

| Accounting principle | Title |
|---|---|
| IAS 1 | Presentation of Financial Statements |
| IAS 2 | Inventory |
| IAS 7 | Cash-Flow Statements |
| IAS 8 | Changes in Accounting Estimates and Errors |
| IAS 10 | Events after the Balance Sheet Date |
| IAS 11 | Construction Contracts |
| IAS 12 | Income taxes |
| IAS 14 | Segment Reporting |
| IAS 16 | Property, Plant and Equipment |
| IAS 17 | Leases |
| IAS 18 | Revenue |
| IAS 19 | Employee Benefits |
| IAS 20 | Accounting for Government Grants and Disclosures of Government Assistance |
| IAS 21 | The Effects Changes in Foreign Exchange Rates |
| IAS 23 | Borrowing Costs |
| IAS 24 | Related Party Disclosures |
| IAS 26 | Accounting and Reporting by Retirement Benefit Plans |
| IAS 27 | Consolidated and Separate Financial Statements |
| IAS 28 | Investments in Associates |
| IAS 29 | Financial Reporting in Hyperinflationary Economies |
| IAS 30 | Disclosures in Financial Statements of Banks and Similar Financial Institutions |
| IAS 31 | Interests in Joint Ventures |
| IAS 32 | Financial instruments: Disclosure and Presentation |
| IAS 33 | Earnings per Share |
| IAS 34 | Interim Financial Reporting |
| IAS 36 | Impairment of Assets |
| IAS 37 | Provisions, Contingent Liabilities, and Contingent Assets |
| IAS 38 | Intangible fixed assets |
| IAS 39 | Financial Instruments: Recognition. and Measurement |
| IAS 40 | Investment Property |
| IAS 41 | Agriculture |

| | |
|---|---|
| IFRS 1 | First-time Adoption of International Financial Reporting Standards |
| IFRS 2 | Share-based Payment |
| IFRS 3 | Business Combinations |
| IFRS 4 | Insurance contracts |
| IFRS 5 | Non-current Assets Held for Sale and Discontinued Operations |
| IFRS 6 | Exploration for and Evaluation of Mineral Resources |
| IFRS 7 | Financial instruments - Disclosures |
| IFRS 8 | Operating Segments |

| **Interpretations** | **Title** |
|---|---|
| IFRIC 1 | Changes in Existing Decommissioning, Restoration and Similar Liabilities |
| IFRIC 2 | Members' Shares in Co-operative Entities and Similar Instruments |
| IFRIC 4 | Determining whether an arrangement contains a lease |
| IFRIC 5 | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds |
| IFRIC 6 | Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment |
| IFRIC 7 | Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies" |
| IFRIC 8 | Scope of IFRS 2 |
| IFRIC 9 | Reassessment of Embedded Derivatives |
| IFRIC 10 | Interim Financial Reporting and Impairment |
| IFRIC 11 | Group and Treasury Share Transactions |
| SIC 7 | Introduction of the Euro |
| SIC 10 | Government Assistance – No Specific Relation to Operating Activities |
| SIC 12 | Consolidation - Special Purpose Entities (SPEs) |
| SIC 13 | Jointly Controlled Entities – Non-Monetary Contributions by Venturers |
| SIC 15 | Operating Leases – Incentives |
| SIC 21 | Income Taxes – Recovery of Revalued Non-Depreciable Assets |
| SIC 25 | Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders |
| SIC 27 | Evaluating the Substance of Transactions in the Legal Form of a Lease |
| SIC 29 | Disclosure – Service Concession Arrangements |
| SIC 31 | Revenue – Barter Transactions Involving Advertising Services |
| SIC 32 | Revenue – Barter Transactions Involving Advertising Services |

# SECTION 2
# GENERAL DRAFTING PRINCIPLES

The consolidated financial statements for the year ended 31 December 2007 report the equity, financial situation and the result of operations of the Group for the year 2007 in total compared with the consolidated financial statements for the year ended 31 December 2006. The figures are reported in thousands of euros.

The consolidated financial statements consist of the Balance Sheet, the Income Statement, the statement of changes in shareholders' equity, the Cash Flow Statement and these Notes to the Financial Statements and they include the Board of Directors' report on the year's performance and on the overall situation of the companies included in the consolidation.

The consolidated financial statements have been drawn up clearly and give a true and fair view of equity and financial situation and the result of operations.

If the information requested by the international accounting policies and by the provisions contained in Banca d'Italia's memorandum 262 of 22 December 2005 is not sufficient to give a true and fair representation, additional information for this purpose is supplied in the Notes to the Financial Statements.

If, in exceptional circumstances, the application of a provision foreseen by the International Accounting Standards is incompatible with a true and fair representation of the equity and financial and of the result of operations, it will not be applied. In the Notes to the Financial Statements reasons are given for any derogation and its influence on the representation of the equity and income and on the result of operations.

**Comparative Reporting**

In compliance with International Accounting Standard IAS 1 "Presentation of the Financial Statements", the comparative entries for the previous year have been supplied. The entries in the financial statements are the same as those of the year being compared, except for some entries for 2006 that were reclassified. This is because for the year 2007 the option was used of reporting certain assets and liabilities connected to the Group's insurance activities as financial assets/financial liabilities stated at fair value.

It was thus deemed to be appropriate to reclassify the entries for the year 2006 in the following manner in order to make the comparison appropriate and homogeneous.

- assets:
  - €753,236 thousand stated under "Financial assets held for trading" was reclassified under "Financial assets stated at fair value";
- liabilities:
  - €553,014 thousand were reported under "Financial liabilities stated at fair value", €373,405 thousand of which came from the item "Technical reserves", and €179,609 thousand of which came from the item "Other liabilities".
- Income Statement
  - €4,467 thousand of costs coming from the item "Balance of other insurance revenue/charges" was reclassified under "Net result of financial assets and financial liabilities stated at fair value";
  - €6,403 thousand of costs coming from the item "Net trading result" was reclassified under "Net result of financial assets and financial liabilities stated at fair value";
  - €1,784 thousand of revenue coming from "Balance of other insurance revenue/charges" was reclassified under "Commission receivable".

As the entries have merely been reclassified the result for the year ended 2006 remains unchanged.

# SECTION 3
# CONSOLIDATION AREA AND METHODS

The Consolidated Financial Statements comprise the Balance Sheet and Income Statement of the parent company and of its directly and indirectly controlled companies.

The integral consolidation consists of the "line-by-line" acquisitions of the items of the Balance Sheets and Income Statements of the subsidiaries. After assigning to minority shareholders their share of equity and of the operating result, the value of the shareholding is set off against the residual value of the equity of the subsidiary. The resulting differences from this operation, if they are positive, are reported - after any assigning to the assets or liabilities of the subsidiary - as goodwill under "Intangible fixed assets" at the date of the first consolidation.

Assets, liabilities, revenue and charges between consolidated companies are eliminated completely.

The Income Statement of a subsidiary acquired during the accounting period has been included in the consolidated financial statements from the date of its acquisition. On the other hand, the profit-and-loss results of a transferred subsidiary are reported in the consolidated financial statements until the date when control is relinquished. The different between the transfer consideration and the book value at the date of divestment (including any exchange-rate differences recorded on an individual basis in the shareholders' equity during consolidation), is reported in the Income Statement. Where necessary, the financial statements of the consolidated companies, which may have been drawn up using different accounting principles, are made to comply with the Group's accounting principles.

Shareholdings that give the Group has considerable influence (so-called set of "associated companies"), i.e. companies the financial and management policies of which the Group can help determine without controlling the companies or having joint control of them, are reported according to the net equity method.

The net equity method states the statement at cost of the shareholding and its subsequent adjustment as a percentage of the shareholders' equity of the associated company. The differences between the value of the shareholding and the shareholders' equity are treated in the same way as the integral consolidation differences discussed above. The evaluation of the percentage holding of shareholders' equity does not consider potential voting rights. The percentage of the profit-and-loss results of the associated company is reported as a specific item of the Consolidated Income Statement.

Balance sheets, cash-flow statements and Income Statements of consolidated companies that are denominated in currencies other than the euro are converted according to the following rules:

- balance-sheet assets and liabilities are converted at the exchange rate obtaining at balance-sheet date;
- revenue and costs in the Income Statement are converted at the average exchange rate for the year;
- all exchange-rate differences arising from the conversion are reported in a specific and separate reserve that forms part of shareholders' equity. This reserve is eliminated by simultaneously crediting/charging to the Income Statement at the moment of transfer of the shareholding.

## 1. Exclusive shareholdings in subsidiaries

| Name of company | Head office | Type of relationship | Ownership Owner | Ownership % | Voting rights % |
|---|---|---|---|---|---|
| **A. Companies** | | | | | |
| **A.1 Line by line consolidation** | | | | | |
| 1. SELLA HOLDING BANCA S.p.A. | Biella | 1 | | | |
| 2. BANCA SELLA S.p.A. | Biella | 1 | A.1 1 | 100,0000% | 100,0000% |
| 3. BANCA SELLA NORDEST BOVIO CALDERARI S.p.A. | Trento | 1 | A.1 23 | 71,0000% | 71,0000% |
| 4. BANCA ARDITI GALATI S.p.A. | Lecce | 1 | A.1 1 | 51,2500% | 51,2500% |
| 5. BANCA DI PALERMO S.p.A. | Palermo | 1 | A.1 1 | 93,2000% | 93,2000% |
| | | | A.1 18 | 5,0000% | 5,0000% |
| 6. BANCA PATRIMONI SELLA & C. S.p.A. | Torino | 1 | A.1 1 | 68,1898% | 68,1898% |
| | | | A.1 3 | 3,0983% | 3,0983% |
| 7. SELLA BANK AG (D) | Switzerland | 1 | A.1 24 | 90,0000% | 90,0000% |
| 8. SELLA BANK LUXEMBOURG S.A. | Luxembourg | 1 | A.1 24 | 76,3447% | 76,3447% |
| | | | A.1 1 | 23,6553% | 23,6553% |
| 9. BIELLA LEASING S.p.A. | Biella | 1 | A.1 1 | 76,9114% | 76,9114% |
| 10. CONSEL S.p.A. | Torino | 1 | A.1 1 | 55,5252% | 55,5252% |
| 11. SELLA GESTIONI SGR S.p.A. | Milano | 1 | A.1 1 | 74,7850% | 74,7850% |
| | | | A.1 3 | 10,0000% | 10,0000% |
| | | | A.1 6 | 0,8983% | 0,8983% |
| 12. SELLA CAPITAL MANAGEMENT SGR S.p.A. *in liquidation* | Milano | 1 | A.1 1 | 85,9726% | 85,9726% |
| | | | A.1 3 | 10,0000% | 10,0000% |
| | | | A.1 6 | 2,5000% | 2,5000% |
| 13. SELGEST S.A. | Luxembourg | 1 | A.1 1 | 1,0000% | 1,0000% |
| | | | A.1 8 | 99,0000% | 99,0000% |
| 14. EASY NOLO S.p.A. | Biella | 1 | A.1 1 | 84,7368% | 84,7368% |
| 15. SELLA CORPORATE FINANCE S.p.A. | Biella | 1 | A.1 1 | 99,5000% | 99,5000% |
| | | | A.1 9 | 0,5000% | 0,5000% |
| 16. SELFID S.p.A. | Biella | 1 | A.1 1 | 88,0000% | 88,0000% |
| 17. SECURSEL S.r.l. | Milano | 1 | A.1 1 | 80,0000% | 80,0000% |
| 18. C.B.A. VITA S.p.A. | Milano | 1 | A.1 1 | 82,0000% | 82,0000% |
| | | | A.1 11 | 8,0000% | 8,0000% |
| | | | A.1 3 | 5,0000% | 5,0000% |
| 19. SELLA LIFE Ltd. | Ireland | 1 | A.1 18 | 100,0000% | 100,0000% |
| 20. BROSEL S.p.A. | Biella | 1 | A.1 1 | 61,0000% | 61,0000% |
| | | | A.1 3 | 10,0000% | 10,0000% |
| 21. SELIR S.r.l. (C) | Romania | 1 | A.1 24 | 99,9017% | 99,9017% |
| 22. SELLA SYNERGY INDIA Ltd. (E) | India | 1 | A.1 24 | 99,9999% | 99,9999% |
| 23. B.C. FINANZIARIA S.p.A. | Biella | 1 | A.1 1 | 80,0284% | 80,0284% |
| 24. SELLA HOLDING N.V. | The Netherlands | 1 | A.1 1 | 100,0000% | 100,0000% |
| 25. IMMOBILIARE LANIFICIO MAURIZIO SELLA S.p.A. | Biella | 1 | A.1 1 | 100,0000% | 100,0000% |
| 26. IMMOBILIARE SELLA S.p.A. | Biella | 1 | A.1 1 | 100,0000% | 100,0000% |
| 27. SELSOFT DIRECT MARKETING S.p.A. *in liquidation* | Biella | 1 | A.1 1 | 100,0000% | 100,0000% |
| 28. SELLA AUSTRIA FINANCIAL SERVICES AG *in liquidation* | Austria | 1 | A.1 24 | 93,9130% | 93,9130% |

*KEY TO SYMBOLS*
*TYPE OF RELATIONSHIP:*
*1= MAJORITY OF VOTING RIGHTS IN SHAREHOLDERS' ORDINARY MEETINGS*

## SECTION 4
## EVENTS AFTER THE BALANCE-SHEET DATE

The financial turmoil that has marked the beginning of the year 2008 has had a negative impact on the world's stock markets and therefore on the value of the Group's shareholding in London Stock Exchange Group Ltd., which fell significantly. Thus the positive fair value of €6 million stated at 31 December 2007 contrasts with negative fair value amounting to €12.4 million at 25 March 2008.

# SECTION 5
# OTHER ISSUES

There are no other remarkable issues to be disclosed.

# A.2 PART REFERRING TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS

## 1 – FINANCIAL ASSETS HELD FOR TRADING

Only debt and equity securities are classified in this category, as well as the positive value of the derivative contracts held for trading. Derivative contracts include those incorporated in complex financial instruments that were subject to separate recognition due to the fact that:

- their economic characteristics and the risks are not closely related to the characteristics of the underlying contract;
- the incorporated instruments, even if separate, meet the definition of derivative;
- the hybrid instruments that they belong to are not stated at fair value with the relevant variations charged to income.

The initial recognition of the financial assets takes place upon the settlement date, for debt and equity securities and at the time of subscription for the derivative contracts.

Upon initial recognition the financial assets held for trading are carried at cost, considered as fair value of the instrument. Any embedded derivative present in complex contracts not necessarily related to these and having the characteristics of meeting the definition of derivative is separated from the primary contract and stated at fair value, whereas its specific accounting criterion is applied to the primary contract.

Subsequent to the initial recognition, the financial assets held for trading are recognised at fair value.

To determine the fair value of the financial instruments listed in an active market, listings (bid prices) are used. In the absence of an active market, estimate methods and evaluation models are used that take into account all of the risk factors connected to the instruments and that are based on data available on the market such as: methods based on the evaluation of listed instruments with analogous characteristics, calculations of discounted cash flows, models of determining the price of options, values recorded in recent comparable dealings.

Equity securities and the related derivative instruments whose fair value cannot be determined in a reliable way according to the aforementioned guidelines, remain at cost.

The financial assets are derecognised when the contractual rights on the financial flows deriving from the assets themselves expire, or when the financial assets are assigned transferring substantially all of the risks/benefits related to them.

## 2 – FINANCIAL ASSETS AVAILABLE FOR SALE

This category includes non-derivative financial assets that are not otherwise classified as “credits”, “assets held for trading” or “assets held to maturity”.

In particular, this entry includes the equity investments not held for trading and not classifiable as controlled, associated and joint controlled.

The initial recognition of the financial asset takes place on the settlement date for debt or equity securities and upon the date of issue in the case of other financial assets not classified as credits.

Upon initial recognition, the assets are carried at cost, intended as fair value of the instrument, including costs or profits from trading directly attributable to the instrument itself. If the recognition takes place after reclassification of the “assets held to maturity”, the carrying value is represented by the fair value at the time of transfer.

After initial recognition, assets available for sale continue to be carried at fair value, and are stated in the Income Statement at depreciated cost, while the gains or the losses deriving from a variation of fair value are assigned to a specific “reserve of shareholders’ equity” until the financial asset is derecognised or impaired. At the time of divestment, the gains or losses are reported in the Income Statement.

With reference to equity investments not classifiable as controlling, associated and joint controlling shareholdings, since these equity instruments do not have a listed market price in an active market and therefore it is impossible to determine fair value determined in a reliable manner, they are carried at cost and depreciated in the case of impairment.

Tests for impairment are carried out at each financial statement closing or semi-annual closing. If the reasons for impairment cease to apply due to an event after recognition, write-ups are carried out and charged to income. The amount of the write-up cannot in any case exceed the depreciated cost that the instrument would have had in absence of previous adjustments.

Financial assets are derecognised when the contractual rights on the financial flows that derive from the operations themselves expire or when the financial assets are assigned by transferring substantially all of the risks/benefits related to them.

## 3 – FINANCIAL ASSETS HELD TO MATURITY

This category includes debt securities with fixed or fixable payments and fixed maturity date, which one intends and has the ability to hold to maturity. If after a change of opinion or ability it is not deemed appropriate to carry an investment as held to maturity, it is reclassified among assets available for sale.

The initial recognition of financial assets takes place at the settlement date. At the time of initial recognition the financial assets classified in this category are carried at cost, including any directly attributable costs and revenue. If the recognition in this category takes place following the reclassification from "assets available for sale", the fair value of the asset at the time of reclassification is carried as a new depreciated cost of the asset itself.

After the initial entry, the financial assets held to maturity are stated at the depreciated cost, applying the actual interest method. Profits or losses arising from variations in the fair value of the assets held to maturity are stated in the Income Statement when the operations are derecognised. At the end of the financial year and at the end of interim reporting periods, a test for impairment is performed. If evidence supports the existence of impairments, the loss amount is measured as the difference between the carrying value of the operation and the current value of estimated future financial flows, discounted at the original actual interest rate. The amount of the loss is charged to income. If the reasons for impairment cease to apply due to an event after recognition, write-ups are carried out and reported in the Income Statement.

The financial assets are derecognised when the contractual rights on the financial flows deriving from the assets themselves expire, or when the financial assets are assigned and substantially all of the risks/benefits related to them are transferred.

## 4 – CREDITS

Credits include loans to customers and to banks, both granted directly and acquired from third parties, that foresee fixed payments or payments that are anyway determinable, that are not listed in an active market and that were not classified at the beginning among financial assets available for sale. This item also includes trade credits, repurchase agreement operations, credits originating from financial leasing operations and securities acquired in subscriptions or private placements, with fixed or fixable payments, not listed on active markets.

The initial recognition of a credit takes place at the date of disbursement or, in the case of a debt security, at settlement date, on the basis of the fair value of the financial instrument. The latter generally amounts to the amount disbursed, or the price of subscription, including costs/profits directly traceable to the single credit and determinable already from the origin of the operation, even if settled in a subsequent period. Costs that are excluded are those that even though they have the aforementioned characteristics, are repaid by the debtor or that can be considered as ordinary internal administrative expenses. For loans granted on different conditions from those of the market, fair value is determined using specific evaluation techniques; the difference from the amount granted or the subscription price is allocated directly to income. Contango agreements and repurchase agreements with forward repurchase or resale obligation, are recorded in the financial statements as operations of deposit or loan. In particular, the operations of spot sale and forward repurchase are recorded in the financial statements as debts for the spot amount received, while the operations of spot purchase and forward resale are shown as credits for the spot amount given.

Loans are carried at the depreciated cost, amounting to the value of initial recognition minus/plus the principal reimbursements, the write-downs/write-ups and the amortisation – calculated with the actual interest rate method– of the difference between the amount disbursed and the amount reimbursable on the due date, generally related to costs/profits allocated directly to the single loan. The actual interest rate is the rate that equates the current value of future credit flows, for principal and interest, with the amount disbursed inclusive of costs/profits connected to the credit. This accounting method, using a financial logic, allows the distribution of the economic effect of the costs/profits along the expected residual life of the loan. The method of the depreciated cost is not used for loans whose brief duration renders the effect of the application of the discounting logic negligible. These loans are carried at historical cost and the costs/profits related to these are charged to income. The same accounting criterion is adopted for credit without definite or revocable expiration.

At each financial statement or interim period closing loans are tested for impairment which might have occurred after their initial recognition. Impaired loans include those that have been classified as non-performing, sub-standard or restructured, according to Banca d'Italia's current regulations, consistent with IAS rules.

These impaired loans are subject to an analytical evaluation procedure and the amount of the write-down for each loans amounts to the difference between the carrying value of the same at the time of evaluation (depreciated cost) and the current value of the expected future cash flows, calculated applying the effective original interest rate. The expected flows take into consideration the expected recovery time, the hypothetical realisation value of any guarantee and the costs expected to be incurred to recover exposure. The cash flows related to loans whose recovery is expected within a brief time are not discounted. The effective original rate of each loan remains unchanged in time even if a restructuring took place whereby a variation in the contractual rate occurred and also when the relation substantially ceases to bear contractual interests.

The write-down is entered in the Income Statement. The original value of the loans is restored in the following financial years if the reasons that determined the write-down cease to exist, as long as this evaluation can be objectively connected to an event that took place after the write-down itself. Write-ups are entered in the Income Statement and cannot in any case exceed the depreciated cost that the loan would have had without previous write-downs.

Non-impaired loans, i.e. usually performing loans, including those granted to counterparts that are residents of risk countries, are subject to joint evaluation. Such evaluation takes place by homogenous loan categories in terms of credit risk and the relevant loss percentages are estimated taking into account PD (Probability of Default) and LGD (Loss Given Default) determined on the basis of the Basel II Agreement. The estimate of potential losses is therefore calculated in each credit category. The write-downs determined jointly are charged to income. At the time of each financial statement closing and interim closing any additional write-down or write-up is recalculated in a differential way with reference to the entire performing loans portfolio at the same date.

Transferred loans are derecognised from the financial statements only if the transfer entailed substantial transfer of all risks and benefits connected to this credit. On the other hand, if the risks and benefits related to the transferred credit have been kept, these continue to be registered among assets, even if legally the loan title has been indeed transferred. Whenever it is impossible to ascertain the substantial transfer of risks and benefits, the loan is derecognised from the financial statements if no type of control was kept on it; otherwise, the maintaining, even partial, of such control entails keeping the loan in the financial statements in the amount amounting to its residual involvement, measured by the exposure to value changes of the transferred loans and their financial flows changes. Lastly, transferred loans are derecognised when contractual rights are kept to receive the corresponding cash flows, with the concurrent acceptance of an obligation to pay such flows, and only those, to third parties.

## 5 – FINANCIAL ASSETS CARRIED AT FAIR VALUE

Financial instruments stated at fair value are allocated to this item and a corresponding entry is recorded in the Income Statement. The Group has reported under this item the investments on behalf of policy-holders who do not desire risk and those arising from managing pension funds in the life assurance segment.

The initial recognition of the financial assets consists of certificates of indebtedness and of capital and occurs at settlement date.

Financial assets are initially stated at cost, which is defined as the fair value of the instrument. Financial assets are subsequently stated at fair value and variations to their value are reported in the Income Statement.

To determine the fair value of the financial instruments listed in an active market, listings (bid prices) are used. In the absence of an active market, estimate methods and evaluation models are used that take into account all of the risk factors connected with the instruments and that are based on data available on the market such as: methods based on the evaluation of listed instruments with analogous characteristics, calculations of discounted cash flows, models of determining the price of options, values recorded in recent comparable dealings.

The financial assets are derecognised when the contractual rights on the financial flows deriving from the assets themselves expire, or when the financial assets are assigned transferring substantially all of the risks/benefits related to them.

## 6 – HEDGING OPERATIONS

Assets and liabilities include hedging derivatives which at the date of closing of the financial statements present positive and negative fair value respectively.

Risk hedging operations are designed to counterbalance potential losses on a specific financial instrument or on a group of financial instruments, attributable to a specific risk, through the profits recognisable on a different financial instrument or group of financial instruments in case that particular risk should actually occur.

IAS 39 describes the following types of hedging:

- fair value hedging: a hedge of the exposure to changes in fair value of an item attributable to a particular risk;
- cash flow hedge: a hedge of the exposure to variability in cash flows attributable to particular risks associated with financial statements items;
- hedge of an investment in a foreign currency, associated with the hedge of risks of an investment in a foreign company expressed in a foreign currency

Specifically, Banca Sella Group carried out exclusively fair-value hedging.

In the consolidated financial statements, only the instruments with a counterpart external to the Group can be considered hedging instruments. Any outcome attributable to internal transactions carried out between different entities of the Group is eliminated.

The derivative instrument is considered to be a hedge if there are formal records of the relationship between the hedged instrument and the hedging instrument and if it is effective when hedging begins and, prospectively, over the entire useful life of the same. The effectiveness of the hedging depends on the degree to which the changes in fair value of the hedged instrument or of the relevant expected financial flows are counterbalanced by those of the hedging instrument. Therefore the effectiveness is appraised by the comparison of the aforementioned variations, bearing in mind the objective pursued by the company when hedging was undertaken.

The hedge if effective (within the 80-125% range) when the changes in fair value (or cash flows) of the financial hedging instrument offset almost completely the changes in the hedged instrument, for the hedged risk element. The assessment of effectiveness is carried out every six months using:

- prospective tests, that justify the application of hedging accounting, as they show the expected effectiveness;
- retrospective tests, that show the level of effectiveness of the hedge that has been reached in the reference period. In other words, they measure how much the effective results diverged from the perfect hedging.

If the tests do not confirm the effectiveness of the hedging, the accounting of the hedging operations, according to the aforementioned method is abandoned and the hedging derivative contract is reclassified under trading instruments.

The hedging derivatives are carried at fair value, therefore, in the case of fair value hedging, the changes in fair value of the hedged element are offset with the changes in fair value of the hedging instrument. This offset is recognised by charging to income the changes in value, in relation to both the hedged element (in terms of the changes produced by the underlying risk factor) and the hedging instrument. The difference, if any, that represents the partial ineffectiveness of the hedging, is therefore the net economic effect.

## 7 – EQUITY INVESTMENTS

This item includes the interest held in associated companies, that are accounted for by the equity method. Companies in which the Group has significant influence but not control are referred to as associated companies. The company is assumed to have a significant influence when it holds a 20% or higher share of the voting rights and, irrespective of the share held, whenever it has the right to participate in management and financial decisions of the equity investments.

The initial entering of financial assets takes place at the settlement date. Upon initial recognition the financial assets classified in this category are carried at cost.

If there is evidence that an equity investment could have undergone a depreciation, an estimate of the recoverable value of the equity investment itself is carried out, bearing in mind the current value of the future financial flows that the equity investment will be able to generate, including the value of the final divestment of the investment. If the recovery value proves to be lower than the carrying value, the relevant difference is charged to income. If the reasons for the loss of value are no longer in place following an event that occurred after the accounting of the reduction in value, write-ups are carried out with charge to income.

Financial assets are derecognised when the contractual rights on the financial flows deriving from the operations themselves expire or when the financial asset is assigned, transferring substantially all of the risks and benefits connected to it.

## 8 – TANGIBLE FIXED ASSETS

Tangible fixed assets include land, owner-occupied property, investment property, plant and equipment, fixtures and fittings, and all kinds of equipment. These are tangible fixed assets held to be used in the production or supply of goods and services, to be rented to third parties, or for administrative purposes, and that are expected to be used for a long periods. Lastly, the entry includes improvements and the accretion expenses incurred on third party goods that cannot be recorded under "other assets".

Tangible fixed assets are initially entered at cost that includes, besides the purchase price, all the other additional charges directly connected to the purchase and to putting the good in operation. The expenses for extraordinary maintenance that entail an increase of future economic benefits, are allocated as increase in value of the fixed assets, while the other ordinary maintenance costs are charged to income.

Tangible fixed assets, including non owner-occupied property, are carried at cost, deducting any depreciation and impairment. Tangible fixed assets are systematically depreciated over their useful life, with the straight-line method, except for land, whether it was purchased as a single unit or incorporated in the value of the buildings, as they have an undefined useful life. If their value is incorporated in the value of the building, in virtue of application of the per-item approach, they are considered separable from the building; the subdivision between the value of the land and the value of the building is based on the surveys of independent experts only for properties held from ground to roof.

At each balance-sheet date, if there is any indication that an operation may have been impaired, a comparison is carried out between the charging value of the asset and its recovery value, which is the lower of the carrying amount and fair value less any sales cost, and the relevant use value of the asset intended as the current value of future flows originating from the asset. Any write-downs are charged to income. If the reasons that brought about the accounting of the loss cease to exist, a write-up takes place, which cannot exceed the value that the asset would have had, net of depreciation calculated in the absence of previous losses of value.

A tangible fixed asset is eliminated from the Balance Sheet upon divestment or when the asset is permanently withdrawn from use and no future economic benefits are expected from its divestment.

## 9 – INTANGIBLE FIXED ASSETS

Intangible fixed assets include goodwill and the software applications for long-term use. Goodwill represents the positive difference between the purchase cost and the fair value of the acquired assets and liabilities. The other intangible fixed assets are entered as such if they can be identifiable and originate from legal or contractual rights.

An intangible fixed asset can be reported as goodwill when the positive difference between the fair value of the acquisition equity items and the acquisition cost of the investment (including additional charges) represents the future revenue potential of the investment (goodwill). If such a difference is negative (bad will) or if goodwill is not justified by the future revenue potential of the equity investment, the difference is allocated directly to income.

The other intangible fixed assets are recorded at cost, including any additional charges, only if it is likely that the future economic benefits attributable to the operation will actually occur and if the cost of the operation itself can be reliably determined, otherwise the cost of the intangible fixed asset is charged to income in the financial year in which it was incurred.

Goodwill. Each time that there is proof of impairment and in any case at least once a year after the preparation of the three-year plan, goodwill is tested to ascertain that there is no impairment. For this purpose, the item that generates financial flows to which goodwill is attributed is identified. The amount of any impairment is determined on the basis of the difference between the entry value of goodwill and its recovery value, if inferior. This recovery value is the higher amount between the fair value of the item generating financial flows, net of any sales costs, and the relevant value in use. The value of use is the current value of expected future financial flows of the generating items to which goodwill has been attributed. The consequent write-downs are charged to income.

The cost of intangible fixed assets is amortised by the straight-line method over their useful life. If the useful life is indefinite, depreciation does not take place, but only periodical testing of the adequacy of the carrying value of the intangible fixed assets is conducted. At each balance-sheet date, if there is evident impairment, an estimate of the recovery value of the operation is undertaken. The amount of the loss, charged to income, is the difference between the carrying value of the asset and the recoverable value.

An intangible fixed asset is derecognised from the Balance Sheet when divestment takes place or when future economic benefits are not expected.

## 10 – NON-CURRENT ASSETS AND GROUPS OF ASSETS HELD FOR SALE AND LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE

These items include non-current assets/liabilities and groups of assets/liabilities held for sale. In particular, these assets/liabilities are stated at the carrying amount or the fair value less transfer costs value, depending on which is lower. The relevant profits and charges are charged to income in a separate item net of taxation.

## 11 – CURRENT AND DEFERRED TAXATION

The entries include current and pre-paid tax assets and the current and deferred tax liabilities, respectively.

Income taxes are charged to income except those related to entries charged or accredited directly to equity. Provision for income taxes is determined on the basis of a prudent forecast of the current, prepaid and deferred tax charges.

Prepaid and deferred taxes are calculated on the temporary differences, without any temporal limit, between the accounting value and the tax value of the single assets or liabilities.

Assets for prepaid taxes are reported in the financial statements if their recovery is probable. Liabilities for deferred taxes are reported in the financial statements with the sole exception of assets are reported in the financial statements for an amount that exceeds the recognised tax value and the tax suspension reserves, for which it is reasonable to believe that no operations that entail taxation will be initiated. Assets and liabilities registered for prepaid and deferred taxes are systematically evaluated to take into account any change that may have taken place in the rules or in the tax rates.

## 12 – PROVISIONS FOR RISKS AND CHARGES

The other provisions for risks and charges refer to provisions for current obligations deriving from a past event, where compliance with said obligation will probably require the outlay of economic resources, provided that an accurate estimate of the amount of said obligations can be made.

The sub-item “Other provisions” contains provisions for risks and charges set up in compliance with International Accounting Standards, with the exception of the write-downs due to depreciation of the guarantees given entered under “Other Liabilities”.

A provision under the provision for risks and charges is made solely when:

- there is a current obligation (statutory or implied) resulting from a past event;
- it is likely that economic resources will have to be used to produce economic benefits to settle the obligation;
- an accurate estimate of the amount of the obligation can be made.

In cases where time is relevant, provisions are discounted using current market rates. The effect of said discounting is charged to income.

## 13 – OUTSTANDING DEBTS AND SECURITIES

The entries “due to banks”, “due to customers” and “outstanding securities” include the various forms of interbank funding and with customers and the deposits carried out through outstanding deposit certificates and bond securities, net, therefore, of any bought –back amount.

The initial recognition of these financial liabilities takes place upon receipt of the collected sums or the issue of the debt securities. The initial recognition is carried out on the basis of the fair value of the liabilities, normally amounting to the amount collected or the price of issue, plus any additional costs/profits directly attributable to the single funding or issue operation and not reimbursed by the creditor. Internal administrative costs are excluded.

After initial recognition, financial liabilities are carried at cost depreciated with the method of the effective interest rate. An exception to this are the short-term liabilities where the temporal factor is irrelevant, that remain recorded for the collected value and whose recorded costs (if any) are charged to income. Furthermore, effectively hedged instruments are reported on the basis of the rules related to hedging operations.

For structured instruments, if the requirements envisaged by IAS 39 are complied with, the incorporated derivative is separated from the host contract and reported at fair value as a liability held for trading. In this case the host contract is carried at the depreciated cost.

Financial liabilities are derecognised from the Balance Sheet when they have expired or have been settled. The derecognition takes place even in the presence of repurchase of securities previously issued. The difference between the accounting value of the liability and the amount paid to repurchase is charged to income. The replacing on the market of treasury stocks after their repurchase is considered as a new issue with entry at the new price of placement, without any charge to income.

## 14 – FINANCIAL LIABILITIES HELD FOR TRADING

The item includes the negative value of the derived trading contracts reported fair value.

Also implicit derivates are included that in compliance with IAS 39 have been separated from the combined host financial instruments.

Profits and losses deriving from the variation of fair value and/or the transfer of the trading instruments are reported in the Income Statement.

Financial liabilities are derecognised from the financial statements when they have expired or have been settled.

## 15 – FINANCIAL LIABILITIES STATED AT FAIR VALUE

The Group availed itself of the possibility of stating at fair value the financial liabilities relating to the deposit of unit and index-linked insurance contracts, which were stated at the fair value of the assets.

This type of calculation is not only based on the efficiency of the information on financial markets but is also the best approximation of the estimate of future cash flows of the relative policies.

The effects arising from the initial entry in the Balance Sheet of the fair value of these liabilities are reported in the Income Statement.

## 16 – FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are registered, at the time of initial recognition, in the accounting currency, applying to the foreign currency amount the current exchange rate at the time of the operation.

At each financial year closing, the financial statements items in foreign currency are evaluated as follows:

- the monetary items are converted at the exchange rate of the closing date;
- the non-monetary items carried at historical cost are converted at the exchange rate in force at the time of the operation; to translate the items of revenues and costs an exchange rate that approximates the

exchange rates at the date of operations is often used, for example an average exchange rate for the period;

- the non-monetary items carried at fair value are converted at the exchange rates obtaining at the balance-sheet date.

Exchange differences deriving from the settlement of monetary items or from translation of monetary elements at rates different from the initial ones or from those of translation of the previous financial statements, are charged to the Income Statement of the period in which they arise.

When a profit or a loss related to a non-monetary item is taken to equity, the exchange difference related to this item is also taken to equity, while when a profit or a loss is taken to income, the relevant exchange difference is also taken to income.

## 17 – INSURANCE ASSETS AND LIABILITIES

IFRS 4 defines an insurance contract as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policy-holder) by agreeing to compensate the policy-holder if a specified uncertain future event (the insured event) adversely affects the policy-holder.

The insurance risk is defined as a risk, different from the financial risk, that is transferred from the insured to the issuer of the insurance contract.

The financial risk is in turn defined as the risk of a possible future variation of one or more of the following variables: specific interest rates, prices of financial instruments, prices of goods, exchange rates, price or rate indices, credit ratings and any other variable, provided that, if it is a non-financial variable, it is not specific to one of the contractual counterparts.

An insurance risk is significant if, and only if, the insured event can entail the payment by insurer of additional significant compensation upon the occurrence of any circumstance having economic substance (i.e. excluding events that do not have any identifiable effect related to the economic aspects of the operation).

On the basis of the analysis carried out on the policies in the portfolio, all contracts of the non-life and life business that have significant components of insurance risk, fall within the scope of IFRS 4 (insurance contracts).

As per the definition of insurance contract supplied by IFRS 4, the contracts that present a non-significant insurance risk therefore fall within the scope of IAS 39 (Financial instruments: accounting and evaluation) and IAS 18 (Revenues).

**<u>Technical reserves – Non-life business</u>**

The damages premium reserve was calculated using the principles of ISVAP memorandum 360/D of 21 January 1999 to calculate analytically the quota for a given period of time of the gross premiums in the future financial year, less the relative acquisition premiums. This method was also applied to determine the premium reserves imposed on reinsurers.

For the aging reserve the 10% minimum rate was applied to premiums for the financial year as per the provision of article 25 paragraph 5 of legislative decree D.Lgs 58 of 175/95.

The claims reserve is determined analytically through the evaluation of all the outstanding claims at the end of the financial year and on the basis of technically prudent estimates that enable the reserved amount to be sufficient to pay the compensations required. This reserve also includes ear-marking for late claims.

The share of the claims reserve charged to the reinsurers reflects the recovery on the amounts reserved, as envisaged by the outstanding agreements.

**<u>Technical reserves – Life business</u>**

The mathematical reserves for life assurance, which are determined according to actuarial criteria, are in line with the provisions of articles 24 and 25 of legislative decree D.Lgs 174 of 17 March 1995. They prove to be adequate for coverage of the commitments undertaken with the interested parties, as per the technical report prepared and undersigned by the actuary entrusted by the Company. In particular, special attention was given to the provisions regarding adjustments of the technical bases for annuity-related services and also to provision ISVAP 1801 G of 21 February 2001 regarding the constitution of additional reserves to meet foreseeable returns from the funds managed separately.

**L.A.T.**

In order to verify the suitability of the technical reserves, a company is expected to conduct a "Liability Adequacy Test", based on the current values of future cash flows. If from this evaluation it appears that the carrying value of the insurance liabilities, net of the relevant capitalised purchasing costs and intangible fixed assets, is insufficient, the difference must be charged to income.

**Shadow accounting**

Contracts with appreciation of performance connected to returns of a segregated management are classified as insurance or investment contracts, with Discretionary Participation Features (DPF). The DPF component derives from the existence of unrealised profits and losses arising from evaluation. IFRS 4 (paragraph 30) allows the modification of accounting policies so that profits or losses recognised  but not realised on an asset affect the measuring of the insurance liabilities, the related deferred purchasing costs and the related intangible fixed assets as if they were a realised component.

The adjustment that follows is taken to equity only if the same treatment is adopted for the realised profits or losses.

On the other hand, latent capital profits or losses on assets taken directly to income (including impairment) entail a corresponding write-downs of the insurance liabilities taken directly to income.

**Other liabilities**

This item includes, among others, the managing charges of the C.B.A. Vita contracts classified as investments that are recognised as revenue, in accordance with IAS 18, when the service is rendered.

This implies that the service component is deferred and charged to income in a straight line over the duration of the contract in order to compensate the costs of service rendering incurred by the Company. The estimate of the policy duration takes into consideration the insured's propensity for settlement, for the tested products on which the Group has matured experience, the expectations evaluated during the study phase, for new products. The recurring components, such as commissions receivable, commissions payable and asset management costs are charged to the Income Statement of the accounting period in which they are generated.

**Aspects of the Income Statement related to insurance management**

As regards insurance contracts, in accordance with IFRS 4, the following are to be charged to income: premiums, that include the amounts for the year deriving from the contracts issue,  net of cancellations; the variation of technical reserves, which represents the variation of future commitments towards policy-holders deriving from insurance contracts; commission fees for the accounting period payable to the intermediaries and the cost of losses, redemptions and due dates for the accounting period.

## 18 – OTHER INFORMATION

**Securitisations**

In the financial year 2001 the Group completed two securitisations by which Sella Holding Banca (formerly Banca Sella S.p.A.) and Biella Leasing S.p.A. transferred respectively a performing credit portfolio and the flows deriving from a portfolio of leasing contracts to the securitisation company Secursel S.r.l. For both of the aforementioned securitisation operations the optional exemption provided for by IFRS 1 was used. This allows financial assets/liabilities transferred or cancelled before 1 January 2004 not to be restated.

During 2005 Sella Holding Banca (formerly Banca

Sella S.p.A.) completed another transfer of a performing credit portfolio to the special purpose securitisation company Mars 2600 S.r.l.

The credits of the latest securitisation operation were restated in the consolidated financial statements as it was impossible to carry out their derecognition as established by IAS 39.

**Benefits for Employees**

Staff severance payments are recorded based on their actuarial value. For discounting purposes, the method of unitary credit projection is used, that foresees the projection of future disbursements on the basis of statistical historical analyses and the demographic curve and the financial discounting of these flows based on a market interest rate.

**Dividends and revenue recognition**

Revenues are recognised when received or in any case when it is likely that future benefits will be received and such benefits can be quantified in a reliable manner. Specifically, dividends are accounted for in the Income Statement when their distribution is decided.

**Treasury shares**

Any treasury share held is deducted from shareholders' equity.

Similarly, the initial cost of these and the profits or the losses deriving from their subsequent sale are accounted for as shareholders' equity movements.

# PART B – INFORMATION ON THE CONSOLIDATED BALANCE SHEET

## ASSETS

# SECTION 1
# CASH AND AVAILABLE LIQUIDITY – ITEM 10

### 1.1 Cash and available liquidity: breakdown

| | Banking Group | Insurance Companies | Other Companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| a) Cash | 109.338 | 1 | - | 109.339 | 90.360 |
| b) Sight Deposits with Central Banks | 10.374 | - | - | 10.374 | 10.012 |
| **Total** | **119.712** | **1** | **-** | **119.713** | **100.372** |

# SECTION 2
# FINANCIAL ASSETS HELD FOR TRADING – ITEM 20

## 2.1 Financial assets held for trading: product breakdown

| Items/Values | Banking group | | Insurance companies | | Other companies | | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|---|---|---|
| | Listed | Unlisted | Listed | Unlisted | Listed | Unlisted | | |
| **A. Cash assets** | | | | | | | | |
| 1. Debt securities | 539.668 | 13.845 | - | - | - | - | 553.513 | 542.931 |
| 1.1 Structured securities | - | - | - | - | - | - | - | - |
| 1.2 Other debt securities | 539.668 | 13.845 | - | - | - | - | 553.513 | 542.931 |
| 2. Equities | 18 | 2 | 338 | - | - | - | 358 | 1.601 |
| 3. Mutual funds (OICR) | 14.584 | 10.983 | 59.942 | - | - | - | 85.509 | 97.125 |
| 4. Financing | - | - | - | - | - | - | - | - |
| 4.1. Repurchase agreements receivable | - | - | - | - | - | - | - | - |
| 4.2 Other | - | - | - | - | - | - | - | - |
| 5. Impaired assets | - | - | - | - | - | - | - | - |
| 6. Assets sold not cancelled | 489.984 | - | - | - | - | - | 489.984 | 530.312 |
| **Total A** | **1.044.254** | **24.830** | **60.280** | **-** | **-** | **-** | **1.129.364** | **1.171.969** |
| **B. Derivatives** | | | | | | | | |
| 1. Financial derivatives: | 4.407 | 28.341 | - | 31.272 | - | - | 64.020 | 71.052 |
| 1.1 trading | 4.407 | 27.579 | - | - | - | - | 31.986 | 39.338 |
| 1.2 connected to fair value option | - | - | - | - | - | - | - | - |
| 1.3 other | - | 762 | - | 31.272 | - | - | 32.034 | 31.714 |
| 2. Credit derivatives | - | - | - | - | - | - | - | - |
| 2.1 trading | - | - | - | - | - | - | - | - |
| 2.2 connected to fair value option | - | - | - | - | - | - | - | - |
| 2.3 other | - | - | - | - | - | - | - | - |
| **Total B** | **4.407** | **28.341** | **-** | **31.272** | **-** | **-** | **64.020** | **71.052** |
| **Total A+B** | **1.048.661** | **53.171** | **60.280** | **31.272** | **-** | **-** | **1.193.384** | **1.243.021** |

*Given that in 2007 the option of designating some typologies of assets and liabilities as "financial assets/liabilities evaluated at fair value" was taken up, it was considered appropriate, in order make the comparison adequate and homogenous, to reclassify the data for the year 2006 for a sum of 753,236,000 euro in the item "Financial assets evaluated at fair value".*
*More specifically, 139,006,000 euro were reclassified from the item "Cash assets - Debt securities - Structured securities", 240,421,000 euro from the item "Cash assets - Other debt securities - Structured securities" and 373,809,000 euro from the item "Cash assets - Mutual funds".*
*The item "Assets sold not cancelled" refers to instruments in the company portfolio which, as of 31/12/2007, functioned as collateral for futures operations. There are no specific clauses and conditions associated with the use of the said guarantee.*

## 2.2 Financial assets held for trading: breakdown by borrowers/issuers

| Items/Values | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| **A. CASH ASSETS** | | | | | |
| **1. Debt securities** | **553.513** | **-** | **-** | **553.513** | **542.931** |
| a) Governments and Central Banks | 366.300 | - | - | 366.300 | 256.745 |
| b) Other public bodies | 1.958 | - | - | 1.958 | 63.700 |
| c) Banks | 134.817 | - | - | 134.817 | 165.685 |
| d) Other issuers | 50.438 | - | - | 50.438 | 56.801 |
| **2. Equities** | **20** | **338** | **-** | **358** | **1.601** |
| a) Banks | - | 25 | - | 25 | - |
| b) Other issuers | 20 | 313 | - | 333 | 1.601 |
| - insurance companies | - | 115 | - | 115 | 802 |
| - finance companies | 16 | - | - | 16 | 120 |
| - non-Finance companies | 4 | - | - | 4 | 485 |
| - other | - | 198 | - | 198 | 194 |
| **3. Mutual funds O.I.C.R.** | **25.567** | **59.942** | **-** | **85.509** | **97.125** |
| **4. Financing** | **-** | **-** | **-** | **-** | **-** |
| a) Governments and Central Banks | - | - | - | - | - |
| b) Other public bodies | - | - | - | - | - |
| c) Banks | - | - | - | - | - |
| d) Other | - | - | - | - | - |
| **5. Impaired assets** | **-** | **-** | **-** | **-** | **-** |
| a) Governments and Central Banks | - | - | - | - | - |
| b) Other public bodies | - | - | - | - | - |
| c) Banks | - | - | - | - | - |
| d) Other | - | - | - | - | - |
| **6. Assets sold not cancelled** | **489.984** | **-** | **-** | **489.984** | **530.312** |
| a) Governments and Central Banks | 485.734 | - | - | 485.734 | 530.312 |
| b) Other public bodies | - | - | - | - | - |
| c) Banks | 4.250 | - | - | 4.250 | - |
| d) Other issuers | - | - | - | - | - |
| **Total A** | **1.069.084** | **60.280** | **-** | **1.129.364** | **1.171.969** |
| **B. DERIVATIVE INSTRUMENTS** | | | | | |
| a) Banks | 24.039 | 31.272 | - | 55.311 | 41.077 |
| b) Customers | 8.709 | - | - | 8.709 | 29.975 |
| **Total B** | **32.748** | **31.272** | **-** | **64.020** | **71.052** |
| **Total A+B** | **1.101.832** | **91.552** | **-** | **1.193.384** | **1.243.021** |

*Given that in 2007 the option of designating some typologies of assets and liabilities as "financial assets/liabilities evaluated at fair value" was taken up, it was considered appropriate, in order make the comparison adequate and homogenous, to reclassify the data for the previous period for a sum of 753,236,000 euro.*
*More specifically, 29,692,000 euro were reclassified from the item "Cash assets - Debt securities - Governments and Central Banks", 96,030,000 euro from the item "Cash assets - Debt securities - Banks", 253,705,000 euro from the item "Cash assets - Debt securities - Other issuers" and 373,809,000 euro from the item "Cash assets - Mutual funds".*

## 2.3 Financial assets held for trading: Derivative trading instruments

### 2.3.1 attributable to the banking group

| Derivative type/ Underlying assets | Interest rates | Currencies and gold | Equities | Receivables | Other | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|---|---|
| **A) Listed derivatives** | | | | | | | |
| ***1. Financial derivatives*** | **92** | **-** | **4.315** | **-** | **-** | **4.407** | **632** |
| • with equity swap | | | | | | | |
| - purchased options | 92 | - | - | - | - | 92 | - |
| - other derivatives | - | - | - | - | - | - | - |
| • without equity swap | | | | | | | |
| - purchased options | - | - | 4.315 | - | - | 4.315 | 632 |
| - other derivatives | - | - | - | - | - | - | - |
| ***2. Credit derivatives*** | ***-*** | ***-*** | ***-*** | ***-*** | ***-*** | ***-*** | ***-*** |
| • with equity swap | - | - | - | - | - | - | - |
| • without equity swap | - | - | - | - | - | - | - |
| **Total A** | **92** | **-** | **4.315** | **-** | **-** | **4.407** | **632** |
| **B) Unlisted derivatives** | | | | | | | |
| ***1. Financial derivatives*** | **9.265** | **18.301** | **775** | **-** | **-** | **28.341** | **40.878** |
| • with equity swap | | | | | | | |
| - purchased options | - | 2.068 | - | - | - | 2.068 | 3.233 |
| - other derivatives | - | 13.924 | - | - | - | 13.924 | 18.617 |
| • without equity swap | | | | | | | |
| - purchased options | 5.163 | - | 775 | - | - | 5.938 | 5.716 |
| - other derivatives | 4.102 | 2.309 | - | - | - | 6.411 | 13.312 |
| ***2. Credit derivatives*** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| • with equity swap | - | - | - | - | - | - | - |
| • without equity swap | - | - | - | - | - | - | - |
| **Total B** | **9.265** | **18.301** | **775** | **-** | **-** | **28.341** | **40.878** |
| **Total A + B** | **9.357** | **18.301** | **5.090** | **-** | **-** | **32.748** | **41.510** |

### 2.3.2 Attributable to insurance companies

| Derivative type/ Underlying assets | Interest rates | Currencies and gold | Equities | Receivables | Other | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|---|---|
| **A) Listed derivatives** | | | | | | | |
| ***1. Financial derivatives*** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| • with equity swap | | | | | | | |
| - purchased options | - | - | - | - | - | - | - |
| - other derivatives | - | - | - | - | - | - | - |
| • without equity swap | | | | | | | |
| - purchased options | - | - | - | - | - | - | - |
| - other derivatives | - | - | - | - | - | - | - |
| ***2. Credit derivatives*** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| • with equity swap | - | - | - | - | - | - | - |
| • without equity swap | - | - | - | - | - | - | - |
| **Total A** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **B) Unlisted derivatives** | | | | | | | |
| ***1. Financial derivatives*** | **-** | **-** | **31.272** | **-** | **-** | **31.272** | **29.542** |
| • with equity swap | | | | | | | |
| - purchased options | - | - | - | - | - | - | - |
| - other derivatives | - | - | - | - | - | - | - |
| • without equity swap | | | | | | | |
| - purchased options | - | - | 31.272 | - | - | 31.272 | - |
| - other derivatives | - | - | - | - | - | - | 29.542 |
| ***2. Credit derivatives*** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| • with equity swap | - | - | - | - | - | - | - |
| • without equity swap | - | - | - | - | - | - | - |
| **Total B** | **-** | **-** | **31.272** | **-** | **-** | **31.272** | **29.542** |
| **Total A + B** | **-** | **-** | **31.272** | **-** | **-** | **31.272** | **29.542** |

## 2.4 Cash financial assets held for trading (other than those sold and not derecognized and those deteriorated): annual changes

### 2.4.1 attributable to the banking group

| Changes/underlying assets | Debt securities | Equities | Mutual funds O.I.C.R | Financing | Totale 31/12/2007 |
|---|---|---|---|---|---|
| **A. Opening balance** | **572.314** | **1.196** | **39.105** | **-** | **612.615** |
| **B. Increases** | **135.429.642** | **24.322.787** | **29.646** | **-** | **159.782.486** |
| B.1 Purchases | 135.224.084 | 24.322.768 | 29.071 | - | 159.575.923 |
| B.2 Increases in fair value | 867 | - | 509 | - | 1.376 |
| B.3 Other changes | 204.691 | 19 | 66 | - | 205.187 |
| **C. Decreases** | **135.448.443** | **24.323.963** | **43.184** | **-** | **159.815.590** |
| C.1 Disposals | 134.959.006 | 24.323.585 | 17.226 | - | 159.299.817 |
| C.2 Repayments | 340.065 | 114 | 25.948 | - | 366.127 |
| C.3 Reductions in fair value | 3.665 | 12 | 9 | - | 3.686 |
| C.4 Other changes | 145.707 | 252 | 1 | - | 145.960 |
| **D. Closing balance** | **553.513** | **20** | **25.567** | **-** | **579.511** |

### 2.4.2 Attributable to insurance companies

| Changes/underlying assets | Debt securities | Equities | Mutual funds O.I.C.R | Financing | Total 31/12/2007 |
|---|---|---|---|---|---|
| **A. Opening balance** | **-** | **405** | **58.020** | **-** | **58.425** |
| **B. Increases** | **-** | **91** | **656.095** | **-** | **656.186** |
| B.1 Purchases | - | 88 | 653.625 | - | 653.713 |
| B.2 Increases in fair value | - | 3 | 31 | - | 34 |
| B.3 Other changes | - | - | 2.439 | - | 2.439 |
| **C. Decreases** | **-** | **158** | **654.173** | **-** | **654.331** |
| C.1 Disposals | - | 107 | 654.069 | - | 654.176 |
| C.2 Repayments | - | - | - | - | - |
| C.3 Reductions in fair value | - | 51 | 104 | - | 155 |
| C.4 Other changes | - | - | - | - | - |
| **D. Closing balance** | **-** | **338** | **59.942** | **-** | **60.280** |

*Given that in 2007 the option of designating some typologies of assets and liabilities as "financial assets/liabilities evaluated at fair value" was taken up, it was considered appropriate, in order make the comparison adequate and homogenous, to reclassify the figures for 2006.*
*More specifically, the opening balance for 379,427,000 euro were reclassified from "Debt securities" and 373,809,000 euro from the "Mutual funds".*

## SECTION 3
## FINANCIAL ASSETS EVALUATED AT FAIR VALUE – ITEM 30

### 3.1 Financial assets accounted for at fair value: product breakdown

| Items/Values | Banking group | | Insurance companies | | Other companies | | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|---|---|---|
| | Listed | Unlisted | Listed | Unlisted | Listed | Unlisted | | |
| 1. Debt securities | - | - | 376.066 | - | - | - | 376.066 | 406.877 |
| 1.1 Structured securities | - | - | 83.280 | - | - | - | 83.280 | 139.006 |
| 1.2 Other debt securities | - | - | 292.786 | - | - | - | 292.786 | 267.871 |
| 2. Equities | - | - | 2.223 | - | - | - | 2.223 | 1.933 |
| 3. Mutual funds O.I.C.R. | - | - | 418.076 | - | - | - | 418.076 | 373.809 |
| 4. Financing | - | - | - | - | - | - | - | - |
| 4.1 Structured | - | - | - | - | - | - | - | - |
| 4.2 Other financing | - | - | - | - | - | - | - | - |
| 5. Impaired assets | - | - | - | - | - | - | - | - |
| 6. Assets sold not cancelled | - | - | - | - | - | - | - | - |
| **Total** | **-** | **-** | **796.365** | **-** | **-** | **-** | **796.365** | **782.619** |

*Given that in 2007 the option of designating some typologies of assets and liabilities as "financial assets/liabilities evaluated at fair value" was taken up, it was considered appropriate, in order make the comparison adequate and homogenous, to reclassify the figures for 2006.*

### 3.2 Financial assets accounted for at fair value: breakdown by borrowers/issuers

| Items/Values | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| **1. Debt securities** | | | | | |
| a) Governments and Central Banks | - | 23.040 | - | 23.040 | 29.692 |
| b) Other public bodies | - | - | - | - | - |
| c) Banks | - | 232.906 | - | 232.906 | 125.413 |
| d) Other issuers | - | 120.120 | - | 120.120 | 251.654 |
| **2. Equities** | | | | | |
| a) Banks | - | 1.825 | - | 1.825 | - |
| b) Other issuers | | | | | |
| - insurance companies | - | - | - | - | - |
| - finance companies | - | - | - | - | - |
| - non-Finance companies | - | - | - | - | - |
| - other | - | 398 | - | 398 | 118 |
| **3. Mutual funds O.I.C.R.** | **-** | **418.076** | **-** | **418.076** | **375.742** |
| **4. Financing** | | | | | |
| a) Governments and Central Banks | - | - | - | - | - |
| b) Other public bodies | - | - | - | - | - |
| c) Banks | - | - | - | - | - |
| d) Other | - | - | - | - | - |
| **5. Impaired assets** | | | | | |
| a) Governments and Central Banks | - | - | - | - | - |
| b) Other public bodies | - | - | - | - | - |
| c) Banks | - | - | - | - | - |
| d) Other | - | - | - | - | - |
| **6. Assets sold not cancelled** | | | | | |
| a) Governments and Central Banks | - | - | - | - | - |
| b) Other public bodies | - | - | - | - | - |
| c) Banks | - | - | - | - | - |
| d) Other | - | - | - | - | - |
| **Total** | **-** | **796.365** | **-** | **796.365** | **782.619** |

*Given that in 2007 the option of designating some typologies of assets and liabilities as "financial assets/liabilities evaluated at fair value" was taken up, it was considered appropriate, in order make the comparison adequate and homogenous, to reclassify the figures for 2006.*

### 3.3 Financial assets accounted for at fair value other than those sold and not cancelled and those deteriorated: annual changes

#### 3.3.2 attributable to insurance companies

| | Debt securities | Equities | Mutual funds O.I.C.R | Financing | Total 31/12/2007 |
|---|---|---|---|---|---|
| **A. Opening balance** | **406.759** | **118** | **375.742** | **-** | **782.619** |
| **B. Increases** | **65.677** | **2.592** | **101.874** | **-** | **170.143** |
| B.1 Purchases | 65.179 | 2.339 | 101.200 | - | 168.718 |
| B.2 Increases in fair value | 498 | 253 | 5 | - | 756 |
| B.3 Other changes | - | - | 669 | - | 669 |
| **C. Decreases** | **96.370** | **487** | **59.540** | **-** | **156.397** |
| C.1 Disposals | 83.258 | 481 | 59.533 | - | 143.272 |
| C.2 Repayments | - | - | - | - | - |
| C.3 Reductions in fair value | 13.112 | 6 | 7 | - | 13.125 |
| C.4 Other changes | - | - | - | - | - |
| **D. Closing balance** | **376.066** | **2.223** | **418.076** | **-** | **796.365** |

*Given that in 2007 the option of designating some typologies of assets and liabilities as "financial assets/liabilities evaluated at fair value" was taken up, it was considered appropriate, in order make the comparison adequate and homogenous, to reclassify the figures for 2006.*

# SECTION 4
# FINANCIAL ASSETS AVAILABLE FOR SALE – ITEM 40

### 4.1 Financial assets available for sale: product breakdown

| Items/Values | Banking group | | Insurance companies | | Other companies | | Total 31/12/2007 | | Total 31/12/2006 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Listed | Unlisted | Listed | Unlisted | Listed | Unlisted | Listed | Unlisted | Listed | Unlisted |
| 1. Debt securities | - | 22.431 | 202.523 | - | - | - | 202.523 | 22.431 | 196.104 | 10.451 |
| 1.1 Structured securities | - | - | 29.410 | - | - | - | 29.410 | - | 31.897 | - |
| 1.2 Other debt securities | - | 22.431 | 173.113 | - | - | - | 173.113 | 22.431 | 164.207 | 10.451 |
| 2. Equities | 49.654 | 7.629 | - | - | - | - | 49.654 | 7.629 | - | 92.851 |
| 2.1 Accounted for at fair value | 49.654 | 245 | - | - | - | - | 49.654 | 245 | - | 73.909 |
| 2.2 Accounted for at cost | - | 7.384 | - | - | - | - | - | 7.384 | - | 18.942 |
| 3. Mutual funds O.I.C.R. | - | - | - | - | - | - | - | - | 204 | - |
| 4. Financing | - | - | - | - | - | - | - | - | - | - |
| 5. Impaired assets | - | - | - | - | - | - | - | - | - | - |
| 6. Assets sold not derecognised | - | - | - | - | - | - | - | - | - | - |
| **Total** | **49.654** | **30.060** | **202.523** | **-** | **-** | **-** | **252.177** | **30.060** | **196.308** | **103.302** |

*The capital instruments are mainly composed of minority shareholdings.*
*The decrease registered in unlisted capital instruments and the increase in listed capital instruments are mainly due to the shares exchange operation between Borsa Italiana (unlisted) with London Stock Exchange shares (listed) and the transfer of part of the latter's shares.*

### 4.2 Financial assets available for sale: breakdown by borrowers/issuers

| Items/values | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| **1. Debt securities** | **22.431** | **202.523** | **-** | **224.954** | **206.555** |
| a) Governments and Central Banks | - | 138.964 | - | 138.964 | 160.152 |
| b) Other public bodies | - | 10.180 | - | 10.180 | - |
| c) Banks | - | 43.796 | - | 43.796 | 16.687 |
| d) Other issuers | 22.431 | 9.583 | - | 32.014 | 29.716 |
| **2. Equities** | **57.283** | **-** | **-** | **57.283** | **92.851** |
| a) Banks | 2.269 | - | - | 2.269 | 110 |
| b) Other issuers | 55.014 | - | - | 55.014 | 92.741 |
| - insurance companies | - | - | - | - | - |
| - Finance companies | 53.483 | - | - | 53.483 | 92.741 |
| - Non-finance companies | 1.531 | - | - | 1.531 | - |
| - other | - | - | - | - | - |
| **3. Mutual funds O.I.C.R.** | **-** | **-** | **-** | **-** | **204** |
| **4. Financing** | **-** | **-** | **-** | **-** | **-** |
| a) Governments and central banks | - | - | - | - | - |
| b) Other public bodies | - | - | - | - | - |
| c) Banks | - | - | - | - | - |
| d) Other subjects | - | - | - | - | - |
| **5. Impaired assets** | **-** | **-** | **-** | **-** | **-** |
| a) Governments and central banks | - | - | - | - | - |
| b) Other public bodies | - | - | - | - | - |
| c) Banks | - | - | - | - | - |
| d) Other subjects | - | - | - | - | - |
| **6. Assets sold not derecognised** | **-** | **-** | **-** | **-** | **-** |
| a) Governments and central banks | - | - | - | - | - |
| b) Other public bodies | - | - | - | - | - |
| c) Banks | - | - | - | - | - |
| d) Other subjects | - | - | - | - | - |
| **Total** | **79.714** | **202.523** | **-** | **282.237** | **299.610** |

### 4.3 Financial assets available for sale: hedged assets

#### 4.3.2 attributable to insurance companies

| Assets/Type of hedging | Total 31/12/2007 | | Total 31/12/2006 | |
|---|---|---|---|---|
| | Fair value | Cash flows | Fair value | Cash flows |
| 1. Debt securities | - | - | 195.271 | - |
| 2. Equities | - | - | - | - |
| 3. Mutual funds O.I.C.R. | - | - | - | - |
| 4. Financing | - | - | - | - |
| 5. Portfolio | - | - | - | - |
| **Total** | **-** | **-** | **195.271** | **-** |

### 4.4 Financial assets available for sale: assets subject to specific hedging

| Financial assets available for sale | Banking group | Insurance companies | Insurance companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| **1. Financial assets with fair value specific hedging** | | | | | |
| a) interest rate risk | - | - | - | - | - |
| b) price risk | - | - | - | - | - |
| c) exchange rate risk | - | - | - | - | - |
| d) credit risk | - | - | | - | - |
| e) multiple risks | - | - | - | - | 195.271 |
| **2. Financial assets with cash flow specific hedging** | | | | | |
| a) interest rate risk | - | - | - | - | - |
| b) exchange rate risk | - | - | - | - | - |
| c) other | - | - | - | - | - |
| **Total** | **-** | **-** | **-** | **-** | **195.271** |

### 4.5 Financial assets available for sale (other than those sold but not derecognised and those impaired): annual changes

#### 4.5.1 attributable to the banking group

| | Debt securities | Equities | Mutual funds O.I.C.R. | Financing | Total 31/12/2007 |
|---|---|---|---|---|---|
| **A. Opening balance** | **11.284** | **92.851** | **204** | **-** | **104.339** |
| **B. Increases** | **20.379** | **92.533** | **-** | **-** | **112.912** |
| B.1 Purchases | - | 85.995 | - | - | 85.995 |
| B.2 Increases in fair value | - | 6.204 | - | - | 6.204 |
| B.3 Write-ups | - | - | - | - | - |
| - charged to income statement | - | - | - | - | - |
| - charged to shareholders' equity | - | - | - | - | - |
| B.4 Transfers from other portfolios | - | - | - | - | - |
| B.5 Other changes | 20.379 | 334 | - | - | 20.713 |
| **C. Decreases** | **9.232** | **128.101** | **204** | **-** | **137.537** |
| C.1 Disposals | - | 116.244 | - | - | 116.244 |
| C.2 Repayments | 833 | - | 204 | - | 1.037 |
| C.3 Reductions in fair value | - | - | - | - | - |
| C.4 Impairment write-downs | - | 603 | - | - | 603 |
| - charged to income statement | - | 603 | - | - | 603 |
| - charged to shareholders' equity | - | - | - | - | - |
| C.5 Transfers to other portfolios | - | - | - | - | - |
| C.6 Other changes | 8.399 | 11.254 | - | - | 19.653 |
| **D. Closing balance** | **22.431** | **57.283** | **-** | **-** | **79.714** |

#### 4.5.2 attributable to insurance companies

| | Debt securities | Equities | Mutual funds O.I.C.R. | Financing | Total 31/12/2007 |
|---|---|---|---|---|---|
| **A. Opening balance** | **195.271** | **-** | **-** | **-** | **195.271** |
| **B. Increases** | **48.042** | **-** | **-** | **-** | **48.042** |
| B.1 Purchases | 47.627 | - | - | - | 47.627 |
| B.2 Increases in fair value | 114 | - | - | - | 114 |
| B.3 Write-ups | - | - | - | - | - |
| - charged to income statement | - | - | - | - | - |
| - charged to shareholders' equity | - | - | - | - | - |
| B.4 Transfers from other portfolios | - | - | - | - | - |
| B.5 Other changes | 301 | - | - | - | 301 |
| **C. Decreases** | **40.790** | **-** | **-** | **-** | **40.790** |
| C.1 Disposals | 39.450 | - | - | - | 39.450 |
| C.2 Repayments | - | - | - | - | - |
| C.3 Reductions in fair value | 1.340 | - | - | - | 1.340 |
| C.4 Impairment write-downs | - | - | - | - | - |
| - charged to income statement | - | - | - | - | - |
| - charged to shareholders' equity | - | - | - | - | - |
| C.5 Transfers to other portfolios | - | - | - | - | - |
| C.6 Other changes | - | - | - | - | - |
| **D. Closing balance** | **202.523** | **-** | **-** | **-** | **202.523** |

# SECTION 5
# FINANCIAL ASSETS HELD TO MATURITY – ITEM 50

## 5.1 Financial assets held to maturity: product breakdown

| Type of operations/ Group components | Banking group | | Insurance companies | | Other companies | | Total 31/12/2007 | | Total 31/12/2006 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Book value | Fair value | Book value | Fair value | Book value | Fair value | Book value | Fair value | Book value | Fair value |
| 1. Debt securities | 38.864 | 39.261 | - | - | - | - | 38.864 | 39.261 | 66.554 | 67.689 |
| 1.1 Structured securities | - | - | - | - | - | - | - | - | - | - |
| 1.2 Other debt securities | 38.864 | 39.261 | - | - | - | - | 38.864 | 39.261 | 66.554 | 67.689 |
| 2. Financing | - | - | - | - | - | - | - | - | - | - |
| 3. Impaired assets | - | - | - | - | - | - | - | - | - | - |
| 4. Assets sold not cancelled | 53.706 | 54.241 | - | - | - | - | 53.706 | 54.241 | 16.101 | 16.101 |
| **Total** | **92.570** | **93.502** | **-** | **-** | **-** | **-** | **92.570** | **93.502** | **82.655** | **83.790** |

*The item "Assets sold not cancelled" refers to instruments in the company portfolio which, as of 31/12/2007, functioned as collateral for futures operations. There are no specific clauses and conditions associated with the use of the said guarantee.*

## 5.2 Financial assets held to maturity: borrowers/issuers

| Type of transaction/Values | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| **1. Debt securities** | **38.864** | **-** | **-** | **38.864** | **66.554** |
| a) Governments and Central Banks | 36.288 | - | - | 36.288 | 63.868 |
| b) Other public bodies | - | - | - | - | - |
| c) Banks | 1.881 | - | - | 1.881 | 1.939 |
| d) Other issuers | 695 | - | - | 695 | 747 |
| **2. Financing** | **-** | **-** | **-** | **-** | **-** |
| a) Governments and Central Banks | - | - | - | - | - |
| b) Other public bodies | - | - | - | - | - |
| c) Banks | - | - | - | - | - |
| d) Other | - | - | - | - | - |
| **3. Impaired assets** | **-** | **-** | **-** | **-** | **-** |
| a) Governments and Central Banks | - | - | - | - | - |
| b) Other public bodies | - | - | - | - | - |
| c) Banks | - | - | - | - | - |
| d) Other | - | - | - | - | - |
| **4. Assets sold not cancelled** | **53.706** | **-** | **-** | **53.706** | **16.101** |
| a) Governments and Central Banks | 53.706 | - | - | 53.706 | 16.101 |
| b) Other public bodies | - | - | - | - | - |
| c) Banks | - | - | - | - | - |
| d) Other | - | - | - | - | - |
| **Total** | **92.570** | **-** | **-** | **92.570** | **82.655** |

### 5.4 Financial assets held to maturity (other than those sold and not cancelled and those impaired): annual changes

| | Debt securities | Financing | Total |
|---|---|---|---|
| **A. Opening balance** | **66.554** | **-** | **66.554** |
| **B. Increases** | **12.076** | **-** | **12.076** |
| B.1 Purchases | 11.506 | - | 11.506 |
| B.2 Write-ups | - | - | - |
| B.3 Transfers from other portfolios | - | - | - |
| B.4 Other changes | 570 | - | 570 |
| **C. Decreases** | **39.766** | **-** | **39.766** |
| C.1 Disposals | 1.813 | - | 1.813 |
| C.2 Disposals | - | - | - |
| C.3 Write-downs | - | - | - |
| C.4 Transfers to other portfolios | - | - | - |
| C.5 Other changes | 37.953 | - | 37.953 |
| **D. Closing balance** | **38.864** | **-** | **38.864** |

*The item "Decreases – other changes" refers to the assets held to maturity sold and not cancelled as of 31/12/2007*

# SECTION 6
# DUE FROM BANKS – ITEM 60

## 6.1 Due from banks: product breakdown

### 6.1.1 attributable to the banking group

| Type of transaction/Values | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| **A) Due from central banks** | **477.564** | **131.988** |
| 1. Term deposits | - | - |
| 2. Statutory reserve | 477.392 | 131.818 |
| 3. Repurchase agreements receivable | - | - |
| 4. Other | 172 | 170 |
| **B) Due from banks** | **1.439.570** | **1.370.820** |
| 1. Current accounts and sight deposits | 128.121 | 203.549 |
| 2. Term deposits | 278.592 | 452.929 |
| 3. Other financing | 1.023.650 | 707.545 |
| 3.1 Repurchase agreements receivable | 1.008.676 | 678.465 |
| 3.2 Financial leasing | 1.814 | 2.153 |
| 3.3 Other | 13.160 | 26.927 |
| 4. Debt securities | 9.207 | 6.589 |
| 4.1 Structured | - | - |
| 4.2 Other | 9.207 | 6.589 |
| 5. Impaired assets | - | 208 |
| 6. Assets sold not cancelled | - | - |
| **Total (book value)** | **1.917.134** | **1.502.808** |
| **Total (Fair value)** | **1.917.134** | **1.502.808** |

*The growth of the aggregate in the item "Statutory reserve" has been above all influenced by the financial markets crisis linked to American subprime mortgages, relative to which the main banking network of the Group Banca Sella S.p.a., following indications from Group Senior Management, has prudently modified monetary market policies, taking liquidity from 8% to 12%.*

### 6.1.2 attributable to insurance companies

| Type of transaction/Values | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| **A) Due from central banks** | **-** | **1.538** |
| 1. Term deposits | - | 1.538 |
| 2. Statutory reserve | - | - |
| 3. Repurchase agreements receivable | - | - |
| 4. Other | - | - |
| **B) Due from banks** | **3.578** | **5.774** |
| 1. Current accounts and sight deposits | 3.578 | 5.774 |
| 2. Term deposits | - | - |
| 3. Other financing | - | - |
| 3.1 Repurchase agreements receivable | - | - |
| 3.2. Financial leasing | - | - |
| 3.3 other | - | - |
| 4. Debt securities | - | - |
| 4.1 Structured | - | - |
| 4.2 other | - | - |
| 5. Impaired assets | - | - |
| 6. Assets sold not derecognised | - | - |
| **Total (book value)** | **3.578** | **7.312** |
| **Total (Fair value)** | **3.578** | **7.312** |

### 6.2 Due from banks: assets subject to specific hedging

### 6.2.1 attributable to the banking group

| Type of transaction/Values | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| 1. Receivables subject to fair value specific hedging | 68.221 | - |
| a) interest rate risk | 68.221 | - |
| b) exchange rate risk | - | - |
| c) credit risk | - | - |
| d) multiple risks | - | - |
| 2. Receivables subject to cash flow specific hedging | - | - |
| a) interest rate risk | - | - |
| b) exchange rate risk | - | - |
| c) other | - | - |
| **Total** | **68.221** | **-** |

# SECTION 7
# DUE FROM CUSTOMERS – ITEM 70

## 7.1 Due from customers: product breakdown

### 7.1.1 attributable to the banking group

| Type of transaction/Values | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| 1. Current accounts | 1.276.924 | 1.129.372 |
| 2. Repurchase agreements | - | - |
| 3. Mortgages | 2.496.512 | 2.281.255 |
| 4. Credit cards, consumer credits, loans to employees (1/5 of the wage) | 1.037.151 | 925.355 |
| 5. Leasing | 1.013.263 | 878.437 |
| 6. Factoring | - | - |
| 7. Other operations | 1.049.523 | 1.009.403 |
| 8. Debt securities | 14.894 | 12.887 |
| 8.1 Structured | - | - |
| 8.2 Other | 14.894 | 12.887 |
| 9. Impaired assets | 147.273 | 130.747 |
| 10. Assets sold not cancelled | 195.548 | 228.494 |
| **Total (book value)** | **7.231.088** | **6.595.950** |
| **Total Fair value** | **7.234.470** | **6.596.475** |

### 7.1.2 attributable to insurance companies

| Type of transaction/Values | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| 1. Current accounts | - | - |
| 2. Repurchase agreements | - | - |
| 3. Mortgages | - | - |
| 4. Credit cards, consumer credits, loans to employees (1/5 of the wage) | - | - |
| 5. Leasing | - | - |
| 6. Factoring | - | - |
| 7. Other operations | - | 760 |
| 8. Debt securities | - | - |
| 8.1 Structured | - | - |
| 8.2 Other | - | - |
| 9. Impaired assets | - | - |
| 10. Assets sold not cancelled | - | - |
| **Total (book value)** | **-** | **760** |
| **Total (Fair value)** | **-** | **760** |

## 7.2 Due from customers: breakdown by borrowers/issuers

### 7.2.1 attributable to the banking group

| Type of transaction/Values | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| **1. Debt securities issued by:** | **14.894** | **12.887** |
| a) Governments | - | - |
| b) Other public bodies | - | 12.887 |
| c) Other issuers | 14.894 | - |
| - non-finance companies | - | - |
| - finance companies | 632 | - |
| - insurances | - | - |
| - other | 14.262 | - |
| **2. Loans to:** | **6.873.375** | **6.223.822** |
| a) Governments | 3.200 | 987 |
| b) Other public bodies | 15.890 | 14.889 |
| c) Other | 6.854.285 | 6.207.946 |
| - non-finance companies | 3.712.187 | 3.280.026 |
| - finance companies | 134.921 | 171.415 |
| - insurances | 656 | 477 |
| - other | 3.006.521 | 2.756.028 |
| **3. Impaired assets:** | **147.271** | **130.747** |
| a) Governments | - | - |
| b) Other public bodies | - | - |
| c) Other | 147.271 | 130.747 |
| - non-finance companies | 90.019 | 84.057 |
| - finance companies | 784 | 466 |
| - insurances | - | - |
| - other | 56.468 | 46.224 |
| **4. Assets sold not cancelled:** | **195.548** | **228.494** |
| a) Governments | - | - |
| b) Other public bodies | - | - |
| c) Other | 195.548 | 228.494 |
| - non-finance companies | - | - |
| - finance companies | - | - |
| - insurances | - | - |
| - other | 195.548 | 228.494 |
| **Total** | **7.231.088** | **6.595.950** |

### 7.2.2 Attributable to insurance companies

| Type of transaction/Values | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| **1. Debt securities issued by:** | **-** | **-** |
| a) Governments | - | - |
| b) Other public bodies | - | - |
| c) Other issuers | - | - |
| - non-Finance companies | - | - |
| - finance companies | - | - |
| - insurances | - | - |
| - other | - | - |
| **2. Loans to:** | **-** | **760** |
| a) Governments | - | - |
| b) Other public bodies | - | - |
| c) Other | - | 760 |
| - non-Finance companies | - | - |
| - finance companies | - | - |
| - insurances | - | - |
| - other | - | 760 |
| **3. Impaired assets:** | **-** | **-** |
| a) Governments | - | - |
| b) Other public bodies | - | - |
| c) Other | - | - |
| - non-Finance companies | - | - |
| - finance companies | - | - |
| - insurances | - | - |
| - other | - | - |
| **4. Assets sold not cancelled:** | **-** | **-** |
| a) Governments | - | - |
| b) Other public bodies | - | - |
| c) Other | - | - |
| - non-Finance companies | - | - |
| - finance companies | - | - |
| - insurances | - | - |
| - other | - | - |
| **Total** | **-** | **760** |

## 7.3 Due from customers: assets subject to specific hedging

### 7.3.1 Attributable to the banking group

| Type of transaction/Values | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| **1. Loans subject to fair value specific hedging** | **1.156.609** | **724.828** |
| a) interest rate risk | 1.156.609 | 724.828 |
| b) exchange rate risk | - | - |
| c) credit risk | - | - |
| d) multiple risks | - | - |
| **2. Loans subject to cash flow specific hedging** | **-** | **-** |
| a) interest rate risk | - | - |
| b) exchange rate risk | - | - |
| c) other | - | - |
| **Total** | **1.156.609** | **724.828** |

## SECTION 8
## HEDGING DERIVATIVES – ITEM 80

### 8.1 Hedging derivatives: breakdown by contract type and underlying assets

### 8.1.1 attributable to the banking group

| Derivative type/ Underlying assets | Interest rates | Currencies and gold | Equities | Receivables | Other | Total |
|---|---|---|---|---|---|---|
| **A) Listed** | | | | | | |
| ***1. Financial derivatives*** | **-** | **-** | **-** | **-** | **-** | **-** |
| • with equity swap | | | | | | |
| - purchased options | - | - | - | - | - | - |
| - other derivatives | - | - | - | - | - | - |
| • without equity swap | | | | | | |
| - purchased options | - | - | - | - | - | - |
| - other derivatives | - | - | - | - | - | - |
| ***2. Credit derivatives*** | **-** | **-** | **-** | **-** | **-** | **-** |
| • with equity swap | - | - | - | - | - | - |
| • without equity swap | - | - | - | - | - | - |
| **Total A** | **-** | **-** | **-** | **-** | **-** | **-** |
| **B) Unlisted** | | | | | | |
| ***1. Financial derivatives*** | **13.388** | **-** | **-** | **-** | **-** | **13.388** |
| • with equity swap | | | | | | |
| - purchased options | - | - | - | - | - | - |
| - other derivatives | - | - | - | - | - | - |
| • without equity swap | | | | | | |
| - purchased options | - | - | - | - | - | - |
| - other derivatives | 13.388 | - | - | - | - | 13.388 |
| ***2. Credit derivatives*** | **-** | **-** | **-** | **-** | **-** | **-** |
| • with equity swap | - | - | - | - | - | - |
| • without equity swap | - | - | - | - | - | - |
| **Total B** | **13.388** | **-** | **-** | **-** | **-** | **13.388** |
| **Total (A+B) 31/12/2007** | **13.388** | **-** | **-** | **-** | **-** | **13.388** |
| **Total (A+B) 31/12/2006** | **7.621** | **-** | **-** | **-** | **-** | **7.621** |

### 8.2 Hedging derivatives: breakdown by hedged portfolios and type of hedging (book value)

### 8.2.1 attributable to the banking group

| Transaction/Type of cover | Fair Value | | | | | | Cash flows | |
|---|---|---|---|---|---|---|---|---|
| | Specific | | | | | General | Specific | General |
| | interest rate risk | exchange rate risk | credit risk | price risk | multiple risks | | | |
| 1. Financial assets available for sale | - | - | - | - | - | X | - | X |
| 2. Loans | 11.232 | - | - | X | - | X | - | X |
| 3. Financial assets held to maturity | X | - | - | X | - | X | - | X |
| 4. Portfolio | X | X | X | X | X | - | X | - |
| **Total assets** | **11.232** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1. Financial liabilities | 2.156 | - | - | X | - | X | - | X |
| 2. Portfolio | X | X | X | X | X | - | X | - |
| **Total liabilities** | **2.156** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

## SECTION 9
## MODIFICATION OF VALUE OF FINANCIAL ASSETS SUBJECT TO GENERAL HEDGING – ITEM 90

As of 31 December 2007 and 31 December 2006 the Group did not have any assets subject to general hedging.

# SECTION 10
# EQUITY INVESTMENTS – ITEM 100

### 10.1 Equity investments in jointly controlled companies (accounted for with equity method) and in companies subject to significant influence: information on shareholdings

| Names | Head Office | Type of relationship | Shareholding relationship | | Voting rights % |
|---|---|---|---|---|---|
| | | | Investor company | Stake % | |
| **B. Companies** | | | | | |
| MARTIN MAUREL SELLA BANQUE PRIVEE S.A.M. | Principality of Monaco | sub. to sign. influence | Sella Holding N.V. | 45,0000% | 45,0000% |
| IN CHIARO ASSICURAZIONI S.P.A. | Rome | sub. to sign. influence | CBA Vita S.p.A. | 49,0000% | 49,0000% |
| S.C.P. VDP1 | Principality of Monaco | sub. to sign. influence | Sella Holding Banca S.p.A. | 29,0000% | 29,0000% |

### 10.2 Equity investments in jointly controlled companies and in companies subject to significant influence: accounting information

| Names | Total Assets | Total revenues | Profits (Losses) | Shareholders' equity | Consolidated book value |
|---|---|---|---|---|---|
| **A. Companies accounted for with equity method** | | | | | |
| A.2 subject to significant influence | | | | | |
| MARTIN MAUREL SELLA BANQUE PRIVEE S.A.M. | 177.728 | 10.508 | 1.688 | 13.326 | 5.997 |
| IN CHIARO ASSICURAZIONI S.P.A. | 12.115 | 217 | (1.478) | 11.022 | 5.404 |
| S.C.P. VDP1 | 5.813 | 193 | (3) | 1.971 | 572 |
| **Total** | | | | | **11.973** |

### 10.3 Equity investments: annual changes

| | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| **A. Opening balance** | **6.977** | **-** | **-** | **6.977** | **5.779** |
| **B. Increases** | **-** | **6.125** | **-** | **6.125** | **1.178** |
| B.1 Purchases | - | 6.125 | - | 6.125 | 580 |
| B.2 Write-ups | - | - | - | - | - |
| B.3 Revaluations | - | - | - | - | - |
| B.4 Other changes | - | - | - | - | 598 |
| **C. Decreases** | **408** | **721** | **-** | **1.129** | **-** |
| C.1 Disposals | - | - | - | - | - |
| C.2 Value adjustments | - | 721 | - | 721 | - |
| C.4 Other changes | 408 | - | - | 408 | - |
| **D. Closing balance** | **6.569** | **5.404** | **-** | **11.973** | **6.977** |
| **E. Total revaluations** | **-** | **-** | **-** | **-** | **-** |
| **F. Total adjustments** | **-** | **-** | **-** | **-** | **-** |

# SECTION 11
# REINSURERS' SHARE OF TECHNICAL RESERVES – ITEM 110

### 11.1 Reinsurers' share of technical reserves: breakdown

| | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| **A. Non-life** | **596** | **474** |
| A1 premium reserves | 450 | 416 |
| A2. claims reserve | 71 | 58 |
| A3. other reserves | 75 | - |
| **B. Life business** | **3.906** | **2.992** |
| B1. actuarial reserves | 3.823 | 2.822 |
| B2. outstanding claims reserve | 83 | 61 |
| B3. other reserves | - | 109 |
| **C. Technical reserves where the investment risk is borne by the policyholders** | **-** | **-** |
| C1. reserves relating to investment fund and index-linked contracts | - | - |
| C2. reserves deriving from the administration of pension funds | - | - |
| **D. Total reinsurers' share of technical reserves** | **4.502** | **3.466** |

### 11.2 Variation of item 110 "Reinsurers' share of technical reserves"

| | Total 31/12/2007 |
|---|---|
| **Opening balance** | **3.466** |
| **A. Non-life** | **122** |
| A1 premium reserves | 34 |
| A2. claims reserve | 13 |
| A3. other reserves | 75 |
| **B. Life business** | **914** |
| B1. actuarial reserves | 1.001 |
| B2. outstanding claims reserve | 22 |
| B3. other reserves | (109) |
| **C. Technical reserves where the investment risk is borne by the policyholders** | **-** |
| C1. reserves relating to investment fund and index-linked contracts | - |
| C2. Reserves deriving from the administration of pension funds | - |
| **D. Total einsurers' share of technical reserves** | **4.502** |

# SECTION 12
# TANGIBLE ASSETS – ITEM 120

### 12.1 Tangible assets: breakdown of assets accounted for at cost

| Assets/values | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| **A. Functional assets** | | | | | |
| **1.1 owned** | **158.062** | **495** | **-** | **158.557** | **149.521** |
| a) land | 32.850 | - | - | 32.850 | 33.401 |
| b) buildings | 93.331 | - | - | 93.331 | 90.889 |
| c) furniture | 3.316 | 29 | - | 3.345 | 3.565 |
| d) electronic equipment | 17.691 | 361 | - | 18.052 | 14.763 |
| e) other | 10.874 | 105 | - | 10.979 | 6.903 |
| **1.2 leased** | **5.692** | **-** | **-** | **5.692** | **4.497** |
| a) land | - | - | - | - | - |
| b) buildings | - | - | - | - | - |
| c) furniture | - | - | - | - | - |
| d) electronic equipment | 5.692 | - | - | 5.692 | 4.497 |
| e) other | - | - | - | - | - |
| **Total A** | **163.754** | **495** | **-** | **164.249** | **154.018** |
| **B. Assets held for investment purposes** | | | | | |
| **2.1 owned** | **2.859** | **-** | **-** | **2.859** | **3.384** |
| a) land | 1.036 | - | - | 1.036 | 1.036 |
| b) buildings | 1.823 | - | - | 1.823 | 2.348 |
| c) other | - | - | - | - | - |
| **2.2 leased** | **-** | **-** | **-** | **-** | **-** |
| a) land | - | - | - | - | - |
| b) buildings | - | - | - | - | - |
| c) other | - | - | - | - | - |
| **Total B** | **2.859** | **-** | **-** | **2.859** | **3.384** |
| **Total (A + B)** | **166.613** | **495** | **-** | **167.108** | **157.402** |

## 12.3 Fixed tangible assets: annual changes

### 12.3.1 attributable to the banking group

| | Land | Buildings | Furniture | Electronic equipment | Other | Total |
|---|---|---|---|---|---|---|
| **A. Gross opening balance** | **33.401** | **107.822** | **17.258** | **139.435** | **10.175** | **308.091** |
| A.1 Total net impairments | - | 16.933 | 13.714 | 120.709 | 3.354 | 154.710 |
| **A.2 Net opening balance** | **33.401** | **90.889** | **3.544** | **18.726** | **6.821** | **153.381** |
| **B. Increases** | **-** | **9.650** | **1.209** | **16.654** | **7.277** | **34.734** |
| B.1 Purchases | - | 9.606 | 1.157 | 16.148 | 5.856 | 32.767 |
| B.2 Capitalised improvement expenses | - | - | - | - | - | - |
| B.3 Write-ups | - | - | - | - | - | - |
| B.4 Increases in fair value charged to: | - | - | - | - | - | - |
| a) shareholders' equity | - | - | - | - | - | - |
| b) income statement | - | - | - | - | - | - |
| B.5 Positive exchange differences | - | - | - | 1 | - | 1 |
| B.6 Transfers from properties held for investment purposes | - | - | - | - | - | - |
| B.7 Other changes | - | 44 | 52 | 505 | 1.421 | 1.966 |
| **C. Decreases** | **551** | **7.208** | **1.437** | **11.997** | **3.224** | **24.361** |
| C.1 Disposals | 4 | 11 | 43 | 101 | 63 | 222 |
| C.2 Depreciation | - | 3.352 | 1.067 | 10.639 | 2.632 | 17.690 |
| C.3 Value adjustments due to deterioration charged to: | - | 780 | - | - | - | 780 |
| a) shareholders' equity | - | - | - | - | - | - |
| b) income statement | - | 780 | - | - | - | 780 |
| C.4 Decreases in fair value charged to: | - | - | - | - | - | - |
| a) shareholders' equity | - | - | - | - | - | - |
| b) income statement | - | - | - | - | - | - |
| C.5 Negative exchange differences | 202 | 327 | 7 | 4 | 7 | 547 |
| C.6 Transfers to: | 311 | 2.634 | - | - | - | 2.945 |
| a) tangible assets held for investment purposes | - | - | - | - | - | - |
| b) assets being disposed of | 311 | 2.634 | - | - | - | 2.945 |
| C.7 Other changes | 34 | 104 | 320 | 1.253 | 522 | 2.177 |
| **D.Net closing balance** | **32.850** | **93.331** | **3.316** | **23.383** | **10.874** | **163.754** |
| D.1 Total net impairments | - | 21.065 | 14.781 | 131.348 | 5.986 | 173.180 |
| **D.2 Gross closing balance** | **32.850** | **114.396** | **18.097** | **154.731** | **16.860** | **336.934** |
| **E. Recognition at cost** | **-** | **-** | **-** | **-** | **-** | **-** |

*The item "Transfers to: b) assets being disposed of" refers to real estate held by Banca Arditi Galati S.p.A. and Immobiliare Lanificio Maurizio Sella S.p.A. relative to which, as of 31/12/2007, there are currently contractual agreements for the relative transfer to third parties allowing reclassification in item 250 "Non current assets and groups of assets being divested".*

*The item "Decreases – Value adjustments due to deterioration charged to income statement" refers to the writedown of real estate owned by Sella Holding Banca S.p.A. relative to which some static critical features have been identified regarding the floor, attic and a very dangerous situation regarding practically all floors, not foreseen or noted previously.*
*In the light of the structural deficiencies noted two external consultants have been tasked with carrying out, independently, a detailed evaluation of the building. The results of the analysis have highlighted how the value of the property has depreciated and the said writedown has been set out in the statement of operations.*

### 12.3.2 attributable to insurance companies

| | Land | Buildings | Furniture | Electronic equipment | Other | Total |
|---|---|---|---|---|---|---|
| **A. Gross opening balance** | **-** | **-** | **102** | **1.287** | **369** | **1.758** |
| A.1 Total net impairments | - | - | 81 | 753 | 287 | 1.121 |
| **A.2 Net opening balance** | **-** | **-** | **21** | **534** | **82** | **637** |
| **B. Increases** | **-** | **-** | **23** | **45** | **58** | **126** |
| B.1 Purchases | - | - | 23 | 45 | 58 | 126 |
| B.2 Capitalised improvement expenses | - | - | - | - | - | - |
| B.3 Write-ups | - | - | - | - | - | - |
| B.4 Increases in fair value charged to: | - | - | - | - | - | - |
| a) shareholders' equity | - | - | - | - | - | - |
| b) income statement | - | - | - | - | - | - |
| B.5 Positive exchange differences | - | - | - | - | - | - |
| B.6 Transfers from properties held for investment purposes | - | - | - | - | - | - |
| B.7 Other changes | - | - | - | - | - | - |
| **C. Decreases** | **-** | **-** | **15** | **218** | **35** | **268** |
| C.1 Disposals | - | - | - | - | - | - |
| C.2 Depreciation | - | - | 15 | 218 | 35 | 268 |
| C.3 Value adjustments due to deterioration charged to: | - | - | - | - | - | - |
| a) shareholders' equity | - | - | - | - | - | - |
| b) income statement | - | - | - | - | - | - |
| C.4 Decreases in fair value charged to: | - | - | - | - | - | - |
| a) shareholders' equity | - | - | - | - | - | - |
| b) income statement | - | - | - | - | - | - |
| C.5 Negative currency translation differences | - | - | - | - | - | - |
| C.6 Transfers to: | - | - | - | - | - | - |
| a) tangible assets held for investment purposes | - | - | - | - | - | - |
| b) assets being disposed of | - | - | - | - | - | - |
| C.7 Other changes | - | - | - | - | - | - |
| **D.Net closing balance** | **-** | **-** | **29** | **361** | **105** | **495** |
| D.1 Total net impairments | - | - | 88 | 495 | 65 | 648 |
| **D.2 Gross closing balance** | **-** | **-** | **117** | **856** | **170** | **1.143** |
| **E. Recognition at cost** | **-** | **-** | **-** | **-** | **-** | **-** |

## 12.4 Tangible assets held for investment purposes: annual changes

| | Banking Group | | Insurance companies | | Other companies | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Land | Buildings | Land | Buildings | Land | Buildings | Land | Buildings |
| **A. Opening balance** | **1.036** | **2.348** | **-** | **-** | **-** | **-** | **1.036** | **2.348** |
| **B. Increases** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| B.1 Purchases | - | - | - | - | - | - | - | - |
| B.2 Capitalised improvement expenses | - | - | - | - | - | - | - | - |
| B.3 Increases in fair value | - | - | - | - | - | - | - | |
| B.4 Write-ups | - | - | - | - | - | - | - | - |
| B.5 Positive exchange differences | - | - | - | - | - | - | - | - |
| B.6 Transfers from fixed functional assets | - | - | - | - | - | - | - | - |
| B.7 Other changes | - | - | - | - | - | - | - | - |
| **C. Decreases** | **-** | **525** | **-** | **-** | **-** | **-** | **-** | **525** |
| C.1 Disposals | - | - | - | - | - | - | - | - |
| C.2 Depreciation | - | 104 | - | - | - | - | - | 104 |
| C.3 Reductions in fair value | - | - | - | - | - | - | - | - |
| C.4 Value adjustments due to deterioration | - | 409 | - | - | - | - | - | 409 |
| C.5 Negative exchange differences | - | - | - | - | - | - | - | - |
| C.6 Transfers from other asset portfolios | - | - | - | - | - | - | - | - |
| a) fixed functional assets | - | - | - | - | - | - | - | - |
| b) non-current assets being disposed of | - | - | - | - | - | - | - | - |
| C.7 Other changes | - | 12 | - | - | - | - | - | 12 |
| **D. Closing balance** | **1.036** | **1.823** | **-** | **-** | **-** | **-** | **1.036** | **1.823** |
| **E. Evaluated at fair value** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

*For details of the item "Decreases – value adjustments due to deterioration" see the comment to table 12.3.1*

## 12.5 Commitments to buy tangible assets

| | Banking Group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| Commitments to buy property | 440 | - | - | 440 | - |

# SECTION 13
# INTANGIBLE ASSETS – ITEM 130

### 13.1 Intangible assets: breakdown by asset type

| Assets/values | Banking Group | | Insurance companies | | Other Companies | | Total 31/12/2007 | | Total 31/12/2006 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Lim. | Unlim. | Lim. | Unlim. | Lim. | Unlim. | Lim. | Unlim. | Lim. | Unlim. |
| **A.1 Goodwill:** | **X** | **47.589** | **X** | **190** | **X** | **-** | **X** | **47.779** | **X** | **44.559** |
| A.1.1 attributable to the group | X | 43.075 | X | 174 | X | - | X | 43.249 | X | 39.981 |
| A.1.2 attributable to minority interests | X | 4.514 | X | 16 | X | - | X | 4.530 | X | 4.578 |
| **A.2 Other intangible assets:** | **27.990** | **-** | **37** | **-** | **-** | **-** | **28.027** | **-** | **20.412** | **921** |
| A.2.1 Assets carried at cost | 27.990 | - | 37 | - | - | - | 28.027 | - | 20.412 | 921 |
| a) Internally generated intangible assets | - | - | - | - | - | - | - | - | - | - |
| b) Other assets | 27.990 | - | 37 | - | - | - | 28.027 | - | 20.412 | 921 |
| A.2.2 Assets carried at fair value | - | - | - | - | - | - | - | - | - | - |
| a) Internally generated intangible assets | - | - | - | - | - | - | - | - | - | - |
| b) Other assets | - | - | - | - | - | - | - | - | - | - |
| **Total** | **27.990** | **47.589** | **37** | **190** | **-** | **-** | **28.027** | **47.779** | **20.412** | **45.480** |

### 13.2 Intangible assets: annual changes

### 13.2.1 attributable to the banking group

| | | Other intangible assets: internally generated | | Other intangible assets: other | | |
|---|---|---|---|---|---|---|
| | Goodwill | LIM. | UNLIM. | LIM. | UNLIM. | Total |
| **A. Gross opening balance** | **44.369** | **-** | **-** | **103.632** | **-** | **148.103** |
| A.1 Total net impairments | - | - | - | 82.401 | - | 82.401 |
| **A.2 Net opening balance** | **44.369** | **-** | **-** | **21.231** | **-** | **65.600** |
| **B. Increases** | **3.236** | **-** | **-** | **16.808** | **-** | **20.044** |
| B.1 Purchases | 3.236 | - | - | 16.582 | - | 19.818 |
| B.2 Increases in internal intangible assets | X | - | - | - | - | - |
| B.3 Write-ups | X | - | - | - | - | - |
| B.4 Increases in fair value | X | - | - | - | - | - |
| - charged to shareholders'equity | X | - | - | - | - | - |
| - charged to income statement | X | - | - | - | - | - |
| B.5 Positive exchange differences | - | - | - | - | - | - |
| B.6 Other changes | - | - | - | 226 | - | 226 |
| **C. Decreases** | **16** | **-** | **-** | **10.049** | **-** | **10.065** |
| C.1 Disposals | - | - | - | 268 | - | 268 |
| C.2 Value adjustments | - | - | - | 9.334 | - | 9.334 |
| - amortization | X | - | - | 9.334 | - | 9.334 |
| - writedowns | - | - | - | - | - | - |
| - shareholders' equity | X | - | - | - | - | - |
| - income statement | - | - | - | - | - | - |
| C.3 Reductions in fair value | - | - | - | - | - | - |
| - charged to shareholders'equity | - | - | - | - | - | - |
| - charged to income statement | - | - | - | - | - | - |
| C.4 Transf. to non-current assets being disposed of | - | - | - | - | - | - |
| C.5 Negative exchange differences | - | - | - | 25 | - | 25 |
| C.6 Other changes | 16 | - | - | 422 | - | 438 |
| **D. Net closing balance** | **47.589** | **-** | **-** | **27.990** | **-** | **75.579** |
| D.1 Total net value adjustments | - | - | - | 91.735 | - | 91.735 |
| **E. Gross closing balance** | **47.589** | **-** | **-** | **119.725** | **-** | **167.314** |
| **F. Recognition at cost** | | | | | | |

*KEY TO SYMBOLS*
*Lim.: Limited duration*
*Unlim.: Unlimited duration*

*The increase in the value of goodwill refers to the greater value paid relative to the purchase of a further investment quota in Banca di Palermo S.p.A.*

### 13.2.2 Attributable to insurance companies

| | Goodwill | Other intangible assets: internally generated | | Other intangible assets: other | | Total |
|---|---|---|---|---|---|---|
| | | LIM. | UNLIM. | LIM. | UNLIM. | |
| **A. Gross opening balance** | **190** | **-** | **-** | **3.653** | **-** | **3.843** |
| A.1 Total net impairments | - | - | - | 3.551 | - | 3.551 |
| **A.2 Net opening balance** | **190** | **-** | **-** | **102** | **-** | **292** |
| **B. Increases** | **-** | **-** | **-** | **43** | **-** | **43** |
| B.1 Purchases | - | - | - | 43 | - | 43 |
| B.2 Increases in internal intangible assets | X | - | - | - | - | - |
| B.3 Write-ups | X | - | - | - | - | - |
| B.4 Increases in fair value | X | - | - | - | - | - |
| - charged to shareholders' equity | X | - | - | - | - | - |
| - charged to income statement | X | - | - | - | - | - |
| B.5 Positive exchange differences | - | - | - | - | - | - |
| B.6 Other changes | - | - | - | - | - | - |
| **C. Decreases** | **-** | **-** | **-** | **108** | **-** | **108** |
| C.1 Disposals | - | - | - | - | - | - |
| C.2 Value adjustments | - | - | - | 108 | - | 108 |
| - amortization | X | - | - | 108 | - | 108 |
| - writedowns | - | - | - | - | - | - |
| - shareholdersì equity | X | - | - | - | - | - |
| - income statement | - | - | - | - | - | - |
| C.3 Reductions in fair value | - | - | - | - | - | - |
| - charged to shareholders' equity | - | - | - | - | - | - |
| - charged to income statement | - | - | - | - | - | - |
| C.4 Transf. to non-current assets being disposed of | - | - | - | - | - | - |
| C.5 Negative currency translation differences | - | - | - | - | - | - |
| C.6 Other changes | - | - | - | - | - | - |
| **D. Net closing balance** | **190** | **-** | **-** | **37** | **-** | **227** |
| D.1 Total net value adjustments | - | - | - | 3.659 | - | 3.659 |
| **E. Gross closing balance** | **190** | **-** | **-** | **3.696** | **-** | **3.886** |
| **F. Recognition at cost** | **-** | **-** | **-** | **-** | **-** | **-** |

# SECTION 14
# TAX ASSETS AND LIABILITIES – ITEM 140 FOR ASSETS AND 80 FOR LIABILITIES

## Current tax assets: breakdown

| | |
|---|---|
| Advances paid to inland revenue office | 63.296 |
| Tax credits | 26.115 |
| For adhesion to tax consolidation | 7.462 |
| Credits for paid withholdings | 729 |
| **Total** | **97.602** |

## Current tax liabilities: breakdown

| | |
|---|---|
| Tax fund for direct taxes | 57.747 |
| Tax fund for indirect taxes | 2.305 |
| **Total** | **60.052** |

*The sub-item "Assets for adhesion to tax consolidation" consists in the benefit, relative to income tax for the companies (i.e. IRES), accrued relative to the "national fiscal consolidation" – as set out in article 117 and subesqt., Consolidation Act on income taxes i.e. Tuir (Presidential Decree no. 917 of 22/12/1986) – deriving in particular:*
*i) from the compensation of individual fiscal loss of Sella Holding Banca and Sella South Holding relative to the fiscal year 2007, with net positive fiscal liability for 2007 of the other companies adhering to the national fiscal consolidation,*
*ii) attribution of the benefit as set out in article 122, section 1, letter a), Tuir, correlated with "infragroup" dividends received in 2007 and distributed by the other companies adhering to the national fiscal consolidation.*

## 14.1 Prepaid tax assets: breakdown

### 14.1.1 Attributable to the banking group

| | Charged to income | | | Charged to shareholders' equity | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|---|
| | Tax losses | Writedowns | Other | | | |
| - IRES (Corporation tax) | - | 29.763 | 18.101 | 3.647 | 51.511 | 54.760 |
| - IRAP (Regional trade tax) | - | 203 | 110 | 76 | 389 | 1.765 |
| - Other | - | - | - | - | - | 151 |
| **Total** | **-** | **29.966** | **18.211** | **3.723** | **51.900** | **56.676** |

### 14.1.2 Attributable to insurance companies

| | Charged to income statement | | | Charged to shareholders' equity | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|---|
| | Tax losses | Writedowns | Other | | | |
| - IRES (Corporation tax) | - | - | 59 | 1.521 | 1.580 | 1.894 |
| - IRAP (Regional trade tax) | - | - | - | 271 | 271 | 1 |
| - Other | - | - | - | - | - | - |
| **Total** | **-** | **-** | **59** | **1.792** | **1.851** | **1.895** |

## 14.2 Deferred tax liabilities: breakdown

### 14.2.1 Attributable to the banking group

| | charged to income statement | charged to shareholders'equity | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|
| - IRES (Corporation tax) | 8.081 | 2.021 | 10.102 | 13.781 |
| - IRAP (Regional trade tax) | 53 | 432 | 485 | 723 |
| - Other | - | - | - | 380 |
| **Total** | **8.134** | **2.453** | **10.587** | **14.884** |

### 14.2.2 attributable to insurance companies

| | charged to income statement | charged to shareholders'equity | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|
| - IRES (Corporation tax) | 771 | - | 771 | - |
| - IRAP (Regional trade tax) | 138 | - | 138 | - |
| - Other | - | - | - | - |
| **Total** | **909** | **-** | **909** | **-** |

*The Group proceeded with a new evaluation of assets for advance taxes and liabilities for deferred taxes, in order to determine the impact of the reduction in IRES and IRAP rates. The rates used to carry out this determination were those that are in force for the years in which the fiscal assets will be realised or the fiscal liabilities will be extinguished: IRES 27.5%; IRAP: variable rates different for each company in the Group.*
*The identification of the offset for the variations in advance taxes and deferred taxes (income statement or shareholders' equity) was carried out on the basis of clarifications provided by Banca d'Italia, Consob and Isvap in document no. 1 of February 21 2008, entitled "Accounting treatment of variations in deferred fiscality deriving from national budget provisions for 2008".*

*More specifically, since the treatment of deferred fiscality that emerges from the First Time Adoption is not specifically governed by IAS 12, nor are there any references to the said aspect in IFRS 1, the identification of the offset was carried out by distinguishing three situations:*
- *patrimonial variations of FTA expressing plus/minus values which would ordinarily have been registered in the income statemen: this refers to those plus/minus values which – where the IAS/IFRS had always been applied – would have moved into the income statement: as an offset of the income statement;*
- *patrimonial variations of FTA expressing plus/minusvalues which would ordinarily have been directly attributed to shareholders' equity: as an offset of the shareholders' equity;*
- *variations of fiscality relative to the effects of the financial reform concerning re-evaluation of real estate, as a substitute of the cost carried out at the date of the FTA: as an offset of the shareholders' equity. It should be noted that such effects appear to be relatively insignificant since the majority of the companies in the Group have in the past exploited the possibility given by law no. 266 of 23 December 2005 (so-called "National Budget Law 2006"), to subject the re-evaluation carried out to substitute tax with a reduced aliquot.*

## 14.3 Changes in prepaid taxes (charged to income statement)

| | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| **1. Initial amount** | **52.822** | **442** | **-** | **53.264** | **54.963** |
| **2. Increases** | **19.628** | **50** | **-** | **19.678** | **46.189** |
| 2.1 Prepaid taxes recognised during the year | 17.277 | 50 | - | 17.327 | 16.273 |
| a) relating to previous years | 1.771 | - | - | 1.771 | - |
| b) due to changes in accounting policies | - | - | - | - | 12 |
| c) write-ups | - | - | - | - | - |
| d) other | 15.506 | 50 | - | 15.556 | 16.261 |
| 2.2 New taxes cancelled during the year | 40 | - | - | 40 | 113 |
| 2.3 Other increases | 2.311 | - | - | 2.311 | 29.803 |
| **3. Decreases** | **24.273** | **433** | **-** | **24.706** | **47.888** |
| 3.1 Prepaid taxes cancelled during the year | 13.896 | 50 | - | 13.946 | 23.030 |
| a) reversals | 13.341 | 50 | - | 13.391 | 23.030 |
| b) writedowns for unrecoverable items | 555 | - | - | 555 | - |
| c) changes in accounting policies | - | - | - | - | - |
| 3.2 Reductions in tax rates | 6.352 | - | - | 6.352 | - |
| 3.3 Other decreases | 4.025 | 383 | - | 4.408 | 24.858 |
| **4. Final amount** | **48.177** | **59** | **-** | **48.236** | **53.264** |

*The variation in the "advance taxes as offset in the income statement" does not correspond to the variation set out in tables 20.1 and 21.2 of the statement of operations since in the item, "Other decreases", there are also variations for taxes reclassified among the "advance taxes as offset in the shareholders' equity" mainly due to advance taxes on the re-evaluation of real estate.*

## 14.4 Changes in deferred taxes (charged to income)

| | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| **1. Opening balance** | **11.066** | **-** | **-** | **11.066** | **9.629** |
| **2. Increases** | **3.748** | **994** | **-** | **4.742** | **13.161** |
| 2.1 Deferred taxes recognised during the year | 3.374 | 751 | - | 4.125 | 3.238 |
| a) relating to previous years | 1.068 | - | - | 1.068 | - |
| b) due to changes in accounting policies | - | - | - | - | - |
| c) other | 2.306 | 751 | - | 3.057 | 3.238 |
| 2.2 New taxes or increases in tax rates | - | - | - | - | 624 |
| 2.3 Other increases | 374 | 243 | - | 617 | 9.299 |
| **3. Decreases** | **6.680** | **85** | **-** | **6.765** | **11.724** |
| 3.1 Deferred taxes cancelled during the year | 3.792 | 1 | - | 3.793 | 11.105 |
| a) reversals | 2.015 | 1 | - | 2.016 | 8.282 |
| b) due to changes in accounting policies | - | - | - | - | 11 |
| c) other | 1.777 | - | - | 1.777 | 2.812 |
| 3.2 Reductions in tax rates | 946 | - | - | 946 | 107 |
| 3.3 Other decreases | 1.942 | 84 | - | 2.026 | 512 |
| **4. Final amount** | **8.134** | **909** | **-** | **9.043** | **11.066** |

*The variation in the "advance taxes as offset in the income statement" does not correspond to the variation set out in tables 20.1 and 21.2 of the statement of operations since in the item, "Other reductions", there are also variations for taxes reclassified among the "advance taxes as offset in the net equity" mainly due to advance taxes on the re-evaluation of real estate.*

### 14.5 Changes in prepaid taxes (charged to shareholders' equity)

| | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| **1. Opening balance** | **3.854** | **1.453** | **-** | **5.307** | **4.091** |
| **2. Increases** | **2.680** | **362** | **-** | **3.042** | **2.017** |
| 2.1 Prepaid taxes recognised during the year | 599 | 362 | - | 961 | 586 |
| a) relating to previous years | - | - | - | - | - |
| b) due to changes in accounting policies | - | - | - | - | - |
| c) other | 599 | 362 | - | 961 | 586 |
| 2.2 New taxes or increases in tax rates | - | - | - | - | 5 |
| 2.3 Other increases | 2.081 | - | - | 2.081 | 1.426 |
| **3. Decreases** | **2.811** | **23** | **-** | **2.834** | **801** |
| 3.1 Prepaid taxes cancelled during the year | 2.034 | - | - | 2.034 | 3 |
| a) reversals | 1.550 | - | - | 1.550 | 3 |
| b) writedowns for unrecoverable items | 484 | - | - | 484 | - |
| c) due to changes in accounting policies | - | - | - | - | - |
| 3.2 Reductions in tax rates | 626 | 23 | - | 649 | - |
| 3.3 Other decreases | 151 | - | - | 151 | 798 |
| **4. Final amount** | **3.723** | **1.792** | **-** | **5.515** | **5.307** |

### 14.6 Changes in deferred taxes (charged to shareholders' equity)

| | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| **1. Opening balance** | **3.818** | **-** | **-** | **3.818** | **596** |
| **2. Increases** | **2.695** | **-** | **-** | **2.695** | **3.991** |
| 2.1 Deferred taxes recognised during the year | 1.397 | - | - | 1.397 | 2.793 |
| a) relating to previous years | 936 | - | - | 936 | - |
| b) due to changes in accounting policies | - | - | - | - | - |
| c) other | 461 | - | - | 461 | 2.793 |
| 2.2 New taxes or increases in tax rates | - | - | - | - | 649 |
| 2.3 Other increases | 1.298 | - | - | 1.298 | 549 |
| **3. Decreases** | **4.060** | **-** | **-** | **4.060** | **769** |
| 3.1 Deferred taxes cancelled during the year | 3.704 | - | - | 3.704 | - |
| a) reversals | 3.682 | - | - | 3.682 | - |
| b) due to changes in accounting policies | - | - | - | - | - |
| c) other | 22 | - | - | 22 | - |
| 3.2 Reductions in tax rates | 311 | - | - | 311 | - |
| 3.3 Other decreases | 45 | - | - | 45 | 769 |
| **4. Final amount** | **2.453** | **-** | **-** | **2.453** | **3.818** |

# SECTION 15 - NON CURRENT ASSETS AND GROUPS OF ASSETS BEING DIVESTED AND ASSOCIATED LIABILITIES – ITEM 150 FOR ASSETS AND ITEM 90 FOR LIABILITIES

### 15.1 Non -currents assets and groups of assets being divested: breakdown by type of asset

| | Banking Group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| **A. Single assets** | | | | | |
| A.1 Equity investments | - | - | - | - | - |
| A.2 Tangible assets | 2.794 | - | - | 2.794 | - |
| A.3 Intangible assets | - | - | - | - | - |
| A.4 Other non-current assets | - | - | - | - | - |
| **Total A** | **2.794** | **-** | **-** | **2.794** | **-** |
| **B. Groups of assets (sold operational units)** | | | | | |
| B.1 Financial assets held for trading | - | - | - | - | - |
| B.2 Financial assets carried at fair value | - | - | - | - | - |
| B.3 Financial assets available for sale | - | - | - | - | - |
| B.4 Financial assets held to maturity | - | - | - | - | - |
| B.5 Due from banks | - | - | - | - | - |
| B.6 Due from customers | - | - | - | - | - |
| B.7 Equity investments | - | - | - | - | - |
| B.8 Tangible assets | - | - | - | - | - |
| B.9 Intangible assets | - | - | - | - | - |
| B.10 Other assets | - | - | - | - | - |
| **Total B** | **-** | **-** | **-** | **-** | **-** |
| **C. Liabilities associated to single assets being divested** | | | | | |
| C.1 Debt | - | - | - | - | - |
| C.2 Securities | - | - | - | - | - |
| C.3 Other liabilities | - | - | - | - | - |
| **Total C** | **-** | **-** | **-** | **-** | **-** |
| **D. Liabilities associated to groups of assets being divested** | | | | | |
| D.1 Due to banks | - | - | - | - | - |
| D.2 Due to customers | - | - | - | - | - |
| D.3 Securities in circulation | - | - | - | - | - |
| D.4 Trading financial liabilities | - | - | - | - | - |
| D. 5 Financial liabilities carried at fair value | - | - | - | - | - |
| D.6 Funds | - | - | - | - | - |
| D.7 Other liabilities | - | - | - | - | - |
| **Total D** | **-** | **-** | **-** | **-** | **-** |

*The amount of 2,794,000 euro refers to real estate owned by Banca Arditi Galati S.p.A. and Immobiliare Lanificio Maurizio Sella S.p.A. which are involved in contractual agreements relative to the said transfer.*

# SECTION 16
# OTHER ASSETS – ITEM 160

## 16.1 Other assets: breakdown

| | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| Items receivable in transit | 5.002 | - | - | 5.002 | 4.831 |
| Stored forms | 449 | - | - | 449 | 382 |
| Payment orders to sundry being charged | 130.708 | - | - | 130.708 | 116.732 |
| Exchange equivalents on securities trading under settlement | 30.331 | - | - | 30.331 | 54.560 |
| Coupons and securities expired under settlement | 9.937 | - | - | 9.937 | 10.001 |
| Current account cheques drawn against third parties | 60.074 | - | - | 60.074 | 49.077 |
| Current account cheques drawn against the bank | 38.926 | - | - | 38.926 | 33.332 |
| Commission advances | 306 | - | - | 306 | 103 |
| Substitute taxes to be recovered from customers | 253 | - | - | 253 | - |
| Regional contributions on work training contracts | - | - | - | - | 713 |
| Guarantee deposits on own behalf | 228 | 5 | - | 233 | 299 |
| Commission and fees in the process of collection | 30.958 | 328 | - | 31.286 | 39.343 |
| Expenses for improvements to third-party property | 7.941 | - | - | 7.941 | 4.412 |
| Adjustments for non-liquid portfolio items | 18.881 | - | - | 18.881 | 21.133 |
| Advances and due from to suppliers | 14.282 | 15 | - | 14.297 | 7.009 |
| Disputed items not deriving from credit transactions | 3.492 | - | - | 3.492 | 2.509 |
| Deferrals on administrative expenses and commissions | 3.720 | 59 | - | 3.779 | 2.930 |
| Due from insured | 43 | 715 | - | 758 | 602 |
| Due from intermediaries | 807 | 1.203 | - | 2.010 | 2.262 |
| Insurance refunds | 3.808 | - | - | 3.808 | - |
| Consolidation adjustments | 31.541 | - | - | 31.541 | 2.844 |
| Other | 20.340 | 4.156 | - | 24.496 | 7.682 |
| **Total** | **412.027** | **6.481** | **-** | **418.508** | **360.756** |

# PART B – INFORMATION ON THE CONSOLIDATED BALANCE SHEET

## LIABILITIES

# SECTION 1
# DUE TO BANKS – ITEM 10

### 1.1 Due to banks: product breakdown

| Transaction type/ Group components | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| **1. Due to central banks** | **1.098** | **-** | **-** | **1.098** | **9.997** |
| **2. Due to banks** | **649.128** | **-** | **-** | **649.128** | **487.020** |
| 2.1 Current accounts and sight deposits | 72.818 | - | - | 72.818 | 144.675 |
| 2.2 Term deposits (including term C/As) | 416.180 | - | - | 416.180 | 154.769 |
| 2.3. Financing | 121.170 | - | - | 121.170 | 165.549 |
| 2.3.1 Financial leasing | - | - | - | - | - |
| 2.3.2 other | 121.170 | - | - | 121.170 | 165.549 |
| 2.4 Debt for repurchase commitments of own equity assets | - | - | - | - | - |
| 2.5. Liabilities on assets sold not cancelled | 38.958 | - | - | 38.958 | 110 |
| 2.5.1 repurchase agreements payable | 38.958 | - | - | 38.958 | 110 |
| 2.5.2 other | - | - | - | - | - |
| 2.6 Other payables | 2 | - | - | 2 | 21.917 |
| 2.6.1 Other payables - REPOs | 1 | - | - | 1 | 1.624 |
| 2.6.2 Other payables - Other | 1 | - | - | 1 | 20.293 |
| **Total** | **650.226** | **-** | **-** | **650.226** | **497.017** |
| ***Fair value*** | **650.226** | **-** | **-** | **650.226** | **497.017** |

*As regards the item "Due - term deposits", the variation with respect to the previous year is mainly due to two factors. The first, and most significant, is linked to the raising of the liquidity parameter to be held on a group level from 8% to 12% minimum following the credit crisis concerning USA subprime mortgages, which has involved a considerable increase in the collection through interbank term deposits. The second, less significant, is due to the need to compensate for the reduction in the item current accounts and sight deposits.*

# SECTION 2
# DUE TO CUSTOMERS – ITEM 20

### 2.1 Due to customers: product breakdown

| Transaction type/ Group components | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| 1. Current accounts and sight deposits | 5.842.732 | - | - | 5.842.732 | 5.466.799 |
| 2. Term deposits and term C/As | 325.915 | - | - | 325.915 | 272.677 |
| 3. Managed third-party funds | 13.349 | - | - | 13.349 | 13.856 |
| 4. Financing | 3.717 | - | - | 3.717 | 478 |
| 4.1 Financial leasing | 51 | - | - | 51 | - |
| 4.2 other | 3.666 | - | - | 3.666 | 478 |
| 5. Debt for repurchase commitments of own equity assets | - | - | - | - | - |
| 6. Liabilities on assets sold not cancelled from balance sheet | 694.292 | - | - | 694.292 | 768.527 |
| 6.1 Repurchase agreements payable | 504.704 | - | - | 504.704 | 515.766 |
| 6.2 other | 189.588 | - | - | 189.588 | 252.761 |
| 7. Other payables | 654.289 | - | - | 654.289 | 452.169 |
| 7.1 Repurchase agreements payable | 580.680 | - | - | 580.680 | 356.809 |
| 7.2 Other | 73.609 | - | - | 73.609 | 95.360 |
| **Total** | **7.534.294** | **-** | **-** | **7.534.294** | **6.974.506** |
| ***Fair value*** | **7.534.294** | **-** | **-** | **7.534.294** | **6.974.506** |

# SECTION 3
# OUTSTANDING SECURITIES – ITEM 30

### 3.1 Outstanding securities: product breakdown

| Security type/ Components of the group | Banking group companies | | Insurance | | Other companies | | Total 31/12/2007 | | Total 31/12/2006 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | BV | FV | BV | FV | BV | FV | BV | FV | BV | FV |
| **A. Listed securities** | **855.495** | **852.966** | **-** | **-** | **-** | **-** | **855.495** | **852.966** | **854.770** | **853.836** |
| 1. Bonds | 855.495 | 852.966 | - | - | - | - | 855.495 | 852.966 | 854.770 | 853.836 |
| 1.1 structured | - | - | - | - | - | - | - | - | - | - |
| 1.2 other | 855.495 | 852.966 | - | - | - | - | 855.495 | 852.966 | 854.770 | 853.836 |
| 2. Other securities | - | - | - | - | - | - | - | - | - | - |
| 2.1 Structured | - | - | - | - | - | - | - | - | - | - |
| 2.2 other | - | - | - | - | - | - | - | - | - | - |
| **B. Unlisted securities** | **904.283** | **901.357** | **-** | **-** | **-** | **-** | **904.283** | **901.357** | **812.848** | **812.883** |
| 1. Bonds | 806.151 | 803.225 | - | - | - | - | 806.151 | 803.225 | 708.169 | 708.204 |
| 1.1 structured | 15.838 | 15.432 | - | - | - | - | 15.838 | 15.432 | 14.883 | 14.939 |
| 1.2 other | 790.313 | 787.793 | - | - | - | - | 790.313 | 787.793 | 693.286 | 693.265 |
| 2. Other securities | 98.132 | 98.132 | - | - | - | - | 98.132 | 98.132 | 104.679 | 104.679 |
| 2.1 Structured | - | - | - | - | - | - | - | - | - | - |
| 2.2 other | 98.132 | 98.132 | - | - | - | - | 98.132 | 98.132 | 104.679 | 104.679 |
| **Total** | **1.759.778** | **1.754.323** | **-** | **-** | **-** | **-** | **1.759.778** | **1.754.323** | **1.667.618** | **1.666.719** |

*Key to symbols, BV = book value, FV=fair value*

### 3.2 Details of item 30 "Outstanding securities": subordinated securities (regulations in force)

| | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| - subordinated securities | 313.823 | 296.916 |
| **Total** | **313.823** | **296.916** |

### 3.3 Details of item 30 "Outstanding securities": securities subject to specific hedging

| Type of transaction/Values | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| **1. Securities subject to fair value specific hedging** | **72.186** | **88.171** |
| a) interest rate risk | 72.186 | 88.171 |
| b) exchange rate risk | - | - |
| c) multiple risks | - | - |
| **2. Securities subject to cash flow specific hedging** | **-** | **-** |
| a) interest rate risk | - | - |
| b) exchange rate risk | - | - |
| c) other | - | - |
| **Total** | **72.186** | **88.171** |

# SECTION 4
# TRADING FINANCIAL LIABILITIES – ITEM 40

### 4.1 Trading financial liabilities: product breakdown

| Security type/ Group components | Banking group | | | | Insurance companies | | | | Other companies | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | NV | FV | | FV* | NV | FV | | FV* | NV | FV | | FV* |
| | | L | UL | | | L | UL | | | L | UL | |
| **A. Cash liabilities** | | | | | | | | | | | | |
| 1. Due to banks | 12 | - | 12 | 12 | - | - | - | - | - | - | - | - |
| 2. Due to customers | - | - | - | - | - | - | - | - | - | - | - | - |
| 3. Debt securities | - | - | - | - | - | - | - | - | - | - | - | - |
| 3.1 Bonds | - | - | - | - | - | - | - | - | - | - | - | - |
| 3.1.1 Structured | - | - | - | X | - | - | - | X | - | - | - | X |
| 3.1.2 Other bonds | - | - | - | X | - | - | - | X | - | - | - | X |
| 3.2 Other securities | - | - | - | - | - | - | - | - | - | - | - | - |
| 3.2.1 Structured | - | - | - | X | - | - | - | X | - | - | - | X |
| 3.2.2 Other | - | - | - | X | - | - | - | X | - | - | - | X |
| **Total A** | **12** | **-** | **12** | **12** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **B. Derivatives** | | | | | | | | | | | | |
| 1. Financial derivatives | X | 3.374 | 31.959 | X | X | - | 6.073 | X | X | - | - | X |
| 1.1 trading | X | 3.374 | 25.919 | X | X | - | - | X | X | - | - | X |
| 1.2 connected to fair value option | X | - | - | X | X | - | - | X | X | - | - | X |
| 1.3 other | X | - | 6.040 | X | X | - | 6.073 | X | X | - | - | X |
| 2. Credit derivatives | X | - | - | X | X | - | - | X | X | - | - | X |
| 2.1 trading | X | - | - | X | X | - | - | X | X | - | - | X |
| 2.2 connected to fair value option | X | - | - | X | X | - | - | X | X | - | - | X |
| 2.3 other | X | - | - | X | X | - | - | X | X | - | - | X |
| **Total B** | **X** | **3.374** | **31.959** | **X** | **X** | **-** | **6.073** | **X** | **X** | **-** | **-** | **X** |
| **Total A+B** | **X** | **3.374** | **31.971** | **X** | **X** | **-** | **6.073** | **X** | **X** | **-** | **-** | **X** |

### continued

| Security type/ Group components | Total 31/12/2007 | | | | Total 31/12/2006 | | | |
|---|---|---|---|---|---|---|---|---|
| | NV | FV | | FV* | NV | FV | | FV* |
| | | L | UL | | | L | UL | |
| **A. Cash liabilities** | | | | | | | | |
| 1. Due to banks | 12 | - | 12 | 12 | - | - | - | - |
| 2. Due to customers | - | - | - | - | - | - | - | - |
| 3. Debt securities | - | - | - | - | - | - | - | - |
| 3.1 Bonds | - | - | - | - | - | - | - | - |
| 3.1.1 structured | - | - | - | X | - | - | - | X |
| 3.1.2 other bonds | - | - | - | X | - | - | - | X |
| 3.2 Other securities | - | - | - | - | - | - | - | - |
| 3.2.1 structured | - | - | - | X | - | - | - | X |
| 3.2.2 other | - | - | - | X | - | - | - | X |
| **Total A** | **12** | **-** | **12** | **12** | **-** | **-** | **-** | **-** |
| **B. Derivatives** | | | | | | | | |
| 1. Financial derivatives | X | 3.374 | 38.032 | X | X | 2.203 | 35.401 | X |
| 1.1 trading | X | 3.374 | 25.919 | X | X | 1.802 | 34.982 | X |
| 1.2 connected to fair value option | X | - | - | X | X | - | - | X |
| 1.3 other | X | - | 12.113 | X | X | 401 | 419 | X |
| 2. Credit derivatives | X | - | - | X | X | - | - | X |
| 2.1 trading | X | - | - | X | X | - | - | X |
| 2.2 connected to fair value option | X | - | - | X | X | - | - | X |
| 2.3 other | X | - | - | X | X | - | - | X |
| **Total B** | **X** | **3.374** | **38.032** | **X** | **X** | **2.203** | **35.401** | **X** |
| **Total A+B** | **X** | **3.374** | **38.044** | **X** | **X** | **2.203** | **35.401** | **X** |

*KEY TO SYMBOLS*
*FV = fair value*
*FV* = fair value calculated excluding value changes due to changes in credit worthiness of the issuer regarding the issue date*
*NV = nominal or notional value*
*L = listed*
*UL = unlisted*

## 4.4 Financial trading liabilities: derivatives

### 4.4.1 attributable to the banking group

| Derivative type/underlying assets | Interest rates | Currencies and gold | Equities | Receivables | Other | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|---|---|
| **A) Listed derivatives** | | | | | | | |
| ***1. Financial derivatives:*** | **97** | **3.771** | **3.277** | **-** | **-** | **7.145** | **2.203** |
| • with equity swap | 97 | 3.771 | - | - | - | 3.868 | - |
| - issued options | 97 | - | - | - | - | 97 | - |
| - other derivatives | - | 3.771 | - | - | - | 3.771 | - |
| • without equity swap | - | - | 3.277 | - | - | 3.277 | 2.203 |
| - issued options | - | - | 3.277 | - | - | 3.277 | 2.203 |
| - other derivatives | - | - | - | - | - | - | - |
| ***2. Credit derivatives*** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| • with equity swap | - | - | - | - | - | - | - |
| • without equity swap | - | - | - | - | - | - | - |
| **Total A** | **97** | **3.771** | **3.277** | **-** | **-** | **7.145** | **2.203** |
| **B) Unlisted derivatives** | | | | | | | |
| ***1. Financial derivatives:*** | **9.978** | **17.240** | **970** | **-** | **-** | **28.188** | **35.350** |
| • with equity swap | - | 16.006 | - | - | - | 16.006 | 17.660 |
| - issued options | - | 2.905 | - | - | - | 2.905 | 4.433 |
| - other derivatives | - | 13.101 | - | - | - | 13.101 | 13.227 |
| • without equity swap | 9.978 | 1.234 | 970 | - | - | 12.182 | 17.690 |
| - issued options | 5.667 | - | 970 | - | - | 6.637 | 5.417 |
| - other derivatives | 4.311 | 1.234 | - | - | - | 5.545 | 12.273 |
| ***2. Credit derivatives*** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| • with equity swap | - | - | - | - | - | - | - |
| • without equity swap | - | - | - | - | - | - | - |
| **Total B** | **9.978** | **17.240** | **970** | **-** | **-** | **28.188** | **35.350** |
| **Total A+B** | **10.075** | **21.011** | **4.247** | **-** | **-** | **35.333** | **37.553** |

### 4.4.2 attributable to insurance companies

| Derivative type/underlying assets | Interest rates | Currencies and gold | Equities | Receivables | Other | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|---|---|
| **A) Listed derivatives** | | | | | | | |
| ***1. Financial derivatives:*** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| • with equity swap | - | - | - | - | - | - | - |
| - issued options | - | - | - | - | - | - | - |
| - other derivatives | - | - | - | - | - | - | - |
| • without equity swap | - | - | - | - | - | - | - |
| - issued options | - | - | - | - | - | - | - |
| - other derivatives | - | - | - | - | - | - | - |
| ***2. Credit derivatives*** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| • with equity swap | - | - | - | - | - | - | - |
| • without equity swap | - | - | - | - | - | - | - |
| **Total A** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **B) Unlisted derivatives** | | | | | | | |
| **1. Financial derivatives:** | **6.073** | **-** | **-** | **-** | **-** | **6.073** | **51** |
| • with equity swap | - | - | - | - | - | - | - |
| - issued options | - | - | - | - | - | - | - |
| - other derivatives | - | - | - | - | - | - | - |
| • without equity swap | 6.073 | - | - | - | - | 6.073 | 51 |
| - issued options | - | - | - | - | - | - | - |
| - other derivatives | 6.073 | - | - | - | - | 6.073 | 51 |
| **2. Credit derivatives** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| • with equity swap | - | - | - | - | - | - | - |
| • without equity swap | - | - | - | - | - | - | - |
| **Total B** | **6.073** | **-** | **-** | **-** | **-** | **6.073** | **51** |
| **Total (A+B)** | **6.073** | **-** | **-** | **-** | **-** | **6.073** | **51** |

### 4.5 Cash financial liabilities (excluding "technical overdrawns"): annual changes

| | Due to banks | Due to customers | Outstanding securities | Total 31/12/2007 |
|---|---|---|---|---|
| **A. Opening balance** | **-** | **-** | **-** | **-** |
| **B. Increases** | **12** | **-** | **-** | **12** |
| B1. Issues | - | - | - | - |
| B2. Sales | - | - | - | - |
| B3. Fair value increases | - | - | - | - |
| B4. Other changes | 12 | - | - | 12 |
| **C. Decreases** | **-** | **-** | **-** | **-** |
| C1. Purchases | - | - | - | - |
| C2. Repayments | - | - | - | - |
| C3. Fair value decreases | - | - | - | - |
| C4. Other changes | - | - | - | - |
| **D. Closing balance** | **12** | **-** | **-** | **12** |

# SECTION 5
# FINANCIAL LIABILITIES EVALUATED AT FAIR VALUE – ITEM 50

## 5.1 Financial liabilities evaluated at fair value

| Type of transaction/Values | Banking group | | | | Insurance companies | | | | Other companies | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | NV | FV | | FV* | NV | FV | | FV* | NV | FV | | FV* |
| | | L | UL | | | L | UL | | | L | UL | |
| **1. Due to banks** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1.1 Structured | - | - | - | X | - | - | - | X | - | - | - | X |
| 1.2 Other | - | - | - | X | - | - | - | X | - | - | - | X |
| **2. Due to customers** | **-** | **-** | **-** | **-** | **591.951** | **417.667** | **174.284** | **-** | **-** | **-** | **-** | **-** |
| 2.1 Structured | - | - | - | X | - | - | - | X | - | - | - | X |
| 2.2 other | - | - | - | X | 591.951 | 417.667 | 174.284 | X | - | - | - | X |
| **3. Securities in circulation** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 3.1 Structured | - | - | - | X | - | - | - | X | - | - | - | X |
| 3.2 Other | - | - | - | X | - | - | - | X | - | - | - | X |
| **Total** | **-** | **-** | **-** | **-** | **591.951** | **417.667** | **174.284** | **-** | **-** | **-** | **-** | **-** |

## cont

| Type of transaction/Values | Total 31/12/2007 | | | | Total 31/12/2006 | | | |
|---|---|---|---|---|---|---|---|---|
| | NV | FV | | FV* | NV | FV | | FV* |
| | | L | UL | | | L | UL | |
| **1. Due to banks** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1.1 Structured | - | - | - | X | - | - | - | X |
| 1.2 Other | - | - | - | X | - | - | - | X |
| **2. Due to customers** | **591.951** | **417.667** | **174.284** | **-** | **553.014** | **373.405** | **179.609** | **-** |
| 2.1 Strutturati | - | - | - | X | - | - | - | X |
| 2.2 Altri | 591.951 | 417.667 | 174.284 | X | 553.014 | 373.405 | 179.609 | X |
| **3. Securities in circulation** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 3.1 Structured | - | - | - | X | - | - | - | X |
| 3.2 Other | - | - | - | X | - | - | - | X |
| **Total** | **591.951** | **417.667** | **174.284** | **-** | **553.014** | **373.405** | **179.609** | **-** |

*KEY TO SYMBOLS*
*FV = fair value*
*FV* = fair value calculated excluding value changes due to changes in credit worthiness of the issuer regarding the issue date*
*NV = nominal value*
*L = listed*
*UL = unlisted*

## 5.3 Financial liabilities evaluated at fair value: annual changes

| | Due to banks | Due to customers | Securities in circulation | Total 31/12/2007 |
|---|---|---|---|---|
| **A. Opening balance** | **-** | **561.115** | **-** | **561.115** |
| **B. Increases** | **-** | **46.278** | **-** | **46.278** |
| B1. Issues | - | - | - | - |
| B2. Sales | - | - | - | - |
| B3. Fair value increases | - | - | - | - |
| B4. Other changes | - | 46.278 | - | 46.278 |
| **C. Decreases** | **-** | **15.442** | **-** | **15.442** |
| C1. Purchases | - | - | - | - |
| C2. Repayments | - | - | - | - |
| C3. Fair value decreases | - | - | - | - |
| C4. Other changes | - | 15.442 | - | 15.442 |
| **D. Closing balance** | **-** | **591.951** | **-** | **591.951** |

*Given that in 2007 it was decided to exploit the option to designate some typologies of assets and liabilities as "financial assets/liabilities evaluated at fair value" it was felt appropriate, in order to make the comparison adequate and homogeneous, to reclassify the data for the previous period.*

# SECTION 6
# HEDGING DERIVATIVES – ITEM 60

## 6.1 Hedging derivatives: breakdown by contract type and underlying assets

### 6.1.1 attributable to the banking group

| Derivative type/Underlying assets | Interest rates | Currencies and gold | Equities | Receivables | Other | Total |
|---|---|---|---|---|---|---|
| **A) Listed** | | | | | | |
| ***1. Financial derivatives*** | **-** | **-** | **-** | **-** | **-** | **-** |
| with equity swap | - | - | - | - | - | - |
| - issued options | - | - | - | - | - | - |
| - other derivatives | - | - | - | - | - | - |
| without equity swap | - | - | - | - | - | - |
| - issued options | - | - | - | - | - | - |
| - other derivatives | - | - | - | - | - | - |
| ***2. Credit derivatives*** | **-** | **-** | **-** | **-** | **-** | **-** |
| with equity swap | - | - | - | - | - | - |
| without equity swap | - | - | - | - | - | - |
| **Total A** | **-** | **-** | **-** | **-** | **-** | **-** |
| **B) Unlisted** | | | | | | |
| ***1. Financial derivatives*** | **9.902** | **-** | **-** | **-** | **-** | **9.902** |
| with equity swap | - | - | - | - | - | - |
| - issued options | - | - | - | - | - | - |
| - other derivatives | - | - | - | - | - | - |
| without equity swap | 9.902 | - | - | - | - | 9.902 |
| - issued options | - | - | - | - | - | - |
| - other derivatives | 9.902 | - | - | - | - | 9.902 |
| ***2. Credit derivatives*** | **-** | **-** | **-** | **-** | **-** | **-** |
| with equity swap | - | - | - | - | - | - |
| without equity swap | - | - | - | - | - | - |
| **Total B** | **9.902** | **-** | **-** | **-** | **-** | **9.902** |
| **Total (A+B) 31/12/2007** | **9.902** | **-** | **-** | **-** | **-** | **9.902** |
| **Total (A+B) 31/12/2006** | **1.786** | **-** | **-** | **-** | **-** | **1.786** |

## 6.2 Hedging derivatives: breakdown by hedged portfolios and type of hedging

### 6.2.1 attributable to the banking group

| Transaction/Type of cover | Fair value hedge | | | | | | Cash flow hedge | |
|---|---|---|---|---|---|---|---|---|
| | Specific | | | | | Generic | Specific | Generic |
| | interest rate risk | exchange rate risk | credit risk | price risk | multiple risk | | | |
| 1. Financial assets available for sale | - | - | - | - | - | X | - | X |
| 2. Receivables | 8.530 | - | - | X | - | X | - | X |
| 3. Financial assets held to maturity | X | - | - | X | - | X | - | X |
| 4. Portfolio | X | X | X | X | X | - | X | - |
| **Total assets** | **8.530** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1. Financial liabilities | 1.372 | - | - | - | - | X | - | X |
| 2. Portfolio | X | X | X | X | X | - | X | - |
| **Total liabilities** | **1.372** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

## SECTION 7
## MODIFICATION OF THE VALUE OF FINANCIAL LIABILITIES SUBJECT TO GENERAL HEDGING – ITEM 70

As of 31 December 2007 and 31 December 2006 the Group did not have any liabilities subject to general hedging.

## SECTION 10
## OTHER LIABILITIES – ITEM 100

### 10.1 Other liabilities: breakdown

| | Banking Group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| Items payable in transit | 3.596 | - | - | 3.596 | 4.143 |
| Guarantee deposits received by third parties | - | - | - | - | 1.813 |
| Advances to be paid to tax authorities for third parties | 24.446 | 62 | - | 24.508 | 25.940 |
| Adjustments for non-liquid portfolio items | 130.329 | - | - | 130.329 | 40.312 |
| Liquid funds available to customers | 61.886 | - | - | 61.886 | 40.543 |
| Bank transfers and other due payments | 165.077 | - | - | 165.077 | 161.742 |
| Due from suppliers and fees to be charged to sundry | 84.060 | 2.315 | - | 86.375 | 63.953 |
| Staff expenses | 46.333 | 590 | - | 46.923 | 26.863 |
| Debt due to guarantees and commitments | 2.520 | - | - | 2.520 | 2.428 |
| Remuneration to be paid to statutory auditors and directors | 321 | 213 | - | 534 | 405 |
| Contributions to be paid to sundry entities | 8.239 | - | - | 8.239 | 439 |
| Deferrals | 1.647 | - | - | 1.647 | 1.634 |
| Payments to cover recalled bills | 93 | - | - | 93 | 15 |
| Special laws contributions to be paid to customers | 311 | - | - | 311 | 476 |
| Cram in settlement for liability action | 11 | - | - | 11 | 32 |
| Debt deriving from direct insurance operations | 725 | 142 | - | 867 | 786 |
| Debt deriving from reinsurance operations | - | 321 | - | 321 | 595 |
| Commissions for premiums under collection | - | 272 | - | 272 | 261 |
| Deferred Income Reserve | - | 4.791 | - | 4.791 | 5.660 |
| Other | 19.804 | 1.435 | - | 21.239 | 27.984 |
| **Total** | **549.398** | **10.141** | **-** | **559.539** | **406.024** |

*For 31 December 2007 the item "Other liabiliaties" was more detailed, hence it was deened necessary to reclassify 2006.*
*Given that in 2007 it was decided to explait the option to designate some typologies of assets and liabilities as "Financial assets/liabilities evaluated at fair value", it was felt appropriate, in order to make the comparison adequate and honogeneous, to reclassify the data for 2006 for euro 179.609 thousand entered at the item "Credits for insurance activity".*

# SECTION 11
# STAFF SEVERANCE – ITEM 110

## 11.1 Staff severance indemnities: annual changes

| | Banking group | Insurance companies | Other companies | Totale 31/12/2007 |
|---|---|---|---|---|
| **A. Opening balance** | **47.255** | **463** | **-** | **47.718** |
| **B. Increases** | **(3.082)** | **98** | **-** | **(2.984)** |
| B.1 Provisions | (3.884) | 98 | - | (3.786) |
| B.2 Other increases | 802 | - | - | 802 |
| **C. Decreases** | **5.012** | **13** | **-** | **5.025** |
| C.1 Severance pay-outs | 2.836 | 11 | - | 2.847 |
| C.2 Other reductions | 2.176 | 2 | - | 2.178 |
| **D. Closing balance** | **39.161** | **548** | **-** | **39.709** |

*We hereby set out the actuarial hypotheses used by the company to calculate Severance Pay: rate of actualisation 4.9580%, rate of inflation 2.25%, Istat Tables 2000 mortality tables subdivided by gender.*

*NEW SEVERANCE PAY EVALUATION (law no. 296 of 27 December 2006)*

*Law no 296 of 27 December 2006 significantly modifies the criteria for managing Severance Pay quotas accruing starting from 1.1.2007, with each worker required to choose whether to maintain the annual allocation as severance pay or transform it into a contribution to the complementary pension fund.*

*The law confirms that for companies with less than 50 employees (Biella Leasing, Sella Capital Management, Brosel, Easy Nolo and C.B.A. Vita), the severance pay quotas as of 2007 will go into the complementary pension fund or will remain as credit for the company relative to its employees i.e. the company will continue to manage severance pay including as regards accruing future annual quotas.*

*For companies with more than 50 employees (Sella Holding Banca, Sella Gestioni, Banca di Palermo, Banca Sella Nordest Bovio Calderari, Consel, Banca Patrimoni Sella & C., Banca Arditi Galati and Banca Sella) on the other hand, future severance pay quotas must be obligatorily rendered liquid and paid-in – on the basis of each worker's decision – to the complementary pension and/or the INPS Treasury Fund, the addressee of future allocations to be managed as severance pay.*

*In practice a company with more than 50 employees must monetize the accruing severance pay and pay it either to the Pension Funds or to the Treasury Fund and limit its direct Severance Pay debt to its own employees solely to the Severance Pay allocated up to the date of the decision made by the employee.*

*The Italian regulations in force state that the amount of Severance Pay, equal to the total of the indemnities accrued by each employee in service, should be entirely registered in the financial statements, as if the employment relationship had finished on that date.*

*The IAS 19 criterion subdivides performances subsequent to the cessation of service in definite contribution pension plans (the company's commitment is completed via the payment of the annual contribution) and to a defined performance (the company guarantees the agreed performance).*

*More specifically, the Severance Pay must be considered Employee Benefit Costs i.e. benefit for guaranteed performances, linked to years of service, retribution and variation in the cost of living index. Since the performances are payable on non fixed dates and for non fixed amounts, the IAS criteria recommend including the actuarial estimate of the effective value of the performances due to company employees in the financial statements.*

*In companies with less than 50 employees Severance Pay has a future flow of new annual amounts, and therefore it remains a defined performances plan and the actuarial estimate of the Severance Pay fund is obtained by applying the Projected Unit Credit Method in accordance with the definition set out in paragraphs 64, 65 and 66 of the IAS 19 principle.*

*The Projected Unit Credit Method states that for each year of work a constant amount must be allocated and the actuarial forecast model identifies, for each individual employee, the amount involved year by year with the relative probability of occurrence, considering all possible causes of employment relationship interruption.*

*In companies with more than 50 employees the guaranteed Severance Pay performance is limited solely to the part already allocated; the pension plan is limited to what has already been allocated and the actuarial evaluation does not use the PUCM criterion.*

*The current regulations on the allocation of Severance Pay provide for the following:*
*– annual quote to be allocated equal to 7.41% of retribution net of any amounts intended for pension funds;*
*– contribution quota to Obligatory General Insurance 0.50%;*
*– annual re-evaluation of Severance Pay fund equal to 1.50% + 75% of inflation;*
*– substitute tax rate on re-evaluations equal to 11%;*
*– pension age is 65 for men and 60 for women;*
*– minimum seniority for taking one's pension without age limits is 40*
*– age restrictions for years of service less than 40 years and for specific categories.*

*The above method requires the development of an actuarial evaluation on the basis of the rules in force for Severance Pay allocation and a series of demographic-financial hypotheses, considered by IAS 19 as "the best estimate made by the company of the variables that will lead to a determination of the effective benefit in favour of the employee after cessation of service":*
*a) demographic hypotheses: mortality, incapacity and turnover;*
*b) financial hypotheses: Severance Pay capitalisation rate*
*payments growth rate*
*discount rate used to make evaluations.*

# SECTION 12
# PROVISIONS FOR RISKS AND CHARGES – ITEM 120

## 12.1 Provisions for risks and charges: breakdown

| Items/Components | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| 1. Corporate pension fund | - | - | - | - | - |
| 2. Other provisions for risks and charges | 79.738 | - | - | 79.738 | 82.847 |
| 2.1 Legal disputes and customer complaints | 22.691 | - | - | 22.691 | 24.066 |
| 2.2. Operating risk | 53.369 | - | - | 53.369 | 54.861 |
| 2.3. Staff expenses | 330 | - | - | 330 | 454 |
| 2.4 Supplementary customer allowance and goodwill compensation for termination of agency relationship | 1.163 | - | - | 1.163 | 1.091 |
| 2.5 Other | 2.185 | - | - | 2.185 | 2.375 |
| **Total** | **79.738** | **-** | **-** | **79.738** | **82.847** |

*With regard to the component of the sub-item "Operating risks" please refert to "Report on accounts"; section "Group companies Large Corporate and asset management", paragraph "Sella Bank Luxembourg S.A.".*

## 12.2 Provisions for risks and charges: annual changes

### 12.2.1 Attributable to the banking group

| Items/Components | Pension fund | Legal disputes | Operating risks | Staff expenses | Supplementary customer allowance and goodwill compensation for termination of agency relationship | Other |
|---|---|---|---|---|---|---|
| **A. Opening balance** | **-** | **24.066** | **54.861** | **454** | **1.091** | **2.375** |
| **B. Increases** | **-** | **13.404** | **1.577** | **452** | **1.073** | **1.230** |
| B.1 Allocated for the year | - | 9.045 | 1.165 | 311 | 212 | 1.124 |
| B.2 Changes due to time | - | 689 | 162 | 82 | - | - |
| B.3 Changes due to discount rate variations | - | - | - | - | - | - |
| B.4 Other changes | - | 3.670 | 250 | 59 | 861 | 106 |
| - business aggregation transactions (+) | - | 2.272 | - | - | 582 | 106 |
| - exchange difference calculated (+) | - | - | - | - | - | - |
| - other changes (+) | - | 1.398 | 250 | 59 | 279 | - |
| **C. Decreases** | **-** | **14.779** | **3.069** | **576** | **1.001** | **1.420** |
| C.1 Funds used during period | - | 6.938 | 1.900 | 513 | 79 | 275 |
| C.2 Changes due to discount rate variations | - | 82 | 34 | - | - | - |
| C.3 Other changes | - | 7.759 | 1.135 | 63 | 922 | 1.145 |
| - business aggregation transactions (-) | - | 2.273 | - | - | 582 | 106 |
| - exchange difference calculated (-) | - | - | - | - | - | - |
| - other changes (-) | - | 5.486 | 1.135 | 63 | 340 | 1.039 |
| **D. Closing balance** | **-** | **22.691** | **53.369** | **330** | **1.163** | **2.185** |

# SECTION 13
# TECHNICAL RESERVES – ITEM 130

## 13.1 Technical reserves: breakdown

| | Direct work | Indirect work | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|
| **A. Non-life** | **1.519** | **-** | **1.519** | **1.475** |
| A1. premium reserves | 996 | - | 996 | 912 |
| A2. claims reserve | 278 | - | 278 | 223 |
| A3. other reserves | 245 | - | 245 | 340 |
| **B. Life business** | **260.779** | **-** | **260.779** | **246.493** |
| B1. actuarial reserves | 251.641 | - | 251.641 | 233.117 |
| B2. outstanding claims reserve | 2.445 | - | 2.445 | 8.621 |
| B3. other reserves | 6.693 | - | 6.693 | 4.755 |
| **C. Technical reserves where the investment risk is borne by the policyholders** | **235.201** | **-** | **235.201** | **219.123** |
| C1. reserves relating to investment fund and index-linked contracts | 235.201 | - | 235.201 | 219.123 |
| C2. reserves deriving from the administration of pension funds | - | - | - | - |
| **D. Total technical reserves** | **497.499** | **-** | **497.499** | **467.091** |

*Given that in 2007 it was decided to exploit the option to designate some typologies of assets and liabilities as "financial currency assets/liabilities at fair value" it was felt appropriate, in order to render the comparison adequate and homogeneous, to reclassify the data for the year 2006 for 373,405,000 euro from item "B.Life sector – B2.reserves for sums to be paid".*

## 13.2 Technical reserves: annual changes

| | Total 31/12/2006 | Change | Total 31/12/2007 |
|---|---|---|---|
| **A. Non-life** | **1.475** | **44** | **1.519** |
| A1. Premium reserves | 912 | 84 | 996 |
| Premium portion reserve | 912 | 84 | 996 |
| Current risk reserve | - | - | - |
| A2. Claims reserve | 223 | 55 | 278 |
| Compensation and direct expenses reserve | 153 | 25 | 178 |
| Settlement costs reserve | - | - | - |
| Occurred and unreported damages reserve | 70 | 30 | 100 |
| A3. Other reserves | 340 | (95) | 245 |
| **B. Life business** | **246.493** | **14.286** | **260.779** |
| B1. Actuarial reserves | 233.117 | 18.524 | 251.641 |
| B2. Outstanding claims reserve | 8.621 | (6.176) | 2.445 |
| B3. Other reserves | 4.755 | 1.938 | 6.693 |
| **C. Technical reserves where the investment risk is borne by the insurers** | **219.123** | **16.078** | **235.201** |
| C1. Reserves relating to investment fund and index-linked contracts | 219.123 | 16.078 | 235.201 |
| C2. Reserves deriving from the administration of pension funds | - | - | - |
| **D. Total technical reserves** | **467.091** | **31.713** | **497.499** |

*Given that in 2007 it was decided to exploit the option to designate some typologies of assets and liabilities as "financial currency assets/liabilities at fair value" it was felt appropriate, in order to render the comparison adequate and homogeneous, to reclassify the data for 2006 as set out in the note to the above table.*

# SECTION 15
# CONSOLIDATED CAPITAL – ITEMS 140, 160, 170, 180, 190, 200 AND 220

### 15.1 Consolidated capital: breakdown

| Items/Values | Balance 31/12/2007 | Balance 31/12/2006 |
|---|---|---|
| 1. Capital | 80.000 | 80.000 |
| 2. Share premiums | 49.414 | 49.414 |
| 3. Reserves | 237.822 | 188.821 |
| 4. (Own shares) | - | - |
| a) parent company | - | - |
| b) subsidiaries | - | - |
| 5. Valuation reserves | 34.327 | 85.179 |
| 6. Capital instruments | - | - |
| 7. Profit (loss) for the period of the group | 120.807 | 49.789 |
| **Total** | **522.370** | **453.203** |

### 15.2 "Capital" and "Own shares": breakdown

| | Issued shares | Shares subscribed and not yet paid up | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|
| **A. Capital** | | | | |
| A.1 common shares | 80.000 | - | 80.000 | 80.000 |
| A.2 preference shares | - | - | - | - |
| A.3 other shares | - | - | - | - |
| **Total** | **80.000** | **-** | **80.000** | **80.000** |
| **B. Own shares** | | | | |
| B.1 common shares | - | - | - | - |
| B.2 preference shares | - | - | - | - |
| B.3 other shares | - | - | - | - |
| **Total** | **-** | **-** | **-** | **-** |

### 15.3 Capital - Number of parent company shares: annual changes

| Items/type | Common | Other | Total |
|---|---|---|---|
| **A. Total shares at start of period** | **160.000.000** | **-** | **160.000.000** |
| - fully paid up | 160.000.000 | - | 160.000.000 |
| - not fully paid up | - | - | - |
| A.1 Own shares (-) | - | - | - |
| **A.2 Outstanding shares: opening balance** | **160.000.000** | **-** | **160.000.000** |
| **B. Increases** | **-** | **-** | **-** |
| B.1 New issues | - | - | - |
| - paid | - | - | - |
| - business aggregation transactions | - | - | - |
| - bond conversion | - | - | - |
| - warrant exercise | - | - | - |
| - other | - | - | - |
| - free of charge | - | - | - |
| - to employees | - | - | - |
| - to directors | - | - | - |
| - other | - | - | - |
| B.2 Sale of own shares | - | - | - |
| B.3 Other changes | - | - | - |
| **C. Decreases** | **-** | **-** | **-** |
| C.1 Cancellation | - | - | - |
| C.2 Purchase of own shares | - | - | - |
| C.3 Business transfer transactions | - | - | - |
| C.4 Other changes | - | - | - |
| **D. Outstanding shares: closing balance** | **160.000.000** | **-** | **160.000.000** |
| D.1 Own shares (+) | - | - | - |
| D.2 Shares at the end of period | 160.000.000 | - | 160.000.000 |
| - fully paid up | 160.000.000 | - | 160.000.000 |
| - not fully paid up | - | - | - |

### 15.6 Valuation reserves: breakdown

| Items/Components | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| 1. Financial assets available for sale | 6.323 | (1.279) | - | 5.044 | 54.582 |
| 2. Tangible assets | - | - | - | - | - |
| 3. Intangible assets | - | - | - | - | - |
| 4. Foreign investment hedge | - | - | - | - | - |
| 5. Cash flow hedge | - | - | - | - | - |
| 6. Exchange differences | - | - | - | - | - |
| 7. Non-current assets held for sale | - | - | - | - | - |
| 8. Special revaluation laws | 29.283 | - | - | 29.283 | 30.597 |
| **Total** | **35.606** | **(1.279)** | **-** | **34.327** | **85.179** |

*The reduction in reserves relative to assets available for sale refers to the exchange of shares which occurred between Borsa Italiana and London Stock Exchange Group, with a consequent entry in the income statement of the previous evaluation at fair value of Borsa Italiana and subsequent evaluation at fair value of the new shareholding in the London Stock Exchange Group.*

## 15.7 Valuation reserves: annual changes

### 15.7.1 Attributable to the banking group

| | Financial assets available for sale | Tangible assets | Intangible assets | Foreign investment hedge | Cash flow hedge | Exchange differences | Non current assets being disposed of | Special revaluation laws |
|---|---|---|---|---|---|---|---|---|
| **A. Opening balance** | **55.150** | **-** | **-** | **-** | **-** | **-** | **-** | **30.597** |
| **B. Increases** | **12.750** | **-** | **-** | **-** | **-** | **-** | **-** | **292** |
| B.1 Increases in fair value | 6.405 | - | - | - | - | - | - | X |
| B.2 Other changes | 6.345 | - | - | - | - | - | - | 292 |
| **C. Decreases** | **61.577** | **-** | **-** | **-** | **-** | **-** | **-** | **1.606** |
| C.1 Decreases in fair value | - | - | - | - | - | - | - | X |
| C.2 Other changes | 61.577 | - | - | - | - | - | - | 1.606 |
| **D. Closing balance** | **6.323** | **-** | **-** | **-** | **-** | **-** | **-** | **29.283** |

### 15.7.2 Attributable to the insurance companies

| | Financial assets available for sale | Tangible assets | Intangible assets | Foreign investment hedge | Cash flow hedge | Exchange differences | Non current assets being disposed of | Special revaluation laws |
|---|---|---|---|---|---|---|---|---|
| **A. Opening balance** | **(568)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **B. Increases** | **516** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| B.1 Increases in fair value | - | - | - | - | - | - | - | X |
| B.2 Other changes | 516 | - | - | - | - | - | - | - |
| **C. Decreases** | **1.227** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| C.1 Decreases in fair value | 1.227 | - | - | - | - | - | - | X |
| C.2 Other changes | - | - | - | - | - | - | - | - |
| **D. Closing balance** | **(1.279)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

## 15.8 Valuation reserves of financial assets available for sale: breakdown

| Assets/values | Banking group | | Insurance companies | | Other companies | | Total 31/12/2007 | | Total 31/12/2006 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Positive reserve | Negative reserve | Positive reserve | Negative reserve | Positive reserve | Negative reserve | Positive reserve | Negative reserve | Positive reserve | Negative reserve |
| 1. Debt securities | - | - | - | 1.279 | - | - | - | 1.279 | - | 568 |
| 2. Equities | 6.337 | 14 | - | - | - | - | 6.337 | 14 | 55.145 | 20 |
| 3. Mutual funds O.I.C.R. | - | - | - | - | - | - | - | - | 25 | - |
| 4. Financing | - | - | - | - | - | - | - | - | - | - |
| **Total** | **6.337** | **14** | **-** | **1.279** | **-** | **-** | **6.337** | **1.293** | **55.170** | **588** |

## 15.9. Valuation reserves of financial assets available for sale: annual changes

### 15.9.1 Attributable to the banking group

| | Debt securities | Equities | Mutual funds O.I.C.R. | Financing |
|---|---|---|---|---|
| **1. Opening balance** | **-** | **55.125** | **25** | **-** |
| **2. Increases** | **-** | **12.745** | **5** | **-** |
| 2.1 Increases in fair value | - | 6.405 | - | - |
| 2.2 Transfer to income statement of negative reserves | - | - | - | - |
| - from impairment | - | - | - | - |
| - from realization | - | - | - | - |
| 2.3 Other changes | - | 6.340 | 5 | - |
| **3. Decreases** | **-** | **61.547** | **30** | **-** |
| 3.1 Decreases in fair value | - | - | - | - |
| 3.2 Adjustments from impairment | - | - | - | - |
| 3.3 Transfer to income statement from positive reserves: from realization | - | 61.286 | 30 | - |
| 3.4 Other changes | - | 261 | - | - |
| **4. Closing balance** | **-** | **6.323** | **-** | **-** |

### 15.9.2 Attributable to the insurance companies

| | Debt securities | Equities | Mutual funds O.I.C.R. | Financing |
|---|---|---|---|---|
| **1. Opening balance** | **(568)** | **-** | **-** | **-** |
| **2. Increases** | **516** | **-** | **-** | **-** |
| 2.1 Increases in fair value | - | - | - | - |
| - 2.2 Transfer to income statement of negative reserves | - | - | - | - |
| - from impairment | - | - | - | - |
| - from realization | - | - | - | - |
| 2.3 Other changes | 516 | - | - | - |
| **3. Decreases** | **1.227** | **-** | **-** | **-** |
| 3.1 Decreases in fair value | 1.227 | - | - | - |
| 3.2 Adjustments from impairment | - | - | - | - |
| 3.3 Transfer to income statement from positive reserves: from realization | - | - | - | - |
| 3.4 Other changes | - | - | - | - |
| **4. Closing balance** | **(1.279)** | **-** | **-** | **-** |

# SECTION 16
# MINORITY INTEREST – ITEM 210

## 16.1 Minority interest: breakdown

| Items/Values | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| 1. Capital | 46.622 | 2.037 | - | 48.659 | 47.576 |
| 2. Share premiums | 38.837 | - | - | 38.837 | 20.774 |
| 3. Reserves | 19.227 | (161) | - | 19.066 | 9.431 |
| 4. (Own shares) | - | - | - | - | - |
| 5. Valuation reserves | 3.294 | (121) | - | 3.173 | 11.141 |
| 6. Capital instruments | - | - | - | - | - |
| 7. Minority interest profit (loss) for the year | 13.460 | 334 | - | 13.794 | 6.998 |
| **Total** | **121.440** | **2.089** | **-** | **123.529** | **95.920** |

## 16. 2 Valuation reserves: breakdown

| Financial assets available for sale | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| 1. Financial assets available for sale | 389 | (121) | - | 268 | 6.680 |
| 2. Tangible assets | - | - | - | - | - |
| 3. Intangible assets | - | - | - | - | - |
| 4. Foreign investment hedge | - | - | - | - | - |
| 5. Cash flow hedge | - | - | - | - | - |
| 6. Exchange differences | - | - | - | - | - |
| 7. Non-current assets being disposed of | - | - | - | - | - |
| 8. Special revaluation laws | 2.905 | - | - | 2.905 | 3.345 |
| **Total** | **3.294** | **(121)** | **-** | **3.173** | **10.025** |

## 16.4 Valuation reserves of financial assets available for sale: breakdown

| Assets/values | Banking group | | Insurance companies | | Other companies | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Positive reserve | Negative reserve | Positive reserve | Negative reserve | Positive reserve | Negative reserve | Positive reserve | Negative reserve |
| 1. Debt securities | - | - | - | (121) | - | - | - | (121) |
| 2. Equities | 401 | (12) | - | - | - | - | 401 | (12) |
| 3. Mutual funds O.I.C.R. | - | - | - | - | - | - | - | - |
| 4. Financing | - | - | - | - | - | - | - | - |
| **Total** | **401** | **(12)** | **-** | **(121)** | **-** | **-** | **401** | **(133)** |

## 16.5. Valuation reserves: annual variations

### 16.5.1. attributable to the banking group

| | Financial assets available for sale | Tangible assets | Intangible assets | Foreign investment hedge | Cash flow hedge | Exchange differences | Non current assets being disposed of | Special revaluation laws |
|---|---|---|---|---|---|---|---|---|
| **A. Opening balance** | **6.734** | **-** | **-** | **-** | **-** | **-** | **-** | **3.345** |
| **B. Increases** | **402** | **-** | **-** | **-** | **-** | **-** | **-** | **36** |
| B.1 Increases in fair value | 402 | - | - | - | - | - | - | X |
| B.2 Other changes | - | - | - | - | - | - | - | 36 |
| **C. Decreases** | **6.747** | **-** | **-** | **-** | **-** | **-** | **-** | **476** |
| C.1 Decreases in fair value | 3.500 | - | - | - | - | - | - | X |
| C.2 Other changes | 3.247 | - | - | - | - | - | - | 476 |
| **D. Closing balance** | **389** | **-** | **-** | **-** | **-** | **-** | **-** | **2.905** |

### 16.5.2 Attributable to the insurance companies

| | Financial assets available for sale | Tangible assets | Intangible assets | Foreign investment hedge | Cash flow hedge | Exchange differences | Non current assets being disposed of | Special revaluation laws |
|---|---|---|---|---|---|---|---|---|
| **A. Opening balance** | **(54)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **B. Increases** | **39** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| B.1 Increases in fair value | - | - | - | - | - | - | - | X |
| B.2 Other changes | 39 | - | - | - | - | - | - | - |
| **C. Decreases** | **106** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| C.1 Decreases in fair value | 106 | - | - | - | - | - | - | X |
| C.2 Other changes | - | - | - | - | - | - | - | - |
| **D. Closing balance** | **(121)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

## OTHER INFORMATION

### 1. Guarantees issued and other commitments

| Operations | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| **1) Financial nature guarantees issued** | **66.402** | **-** | **-** | **66.402** | **46.355** |
| a) banks | - | - | - | - | 8 |
| b) customers | 66.402 | - | - | 66.402 | 46.347 |
| **2) Commercial nature guarantees issued** | **241.162** | **-** | **-** | **241.162** | **238.722** |
| a) banks | 300 | - | - | 300 | 144 |
| b) customers | 240.862 | - | - | 240.862 | 238.578 |
| **3) Irrevocable commitments to provide funding** | **771.413** | **-** | **-** | **771.413** | **494.310** |
| a) banks | 385.373 | - | - | 385.373 | 199.698 |
| i) certain to be called on | 372.359 | - | - | 372.359 | 198.465 |
| ii) not certain to be called on | 13.014 | - | - | 13.014 | 1.233 |
| b) customers | 386.040 | - | - | 386.040 | 294.612 |
| i) certain to be called on | 258.629 | - | - | 258.629 | 140.750 |
| ii) not certain to be called on | 127.411 | - | - | 127.411 | 153.862 |
| **4) Commitments underlying derivatives on loans: hedging sales** | **-** | **-** | **-** | **-** | **-** |
| **5) Assets pledged for third party obligations** | **94.645** | **-** | **-** | **94.645** | **87.420** |
| **6) Other commitments** | **113.104** | **-** | **-** | **113.104** | **139.605** |
| **Total** | **1.286.726** | **-** | **-** | **1.286.726** | **1.006.412** |

*For details concerning the sub-item "Other commitments" see the "Management Report", section "Group companies – Major Clients and asset management", paragraph "Sella Bank Luxembourg S.A.", and the section "Evolution of Group assets and shareholdings", paragraph "Relations with minority partners".*

## 2. Assets pledged against own liabilities and commitments

| Portfolios | Balance 31/12/2007 | Balance 31/12/2006 |
|---|---|---|
| 1. Financial assets held for trading | 654.259 | 508.199 |
| 2. Financial assets stated at fair value | - | - |
| 3. Financial assets available for sale | - | - |
| 4. Financial assets held to maturity | 69.472 | 57.905 |
| 5. Due from banks | - | - |
| 6. Due from customers | - | - |
| 7. Tangible assets | - | - |

*The item relative to financial assets held for trading comprises instruments used as a guarantee for:*
- *REPO operations*
- *Banca d'Italia advances*
- *derivatives operations*

*The item relative to financial assets held to maturity comprises instruments used as a guarantee for:*
- *REPO operations*
- *bank cheques through Banca d'Italia*
- *Banca d'Italia advances*
- *derivatives operations*

*REPO OPERATIONS*
*There are no specific clauses and conditions associated with the said guarantee.*

*ISSUE OF BANK CHEQUES*
*Banks authorised to issue bank cheques are required to pay a deposit with Banca d'Italia. The minimum value of the deposit paid is 20% of the amount of cheques in circulation. Banca d'Italia holds the deposits paid in and checks the congruity of the amount against the minimum amount in relation to the circulation of bank cheques and the release of deposited financial instruments.*
*Banks that display misalignments in the amount of the deposit must take the appropriate significant and corrective measures, relative to the situations in question, to rectify the situation at the first favourable occasion or increase deposits, to be carried out in the 5 days subsequent to communication. If there is no integration or any violation of the regulations on the size or composition of the deposits, then the banks may be subject to an administrative pecuniary sanction of from 516.46 euro to 25,822.84 euro, in compliance with article 144, para 1, of legislative decree 385/93.*

*ADVANCES FROM BANCA D'ITALIA*
*For advances permitted by Banca d'Italia in order to finance, within the same working day, any temporal misalignments between payments and receipts, Group banks are required to offer their assets as security, which are registered in the appropriate deposit account as secured instruments with Banca d'Italia.*
*If there is no offer of any security as set out above, and with misalignment continuing, Banca d'Italia can resolve the contract. The said resolution leads to the immediate closure of the infra-daily advance account, and, as a result, to an obligation to liquidate the debt in the said account and reimburse any financing which has been permitted.*

*DERIVATIVES OPERATIONS*
*Banks in Gruppo Banca Sella adhere to the guarantee system managed by the Clearing and Guarantee House, via the payment of margins. The final settlement of Contractual positions on Derivative Financial Instruments can be carried out via differential liquidation in cash or the "delivery" of the underlying asset, in accordance with what is set out in the relative Contractual Obligations.*
*If the situation is not resolved or leads to insolvency, the Clearing and Guarantee House undertakes to close the accounts of the party in breach and calculates the charges incurred relative to the same.*

## 4. Breakdown of investments relating to unit-linked and index-linked policies

| | Balance 31/12/2007 | Balance 31/12/2006 |
|---|---|---|
| I Land and buildings | - | - |
| II Investments in group companies and subsidiary companies: | - | - |
| 1. Shares and holdings | - | - |
| 2. Bonds | - | - |
| 3. Financing | - | - |
| III Stakes in mutual funds | 417.759 | 373.809 |
| IV Other financial investments: | 403.047 | 400.079 |
| 1. Shares and holdings | 398 | - |
| 2. Bonds and other fixed-income securities | 374.797 | 370.696 |
| 3. Deposits with credit institutions | - | - |
| 4. Miscellaneous financial investments | 27.852 | 29.383 |
| V Other assets | - | - |
| VI Cash | 101 | - |
| **Total** | **820.907** | **773.888** |

## 5. Management and intermediation on third party behalf: banking group

| Type of service | Balance 31/12/2007 | Balance 31/12/2006 |
|---|---|---|
| ***1. Trading of financial instruments on third party behalf*** | **185.547.025** | **167.052.763** |
| a) Purchases | 91.834.632 | 82.434.296 |
| 1. regulated | 91.595.271 | 82.127.203 |
| 2. non-regulated | 239.361 | 307.093 |
| b) Sales | 93.712.393 | 84.618.467 |
| 1. regulated | 93.401.708 | 84.268.080 |
| 2. non-regulated | 310.685 | 350.387 |
| ***2. Asset management*** | **5.273.353** | **6.212.734** |
| a) Individual | 5.054.739 | 5.925.920 |
| b) Collective | 218.614 | 286.814 |
| ***3. Custody and administration of securities*** | **32.165.131** | **32.528.301** |
| a) Third-party securities on deposit: related to custodian bank services (excluding asset management) | 5.072.890 | 5.417.271 |
| 1. securities issued by companies included within consolidation | - | - |
| 2. other securities | 5.072.890 | 5.417.271 |
| b) other third-party securities on deposit (excluding asset management): other | 9.685.057 | 8.956.189 |
| 1. securities issued by companies included within consolidation | 616.835 | 558.152 |
| 2. other securities | 9.068.222 | 8.398.037 |
| c) third-party securities deposited with third-parties | 16.100.266 | 16.531.539 |
| d) own securities deposited with third-parties | 1.306.918 | 1.623.302 |
| ***4. Other operations**** | **292.276.378** | **-** |

** The item "Other operations" includes the volume of order receiving and sending activity that is divided into the following:*
*- purchases: 147,018,562*
*- sales: 145,257,816*

# PART C – INFORMATION ON CONSOLIDATED INCOME STATEMENT

# SECTION 1
# INTEREST – ITEMS 10 AND 20

## 1.1 Interest receivable and similar income: breakdown

### 1.1.1 attributable to the Banking Group

| Items/Technical forms | Performing financial assets | | Impaired financial assets | Other assets | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|---|
| | Debt securities | Financing | | | | |
| 1. Financial assets held for trading | 20.999 | - | - | 14.589 | 35.588 | 47.462 |
| 2. Financial assets evaluated at fair value | - | - | - | - | - | - |
| 3. Financial assets available for sale | 959 | - | - | - | 959 | 5.582 |
| 4. Financial assets held to maturity | 3.243 | - | - | - | 3.243 | 3.163 |
| 5. Due from banks | - | 89.863 | - | 98 | 89.961 | 60.536 |
| 6. Due from customers | 1.422 | 401.387 | 225 | 341 | 403.375 | 331.294 |
| 7. Hedging derivatives | X | X | X | 3.904 | 3.904 | 763 |
| 8. Financial assets sold and not cancelled | 25.785 | 8.395 | - | - | 34.180 | 15.549 |
| 9. Other assets | X | X | X | 1.475 | 1.475 | 917 |
| **Total** | **52.408** | **499.645** | **225** | **20.407** | **572.685** | **465.266** |

### 1.1.2 Attributable to insurance companies

| Items/Technical forms | Performing financial assets | | Impaired financial assets | Other assets | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|---|
| | Debt securities | Financing | | | | |
| 1. Financial assets held for trading | - | - | - | 6.428 | 6.428 | - |
| 2. Financial assets evaluated at fair value | 17.541 | - | - | - | 17.541 | - |
| 3. Financial assets available for sale | 7.949 | - | - | - | 7.949 | 6.404 |
| 4. Financial assets held to maturity | - | - | - | - | - | - |
| 5. Due from banks | - | 173 | - | - | 173 | 84 |
| 6. Due from customers | - | - | - | - | - | - |
| 7. Hedging derivatives | X | X | X | - | - | - |
| 8. Financial assets sold and not cancelled | - | - | - | - | - | - |
| 9. Other assets | X | X | X | 6 | 6 | - |
| **Total** | **25.490** | **173** | **-** | **6.434** | **32.097** | **6.488** |

## 1.3 Interest receivable and similar income: other information

### 1.3.1 Interest receivable on financial assets in currency

| | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| - on assets in currency | 46.431 | 52.187 |

### 1.3.2 Interest receivable on financial leasing operations

| | Totale 31/12/2007 | Totale 31/12/2006 |
|---|---|---|
| - on financial leasing transactions | 53.385 | 38.217 |

## 1.4 Interest payable and similar expenses: breakdown

### 1.4.1 Attributable to the Banking Group

| Items/Technical forms | Payables | Securities | Other liabilities | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| 1. Due to banks | 42.811 | X | 13 | 42.824 | 31.075 |
| 2. Due to customers | 125.419 | X | 20 | 125.439 | 82.492 |
| 3. Outstanding securities | X | 73.496 | - | 73.496 | 47.455 |
| 4. Financial liabilities held for trading | - | - | 12.217 | 12.217 | 16.438 |
| 5. Financial liabilities evaluated at fair value | - | - | - | - | - |
| 6. Financial liabilities relative to assets sold not cancelled | 35.374 | - | - | 35.374 | 22.512 |
| 7. Other liabilities and reserves | X | X | 182 | 182 | 4 |
| 8. Hedging derivatives | X | X | 9.701 | 9.701 | 8.911 |
| **Total** | **203.604** | **73.496** | **22.133** | **299.233** | **208.887** |

### 1.4.2 Attributable to insurance companies

| Items/Technical forms | Payables | Securities | Other liabilities | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| 1. Due to banks | - | X | 56 | 56 | 44 |
| 2. Due to customers | - | X | - | - | - |
| 3. Outstanding securities | X | - | - | - | - |
| 4. Financial liabilities held for trading | - | - | 2.852 | 2.852 | - |
| 5. Financial liabilities stated at fair value | - | - | - | - | - |
| 6. Financial liabilities relative to assets sold not cancelled | - | - | - | - | - |
| 7. Other liabilities and reserves | X | X | 15 | 15 | 13 |
| 8. Hedging derivatives | X | X | - | - | - |
| **Total** | **-** | **-** | **2.923** | **2.923** | **57** |

### 1.5 Interest payable and similar expenses: differentials relative to the hedging operations

| Items/Sectors | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| **A.Positive differentials relative to operations such as:** | | | | | |
| A.1 Specific hedging of fair value of assets | 449 | - | - | 449 | 13 |
| A.2 Specific hedging of fair value of liabilities | 118 | - | - | 118 | 750 |
| A.3 Unspecific hedging of interest rate risk | 3.337 | - | - | 3.337 | - |
| A.4 Specific hedging of assets financial flows | - | - | - | - | - |
| A.5 Specific hedging of liabilities financial flows | - | - | - | - | - |
| A.6 Unspecific hedging of cash flows | - | - | - | - | - |
| **Total positive differentials (A)** | **3.904** | **-** | **-** | **3.904** | **763** |
| **B. Negative differentials relative to operations such as:** | | | | | |
| B.1 Specific hedging of fair value of assets | 9.025 | - | - | 9.025 | 171 |
| B.2 Specific hedging of fair value of liabilities | 548 | - | - | 548 | 8.740 |
| B.3 Unspecific hedging of interest rate risk | 128 | - | - | 128 | - |
| B.4 Specific hedging of assets financial flows | - | - | - | - | - |
| B.5 Specific hedging of assets financial flows | - | - | - | - | - |
| B.6 Unspecific hedging of cash flows | - | - | - | - | - |
| **Total negative differentials (B)** | **9.701** | **-** | **-** | **9.701** | **8.911** |
| **C. Balance (A-B)** | **5.797** | **-** | **-** | **5.797** | **8.148** |

### 1.6 Interest payable and similar expenses: other information

### 1.6.1 Interest payable on financial liabilities in currency

| | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| - on liabilities in currency | 35.903 | 35.186 |

### 1.6.3 Interest payable on receivables on managed third party funds

| | Totale 31/12/2007 | Totale 31/12/2006 |
|---|---|---|
| - on managed third party funds | 1 | 1 |

# SECTION 2
# COMMISSIONS – ITEMS 40 AND 50

## 2.1 Commissions receivable: breakdown

### 2.1.1 Attributable to the banking Group

| Type of service/Sector | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| **a) Guarantees issued** | **2.755** | **2.813** |
| **b) Credit derivatives** | **-** | **-** |
| **c) Asset management, dealing and advisory services:** | **147.528** | **160.604** |
| 1. financial instruments trading | 8.546 | 17.264 |
| 2. currency trading | 1.419 | 1.709 |
| 3. asset management | 62.834 | 67.505 |
| 3.1. individual | 27.015 | 29.134 |
| 3.2. collective | 35.819 | 38.371 |
| 4. custody and administration of securities | 2.177 | 2.341 |
| 5. custodian bank | 6.769 | 7.893 |
| 6. placement of securities | 13.326 | 10.564 |
| 7. orders collection | 45.884 | 44.432 |
| 8. consultancy activities | 138 | 1.451 |
| 9. distribution of third party services | 6.435 | 7.445 |
| 9.1. asset management | 189 | 330 |
| 9.1.1. individual | 189 | 308 |
| 9.1.2. collective | - | 22 |
| 9.2. insurance products | 5.983 | 6.499 |
| 9.3. other products | 263 | 616 |
| **d) Collection and payment services** | **93.122** | **91.997** |
| **e) Servicing for securitisation operations** | **578** | **701** |
| **f) Services for factoring operations** | **-** | **-** |
| **g) Inland revenue** | **-** | **-** |
| **h) Other services** | **47.280** | **44.985** |
| - Loans | 8.473 | |
| - Credit and debit cards | 8.384 | |
| - Expense recovery on loans to customers | 12.552 | |
| - Other | 17.871 | |
| **Total** | **291.263** | **301.100** |

### 2.1.2 Attributable to insurance companies

| Type of service/Sector | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| **a) Guarantees issued** | **-** | **-** |
| **b) Credit erivatives** | **-** | **-** |
| **c) Asset management, dealing and advisory services:** | **1.474** | **743** |
| 1. financial instruments trading | - | - |
| 2. currency trading | - | - |
| 3. asset management | - | - |
| 3.1. individual | - | - |
| 3.2. collective | - | - |
| 4. custody and administration of securities | - | |
| 5. custodian bank | - | - |
| 6. placement of securities | 1.474 | 743 |
| 7. orders collection | - | - |
| 8. consultancy activities | - | - |
| 9. distribution of third party services | - | - |
| 9.1. asset management | - | - |
| 9.1.1. individual | - | - |
| 9.1.2. collective | - | - |
| 9.2. insurance products | - | - |
| 9.3. other products | - | - |
| **d) Collection and payment services** | **-** | **-** |
| **e) Servicing for securitisation operations** | **-** | **-** |
| **f) Services for factoring operations** | **-** | **-** |
| **g) Inland revenue** | **-** | **-** |
| **h) Other services** | **1.782** | **1.785** |
| **Total** | **3.256** | **2.528** |

*Given that in 2007 it was decided to exploit the option to designate some typologies of assets and liabilities as "financial currency assets/liabilities at fair value" it was felt appropriate, in order to render the comparison adequate and homogeneous, to reclassify the data for 2006 for 1,784,000 euro in item "h) other services".*

### 2.2 Commissions receivable: distribution channels of products and services (regulations in force): banking Group

| Channels/sectors | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| **a) own branches:** | **56.738** | **64.815** |
| 1. Asset management | 50.201 | 58.618 |
| 2. Placement of securities | 5.289 | 4.846 |
| 3. Third party products and services | 1.248 | 1.351 |
| **b) door to door offer:** | **19.338** | **14.277** |
| 1. Asset management | 12.375 | 8.882 |
| 2. Placement of securities | 6.950 | 4.754 |
| 3. Third party products and services | 13 | 641 |
| **c) other distribution channels:** | **6.519** | **6.422** |
| 1. Asset management | 258 | 5 |
| 2. Placement of securities | 1.087 | 964 |
| 3. Third party products and services | 5.174 | 5.453 |

#### 2.2 Commissions receivable: distribution channels of products and services (regulations in force): insurance companies

| Channels/sectors | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| **a) Own branches:** | **-** | **-** |
| 1. Asset management | - | - |
| 2. Placement of securities | - | - |
| 3. Third party products and services | - | - |
| **b) Door to door offer:** | **-** | **-** |
| 1. Asset management | - | - |
| 2. Placement of securities | - | - |
| 3. Third party products and services | - | - |
| **c) Other distribution channels:** | **1.474** | **743** |
| 1. Asset management | - | - |
| 2. Placement of securities | 1.474 | 743 |
| 3. Third party products and services | - | - |

### 2.3 Commissions payable: breakdown

#### 2.3.1 attributable to the banking group

| Services/Sectors | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| **a) Guarantees received** | **-** | **4** |
| **b) Derivatives on receivables** | **-** | **-** |
| **c) Asset management, dealing and advisory services:** | **38.804** | **44.508** |
| 1. financial instruments trading | 8.105 | 12.644 |
| 2. currency trading | 9 | 7 |
| 3. asset management | 106 | 2.695 |
| 3.1. own portfolio | - | 2.604 |
| 3.2. third party portfolio | 106 | 91 |
| 4. custody and administration of securities | 2.298 | 3.144 |
| 5. placement of financial instruments | 3.056 | 4.205 |
| 6. door to door offer of instruments, products and services | 25.230 | 21.813 |
| **d) Collection and payment services** | **48.166** | **48.295** |
| **e) Other services** | **4.612** | **3.866** |
| **Total** | **91.582** | **96.673** |

#### 2.3.2 Attributable to insurance companies

| Services/Sectors | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| **a) Guarantees received** | **-** | **-** |
| **b) Derivatives on receivables** | **-** | **-** |
| **c) Asset management, dealing and advisory services:** | **282** | **271** |
| 1. financial instruments trading | - | - |
| 2. currency trading | - | - |
| 3. asset management | 282 | 271 |
| 3.1. own portfolio | 282 | 271 |
| 3.2. third party portfolio | - | - |
| 4. custody and administration of securities | - | - |
| 5. placement of financial instruments | - | - |
| 6. door to door offer of instruments, products and services | - | - |
| **d) Collection and payment services** | **-** | **-** |
| **e) Other services** | **17** | **-** |
| **Total** | **299** | **271** |

# SECTION 3
# DIVIDENDS AND SIMILAR INCOME – ITEM 70

### 3.1 Dividends and similar revenues: breakdown

| Items/revenues | Banking group | | Insurance companies | | Other companies | | Total 31/12/2007 | | Total 31/12/2006 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Dividends | Revenues from mutual funds O.I.C.R. | Dividends | Revenues from mutual funds O.I.C.R. | Dividends | Revenues from mutual funds O.I.C.R. | Dividends | Revenues from mutual funds O.I.C.R. | Dividends | Revenues from mutual funds O.I.C.R. |
| A. Financial assets held for trading | 3.069 | 19 | 12 | - | - | - | 3.081 | 19 | 1.809 | - |
| B. Financial assets available for sale | 5.530 | - | - | - | - | - | 5.530 | - | 3.918 | - |
| C. Financial assets evaluated at fair value | - | - | - | - | - | - | - | - | - | - |
| D. Equity investments | 101 | X | - | X | - | X | 101 | X | 559 | x |
| **Total** | **8.700** | **19** | **12** | **-** | **-** | **-** | **8.712** | **19** | **6.286** | **-** |

# SECTION 4
# RESULT OF TRADING ACTIVITY – ITEM 80

## 4.1 Net income from trading activity: breakdown

### 4.1.1 Attributable to the banking group

| Operations/income components | Capital gains (A) | Trading profits (B) | Capital losses (C) | Trading losses (D) | Net income (A+B)-(C+D) |
|---|---|---|---|---|---|
| **1. Trading financial assets** | **1.965** | **24.669** | **3.880** | **8.959** | **13.795** |
| 1.1 Debt securities | 1.456 | 18.896 | 3.810 | 3.504 | 13.038 |
| 1.2 Equities | - | 5.066 | 10 | 5.403 | (347) |
| 1.3 Mutual funds O.I.C.R. | 509 | 340 | 10 | - | 839 |
| 1.4 Financing | - | - | - | - | - |
| 1.5 Other | - | 367 | 50 | 52 | 265 |
| **2. Financial liabilities held for trading** | **-** | **126** | **197** | **59** | **(130)** |
| 2.1 Debt securities | - | - | 197 | - | (197) |
| 2.2 Payables | - | 126 | - | 59 | 67 |
| 2.3 Other | - | - | - | - | - |
| **3. Other financial assets and liabilities: exchange differences** | **X** | **X** | **X** | **X** | **18.808** |
| **4. Derivatives** | **11.138** | **78.347** | **9.666** | **76.245** | **(10.687)** |
| 4.1 Financial derivatives: | 11.138 | 78.347 | 9.666 | 76.245 | (10.687) |
| - on debt securities and interest rates | 10.529 | 17.136 | 9.158 | 20.999 | (2.492) |
| - on equities and share indexes | 609 | 61.091 | 508 | 55.067 | 6.125 |
| - on currency and gold | X | X | X | X | (14.261) |
| - Other | - | 120 | - | 179 | (59) |
| 4.2 Credit derivatives | - | - | - | - | - |
| **Total** | **13.103** | **103.142** | **13.743** | **85.263** | **21.786** |

### 4.1.2 Attributable to insurance companies

| Operations/income components | Capital gains (A) | Trading profits (B) | Capital losses (C) | Trading losses (D) | Net income (A+B)-(C+D) |
|---|---|---|---|---|---|
| **1. Trading financial assets** | **239** | **1.458** | **150** | **476** | **1.071** |
| 1.1 Debt securities | - | - | - | - | - |
| 1.2 Equities | 3 | - | 46 | 5 | (48) |
| 1.3 Mutual funds O.I.C.R. | 236 | 1.458 | 104 | 471 | 1.119 |
| 1.4 Financing | - | - | - | - | - |
| 1.5 Other | - | - | - | - | - |
| **2. Financial liabilities held for trading** | **-** | **-** | **-** | **-** | **-** |
| 2.1 Debt securities | - | - | - | - | - |
| 2.2 Payables | - | - | - | - | - |
| 2.3 Other | - | - | - | - | - |
| **3. Other financial assets and liabilities: exchange differences** | **X** | **X** | **X** | **X** | **-** |
| **4. Derivatives** | **2.251** | **173** | **8.451** | **885** | **(6.912)** |
| 4.1 Financial derivatives: | 2.251 | 173 | 8.451 | 885 | (6.912) |
| - on debt securities and interest rates | 1.930 | 95 | - | 8 | 2.017 |
| - on equities and share indexes | 321 | 78 | 8.451 | 877 | (8.929) |
| - on currency and gold | X | X | X | X | - |
| - Other | - | - | - | - | - |
| 4.2 Credit derivatives | - | - | - | - | - |
| **Total** | **2.490** | **1.631** | **8.601** | **1.361** | **(5.841)** |

# SECTION 5
# RESULT OF HEDGING ACTIVITY – ITEM 90

### 5.1 Net income from hedging activity: breakdown

| Income components/values | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| **A. Revenues relative to** | | | | | |
| A.1 Fair value hedging derivatives | 5.342 | - | - | 5.342 | 13.917 |
| A.2 Hedged financial assets (fair value) | 7.954 | - | - | 7.954 | - |
| A.3 Hedged financial liabilities (fair value) | 355 | - | - | 355 | 1.758 |
| A.4 Financial hedging derivatives of cash flows | - | - | - | - | - |
| A.5 Assets and liabilities in currency | - | - | - | - | 22 |
| **Total income from hedging activity (A)** | **13.651** | **-** | **-** | **13.651** | **15.697** |
| **B. Charges relative to:** | | | | | |
| B.1 Fair value hedging derivatives | 8.687 | - | - | 8.687 | 1.866 |
| B.2 Hedged financial assets (fair value) | 4.122 | - | - | 4.122 | 14.442 |
| B.3 Hedged financial liabilities (fair value) | 350 | - | - | 350 | 261 |
| B.4 Financial hedging derivatives of cash flows | - | - | - | - | - |
| B.5 Assets and liabilities in currency | - | - | - | - | - |
| **Total charges from hedging activity (B)** | **13.159** | **-** | **-** | **13.159** | **16.569** |
| **C. Net income from hedging activity (A-B)** | **492** | **-** | **-** | **492** | **(872)** |

# SECTION 6
# PROFIT (LOSSES) FROM DISMISSAL/BUY-BACK – ITEM 100

## 6.1 Income (Losses) from dismissal/Buy-back: breakdown

| Items/income components | Banking group | | | Insurance companies | | | Other companies | | |
|---|---|---|---|---|---|---|---|---|---|
| | Income | Losses | Net income | Income | Losses | Net income | Income | Losses | Net income |
| **Financial assets** | | | | | | | | | |
| 1. Due from banks | - | - | - | - | - | - | - | - | - |
| 2. Due from customers | - | - | - | - | - | - | - | - | - |
| 3. Financial assets available for sale | 88.729 | 4 | 88.725 | 22 | 289 | (267) | - | - | - |
| 3.1 Debt securities | - | - | - | 22 | 289 | (267) | - | - | - |
| 3.2 Equities | 88.676 | 4 | 88.672 | - | - | - | - | - | - |
| 3.3 Mutual funds O.I.C.R. | 53 | - | 53 | - | - | - | - | - | - |
| 3.4 Financing | - | - | - | - | - | - | - | - | - |
| 4. Financial assets held to maturity | - | - | - | - | - | - | - | - | - |
| **Total assets** | **88.729** | **4** | **88.725** | **22** | **289** | **(267)** | **-** | **-** | **-** |
| **Financial liabilities** | | | | | | | | | |
| 1. Due to banks | - | - | - | - | - | - | - | - | - |
| 2. Due to customers | - | - | - | - | - | - | - | - | - |
| 3. Securities in circulation | 447 | 71 | 376 | - | - | - | - | - | - |
| **Total liabilities** | **447** | **71** | **376** | **-** | **-** | **-** | **-** | **-** | **-** |

continued

| Items/income components | Total 31/12/2007 | | | Total 31/12/2006 | | |
|---|---|---|---|---|---|---|
| | Income | Losses | Net income | Income | Losses | Net income |
| **Financial assets** | | | | | | |
| 1. Due from banks | - | - | - | - | - | - |
| 2. Due from customers | - | - | - | - | - | - |
| 3. Financial assets available for sale | 88.751 | 293 | 88.458 | 49.731 | 259 | 49.472 |
| 3.1 Debt securities | 22 | 289 | (267) | 311 | 251 | 60 |
| 3.2 Equities | 88.676 | 4 | 88.672 | 49.420 | 8 | 49.412 |
| 3.3 Mutual funds O.I.C.R. | 53 | - | 53 | - | - | - |
| 3.4 Financing | - | - | - | - | - | - |
| 4. Financial assets held to maturity | - | - | - | - | - | - |
| **Total assets** | **88.751** | **293** | **88.458** | **49.731** | **259** | **49.472** |
| **Financial liabilities** | | | | | | |
| 1. Due to banks | - | - | - | - | - | - |
| 2. Due to customers | - | - | - | - | - | - |
| 3. Securities in circulation | 447 | 71 | 376 | 465 | 402 | 63 |
| **Total liabilities** | **447** | **71** | **376** | **465** | **402** | **63** |

# SECTION 7
# NET RESULT OF FINANCIAL ASSETS AND LIABILITIES EVALUATED AT FAIR VALUE – ITEM 110

## 7.1 Net variation of assets/ liabilities carried at fair value: breakdown

### 7.1.2 Attributable to insurance companies

| Operations/ income components | Capital gains (A) | Realized profit (B) | Capital losses (C) | Realized losses (D) | Net income (A+B)-(C+D) |
|---|---|---|---|---|---|
| **1. Financial assets** | **756** | **640** | **13.126** | **751** | **(12.481)** |
| 1.1 Debt securities | 508 | 640 | 13.126 | 751 | (12.729) |
| 1.2 Equities | 248 | - | - | - | 248 |
| 1.3 Mutual funds O.I.C.R. | - | - | - | - | - |
| 1.4 Financing | - | - | - | - | - |
| **2. Financial liabilities** | **-** | **-** | **3.166** | **-** | **(3.166)** |
| 2.1 Debt securities | - | - | - | - | - |
| 2.2 Due to banks | - | - | - | - | - |
| 2.3 Due to customers | - | - | 3.166 | - | (3.166) |
| **3. Financial assets and liabilities in currency: exchange differences** | **X** | **X** | **X** | **X** | **-** |
| **4. Derivatives** | **-** | **-** | **-** | **-** | **-** |
| 4.1 Financial derivatives: | - | - | - | - | - |
| - on debt securities and rates of interest | - | - | - | - | - |
| - on equities and share indexes | - | - | - | - | - |
| - on currency and gold | X | X | X | X | - |
| - other | - | - | - | - | - |
| 4.2 Credit derivatives | - | - | - | - | - |
| **Total derivatives** | **-** | **-** | **-** | **-** | **-** |
| **TOTAL** | **756** | **640** | **16.292** | **751** | **(15.647)** |

*Given that in 2007 it was decided to exploit the option to designate some typologies of assets and liabilities as "financial currency assets/liabilities at fair value" it was felt appropriate, in order to render the comparison adequate and homogeneous, to reclassify the data for 2006.*
*The net result of assets and liabilities evaluated at fair value does not include components relative to the credit rating variation.*

## SECTION 8
## NET WRITE-DOWNS/WRITE-UPS DUE TO DETERIORATION – ITEM 130

### 8.1 NET write-downs/write-ups due to deterioration: breakdown

#### 8.1.1 Attributable to the banking group

| Operations/ revenues components | Write-downs (1) | | | Write-ups (2) | | | | Total | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Specific | | Portfolio | Specific | | Portfolio | | 31/12/2007 | 31/12/2006 |
| | Cancellations | Other | | from interest | Other write-ups | from interest | Other write-ups | (3)= (1) - (2) | (3)= (1) - (2) |
| A. Due from banks | - | - | - | - | - | - | - | - | - |
| B. Due from customers | 7.568 | 60.112 | 558 | 4.027 | 17.108 | - | - | (47.103) | (52.709) |
| **C. Total** | **7.568** | **60.112** | **558** | **4.027** | **17.108** | **-** | **-** | **(47.103)** | **(52.709)** |

### 8.2. Net write-downs due to deterioration of financial assets available for sale: breakdown

#### 8.2.1 Attributable to the banking group

| Operations/ revenues components | Write-downs (1) | | Write-ups (2) | | Total | Total |
|---|---|---|---|---|---|---|
| | Specific | | Specific | | 31/12/2007 | 31/12/2006 |
| | Cancellations | Other | from interest | Other write-ups | (3) = (1) - (2) | (3) = (1) - (2) |
| A. Debt securities | - | - | - | - | - | - |
| B. Equities | - | 603 | X | X | (603) | - |
| C. Mutual funds OICR | - | - | X | - | - | - |
| D. Financing to banks | - | - | - | - | - | - |
| E. Financing to customers | - | - | - | - | - | - |
| **Total** | **-** | **603** | **-** | **-** | **(603)** | **-** |

### 8.4 Net write-downs due to deterioration of other financial operations: breakdown

#### 8.4.1 Attributable to the banking group

| Operations/ revenues components | Write-downs | | | Write-ups | | | | Total | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Specific | | Portfolio | Specific | | Portfolio | | 31/12/2007 | 31/12/2006 |
| | Cancellations | Other | | from interest | Other write-ups | from interest | Other write-ups | | |
| A. Guarantees issued | - | - | 160 | - | - | - | 533 | 373 | 476 |
| B. Credit derivatives | - | - | - | - | - | - | - | - | - |
| C. Commitments to provide financing | - | - | - | - | - | - | - | - | - |
| D. Other operations | - | 1.114 | 948 | 18 | 175 | 31 | - | (1.838) | 7 |
| **Total** | **-** | **1.114** | **1.108** | **18** | **175** | **31** | **533** | **(1.465)** | **483** |

#### 8.4.2 Attributable to insurance companies

| Operations/ revenues components | Write-downs | | | Write-ups | | | | Total | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Specific | | Portfolio | Specific | | Portfolio | | 31/12/2007 | 31/12/2006 |
| | Cancellations | Other | | from interest | Other write-ups | from interest | Other write-ups | | |
| A. Guarantees issued | - | - | - | - | - | - | - | - | - |
| B. Credit derivatives | - | - | - | - | - | - | - | - | - |
| C. Commitments to provide financing | - | - | - | - | - | - | - | - | - |
| D. Other operations | - | - | 1 | - | - | - | - | (1) | - |
| **Total** | **-** | **-** | **1** | **-** | **-** | **-** | **-** | **(1)** | **-** |

# SECTION 9
# NET PREMIUMS – ITEM 150

### 9.1 Net premiums: breakdown

| Premiums deriving from insurance activity | Direct work | Indirect work | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|
| **A. Life business** | | | | |
| A.1 Registered gross premiums (+) | 154.489 | - | 154.489 | 142.562 |
| A.2 Reinsurance premiums ceded (-) | (4.555) | X | (4.555) | (4.533) |
| A.3 Total | 149.934 | - | 149.934 | 138.029 |
| **B. Non-life** | | | | |
| B.1 Registered gross premiums (+) | 2.399 | - | 2.399 | 2.291 |
| B.2 Reinsurance premiums ceded (-) | (1.006) | X | (1.006) | (947) |
| B.3 Change in the gross amount of the premiums reserve (+/-) | (84) | - | (84) | (231) |
| B.4 Change in the Reinsurers' share of premiums reserve (+/-) | 34 | - | 34 | 105 |
| B.5 Total | 1.343 | - | 1.343 | 1.218 |
| **C. Total net premiums** | **151.277** | **-** | **151.277** | **139.247** |

# SECTION 10
# BALANCE OF OTHER INSURANCE MANAGEMENT INCOME AND EXPENSES – ITEM 160

## 10.1 Balance of other insurance management income and expenses: breakdown

| Items | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| 1. Net variation in technical reserves | (33.785) | (72.539) |
| 2. Pertinent accidents paid during year | (111.981) | (74.105) |
| 3. Other insurance management income and expenses | 2.739 | 10.912 |
| **Total** | **(143.027)** | **(135.732)** |

*Given that in 2007 it was decided to exploit the option to designate some typologies of assets and liabilities as "financial currency assets/liabilities at fair value" it was felt appropriate, in order to render the comparison adequate and homogeneous, to reclassify the data for 2006.More specifically, income for 1,784,000 euro was reclassified from the item "Other insurance management income and expenses" and for 4,467,000 euro of expenses in the item "Net variation in technical reserves".*

## 10.2 Net variation in technical reserves

| Net variation in technical reserves | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| **1. Life business** | | |
| A. Actuarial reserves | (16.046) | (14.373) |
| A.1 Gross annual amount | (17.048) | (15.545) |
| A.2 (-) Reinsurers' shares | 1.002 | 1.172 |
| B. Other technical reserves | (1.751) | (3.343) |
| B.1 Gross annual amount | (1.642) | (3.343) |
| B.2 (-) Reinsurers' shares | (109) | - |
| C. Technical reserves where the investment risk is borne by policy holders | (16.077) | (54.760) |
| C.1 Gross annual amount | (16.077) | (54.760) |
| C.2 (-) Reinsurers' shares | - | - |
| **Total "life business reserves"** | **(33.874)** | **(72.476)** |
| **2. Non-life** | | |
| Change in other non-life technical reserves other than non life reserves net of reinsurance assignments | 89 | (63) |

*As set out in the note to table 10.1, some 4,467,000 euro of expenses were reclassified in item "C.technical reserves with the investment risk supported by insured parties – C.1 Annual gross amount".*

## 10.3 "Expenses for accidents": details

| Expenses for accident | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| **Life business: expenses relative to accidents, net of reinsurance assignments** | | |
| A. Amounts paid | (116.175) | (68.598) |
| A.1 Gross annual amount | (116.459) | (68.697) |
| A.2 (-) Reinsurers' shares | 284 | 99 |
| B. Change in the reserve for sums to be paid | 4.892 | (5.011) |
| B.1 Gross annual amount | 4.871 | (5.072) |
| B.2 (-) Reinsurers' shares | 21 | 61 |
| **Total Life business accidents** | **(111.283)** | **(73.609)** |
| **Non-life: expenses relative to accidents net of recoveries and reinsurance assignments** | | |
| C. Amounts paid | (655) | (497) |
| C.1 Gross annual amount | (931) | (706) |
| C.2 (-) Reinsurers' shares | 276 | 209 |
| D. Change in recoveries net of reinsurers' shares | - | - |
| E. Variations in accidents reserve | (43) | 1 |
| E.1 Gross annual amount | (55) | 27 |
| E.2 (-) Reinsurers' shares | 12 | (26) |
| **Total Non-life accidents** | **(698)** | **(496)** |

## 10.4 Other insurance management income and expenses: details

| | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| **LIFE BUSINESS** | | |
| **Income** | **2.641** | **11.674** |
| - Other technical income net of reinsurance assignments | 3 | - |
| - Income and capital gains not realised relative to investments in favour of risk-bearing insured parties | - | - |
| - Change in commissions and other acquisition expenses to be amortized | - | - |
| - Commissions and sharing of profits received from reinsurers | 2.638 | 11.674 |
| **Expenses** | **(202)** | **(480)** |
| - Other technical expenses net of reinsurance assignments | (83) | - |
| - Income and capital losses not realised relative to investments in favour of risk-bearing insured parties | - | - |
| - Acquisition commissions | - | (305) |
| - Other acquisition expenses | (119) | (175) |
| - Collection commissions | - | - |
| **Total Life business** | **2.439** | **11.194** |
| **NON-LIFE** | | |
| **Income** | **416** | **431** |
| - Other technical income net of reinsurance assignments | 2 | - |
| - Change in commissions and other acquisition expenses to be amortized | - | - |
| - Commissions and sharing of profits received from reinsurers | 414 | 431 |
| **Expenses** | **(116)** | **(713)** |
| - Other technical expenses net of reinsurance assignments | (34) | (154) |
| - Acquisition commissions | - | - |
| - Other acquisition expenses | - | (496) |
| - Collection commissions | (82) | (63) |
| **Total Non-life** | **300** | **(282)** |

*As set out in the note to table 10.1 1,874,000 euro have been reclassified relative to expenses in the item "Expenses – Acquisitione commissions" in the Life Business.*

# SECTION 11
# ADMINISTRATIVE EXPENSES – ITEM 180

## 11.1 Staff expenses: breakdown

| Type of expense/Sectors | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| **1) Employees** | **217.156** | **2.753** | **-** | **219.909** | **199.239** |
| a) Wages and salaries | 165.603 | 1.964 | - | 167.567 | 148.569 |
| b) Social security payments | 42.388 | 552 | - | 42.940 | 38.644 |
| c) Severance pay | 6.136 | - | - | 6.136 | 194 |
| d) Pension payments | 57 | - | - | 57 | - |
| e) Provision for severance pay | (3.907) | 98 | - | (3.809) | 5.754 |
| f) Provision for pension fund and similar: | - | - | - | - | - |
| - defined contribution | - | - | - | - | - |
| - defined benefit | - | - | - | - | - |
| g) Payments into external supplementary pension reserves: | 5.109 | 105 | - | 5.214 | 4.751 |
| - defined contribution | 5.109 | 105 | - | 5.214 | 4.751 |
| - defined benefit | - | - | - | - | - |
| h) Costs deriving from payment agreements based on own equity instruments | - | - | - | - | - |
| i) Other benefits in favour of employees | 1.770 | 34 | - | 1.804 | 1.327 |
| **2) Other personnel** | **3.135** | **233** | **-** | **3.368** | **4.112** |
| **3) Directors** | **6.115** | **494** | **-** | **6.609** | **4.208** |
| **Total** | **226.406** | **3.480** | **-** | **229.886** | **207.559** |

## 11.2 Average number of employees per category: banking group

| | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| Employees: | | |
| a) executives | 73 | 68 |
| b) total 3rd and 4th level middle managers | 466 | 381 |
| c) remaining employees | 3.622 | 3.484 |
| Other personnel | 15 | 42 |
| **Total** | **4.176** | **3.975** |

## 11.2 Average number of employees per category: Insurance companies

| | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| Employees: | | |
| a) executives | 11 | 7 |
| b) total 3rd and 4th level middle managers | 2 | 2 |
| c) remaining employees | 29 | 28 |
| Other personnel | 1 | - |
| **Total** | **43** | **37** |

### 11.5 Other administrative expenses: breakdown

| Type of expense/Sectors | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| Legal and notarial expenses | 5.980 | 362 | - | 6.342 | 5.471 |
| IT assistance and sundry consultancies | 9.492 | 198 | - | 9.690 | 7.428 |
| Other expenses for professional services | 175 | 179 | - | 354 | 62 |
| Printouts and stationery | 2.110 | 20 | - | 2.130 | 2.015 |
| Electronic machines and software renting | 5.217 | - | - | 5.217 | 3.995 |
| Sundry renting fees and expenses for services provided by third parties | 21.913 | 445 | - | 22.358 | 22.493 |
| Fees for data transmission | 3.946 | - | - | 3.946 | 2.965 |
| Purchase of sundry materials for data processing centre | 153 | - | - | 153 | 65 |
| Postage and telegraphic | 8.505 | 128 | - | 8.633 | 7.722 |
| Telephone | 3.087 | 42 | - | 3.129 | 2.632 |
| Expenses for transportations | 1.787 | 11 | - | 1.798 | 1.454 |
| Facility cleaning | 1.678 | 15 | - | 1.693 | 1.578 |
| Surveillance and valuables escort | 3.045 | - | - | 3.045 | 2.531 |
| Electricity and heating | 4.896 | 13 | - | 4.909 | 4.836 |
| Facility renting | 17.274 | 255 | - | 17.529 | 16.478 |
| Sundry insurances | 3.386 | 40 | - | 3.426 | 3.373 |
| Advertisements and promotions | 4.279 | 63 | - | 4.342 | 1.990 |
| Entertaining expenses | 1.087 | 4 | - | 1.091 | 2.193 |
| Donations | 178 | - | - | 178 | 194 |
| Association fees | 1.362 | 131 | - | 1.493 | 1.294 |
| Subscriptions and books | 291 | 1 | - | 292 | 248 |
| Gifts to staff | 461 | - | - | 461 | 474 |
| Staff studies | 1.625 | 3 | - | 1.628 | 1.120 |
| Information and surveys | 2.966 | - | - | 2.966 | 2.568 |
| Travel expenses | 4.639 | 87 | - | 4.726 | 2.096 |
| Expenses for interbank network service | 646 | - | - | 646 | 585 |
| Remuneration to auditors | 711 | 66 | - | 777 | 895 |
| Expenses for web site | 2 | - | - | 2 | - |
| Pensione expenses for financial promoters | 757 | - | - | 757 | 261 |
| Other fees payable | 950 | - | - | 950 | 1.094 |
| Other | 4.988 | 452 | - | 5.440 | 10.381 |
| **Maintenance and repair expenses** | **6.103** | **210** | **-** | **6.313** | **6.312** |
| - Owned real estate | 300 | - | - | 300 | 129 |
| - Rented real estate | 521 | 31 | - | 552 | 235 |
| - Movables | 4.295 | 5 | - | 4.300 | 5.261 |
| - Hardware e software | 987 | 174 | - | 1.161 | 687 |
| **Excises and taxes** | **28.281** | **5** | **-** | **28.286** | **24.752** |
| - Stamp duty and taxes on stock exchange contracts | 23.216 | 1 | - | 23.217 | 21.410 |
| - Substitute tax Pres. Dec. 601/73 | 2.194 | - | - | 2.194 | 2.298 |
| - Municipal tax on buildings | 554 | - | - | 554 | 474 |
| - Other indirect duties and taxes | 2.317 | 4 | - | 2.321 | 570 |
| **Total** | **151.970** | **2.730** | **-** | **154.700** | **141.555** |

# SECTION 12
# NET ALLOCATIONS TO PROVISIONS FOR RISKS AND CHARGES – ITEM 190

## 12.1 Net allocations to provisions for risks and charges: breakdown

| | Balances as of: 31/12/2007 | Balances as of: 31/12/2006 |
|---|---|---|
| Relative to risks due to legal disputes and customer complaints | 5.780 | 11.985 |
| Relative to operating risks | 687 | 42.218 |
| Relative to staff expenses | 370 | (186) |
| Relative to other risks | 1.173 | 1.588 |
| **Total** | **8.010** | **55.605** |

*The reduction relative to the previous year refers both to the decrease in allocations for claims and disputes, due to the reinforcement of control structures, and to there being no need for further allocations regarding claims received by Sella Bank Luxembourg S.A. and illustrated in the section, "Group companies", of the management report.*

## SECTION 13
## NET WRITE-DOWNS/WRITE-UPS TO TANGIBLE ASSETS – ITEM 200

### 13.1 Write-downs/Write-ups to tangible assets

#### 13.1.1 Relative to the banking group

| Assets/income components | Amortization (a) | Write-downs for impairment (b) | Write-ups (c) | Total (a+b-c) 31/12/2007 | Total (a+b-c) 31/12/2006 |
|---|---|---|---|---|---|
| **A. Tangible assets** | | | | | |
| A.1 Owned | 15.150 | 1.189 | - | 16.339 | 13.872 |
| - fixed | 15.046 | 780 | - | 15.826 | 13.768 |
| - for investment | 104 | 409 | - | 513 | 104 |
| A.2 Acquired in financial leasing | 2.656 | - | - | 2.656 | 2.403 |
| - fixed | 2.656 | - | - | 2.656 | 2.403 |
| - for investment | - | - | - | - | - |
| **Total** | **17.806** | **1.189** | **-** | **18.995** | **16.275** |

#### 13.1.2 attributable to insurance companies

| Assets/income components | Amortization (a) | Write-downs for impairment (b) | Write-ups (c) | Total (a+b-c) 31/12/2007 | Total (a+b-c) 31/12/2006 |
|---|---|---|---|---|---|
| **A. Tangible assets** | | | | | |
| A.1 Owned | 268 | - | - | 268 | 173 |
| - fixed | 268 | - | - | 268 | 173 |
| - for investment | - | - | - | - | - |
| A.2 Acquired in financial leasing | - | - | - | - | - |
| - fixed | - | - | - | - | - |
| - for investment | - | - | - | - | - |
| **Total** | **268** | **-** | **-** | **268** | **173** |

## SECTION 14
## NET WRITE-DOWNS/WRITE-UPS TO INTANGIBLE ASSETS – ITEM 210

### 14.1 Net adjustments to intangible assets: breakdown

#### 14.1.1 Attributable to the banking group

| Assets/income components | Amortization (a) | Write-downs for impairment (b) | Write-ups (c) | Net income (a+b-c) 31/12/2007 | Net income (a+b-c) 31/12/2006 |
|---|---|---|---|---|---|
| **A. Intangible assets** | | | | | |
| A.1 Owned | 9.334 | - | - | 9.334 | 8.720 |
| - Internally generated by the company | - | - | - | - | - |
| - Other | 9.334 | - | - | 9.334 | 8.720 |
| A.2 Acquired in financial leasing | - | - | - | - | - |
| **Total** | **9.334** | **-** | **-** | **9.334** | **8.720** |

#### 14.1.2 attributable to insurance companies

| Assets/income components | Amortization (a) | Write-downs for impairment (b) | Write-ups (c) | Net income (a+b-c) 31/12/2007 | Net income (a+b-c) 31/12/2006 |
|---|---|---|---|---|---|
| **A. Intangible assets** | | | | | |
| A.1 Owned | 108 | - | - | 108 | 327 |
| - Internally generated by the company | - | - | - | - | - |
| - Other | 108 | - | - | 108 | 327 |
| A.2 Acquired in financial leasing | - | - | - | - | - |
| **Total** | **108** | **-** | **-** | **108** | **327** |

## SECTION 15
## OTHER OPERATING CHARGES AND INCOME – ITEM 220

### 15.1 Other operating expenses: breakdown

| | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| Amortization of expenses for improvements on third party assets | 1.494 | 1.792 |
| Other operating charges - Losses related to operating risks | 6.504 | 6.632 |
| Repayment of interests on collection and payment operations | 3.560 | 2.254 |
| Financial leasing management expenses | 1.248 | 1.057 |
| Penalties payable for contract defaults - outsourcing fees | 86 | - |
| Expenses for service renderings advanced on behalf of customers | 255 | 598 |
| Insurance premiums advanced on behalf of customers | 387 | 295 |
| Costs advanced on behalf of customers | 1.585 | 1.501 |
| Service renderings related to credit recovery | 559 | 548 |
| Other | 5.295 | 5.123 |
| **Total** | **20.973** | **19.800** |

### 15.2 Other operating income: breakdown

| | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| Rents and instalments receivable | 2.061 | 1.678 |
| Charged to third parties: | 29.462 | 24.775 |
| - tax recoveries | 23.609 | 24.461 |
| - customer insurance premiums | 5.853 | 314 |
| Expenses recoveries and other revenues on current accounts and deposits | 10.682 | 11.532 |
| Income for software services | 3.378 | 3.430 |
| Income on securitisation operations | 2.939 | - |
| Recoveries of interest on collection and payment operations | 2.886 | 1.947 |
| Income on insurance brokerage activities | 3.259 | 2.965 |
| Rents and income for financial leasing | 2.962 | 2.623 |
| POS fees receivable | 1.753 | 1.519 |
| Administrative services rendered to third parties | 1.802 | 72 |
| Contribution refund from INPS | 400 | 467 |
| Penalties receivable for contract defaults - outsourcing fees | 419 | 517 |
| Revenues from derivative contracts | - | 221 |
| Expenses and service renderings advanced on behalf of customers | 2.996 | 3.585 |
| Expenses recovery for service renderings relared to credit recovery | 1.482 | 2.299 |
| Other income | 10.497 | 7.114 |
| **Total** | **76.978** | **64.744** |

# SECTION 16
# INCOME (LOSSES) OF EQUITY INVESTMENTS – ITEM 240

## 16.1 Income (losses) of equity investments: breakdown

| Income components/sectors | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| **1) Jointly controlled companies** | | | | | |
| A. Income | - | - | - | - | - |
| 1. Revaluations | - | - | - | - | - |
| 2. Income from transfer | - | - | - | - | - |
| 3. Write-ups | - | - | - | - | - |
| 4. Other increases | - | - | - | - | - |
| B. Expenses | - | - | - | - | - |
| 1. Writedowns | - | - | - | - | - |
| 2. Adjustments for impairment | - | - | - | - | - |
| 3. Losses from transfer | - | - | - | - | - |
| 4. Other decrease | - | - | - | - | - |
| **Net income** | **-** | **-** | **-** | **-** | **-** |
| **2) Companies subject to significant influence** | | | | | |
| A. Income | 1.885 | - | - | 1.885 | 853 |
| 1. Revaluations | 600 | - | - | 600 | - |
| 2. Income from transfer | 363 | - | - | 363 | 853 |
| 3. Write-ups | - | - | - | - | - |
| 4. Other increases | 922 | - | - | 922 | - |
| B. Expenses | 463 | 722 | - | 1.185 | 681 |
| 1. Writedowns | - | 721 | - | 721 | - |
| 2. Adjustments for impairment | - | - | - | - | - |
| 3. Losses from transfer | 391 | 1 | - | 392 | 681 |
| 4. Other decrease | 72 | - | - | 72 | - |
| **Net income** | **1.422** | **(722)** | **-** | **700** | **172** |
| **Total** | **1.422** | **(722)** | **-** | **700** | **172** |

## SECTION 17
## NET RESULT OF EVALUATION AT FAIR VALUE OF TANGIBLE AND INTANGIBLE ASSETS – ITEM 250

As of 31 December 2007 and 31 December 2006 Gruppo Banca Sella did not have any tangible and intangible assets evaluated at fair value.

## SECTION 18
## WRITE-DOWNS TO GOODWILL VALUE – ITEM 260

As of 31 December 2007 and 31 December 2006 Gruppo Banca Sella did not have any goodwill write-downs.

# SECTION 19
# INCOME (LOSSES) FROM SALE OF INVESTMENTS – ITEM 270

### 19.1 Income (losses) from sale of investment: breakdown

| Income components/sectors | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| **A. Immovables** | **17** | **-** | **-** | **17** | **(182)** |
| - Income from transfer | 17 | - | - | 17 | 2 |
| - Losses from transfer | - | - | - | - | 184 |
| **B. Other assets** | **20** | **2** | **-** | **22** | **(130)** |
| - Income from transfer | 33 | 2 | - | 35 | 35 |
| - Losses from transfer | 13 | - | - | 13 | 165 |
| **Net income** | **37** | **2** | **-** | **39** | **(312)** |

# SECTION 20
# INCOME TAXES FOR YEAR ON CURRENT OPERATIONS – ITEM 290

## 20.1 Income taxes on current operations for the year: breakdown

| Income components/sectors | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| 1. Current taxes (-) | 65.056 | 1.881 | - | 66.937 | 67.841 |
| 2. Change in current taxes of previous years (+/-) | 1.052 | - | - | 1.052 | 13 |
| 3. Reduction of current taxes for the year (+) | 7.162 | - | - | 7.162 | 8.040 |
| 4. Change in prepaid taxes (+/-) | 3.231 | 763 | - | 3.994 | (400) |
| 5. Change in deferred taxes (+/-) | (1.297) | (85) | - | (1.382) | 420 |
| 6. Taxes for the year (-) (-1+/-2+3+/-4+/-5) | 60.880 | 2.559 | - | 63.439 | 59.834 |

## 20.2 Reconciliation between theoretical fiscal charges and effective fiscal charges in the financial statements

| Description | Taxable income | Rate | Income tax |
|---|---|---|---|
| Current operations profits before taxes | 198.140 | - | - |
| Nominal rate (1) | - | 38,20% | 75.689 |
| Dividends exempt from taxation net of non deductibility of correlated minuses | (7.688) | -1,48% | (2.937) |
| Net capital gains on equities exempt from taxation | (77.299) | -14,90% | (29.528) |
| Tax rates reduction | - | 2,72% | 5.399 |
| Costs and revenues for the year but deductible in the next years - rates reduction impact | 48.782 | 1,35% | 2.683 |
| Losses for the year for which no prepaid taxes have been provided for | 1.773 | 0,34% | 677 |
| Other differences | - | 0,16% | 314 |
| **Adjusted rate** | **-** | **26,39%** | **52.298** |
| Non deductible expenses solely from IRAP taxable base | 214.255 | 5,62% | 11.141 |
| **Effective rate** | **-** | **32,02%** | **63.439** |

*(1): IRES rate + ordinary IRAP rate*

*The reduction in the effective aliquot relative to the nominal aliquot is mainly due to earnings realised on capital instruments (Borsa Italiana exchange with London Stock Exchange group) almost totally absent from fiscal liability.*

# SECTION 21
# INCOME (LOSSES) ON ASSETS/LIABILIATIES BEING DIVESTED NET OF TAXES – ITEM 310

### 21.1 Income (losses) on assets/liabiliaties being divested net of taxes: breakdown

| Income components/sectors | Banking group | Insurance companies | Other companies | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|---|---|---|
| **Asset/liability group** | | | | | |
| 1. Income | - | - | - | - | - |
| 2. Expenses | (77) | - | - | (77) | - |
| 3. Result of group evaluations of associated assets and liabilities | (75) | - | - | (75) | - |
| 4. Realized income (losses) | - | - | - | - | - |
| 5. Excises and taxes | 52 | - | - | 52 | - |
| **Income (loss)** | **(100)** | **-** | **-** | **(100)** | **-** |

### 21.2 Details on income taxes and related to being divested asset/liability groups

| | Balance 31/12/2007 | Balance 31/12/2006 |
|---|---|---|
| 1. Current taxes (-) | 29 | - |
| 2. Change in prepaid taxes (-) | 20 | - |
| 3. Change in deferred taxes | 3 | - |
| **4. Income taxes for the period** | **52** | **-** |

# SECTION 22
# PROFIT (LOSSES) FOR THE YEAR RELATIVE TO MINORITY INTERESTS – ITEM 330

### 22.1 Item 330 "Profit of minority interests": details

| | Total 31/12/2007 | Total 31/12/2006 |
|---|---|---|
| Banca Arditi Galati S.p.A | 2.627 | 1.867 |
| Biella Leasing S.p.A. | 1.255 | 1.489 |
| Banca Patrimoni Sella & C. S.p.A. | 4.176 | 760 |
| Banca Sella Nordest Bovio Calderari S.p.A. | 1.141 | 700 |
| Banca di Palermo S.p.A. | 40 | 510 |
| Consel S.p.A. | 499 | 486 |
| CBA Vita S.p.A. | 225 | 476 |
| Sella Gestioni SGR S.p.A. | 3.325 | 243 |
| Sella Consult SIM S.p.A. | - | 204 |
| Brosel S.p.A. | 165 | 183 |
| Sella Bank AG | 331 | 115 |
| Other | 10 | (35) |
| **Profit of minority interests for the year** | **13.794** | **6.998** |

# PART D – SECTOR REPORT

# PRIMARY REPORT

In accordance with the operational characteristics and the organisational and management set-up of the Group, the primary report includes the following business areas:

## NETWORKS AREA

The mission of the Networks Area to develop and manage relations with Group customers, learn above customer needs and anticipate expectations in order to achieve the set economic and growth goals by coordinating distributive activities and commercial and marketing initiatives.

The Networks Area directs and coordinates credit issuing, management and auditing and handles disputes.

In terms of the single business areas the Networks Area, through governing, directing and controlling the Business Areas and the product companies, develops and supervises the following activities and services:

- Commercial Bank
- Virtual Bank
- Private Banking
- Consumer Credit
- Leasing.

The Networks Area comprises the following four Business Areas:

- Italy Banks and Networks, which comprises the companies: Banca Sella, Banca Arditi Galati, Banca Sella Nord Est - Bovio Calderari and Banca di Palermo;
- Credit Companies, which comprises the companies: Biella Leasing, Consel and Secursel;
- Private Banking, which comprises the company Banca Patrimoni Sella & C.;
- Online Bank.

The Networks Area also comprise the companies Sella Bank A.G. and Selfid and the Marketing and Portal Services, Disputes, Credit Policies, Networks Organisation, Coordination of Asset Management and Networks Controls.

## PRODUCT COMPANIES AREA

The Product Companies Area has the task of controlling the Business Areas and the companies of the Banca Sella Group the activity of which is mainly focussed on making products or providing specialist services.

The Product Companies Area comprises the following three Business Areas:

- Bank Assurance, which comprises the companies CBA Vita, Sella Life and Brosel, the objective of which is to provide the distribution networks with a top-quality service offering an increasingly wide range of products, ensure product performance .quality and complete transparency, and constantly hone skills and professionalism to spread the insurance culture within the Group;
- Asset Management, which comprises the companies: Sella Gestioni SGR, Selgest and Sella Capital Management (now being wound up but which operated until May 2007);
- Indirect deposits.

The Product Companies Area also directly comprises the Financial Analysis and Product Companies Coordination Services, and the companies Sella Bank Luxembourg and International Capital Holding (sold in June 2007) and the Miami agency.

## FINANCE AREA

The task of the Finance Area is to direct and coordinate the financial activities of the Group by managing the integrated treasury, defining asset and liability management policies, funding policies, supervising market risk, managing the Group's securities portfolio and minority shareholdings.

The Finance Area also engages in trading on its own account in the markets room of the business area of the same name.

Sella Corporate Finance is also directly answerable to the Finance Area.

## BANKING SERVICES AREA

The mission of the Banking Services Area is to provide the Group with a technical and organisational structure that will enable it to achieve the greatest excellence, innovation and quality. It also coordinates the development of certain specific businesses. Its task is thus to provide the banks and companies of the Group with the outsourced IT systems and products and services that it runs.

As such activities may also take the form of offers to institutional operators outside the Banca Sella Group (banks, stock-brokerage companies, savings management companies, etc.), one of the tasks of the Area is to offer its services also outside the Group.

The Banking Services Area comprises the following four Business Areas:

- Real Estate/Technical and Safety to which the companies Immobiliare Sella and Immobiliare Lanificio Maurizio Sella belong;
- Payment Systems;
- Custodian Bank;
- Information Technology, which comprises the companies Sella Synergy India and Selir.

The Bookkeeping, Process Organisation, Banking Services Administration and Banking Services Coordination services also belong to this Area.

The company Easy Nolo is also directly answerable to the Banking Services Area.

## GENERAL AFFAIRS AREA

The General Affairs Area supervises the general affairs of the Banca Sella Group, in particular in terms of legal and tax matters, institutional aspects and dealings with certain stakeholders, including the shareholders (Investor Relations service), the media (press office, external communications), colleagues (for internal communication), control authorities and institutions. The supervision also extends to matters connected with corporate governance in terms of the secretarial work of the Group and the complaints office.

The General Affairs Area is also responsible for the following companies: Sella Holding NV, BC Finanziaria and Sella South Holding (which no longer exists today as it was taken over by Sella Holding Banca at the end of November 2007).

## CENTRAL STRUCTURE

The central functions also include, in addition to the Group's Central Senior Management, the following staff areas: Human Resources, Risk Management and Controls, Financial Statements and Management Control, Compliance, External Relations and Internal Audit.

The main component is made up of bodies performing duties relating to the governance, support and control of the other sectors of activity of the Group.

## CRITERIA USED TO CALCULATE PROFITABILITY OF THE BUSINESS AREAS

The income statement of the Business Areas has been drawn up according to the following criteria:

- in the case of Business Areas whose operations are carried out both at parent- company and subsidiary-company level, the single areas have been assigned the relevant share of the items of the parent company on the basis of the following principles:
    - net interest income has been calculated using suitable internal transfer rates;
    - in addition to the actual commissions, the notional commissions have also been quantified in relation to services rendered from one business unit to another;
    - the direct costs of each Business Area have been calculated, and the costs of the central structures which do not relate to the holding function as such have been attributed to the single areas;
- the income statements of the single companies have been indicated in the case of sectors whose work is performed solely in respect of subsidiary companies.
- the condensed income statement is reclassified in the same way as that adopted in the Report of the Board of Directors.

Where necessary, for a better understanding of income-statement and balance-sheet results, the 2006 data have been reclassified as per the financial statements for the year ended 31/12/07.

The following table contains data on the primary report:

**Primary prospectus** *(euro million)*

| | Banks and networks in Italy | General Affairs | Product company | Bank Services | Finance | Central structure | Total |
|---|---|---|---|---|---|---|---|
| **INCOME STATEMENT:** | | | | | | | |
| **Operating revenues** | | | | | | | |
| year 2007 | 443,2 | 1,3 | 38,7 | 33,3 | 17,4 | (10,9) | 523,0 |
| year 2006 | 422,7 | (0,7) | 40,7 | 31,8 | 17,1 | (6,7) | 504,9 |
| **Operating costs** | | | | | | | |
| year 2007 | (278,1) | (1,1) | (31,9) | (34,0) | (7,7) | (12,4) | (365,2) |
| year 2006 | (254,8) | (1,0) | (31,8) | (31,6) | (6,8) | (11,2) | (337,2) |
| **Net income** | | | | | | | |
| year 2007 | 165,1 | 0,2 | 6,7 | (0,7) | 9,7 | (23,3) | 157,8 |
| year 2006 | 167,9 | (1,7) | 8,9 | 0,1 | 10,3 | (17,9) | 167,7 |
| **Profits (losses) from current operations gross of taxes** | | | | | | | |
| year 2007 | 128,0 | 1,0 | 21,1 | (2,0) | 9,7 | 32,4 | 190,2 |
| year 2006 | 102,8 | 0,6 | (32,1) | (0,5) | 10,3 | 28,1 | 109,1 |
| **Income (loss) for the period (including minority interests)** | | | | | | | |
| year 2007 | 73,0 | 1,5 | 17,6 | (1,0) | 7,3 | 36,3 | 134,7 |
| year 2006 | 55,1 | 0,9 | (35,9) | - | 7,1 | 29,5 | 56,8 |
| **OTHER INFORMATION:** | | | | | | | |
| **Total assets (before cancellations)** | | | | | | | |
| year 2007 | 11.534 | 90 | 1.788 | 147 | 4.744 | 841 | - |
| year 2006 | 10.282 | 162 | 1.738 | 130 | 4.232 | 837 | - |
| **No. Of employees** | | | | | | | |
| year 2007 | 2.931 | 38 | 284 | 821 | 55 | 239 | 4.368 |
| year 2006 | 2.695 | 37 | 292 | 759 | 47 | 235 | 4.065 |

# SECONDARY REPORT

On the basis of management's approach and the organisational decisions of the Group, the disclosure subdivided by geographical areas constitutes the secondary report required by IAS 14. It contains a condensed outline of the main operating figures for Italy, where the majority of the Group's activity has been concentrated, and the rest of the world.

The following table contains data on the secondary report:

**Secondary prospectus** *(euro million)*

| | Italy | Rest of the world | Total |
|---|---|---|---|
| **INCOME STATEMENT:** | | | |
| **Operating revenues** | | | |
| year 2007 | 498,1 | 24,8 | 523,0 |
| year 2006 | 486,3 | 18,6 | 504,9 |
| **Operating costs** | | | |
| year 2007 | (343,3) | (21,9) | (365,2) |
| year 2006 | (315,2) | (22,0) | (337,2) |
| **Net income** | | | |
| year 2007 | 154,8 | 3,0 | 157,8 |
| year 2006 | 171,1 | (3,4) | 167,7 |
| **Profits (losses) from current operations gross of taxes** | | | |
| year 2007 | 187,1 | 3,1 | 190,2 |
| year 2006 | 115,4 | (6,3) | 109,1 |
| **Profit (loss) for the year** | | | |
| year 2007 | 132,8 | 1,9 | 134,7 |
| year 2006 | 63,7 | (6,9) | 56,8 |
| **OTHER INFORMATION:** | | | |
| **Total assets (before cancellations)** | | | |
| year 2007 | 18.069,1 | 1.073,7 | - |
| year 2006 | 16.282,0 | 1.099,0 | - |
| **No. Of employees** | | | |
| year 2007 | 3.884 | 484 | 4.368 |
| year 2006 | 3.622 | 443 | 4.065 |

# PART E – INFORMATION ON RISKS AND RELATIVE HEDGING POLICIES

# SECTION 1
# BANKING GROUP RISKS

## 1.1 CREDIT RISK

### INFORMATION OF A QUALITATIVE NATURE

**1. General**

The policies related to risk taking are defined by the statutory bodies of the parent company (Board of Directors, Executive Committee), supported by the Control Committee and by the ALM Committee for the periodical monitoring of the levels of risks taken. The Strategic Planning, Budgetary Control, Risk Management and Control Services ensure the recording, measurement and control of the various risk categories (credit, market, operational) in relation to amounts, historical comparison, capital for supervisory purposes and any external benchmarks.

**2. Credit risk management policies**

According to the generally accepted definition in the literature and at system level, "credit risk" means the possibility that an unexpected change in the credit rating of a counterpart can cause a corresponding unexpected change in the market value of one's exposure with the Banca Sella Group.

From this definition it is clear that the relevant concept for the correct identification of credit risk is the so-called "unexpected loss", that is to say the fact that the actual loss realised on a given exposure (or on a credit portfolio) can later turn out to exceed the actual expected loss (so-called "expected loss"). In more rigorous terms, the unexpected loss is therefore simply the variability of loss around its average value. The expected loss, that is to say the ex-ante estimable loss that is expected based on historical experience, is still managed in the Banca Sella Group through provisions on performing loans.

The loan granting and management activity, in its various forms, is still the core of the operational activity and profitability of the Group and therefore the main lever for its development and the highest risk absorption area. The Banca Sella Group therefore attaches great importance to this sector, through accurate and effective monitoring of the risk fractioning limits imposed on each company and the adoption of more stringent loan-granting policies aimed at preventing unexpected risks.

During 2007 Banca Sella Group pursued credit policies based on precise guidelines, aimed at:

- targeting a further development of the credit market shares of the Group banks;
- growth of Leasing and Consumer Credit;
- spreading of more advanced and monitored portfolio management policies aimed at improving the risk-performance rate, focusing in particular on strong diversification and fractioning;
- innovation and organisational evolution;
- adoption of advanced credit risk management models;
- investment in training and skills and increase of the internal culture of risk management and internal control;
- investments on credit quality control systems aimed at innovating the credit portfolio management methods;
- adoption of a rigorous policy in the application of pricing aimed at applying the correct risk-related price.

**2.1 Organisational Aspects**

When a Group bank receives a loan application, the loan issuing process first involves a decision-making structure within the branch assessing the application. Within its independent powers, the branch can then accept the application, reject it, or, sometimes, modify it (for example by requesting further guarantees or proposing a reduction in the size of the loan or a different type of credit line).

On the basis of the amount and the type of loan requested, loan applications are processed by various bodies within the structure of each Group bank, from the branches to the Board of Directors. With specific reference to mortgages, requests are initially evaluated by a central office that analyses the documentation and the objective characteristics of the property to be purchased, as well as the customer's creditworthiness. This process ends with the formulation of an opinion to support the decision-making process.

### 2.2 Systems of management, measurement and control

The Banca Sella Group attaches considerable importance to assessing and managing credit risk, which activities are considered to be strategic and are assigned to the services Credit Risk Management and Credit Quality Control of the parent company. The former monitors and quantifies the credit risk assumed by the Group companies, assesses their sustainability and, by using shared instruments, promotes effective and proactive risk management. The latter conducts more traditional monitoring that is mainly aimed at analysing individual risk positions.

Specifically, Credit Risk Management develops methods for measuring credit risk and supports the creation of specific models for evaluating risk components in the Group's single credit portfolios. Credit Risk Management also provides supervision by drawing up periodical reports at all levels and providing common approaches. The periodical analyses relate to the distribution of customers by rating classes, the evolution of the risk profiles of the entire credit portfolio or of particular subporfolios with specific risk conditions.

For evaluating insolvency risk, the Group has different analysis instruments based on segmentation of customers in line with the parameters of Basel2. Each company is assigned a brief risk comment on the basis of an internal rating model. The A rating assignment process generally relates to customer companies. Entities are in fact evaluated that operate in the industrial, commercial, services and long-term production field as well as agricultural businesses, cooperatives, non-profit making companies and finance companies.

The internal rating used in Italian banks of Banca Sella Group is integrated into the company information system and is made up of the following components:

- ***Financial statements rating***: this component expresses the insolvency risk emerging merely from an analysis of the entries in the customer's financial statements. The financial statements rating can be calculated for any customer or potential customer. In order to calculate the financial statements rating, the financial statements, including the balance sheet and the income statement, must be procured. For companies that use simplified accounting, a function has been devised that assigns a numerical rating that reflects the customer's creditworthiness. This numerical rating is known as the income-statement score. Although no tailored function has been devised for classifying the income statement into discrete risk classes (clustering). The income-statement score is supplemented by an appropriate function with the quality rating) to help calculate the company rating (see next point also for companies using simplified accounting. The financial statements score is also the greatest level of detail that can be obtained for the following categories of customer: finance companies, leasing companies, factoring companies, holdings and property companies.
- ***Company rating***: this combination of the financial statements A rating and a qualitative component provided by a questionnaire drawn up by the writer of the report. As in the financial statements rating, the company rating is calculated for each assigned or potential assigned customer. In the case of a new customer of the Banca Sella Group, it is the most thorough creditworthiness assessment possible and is the equivalent of an "acceptance rating" as it is based on quantitative and qualitative data that are independent of variable trends. This is a wise limitation that arises from the need to limit the volatility of the company rating, so it cannot differ by more than one class from the financial statements rating.
- ***Comprehensive rating***: combination of company A rating and behavioural component (Central Credit Register data and internal information). It is the most in-depth evaluation possible on the creditworthiness of a Banca Sella Group customer. Unlike the financial statements rating and the company rating, it can be calculated only on companies which have been customers for at least three months.

The internal rating in the Banca Sella Group is expressed as a concise alphabetic rating. Each of the three aforementioned components includes nine classes for performing loans: from AAA (least risky customers) to

C (riskiest customers). There is no rating if one of the essential elements for determining the rating is missing, such as valid definitive financial statements and a valid qualitative questionnaire.

In 2007 the branches of the Group continued their task of assigning ratings to applicant companies and updating the ratings of customer companies, further consolidating the already significant levels of cover reached in previous years.

In 2007 the methodological study of the trend scoring method was also completed for a continuous evaluation of the likelihood of insolvency associated with private customers, small businesses, and small-to-medium businesses. Alongside the internal rating, the trend scoring is a concise final rating that consists of nine classes. The main difference from the internal rating consists of the fact that although the object is a precise segment of customers, the relative weight of the individual components of the model takes into due consideration the various risk features of the customer or potential customer.

The new supervisory rules, known as Basel 2, were immediately seen by the Banca Sella Group as an opportunity to refine the techniques for measuring credit risk and to ensure that increasingly sophisticated techniques are used to measure credit risk. Although the Group determined its own equity requirement for covering credit risk by means of the First Pillar using the Standardised Method, the Group is deeply committed to taking all the organisational and methodological measures required to show that its internal rating system is essentially in line with the requirements of the supervisory regulation (the so-called experience test). The experience test must be passed before the Group can apply to the Banca d'Italia for authorisation to use the method based on its internal ratings).

The Group is also aware of the importance of all the risk factors that are due to the credit risk but which are not measured by the instruments provided by the First Pillar of Basel 2, such as, for example, the concentration risk. The parent company complies strictly with the supervisory regulation governing major risks but it has also defined precise guidelines to eliminate the risk of concentration by breaking up risk both at the level of the individual body and by trade sector/geographical area. The exposure to the risk of concentration is monitored monthly using objective indicators such as the Herfindahl index, and precise thresholds have been set to contain overall exposure in each trade sector/geographical area and size class.

The Group's Credit Quality Service intervenes to remedy any ills that could lead to the customer's becoming insolvent. Credit Quality constantly monitors the performance and the use of the credit lines granted to customers.

In order to promote this monitoring activity, in 2007 the "Credit Alarms" early warning system was set up and the Automatic Risk Classification was introduced in order to divide customers into four risk classes (in ascending order).

Further instruments were also devised in 2007.

- Anomalies display. This instrument highlights individual customer anomalies. The customer has not necessarily been granted a loan but does use a current account.
- Weighted deviance percentage. This instrument uses the management anomalies divided by classes to show the creditworthiness of the customers of the individual branches/areas/territories.

Unlike the previous period, no changes to risk exposure, objectives, policies, processes and methods for managing and measuring risk were detected.

### 2.3 Credit risk mitigation techniques

Given the importance attached by Banca Sella Group to loan granting, this is carried out after a particularly detailed initial selection of the potential borrowers. Initially, the creditworthiness assessment is based on the actual capacity of the borrower to honour the commitments solely through his ability to generate adequate financial flows.

Nevertheless, during the loan granting and monitoring process, especially in the case of borrowers to whom a higher insolvency risk probability has been assigned the credit risk protection tools provided by the type of technical form and by the presence of guarantees are not neglected. The guarantees generally acquired from the borrowers are those characteristic of bank activities, namely: personal guarantees, real securities on property and financial instruments.

The Group is well aware that the techniques for mitigating credit risk are effective only if they are acquired and maintained so as to comply with the requirements of Basel 2 in all its aspects: a legal, organisational and specific profile for each guarantee. In 2007 the organisational and control means for the administrative management of existing guarantees were surveyed. This survey related to securities on mortgage, surety ships and collateral agreements that potentially meet the general and specific admissibility requirements laid down by the Banca d'Italia. Amongst other tasks, this involved physically locating existing guarantees, checking that they were contractually compliant, storing them in a central archive and creating a computer record of all the information that existed only on paper. At the same time as the survey in 2007 a review was conducted of the acquisition and storage process (the documentary management of the guarantees that ensures that the documents can be traced to the moment of definitive storage), of the credit-risk mitigation techniques aimed at ensuring that for each guarantee continuous monitoring takes place of contractual conformity, central storage and computerising records of the data carried out during the survey of the already existing guarantees.

**2.4 Impaired financial assets**

The structure that manages the recovery of impaired loans and handles disputes at Sella Holding Banca works for other companies of the Group, which outsource tasks to it.

The service consists of a central office divided into two sectors.

- The Impaired Loans service was set up in 2006 and monitors the performance of the single customers and focuses on the prevention of insolvency risks in exposed customers such as unpaid mortgage instalments up to a maximum of €30,000 with no other credit lines granted, or unpaid instalments from positions allocated to "Paa3" for which the written agreements have not been complied with.

The monitoring basically focuses on three moments in the management of the loan difficulties:

- preventing the insolvency risk, which manifests itself through specific irregularities in the relationship that are consequences of any type of loan risk and are due to the failure to meet contractual deadlines;
- centralised identification and management of anomalies in order to remove them through reminders sent directly to customers;
- checking that the anomaly has been remedied and if it has not assigning the loan to category of loans subject to termination.

- The following companies outsource to the Disputes Service: Banca Sella Spa, Banca Sella Nord Est Bovio Calderari Spa, Banca Arditi Galati Spa, Banca Patrimoni Sella & C Spa, Banca di Palermo Spa, Biella Leasing spa.

The Disputes Service is amongst other things responsible for:

- calling in loans to borrowers in default;
- providing assistance and advice to complete restructuring agreements in support of customers;
- sending reminders to recover loans in default and acquiring further guarantees to support exposure;
- promptly calculating expected losses in an analytical manner at the level of the individual customer loan;
- periodically checking the adequacy of the recovery plans and the recoverability of the loan;
- optimising the costs/results of the legal measures taken to recover the loan;
- providing technical and operational advice inside the Group on recovering anomalous loans, acquiring guarantees and managing late instalments;
- making losses definitive that are recorded at the end of court and out-of-court procedures.

The independence in evaluating loan recovery and proposed compromises with the customer are almost completely assigned to single bodies through the powers bestowed on the single CEOs of the various companies managed through outsourcing. This enables extremely rapid responses to be made to compromise proposals.

The analytical evaluation of loans applies to the following classes of impaired receivables:

- late payments
- non-cancelled substandard loans;
- restructured loans.

According to IAS 39, impaired loans are subject to an analytical evaluation process and the amount of the adjustment of each loan is equal to the difference between the current value of the envisaged future flows, which is calculated by applying the actual original interest rate, and the reporting value at the moment of the assessment.

The forecast of the recoverability of the loan takes account of:

- the amount of the recovery value as the sum of cash flows estimated on the basis of the types of guarantees that have been given and/or acquirable, their presumed salvage value, the costs to be sustained, the debtor's desire to pay;
- recovery time estimated on the basis of the types of guarantees, the court or out-of-court liquidation methods for the guarantees, bankruptcy proceedings, the geographical area to which the loan belongs;
- updated interest rates, for all the loans valued at the depreciated cost the actual original rate of return is used whereas for credit lines to be recalled the interest rate at the moment of the default is considered.

The Legal Disputes Service analyses the recoverability of the individual loans independently of the size of the loan and without having recourse to models for estimating expected cash flows. Instead, a collection plan is drawn up that is adapted to the features of the individual loan and takes into account any agreements between customers.

Adjustments to net value are supported by a control procedure that is combined with a dynamic revision of the various positions to enable the accuracy of the recovery forecasts to be constantly updated.

## INFORMATION OF A QUANTITATIVE NATURE

## A. LOAN QUALITY

### A.1 Impaired and performing loans: size, write-downs, financial and territorial distribution

#### A.1.1 Distribution of financial assets per portfolio and credit quality (book value)

| Portfolios/quality | BANKING GROUP | | | | | | OTHER COMPANIES | | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| | Non performing loans | Sub standards | Restructured exposures | Expired exposures | Country risk | Other assets | Deteriorate | Altre | |
| 1. Financial assets held for trading | - | - | - | - | 2.549 | 1.099.283 | - | 91.552 | 1.193.384 |
| 2. Financial assets available for sale | - | - | - | - | - | 79.714 | - | 202.523 | 282.237 |
| 3. Financial assets held to maturity | - | - | - | - | - | 92.570 | - | - | 92.570 |
| 4. Due from banks | - | - | - | - | 2.854 | 1.914.280 | - | 3.578 | 1.920.712 |
| 5. Due from customers | 66.834 | 38.246 | 16.004 | 26.189 | 3.168 | 7.080.647 | - | - | 7.231.088 |
| 6. Financial assets stated at fair value | - | - | - | - | - | - | - | 796.365 | 796.365 |
| 7. Financial assets allocated to sales | - | - | - | - | - | - | - | - | - |
| 8. Hedging derivatives | - | - | - | - | - | 13.388 | - | - | 13.388 |
| **Total 31/12/2007** | **66.834** | **38.246** | **16.004** | **26.189** | **8.571** | **10.279.882** | **-** | **1.094.018** | **11.529.744** |
| **Total 31/12/2006** | **55.475** | **34.392** | **10.853** | **27.461** | **3.209** | **9.346.420** | **-** | **1.044.546** | **10.522.356** |

#### A.1.2 Distribution of financial assets per portfolio and credit quality (gross and net values)

| Portfolios/quality | Impaired assets | | | | Other assets | | | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Gross exposure | Specific adjustments | Portfolio adjustments | Net exposure | Gross exposure | Specific adjustments | Portfolio adjustments | Net exposure | (net exposure) |
| **A. Banking group** | | | | | | | | | |
| 1. Financial assets held for trading | - | - | - | - | 1.101.832 | - | - | 1.101.832 | 1.101.832 |
| 2. Financial assets available for sale | - | - | - | - | 80.317 | - | 603 | 79.714 | 79.714 |
| 3. Financial assets held to maturity | - | - | - | - | 92.570 | - | - | 92.570 | 92.570 |
| 4. Due from banks | - | - | - | - | 1.917.134 | - | - | 1.917.134 | 1.917.134 |
| 5. Due from customers | 404.370 | 254.253 | 2.844 | 147.273 | 7.124.317 | - | 40.502 | 7.083.815 | 7.231.088 |
| 6. Financial assets stated at fair value | - | - | - | - | - | - | - | - | - |
| 7. Financial assets allocated to sales | - | - | - | - | - | - | - | - | - |
| 8. Hedging derivatives | - | - | - | - | 13.388 | - | - | 13.388 | 13.388 |
| **Total A** | **404.370** | **254.253** | **2.844** | **147.273** | **10.329.558** | **-** | **41.105** | **10.288.453** | **10.435.726** |
| **B. Other companies included in the consolidation** | | | | | | | | | |
| 1. Financial assets held for trading | - | - | - | - | 91.552 | - | - | 91.552 | 91.552 |
| 2. Financial assets available for sale | - | - | - | - | 202.523 | - | - | 202.523 | 202.523 |
| 3. Financial assets held to maturity | - | - | - | - | - | - | - | - | - |
| 4. Due from banks | - | - | - | - | 3.578 | - | - | 3.578 | 3.578 |
| 5. Due from customers | - | - | - | - | - | - | - | - | - |
| 6. Financial assets stated at fair value | - | - | - | - | 796.365 | - | - | 796.365 | 796.365 |
| 7. Financial assets allocated to sales | - | - | - | - | - | - | - | - | - |
| 8. Hedging derivatives | - | - | - | - | - | - | - | - | - |
| **Total B** | **-** | **-** | **-** | **-** | **1.094.018** | **-** | **-** | **1.094.018** | **1.094.018** |
| **Total 31/12/2007** | **404.370** | **254.253** | **2.844** | **147.273** | **11.423.576** | **-** | **41.105** | **11.382.471** | **11.529.744** |
| **Total 31/12/2006** | **359.636** | **226.121** | **2.125** | **131.390** | **10.426.649** | **-** | **35.683** | **10.390.966** | **10.522.356** |

### A.1.3 Cash exposures and off balance-sheet to banks: gross and net values

| Exposure types/values | Gross exposure | Specific adjustments | Portfolio adjustments | Net exposure |
|---|---|---|---|---|
| **A. CASH EXPOSURE** | | | | |
| **A.1 Banking group** | | | | |
| a) Non performing loans | - | - | - | - |
| b) Watch list loans | - | - | - | - |
| c) Restructured exposures | - | - | - | - |
| d) Expired exposures | - | - | - | - |
| e) Country risk | 2.876 | X | - | 2.876 |
| f) Other assets | 2.057.475 | X | - | 2.057.475 |
| **Total A.1** | **2.060.351** | **-** | **-** | **2.060.351** |
| **A.2 Other companies** | | | | |
| a) Impaired | - | - | - | - |
| b) Other | 282.130 | X | - | 282.130 |
| **Total A.2** | **282.130** | **-** | **-** | **282.130** |
| **Total A** | **2.342.481** | **-** | **-** | **2.342.481** |
| **B. OFF-BALANCE EXPOSURE** | | | | |
| **B.1 Banking group** | | | | |
| a) Impaired | - | - | - | - |
| b) Other | 562.149 | X | 125 | 562.024 |
| **Total B.1** | **562.149** | **-** | **125** | **562.024** |
| **B.2 Other companies** | | | | |
| a) Impaired | - | - | - | - |
| b) Other | 31.272 | X | - | 31.272 |
| **Total B.2** | **31.272** | **-** | **-** | **31.272** |
| **Total B** | **593.421** | **-** | **125** | **593.296** |

### A.1.4 Cash exposures to banks: gross deteriorated exposures and subject to "country risk"

| Description/Categories | Non performing loans | Watch list loans | Restructured exposures | Expired exposures | Country risk |
|---|---|---|---|---|---|
| **A. Initial gross exposure** | **-** | **-** | **-** | **-** | **232** |
| - of which: exposures sold not cancelled | - | - | - | - | - |
| **B. Increases** | **-** | **-** | **-** | **-** | **2.761** |
| B.1 Inflows due to performing exposures | - | - | - | - | - |
| B.2 Transfers from other impaired exposures | - | - | - | - | - |
| B.3 Other increases | - | - | - | - | 2.761 |
| **C. Decreases** | **-** | **-** | **-** | **-** | **117** |
| C.1 Outflows towards performing exposures | - | - | - | - | 76 |
| C.2 Cancellations | - | - | - | - | - |
| C.3 Encashments | - | - | - | - | - |
| C.4 Realisations due to assignments | - | - | - | - | - |
| C.5 Transfers to other impaired exposures | - | - | - | - | - |
| C.6 Other decreases | - | - | - | - | 41 |
| **D. Final gross exposure** | **-** | **-** | **-** | **-** | **2.876** |
| - of which: exposures sold not cancelled | - | - | - | - | - |

### A.1.6 Cash exposures and off balance-sheet to customers: gross and net values

| Exposure types/values | Gross exposure | Specific adjustments | Portfolio adjustments | Net exposure |
|---|---|---|---|---|
| **A. CASH EXPOSURE** | | | | |
| **A.1 Banking group** | | | | |
| a) Non performing loans | 285.798 | 218.964 | - | 66.834 |
| b) Watch list loans | 72.019 | 33.639 | 134 | 38.246 |
| c) Restructured exposures | 17.427 | 1.420 | 3 | 16.004 |
| d) Expired exposures | 29.126 | 230 | 2.707 | 26.189 |
| e) Country risk | 5.695 | X | - | 5.695 |
| f) Other assets | 8.217.486 | X | 41.215 | 8.176.271 |
| **TOTAL A.1** | **8.627.551** | **254.253** | **44.059** | **8.329.239** |
| **A.2 Other companies** | | | | |
| a) Impaired | - | - | - | - |
| b) Other | 780.616 | X | - | 780.616 |
| **TOTAL A.2** | **780.616** | **-** | **-** | **780.616** |
| **TOTAL A** | **9.408.167** | **254.253** | **44.059** | **9.109.855** |
| **B. OFF-BALANCE EXPOSURE** | | | | |
| **B.1 Banking group** | | | | |
| a) Impaired | 1.552 | - | - | 1.552 |
| b) Other | 771.734 | X | 2.450 | 769.284 |
| **TOTAL B.1** | **773.286** | **-** | **2.450** | **770.836** |
| **B.2 Other companies** | | | | |
| a) Impaired | - | - | - | - |
| b) Altre | - | X | - | - |
| **TOTALE B.2** | **-** | **-** | **-** | **-** |
| **TOTALE B** | **773.286** | **-** | **2.450** | **770.836** |

*The gross exposures of financial assets expired on 31 December 2007 which did not undergo losses of value is as follows:*
*- above 90 days to 180 days for an amount of euro 12.181.000;*
*- beyond 180 days for an amount of euro 29.126.000.*

### A.1.7 Cash exposures to customers: gross deteriorated exposures subject to "country risk"

| Description/Categories | Non performing loans | Watch list loans | Restructured exposures | Expired exposures | Country risk |
|---|---|---|---|---|---|
| **A. Initial gross exposure** | **252.196** | **63.753** | **10.853** | **29.625** | **2.953** |
| - of which: exposures sold not cancelled | - | - | - | - | - |
| **B. Increases** | **85.259** | **75.739** | **6.806** | **4.622** | **3.561** |
| B.1 Inflows due to performing exposures | 22.388 | 70.775 | 5.466 | 3.902 | 3.096 |
| B.2 Transfers from other impaired exposures | 49.354 | - | 988 | - | - |
| B.3 Other increases | 13.517 | 4.964 | 352 | 720 | 465 |
| **C. Decreases** | **51.657** | **67.473** | **232** | **5.121** | **819** |
| C.1 Outflows towards performing exposures | 164 | 3.874 | 36 | 4.770 | 475 |
| C.2 Cancellations | 18.229 | - | - | - | 44 |
| C.3 Encashments | 17.126 | 12.054 | 196 | 351 | - |
| C.4 Realisations due to assignments | - | - | - | - | - |
| C.5 Transfers to other impaired exposures | - | 50.342 | - | - | - |
| C.6 Other decreases | 16.138 | 1.203 | - | - | 300 |
| **D. Final gross exposure** | **285.798** | **72.019** | **17.427** | **29.126** | **5.695** |
| - of which: exposures sold not cancelled | 233 | - | - | - | - |

### A.1.8 Cash exposure to customers: trend of overall write-downs

| Description/Categories | Non performing loans | Watch list loans | Restructured exposures | Expired exposures | Country risk |
|---|---|---|---|---|---|
| **A. Initial overall write-downs** | **196.721** | **29.361** | **-** | **2.164** | **-** |
| - of which: exposures sold not cancelled | - | - | - | - | - |
| **B. Increases** | **69.389** | **22.929** | **1.423** | **996** | **-** |
| B.1 Write-downs | 54.317 | 22.526 | 1.423 | 996 | - |
| B.2 Transfers from other impaired exposures | 13.803 | - | - | - | - |
| B.3 Other increases | 1.269 | 403 | - | - | - |
| **C. Decreases** | **47.146** | **18.517** | **-** | **223** | **-** |
| C.1 Write-ups from valuation | 6.777 | 2.341 | - | 48 | - |
| C.2 Write-ups from collection | 6.107 | 2.245 | - | 175 | - |
| C.3 Cancellations | 17.583 | - | - | - | - |
| C.4 Transfers to other impaired exposures | - | 13.803 | - | - | - |
| C.5 Other decreases | 16.679 | 128 | - | - | - |
| **D. Final overall write-downs** | **218.964** | **33.773** | **1.423** | **2.937** | **-** |
| - of which: exposures sold not cancelled | 36 | - | - | - | - |

## A.2 CLASSIFICATION OF EXPOSURES ON BASIS OF EXTERNAL AND INTERNAL RATINGS

### A.2.1 Distribution of cash and "off balance" exposures by external ratings

The table belowe shows the distribution of exposure by external rating class of the customers of the Gruppo Banca Sella. With regars to loans to banks all counterparties with which the Bank has relations have a rating higher than the investment grade.

**A.2.1 Distribution of cash and off-balance exposures by internal rating classes**

| Exposures | External rating classes | | | | | | Without rating | Total |
|---|---|---|---|---|---|---|---|---|
| | AAA/AA- | A+/A- | BBB+/BBB- | BB+/BB- | B+/B- | Inferiore B- | | |
| **A. Cash exposures** | **1.102.316** | **470.824** | **96.130** | **-** | **740** | **-** | **9.782.326** | **11.452.336** |
| **B. Derivatives** | **45.817** | **10.785** | **1.115** | **-** | **-** | **-** | **19.691** | **77.408** |
| B.1 Financial derivatives | 45.817 | 10.785 | 1.115 | - | - | - | 19.691 | 77.408 |
| B.2 Credit derivatives | - | - | - | - | - | - | - | - |
| **C. Guarantees granted** | **-** | **-** | **-** | **-** | **-** | **-** | **307.564** | **307.564** |
| **D. Commitments to provide funding** | **-** | **-** | **-** | **-** | **-** | **-** | **771.413** | **771.413** |
| **Total** | **1.148.133** | **481.609** | **97.245** | **-** | **740** | **-** | **10.880.994** | **12.608.721** |

### A.2.2 Distribution of cash and "off balance" exposures by internal rating

The next table contains the distribution of exposure by rating class of Gruppo Banca Sella's customer companies. The column "Without rating" contains both exposures with customers belonging to a segmnet differente from "companies".

**A.2.2 Distribution of cash and off-balance exposures by internal rating classes**

| Exposures | Internal rating classes | | | | | | | | | without *rating* | Totale |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | AAA | AA | A | BBB | BB | B | CCC | CC | C | | |
| **A. Cash exposures** | **128.039** | **126.527** | **325.993** | **543.053** | **418.282** | **428.982** | **405.847** | **82.557** | **26.076** | **8.966.980** | **11.452.336** |
| **B. Derivatives** | **-** | **-** | **522** | **-** | **-** | **-** | **-** | **-** | **-** | **76.886** | **77.408** |
| B.1 Financial derivatives | - | - | 522 | - | - | - | - | - | - | 76.886 | 77.408 |
| B.2 Credit derivatives | - | - | - | - | - | - | - | - | - | - | - |
| **C. Guarantees granted** | **10.840** | **15.994** | **23.660** | **56.445** | **29.418** | **22.180** | **15.040** | **5.446** | **411** | **128.130** | **307.564** |
| **D. Commitments to provide funding** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **771.413** | **771.413** |
| **Total** | **138.879** | **142.521** | **350.175** | **599.498** | **447.700** | **451.162** | **420.887** | **88.003** | **26.487** | **9.943.409** | **12.608.721** |

## A.3 DISTRIBUTION OF GUARANTEED EXPOSURES BY THE TYPE OF GUARANTEE

### A.3.1 Guaranteed cash exposure to banks and customers

| | Exposure value | Collateral securities (1) | | | Personal guarantees (2) | | | | | | | | Total (1)+(2) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Credit derivatives | | | | Guaranteed loans | | | | |
| | | Immovables | Securities | Other assets | States | Other public bodies | Banks | Other parties | States | Other public bodies | Banks | Other parties | |
| **1. Guaranteed exposures to banks:** | | | | | | | | | | | | | |
| 1.1 Totally guaranteed | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1.2. Partially guaranteed | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **2. Guaranteed exposures to customers:** | | | | | | | | | | | | | |
| 1.1 Totally guaranteed | 2.992.317 | 2.138.431 | 43.447 | 29.637 | - | - | - | - | - | 934 | 9.767 | 1.102.266 | 3.324.482 |
| 1.2. Partially guaranteed | 556.078 | 2.385 | 47.750 | 27.729 | 80 | - | 16.019 | 2.871 | - | - | 3.444 | 360.544 | 460.822 |

### A.3.2 Guaranteed “off-balance” exposures to customers and banks

| | Exposure value | Collateral securities (1) | | | Personal guarantees (2) | | | | | | | | Total (1)+(2) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Credit derivatives | | | | Guaranteed loans | | | | |
| | | Immovables | Securities | Other assets | States | Other public bodies | Banks | Other parties | States | Other public bodies | Banks | Other parties | |
| **1. Guaranteed exposures to banks:** | | | | | | | | | | | | | |
| 1.1 Totally guaranteed | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1.2. Partially guaranteed | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **2. Guaranteed exposures to customers:** | | | | | | | | | | | | | |
| 2.1 Totally guaranteed | 113.973 | 2.832 | 11.594 | 4.338 | - | - | - | - | - | 13 | 1.635 | 114.672 | 135.084 |
| 2.2. Partially guaranteed | 23.860 | - | 2.018 | 2.235 | - | - | - | - | - | - | 364 | 8.131 | 12.748 |

## A.3.3 Guaranteed impaired cash exposures to banks and customers

| | Exposure value | Guaranteed amount | Guarantees (fair value) | | | | | | | | | | | | | | | | | Total | Excess fair value guarantee |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Collateral securities | | | Personal guarantees | | | | | | | | | | | | | | | |
| | | | | | | Credit derivatives | | | | | | | Guaranteed loans | | | | | | | | |
| | | | Immovables | Securities | Other assets | Governments and central banks | Other public bodies | Banks | Finance companies | Insurance companies | Non finance companies | Other parties | Governments and central banks | Other public bodies | Banks | Finance companies | Insurance companies | Non finance companies | Other parties | | |
| ***1. Guaranteed exposures to banks:*** | | | | | | | | | | | | | | | | | | | | | |
| 1.1 more than 150% | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1.2 between 100% and 150% | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1.3 between 50% and 100% | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1.4 within 50% | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| ***2. Guaranteed exposures to customers:*** | | | | | | | | | | | | | | | | | | | | | |
| 2.1 more than 150% | 25.095 | 28.343 | 22.865 | 29 | 22 | - | - | - | - | - | - | - | - | - | - | - | - | - | 5.427 | 28.343 | - |
| 2.2 between 100% and 150% | 13.346 | 21.470 | 884 | 1.296 | 1.466 | - | - | - | - | - | - | - | - | - | - | - | - | - | 17.825 | 21.471 | - |
| 2.3 between 50% and 100% | 1.930 | 1.967 | 256 | 213 | 85 | - | - | - | - | - | - | - | - | - | - | - | - | - | 1.414 | 1.968 | - |
| 2.4 within 50% | 5.323 | 1.600 | 21 | 288 | 537 | - | - | - | - | - | - | - | - | - | - | - | - | - | 2.152 | 2.998 | - |

## A.3.4 Guaranteed impaired "off-balance" exposures to customers and banks

| | | | Guarantees (fair value) | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Collateral securities | | | Personal guarantees | | | | | | | | | | | | | | |
| | | | | | | Credit derivatives | | | | | | | Guaranteed loans | | | | | | | |
| | Exposure value | Guaranteed amount | Immovables | Securities | Other assets | Governments and central banks | Other public bodies | Banks | Finance companies | Insurance companies | Non finance companies | Other parties | Governments and central banks | Other public bodies | Banks | Finance companies | Insurance companies | Non finance companies | Other parties | **Total** | Excess fair value guarantee |
| ***1. Guaranteed exposures to banks:*** | | | | | | | | | | | | | | | | | | | | | |
| 1.1 more than 150% | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1.2 between 100% and 150% | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1.3 between 50% and 100% | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1.4 within 50% | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| ***2. Esposizioni verso to customers:*** | | | | | | | | | | | | | | | | | | | | | |
| 2.1 more than 150% | 442 | 490 | 180 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 310 | 490 | - |
| 2.2 between 100% and 150% | 174 | 224 | - | - | 45 | - | - | - | - | - | - | - | - | - | - | - | - | - | 179 | 224 | - |
| 2.3 between 50% and 100% | 53 | 32 | - | - | 8 | - | - | - | - | - | - | - | - | - | - | - | - | - | 24 | 32 | - |
| 2.4 within 50% | 50 | 20 | - | 18 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 2 | 20 | - |

# B. CREDIT DISTRIBUTION AND CONCENTRATION

## B.1 Sector distribution of cash and off-balance exposures to customers

| Exposures/ counterparties | Governments and central banks | | | | Other public bodies | | | | Finance companies | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gross exposure | Specific adjustments | Portfolio adjustments | Net exposure | Gross exposure | Specific adjustments | Portfolio adjustments | Net exposure | Gross exposure | Specific adjustments | Portfolio adjustments | Net exposure |
| **A. Cash exposures** | | | | | | | | | | | | |
| A.1 Non performing loans | - | - | - | - | 21 | 21 | - | - | 1.951 | 1.769 | - | 182 |
| A.2 Watch list loans | - | - | - | - | - | - | - | - | 739 | 213 | - | 526 |
| A.3 Restructured exposures | - | - | - | - | - | - | - | - | - | - | - | - |
| A.4 Expired exposures | - | - | - | - | - | - | - | - | 115 | 1 | - | 114 |
| A.5 Other exposures | 1.107.234 | X | - | 1.107.234 | 28.035 | X | 7 | 28.028 | 314.576 | X | 583 | 313.993 |
| **Total A** | **1.107.234** | **-** | **-** | **1.107.234** | **28.056** | **21** | **7** | **28.028** | **317.381** | **1.983** | **583** | **314.815** |
| **B. Off-balance" exposures** | | | | | | | | | | | | |
| B1. Non performing loans | - | - | - | - | - | - | - | - | - | - | - | - |
| B2. Watch list loans | - | - | - | - | - | - | - | - | 3 | - | - | 3 |
| B.3 Other impaired assets | - | - | - | - | - | - | - | - | - | - | - | - |
| B.4 Other exposures | - | X | - | - | 2.395 | X | - | 2.395 | 269.035 | X | - | 269.035 |
| **Total B** | **-** | **-** | **-** | **-** | **2.395** | **-** | **-** | **2.395** | **269.038** | **-** | **-** | **269.038** |
| **Total 31/12/2007** | **1.107.234** | **-** | **-** | **1.107.234** | **30.451** | **21** | **7** | **30.423** | **586.419** | **1.983** | **583** | **583.853** |
| **Total 31/12/2006** | **1.057.857** | **-** | **-** | **1.057.857** | **94.115** | **20** | **3** | **94.092** | **338.907** | **1.486** | **31** | **337.390** |

**cont.**

| Exposures/ counterparties | Insurance companies | | | | Non finance companies | | | | Other parties | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gross exposure | Specific adjustments | Portfolio adjustments | Net exposure | Gross exposure | Specific adjustments | Portfolio adjustments | Net exposure | Gross exposure | Specific adjustments | Portfolio adjustments | Net exposure |
| **A. Cash exposures** | | | | | | | | | | | | |
| A.1 Non performing loans | - | - | - | - | 154.698 | 115.189 | - | 39.509 | 129.128 | 101.985 | - | 27.143 |
| A.2 Watch list loans | - | - | - | - | 38.700 | 16.836 | 115 | 21.749 | 32.580 | 16.590 | 19 | 15.971 |
| A.3 Restructured exposures | - | - | - | - | 16.692 | 1.106 | 3 | 15.583 | 735 | 314 | - | 421 |
| A.4 Expired exposures | - | - | - | - | 10.790 | 133 | 310 | 10.347 | 18.221 | 96 | 2.397 | 15.728 |
| A.5 Other exposures | 3.568 | X | - | 3.568 | 3.730.618 | X | 24.861 | 3.705.757 | 3.819.766 | X | 15.764 | 3.804.002 |
| **Total A** | **3.568** | **-** | **-** | **3.568** | **3.951.498** | **133.264** | **25.289** | **3.792.945** | **4.000.430** | **118.985** | **18.180** | **3.863.265** |
| **B. Off-balance" exposures** | | | | | | | | | | | | |
| B1. Non performing loans | - | - | - | - | 536 | - | - | 536 | 43 | - | - | 43 |
| B2. Watch list loans | - | - | - | - | 548 | - | - | 548 | 95 | - | - | 95 |
| B.3 Other impaired assets | - | - | - | - | 323 | - | - | 323 | 4 | - | - | 4 |
| B.4 Other exposures | 2.589 | X | - | 2.589 | 299.962 | X | - | 299.962 | 197.753 | X | 2.450 | 195.303 |
| **Total B** | **2.589** | **-** | **-** | **2.589** | **301.369** | **-** | **-** | **301.369** | **197.895** | **-** | **2.450** | **195.445** |
| **Total 31/12/2007** | **6.157** | **-** | **-** | **6.157** | **4.252.867** | **133.264** | **25.289** | **4.094.314** | **4.198.325** | **118.985** | **20.630** | **4.058.710** |
| **Total 31/12/2006** | **5.391** | **-** | **-** | **5.391** | **3.842.063** | **120.021** | **23.910** | **3.698.132** | **4.190.213** | **104.594** | **15.857** | **4.069.762** |

### B.2 Distribution of financing to non finance companies

| | |
|---|---|
| Commercial, recovery and repair services | 680.854 |
| Other marketable services | 625.576 |
| Construction and public works | 409.976 |
| Textiles, leather and shoes, clothing | 201.724 |
| Other | 1.756.843 |
| **Total** | **3.674.973** |

### B.3 Territory distribution of cash and off-balance exposures to customers (book value)

| Exposures/Geographical | ITALY | | Other European countries | | AMERICA | | ASIA | | REST OF THE WORLD | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure |
| **A. Cash exposures** | | | | | | | | | | |
| A.1 Non performing loans | 285.128 | 66.798 | 545 | 24 | 121 | 12 | - | - | 4 | - |
| A.2 Watch list loans | 68.565 | 35.391 | 3.381 | 2.843 | 17 | - | - | - | 56 | 12 |
| A.3 Restructured exposures | 17.427 | 16.004 | - | - | - | - | - | - | - | - |
| A.4 Expired exposures | 29.070 | 26.138 | 47 | 42 | - | - | 9 | 9 | - | - |
| A.5 Other operations | 8.567.557 | 8.526.580 | 289.851 | 289.679 | 134.597 | 134.568 | 28 | 28 | 11.764 | 11.727 |
| **Total A** | **8.967.747** | **8.670.911** | **293.824** | **292.588** | **134.735** | **134.580** | **37** | **37** | **11.824** | **11.739** |
| **B. Off-balance exposures** | | | | | | | | | | |
| B1. Non performing loans | 579 | 579 | - | - | - | - | - | - | - | - |
| B2. Watch list loans | 646 | 646 | - | - | - | - | - | - | - | - |
| B.3 Other impaired assets | 327 | 327 | - | - | - | - | - | - | - | - |
| B.4 Other exposures | 728.752 | 726.302 | 40.863 | 40.863 | 1.436 | 1.436 | - | - | 683 | 683 |
| **Total B** | **730.304** | **727.854** | **40.863** | **40.863** | **1.436** | **1.436** | **-** | **-** | **683** | **683** |
| **Total (A+B) 31/12/2007** | **9.698.051** | **9.398.765** | **334.687** | **333.451** | **136.171** | **136.016** | **37** | **37** | **12.507** | **12.422** |
| **Total (A+B) 31/12/2006** | **8.869.126** | **8.604.122** | **617.507** | **616.679** | **34.328** | **34.190** | **236** | **236** | **7.349** | **7.397** |

## B.4 Territory distribution of cash and off-balance exposures to banks

| Exposures/Geographical | ITALY | | Other European countries | | AMERICA | | ASIA | | REST OF THE WORLD | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure |
| **A. Cash exposures** | | | | | | | | | | |
| A.1 Non performing loans | - | - | - | - | - | - | - | - | - | - |
| A.2 Watch list loans | - | - | - | - | - | - | - | - | - | - |
| A.3 Restructured exposures | - | - | - | - | - | - | - | - | - | - |
| A.4 Expired exposures | - | - | - | - | - | - | - | - | - | - |
| A.5 Other operations | 1.891.862 | 1.891.862 | 371.226 | 371.226 | 75.604 | 75.604 | 2.574 | 2.574 | 1.215 | 1.215 |
| **Total A** | **1.891.862** | **1.891.862** | **371.226** | **371.226** | **75.604** | **75.604** | **2.574** | **2.574** | **1.215** | **1.215** |
| **B. Off-balance exposures** | | | | | | | | | | |
| B1. Non performing loans | - | - | - | - | - | - | - | - | - | - |
| B2. Watch list loans | - | - | - | - | - | - | - | - | - | - |
| B.3 Other impaired assets | - | - | - | - | - | - | - | - | - | - |
| B.4 Other exposures | 154.519 | 154.519 | 435.820 | 435.696 | 3.048 | 3.047 | 34 | 34 | - | - |
| **Total B** | **154.519** | **154.519** | **435.820** | **435.696** | **3.048** | **3.047** | **34** | **34** | **-** | **-** |
| **Total (A+B) 31/12/2007** | **2.046.381** | **2.046.381** | **807.046** | **806.922** | **78.652** | **78.651** | **2.608** | **2.608** | **1.215** | **1.215** |
| **Total (A+B) 31/12/2006** | **1.650.027** | **1.650.027** | **565.916** | **565.916** | **42.981** | **42.981** | **5.337** | **5.337** | **1.883** | **1.883** |

## C. SECURITIZATION OPERATIONS AND ASSET TRANSFERS

### C.1 SECURITIZATION OPERATIONS

### INFORMATION OF A QUALITATIVE NATURE

Since 2000 the Group has conducted three securitisation operations, of traditional type, two of which related to performing loans. They were conducted by Banca Sella S.p.A., which is now called Sella Holding Banca S.p.A. The securitised assets were bestowed on 1 January 2006 on the "new" Banca Sella S.p.A. by Sella Holding Banca S.p.A.. The other securitisation operation transferred loans coming from performing leasing contracts of Biella Leasing S.p.A..

The operations were conducted in order to diversify the types of provision in order to improve the due-date correlation between deposits and loans and the prudential supervisory coefficients.

The role of servicer in the three securitisation operations was always played by the originators (Banca Sella S.p.A. and Biella Leasing S.p.A.).

The two originator companies of the operations subscribed to and still hold the entire amount of junior securities issued in relation to the securitisation operations. The risk of the transferred assets thus still lies with them and they therefore monitor their performance regularly and also draft the periodical reports.

As already indicated in Part A - Accounting Policies, for the first two operations, which finished before 31 December 2003, the proceeds of the transfer made in previous years were secured whereas the assets transferred by the operation completed in 2005 continue to be reported in the consolidated financial statements because the transfer did not substantially transfer the risk to others.

A brief account of the securitisation operations follows.

#### a) Banca Sella S.p.A. securitisation of performing loans - 2000

The operation was completed in two stages. On 28 December 2000 the contract to acquire the loans was completed by the special purpose vehicle company Secursel S.r.l. (a company belonging to the Banca Sella Group), whereas on 26 April 2001 securities were issued by means of which the acquisition was funded.

The portfolio that was transferred without recourse consisted of performing mortgage loans issued by Banca Sella S.p.A. to persons residing in Italy.

The operation consisted of transferring to the special purpose vehicle without recourse the loans guaranteed by mortgages amounting to €203.7 million, the equivalent of the reported book value of the loans at the transfer date. The price of the transaction amounted to €208.0 million, including the interest that had matured up to the transfer date.

Secursel S.r.l. for its part issued senior securities (class A notes) amounting to €184.4 million, mezzanine securities (class B notes) amounting to €17.3 million and junior securities (class C notes) amounting to €2.052 million.

The class A and B notes are listed on the Luxembourg stock exchange. Moody's gave the class A notes an A rating whereas the class B notes were given an A2 rating, which was upgraded in 2005 to AA2; the class C notes are unlisted and have been underwritten in their entirety by Banca Sella S.p.A.. In 2007 they matured interest totalling €0.667 million.

The planned capital reimbursement of the class A notes continued and at 31 December 2007 €35.1 million was yet to be reimbursed. The reimbursement of the mezzanine and junior securities had not yet commenced.

Banca Sella S.p.A. is entrusted with recovering transferred loans, providing cash and payment services under the terms of a servicing contract that pays servicing commission every six months that is the equivalent on an annual basis of 0.50% of the managed capital. In 2007 servicing commission amounted to €0.298 million.

When the securities were issued Secursel S.r.l. signed a series of interest-rate swap contracts with Calyon S.A. in order to cover the rate risk that is inherent to the structure and is due to the difference between the indexing parameter for the securities issued and the different indexing parameters for the acquired portfolio.

Banca Sella provided Securisel S.r.l. with a liquidity line amounting to €5.2 million, at the Euribor 6-monthly rate + 0.25 p.a. This is usable by the special purpose vehicle if the twice-yearly receipts available at each date of payment of the interest on the securities are insufficient to cover the costs as established in the Payment Priority Order. This liquidity line was never used.

**b) Biella Leasing S.p.A.: securitisation of loans arising from leasing contracts – 2001**

The operation was completed in two stages. On 21 December 2001 the contract to acquire the loans was completed by the securitisation company Secursel S.r.l. (a company belonging to the Banca Sella Group), whereas on 13 February 2002 securities were issued by means of which the acquisition was funded.

The portfolio that was transferred without recourse consisted of loans originating from performing leasing contracts issued by Banca Sella S.p.A. to persons residing in Italy.

The operation envisaged the transfer of further revolving periodical transfers maturing each three months from 28 May 2002 and up to 28 November 2003, on the same conditions as for the initial transfer.

The operation consisted of transferring to the securitisation company without recourse the loans amounting to €202.1 million, the equivalent of the reported value of the loans at the transfer date. The price of the transfer amounted to €202.8 million, to take account of the interest amounting to €0.7 million that had matured up to the transfer date.

Secursel S.r.l. for its part issued senior securities (class A notes) amounting to €187.0 million, mezzanine securities (class B notes) amounting to €12.5 million and junior securities (class C notes) amounting to €2.7 million.

The class A and B securities are listed on the Luxembourg stock exchange and are given a rating by Moody's; the class C notes are unlisted and were completely underwritten by Biella Leasing S.p.A. In 2007 they earned interest amounting to €0.86 million.

In 2007 class A notes with a nominal value of €20.1 million were reimbursed; the residual nominal value of the securities of the same class that are still to be reimbursed thus decreased to €2.0 million. The reimbursement of the mezzanine and junior securities has not yet commenced.

Biella Leasing S.p.A. is entrusted with recovering transferred fees and cash and payment services under the terms of a servicing contract that pays servicing commission every quarter that is the equivalent on an annual basis of 0.20% of the managed capital. In 2007 servicing commission amounted to €0.07 million.

When the securities were issued Secursel S.r.l. signed a series of interest-rate swap contracts with Calyon S.A. in order to cover the rate risk that is inherent to the structure and is due to the difference between the indexing parameter for the securities issued and the different indexing parameters for the acquired portfolio.

Sella Holding Banca provided Secursel S.r.l. with a liquidity line that the special purpose vehicle can use if the interest on the securities that is earned at each quarterly due date is insufficient to cover the costs as established in the Order of Payment Priorities. The liquidity line amounts to €4.2 million and if used interest is charged at the Euribor 3-monthly rate + 0.25 p.a.

**c) Banca Sella S.p.A. securitisation of performing loans - 2005**

The operation was completed in two stages. On 4 October 2005 the contract to acquire the loans was completed by the securitisation company Mars 2600 S.r.l. (a company belonging to the Banca Sella Group), whereas on 20 October 2005 securities were issued by means of which the acquisition was funded.

The portfolio that was transferred without recourse consisted of performing mortgage loans issued by Banca Sella S.p.A. to persons residing in Italy.

The operation consisted of transferring to the securitising company without recourse the loans guaranteed by mortgage amounting to €263.3 million, which includes the capital loans and the interest that had matured up to the transfer date.

Mars 2600 S.r.l. for its part issued class A notes amounting to €248.9 million, class B notes amounting to €11.0 million, class C notes amounting to €3.5 million and class D notes amounting to €3.5 million in response to these operations.

The class A, B and C notes are listed on the Luxembourg stock exchange. Moody's gave the class A notes an AAA rating, the class B notes an A1 rating and the class C notes a BAA1 rating.

The class D notes are unlisted and were completely underwritten by Banca Sella S.p.A. In 2007 they earned interest amounting to €2.879 million.

In 2007 no reimbursements of the various classes of securities were made.

Banca Sella S.p.A. is entrusted with recovering transferred loans and cash and payment services under the terms of a servicing contract that pays servicing commission every six months that is the equivalent on a quarterly basis to 0.45% of the receipts from the performing cash loans. In 2007 Banca Sella S.p.A. earned servicing commission amounting to €0.207 million.

When it issued the securities Mars 2600 S.r.l. at the same time signed an interest-rate swap agreement with B.N.P. Paribas in order to cover the rate risk that is inherent to the structure and is due to the difference between the indexing parameter for the securities issued and the different indexing parameters for the acquired portfolio.

No guarantees of liquidity lines are provided for this operation.

## INFORMATION OF A QUANTITATIVE NATURE

### C.1.1 Exposures deriving from securitisation operations divided by quality of the underlying assets

| Quality of underlying assets/exposures | Cash exposures | | | | | | Guarantees granted | | | | | | Credit lines | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Senior | | Mezzanine | | Junior | | Senior | | Mezzanine | | Junior | | Senior | | Mezzanine | | Junior | |
| | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure |
| **A. With own underlying assets:** | | | | | | | | | | | | | | | | | | |
| a) Impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| b) Other | - | - | - | - | 26.665 | 26.665 | - | - | - | - | - | - | - | - | - | - | 9.400 | 9.400 |
| **B. With third party underlying assets:** | | | | | | | | | | | | | | | | | | |
| a) Impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| b) Other | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

### C.1.2 Exposures deriving from main "own" securitization operations divided by type of securitized assets and type of exposures

| Type of securitized assets/Exposures | Cash exposures | | | | | | Guarantees granted | | | | | | Credit lines | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Senior | | Mezzanine | | Junior | | Senior | | Mezzanine | | Junior | | Senior | | Mezzanine | | Junior | |
| | Book value | Net adjustments | Book value | Net adjustments | Book value | Net adjustments | Book value | Net adjustments | Book value | Net adjustments | Book value | Net adjustments | Book value | Net adjustments | Book value | Net adjustments | Book value | Net adjustments |
| **A. Subject to total cancellation from financial statements** | | | | | | | | | | | | | | | | | | |
| Secursel S.r.l. | | | | | | | | | | | | | | | | | | |
| Performing loans | - | - | - | - | 10.229 | - | - | - | - | - | - | - | - | - | - | - | 5.200 | - |
| Secursel S.r.l. | | | | | | | | | | | | | | | | | | |
| Leasing instalments | - | - | - | - | 12.202 | - | - | - | - | - | - | - | - | - | - | - | 4.200 | - |
| **B. Subject to partial cancellation from financial statements** | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **C. Not cancelled from financial statements** | | | | | | | | | | | | | | | | | | |
| Mars 2600 S.r.l. | | | | | | | | | | | | | | | | | | |
| Performing loans | - | - | - | - | 4.234 | - | - | - | - | - | - | - | - | - | - | - | - | - |

### C.1.4 Exposures to securitizations divided by portfolio of financial assets and by type

| Exposure/Portfolio | Trading | Carried at fair value | Available for sale | Held to maturity | Receivables | Total 2007 | Total 2006 |
|---|---|---|---|---|---|---|---|
| **1. Cash exposures** | | | | | | | |
| - " Senior" | - | - | - | - | - | - | - |
| - " Mezzanine" | - | - | - | - | - | - | - |
| - " Junior" | - | - | 22.431 | - | - | 22.431 | 25.205 |
| **2. Off-balance exposures** | | | | | | | |
| - " Senior" | - | - | - | - | - | - | - |
| - " Mezzanine" | - | - | - | - | - | - | - |
| - " Junior" | - | - | 9.400 | - | - | 9.400 | - |

### C.1.5 Total amount of securitized assets underlying junior securities or other forms of credit support

| Assets/values | Traditional securitisations | Synthetic securitisations |
|---|---|---|
| **A. Own underlying assets:** | | |
| A.1 Subject to total cancellation | | |
| 1. Non performing loans | 1.708 | X |
| 2. Watch list loans | - | X |
| 3. Restructured exposures | - | X |
| 4. Expired exposures | - | X |
| 5. Other assets | 75.678 | X |
| A.2 Subject to partial cancellation | | |
| 1. Non performing loans | - | X |
| 2. Watch list loans | - | X |
| 3. Restructured exposures | - | X |
| 4. Expired exposures | - | X |
| 5. Other assets | - | X |
| A.3 Non cancelled | | |
| 1. Non performing loans | 196 | - |
| 2. Watch list loans | - | - |
| 3. Restructured exposures | - | - |
| 4. Expired exposures | - | - |
| 5. Other assets | 195.548 | - |
| **B. Third party underlying assets:** | | |
| B1. Non performing loans | - | - |
| B2. Watch list loans | - | - |
| B3. Restructured exposures | - | - |
| B4. Expired exposures | - | - |
| B5. Other assets | - | - |

### C.1.7 Servicer activity - encashment of securitised receivables and repayment of securities issued by special purpose vehicles

| Servicer | Special purpose vehicle | Securitised assets (end of period datum) | | Receivables collections made during year | | Percentage of repaid (end of period datum) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Senior | | Mezzanine | | Junior | |
| | | Impaired | Performing | Impaired | Performing | Impaired assets | Performing assets | Impaired assets | Performing assets | Impaired assets | Performing assets |
| Banca Sella S.p.A. | **Secursel Srl** | - | 52.567 | - | 20.949 | - | 81% | - | - | - | - |
| Banca Sella S.p.A. | **Mars 2600 Srl** | - | 195.744 | - | 46.021 | - | - | - | - | - | - |
| Biella Leasing S.p.A. | **Secursel srl** | - | 24.819 | - | 18.983 | - | 99% | - | - | - | - |

## C.2 TRANSFER OPERATIONS

### C.2.1 Financial assets sold not cancelled

| Technical forms/ portfolio | Financial assets held for trading | | | Financial assets evaluated at fair value | | | Financial assets available for sale | | | Financial assets held to maturity | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | A | B | C | A | B | C | A | B | C | A | B | C |
| **A. Cash assets** | | | | | | | | | | | | |
| 1. Debt securities | 489.984 | - | - | - | - | - | - | - | - | 53.706 | - | - |
| 2. Equities | - | - | - | - | - | - | - | - | - | - | - | - |
| 3. Mutual funds O.I.C.R. | - | - | - | - | - | - | - | - | - | - | - | - |
| 4. Financing | - | - | - | - | - | - | - | - | - | - | - | - |
| 5. Impaired assets | - | - | - | - | - | - | - | - | - | - | - | - |
| **B. Derivatives** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total 2007** | **489.984** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **53.706** | **-** | **-** |
| **Total 2006** | **530.312** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **16.101** | **-** | **-** |

### continued

| Technical forms/ portfolio | Due from banks | | | Due from customers | | | **Total** | |
|---|---|---|---|---|---|---|---|---|
| | A | B | C | A | B | C | 2007 | 2006 |
| **A. Cash assets** | | | | | | | | |
| 1. Debt securities | - | - | - | - | - | - | 543.690 | 546.413 |
| 2. Equities | - | - | - | - | - | - | - | - |
| 3. Mutual funds O.I.C.R. | - | - | - | - | - | - | - | - |
| 4. Financing | - | - | - | 195.548 | - | - | 195.548 | 227.165 |
| 5. Impaired assets | - | - | - | 196 | - | - | 196 | - |
| **B. Derivatives** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total 2007** | **-** | **-** | **-** | **195.744** | **-** | **-** | **739.434** | **-** |
| **Total 2006** | **-** | **-** | **-** | **227.165** | **-** | **-** | **-** | **773.578** |

*KEY TO SYMBOLS:*
*A = Transferred financial assets, fully recognised (book value)*
*B = Transferred financial assets, partially recognised (book value)*
*C = Transferred financial assets, partially recognised (whole value)*

### C.2.2. Financial liabilities from assets sold and not cancelled

| Liabilities/asset portfolio | Financial assets held for trading | Financial assets evaluated at fair value | Financial assets available for sale | Financial assets held to maturity | Due from banks | Due from customers | **Total** |
|---|---|---|---|---|---|---|---|
| **1. Due to customers** | | | | | | | |
| a) relative to assets totally accounted for | 485.758 | - | - | 18.946 | - | 189.588 | 694.292 |
| b) relative to assets partially accounted for | - | - | - | - | - | - | - |
| **2. Due to banks** | | | | | | | |
| a) relative to assets totally accounted for | 4.162 | - | - | 34.796 | - | - | 38.958 |
| b) relative to assets partially accounted for | - | - | - | - | - | - | - |
| **Total 2007** | **489.920** | **-** | **-** | **53.742** | **-** | **189.588** | **733.250** |
| **Totale 2006** | **533.680** | **-** | **-** | **10.827** | **-** | **224.130** | **768.637** |

## 1.2 MARKET RISK

Market risk refers to unexpected variations in market factors such as interest rates, interest rates, exchange rates and share prices that may cause the value in an investment in the trading book and the values of investments arising from commercial operations and strategic choices to rise or fall (banking book).

Managing and monitoring market risks (interest-rate risk, price risk, exchange-rate risk, customer risk, concentration risk and liquidity risk) is governed by a Group regulation that sets the exposure limits for the individual Group companies for such types of risk. These Group rules are based on criteria of maximum prudence regarding the quality and concentration of the issuers in which to invest.

The parent company Sella Holding Banca is the entity on which the market risks of the Banca Sella Group are concentrated. It is here that finance activities are concentrated (trading on its own account and the Group treasury).

Risk Management at the parent company is responsible for methods of monitoring the company risks of the Group companies and provides advice and proposals for defining methodological guidelines for creating models for measuring and controlling Group risks. It measures market risks by controlling the positions of the parent company and the general risks arising from the single Group entities in order to ensure monitoring of total exposure and to help mitigate exposure if it is found to be excessive.

The Banca Sella Group uses the Value-at-Risk (VaR) model to measure market risk, which is mainly calculated using the historical simulation approach. The VaR measures the potential maximum loss, which, within a given confidence interval, may occur if its portfolio positions are maintained unchanged for a given period of time.

The so-called historical VaR is used with a 99% confidence interval and a 3-month reference period for the portfolios of the banks whilst for the trading on its own account, which is very short-term, the one-day VaR is used (for the intraday positions) and the weekly VaR is used (for the positions that do not close in a day).

**VaR Decomposition - Sella Holding Banca at 31.12.07**

Finance Division - Own account trading

Temporal horizon 1 week, confidence interval 99%

| Dati al | | 31-dic-07 | | | 31-dic-06 | | |
|---|---|---|---|---|---|---|---|
| | | VaR Medio | VaR Minimo | VaR Massimo | VaR Medio | VaR Minimo | VaR Massimo |
| **Tipologia di Rischio** | | | | | | | |
| Fixed Income | € | 64.133 | 4.201 | 439.042 | 105.400 | 9.937 | 656.124 |
| Foreign Exchange | € | 21.625 | 136 | 98.904 | 21.095 | 382 | 284.331 |
| Equities | € | 104.340 | 912 | 412.125 | 46.899 | 2.336 | 117.044 |
| Equitiy Derivatives | € | 112.448 | 4.211 | 350.367 | 80.379 | 7.082 | 363.799 |
| Derivatives OTC | € | 790 | 403 | 1.525 | 1.409 | 512 | 3.978 |
| Treasury | € | 31.300 | 1.412 | 138.034 | 33.825 | 1.289 | 278.714 |
| Total VaR(b) | € | **334.637** | **11.275** | **1.439.997** | **289.007** | **21.539** | **1.703.991** |

(b) Il Value-at-Risk totale è calcolato come la somma dei singoli VaR per tipologia di rischio

The historical simulation involves daily revaluation of the positions over an appropriate period of observation of time on the basis of the market price trends. The resulting empirical distribution of profits/losses is analysed to determine the effect of extreme market movements on portfolios. The value of the percentage distribution corresponding to the set confidence interval constitutes the VaR measurement.

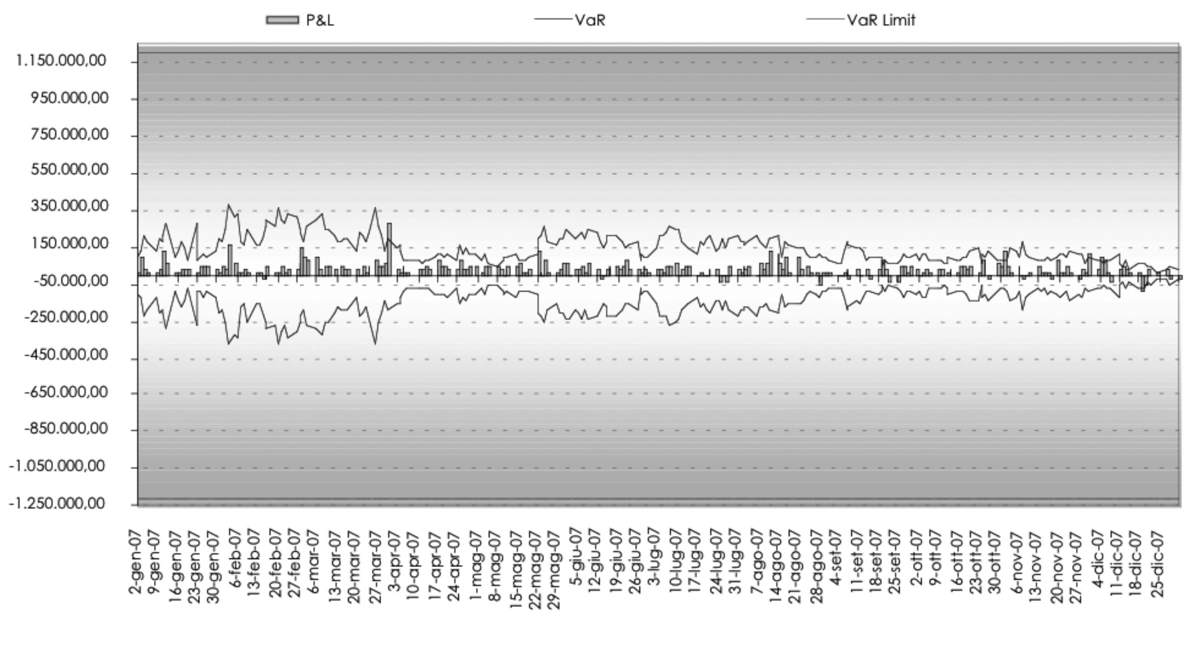
The software used for calculating VaR enables the VaR of the single instrument and the portfolio VaR to be calculated (the portfolio VaR is obviously a function of the single VaRs and of the correlations between the various instruments). Trading on its own account also involves stringent loss stops.

The purpose of the Value-at-Risk is to provide a forecast of the possible range of future performance. There must therefore be a stable relationship between VaR and performance. Backtesting is a method used for testing this assumption.

The result of the positions restated in the trading book are subjected a priori to backtesting.

In general, in order to test the reliability of the VaR approach (i.e. the correctness of the mathematical model used to calculate it) the probability estimates have to be compared with the performance achieved by the mere possession of the portfolio for a certain period of time (possession period).

**Sella Holding Banca – Own account trading**
Market risks VaR vs P&L (daily)




The graph shows the Value-at-Risk trend generated by the parent company Sella Holding Banca trading on its own account. The Value-at-Risk fluctuation range recorded over the year is sufficiently wide to contain the performance of the tested activity and comprises nearly all measurements.

## 1.2.1 INTEREST-RATE RISK - TRADING BOOK

### INFORMATION OF A QUALITATIVE NATURE

**A. General Aspects**

This section shows the risk that a fluctuation in interest rates may have a negative effect on the value of the supervisory trading book arising from the financial positions assumed by the Group within the assigned limits and independence.

The Group's trading book is mainly concentrated in Sella Holding Banca and comprises its trading activities on its own account in financial instruments traded both in regulated markets and over the counter (mainly fixed-interest securities, variable-yield securities and shares). In this context, interest-rate risk is managed by recourse to derivative instruments traded on regulated markets.

**B. Management procedures and methods for measuring interest-rate risk**

Within the Group organisation the ALM Committee has the function of making proposals regarding the definition of interest-rate exposure risks policies and is one of the collective bodies to which reports on risk limit controls are made. The ALM Committee also proposes corrective measures to rebalance Group risk positions.

Risk Management, Strategic Planning and Management Control from the Finance Business Area play an active role in controlling the rate risk.

One of the main objectives of the Finance Area of the parent company Sella Holding Banca, at which the treasury and trading activities on its own account are concentrated, is to optimise the allocation of excess financial resources and to organise external funding. Sella Holding Banca is also the counterpart of other banks and companies for covering exposure to market risk.

Unlike the previous period, no changes to risk exposure, objectives, policies, processes and methods for managing and measuring risk were detected.

## 1.2.1 INTEREST-RATE RISK - BANKING BOOK

### INFORMATION OF A QUALITATIVE NATURE

**A. General aspects, management procedures and methods for measuring interest-rate risk**

The interest-rate risk is due to asymmetries in due dates and rate redefinition times (and types of indexing) of the assets and liabilities of each entity. The rate risk is monitored by evaluating the impact of unexpected variations in interest rates on the operating result and on the value of shareholders' equity.

The calculation model used for monitoring the banking book is constructed in line with the supervisory instructions and applies individually to each Italian bank of the Group. The control is conducted by considering all the assets that earn interest and all the liabilities that incur interest charges assumed on and off the financial statements. Monitoring consists of a monthly evaluation and shows the impact on annual interest income and the impact on supervisory capital of a 1% shift in interest rates.

The rate risk is also monitored according to a method based on VaR (Value-at-Risk) for the subsidiaries Consel and Biella Leasing, which are relevant for the overall rate risk. The rate risk levels of the banking book are submitted to the Group ALM Committee, which decides whether to define measures to redefine the risk position.

The Group's policy is to provide a high level of cover against fixed-rate exposure (on the liabilities side the bond issues are mainly variable-yield and on the assets side mortgages or other forms of fixed-interest loans are periodically covered by amortizing IRS (interest-rate swaps) that transform the other types of fixed-interest loans into variable-interest exposure).

| Shift | Total Sensitivity ( x1000) | Reclassified net interest income | Sensitivity % |
|---|---|---|---|
| +100bps | 7,272 | 282,183 | 2.58% |
| -100bps | 7,736 | 282,183 | 2.74% |

The banking book entries also include trading-book positions that are sensitive to rate variations.

## 1.2.3 PRICE RISK- SUPERVISORY TRADING BOOK

### INFORMATION OF A QUALITATIVE NATURE

**A. General Aspects**

The trading book price risk is basically concentrated in Sella Holding Banca and mainly arises from its trading on its own account in equities, certificates of indebtedness and UCIs (undertakings in collective investment).

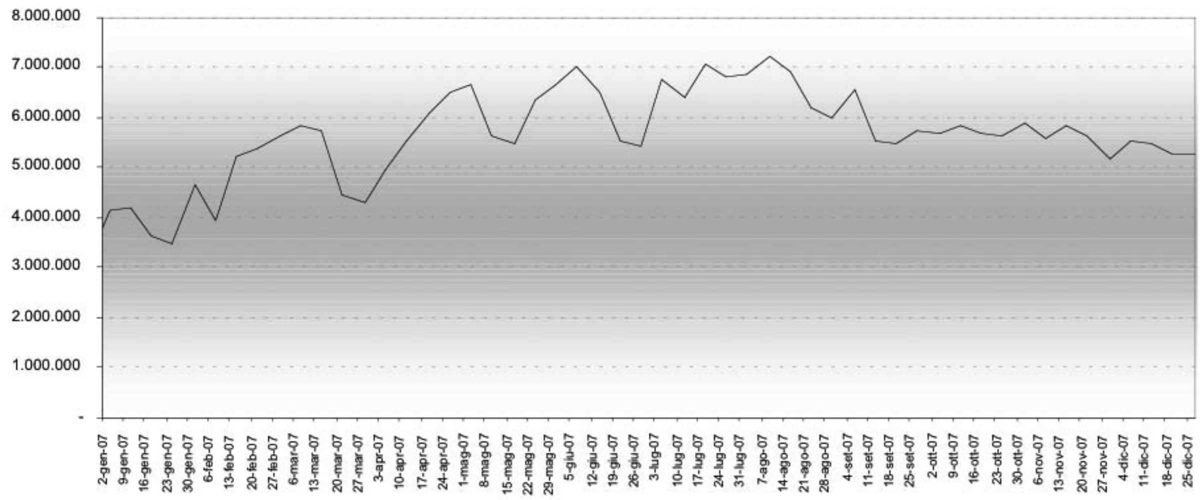
**B. Management procedures and methods for measuring price risk**

For details of management procedures and methods for measuring price risk within the context of managing the trading book, see the paragraph "Market Risks". The VaR trend at the consolidated level (confidence interval 99%, duration 3 months, historical method) over the year is shown in the graph at the bottom: both the exposure arising from trading on its own account and the trading book exposure are considered over the same duration.

Unlike the previous period, no changes to risk exposure, objectives, policies, processes and methods for managing and measuring risk were detected.

**Gruppo Banca Sella – Trading Book**

Market risks VaR (temporal horizon 3 months - Confidence interval 99%)



## INFORMATION OF A QUANTITATIVE NATURE

### 1. Supervisory trading portfolio: cash exposures in equities and mutual funds (O.I.C.R.)

| Exposure type/values | Book value | |
|---|---|---|
| | Listed | Unlisted |
| **A. Equities** | | |
| A.1 Shares | 356 | 2 |
| A.2 Innovative equity instruments | - | - |
| A.3 Other Equities | 2.112 | - |
| **B. (Mutual funds) O.I.C.R.** | | |
| B.1 Covered by Italian law | | |
| - harmonised open end | - | - |
| - non harmonised open end | - | - |
| - closed end | - | - |
| - reserved | - | 37 |
| - speculative | - | - |
| B.2 Other EU states | | |
| - harmonised | 65.578 | 10.946 |
| - non harmonised open end | - | - |
| - non harmonised closed end | 4.194 | - |
| B.3 Non EU states | | |
| - open end | 2.635 | - |
| - closed end | 7 | - |
| **Total** | **74.882** | **10.985** |

### 2. Supervisory trading portfolio: distribution of exposures in equities equity indexes by main countries of listiting market

| Type of transactions/Listing index | Listed | | Unlisted |
|---|---|---|---|
| | Italiy | Other countries | |
| **A. Equities** | **293** | **74.589** | **10.985** |
| - long positions | 293 | 74.589 | 10.985 |
| - short positions | - | - | - |
| **B. Purchases not yet settled in equities** | **131.531** | **956** | **-** |
| - long positions | 66.869 | 555 | - |
| - short positions | 64.662 | 401 | - |
| **C. Other equity derivatives** | **-** | **-** | **31.272** |
| - long positions | - | - | 31.272 |
| - short positions | - | - | - |
| **D. Equity index derivatives** | **164.009** | **-** | **8** |
| - long positions | 80.784 | - | 4 |
| - short positions | 83.225 | - | 4 |

## 1.2.4 PRICE RISK - BANKING BOOK

### INFORMATION OF A QUALITATIVE NATURE

**A. General aspects, management procedures and methods for measuring price risk**

The portfolio price risk mainly arises from the parent company's shareholdings that it holds as stable investments. These are positions assumed directly on the basis of resolutions of the Board of Directors and they are managed by the Finance Area of the parent company.

### INFORMATION OF A QUANTITATIVE NATURE

**1. Banking portfolio: cash exposures in equities and mutual funds (O.I.C.R.)**

| Items | Book value | |
|---|---|---|
| | Listed | Unlisted |
| **A. Equities** | | |
| A.1 Shares | 49.654 | 7.629 |
| A.2 Innovative equity instruments | - | - |
| A.3 Other Equities | - | - |
| **B. (Mutual funds) O.I.C.R.** | | |
| B.1 Covered by Italian law | | |
| - harmonised open end | - | - |
| - non harmonised open end | - | - |
| - closed end | - | - |
| - reserved | - | - |
| - speculative | - | - |
| B.2 Other EU states | | |
| - harmonised | - | - |
| - non harmonised open end | - | - |
| - non harmonised closed end | - | - |
| B.3 Non EU states | | |
| - open end | - | - |
| - closed end | - | - |
| **Total** | **49.654** | **7.629** |

## 1.2.5 EXCHANGE RISK

## INFORMATION OF A QUALITATIVE NATURE

**A. General aspects, management procedures and methods for measuring interest-rate risk**

Foreign currency transactions are mainly conducted by the Finance Area at the parent company, Sella Holding Banca, where the Forex and Treasury units collaborate in tasks such as managing loans and deposits in foreign currency at other credit institutes, short-term trading, and covering positions that could generate an exchange-rate risk.

The exchange-rate risk is the risk of sustaining losses due to fluctuations in exchange rates on all positions held regardless of the allocation portfolio. Trading and Treasury activities are monitored daily by the Group's Risk Management unit and the activities are subject to operating limits (expressed in Value-at-Risk) as prescribed by the Board of Directors.

Securities investments denominated in foreign currency of the trading book are covered by positions denominated in the same currency without incurring any exchange-rate risk, whereas trading is normally concluded within a day and overnight positions are minimised and lastly managing loans and deposits requires systematic balancing.

See the table in paragraph "1.2 Market Risks", where the Value-at-Risk data recorded over the year are reported under the item Foreign Exchange.

Unlike the previous period, no changes to risk exposure, objectives, policies, processes and methods for managing and measuring risk were detected.

**1. Distribution by currency of assets and liabilities and derivatives**

| Items | Currencies | | | | | |
|---|---|---|---|---|---|---|
| | USA DOLLAR | STERLING | SWISS FRANCS | CANADIAN DOLLAR | YEN | OTHER CURRENCIES |
| **A. Financial assets** | **109.214** | **51.774** | **73.325** | **3.495** | **40.291** | **36.566** |
| A.1 Debt securities | 1.987 | 118 | 3.207 | - | - | - |
| A.2 Equities | 22 | 41.288 | - | - | - | - |
| A.3 Financing to banks | 81.277 | 9.717 | 39.905 | 3.491 | 28.631 | 30.028 |
| A.4 Financing to customers | 25.929 | 651 | 30.213 | 4 | 11.660 | 6.538 |
| A.5 Other financial assets | - | - | - | - | - | - |
| **B. Other assets** | **13.189** | **1.522** | **18.933** | **1.130** | **3.966** | **3.416** |
| **C. Financial liabilities** | **326.078** | **27.995** | **26.608** | **3.709** | **46.411** | **22.504** |
| C.1 Due to banks | 98.418 | 12.644 | 16.542 | 2 | 28.287 | 4.763 |
| C.2 Due to customers | 217.766 | 15.313 | 8.336 | 3.707 | 18.111 | 16.818 |
| C.3 Debt securities | 36 | 19 | 9 | - | - | - |
| C.4 Other liabilities | 9.858 | 19 | 1.720 | - | 13 | 923 |
| **D. Financial derivatives** | **597.193** | **29.849** | **57.516** | **8.875** | **102.208** | **58.706** |
| - Options | 408 | - | - | 64 | 24 | 4 |
| + long position | 204 | - | - | 32 | 12 | 2 |
| + short positions | 204 | - | - | 32 | 12 | 2 |
| - Other | 596.785 | 29.849 | 57.516 | 8.811 | 102.184 | 58.702 |
| + long position | 399.844 | 17.874 | 12.552 | 4.008 | 51.883 | 21.337 |
| + short positions | 196.942 | 11.975 | 44.965 | 4.803 | 50.301 | 37.364 |
| **Total assets** | **522.451** | **71.170** | **104.809** | **8.665** | **96.152** | **61.321** |
| **Total liabilities** | **523.224** | **39.970** | **71.572** | **8.544** | **96.724** | **59.871** |
| **Imbalance (+/-)** | **(773)** | **31.200** | **33.237** | **121** | **(573)** | **1.451** |

## 1.2.6 DERIVATIVE FINANCIAL INSTRUMENTS

## A. FINANCIAL DERIVATIVES

### A.1 Supervisory trading portfolio: notional end-of-period and average values

| Type of transactions/ Underlying assets | Debt securities and interest rates | | Equities and share indexes | | Gold and exchange rates | | Other securities | | Total 31/12/2007 | | Total 31/12/2006 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Listed | Unlisted | Listed | Unlisted | Listed | Unlisted | Listed | Unlisted | Listed | Unlisted | Listed | Unlisted |
| 1. Forward rate agreement | - | - | - | - | - | - | - | - | - | - | - | - |
| 2. Interest rate swap | - | 1.059.286 | - | - | - | - | - | - | - | 1.059.286 | - | 990.754 |
| 3. Domestic currency swap | - | - | - | - | - | 61.830 | - | - | - | 61.830 | - | 22.597 |
| 4. Currency interest rate swap | - | - | - | - | - | 295.413 | - | - | - | 295.413 | - | 19.742 |
| 5. Basis swap | - | 254.538 | - | - | - | - | - | - | - | 254.538 | - | 307.293 |
| 6. Equity index swap | - | - | - | - | - | - | - | - | - | - | - | - |
| 7. Real index swaps | - | - | - | - | - | - | - | - | - | - | - | - |
| 8. Futures | 35.779 | - | 12.540 | - | - | - | - | - | 48.319 | - | 25.693 | - |
| 9. Cap options | - | 310.290 | - | - | - | - | - | - | - | 310.290 | - | 435.272 |
| - purchased | - | 268.236 | - | - | - | - | - | - | - | 268.236 | - | 108.412 |
| - issued | - | 42.054 | - | - | - | - | - | - | - | 42.054 | - | 326.860 |
| 10. Floor options | - | 536 | - | - | - | - | - | - | - | 536 | - | - |
| - purchased | - | - | - | - | - | - | - | - | - | - | - | - |
| - issued | - | 536 | - | - | - | - | - | - | - | 536 | - | - |
| 11. Other options | 94.000 | 651 | 331.114 | 2.408 | - | 82.548 | - | - | 425.114 | 85.607 | 230.434 | 139.689 |
| - purchased | 47.500 | - | 164.910 | 916 | - | 42.364 | - | - | 212.410 | 43.280 | 111.168 | 73.122 |
| - Plain Vanilla | 47.500 | - | 164.910 | - | - | 33.420 | - | - | 212.410 | 33.420 | 111.168 | 71.870 |
| - Exotic | - | - | - | 916 | - | 8.944 | - | - | - | 9.860 | - | 1.252 |
| - issued | 46.500 | 651 | 166.204 | 1.492 | - | 40.184 | - | - | 212.704 | 42.327 | 119.266 | 66.567 |
| - Plain Vanilla | 46.500 | 651 | 166.204 | 1.492 | - | 27.219 | - | - | 212.704 | 29.362 | 119.266 | 66.567 |
| - Exotic | - | - | - | - | - | 12.965 | - | - | - | 12.965 | - | - |
| 12. Forward contracts | - | 659.711 | - | 132.539 | - | 622.177 | - | 37.703 | - | 1.452.130 | - | 1.175.396 |
| - Purchases | - | 219.692 | - | 67.450 | - | 293.033 | - | 18.886 | - | 599.061 | - | 471.062 |
| - sales | - | 440.019 | - | 65.089 | - | 226.735 | - | 18.817 | - | 750.660 | - | 638.147 |
| - currencies against currencies | - | - | - | - | - | 102.409 | - | - | - | 102.409 | - | 66.187 |
| 13. Other derivative contracts | - | 15.190 | - | - | - | - | - | - | - | 15.190 | - | 324.268 |
| **Total** | **129.779** | **2.300.202** | **343.654** | **134.947** | **-** | **1.061.968** | **-** | **37.703** | **473.433** | **3.534.820** | **256.127** | **3.415.011** |
| **Average values** | **75.646** | **2.034.761** | **289.134** | **69.573** | **-** | **1.351.731** | **-** | **18.852** | **364.780** | **3.474.916** | **246.903** | **2.534.046** |

### A.2 Banking portfolio: notional end-of-period and average values

### A.2.1 hedging

| Type of transactions/ Underlying assets | Debt securities and interest rates | | Equities and share indexes | | Gold and exchange rates | | Other securities | | Total 31/12/2007 | | Total 31/12/2006 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Listed | Unlisted | Listed | Unlisted | Listed | Unlisted | Listed | Unlisted | Listed | Unlisted | Listed | Unlisted |
| 1. Forward rate agreement | - | - | - | - | - | - | - | - | - | - | - | - |
| 2. Interest rate swap | - | 931.260 | - | - | - | - | - | - | - | 931.260 | - | 454.881 |
| 3. Domestic currency swap | - | - | - | - | - | - | - | - | - | - | - | - |
| 4. Currency interest rate swap | - | - | - | - | - | - | - | - | - | - | - | - |
| 5. Basis swap | - | 3.000 | - | - | - | - | - | - | - | 3.000 | - | 3.000 |
| 6. Equity index swap | - | - | - | - | - | - | - | - | - | - | - | - |
| 7. Real index swaps | - | - | - | - | - | - | - | - | - | - | - | - |
| 8. Futures | - | - | - | - | - | - | - | - | - | - | - | - |
| 9. Cap options | - | - | - | - | - | - | - | - | - | - | - | 15.159 |
| - purchased | - | - | - | - | - | - | - | - | - | - | - | - |
| - issued | - | - | - | - | - | - | - | - | - | - | - | 15.159 |
| 10. Floor options | - | - | - | - | - | - | - | - | - | - | - | - |
| - purchased | - | - | - | - | - | - | - | - | - | - | - | - |
| - issued | - | - | - | - | - | - | - | - | - | - | - | - |
| 11. Other options | - | - | - | 323.755 | - | - | - | - | - | 323.755 | - | 272.254 |
| - purchased | - | - | - | 323.755 | - | - | - | - | - | 323.755 | - | 272.254 |
| - Plain Vanilla | - | - | - | - | - | - | - | - | - | - | - | - |
| - Exotic | - | - | - | 323.755 | - | - | - | - | - | 323.755 | - | 272.254 |
| - issued | - | - | - | - | - | - | - | - | - | - | - | - |
| - Plain Vanilla | - | - | - | - | - | - | - | - | - | - | - | - |
| - Exotic | - | - | - | - | - | - | - | - | - | - | - | - |
| 12. Forward contracts | - | - | - | - | - | - | - | - | - | - | - | - |
| - Purchases | - | - | - | - | - | - | - | - | - | - | - | - |
| - Sales | - | - | - | - | - | - | - | - | - | - | - | - |
| - Currencies against currencies | - | - | - | - | - | - | - | - | - | - | - | - |
| 13. Other derivative contracts | - | - | - | - | - | - | - | - | - | - | - | - |
| **Total** | **-** | **934.260** | **-** | **323.755** | **-** | **-** | **-** | **-** | **-** | **1.258.015** | **-** | **745.294** |
| **Average values** | **-** | **703.650** | **-** | **298.005** | **-** | **-** | **-** | **-** | **-** | **1.001.655** | **-** | **782.183** |

### A.2.2 Other derivatives

| Type of transactions/ Underlying assets | Debt securities and interest rates | | Equities and share indexes | | Gold and exchange rates | | Other securities | | Total 31/12/2007 | | Total 31/12/2006 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Listed | Unlisted | Listed | Unlisted | Listed | Unlisted | Listed | Unlisted | Listed | Unlisted | Listed | Unlisted |
| 1. Forward rate agreement | - | - | - | - | - | - | - | - | - | - | - | - |
| 2. Interest rate swap | - | - | - | - | - | - | - | - | - | - | - | - |
| 3. Domestic currency swap | - | - | - | - | - | - | - | - | - | - | - | - |
| 4. Currency interest rate swap | - | - | - | - | - | - | - | - | - | - | - | - |
| 5. Basis swap | - | - | - | - | - | - | - | - | - | - | - | - |
| 6. Equity index swap | - | - | - | - | - | - | - | - | - | - | - | - |
| 7. Real index swaps | - | - | - | - | - | - | - | - | - | - | - | - |
| 8. Futures | - | - | - | - | - | - | - | - | - | - | - | - |
| 9. Cap options | - | 235.682 | - | - | - | - | - | - | - | 235.682 | - | - |
| - purchased | - | - | - | - | - | - | - | - | - | - | - | - |
| - issued | - | 235.682 | - | - | - | - | - | - | - | 235.682 | - | - |
| 10. Floor options | - | - | - | - | - | - | - | - | - | - | - | - |
| - purchased | - | - | - | - | - | - | - | - | - | - | - | - |
| - issued | - | - | - | - | - | - | - | - | - | - | - | - |
| 11. Other options | - | - | - | 3.926 | - | 8.156 | - | - | - | 12.082 | - | 9.677 |
| - purchased | - | - | - | 3.926 | - | 4.078 | - | - | - | 8.004 | - | 9.128 |
| - Plain Vanilla | - | - | - | 3.926 | - | 4.078 | - | - | - | 8.004 | - | 9.128 |
| - Esotiche | - | - | - | - | - | - | - | - | - | - | - | - |
| - Exotic | - | - | - | - | - | 4.078 | - | - | - | 4.078 | - | 549 |
| - Plain Vanilla | - | - | - | - | - | 4.078 | - | - | - | 4.078 | - | 549 |
| - Exotic | - | - | - | - | - | - | - | - | - | - | - | - |
| 12. Forward contracts | - | - | - | - | - | - | - | - | - | - | - | - |
| - Purchases | - | - | - | - | - | - | - | - | - | - | - | - |
| - Sales | - | - | - | - | - | - | - | - | - | - | - | - |
| - Currencies against currencies | - | - | - | - | - | - | - | - | - | - | - | - |
| 13. Other derivative contracts | - | - | - | - | - | - | - | - | - | - | - | - |
| **Total** | **-** | **235.682** | **-** | **3.926** | **-** | **8.156** | **-** | **-** | **-** | **247.764** | **-** | **9.677** |
| **Average values** | **-** | **117.841** | **-** | **6.802** | **-** | **4.078** | **-** | **-** | **-** | **128.721** | **-** | **9.677** |

## A.3 Financial derivatives: purchase and sale of underlying

| Type of operations/ underlying | Debt securities and interest rates | | Equities and share indexes | | Gold and exchange rates | | Other securities | | Total 31/12/2007 | | Total 31/12/2006 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Listed | Unlisted | Listed | Unlisted | Listed | Unlisted | Listed | Unlisted | Listed | Unlisted | Listed | Unlisted |
| **A Supervisory trading portfolio** | | | | | | | | | | | | |
| 1. Operations with equity swap | 129.779 | 935.454 | - | 132.539 | - | 966.920 | - | - | 129.779 | 2.034.913 | 21.513 | 1.615.363 |
| - Purchases | 7.600 | 496.435 | - | 67.450 | - | 449.288 | - | - | 7.600 | 1.013.173 | 1.670 | 688.426 |
| - sales | 122.179 | 439.019 | - | 65.089 | - | 401.609 | - | - | 122.179 | 905.717 | 19.843 | 862.709 |
| - currencies against currencies | - | - | - | - | - | 116.023 | - | - | - | 116.023 | - | 64.228 |
| 2. Operations without equity swap | - | 1.813.970 | 343.654 | 3.154 | - | 61.829 | - | - | 343.654 | 1.878.953 | 234.614 | 2.307.464 |
| - Purchases | - | 345.140 | 118.375 | 1.662 | - | 27.120 | - | - | 118.375 | 373.922 | 115.348 | 735.028 |
| - sales | - | 1.468.830 | 225.279 | 1.492 | - | 34.709 | - | - | 225.279 | 1.505.031 | 119.266 | 1.545.330 |
| - currencies against currencies | - | - | - | - | - | - | - | - | - | - | - | 27.106 |
| **B. Banking portfolio** | | | | | | | | | | | | |
| **B.1 Hedging** | | | | | | | | | | | | |
| 1. Operations with equity swap | - | - | - | - | - | - | - | - | - | - | - | - |
| - Purchases | - | - | - | - | - | - | - | - | - | - | - | - |
| - sales | - | - | - | - | - | - | - | - | - | - | - | - |
| - currencies against currencies | - | - | - | - | - | - | - | - | - | - | - | - |
| 2. Operations without equity swap | 466.960 | 463.003 | - | - | - | - | - | - | 466.960 | 463.003 | - | 865.408 |
| - Purchases | - | 72.372 | - | - | - | - | - | - | - | 72.372 | - | 397.964 |
| - sales | 466.960 | 390.631 | - | - | - | - | - | - | 466.960 | 390.631 | - | 467.444 |
| - currencies against currencies | - | - | - | - | - | - | - | - | - | - | - | - |
| **B.2 Other derivatives** | | | | | | | | | | | | |
| 1. Operations with equity swap | - | 60.484 | - | 323.755 | - | 11.974 | - | - | - | 396.213 | - | 549 |
| - Purchases | - | 60.484 | - | 323.755 | - | 4.078 | - | - | - | 388.317 | - | 549 |
| - sales | - | - | - | - | - | 7.896 | - | - | - | 7.896 | - | - |
| - currencies against currencies | - | - | - | - | - | - | - | - | - | - | - | - |
| 2. Operations without equity swap | - | 218.280 | - | 3.926 | - | - | - | - | - | 222.206 | - | 9.128 |
| - Purchases | - | 218.280 | - | 3.926 | - | - | - | - | - | 222.206 | - | 9.128 |
| - sales | - | - | - | - | - | - | - | - | - | - | - | - |
| - currencies against currencies | - | - | - | - | - | - | - | - | - | - | - | - |

## A.4 Over the counter financial derivatives: positive fair value - counterparty risk

| Counterparties/underlying | Debt securities and interest rates | | | Equities and share indexes | | | Gold and exchange rates | | | Other securities | | | Different underlying | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Un-netted gross | Netted gross | Future exposure | Un-netted gross | Netted gross | Future exposure | Un-netted gross | Netted gross | Future exposure | Un-netted gross | Netted gross | Future exposure | Compensated | Future exposure |
| **A. Supervisory trading portfolio:** | | | | | | | | | | | | | | |
| A.1 Governments and central banks | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| A.2 Public bodies | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| A.3 Banks | 9.959 | - | 3.657 | 77 | - | 117 | 10.797 | - | 2.770 | - | - | - | - | - |
| A.4 Finance companies | - | - | 1.058 | 3 | - | 16 | 1.055 | - | 664 | - | - | - | - | - |
| A.5 Insurances | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| A.6 Non finance companies | 395 | - | 91 | - | - | - | 4.974 | - | 834 | - | - | - | - | - |
| A.7 Other parties | - | - | - | - | - | - | 1.086 | - | 445 | - | - | - | - | - |
| **Total A 31/12/2007** | **10.354** | **-** | **4.806** | **80** | **-** | **133** | **17.912** | **-** | **4.713** | **-** | **-** | **-** | **-** | **-** |
| **Total 31/12/2006** | **18.901** | **412** | **5.998** | **1.252** | **-** | **-** | **22.605** | **1.933** | **11.488** | **-** | **-** | **-** | **-** | **-** |
| **B. Banking portfolio:** | | | | | | | | | | | | | | |
| B.1 Governments and central banks | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| B.2 Public bodies | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| B.3 Banks | 12.683 | - | 5.806 | 28.756 | - | 23.059 | - | - | - | - | - | - | - | - |
| B.4 Finance companies | - | - | - | 3.209 | - | 4.504 | - | - | - | - | - | - | - | - |
| B.5 Insurances | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| B.6 Non finance companies | - | - | - | - | - | - | 6 | - | 41 | - | - | - | - | - |
| B.7 Other parties | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Total B 31/12/2007** | **12.683** | **-** | **5.806** | **31.965** | **-** | **27.563** | **6** | **-** | **41** | **-** | **-** | **-** | **-** | **-** |
| **Total 31/12/2006** | **1.837** | **-** | **391** | **273.975** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

## A.5 Over the counter financial derivatives: negative fair value-financial risk

| Counterparties/underlying | Debt securities and interest rates | | | Equities and share indexes | | | Gold and exchange rates | | | Other securities | | | Different underlying | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Un-netted gross | Netted gross | Future exposure | Un-netted gross | Netted gross | Future exposure | Un-netted gross | Netted gross | Future exposure | Un-netted gross | Netted gross | Future exposure | Compensated | Future exposure |
| **A. Supervisory trading portfolio:** | | | | | | | | | | | | | | |
| A.1 Governments and central banks | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| A.2 Public bodies | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| A.3 Banks | 4.301 | - | 1.338 | - | - | - | 8.719 | - | 2.957 | - | - | - | - | - |
| A.4 Finance companies | - | - | 1.864 | - | - | - | 4.908 | - | 1.263 | - | - | - | - | - |
| A.5 Insurances | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| A.6 Non finance companies | 748 | - | 378 | - | - | - | 6.652 | - | 1.031 | - | - | - | - | - |
| A.7 Other parties | 8 | - | 2 | 19 | - | 60 | 646 | - | 331 | - | - | - | - | - |
| **Total A 31/12/2007** | **5.057** | **-** | **3.582** | **19** | **-** | **60** | **20.925** | **-** | **5.582** | **-** | **-** | **-** | **-** | **-** |
| **Total 31/12/2006** | **17.364** | **3.622** | **4.302** | **1.320** | **-** | **22** | **16.362** | **6.308** | **3.544** | **-** | **-** | **3.844** | **-** | **-** |
| **B. Banking portfolio** | | | | | | | | | | | | | | |
| B.1 Governments and central banks | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| B.2 Public bodies | 35 | - | 23 | - | - | - | - | - | - | - | - | - | - | - |
| B.3 Banks | 15.877 | - | 1.443 | 951 | - | 239 | 6 | - | 82 | - | - | - | - | - |
| B.4 Finance companies | 18 | - | 5 | - | - | - | - | - | - | - | - | - | - | - |
| B.5 Insurances | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| B.6 Non finance companies | 158 | - | 79 | - | - | - | - | - | - | - | - | - | - | - |
| B.7 Other parties | 4.890 | - | 2.397 | - | - | - | - | - | - | - | - | - | - | - |
| **Total B 31/12/2007** | **20.978** | **-** | **3.947** | **951** | **-** | **239** | **6** | **-** | **82** | **-** | **-** | **-** | **-** | **-** |
| **Total 31/12/2006** | **67.030** | **-** | **337** | **1.671** | **-** | **58** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

## A.6 Residual life of over the counter financial derivatives: notional values

| Underlying assets/Residual life | Up to 1 year | More than 1 year and up to 5 years | More than 5 years | Total |
|---|---|---|---|---|
| **A Supervisory trading portfolio** | **2.897.226** | **478.487** | **338.407** | **3.714.120** |
| A.1 Financial derivatives on debt securities and interest rates | 2.018.553 | 460.055 | 338.384 | 2.816.992 |
| A.2 Financial derivatives on equities and share indexes | - | 2.384 | 23 | 2.407 |
| A.3 Financial derivatives on gold and exchange rates | 878.673 | 16.048 | - | 894.721 |
| A.4 Financial derivatives on other securities | - | - | - | - |
| **B. Banking portfolio** | **156.180** | **541.590** | **970.815** | **1.668.585** |
| B.1 Financial derivatives on debt securities and interest rates | 120.974 | 306.600 | 883.319 | 1.310.893 |
| B.2 Financial derivatives on Equities and share indexes | 8.165 | 234.990 | 87.496 | 330.651 |
| B.3 Financial derivatives on gold and exchange rates | 27.041 | - | - | 27.041 |
| B.4 Financial derivatives on other securities | - | - | - | - |
| **Total 31/12/2007** | **3.053.406** | **1.020.077** | **1.309.222** | **5.382.705** |
| **Total 31/12/2006** | **2.169.434** | **513.272** | **1.135.555** | **3.818.261** |

## 1.3 LIQUIDITY RISK

### INFORMATION OF A QUALITATIVE NATURE

**A. General aspects, management procedures and methods for measuring liquidity risk**

Liquidity risk refers to the negative effects arising from imbalances in the groups of remaining certain and estimated incoming and outgoing financial flows. If this risk is not appropriately checked and managed it may affect daily operations or the financial situation of a credit institute or even a banking Group.

Controlling the level of liquidity of the Banca Sella Group is based on analysing the incoming and outgoing flows linked to customer preferences, strategic company strategies and the assessment of certain parameters, such as:

- the short-term liquidity indicator: this indicates the capacity to cope with cash outflows, both in relation to ordinary customers and in relation to banks in the event of an unexpected liquidity crisis by means of liquid assets or assets that can become liquid within 30 days;
- relationship between interbank deposits and deposits from ordinary customers: this indicator shows the percentage composition of the sources of liquidity;
- relationship between loans and deposits (ordinary customers): this indicator shows imbalances in credit operations.

The ALM Committee and Risk Management monitor the liquidity risk and the Treasury manages the items that are used to calculate the reference parameters and generate the risk.

The Finance Area of the parent company manages the liquidity level of the parent company and of the network banks. With the support of Risk Management the Finance Area intervenes promptly if the need arises to balance the Group's liquidity level following market events or structural situations.

The liquidity management and control process that involves all the aforesaid units of the Group enabled a more than adequate liquidity level to be maintained in the last months of the year despite the events that caused a substantial deterioration in the financial situation in the United States and affected the liquidity of the markets.

## INFORMATION OF QUANTITATIVE NATURE

### 1. Time distribution by residual contractual duration of financial assets and liabilities-currency: EURO

| Items/Time phases | On sight | More than 1 day to 7 days | More than 7 day to 15 days | More than 15 days to 1 month | More than 1 month to 3 months | More than 3 months to 6 months | More than 6 months to 1 year | More than 1 year to 5 years | More than 5 years |
|---|---|---|---|---|---|---|---|---|---|
| **A. Cash assets** | **1.676.282** | **485.912** | **185.352** | **448.995** | **1.048.743** | **691.872** | **719.339** | **3.390.844** | **2.182.040** |
| A.1 Government securities | 2.565 | - | 18.046 | 47 | 46.932 | 146.592 | 114.393 | 572.018 | 55.966 |
| A.2 Listed debt securities | - | - | - | 7.698 | 9.017 | 10.173 | 23.759 | 92.699 | 36.919 |
| A.3 Other debt securities | 1 | 6 | 28 | - | 14.768 | 37.034 | 53.421 | 374.744 | 139.047 |
| A.4 Mutual funds (OICR) | 57.474 | 10.946 | - | - | - | - | - | 143.530 | 277.014 |
| A.5 Financing | 1.616.242 | 474.960 | 167.278 | 441.250 | 978.026 | 498.073 | 527.766 | 2.207.853 | 1.673.094 |
| - Banks | 636.725 | 380.983 | 78.757 | 213.904 | 217.441 | 88.426 | 83.370 | 894 | 624 |
| - Customers | 979.517 | 93.977 | 88.521 | 227.346 | 760.585 | 409.647 | 444.396 | 2.206.959 | 1.672.470 |
| **B. Cash liabilities** | **5.986.313** | **221.976** | **254.654** | **462.139** | **685.003** | **161.378** | **49.856** | **1.356.763** | **663.806** |
| B.1 Deposits | 5.786.779 | 67.858 | 88.860 | 106.334 | 162.308 | 13.355 | 7.788 | 68 | - |
| - Banks | 115.187 | 9.824 | 16.265 | 69.255 | 113.468 | 5.119 | - | - | - |
| - Customers | 5.671.592 | 58.034 | 72.595 | 37.079 | 48.840 | 8.236 | 7.788 | 68 | - |
| B.2 Debt securities | 872 | 7.417 | 14.369 | 38.159 | 112.114 | 14.722 | 38.856 | 1.282.004 | 252.797 |
| B.3 Other liabilities | 198.662 | 146.701 | 151.425 | 317.646 | 410.581 | 133.301 | 3.212 | 74.691 | 411.009 |
| **C. Off-balance operations** | **297.637** | **591.914** | **56.037** | **104.753** | **390.371** | **376.576** | **387.211** | **262.046** | **160.059** |
| C.1 Financial derivatives with equity swap | 35.029 | 149.746 | 46.293 | 102.176 | 342.882 | 272.018 | 255.828 | 94.375 | 3.862 |
| - long positions | 83 | 35.600 | 24.536 | 22.988 | 166.344 | 123.872 | 122.979 | 62.770 | 3.779 |
| - short positions | 34.946 | 114.146 | 21.757 | 79.188 | 176.538 | 148.146 | 132.849 | 31.605 | 83 |
| C.2 Deposits and financing to be received | 1.520 | 1.520 | - | - | - | - | - | - | - |
| - long positions | - | 1.520 | - | - | - | - | - | - | - |
| - short positions | 1.520 | - | - | - | - | - | - | - | - |
| C.3 Irrevocable commitments to provide funds | 261.088 | 440.648 | 9.744 | 2.577 | 47.489 | 104.558 | 131.383 | 167.671 | 156.197 |
| - long positions | 108 | - | - | 2.577 | 47.489 | 104.558 | 131.383 | 167.671 | 156.197 |
| - short positions | 260.980 | 440.648 | 9.744 | - | - | - | - | - | - |

**1. Time distribution by residual contractual duration of financial assets and liabilities-currency: US DOLLAR**

| Items/Time phases | On sight | More than 1 day to 7 days | More than 7 day to 15 days | More than 15 days to 1 month | More than 1 month to 3 months | More than 3 months to 6 months | More than 6 months to 1 year | More than 1 year to 5 years | More than 5 years |
|---|---|---|---|---|---|---|---|---|---|
| **A. Cash assets** | **32.594** | **30.387** | **2.086** | **11.269** | **23.023** | **6.581** | **22** | **155** | **540** |
| A.1 Government securities | 21 | - | - | - | - | - | - | - | - |
| A.2 Listed debt securities | - | - | - | - | - | - | - | - | - |
| A.3 Other debt securities | 34 | - | - | 1.247 | 20 | 14 | 10 | 103 | 540 |
| A.4 Mutual funds (OICR) | - | - | - | - | - | - | - | - | - |
| A.5 Financing | 32.539 | 30.387 | 2.086 | 10.022 | 23.003 | 6.567 | 12 | 52 | - |
| - banks | 28.836 | 23.842 | 580 | 6.873 | 13.033 | 5.577 | - | - | - |
| - customers | 3.703 | 6.545 | 1.506 | 3.149 | 9.970 | 990 | 12 | 52 | - |
| **B. Cash liabilities** | **128.521** | **17.148** | **20.011** | **80.307** | **64.582** | **5.403** | **160** | **-** | **-** |
| B.1 Deposits | 126.856 | 17.148 | 20.011 | 80.307 | 64.566 | 5.393 | 150 | - | - |
| - banks | 1.548 | 12.245 | 5.876 | 50.397 | 25.963 | 2.406 | - | - | - |
| - customers | 125.308 | 4.903 | 14.135 | 29.910 | 38.603 | 2.987 | 150 | - | - |
| B.2 Debt securities | - | - | - | - | 16 | 10 | 10 | - | - |
| B.3 Other liabilities | 1.665 | - | - | - | - | - | - | - | - |
| **C. Off-balance operations** | **16.043** | **189.653** | **20.179** | **79.475** | **215.545** | **169.752** | **187.570** | **24.835** | **679** |
| C.1 Financial derivatives with equity swap | 679 | 152.861 | 20.179 | 77.527 | 211.318 | 168.485 | 187.120 | 24.824 | 679 |
| - long positions | - | 114.834 | 5.090 | 60.322 | 98.489 | 49.899 | 95.915 | 14.378 | 679 |
| - short positions | 679 | 38.027 | 15.089 | 17.205 | 112.829 | 118.586 | 91.205 | 10.446 | - |
| C.2 Deposits and financing to be received | 14.888 | 14.888 | - | - | - | - | - | - | - |
| - long positions | - | 14.888 | - | - | - | - | - | - | - |
| - short positions | 14.888 | - | - | - | - | - | - | - | - |
| C.3 Irrevocable commitments to provide funds | 476 | 21.904 | - | 1.948 | 4.227 | 1.267 | 450 | 11 | - |
| - long positions | 476 | 6.538 | - | 1.948 | 4.227 | 1.267 | 450 | 11 | - |
| - short positions | - | 15.366 | - | - | - | - | - | - | - |

## 1.Time distribution by residual contractual duration of financial assets and liabilities-currency: GB STERLING

| Items/Time phases | On sight | More than 1 day to 7 days | More than 7 day to 15 days | More than 15 days to 1 month | More than 1 month to 3 months | More than 3 months to 6 months | More than 6 months to 1 year | More than 1 year to 5 years | More than 5 years |
|---|---|---|---|---|---|---|---|---|---|
| **A. Cash assets** | **8.376** | **837** | **-** | **771** | **505** | **-** | **7** | **-** | **-** |
| A.1 Government securities | - | - | - | - | 111 | - | - | - | - |
| A.2 Listed debt securities | - | - | - | - | - | - | - | - | - |
| A.3 Other debt securities | - | - | - | - | - | - | 7 | - | - |
| A.4 Mutual funds (OICR) | - | - | - | - | - | - | - | - | - |
| A.5 Financing | 8.376 | 837 | - | 771 | 394 | - | - | - | - |
| - banks | 8.170 | 818 | - | 739 | - | - | - | - | - |
| - customers | 206 | 19 | - | 32 | 394 | - | - | - | - |
| **B. Cash liabilities** | **14.535** | **604** | **492** | **9.303** | **3.019** | **7** | **15** | **4** | **-** |
| B.1 Deposits | 14.535 | 604 | 492 | 9.303 | 3.019 | 7 | - | - | - |
| - banks | 3.004 | - | 273 | 8.859 | 511 | - | - | - | - |
| - customers | 11.531 | 604 | 219 | 444 | 2.508 | 7 | - | - | - |
| B.2 Debt securities | - | - | - | - | - | - | 15 | 4 | - |
| B.3 Other liabilities | - | - | - | - | - | - | - | - | - |
| **C. Off-balance operations** | **8.160** | **18.910** | **1.301** | **6.427** | **10.470** | **491** | **1.913** | **1** | **-** |
| C.1 Financial derivatives with equity swap | - | 10.226 | 1.227 | 6.409 | 10.197 | 467 | 1.910 | - | - |
| - long positions | - | 3.361 | 818 | 5.727 | 5.815 | 277 | 955 | - | - |
| - short positions | - | 6.865 | 409 | 682 | 4.382 | 190 | 955 | - | - |
| C.2 Deposits and financing to be received | 8.160 | 8.160 | - | - | - | - | - | - | - |
| - long positions | - | 8.160 | - | - | - | - | - | - | - |
| - short positions | 8.160 | - | - | - | - | - | - | - | - |
| C.3 Irrevocable commitments to provide funds | - | 524 | 74 | 18 | 273 | 24 | 3 | 1 | - |
| - long positions | - | - | 74 | 18 | 273 | 24 | 3 | 1 | - |
| - short positions | - | 524 | - | - | - | - | - | - | - |

**1. Time distribution by residual contractual duration of financial assets and liabilities-currency: CANADIAN DOLLAR**

| Items/Time phases | On sight | More than 1 day to 7 days | More than 7 day to 15 days | More than 15 days to 1 month | More than 1 month to 3 months | More than 3 months to 6 months | More than 6 months to 1 year | More than 1 year to 5 years | More than 5 years |
|---|---|---|---|---|---|---|---|---|---|
| **A. Cash assets** | **2.647** | **1** | **692** | **120** | **-** | **-** | **-** | **-** | **-** |
| A.1 Government securities | - | - | - | - | - | - | - | - | - |
| A.2 Listed debt securities | - | - | - | - | - | - | - | - | - |
| A.3 Other debt securities | - | - | - | - | - | - | - | - | - |
| A.4 Mutual funds (OICR) | - | - | - | - | - | - | - | - | - |
| A.5 Financing | 2.647 | 1 | 692 | 120 | - | - | - | - | - |
| - banks | 2.643 | 1 | 692 | 120 | - | - | - | - | - |
| - customers | 4 | - | - | - | - | - | - | - | - |
| **B. Cash liabilities** | **3.517** | **-** | **-** | **93** | **100** | **-** | **-** | **-** | **-** |
| B.1 Deposits | 3.517 | - | - | 93 | 100 | - | - | - | - |
| - banks | 3 | - | - | - | - | - | - | - | - |
| - customers | 3.514 | - | - | 93 | 100 | - | - | - | - |
| B.2 Debt securities | - | - | - | - | - | - | - | - | - |
| B.3 Other liabilities | - | - | - | - | - | - | - | - | - |
| **C. Off-balance operations** | **-** | **1.749** | **5.481** | **1.597** | **542** | **11.078** | **2.764** | **5.958** | **-** |
| C.1 Financial derivatives with equity swap | - | 1.749 | 5.481 | 1.597 | 542 | 11.078 | 2.764 | 5.958 | - |
| - long positions | - | 58 | 2.768 | 830 | 271 | 6.456 | 1.382 | 1.986 | - |
| - short positions | - | 1.691 | 2.713 | 767 | 271 | 4.622 | 1.382 | 3.972 | - |
| C.2 Deposits and financing to be received | - | - | - | - | - | - | - | - | - |
| - long positions | - | - | - | - | - | - | - | - | - |
| - short positions | - | - | - | - | - | - | - | - | - |
| C.3 Irrevocable commitments to provide funds | - | - | - | - | - | - | - | - | - |
| - long positions | - | - | - | - | - | - | - | - | - |
| - short positions | - | - | - | - | - | - | - | - | - |

**1. Time distribution by residual contractual duration of financial assets and liabilities-currency: JAPANESE YEN**

| Items/Time phases | On sight | More than 1 day to 7 days | More than 7 day to 15 days | More than 15 days to 1 month | More than 1 month to 3 months | More than 3 months to 6 months | More than 6 months to 1 year | More than 1 year to 5 years | More than 5 years |
|---|---|---|---|---|---|---|---|---|---|
| **A. Cash assets** | **3.891** | **11.227** | **161** | **14.171** | **10.308** | **540** | **-** | **-** | **-** |
| A.1 Government securities | - | - | - | - | - | - | - | - | - |
| A.2 Listed debt securities | - | - | - | - | - | - | - | - | - |
| A.3 Other debt securities | - | - | - | - | - | - | - | - | - |
| A.4 Mutual funds (OICR) | - | - | - | - | - | - | - | - | - |
| A.5 Financing | 3.891 | 11.227 | 161 | 14.171 | 10.308 | 540 | - | - | - |
| - banks | 3.304 | 10.161 | - | 11.813 | 3.313 | 46 | - | - | - |
| - customers | 587 | 1.066 | 161 | 2.358 | 6.995 | 494 | - | - | - |
| **B. Cash liabilities** | **25.772** | **2.425** | **9.119** | **3.030** | **6.063** | **-** | **-** | **-** | **-** |
| B.1 Deposits | 25.300 | 2.425 | 9.119 | 3.030 | 6.063 | - | - | - | - |
| - banks | 7.661 | 2.425 | 9.119 | 3.030 | 6.063 | - | - | - | - |
| - customers | 17.639 | - | - | - | - | - | - | - | - |
| B.2 Debt securities | - | - | - | - | - | - | - | - | - |
| B.3 Other liabilities | 472 | - | - | - | - | - | - | - | - |
| **C. Off-balance operations** | **9.278** | **34.583** | **8.863** | **4.443** | **56.802** | **6.614** | **707** | **-** | **-** |
| C.1 Financial derivatives with equity swap | - | 18.933 | 8.092 | 3.789 | 52.987 | 5.528 | 697 | - | - |
| - long positions | - | 14.142 | 6.940 | 3.137 | 22.407 | 2.599 | 606 | - | - |
| - short positions | - | 4.791 | 1.152 | 652 | 30.580 | 2.929 | 91 | - | - |
| C.2 Deposits and financing to be received | 8.798 | 8.798 | - | - | - | - | - | - | - |
| - long positions | - | 8.798 | - | - | - | - | - | - | - |
| - short positions | 8.798 | - | - | - | - | - | - | - | - |
| C.3 Irrevocable commitments to provide funds | 480 | 6.852 | 771 | 654 | 3.815 | 1.086 | 10 | - | - |
| - long positions | 480 | - | 771 | 654 | 3.815 | 1.086 | 10 | - | - |
| - short positions | - | 6.852 | - | - | - | - | - | - | - |

**1. Time distribution for residual contractual duration of financial assets and liabilities denomination-currency: SWISS FRANC**

| Items/Time phases | On sight | More than 1 day to 7 days | More than 7 day to 15 days | More than 15 days to 1 month | More than 1 month to 3 months | More than 3 months to 6 months | More than 6 months to 1 year | More than 1 year to 5 years | More than 5 years |
|---|---|---|---|---|---|---|---|---|---|
| **A. Cash assets** | **4.722** | **29.405** | **1.670** | **9.319** | **23.563** | **2.292** | **2.125** | **1.303** | **478** |
| A.1 Government securities | - | - | - | - | - | - | - | - | - |
| A.2 Listed debt securities | - | - | - | - | - | - | - | - | - |
| A.3 Other debt securities | 1.326 | - | - | 1.881 | - | - | - | - | - |
| A.4 Mutual funds (OICR) | - | - | - | - | - | - | - | - | - |
| A.5 Financing | 3.396 | 29.405 | 1.670 | 7.438 | 23.563 | 2.292 | 2.125 | 1.303 | 478 |
| - banks | 3.048 | 28.126 | 52 | 3.374 | 6.857 | - | - | - | - |
| - customers | 348 | 1.279 | 1.618 | 4.064 | 16.706 | 2.292 | 2.125 | 1.303 | 478 |
| **B. Cash liabilities** | **8.068** | **7.156** | **1.570** | **6.420** | **253** | **9** | **587** | **51** | **-** |
| B.1 Deposits | 8.068 | 7.156 | 1.570 | 6.420 | 253 | - | 587 | - | - |
| - banks | 90 | 7.156 | 1.570 | 6.309 | 5 | - | 587 | - | - |
| - customers | 7.978 | - | - | 111 | 248 | - | - | - | - |
| B.2 Debt securities | - | - | - | - | - | 9 | - | - | - |
| B.3 Other liabilities | - | - | - | - | - | - | - | 51 | - |
| **C. Off-balance operations** | **12.294** | **60.343** | **10.835** | **9.498** | **29.474** | **5.312** | **18.002** | **8** | **-** |
| C.1 Financial derivatives with equity swap | - | 24.068 | 10.346 | 6.044 | 27.657 | 75 | 16.024 | - | - |
| - long positions | - | 9.790 | 2.879 | - | 12.574 | 75 | 12.190 | - | - |
| - short positions | - | 14.278 | 7.467 | 6.044 | 15.083 | - | 3.834 | - | - |
| C.2 Deposits and financing to be received | 12.294 | 12.294 | - | - | - | - | - | - | - |
| - long positions | - | 12.294 | - | - | - | - | - | - | - |
| - short positions | 12.294 | - | - | - | - | - | - | - | - |
| C.3 Irrevocable commitments to provide funds | - | 23.981 | 489 | 3.454 | 1.817 | 5.237 | 1.978 | 8 | - |
| - long positions | - | 5.499 | 489 | 3.454 | 1.817 | 5.237 | 1.978 | 8 | - |
| - short positions | - | 18.482 | - | - | - | - | - | - | - |

**1. Time distribution for residual contractual duration of financial assets and liabilities denomination-currency: OTHER CURRENCIES**

| Items/Time phases | On sight | More than 1 day to 7 days | More than 7 day to 15 days | More than 15 days to 1 month | More than 1 month to 3 months | More than 3 months to 6 months | More than 6 months to 1 year | More than 1 year to 5 years | More than 5 years |
|---|---|---|---|---|---|---|---|---|---|
| **A. Cash assets** | **16.053** | **9.127** | **-** | **5.676** | **4.202** | **526** | **684** | **-** | **-** |
| A.1 Government securities | - | - | - | - | - | - | - | - | - |
| A.2 Listed debt securities | - | - | - | - | - | - | - | - | - |
| A.3 Other debt securities | - | - | - | - | - | - | - | - | - |
| A.4 Mutual funds (OICR) | - | - | - | - | - | - | - | - | - |
| A.5 Financing | 16.053 | 9.127 | - | 5.676 | 4.202 | 526 | 684 | - | - |
| - banks | 16.005 | 7.773 | - | 2.090 | 3.860 | - | - | - | - |
| - customers | 48 | 1.354 | - | 3.586 | 342 | 526 | 684 | - | - |
| **B. Cash liabilities** | **16.714** | **3.085** | **-** | **1.734** | **16** | **40** | **1** | **-** | **-** |
| B.1 Deposits | 16.672 | 3.085 | - | 1.734 | 16 | 40 | 1 | - | - |
| - banks | 187 | 3.085 | - | 1.502 | - | - | 1 | - | - |
| - customers | 16.485 | - | - | 232 | 16 | 40 | - | - | - |
| B.2 Debt securities | - | - | - | - | - | - | - | - | - |
| B.3 Other liabilities | 42 | - | - | - | - | - | - | - | - |
| **C. Off-balance operations** | **10.244** | **48.580** | **2.192** | **4.094** | **29.814** | **1.341** | **3.412** | **-** | **-** |
| C.1 Financial derivatives with equity swap | - | 24.449 | 1.559 | 3.119 | 28.095 | 1.341 | 3.412 | - | - |
| - long positions | - | 10.092 | - | 1.824 | 10.020 | 146 | 1.714 | - | - |
| - short positions | - | 14.357 | 1.559 | 1.295 | 18.075 | 1.195 | 1.698 | - | - |
| C.2 Deposits and financing to be received | 10.244 | 10.244 | - | - | - | - | - | - | - |
| - long positions | - | 10.244 | - | - | - | - | - | - | - |
| - short positions | 10.244 | - | - | - | - | - | - | - | - |
| C.3 Irrevocable commitments to provide funds | - | 13.887 | 633 | 975 | 1.719 | - | - | - | - |
| - long positions | - | 5.280 | 633 | 975 | 1.719 | - | - | - | - |
| - short positions | - | 8.607 | - | - | - | - | - | - | - |

## 2. Sector distribution of financial liabilities

| Exposure/counterparties | Governments and central banks | Other public bodies | Finance companies | Insurance companies | Non finance companies | Other parties | Total |
|---|---|---|---|---|---|---|---|
| 1. Due to customers | 8.344 | 70.561 | 1.095.822 | 31.449 | 1.716.681 | 4.611.437 | 7.534.294 |
| 2. Outstanding securities | - | 36 | 366 | 70 | 54.565 | 1.704.741 | 1.759.778 |
| 3. Financial liabilities held for trading | - | 35 | 14.150 | - | 7.558 | 19.675 | 41.418 |
| 4. Financial liabilities at fair value | - | - | - | - | - | 591.951 | 591.951 |
| **Total 31/12/2007** | **8.344** | **70.632** | **1.110.338** | **31.519** | **1.778.804** | **6.927.804** | **9.927.441** |
| **Total 31/12/2006** | **307.875** | **73.470** | **1.278.529** | **41.491** | **1.732.735** | **5.253.729** | **8.687.829** |

## 3. Territory distribution of financial liabilities

| Exposure/counterparties | Italy | Other European countries | America | Asia | Rest of the world | Total |
|---|---|---|---|---|---|---|
| 1. Due to customers | 6.888.104 | 439.777 | 144.360 | 5.256 | 56.797 | 7.534.294 |
| 2. Due to banks | 436.790 | 205.026 | 778 | 7.632 | - | 650.226 |
| 3. Outstanding securities | 1.718.880 | 40.761 | 96 | 41 | - | 1.759.778 |
| 4. Financial liabilities held for trading | 17.829 | 23.545 | 43 | 1 | - | 41.418 |
| 5. Financial liabilities at fair value | 587.264 | 4.687 | - | - | - | 591.951 |
| **Total 31/12/2007** | **9.648.867** | **713.796** | **145.277** | **12.930** | **56.797** | **10.577.667** |
| **Total 31/12/2006** | **8.365.166** | **544.633** | **188.911** | **39.883** | **46.253** | **9.184.846** |

## 1.4 OPERATING RISKS

### INFORMATION OF A QUALITATIVE NATURE

General aspects, management procedures and methods for measuring operating risk

In 2007 the parent company Sella Holding Banca directed and coordinated the control of exposure to risks assumed by the companies of the Banca Sella Group during routine and special operations and delegated the operational aspects to the "Risk Management and Controls" function. This function is thus tasked with measuring, monitoring and supporting total risk exposure of the entire Banca Sella Group, having constant access to the information and bookkeeping and managerial data of all the subsidiaries.

Operating risk is the risk of losses arising from the inappropriacy or dysfunction of internal processes, persons or systems or from outside events, or the risk of incurring losses from internal/external fraud, legal risks (failure to comply with contractual obligations) shortcomings in internal controls or information systems, natural calamities.

A prejudicial operating event is on the other hand the individual occurrence arising from inefficiencies or malfunctions of processes, personnel, systems or external events that generates one or more operating losses.

Operating risk therefore refers to all the shortcomings in the current operations of the Group companies that cannot be directly connected to credit and market risks, i.e. to outside events that damage the companies.

In order to identify and mitigate operating risks, Risk Management and Controls has mapped and validated the company processes of the Banca Sella Group, assigning to each process an inherent risk rating (riskiness of the process in the absence of any control) and a residual risk rating (process risk taking into account the mitigating effect of the controls set up to prevent risk events or to diminish their negative effects). Particular attention has been paid to the coherence between the operating map and the reality of the underlying process. The analysis conducted becomes the basis for a constant, continuous and systematic activity that is closely correlated with the physiological maintenance and updating of existing processes and controls, the creation of new processes or their elimination, any internal evidence arising from the emerging anomalies or the findings of audits and checks and with the clear external evolution of risks.

In order to improve the culture of operating risks and the management of anomalies, Risk Management and Controls has extended to all the companies of the Group the use of the IT platform known as the "Control Cycle". This is an organisational process for surveying and dealing with anomalies that is supported by a dedicated software instrument that ensures that the processes are correctly identified within which the anomalies arose, assigns follow up responsibilities and tracks and controls the elimination of the anomalies or their causes.

In February 2007 the training workshop tour was completed (which started in September 2006) which aimed to illustrate the use of the instrument and at the same time familiarise colleagues of all grades with risk issues, and in particular with operating risk. A new refresher course for all employees will be held some time in the first quarter of 2008 to improve the use of the Control Cycle and to improve its efficacy as a follow-up tool.

Risk monitoring is also reflected in reporting functions aimed at all levels of the company organisation in conformity to the regulation requiring information on operating risks to be supplied promptly. In order to activate proactive handling of operating risk, Risk Management and Controls thus regularly produces concise and detailed reports that show each Group company's risk level:

A. prejudicial events and operating losses indicated in the Control Cycle database (indicates the most serious anomalies);
B. the actual efficacy of existing manual line controls;
C. total operating risk on the basis of the main KPIs (Key Performance Indicators) and KRIs (Key Risk Indicators).

# SECTION 2 – INSURANCE COMPANY RISKS

The Banca Sella Group has a majority shareholding in the two insurance companies located respectively in Ireland and in Italy that specialise in categories of product and customer. The former caters for a private clientele by offering products that will best meet needs for diversified investments whilst the latter company caters for a wide range of customers through a comprehensive, catalogue that therefore includes the risks connected with human longevity.

**Sella Life Ltd**

Sella Life's operates only in Class III of the life assurance field and in particular it markets linked products. By their nature, such products do not constitute a risk for the company as the risk is transferred completely to the policy-holder.

The insurance cover provided by the company for the products that it sells amounts to at most 101% of the value of the policy and therefore the risk of mortality is covered by the company's own funds.

**C.B.A. Vita S.p.A.**

C.B.A Vita operates mainly in the life assurance field and to a very small extent in the accident and health insurance fields.

The main risks assumed by the company in the course of its activities are described below as well as the acceptance and management of such risks.

<u>Mortality Risk</u>

CBA Vita has a risk assumption policy that differs according to fee type. Particular caution is exercised when accepting temporary life-assurance policies for which the procedures lay down precise acceptance criteria that depend on the amount of capital to be insured and of the age of the insured party. This type of policy can be taken out without a medical examination provided that a health, professional and sporting questionnaire are filled in. On the basis of the replies given, the policy can be issued directly by the broker or subject to authorisation from the company, possibly subject to extra health, sporting or professional premiums. For capital or age ranges that are beyond the acceptance limits, the risk assessment is carried out by the company, which will examine, together with the reinsurer, the medical investigations. The quality of the acceptance depends on a comparison between the actual mortality of the portfolio with the portfolio's theoretical portfolio, which in 2007 showed that actual mortality was less than theoretical mortality.

CBA Vita provides life-assurance reinsurance cover that is commensurate with the products marketed and the conservation levels that are more than appropriate for company equity (in compliance with the general directive issued by the Board of Directors in accordance with the provisions of ISVAP memorandum 574/D of 2005.

<u>Longevity Risk</u>

Some life-assurance policies provide an income directly or when they mature enable the customer to opt for an annuity instead of cashing in the matured capital. In the case of such policies the company is therefore exposed to a longevity risk due to increasing life expectancy. Owing to the possible discrepancy between the actual life expectancy of the insured party and his life expectancy as estimated on the actuarial tables, in new policies that have an annuity option the coefficient for converting the matured capital into an annuity is calculated at the moment when the annuity option is taken up. This has been the case for some years.

For existing contracts in the portfolio, the guaranteed annuity coefficient of which is calculated using demographic projections that have not been updated, the mathematical reserves have been supplemented by an appropriate allocation amounting to €0.27 million. This figure has been deemed to be adequate as it has been calculated on the basis of updated demographic projections and assumes a greater take-up of the annuity option than what is currently recorded on the market.

Financial Risk

CBA Vita also markets products that guarantee a minimum amount but increase in value according to the performance achieved by their Separate Investments. The company is thus exposed to the risk of obtaining yields from the underlying investments that are lower than the rate of revaluation guaranteed to the policyholders. The guaranteed minimum revaluation rate for newly sold products is normally 1.5%.

The portfolio contains policies taken out in previous years that provided guaranteed minimum rates above this level. In particular, about 2% of the reserves of products that increase in value are policies that guarantees a 4% yield and 1% of the policies guarantee a 3% yield. The remaining 97% are policies with guarantees of 2%, 1.5% or are indexed to the Average Bond Rate (ABR).

The risk connected with these policies is periodically monitored and assessed in order to ensure optimum allocation of financial resources in terms of ALM (Asset Liability Management).

In order to cover the risk of a possible disparity between the expected yield rates from the investments hedging the separately managed technical reserves and the undertakings given the mathematical reserves of the company have been increased by €0.70 million in compliance with regulation Isvap 1801G.

The Liability Adequacy Test is conducted using the modelling that has already been set up for the analysis specified by 1801G with an extension of the assessments to the contractual maturity of the portfolio. It has shown that the additional reserves calculated using local principles are adequate.

Lastly, financial risks include a limited number of index policies that were taken out in past years, where customer risk is borne by the company.

# SECTION 3 – OTHER COMPANIES RISKS

This type of business does not exist within the Banca Sella Group.

# PART F – INFORMATION ON CONSOLIDATED EQUITY

# SECTION 1
# CONSOLIDATED EQUITY

## A.INFORMATION OF A QUALITATIVE NATURE

In the light of its strategic development lines and objectives, Gruppo Banca Sella has adopted those measures required to guarantee adequate equity protection.

The monitoring activity regarding its equity and equity ratios is located in the parent company and seeks to ensure that permitted limits are not exceeded.

An initial check is carried out within the context of the drafting of the Group's three year strategic plan, by means of a comparison of the development dynamics regarding activities that influence the entity of risks with the evolution expected of the equity structure.

Respect for capital adequacy is obtained via:

- Pay out policies
- Issue of subordinate bonds
- Securitisation operations aimed at reducing the amount of credit risks
- Commitments policies relative to the rating of counterparts.

As of 31 December 2007, the excess Supervisory Capital if compared to compulsory levels exhibits a value that is in line with the risk profile adopted by the Group, permitting development that is coherent with forecast growth targets.

## B. INFORMATION OF A QUANTITATIVE NATURE

| **Net shareholders' equity** (euro thousand) | **Total 2007** | **Total 2006** |
|---|---|---|
| Share capital | 80.000 | 80.000 |
| Own shares | - | - |
| Reserves | 287.236 | 238.235 |
| - Legal reserve | 28.759 | 28.759 |
| - Own shares reserve | - | - |
| - Statutory reserve | 33.869 | 30.706 |
| - Extraordinary reserve | 97.652 | 97.508 |
| - Other reserves | 126.956 | 81.262 |
| Valuation reserves | 34.327 | 85.179 |
| - Revaluation reserves (special laws) | 29.283 | 30.597 |
| - Valuation reserves for assets available for sale: | 5.044 | 54.582 |
| Profit for the year | 120.807 | 49.789 |
| **Total** | **522.370** | **453.203** |

# SECTION 2
# CAPITAL AND CAPITAL ADEQUACY RATIOS

**A. INFORMATION OF A QUALITATIVE NATURE**

## 2.1 SCOPE OF APPLICATION OF THE REGULATION

The capital for supervisory purposes and capital ratios have been calculated on the basis of equity values and the economic result determined with the application of IAS/IFRS international accounting principles, in compliance with Circular no.155/91 of Banca d'Italia containing "Instructions for providing communications concerning the capital for supervisory purposes and prudential ratios".

Application of the instructions contained in the said circular involves a different consolidation modality for the insurance companies included in the consolidated financial statements. Hence the said companies, consolidated using the line by line method relative to the financial statements, have been consolidated using the net equity method for the purposes of capital and the prudential ratios.

The most recent updating of the above-mentioned circular introduced some changes relative to the calculation of the capital for supervisory purposes. Those variations that have influenced the representation of the data are as follows:

- deduction of shareholdings in financial and banking companies to 50% of Tier 1 capital and, for the remaining 50% of Tier 2 capital, instead of entirely from the summation of both of them;
- introduction of Tier 3 capital.

## 2.2 BANK CAPITAL FOR SUPERVISORY PURPOSE

**1. Tier 1 capital**

this comprises:
- share capital
- premium share
- capital reserves
- profit for the period

net of the dividends to be distributed and net of intangible fixed assets.

**2. Tier 2 and Tier 3 capital**

this comprises:
- evaluation reserves
- hybrid capital instruments
- subordinated liabilities

The main contractual features of hybrid capital instruments and subordinated liabilities that are included in the calculation of Tier 2 and Tier 3 capital are summarised in the table that follows.

| Issuer | Interest rate | Rate type | Issue date | Expiry date | Early repayment from | Currency | Original amount *(euro thousand)* | Contribution to regulatory capital *(euro thousand)* |
|---|---|---|---|---|---|---|---|---|
| Sella Holding Banca S.p.A. | 3,85% | Variable | 16-set-02 | 16-mar-13 | NO | Euro | 50.000 | 49.867 |
| Sella Holding Banca S.p.A. | 3,65% | Variable | 1-set-03 | 1-set-14 | NO | Euro | 24.612 | 24.427 |
| Sella Holding Banca S.p.A. | 4,15% | Variable | 15-lug-04 | 15-lug-15 | NO | Euro | 18.560 | 18.286 |
| **Total hybrid instruments (Upper Tier II)** | | | | | | | | **92.580** |
| Sella Holding Banca S.p.A. | 3,80% | Variable | 15-dic-02 | 15-dic-08 | 15-dic-04 | Euro | 25.000 | 4.944 |
| Sella Holding Banca S.p.A. | 3,70% | Variable | 15-ott-03 | 15-ott-09 | 17-ott-05 | Euro | 10.000 | 3.999 |
| Sella Holding Banca S.p.A. | 3,95% | Variable | 14-nov-05 | 14-nov-11 | NO | Euro | 20.000 | 15.695 |
| Sella Holding Banca S.p.A. | 4,22% | Variable | 15-dic-04 | 15-dic-14 | NO | Euro | 50.000 | 50.000 |
| Sella Holding Banca S.p.A. | 4,12% | Variable | 28-nov-06 | 28-nov-16 | NO | Euro | 50.000 | 50.000 |
| Sella Holding Banca S.p.A. | 4,65% | Variable | 21-giu-07 | 21-giu-17 | 21-giu-12 | Euro | 10.000 | 10.000 |
| Sella Holding Banca S.p.A. | 5,64% | Variable | 27-dic-07 | 27-dic-17 | NO | Euro | 30.000 | 30.000 |
| Banca Sella S.p.A. * | 4,23% | Variable | 4-gen-06 | 4-gen-13 | NO | Euro | 100.000 | 0 |
| Banca Sella Nordest Bovio Calderari S.p.A. | 3,75% | Variable | 1-ott-03 | 1-ott-09 | 1-apr-05 | Euro | 10.000 | 3.920 |
| Banca Sella Nordest Bovio Calderari S.p.A. | 3,95% | Variable | 1-dic-04 | 1-dic-10 | 1-giu-06 | Euro | 3.000 | 1.791 |
| Banca Sella Nordest Bovio Calderari S.p.A. * | 4,29% | Variable | 23-nov-06 | 23-nov-12 | NO | Euro | 7.500 | 0 |
| Banca di Palermo S.p.A. | 3,95% | Variable | 18-nov-02 | 18-nov-08 | 18-nov-04 | Euro | 2.300 | 460 |
| Banca di Palermo S.p.A. | 3,80% | Variable | 22-set-03 | 22-set-11 | 22-set-07 | Euro | 2.200 | 1.760 |
| Banca Arditi Galati S.p.A. | 3,90% | Fixed | 20-dic-02 | 20-dic-08 | 20-dic-04 | Euro | 2.500 | 492 |
| Banca Arditi Galati S.p.A. | 3,80% | Variable | 20-dic-02 | 20-dic-08 | 20-dic-04 | Euro | 2.500 | 499 |
| Banca Arditi Galati S.p.A. | 3,65% | Variable | 18-set-03 | 18-set-10 | NO | Euro | 2.479 | 1.487 |
| Banca Arditi Galati S.p.A. | 4,10% | Fixed | 18-set-03 | 18-set-10 | NO | Euro | 5.000 | 3.000 |
| Banca Arditi Galati S.p.A. | 3,90% | Variable | 1-dic-04 | 1-dic-10 | 1-dic-06 | Euro | 2.000 | 1.200 |
| **Total subordinated (Lower Tier II)** | | | | | | | **179.247** | |
| Sella Holding Banca S.p.A. | 3,73% | Variable | 18-mar-05 | 18-mar-08 | NO | Euro | 20.000 | 7.503 |
| Sella Holding Banca S.p.A. | 4,07% | Variable | 3-lug-06 | 3-lug-09 | NO | Euro | 10.000 | 0 |
| **Total subordinated (Upper Tier III)** | | | | | | | **7.503** | |
| **Total** | | | | | | | | **279.330** |

** Subscribed by other Group companies and hence not ascribable to Group regulatory capital.*

### Hybrid instruments (Upper Tier II)

The Upper Tier II subordinate loans comply with Banca d'Italia requisites such that they can be included among the components of the "Vigilance patrimony". More specifically:

- they are not subject to advance reimbursement clauses;
- scheduled reimbursement is subordinate to previously obtaining the consent from Banca d'Italia;
- where there are financial statements losses which lead to a reduction of capital paid-in and reserves below the minimum level of capital required for the authorisation of banking activities, the sums relative to the above-mentioned liabilities and accrued interest can be accrued to cover the losses, in order to permit the issuing entity to continue its activity;
- where there is liquidation of the issuing entity, the owner of the loan will be reimbursed after all the other creditors who are not equally subordinate have been satisfied.

### Computable subordinates (Lower Tier II)

Subordinate liabilities as mentioned above comply with the requisites set out by Banca d'Italia such that they can be calculated among the components of the "Vigilance patrimony". More specifically:

- where there is liquidation of the issuing entity the owner of the loan will be reimbursed after all the

other creditors who are not equally subordinate have been satisfied;
- there are no advance reimbursements clauses save at the initiative of the bank subject to the consent of Banca d'Italia.

**Third level subordinates (Lower Tier III)**

Such bond loans comply with the requisites set out by Banca d'Italia relative to the deductibility of patrimonial requisites on market risks. More specifically:

- the payment of interest and capital is suspended to the extent that the patrimonial requisite of the issuing entity may fall below the patrimonial requisites set out in the "Banca d'Italia Vigilance Instructions";
- where there is liquidation of the issuing entity the owner of the loan will be reimbursed after all the other creditors who are not equally subordinate have been satisfied;
- the original duration is not less than two years.

### B. INFORMATION OF A QUANTITATIVE NATURE

| | 31/12/2007 | 31/12/2006 |
|---|---|---|
| **A. Tier 1 capital before the application of prudential filters** | **521.063** | **380.581** |
| **B. Prudential filters on Tier 1 capital:** | **(2)** | **(3.474)** |
| B.1 IAS/IFRS positive prudential filters (+) | - | - |
| B.2 IAS/IFRS negative prudential filters (-) | (2) | (3.474) |
| **C. Tier 1 capital gross of elements to be deducted (A + B)** | **521.061** | **377.107** |
| **D. Elements to be deducted from tier 1 capital** | **4.266** | **-** |
| **E. Total tier 1 capital (TIER 1) (C - D)** | **516.795** | **377.107** |
| **F. Tier 2 capital before the application of prudential filters** | **310.727** | **352.154** |
| **G. Prudential filters of tier 2 capital** | **(3.774)** | **(30.942)** |
| G.1 IAS/IFRS positive prudential filters (+) | - | - |
| G.2 IAS/IFRS negative prudential filters (-) | (3.774) | (30.942) |
| **H. Tier 2 capital gross of elements to be deducted (F + G)** | **306.953** | **321.212** |
| **I. Elements to be deducted from Tier 2 capital** | **4.266** | **-** |
| **L. Total Tier 2 capital (TIER 2) (H - I)** | **302.687** | **321.212** |
| **M. Deductions from total tier 1 and 2 capital** | **38.632** | **48.941** |
| **N. Capital for supervisory purposes (E + L - M)** | **780.850** | **649.378** |
| **O. Tier 3 capital** | **7.503** | **-** |
| **P. Capital for supervisory purposes including TIER 3 (N + O)** | **788.353** | **-** |

*The third level patrimony is calculated in compliance with Circular no. 155/91 of Banca d'Italia, which provides for the hedging of market risks requisites net of the counterpart's risks, up to a maximum amount of 71.4% of the said requisites.*

## 2.3 CAPITAL ADEQUACY

### A. INFORMATION OF A QUALITATIVE NATURE

As can be seen in the information of a quantitative nature in the table below indicating the risk activities and the prudential vigilance requisites, the Group exhibits a ratio between basic patrimony and weighted risk activities equal to 7.32% and a ratio between total vigilance patrimony and weighted risk activities equal to 11.17%, above the minimum requirement of 8%.

Periodically, patrimonial adequacy and respect for requested requisites is monitored by the Asset and Liability Management Committee.

## B. INFORMATION OF A QUANTITATIVE NATURE

| Categories/Values | Non-weighted amounts 2007 | Non-weighted amounts 2006 | Weighted amounts/requirements 2007 | Weighted amounts/requirements 2006 |
|---|---|---|---|---|
| **A. RISK ASSETS** | | | | |
| **A.1 CREDIT RISK** | **14.290.543** | **13.305.325** | **6.813.856** | **6.254.285** |
| ***STANDARD METHOD*** | | | | |
| CASH ASSETS | 8.934.589 | 8.083.631 | 6.418.007 | 5.955.695 |
| 1. Exposures (other than equities and other subordinated assets) to (or guaranteed by): | 6.418.863 | 5.928.216 | 5.103.590 | 4.997.465 |
| 1.1 Governments and Central Banks | - | - | - | - |
| 1.2 Public-sector bodies | 767.745 | 382.004 | 3.525 | 3.503 |
| 1.3 Banks | 563.900 | 690.313 | 112.780 | 138.063 |
| 1.4 Other subjects (other than mortgages and other subordinated assets) due to (or guaranteed by) | 5.087.218 | 4.855.899 | 4.987.285 | 4.855.899 |
| 2. Mortgages on residential buildings | 1.460.462 | 1.304.704 | 730.231 | 652.352 |
| 3. Mortgages on non-residential buildings | 491.297 | 441.649 | 245.649 | 220.825 |
| 4. Shares, holdings and subordinated assets | 59.659 | 2.885 | 59.924 | 3.326 |
| 5. Other cash assets | 504.308 | 406.177 | 278.613 | 81.727 |
| OFF-BALANCE ASSETS | 5.355.954 | 5.221.694 | 395.849 | 298.590 |
| 1. Guarantees and commitments to (or pledged by): | 5.331.974 | 5.217.989 | 391.038 | 297.646 |
| 1.1 Governments and Central Banks | - | - | - | - |
| 1.2 Public-sector bodies | 57.235 | 57.455 | 346 | 435 |
| 1.3 Banks | 253.040 | 150.283 | 28.806 | 22.719 |
| 1.4 Other | 5.021.699 | 5.010.251 | 361.886 | 274.492 |
| 2. Derivative contracts due to (or guaranteed by): | 23.980 | 3.705 | 4.811 | 944 |
| 2.1 Governments and Central Banks | - | - | - | - |
| 2.2 Public-sector bodies | - | - | - | - |
| 2.3 Banks | 23.980 | 3.705 | 4.811 | 944 |
| 2.4 Other | - | - | - | - |
| **B. CAPITAL REQUIREMENTS FOR SUPERVISORY PURPOSES** | | | | |
| **B.1 CREDIT RISK** | **-** | **-** | **545.108** | **500.343** |
| **B.2 MARKET RISK** | **-** | **-** | **14.159** | **12.448** |
| 1. STANDARD METHOD | X | X | 14.159 | 12.448 |
| of which: | | | | |
| + risk of position on debt securities | X | X | 9.109 | 7.020 |
| + risk of position on equities | X | X | 1.400 | 3.072 |
| + exchange rate risk | X | X | - | - |
| + other risks | X | X | 3.650 | 2.356 |
| 2. INTERNAL MODELS | X | X | - | - |
| of which: | | | | |
| + risk of position on debt securities | X | X | - | - |
| + risk of position on equities | X | X | - | - |
| + exchange rate risk | X | X | - | - |
| **B.3 OTHER PRUDENTIAL REQUIREMENTS** | **X** | **X** | **5.552** | **5.552** |
| **B.4 TOTAL PRUDENTIAL REQUIREMENTS (B1+B2+B3)** | **X** | **X** | **564.819** | **518.343** |
| **C. RISK ASSETS AND SUPERVISORY COEFFICIENTS** | | | | |
| C.1 Weighted risk assets | X | X | 7.060.244 | 6.479.285 |
| C.2 Tier 1 capital/Weighted risk assets (Tier 1 capital ratio) | X | X | 7,32% | 5,82% |
| C.3 Capital for supervisory purposes/Weighted risk assets (Total capital ratio)(*) | X | X | 11,17% | 10,21% |

*(*) In case the new criteria of the 12th updating of Circular letter no. 155/91 of the Bank of Italy had been applied also to the capital for supervisory purposes of the last year, the solvency coefficients at December 31, 2006 would be as follows:*
*- Tier 1 capital ratio: 5.76%*
*- Total capital ratio: 10.13%.*

# PART G - AGGREGATION OPERATIONS REGARDING COMPANIES OR BUSINESS LINES

# SEZIONE 1 – OPERAZIONI REALIZZATE DURANTE L'ESERCIZIO

### 1.1 Business combination transactions

| Name | Date of transaction | Cost of transaction | Percentage of interest acquired with voting right in ordinary shareholders meeting | Total Group profits | Total Net income/loss of the Group |
|---|---|---|---|---|---|
| 1. Banca di Palermo S.p.A. | 05/01/2007 | 2.925 | 6,359% | 1.947 | 113 |
| 2. Banca di Palermo S.p.A. | 22/02/2007 | 4.692 | 11,5% | 3.522 | 203 |

## 1.2 OTHER INFORMATION ON MERGER OPERATIONS

### 1.2.1 Annual goodwill variations

Goodwill deriving from the two major merger operations indicated in the table comes to an overall value of 3.79 million euro.

### 1.2.2 Other

The two acquisitions for a total of 17.859% of Banca di Palermo spa were carried out by Sella South Holding (subsequently incorporated by the parent company, Sella Holding Banca).

During the year other merger operations were carried out, not very significant taken individually, involving an overall cost of 0.133 million euro and generating a greater profit for the Group for a sum of 0.03 million euro.

Further operations which were carried out during the year, between Group companies, do not constitute company merger operations in so far as they were realised under common control.

# SECTION 2 - OPERATIONS COMPLETED AFTER CLOSING OF BALANCE

Gruppo Banca Sella has not completed this type of operations.

# PART H - RELATED PARTIES OPERATIONS

The typologies of correlated parties, on the basis of indications provided by the IAS 24, significant for Gruppo Banca Sella with reference to specific organisational structure and governance, comprise:

a) subsidiary companies, where the parent company directly or indirectly exercises control;
b) associated companies, where the parent company exercises, directly or indirectly, considerable control;
c) directors or managers with strategic responsibility; d)close relations of directors or managers with strategic responsibility;
e) subsidiary or associated companies relative to one of the subjects set out in points c) and d).

## 1. INFORMATION ON PAYMENTS TO DIRECTORS AND MANAGERS

In the light of the current organisational structure of the Group, the following are included within the perimeter of "managers with strategic responsibility": Directors and members of Sella Holding Banca Group Central Management relative to the exercise of control and coordination management.

Fees paid in 2007 to the above-mentioned company personnel in the parent company are set out in the following table:

| **Compensi corrisposti ai dirigenti con responsabilità strategiche** *(compresi i dirigenti con incarichi di amministratore)* *(dati in migliaia di euro)* | **2007** |
|---|---|
| a) benefici a breve termine per i dipendenti | 4.175,5 |
| b) benefici successivi al rapporto di lavoro | - |
| c) altri benefici a lungo termine | - |
| d) indennità per la cessazione del rapporto di lavoro | 247,7 |
| e) pagamenti in azioni | - |
| **Totale** | **4.423,2** |

The following table shows payments received in 2007 by parent company directors and statutory auditors:

| **Compensi percepiti esercizio 2007** *(dati in migliaia di euro)* | **2007** |
|---|---|
| Consiglieri d'Amministrazione | 4.444,1 |
| Sindaci | 376,7 |

## 2. INFORMATION ON TRANSACTIONS WITH CORRELATED PARTIES

Transactions with correlated parties have been carried out, as a rule, on the basis of conditions equivalent to those applied for operations carried out with independent third party subjects.

Infragroup operations have been carried out following evaluations of reciprocal interest, in line with market conditions, with the aim of creating value within the Group.

When drafting the consolidated financial statements operations and balances existing with infragroup correlated parties are excluded.

The table below sets out assets, liabilities, guarantees and commitments existing as of 31 December 2007 differentiated for the different types of correlated parties.

**Transazioni con parti correlate** *(dati in migliaia di euro)*

| | Società controllate non consolidate | Società collegate | Amministratori e Dirigenti |
|---|---|---|---|
| Crediti | - | 643,1 | 1.394,7 |
| Debiti per cassa e firma | - | 7.602,4 | 1.760,7 |
| Garanzie prestate | - | - | 144,0 |
| Garanzie ricevute dal Gruppo | - | - | 303,0 |

# PART I – PAYMENT AGREEMENTS BASED ON OWN EQUITY INSTRUMENTS

Gruppo Banca Sella has not completed this type of operation.

# INDIPENDENT AUDITORS' REPORT

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**INDEPENDENT AUDITORS' REPORT**
**pursuant to art. 2409-ter of the Italian Civil Code**
(Translation from the original Italian text)

To the Shareholders of
Banca Sella Holding S.p.A.
(formerly Sella Holding Banca S.p.A.)

1. We have audited the consolidated financial statements of Banca Sella Holding S.p.A. and subsidiaries ("Banca Sella Group") as of and for the year ended December 31, 2007, comprising the balance sheet, the statement of income, changes in shareholders' equity and cash flows and the related explanatory notes. These consolidated financial statements are the responsibility of the Banca Sella Holding S.p.A.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards and procedures generally accepted in Italy. In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   The consolidated financial statements present the comparative data of the preceding year. As described in the explanatory notes, management modified the comparative information related to the financial statements of the preceding year, on which we issued our auditors' report on April 27, 2007. We have examined the methods adopted to modify the comparative financial information for the same period of the preceding year for the purpose of our opinion as of and for the year ended December 31, 2007.

3. In our opinion, the consolidated financial statements of Banca Sella Holding S.p.A. at December 31, 2007 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with the measures issued to implement art. 9 of the Italian Legislative Decree n° 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations, the changes in shareholders' equity and the cash flows of Banca Sella Group for the year then ended.

Reconta Ernst & Young S.p.A.
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4. In the board of director's report on accounts the management provide information on the evolution of the judicial disputes and extrajudicial claims that concern the consolidated Sella Bank Luxembourg S.A.. Within this context, Banca Sella Holding has renewed its commitment to indemnify the Luxembourg company against any charges that might arise from requests of compensation by giving the necessary financial support to comply with the minimal equity requirements. Following the specific legal opinions requested and the agreement concluded in 2008 with the liquidators of Luxembourg open-end investment companies, management believes the amount recognized in Provisions for risks and charges in the financial statements to be adequate.

Turin, 11 April 2008

Reconta Ernst & Young S.p.A.

Signed by: Stefania Doretti, Partner