

Banca Popolare di Sondrio (SUISSE)

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# ANNUAL REPORT 1999

Banca Popolare di Sondrio (SUISSE)

Banca Popolare di Sondrio (SUISSE) SA  
Capital: CHF 50 000 000

Head Office and Executive Board  
Via Maggio 1, 6901 Lugano  
Tel + 41 91 973 36 00  
Fax + 41 91 973 36 36

BOARD OF DIRECTORS

**Piero Melazzini**

Chairman

**Flavio Pedrazzoli**

Vice Chairman

**Plinio Bernardoni**

Secretary

**Giovanni Ruffini**

**Kurt Spinnler**

MANAGING DIRECTOR

**Gianni Meregalli**

until 30.06.1999

**Brunello Perucchi**

as from 1.07.1999

INTERNAL AUDIT

**Alberto Bradanini**

INDEPENDENT AUDITORS

**Arthur Andersen SA**

Lugano

*I love the Clouds and the way they appear on fine days.*

*The Clouds are Poetry. [...] Clouds have lives,  
like men, each with a different destiny,  
varying from a small powder-puff, which appears timidly, to a large dark cloud  
that spreads out across the sky like a mattress  
and seems to assert its will against all the efforts of the sun.<sup>1</sup>*





Banca Popolare di Sondrio (suiss)

This report is available in Italian,  
German and English.  
The Chairman's Foreword has also  
been translated into Romansh.

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*The Clouds are fantastic: they appear and then slowly unfold  
and warn us of the fate awaiting our happinesses fi which also have a hold over us;  
they may fragment, or dissolve, or come apart,  
and so warn us that nothing lasts, nothing is external, and tout passe, tout se casse.<sup>2</sup>*



## THE CHAIRMAN'S FOREWORD

It is with relief that we welcome the year 2000. A part of our life is now behind us but so, too, is the spectre of the millennium bug - a gnawing preoccupation that has eroded the minds, energy, and financial resources, of more than a handful of people.

Looking to the near-term future, a brief initial comment on the more significant economic events at a national level seems in order.

Overall, 1999 may be viewed as a year that earns no distinctions, whether negative or positive. GDP is expected to have picked up by 1.3%, with unemployment fluctuating between 2.3 and 2.5% and inflation remaining below 1%.

It must be said that achieving growth in the economy is, compared with the rest of Europe, proving difficult, one reason being the handicap represented by the strength of the local currency fi a strength that is more financially driven than trade-related. Indeed, the Swiss Franc has held its place in the European firmament.

The spirit of enterprise, among business owners and savers, is frail. Hypochondria, self-evidently, provides no motive power for the economy and still less do the necessary deterrent measures.

An upturn in the economy starts out from the bilateral agreements that, in the main, govern and promote trade links with the European Union. The skills at issue are those involved in building partnerships that allow greater scope for developing output, distribution, and consumption. A two-way flow of goods goes a lot further than a two-way flow of ideas.

Though the stock market has posted less than satisfactory results for almost the entire year, Switzerland, as a financial centre, continues to be a hive of activity.

The process of concentration in banking is on the increase and thus the presence of more foreign banks in Switzerland, more especially in Canton Ticino fi seemingly proof of an adage that runs "a few honeyed words achieve more than a stream of invective". Political, economic, and social stability; a proper, integrated system of efficient government agencies; mobility of labour, which - like any tradable commodity - has its inherent costs and its market price; fair taxation based on clear-cut and upright dealings between the revenue authorities and taxpayers..... And were this all, would these few enticements be so unappealing?

Turning to matters closer to home, a straight comparison of the figures on the balance sheet and income statement with those for last year gives a fairly accurate indication of the performance of the bank. The Report of the Board of Directors, which follows, comments on what are telling figures, both by setting the accounting data in the context of market conditions and by detailing their meaning, the broad sense of which speaks for itself.

Midway through the year there was a changeover in top executive management. On his own initiative Gianni Meregalli, the Managing Director of the Bank since its foundation, made way for Brunello Perucchi, but intends to continue to give us the benefit of his wisdom and drive in retirement.

The expansion of the business, based on a combination of firm resolve and rapid implementation, called for reorganisation through the introduction of a new information system geared to future change - a future that is already with us. In one year the number of staff has risen from 47 to 88.

What has been described as the emergency that none can see is now upon us. The age of computer networking is bound up with the digital revolution, and so-called globalisation is making swift headway, not just at an economic and financial level, but culturally as well. Hence the need to apply job and logistics organization, to be competitive in the markets and, in turn, the need for ongoing economic co-ordination that, to use a term from biology, might be viewed as holistic.

New premises were opened in early June in St. Gallen, in the canton of that name, and at the beginning of July in Celerina. These two differing localities fit in well with our strategy.

The results, at this early juncture, have borne out our decisions. For this year our development target will keep within the norms of what is strong organic growth - both as regards expansion, to be limited in scope, and productivity, to be raised. Apart from earnings and size, our specific mission remains, as ever, to do our job to the advantage of the community at large, operating with agility and tenacity and purposefully. Such is our conviction in managing the bank, which must be a solid, reliable instrument for anyone aiming to boost his potential and see his trouble rewarded.

Aware that actions speak louder than words, we have introduced products that are new for the Bank and that keep it competitive. We point to the Popso (Suisse) Sicav Investment Fund which, this year, will also be sold in Italy. Added to this is our agreement with Helvetia-Patria to distribute insurance policies. Finally, there is the opportunity, for those who have the requisites, to become equity owners in Banca Popolare di Sondrio, our parent company in Valtellina and Valchiavenna.

We are also seeking, through Sofipo, the Lugano-based trust company, to offer highly specialised services as part of its integrated global consultancy business.

Our operational approach is low-key but brisk, based, as noted earlier, on the principle "festina lente" (more haste less speed).

The Directors' Report and Financial Statements come with a cultural supplement dedicated to the memory of Giuseppe Prezzolini, who, after a long life, ended his days in Lugano. The time we spent in his company is unforgettable.

My gratitude goes to the Directors for sharing in the task of management. Their sense of duty testifies to their distinction, zeal, and capability. Unreserved thanks is due to the staff for the good work done, intelligently and reliably, in handling assignments that were often testing and that are growing ever more demanding. To our customers, whose number has increased substantially, we renew our commitment to continue as their Bank: as in the past, so too in the present and in the future. An acknowledgement, too, to the Federal Banking Commission, the statutory regulator,

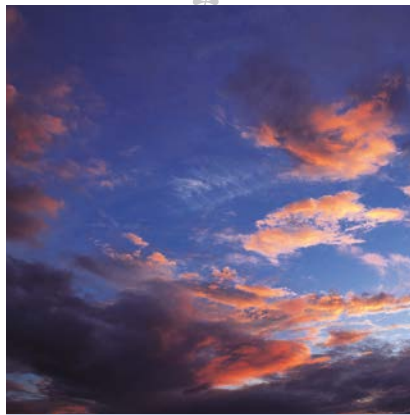
for its authoritative backing and for ensuring due and strict compliance with all directives, minor and major. As always, the work put in by the independent auditors was appreciated, the exchange of views with them is useful and professionally stimulating.

This New Year's Day is special : the next such one is a thousand years away. However much we may champion change, the relentlessness of time causes us stress and anxiety. Let us consign ourselves to the changing canvas of time, but let us live out the time allotted us as the standard-bearers of order, work, and rectitude.

Lugano, 1st January 2000

**Piero Melazzini**  
Chairman



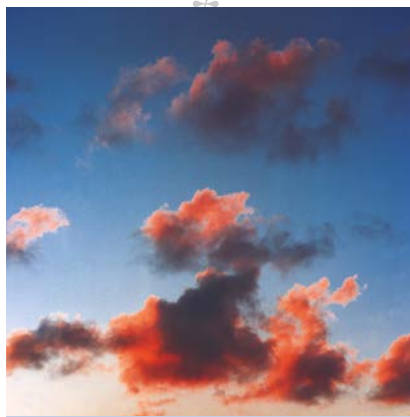


*Even when the weather turned bad,  
I would amuse myself watching thick clouds  
approach and discharge a deluge of rain.<sup>3</sup>*

3.

G. Prezzolini, *Ricordi di quando...*,  
*Il Tempo*, 19th June 1949





*I,,m a Cloud-gazer fi on some days I could stand there all the afternoon  
watching them [...] There must be men in the Clouds [...],  
who like a bright, clear sky, but strewn with Clouds,  
big and small, and great banks of Cloud.<sup>4</sup>*

4.

G. Prezzolini, *Stelle o nuvole?*  
*Gazzetta Ticinese*, 21st October 1978  
and *Notiziario della Banca Popolare di  
Sondrio*, No. 25, April 1981

## REPORT OF THE BOARD OF DIRECTORS AT 31 DECEMBER 1999

With the twentieth century now drawing to an end and the Millennium felt as a very forcible presence, be it because of the "bug" or the time the latter symbolises, we submit our fourth report, a report that has a very clear keynote - the steady growth in the business. Such growth reflects our steady geographical expansion and our gradual in-depth penetration in the areas in which the Bank first established itself. The operational approach has been to cover the full gamut of banking services even though business volumes and results are of a modest order. The report is, at the same time, an account of "the last stop at the end of the line" before the last year of the twentieth century, a terminus characterised by a significance and intensity that is unlikely to go unacknowledged by our descendants.

In view of the scale of our operations we feel we may be excused from offering an appreciation of economic and political events nationally, and still more so as regards those at a European and global level. Observant readers will have noticed that the Swiss Confederation boasts numerous banks of high standing whose sources are far more authoritative than ours, where such informed comment is available.

The first thing to be said is that the transition to the Year 2000 brought with it no disruption or shutdown in connection with the feared  $\pm$ Millennium Bug. Everything went exactly as planned. The Bank was in a state of alert for virtually the entire year and its management of the transition was notable for the responsibility and commitment shown.

In the previous report we had referred to the need to update our IT equipment. This proposal was then implemented with the result that we have been in a better position to keep in step with corporate performance and growth and to meet various requirements connected with the Bank's activities right across the board, offering our clients a state-of-the-art, more functional system.

A direct comparison of the figures in these financial statements with those at 31.12.1998 gives a fairly accurate idea of the growth in resources, up from CHF 191,209,094 to CHF 361,789,073, an 89.2% increase. The performance of the Bank is reflected in the following two factors: funding, which increased by 108.12%, and lending, which advanced by 66.9%. Important though this data is, it is by no means exhaustive. All this is also reflected - and to great effect - in profit, which rose by 33.83%, and by the individual items in the statements.

The Bank's geographical coverage was strengthened last June with the opening of the St. Gallen branch. Its inauguration inspires confidence in future developments. A month later, we set up new premises at Celerina in the Canton of Grisons, near St. Moritz, where one of our major branches has been operating for three years. During the coming year the Bank intends inaugurate two further branches, thereby broadening our presence in the Cantons of Ticino and Grisons.

In a business that is varied and expands apace, greater emphasis was laid on the inflow of savings, the natural lymph that sustains operations. Savings remain the staple of lending which, in its turn, is vital for firms, providing an infusion of lifeblood for those that are undercapitalised. Increasingly, however, savers are turning to

institutional investors and away from direct investment. This tendency is set to strengthen over time as the range of sophisticated and select products grows and, with it, the call for specialist skills in order to assess the risk. It is risk, for that matter, that imposes a growing need for us to keep close track of operations and to hone techniques for reacting appropriately.

Commercial banking, too, is a part of our work and we are endeavouring to ensure its coherent expansion. Such activity at a retail level fits in with our desire to engage in banking at its roots, given the close identity of the Bank with the local community. Our place, as we see it, is alongside private individuals, families, small and medium-sized firms and, most of all, the many Italian workers who, abroad, maintain their attachment to Italy. One line of business followed with special interest is that in support of trade with Italy, an area in which we offer particular competence given our knowledge and experience.

The important area of fund management and advisory services was subject to the influence of the international stock markets. Accordingly, the year was difficult, the reason being that it was difficult to forecast trends in the world's regional economies, especially in the American economy. The year closed with a return of optimism, if not of euphoria, at least in some sectors (namely, technology-related ones). Such optimism, however, continues to be excessive and should be regarded with caution.

That investors should feel unsettled is understandable. After being accustomed to a situation that was ideal, they now face conditions that are tough. In our view, especially when attention shifts towards the shorter term, it is necessary, or at any rate advisable, that the fund manager be left to pursue a reasoned approach and, therefore, to invest with a view to the medium and long term. Certainly, and most importantly, this is always in the interest of the customer. In this way, while due account is taken of the investment guidelines and the specific customer's risk profile, the value of the funds under management may be protected and optimised.

The year was notable for the introduction of the euro, which, for the moment, is no more than a unit of account. From a technical standpoint, at least, the event went well. The new currency triggered a process - that also affected the Bank - involving portfolio redesign and re-allocation, (optional) conversion of the various types of account held in the  $\text{fr}$  currencies, and reorganisation of internal financial and interbank flows. The loss in value of the euro as against the major currencies was not seen as a repudiation of the great EMU project, but was viewed, rather, as a natural reaction to the differing trends in the underlying economies. According to reliable forecasts, the outlook for the euro in the coming year is that it should recover or, at least, hold stable.

While there is certainly no threat to the sovereignty of the Swiss Franc as the national currency, it increasingly moves in phase with the peaks and lows of the euro. It is a currency that follows a "European" pattern of behaviour. On the other hand, there can be no question of putting the clock back.

Last April we began sales of units in our SICAV, a Luxembourg-registered company Popsosuisse (Suisse) called the Popsosuisse Investment Fund. During the coming year the

units will be sold in Italy, too, through our parent company's network of branch offices. The year under review saw the first sales of insurance products. The response by clients has been one of increasing appreciation.

Though good news is too readily overtaken by less good news, we do not hesitate to report that demand by investors for shares in our parent company is steadily gaining force. The shares are listed in Italy on the second-tier unlisted securities market (Mercato ufficiale ristretto) and, over the last two years, have registered an annual growth rate of between 25 and 30%.

Our associated company, Sofipo Fiduciaire SA, can now no longer be regarded as a fledgling venture and is making good progress.

There was an increase in corporate capital, from CHF 30 million to CHF 50 million, in April 1999. This was subscribed for by the parent company and we take this opportunity to express our thanks for all the assistance the latter generously provided.

We turn now to the main items in the financial statements. Total assets, which mostly reflect retail banking, increased to CHF 361,789,073 up by CHF 170,579,979. Commercial and lending activity, following a gradual and prudent start, took a big step forward. Lending to clients stood at CHF 101,720,438, as compared with CHF 76,663,470 at 31.12.1998 and mortgage lending amounts to CHF 50,065,202 (CHF 14,284,229 at the end of 1998).

The substantial headway made with directly sourced funding is evidenced under liabilities. The item "Due to customers on savings and deposit accounts" shows a total of CHF 29,612,138 (CHF 14,801,848 at 31.12.1998) and "Other amounts due to clients" is up, totalling CHF 182,937,594 (CHF 92,859,469 at the end of 1998). Further encouragement is provided by medium and long-term funding in the form of medium- and long-term note issues; the total here is CHF 12,093,000 (the corresponding value at the end of 1998 was CHF 280,000).

The figures for business over the year, shown in the income statement, reflect its higher volumes. Total expenses are substantially greater and overall revenue is likewise up. Both are the result of a marked expansion in activity.

As for the Bank's personnel - we have on more than one occasion made the point that a bank is the people in it - their number has increased appreciably: from 47 to 88. This process is set to continue, though at a slower rate.

The figures quoted above feed through with striking effect to net operating income, which rose steadily and now stands at CHF 32,130, 595 (as against CHF 25,032,216 at 31.12.1998). This result is due in particular to the growth in fee and commission income and the increasing importance of net interest income. The positive result registered for net income from trading operations is noteworthy, having risen notwithstanding the reduced scope for gains consequent upon the introduction of the euro. Application of the official fixed rate eliminated the spreads normally practised in conversions between the legacy currencies.

Operating expenses amounted to CHF 14,628,765 as compared with CHF 7,647,764 in the previous year. Over and above the increased personnel headcount reported above, the reason for this appreciable rise lies largely in the boosting of the organisation's capability, above all through the installation of the new computer system.

After due deductions for depreciation and provisions, the financial statements show a net profit of CHF 6,941,810 - as against CHF 5,186,945 - with an increase of CHF 1,754,865 or 33.83%.

Pursuant to the provisions of Article 22 of the Company's By-laws, the Board's recommendation to the Annual General Meeting is that the entire profit be appropriated to the general statutory reserve for the purpose of increasing the capital available to the Bank.

The Board also expresses its firm view that the conduct of the business was right and displayed a proper commitment to providing products and services tailored to the specific needs of clients while being consistent with sound and prudent banking practice.

The Bank exists primarily to create added value that will confirm the confidence of our clients and our parent company. Any weakening of confidence harms the market economy, whereas the latter benefits whenever reputations are enhanced. The loss suffered by a bank that, on the other hand, fails to enjoy the confidence of the market goes beyond that of its capital. It is essential that we continue to remind ourselves of where we want to go. Those without a sense of direction have always caused us concern, if only because their way will, in all likelihood, be different from our own.

Clients cannot be put off with empty words. They seek, indeed they demand, knowledge, insight, experience, and confidentiality. We thank them, particularly those - and, truly, there are many - who lend their support by promoting the Bank.

The intelligent hard work of our staff at all levels earns them our whole-hearted acknowledgement and outspoken gratitude. We should like especially to thank Messrs. Gianni Meregalli and Brunello Perucchi, two able managers, who have, unassumingly, made their respective exit and entrance.

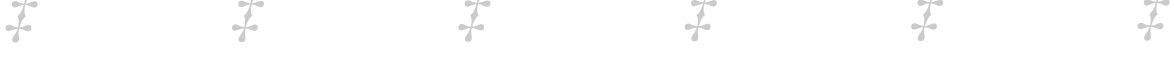
It is only proper and it is also a pleasure - to mention Arthur Andersen SA, which has carried out its audit in accordance with the provisions of the Swiss Code of Obligations. It has also given invaluable assistance to our internal auditors, who have now been reinforced by the addition of a well-qualified newcomer. Arthur Andersen's period of appointment by the Company is now at an end and, in accordance with Article 20 of the By-laws, the Board of Directors proposes that it be re-appointed.

Finally, we express our sincere thanks to the Swiss Federal Banking Commission, as always both authoritative and helpful.

Lugano, January 5, 2000

**The Board of Directors**







*But Clouds! Each one has its own unrepeatable story,  
for my eyes to watch, which will never be seen by anyone else  
who conjures up a thousand other events from those shreds of steam,  
which take on a hundred different shapes and suggest a thousand more by the moment;  
and they fill me with envy and seem to be inviting me, like them,  
to accept their destiny, which is transitory, but so varied,  
with a thousand different faces and bodies, and a thousand possibilities.  
And they always seem to be pursuing an ideal without ever finding a definite form,  
and then, as though half-crazed and resigned, they dissolve,  
and in the twinkling of an eye are gone, never again to be found in the sky.<sup>5</sup>*

5.

G. Prezzolini, *Stelle o nuvole?*  
*Gazzetta Ticinese*, 21st October 1978  
and *Notiziario della Banca Popolare di  
Sondrio*, No. 25, April 1981

# 1999 FINANCIAL STATEMENTS

## BALANCE SHEET AT 31 DECEMBER 1999

## ASSETS

CHF	1999	1998	Change
Cash	21 149 570	6 440 228	14 709 342
Due from banks	136 996 207	68 981 587	68 014 620
Due from clients	101 720 438	76 663 470	25 056 968
Mortgage loans	50 065 202	14 284 229	35 780 973
Securities Trading portfolio	306 652	36 250	270 402
Financial investments	24 780 450	9 497 752	15 282 698
Participating interests	299 361	60 000	239 361
Fixed assets	4 038 627	2 526 191	1 512 436
Accrued income and prepaid expenses	713 012	450 243	262 769
Other assets	21 719 554	12 269 144	9 450 410
<b>Total assets</b>	<b>361 789 073</b>	<b>191 209 094</b>	<b>170 579 979</b>
Total subordinated assets	357 143	363 822	-6 679
Total amounts receivable from significant shareholders	26 236 025	19 211 371	7 024 654

## LIABILITIES

CHF	1999	1998	Change
Money market instruments	27 500	-	27 500
Due to banks	32 205 814	19 413 251	12 792 563
Due to clients in savings and investment accounts	29 612 138	14 801 848	14 810 290
Other amounts due to clients	182 937 594	92 859 469	90 078 125
Cash banks	12 093 000	280 000	11 813 000
Accrued liabilities and deferred income	847 285	111 493	735 792
Other liabilities	24 223 691	14 993 325	9 230 366
Valuation adjustments and provisions	15 739 743	11 589 210	4 150 533
Share capital	50 000 000	30 000 000	20 000 000
General statutory reserve	7 160 498	1 973 553	5 186 945
Profit for the period	6 941 810	5 186 945	1 754 865
<b>Total liabilities and shareholders' equity</b>	<b>361 789 073</b>	<b>191 209 094</b>	<b>170 579 979</b>
Total liabilities to significant shareholders	20 073 000	15 849 500	4 223 500

## OFF-BALANCE SHEET - TRANSACTIONS

CHF	1999	1998	Change
Contingent liabilities	32 622 628	14 857 044	17 765 584
Derivative instruments			
(contract volume)	692 039 500	502 105 189	189 934 311
positive gross replacement values	20 148 316	11 648 072	8 500 244
negative gross replacement values	19 377 044	11 469 743	7 907 301
Fiduciary transactions	307 219 079	290 763 601	16 455 478



# INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 1999

## INCOME STATEMENT

### INCOME AND EXPENSES FROM ORDINARY ACTIVITIES

CHF	1999	1998	Change
Interest and discount income	6 867 897	4 828 270	2 039 627
Interest and dividend income on trading portfolios	2 835	6 904	-4 069
Interest and dividend income on financial investments	548 139	495 188	52 951
Interest expense	-3 598 857	-2 295 886	-1 302 971
<b>Net interest income</b>	<b>3 820 014</b>	<b>3 034 476</b>	<b>785 538</b>
Commission income on lending activities	773 658	422 683	350 975
Commission income on securities and investment transactions	24 685 758	19 234 893	5 450 865
Commission income on other services	1 124 202	886 015	238 187
Commission expenses	-3 218 119	-3 361 434	143 315
<b>Net income on fee and commission business</b>	<b>23 365 499</b>	<b>17 182 157</b>	<b>6 183 342</b>
<b>Net income on trading operations</b>	<b>5 286 095</b>	<b>4 841 295</b>	<b>444 800</b>
Net income from disposal of financial investments	6 413	-12 500	18 913
Other ordinary income	-	-	-
Other ordinary expenses	-347 426	-13 212	-334 214
<b>Other ordinary results</b>	<b>-341 013</b>	<b>-25 712</b>	<b>-315 301</b>
<b>Net operating income</b>	<b>32 130 595</b>	<b>25 032 216</b>	<b>7 098 379</b>
Personnel expenses	7 865 171	4 509 969	3 355 202
Other operating expenses	6 763 594	3 137 795	3 625 799
<b>Total operating expenses</b>	<b>14 628 765</b>	<b>7 647 764</b>	<b>6 981 001</b>
<b>Gross profit</b>	<b>17 501 830</b>	<b>17 384 452</b>	<b>117 378</b>

## INCOME STATEMENT

## PROFIT FOR THE PERIOD

CHF	1999	1998	Change
Depreciation and write-offs of non-current assets	4 500 000	4 392 143	107 857
Valuation adjustments, provisions and losses	3 400 020	5 818 000	-2 417 980
Taxes	2 660 000	1 987 364	672 636
<b>Profit for the period</b>	<b>6 941 810</b>	<b>5 186 945</b>	<b>1 754 865</b>

## ALLOCATION OF RETAINED EARNINGS

CHF	1999	1998	Change
Retained earnings brought forward	-	-	-
Retained earnings at the end of the period	6 941 810	5 186 945	1 754 865
Balance sheet profit	6 941 810	5 186 945	1 754 865
Recommendation of the Board as to the allocation of retained earnings			
Allocation to general statutory reserve	6 941 810	5 186 945	1 754 865
<b>Retained earnings carried forward</b>	<b>-</b>	<b>-</b>	<b>-</b>

# CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 1999

## CASH FLOW STATEMENT

### CASH FLOW BASED ON OPERATING RESULT (INTERNALLY GENERATED)

CHF in thousands	Source	Application
Profit for the year	6 942	-
Depreciation and write-offs on non-current assets	4 500	-
Valuation adjustments and provisions	4 151	-
Accrued income and prepaid expenses	-	263
Accrued liabilities and deferred income	736	-
Other items	-	220
<b>Net cash flow from operating results (internal sources)</b>	<b>15 846</b>	<b>-</b>

### CASH FLOW FROM EQUITY TRANSACTIONS

Capital increase	20 000	-
<b>Net cash flow from equity transactions</b>	<b>20 000</b>	<b>-</b>

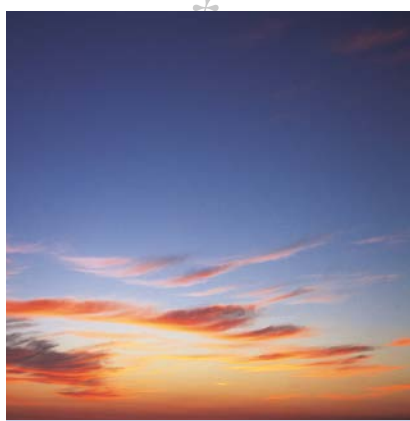
### CASH FLOW FROM INVESTMENT ACTIVITIES

Participating interests	-	239
Other fixed assets	-	5 813
Intangible assets	-	200
<b>Net cash flow from investment activities</b>	<b>-</b>	<b>6 252</b>

## CASH FLOW STATEMENT

## CASH FLOW FROM BANKING OPERATIONS

CHF in thousands	Source	Application
<b>Non-current operations (&gt; 1 year)</b>		
Medium term note issues	11 813	-
Cash from savings and deposits	14 810	-
Mortgage loans	-	35 781
Financial investments	-	15 283
<b>From non-current operations, net (&gt; 1 year)</b>	<b>-</b>	<b>24 441</b>
<b>Current operations</b>		
Liabilities under money market instruments	27	-
Due to banks	12 793	-
Due to clients	90 078	-
Due from banks	-	68 015
Due from clients	-	25 057
Trading balances in securities	-	270
<b>From current operations, net</b>	<b>9 556</b>	<b>-</b>
<b>Cash</b>		
Cash and cash equivalents	-	14 709
<b>Cash, net</b>	<b>-</b>	<b>14 709</b>
<b>Total</b>	<b>45 402</b>	<b>45 402</b>



*Perfect bliss was mine on my trips,  
more often alone than accompanied,  
to the top of a hill or mountain,  
where I was able to indulge in peaceful contemplation of a vast area  
and reflect on the variety of life that stretched before me,  
a flock of sheep, a smoking chimney, a solitary wayfarer, a train,  
the shapes of towns, the course of a river,  
and above all the Clouds drifting across the sky,  
which seemed to me a finer sight  
than staring at the stars.<sup>6</sup>*

# NOTES TO THE 1999 FINANCIAL STATEMENTS

## 1. DESCRIPTION OF SECTORS

The Banca Popolare di Sondrio (Suisse) SA was formed in Lugano on May 3, 1995. Its business is principally focused on asset management, lending, and securities brokerage.

The Bank is authorised, in a professional capacity, to distribute in Switzerland units in the Popso(Suisse) Investment Fund SICAV, Luxembourg. It acts, too, as an intermediary in providing insurance coverage and leasing contracts.

In addition to its head office and local town branch in Lugano, the Bank's network currently consists of a main branch in St Moritz with smaller branch offices at Poschiavo and Celerina, and one main branch each at Chiasso and St. Gallen.

By the end of the financial year the overall number of personnel employed stood at 88 (47 at the end of 1998).

Fee and commission business, especially that connected with asset management, is the prime source of income for the Bank and generates 73% (69% in 1998) of net operating income. Net income from trading operations accounts for some 16% of the same total (20% in 1998), with net interest income contributing about 12% (12% in 1998).

### CREDIT

Credit is given against adequate guarantee.

Indeed, loans secured by guarantees represent over 84% of the total (92% in 1998).

Of unsecured loans, 49% are granted to government bodies.

As regards off-balance-sheet transactions, guaranteed contingent liabilities stand at 80% of the total (81% in 1998), these liabilities consisting of guarantees provided by the Bank.

### TRADING OPERATIONS

During the financial year the Banca Popolare di Sondrio (Suisse) SA traded principally in currencies, options, and securities.

These operations were, for the most part, conducted through trading based on traditional techniques.

Trading operations are handled by professional dealers working at our head office, which is equipped with the requisite electronic systems. Positions taken in the course of proprietary trading are subject to set limits and these are reviewed on a daily basis.

### OTHER SERVICES

Safe deposit and vault deposit facilities are available, especially to private clients, at our head office in Lugano, as well as at our main branches at St. Moritz and Chiasso, and our sub-branches at Poschiavo and Celerina. Back office functions and payment transfers are handled by a service unit at Chiasso that works directly under head office.

### LOSS RISKS

The Management, under the supervision of the Board of Directors, is responsible for decisions and implementation of the risk management policy that the Board has approved.

The Bank has adopted internal procedures that regulate the management of the main risks it faces in the course of its business. To minimise the risk of losses arising on secured loans prudent margins, as provided by the procedures, are set.

Decisions on the approval of loan facility applications are handled by head office at Lugano.

### DERIVATIVE FINANCIAL INSTRUMENTS

Positions in derivatives are taken mostly on behalf of clients.

For the purposes of balance sheet management the Bank enters into forward foreign exchange contracts and, in one case, it has agreed an interest rate swap that serves as a hedge.

## 2. ACCOUNTING AND VALUATION PRINCIPLES OF THE FINANCIAL STATEMENTS

### GENERAL PRINCIPLES

The accounts, their presentation, and the valuations made are in compliance with the Swiss Code of Obligations and Banking Law. Accounting is based on the date of settlement (the value date).

The main valuation principles are set out briefly below.

### CASH

These are charged at their nominal value.

### DUE FROM BANKS AND CLIENTS, MORTGAGE LOANS

Loan accounting is based on the nominal value of loans.

For potential client risk, lump-sum adjustments are made through a provision for this purpose included under "Valuation adjustments and provisions".

Should doubts arise as to the solvency of a borrower, the Bank, taking into account the relevant guarantees, collateral, and the financial situation, makes a commensurate allocation - under "Valuation adjustments and provisions" - in respect both of the principal and the interest. The amount set aside depends on an assessment of what is likely to be the realisable value.

Where a borrower is 90 days in arrears in the payment of interest, the interest already booked but not yet received is reversed through an entry under "Valuation adjustments, provisions, and losses".

Interest accruing after the ninetieth day is not reported as income but deferred under the item "Valuation adjustments and provisions". In such cases, it is shown as revenue only when actually collected.

### SECURITIES TRADING PORTFOLIO

Securities that are held for trading are stated at their market value at the balance-sheet date provided that they are traded on a recognised stock market or in the context of a representative market as defined in banking legislation. Where this is not the case, they are valued at cost less any writedown in value that, in the circumstances, is appropriate.

The resultant amount is charged to the income statement.

### FINANCIAL INVESTMENTS

Securities carried by the Bank on a proprietary basis that are not intended for trading and are not to be held until maturity (in the case of interest/dividend-bearing securities) are valued at the cost or market value, whichever is lower.

The net result of value adjustments is charged to the income statement for inclusion under either "Other ordinary income" or "Other ordinary expense". In the case of securities that are disposed of, the difference between the selling price and book value is entered under "Net income from the disposal of financial investments" in the income statement.

Against the potential risk from changes in market value a lump-sum provision for securities fluctuations is recorded under "Valuation adjustments and provisions" as a liabilities item.

### PARTICIPATING INTERESTS

Reported under this item are corporate holdings of at least 10% of the corresponding capital or voting rights. Valuation is made according to cost, that is, cost less any financially necessary writedowns determined on the basis of normal prudence.

## FIXED ASSETS

These are reported at cost, net of due depreciation/write-offs. The latter are applied on a straight-line basis and are calculated on the basis of the assets' estimated service life, assessed conservatively. Additional depreciation/write-offs may be charged insofar as this is allowed by law.

## VALUATION ADJUSTMENTS AND PROVISIONS

Compatible with prudence, separate valuation adjustments and provisions are made in respect of all the risks recognisable on the balance-sheet date. Potential risks are covered by lump-sum valuation adjustments and provisions. The valuation adjustments and provisions may include undisclosed reserves.

## TAXES

Under "Valuation adjustments and provisions" the Bank allocates a provision for the taxes levied at communal, cantonal, and federal level on profit for the period.

## PRECIOUS METALS

Precious metals are valued at their market price as recorded on the balance sheet date.

## FOREIGN CURRENCY

Assets and liabilities in foreign currencies are translated at the exchange rates obtaining on the balance sheet date.

## DERIVATIVE FINANCIAL INSTRUMENTS

For forward positions, the market prices of the residual maturities are used.

Positions in derivatives intended to be traded on a representative market are calculated at market value. Any profits or losses resulting are charged to the income statement.

If there is no representative market, the valuation is made at cost or market value, whichever is lower. Hedging positions are valued using the same principles as apply to the underlying transactions hedged.

Cash transactions that, through the application of value date accounting, were not yet settled at 31 December 1999, are included with forward transactions.

## CHANGE IN ACCOUNTING PRINCIPLES RELATING TO PRESENTATION DURING 1999

At 31 December 1999 the Bank classified under "Other fee and commission income" income that in the previous financial year had been included in "Other Ordinary Income". For this reason, to ensure a like-for-like comparison, a correction amounting to CHF 872 351 has also been made to the 1998 figures, leading to an increase in the stated amount to "Net income on fee and commission business" for 1998.

The re-classification has no repercussions on profit for the year, nor any effect on undisclosed reserves.



### 3. BALANCE SHEET INFORMATION

#### 3.1. SUMMARY OF LOAN COLLATERAL AND OFF-BALANCE-SHEET TRANSACTIONS

CHF in thousands	type of collateral				
	guarantee	Mortgage collateral	Other Unsecured	Total	
<b>Loans</b>					
Due from clients		5 801	72 423	23 496	101 720
Mortgage loans		50 065	-	-	50 065
Residential property					
CHF 29 349 (1998: CHF 11 434)					
Commercial property					
CHF 14 135 (1998: CHF 2 096)					
Others					
CHF 6 581 (1998: CHF 754)					
<b>Total loans</b>		<b>55 866</b>	<b>72 423</b>	<b>23 496</b>	<b>151 785</b>
At 31 December 1998		14 284	69 987	6 676	90 947
<b>Off-balance-sheet transactions</b>					
Contingent liabilities		-	30 032	2 591	32 623
<b>Total off-balance-sheet transactions</b>		<b>-</b>	<b>30 032</b>	<b>2 591</b>	<b>32 623</b>
At 31 December 1998		-	12 086	2 771	14 857

### 3.2. BREAKDOWN OF BALANCES IN SECURITIES AND PRECIOUS METALS HELD FOR TRADING, FINANCIAL INVESTMENTS, AND PARTICIPATING INTERESTS

#### Trading balances in securities

CHF in thousands	1999	1998	Change
Equities (unlisted)	307	36	271
<b>Total trading balances in securities</b>	<b>307</b>	<b>36</b>	<b>271</b>
of which eligible for discounting or as collateral with Central Bank	-	-	-

#### Financial investments

CHF in thousands	Book value		Purchase cost		Market value	
	1999	1998	1999	1998	1999	1998
Non-equity investment securities	17 933	9 220	17 964	9 224	17 978	9 403
evaluated according to the lower value principle	17 933	9 220	17 964	9 224	17 978	9 403
Equities	6 847	277	7 041	277	8 042	651
<b>Total financial investments</b>	<b>24 780</b>	<b>9 497</b>	<b>25 005</b>	<b>9 501</b>	<b>26 020</b>	<b>10 054</b>

of which securities worth CHF 2 003 (CHF 2 009 in 1998) that were eligible for discounting or as collateral with the Central Bank.

### 3.3. INFORMATION ON PARTICIPATING INTERESTS

#### SOFIPO FIDUCIAIRE SA, LUGANO

The Bank holds a participating interest, charged at its purchase cost of CHF 180 000 (CHF 60 000 in 1998), corresponding to 30% (30% in 1998) of the share capital and voting rights of "SOFIPO Fiduciaire SA", with registered offices in Lugano. The object of this company - which is not a listed one - is to carry out all business of a fiduciary nature and to perform any service that is part of the business of a trust company.

This participation was granted a credit line totalling CHF 550 000, of which CHF 357 143 (CHF 363 822 in 1998) is drawn down, and in respect of which the Bank entered into a subordination agreement.

Although a set of annual accounts for 1999 approved by that company's shareholders were not available, on the basis of the preliminary results the Bank decided to allocate a provision for an amount matching that of the shareholding reported in the balance sheet (CHF 180 000) and the subordinated loan (CHF 357 143).

In the absence of the conditions for a dominant influence or the significance of the participation from the consolidated accounts angle, no obligation exists as to its consolidation or the corresponding preparation of group accounts.

### POPSO(SUISSE) ADVISORY SA, LUXEMBOURG

As of March 1999 the Bank holds a participating interest, charged at its purchase cost of CHF 119 361, of 100% of the equity and voting rights in Popso(Suisse) Advisory SA., with registered offices in Luxembourg. The object of this subsidiary company - which is unlisted - is to provide advisory services for Popso(Suisse) Investment Fund SICAV on the management of its assets and on its promotion.

The company is expected to draw up accounts for its first financial year on 31 March 2000.

No obligation obtains as to the consolidation of this subsidiary company, or to the corresponding preparation of group accounts, given that there are no grounds on which the subsidiary company would be significant in any such consolidated accounts.

It is further to be noted that there is no obligation for the preparation of group accounts given that the consolidated accounts of the parent company, Banca Popolare di Sondrio Scarl, Sondrio, include the annual accounts of the Bank and, like the latter accounts, they too are published.

### 3.4. MOVEMENTS IN PARTICIPATING INTERESTS AND FIXED ASSETS

CHF in thousands value	At cost	Accumulated depreciation/ writedowns	Book value at 31.12.98	Additions	Depreciation/ writedowns	Book at 31.12.99
<b>Participating interests</b>						
of which minority: 180	180	-	60	120	-	180
of which majority: 119	119	-	-	119	-	119
<b>Total participating interests</b>	<b>299</b>	<b>-</b>	<b>60</b>	<b>239</b>	<b>-</b>	<b>299</b>
<b>Other fixed assets</b>						
Other fixed assets	6 776	4 289	2 487	2 454	2 227	2 714
Others	1 522	1 483	39	3 359	2 073	1 325
<b>Total fixed assets</b>	<b>8 298</b>	<b>5 772</b>	<b>2 526</b>	<b>5 813</b>	<b>4 300</b>	<b>4 039</b>

The insurance value against fire to "Other fixed assets" is CHF 12 650 (CHF 10 200 in 1998).

### 3.5. CAPITALISED EXPENSE FOR ESTABLISHMENT, CAPITAL INCREASE, AND ORGANISATION

The costs arising from the capital increase required in 1999, which were capitalised under "Other assets", were CHF 200 000 and were fully amortised during the year (CHF 0 in 1998).

### 3.6. ASSETS PLEDGED OR CEDED TO SECURE OWN LIABILITIES

At the balance sheet date the following assets were non-available (classified by security type and reason for deposit)

CHF in thousands	<b>1999</b>	<b>1998</b>
Bonds with the Central Bank (nominal value)		
for Lombard loan (not used)	<b>1 000</b>	<b>1 000</b>
as collateral	<b>500</b>	<b>500</b>
<b>Total</b>	<b>1 500</b>	<b>1 500</b>

### 3.7. LIABILITIES TO INTERNAL PENSION FUNDS

At the balance sheet date, as at the end of the previous financial year, there were no outstanding amounts payable by the Bank to the pension funds.

### 3.8. MEDIUM-TERM NOTES OUTSTANDING AT 31 DECEMBER 1999

During 1999 the Bank issued medium-term notes in the amount of CHF 11 813.

CHF in thousands

<b>Maturity</b>	<b>Interest rate</b>	<b>Amount</b>
2000	2.25%	200
2001	2.00%	960
2001	2.25%	605
2001	2.50%	155
2001	3.00%	210
2002	2.25%	2 300
2002	2.50%	70
2002	2.75%	75
2002	3.25%	23
2003	2.75%	5 000
2003	3.50%	45
2004	3.00%	50
2005	3.25%	2 100
2006	3.50%	250
2007	4.00%	50
<b>Total</b>		<b>12 093</b>

## 3.9. VALUATION ADJUSTMENTS AND PROVISIONS

CHF in thousands	Balance at 31.12.98	Applications and reversals consistent with specific purpose	New provisions charged to income statement	Balance at 31.12.99
Valuation adjustments and provisions for default risks (credit and country risks)	470	6	236	700
Reserves for taxes and deferred taxes	2 119	1 919	2 660	2 860
Other provisions	9 000	0	3 180	12 180
Total valuation adjustments and provisions	11 589	1 925	6 076	15 740
<b>Total valuation adjustments and provisions on balance sheet</b>	<b>11 589</b>	<b>1 925</b>	<b>6 076</b>	<b>15 740</b>

## 3.10. CAPITAL STOCK

CHF in thousands	1999	1999	1999	1998	1998	1998
	Total par value	Number of shares	Dividend- bearing capital	Total par value	Number of shares	Dividend- bearing capital
Share capital	50 000	500 000	50 000	30 000	300 000	30 000
<b>Total corporate capital</b>	<b>50 000</b>	<b>500 000</b>	<b>50 000</b>	<b>30 000</b>	<b>300 000</b>	<b>30 000</b>

There is no conditional capital, nor are there any shareholders without voting rights.

Substantial shareholders	Par value	% Shareholding	Par value	% Shareholding
Banca Popolare di Sondrio				
Scarl, Sondrio (Italy)	50 000	100	30 000	100

The Banca Popolare di Sondrio, in Sondrio, is a limited liability co-operative company and, as such, the shareholdings in it are subject to special rules. In compliance with statutory provisions no shareholder may hold more than 0.5% of the company's capital. Entry in the shareholders' register is subject to an acceptance clause. At members' meetings, each member is entitled to one vote, regardless of the shareholding they have. The shares are listed on the second-tier unlisted securities market (Mercato Ristretto) of the Milan Stock Exchange.

## 3.11. STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY

CHF in thousands

Paid-up share capital	30 000
General statutory	1 973
Profit	5 187
Total shareholders' equity at the beginning of the period (before distribution of profit)	37 160
+ Capital increase	20 000
+ Profit for the period	6 942
Total shareholders' equity at the end of the period (before distribution of profit)	64 102
of which:	
Paid-up share capital	50 000
General statutory	7 160
Balance sheet profit	6 942

During the course of 1999 paid-up share capital was increased by CHF 20 million, bringing the total to CHF 50 million.

3.12. MATURITY STRUCTURE OF CURRENT ASSETS,  
OF FINANCIAL INVESTMENTS, AND OF BORROWED FUNDS

CHF in thousands

	Maturity of capital						Total
	At sight	Redeemable by notice	Due within 3 months	Due with- in 3 to 12 months	Due within 12 months to 5 years	Due later than 5 years	
<b>Current assets</b>							
Cash	21 150	-	-	-	-	-	21 150
Due from banks	32 958	104 039	-	-	-	-	136 997
Due from clients	20 528	15 810	26 458	37 481	1 000	443	101 720
Mortgage loans	-	44 065	-	6 000	-	-	50 065
Securities Trading portfolio	307	-	-	-	-	-	307
Financial investments	24 780	-	-	-	-	-	24 780
<b>Total current assets</b>	<b>99 723</b>	<b>163 914</b>	<b>26 458</b>	<b>43 481</b>	<b>1 000</b>	<b>443</b>	<b>335 019</b>
At 31 December 1998	26 028	72 905	47 018	26 632	3 320	-	175 903
<b>Liabilities</b>							
Money market instruments	27	-	-	-	-	-	27
Due to banks	133	9 000	3 000	20 073	-	-	32 206
Due to clients in savings and investment accounts	-	29 612	-	-	-	-	29 612
Other amounts due to clients	180 938	-	2 000	-	-	-	182 938
Cash banks	-	-	-	200	9 493	2 400	12 093
<b>Total liabilities</b>	<b>181 098</b>	<b>38 612</b>	<b>5 000</b>	<b>20 273</b>	<b>9 493</b>	<b>2 400</b>	<b>256 876</b>
At 31 December 1998	93 139	14 802	3 283	15 850	280	-	127 354

### 3.13. LOANS AND COMMITMENTS TO GROUP COMPANIES AND LOANS TO THE BANK'S GOVERNING BODIES

CHF in thousands

At 31 December 1999, as at end-1998, there were no loans or commitments to group companies nor loans to the Bank's governing bodies.

### 3.14. BREAKDOWN OF ASSETS AND LIABILITIES BY SWISS AND FOREIGN ORIGIN (1999)

CHF in thousands

<b>Assets</b>	<b>Switzerland</b>	<b>Abroad</b>	<b>Total</b>
Cash	21 150	-	21 150
Due from banks	81 567	55 429	136 996
Due from clients	41 644	60 076	101 720
Mortgage loans	44 710	5 355	50 065
Securities Trading portfolio	-	307	307
Financial investments	2 003	22 777	24 780
Participating interests	180	119	299
Fixed assets	4 039	-	4 039
Accrued income and prepaid expense	526	187	713
Other assets	21 720	-	21 720
<b>Total assets</b>	<b>217 539</b>	<b>144 250</b>	<b>361 789</b>

<b>Liabilities</b>	<b>Switzerland</b>	<b>Abroad</b>	<b>Total</b>
Money market instruments	27	-	27
Due to banks	132	32 074	32 206
Due to clients in savings and investment accounts	16 821	12 791	29 612
Other amounts due to clients	39 686	143 252	182 938
Medium term note issues	12 093	-	12 093
Accrued liabilities and deferred income	640	207	847
Other liabilities	24 224	-	24 224
Valuation adjustments and provisions	15 740	-	15 740
Share capital	-	50 000	50 000
General statutory reserve	7 160	-	7 160
Profit for the period	6 942	-	6 942
<b>Total liabilities</b>	<b>123 465</b>	<b>238 324</b>	<b>361 789</b>

### 3.15. GEOGRAPHICAL ANALYSIS OF ASSETS

CHF in thousands	1999	%	1998	%
OECD countries	113 381	31	82 692	43
Other Western European countries	380	0	495	0
Other countries	13 118	4	19 852	11
Total foreign countries	126 879	35	103 039	54
Switzerland	234 910	65	88 170	46
<b>Total assets</b>	<b>361 789</b>	<b>100</b>	<b>191 209</b>	<b>100</b>



## 3.16. BREAKDOWN OF ASSETS AND LIABILITIES BY CURRENCY

CHF in thousands

Assets	CHF	USD	EURO	Others	Total
Cash	17 457	287	3 283	123	21 150
Due from banks	66 322	5 273	56 311	9 090	136 996
Due from clients	46 870	16 719	31 485	6 646	101 720
Mortgage loans	50 065	-	-	-	50 065
Securities Trading portfolio	199	58	-	50	307
Financial investments	13 623	158	10 999	-	24 780
Participating interests	180	-	-	119	299
Fixed assets	4 039	-	-	-	4 039
Accrued income and prepaid expenses	527	17	164	5	713
Other assets	21 275	57	151	237	21 720
<b>Total assets</b>	<b>220 557</b>	<b>22 569</b>	<b>102 393</b>	<b>16 270</b>	<b>361 789</b>
Forward currencies	12 781	61 409	111 220	82 126	267 536
<b>Long position</b>	<b>233 338</b>	<b>83 978</b>	<b>213 613</b>	<b>98 396</b>	<b>629 325</b>
Long position at 31 December 1998	134 552	62 047	134 600	59 962	391 161
<b>Liabilities</b>	<b>CHF</b>	<b>USD</b>	<b>EURO</b>	<b>Others</b>	<b>Total</b>
Money market instruments	27	-	-	-	27
Due to banks	18 004	10 992	-	3 210	32 206
Due to clients in savings and investment accounts	28 192	-	-	1 420	29 612
Other amounts due to clients	61 032	13 961	99 476	8 469	182 938
Medium term note issues	12 093	-	-	-	12 093
Accrued liabilities and deferred income	803	4	-	40	847
Other liabilities	24 039	49	13	123	24 224
Valuation adjustments and provisions	15 740	-	-	-	15 740
Share capital	50 000	-	-	-	50 000
General statutory reserve	7 160	-	-	-	7 160
Profit for the period	6 942	-	-	-	6 942
<b>Total liabilities</b>	<b>224 032</b>	<b>25 006</b>	<b>99 489</b>	<b>13 262</b>	<b>361 789</b>
Forward currencies	7 185	56 579	113 455	89 689	266 908
<b>Short position</b>	<b>231 217</b>	<b>81 585</b>	<b>212 944</b>	<b>102 951</b>	<b>628 697</b>
Short position at 31 December 1998	144 586	60 515	128 406	57 474	390 981
<b>Long (short) position (net)</b>	<b>2 121</b>	<b>2 393</b>	<b>669</b>	<b>-4 555</b>	<b>628</b>
Long (short) position (net) at 31 December 1998	-10 034	1 532	6 194	2 488	180

## 4. OFF-BALANCE-SHEET INFORMATION

### 4.1. BREAKDOWN OF CONTINGENT LIABILITIES

CHF in thousands	1999	1998	Change
Guarantees and similar instruments	32 623	14 857	17 766
<b>Total contingent liabilities</b>	<b>32 623</b>	<b>14 857</b>	<b>17 766</b>

### 4.2. BREAKDOWN OF FIDUCIARY TRANSACTIONS

CHF in thousands	1999	1998	Change
Fiduciary investments with others	307 219	288 245	18 974
Fiduciary investments with group banks	0	2 519	-2 519
<b>Total fiduciary transactions</b>	<b>307 219</b>	<b>290 764</b>	<b>16 455</b>

### 4.3. DERIVATE INSTRUMENTS OUTSTANDING AT YEAR END

CHF in thousands	Positive replacement value	Negative replacement value	Contract volume
Interest-rate instruments			
Swaps	275	-	9 000
Foreign exchange contracts			
Forward contracts	5 179	4 683	267 536
Options (OTC)	10 590	10 590	260 978
Equity/Index contracts			
Exchange-traded options	4 104	4 104	118 535
Others	-	-	35 990
<b>Total 1999</b>	<b>20 148</b>	<b>19 377</b>	<b>692 039</b>
Total 1998	11 648	11 469	502 106

Included in the item "Others" are transactions concluded by 31 December 1999 for settlement during 2000, in accordance with due-date accounting.

## OTHER INFORMATION

Transactions are entered into mainly on behalf of clients. Limits are set for positions taken on a proprietary basis. The relative day-by-day valuations are made on the assumption that outstanding contracts must be re-negotiated at current market conditions. Accordingly, the positive replacement value indicates the potential costs that would arise if all the counterparties were to default on outstanding contracts. The effective risk, however, is substantially lower in that transactions are entered into with counterparties of high standing. The average residual maturity of outstanding contracts is appreciably less than a year. In the case of exchange-traded options, their execution is guaranteed by the clearing house, with which an adequate margin cover is lodged. During the course of the year the Bank entered into a 10-year interest rate swap contract to hedge a credit-related position.

## 5. INFORMATION ON THE INCOME STATEMENT

### 5.1. EARNINGS FROM REFINANCING UNDER INTEREST AND DISCOUNT INCOME

The Banca Popolare di Sondrio (SUISSE) SA has not adopted this method of reporting.

### 5.2. BREAKDOWN OF INCOME FROM TRADING OPERATIONS

CHF in thousands	1999	1998	Change
Currency trading	4 846	3 976	870
Options trading	390	638	-248
Securities trading	50	227	-177
<b>Total from trading operations</b>	<b>5 286</b>	<b>4 841</b>	<b>445</b>

### 5.3. BREAKDOWN OF PERSONNEL EXPENSES

CHF in thousands	1999	1998	Change
Salaries and fees	6 406	3 695	2 711
Social Security Contributions	1 248	676	572
Other personnel expenses	211	139	72
<b>Total personnel expenses</b>	<b>7 865</b>	<b>4 510</b>	<b>3 355</b>

## 5.4. BREAKDOWN OF OTHER OPERATING EXPENSES

CHF in thousands	1999	1998	Change
Occupancy expenses	1 551	838	713
EDP expenses	1 392	279	1 113
Costs of machinery, furniture, vehicles, and other equipment	1 083	670	413
Other operating expenses	2 738	1 351	1 387
<b>Total other operating expenses</b>	<b>6 764</b>	<b>3 138</b>	<b>3 626</b>

## 5.5. OTHER INFORMATION ON THE INCOME STATEMENT

During the period there were no significant losses or extraordinary revenues in connection with the income statement.



## INDEPENDENT AUDITORS' REPORT



**Report of the Auditors**  
to the General Meeting of the Shareholders of  
**Banca Popolare di Sondrio (Suisse) Ltd, Lugano**

As statutory auditors, we have audited the accounting records and the financial statements consisting of balance sheet, income statement, statement of cash flows and notes, of Banca Popolare di Sondrio (Suisse) Ltd for the year ended December 31, 1999.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with the law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

ARTHUR ANDERSEN SA

A handwritten signature in black ink, appearing to read "Adriano P. Vassalli".

Adriano P. Vassalli

A handwritten signature in black ink, appearing to read "Piero Gasparini".

Piero Gasparini

(responsible auditors)

Lugano, January 31, 2000



## OUR SERVICES

CURRENT ACCOUNTS

SAVINGS AND DEPOSIT ACCOUNTS

FORWARD AND FIDUCIARY DEPOSITS

MEDIUM-TERM NOTE ISSUES

FOREX

PAYMENT TRANSFERS

INVESTMENT ADVICE

ASSET MANAGEMENT

SECURITIES CUSTODY

FOREIGN CURRENCY TRANSACTIONS

PRECIOUS METALS

TREASURY

COMMERCIAL LOANS

MORTGAGE LOANS

LOMBARD LOANS

GUARANTEES

INVESTMENT FUNDS

POPSO(SUISSE) INVESTMENT FUND SICAV

INSURANCE PRODUCTS

HELVETIA PATRIA

TRUSTEE BUSINESS IN ASSOCIATION WITH  
SOFIPO FIDUCIAIRE SA





Banca Popolare di Sondrio (SUISSE)

