

FOREWORD FROM THE PRESIDENT

It would be pleasant to be able to concentrate purely on company events which occurred over the past year. However, we cannot ignore the tragedy which unfolded in the USA in September 2001, or the threat of a new conflict breaking out. The situation is highly volatile and deeply worrying. Among various contributory factors at home and abroad, that is certainly the main explanation for the stagnant economy. Our own country is involved and implicated in the situation.

Times have changed, and although the conditions for some countries seem onerous and the economic prospects murky, it is difficult to imagine a wholesale collapse of the world economy.

As we have already said, our own economy has suffered stagnation and is progressing extremely slowly. The unemployment rate is fairly stable, but projections are not favourable. It is almost impossible to reconcile monetary stability with full employment.

It would be premature to give precise information and riskier still, exact data for the banking sector, but it is reasonable to state that it is suffering from a general decline. Results have continued to be negative. The reasons for the lull can be found in the economic crisis and some measures which are beyond our control. The pronounced decline in the exchange markets and the so-called tax shield have left an indelible mark.

The accounting period has been irregular in comparison to elsewhere in the system. However, just like last year we operated within the normal conditions of a living organism, where growth and reinforcement have coincided with gradual expansion.

The bank remains faithful to its original intentions. Its actions are driven by its institutional roots, and its functions are expressed in the collection of savings, the distribution of credit and the provision of services and brokering. The word "Suisse" is significant for the bank, which consequently follows appropriate banking criteria and methods. Despite everything, we are anxious to underline our clear and firm commitment to unifying professional standards with a passion for the cause.

Despite our endeavours, net profits have fallen to 6 558 516 Swiss francs, which signifies a decline of 2 466 880 (-27.33%). The prudent policy of setting aside funds and allowing for depreciation continues.

In spite of extraordinary and unfavourable events, global collection is practically stable. It has continued to be homogenous and fairly distributed.

Credit distributed according to criteria of sound operational ability totals 471 657 440 Swiss francs (+67.19%), and reflects the synergy between us and the environment in which we work.

Ultimately, the profit and loss statement reveals a fair capture of receipts. However, takings have been mitigated by the vicissitudes which have influenced brokering and by costs sustained in expanding company premises and the range of services offered.

Projections for this year offer some comfort, although we are still struck by Cicero's remark that a haruspex – a religious official who interpreted omens by examining animals' entrails – could not meet a colleague without bursting into laughter.

Following the recent opening of the branch office at Bellinzona, our presence in the territory has now reached 12 units, and will be boosted by others at Zurich and Monaco. What is more, we have just received official notification of permission to convert the office in the small but splendid Principality (of Monaco) along the Côte d'Azur into a branch office. We should become operative there as soon as possible.

The task facing the executives is to confer more and more added value to the informational assets and our professional capacity. Our virtual banking service, known as Go – Banking and accessible via the Internet, is now operating. The same applies to our Call Centre, which is seeing increasing use. The number of Staff has reached a decisive number, and members are aware that service is not a tedious duty but a noble expression of the work ethic.

“Personal benefit” is an insurance product for clients, which has been designed primarily for those workers most at risk owing to their activity. It is a socially advantageous and life-enriching tool.

The pause in cultural life has been punctuated by two events. First, the traditional theme of a personality with both Helvetian and Italian connections, and, who is prudently mentioned alongside the report on the balance sheet. I refer to Hermann Hesse, “the old sage of Montagnola”. The second was a conference held at Sondrio near our administrative office a few days ago. That was excellently handled by Daniel Vasella, a native of Poschiavo (Switzerland) and chairman and managing director of the pharmaceutical giant Novartis.

We express our gratitude to the constantly increasing Clientele.

We should also pay tribute to all members of staff for their thoughtful, enthusiastic and sensitive collaboration.

Exchanging ideas and knowledge with fellow administrators while making mutual decisions has always been a fertile experience and we thank them deeply.

We express our gratitude to the Federal Banking Commission, which is responsible for vigilance, and similarly to Deloitte & Touche S.A., which has taken over the auditing role from Arthur Andersen S.A., with whom we enjoyed fruitful relations.

We have heard and read critical appraisals of the economic and social condition of Switzerland, some of which have been motivated by love for the motherland. The current situation may conceivably lead to a rethink and changes in our relations with people, things, and the environment. If that is the case, it may be worth recalling some words from de Tocqueville which have always struck our Confederation as apt: “Among all the rules which govern human society, there is one which seems to be clearer and more precise than all the others: if men are to remain or become civilians, it is essential that they develop and perfect the art of association under conditions of increased equality”.

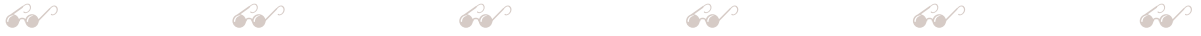
Bearing in mind this address is dated January 1st, 2003, we would like to wish everyone a memorable and Happier New Year.

Lugano, 1st January 2003

The President
Piero Melazzini



Banca Popolare di Sondrio (suisse)



REPORT OF THE BOARD OF DIRECTORS AT 31st DECEMBER 2002

We prepared this report just a few days after the close of the accounting period in a year when numerous uncertainties and precious little satisfaction have shaped the world-wide picture.

Our role is not to debate the world-wide situation. After all, greater authorities than us will reflect on developments in the European economy. Our more modest function is to tell you about our own circumstances.

The country's economy is at a standstill and the problems faced by credit institutions are almost the same as those confronted in the system as a whole. Some of us have felt the repercussions of structural and (in particular) inter-connected phenomena in the results of their balance sheets less than others. Some have felt the effects much more.

Admittedly, there have been some positive signs. The Swiss franc has rediscovered its stability in comparison to the euro, while inflation has been held down. However, we should attribute the last event not so much to a virtue, but rather to a vice (the weakness of the economy).

Amongst the chaos and widespread dejection that prevail, there is no option but to appeal to Hope, the last goddess left in Pandora's Box. According to experts, we can look forward to a recovery in the second half of this year. But our economy is in dire straits and the recovery predicted in so many forums has yet to appear on the horizon.

What is more, we are faced by the spectre of a possible war.

Our bank has improved its positioning in the territory by trying to reap the benefits of expansion and a higher concentration. The physical expansion has been mirrored by the results in the assets and trading figures and a series of statistical data that comes close to justifying the expression *vires acquirit eundo* ("travel enriches the man").

The word *popolare* (meaning "popular") in the corporate name describes the bank as the bank of the people, the family, and so on.

The recent opening of the administrative centre in Ticino has brought the number of branch offices operating in Switzerland to 12. Soon a new branch office will take over from the current agency in the Principality of Monaco. It will occupy the same premises, but the offices have been extended and modernised. Located in a prestigious quarter of the city, we will be able to offer a full range of operations.

Still on the subject of real estate, the premises acquired last year in the centre of Lugano have been completely vacated by the tenants. The premises shall operate as a head office and a city branch. Once we have obtained building permission, we will begin to restructure. We are confident of reaching an agreement with the city authorities that the front of the property can be used in the evenings and night-time as an innovative and versatile "multimedia" laboratory. The visual impact should be outstanding. The laboratory will be used for informational and cultural purposes and as a source of "suitable" entertainment for the public. This innovation signals an experiment in sharing private property with the city's inhabitants, who we hope will share our enthusiasm.

As we come to terms with the commercial and technological challenges ahead, we are able to tell you that our Call Centre has gradually become more and more established. It started as a back-up for the network and our marketing activities, but then developed into a more than capable interlocutor in relations with the clientele. It can be easily accessed by just dialling an international green number.

The Go-Banking service is a slightly separate item. It makes the bank's services accessible via the Internet and use has grown dramatically during the course of the year.

Finally, we should draw attention to the launch of the insurance product called "Personal Benefit". It is particularly significant owing to its social ramifications. It enables our clientele to acquire at a modest cost, insurance cover against the risks of death and permanent disability. The threshold limit or plafond depends on the value of accounts (whether assets or liabilities) held at our bank.

At this point, we might permit ourselves a congratulatory clap on the back. We are helping to stimulate the entrepreneurial spirit. It is those instincts which unite us and bind all the collaborators via an innate common consciousness. It may be true that you will never go far unless you know where you want to go. But we believe we know and that destination remains our main objective. Whatever we do (while getting there) should be done well.

Let us turn to the figures. Our balance sheet faithfully reflects the situation in which we find ourselves. As we read the statements, we can start with the liabilities, and not because of some blind allegiance to a principle in calculation that they are always more accurate than the assets.

The discussion will be more fluent if we tackle first the credit given to us and then the credit we have granted and paid out.

First and foremost, we see how the total in the balance sheet settled at 843 191 247 Swiss francs, an increase of 60.37%. That result was achieved owing to increases in the collection of funds from clientele, whether in commitments to savings or investment, which reached 127 983 422 Swiss francs (+86.48%) or other obligations contracted with customers.

Above all, the public's appreciation has been expressed in deposit bonds, which have grown notably by 57.45%.

The nature of the collection remains good, consistent, stable and well-distributed.

Capital investment in the clientele has grown at a sustained rate and in the various areas where we have a market presence. Mortgage credit accounts for 198 235 496 Swiss francs (+46.15%), while other customer credit amounts to 273 421 944 Swiss francs (+86.68%), thanks in part to some extraordinary transactions.

We remain increasingly convinced that the role of a bank is to give credit, sustain the economy and meet the needs of the clientele, especially the ordinary man in the street.

Credit should be given fairly and promptly. While the population should have access to credit, it should also be encouraged to save. We advocate credit at low rates and under reasonable terms so that the interests of both parties can be met.

Inter-bank activity has been intense, especially with our head office. In this connection, the positive synergy in the group has been reflected in the figures in the balance sheet.

The profit and loss statement and the trends in the earnings account illustrate how receipts are almost at a standstill compared to the previous period. Here, "stationary" means neither peaceful tranquillity nor inactivity. Let us explain.

Operations on interest have grown robustly to 11 190 874 Swiss francs (+5.82%). This is a legacy of the availability of credit to private subjects and small and medium-sized ventures.

The contraction in the rates for the Swiss franc to below a percentage point, (an effect of the national policy geared to sustain the economy), in combination with fiercer competition between the banks, has led to the erosion of margins in money management. This situation has been exacerbated by the historically low level of exchange rates compared to the euro and American dollar.

Commissions tend to confirm the result achieved in the last period and have been constrained by a rudderless market, and by the repercussions of the outgoing flow of capital following the so-called "tax shield" measure in Italy. That measure shall be repeated in 2003 and we cannot rule out similar decisions from other States. If we examine the "assets" heading in the liabilities (derived from savings and current accounts), we see that there is no trace of the measure. We make that statement not so much with unbounded joy, but with the sense of conviction that has always driven our actions, which are geared to the collection of small savings from the national economy.

Negotiations, which have concentrated mainly on exchange, have evolved in parallel with negotiations over stocks.

We are obliged to inform you that, with the agreement of our administrative office, the board resolved in the first quarter to liquidate the subsidiary (under Luxembourg law) of Popso (Suisse) Advisory Holding S.A. As a result, the bank has taken direct control of consultation to our SICAV ("Variable Capital Investment Company").

The operation produced a positive liquidation balance of almost 3,340,000 Swiss francs, entered in the profit and loss statement among "other ordinary proceeds". All the same, the overall balance for this item is affected by devaluation of the portfolio of stock of 1,741,473 Swiss francs. That stock is regarded as mid to long-term.

In contrast, own stock has been realised or converted at a profit of 424,443 Swiss francs.

The sum of net receipts amounted to 50 287 880 Swiss francs and exceeds the figure for the previous period.

That figure actually falls short of the projections made at the beginning of the year. Nevertheless, we have decided to maintain the development programme agreed at the time because our minds were set on investment far beyond the short-term. Expenditure on personnel rose, mainly because of the increase in numbers. By the end of the accounting period, there were 183 staff, compared to 162 in the previous period.

Operating costs, which were ratified in the budget, reached 31 037 325 Swiss francs (+18.75%).

While receipts have been more or less stationary, expenditure has risen. As a result, gross profit has declined to 19 250 555 Swiss francs (-17.55%).

We have not been able to escape a lamentable reduction in profits. However, while final results have been contracted, they are positive.

For these reasons, we felt it was sensible to continue the policy of ordinary and accelerated depreciation and set aside appropriate sums to the risk funds.

The figure of 302 511 Swiss francs among the extraordinary proceeds, refers to the liberation of the funds set aside in the previous period for our subsidiary Sofipo Fiduciaire S.A. of Lugano, which has now established itself in the "profit zone".

Net company profits consequently reached 6 558 516 Swiss francs (-27.33%). In accordance with the provisions of Clause 22 of the Articles of Association, the Board of Directors proposes to the General Meeting, that these funds should be set aside entirely for the general legal reserve in order to reinforce the structure of the balance sheet.

The bank's mission is still the original one: to operate our services for the local economy as we gradually increase our foothold in the territory.

We bid farewell to the firm of auditors Arthur Andersen and thank it for the positive collaboration it has given over the past few years. We have made the transition to Deloitte & Touche, in a move which parallels that of the administrative office.

At all levels, our members of staff have tackled the increased volume of work with their customary zeal and professional diligence.

We thank the clientele for their custom, the external firm of auditors mentioned above and, last but not least, the Federal Banking Commission.

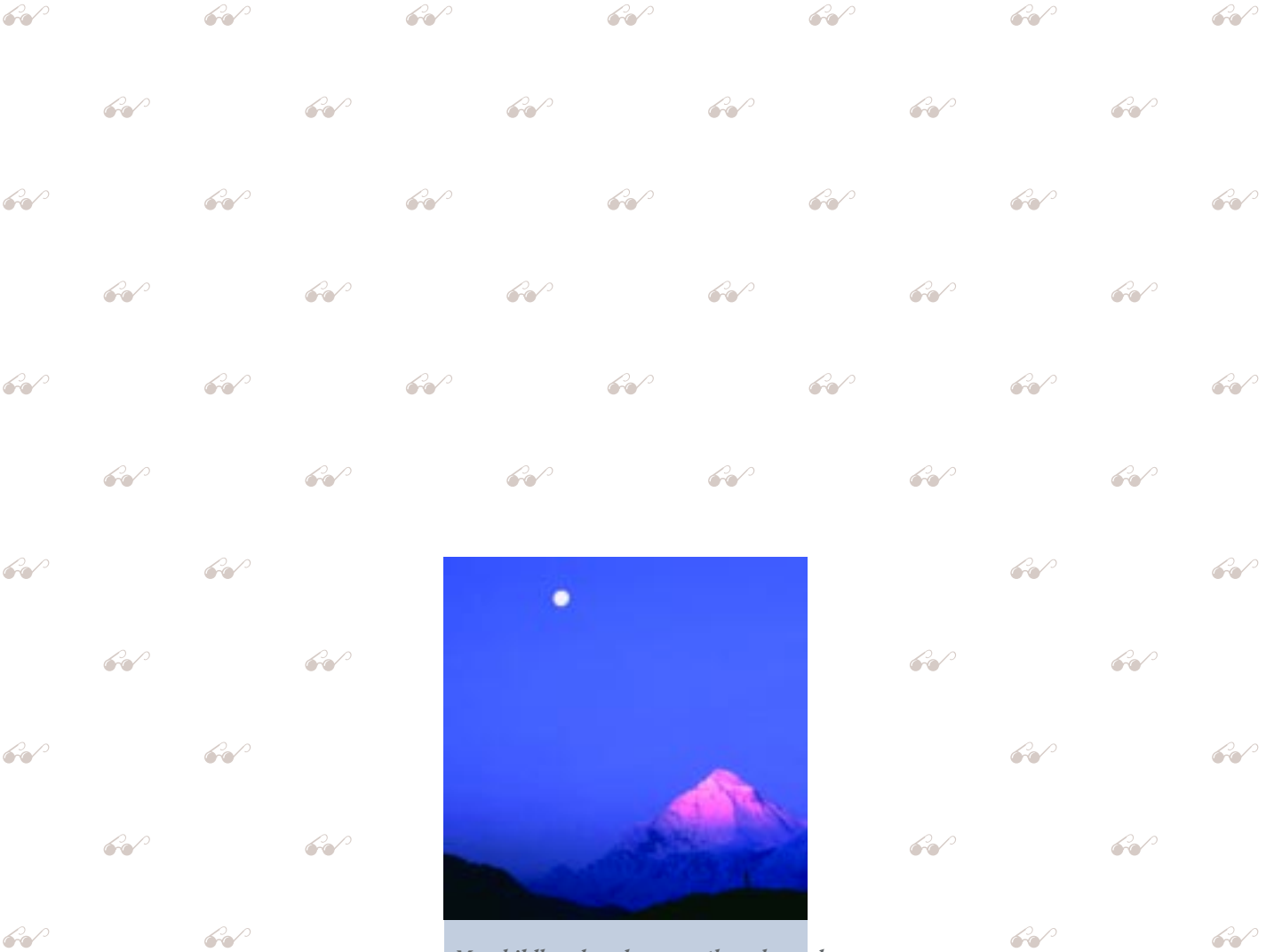
Lugano, 16 January 2003

The Board of Directors



Banca Popolare di Sondrio (suisse)





*My childhood and my mother showed
in a tender transfiguration like a distant
glimpse over mountains into the fathomless blue.⁵*

5.
Steppenwolf, 1927
(translated by Basil CREIGHTON,
London, Penguin, 1965)

BALANCE SHEET AT 31 DECEMBER 2002

ASSETS

in CHF	Note	2002	2001	Change
Cash		15 955 263	11 581 832	4 373 431
Due from banks		275 387 181	150 297 801	125 089 380
Due from clients	3.1	273 421 944	146 469 107	126 952 837
Mortgage loans	3.1	198 235 496	135 637 664	62 597 832
Securities and precious metals trading portfolio	3.2	1 148 819	902 969	245 850
Financial investments	3.2	38 100 452	49 067 267	(10 966 815)
Participating interests	3.4	350 000	459 800	(109 800)
Fixed assets	3.4	20 102 621	16 703 237	3 399 384
Accrued income and prepaid expense		3 688 450	1 442 636	2 245 814
Other assets		16 801 021	14 065 579	2 735 442
Total assets		843 191 247	526 627 892	316 563 355
Total subordinated assets		-	12 914	(12 914)
Total amounts receivable from group companies and significant shareholders		135 904 696	6 157 835	129 746 861

LIABILITIES

in CHF	Note	2002	2001	Change
Money market instruments		1 000 000	-	1 000 000
Due to banks		283 582 602	70 715 902	212 866 700
Due to clients in savings and investment accounts		127 983 422	68 632 442	59 350 980
Other amounts due to clients		245 250 481	228 837 821	16 412 660
Medium term notes	3.7	43 159 000	27 411 000	15 748 000
Accrued liabilities and deferred income		9 436 979	2 173 054	7 263 925
Other liabilities		18 546 909	24 411 261	(5 864 352)
Valuation adjustments and provisions	3.8	26 110 749	22 883 823	3 226 926
Share capital	3.9	50 000 000	50 000 000	-
General statutory reserve		31 562 589	22 537 193	9 025 396
Profit for the period		6 558 516	9 025 396	(2 466 880)
Total liabilities and shareholders' equity		843 191 247	526 627 892	316 563 355
Total liabilities to group companies and significant shareholders		245 060 715	25 733 011	219 327 704

OFF-BALANCE-SHEET TRANSACTIONS

in CHF	Note	2002	2001	Change
Contingent liabilities	4.1	29 344 096	27 089 261	2 254 835
Additional payment liabilities		300 000	-	300 000
Derivative instruments	4.2	697 261 053	797 402 630	(100 141 577)
Positive gross replacement values		10 135 066	11 355 030	(1 219 964)
Negative gross replacement values		14 872 796	11 559 208	3 313 588
Fiduciary transactions	4.3	562 547 015	455 259 573	107 287 442

INCOME STATEMENT FOR THE YEAR AS AT 31 DECEMBER 2002

INCOME STATEMENT

INCOME AND EXPENSES

FROM ORDINARY BANKING ACTIVITIES

in CHF	Note	2002	2001	Change
Interest and discount income		18 954 881	15 067 157	3 887 724
Interest and dividend income on trading portfolios		14 057	31 816	(17 759)
Interest and dividend income on financial investments		986 231	1 477 808	(491 577)
Interest expense		(8 764 295)	(6 001 389)	(2 762 906)
Net interest income		11 190 874	10 575 392	615 482
Commission income on lending activities		1 017 454	941 337	76 117
Commission income on securities and investment transactions		32 656 541	32 371 829	284 712
Commission income on other services		2 865 912	2 655 580	210 332
Commission expenses		(2 956 368)	(2 488 873)	(467 495)
Net income on fee and commission business		33 583 539	33 479 873	103 666
Net income on trading operations	5.1	3 490 101	3 829 141	(339 040)
Net income from disposal of financial investments		424 443	551 183	(126 740)
Income from participating interests		3 340 396	2 559 886	780 510
Other ordinary income		95 155	-	95 155
Other ordinary expenses		(1 836 628)	(1 511 191)	(325 437)
Other ordinary results		2 023 366	1 599 878	423 488
Net operating income from ordinary banking		50 287 880	49 484 284	803 596
Personnel expenses	5.2	19 338 164	16 126 497	3 211 667
Other operating expenses	5.3	11 699 161	10 010 391	1 688 770
Total operating expenses		31 037 325	26 136 888	4 900 437
Gross profit		19 250 555	23 347 396	(4 096 841)

INCOME STATEMENT

PROFIT FOR THE PERIOD			
in CHF	2002	2001	Change
Depreciation/write-offs of fixed assets	(7 350 000)	(7 500 000)	150 000
Valuation adjustments, provisions and losses	(4 500 000)	(4 600 000)	100 000
Extraordinary income	302 511	690 000	(387 489)
Extraordinary expenses	-	(600 000)	600 000
Taxes	(1 144 550)	(2 312 000)	1 167 450
Profit for the period	6 558 516	9 025 396	(2 466 880)
PROPOSAL FOR ALLOCATION OF BALANCE SHEET PROFITS			
in CHF	2002	2001	Change
Profit for year	6 558 516	9 025 396	(2 466 880)
Profit carried forward	-	-	-
Profit available	6 558 516	9 025 396	(2 466 880)
Recommendation of the Board as to the allocation of retained earnings			
Allocation to the general statutory reserve	6 558 516	9 025 396	(2 466 880)
Retained earnings carried forward	-	-	-

CASH FLOW STATEMENT FOR THE YEAR AS AT 31 DECEMBER 2002

CASH FLOW STATEMENT

CASH FLOW BASED ON OPERATING RESULT (INTERNALLY GENERATED)

CHF in thousands	Source of funds 2002	Application of funds 2002	Source of funds 2001	Application of funds 2001
Profit for the year	6 558	-	9 025	-
Depreciation and write-offs of fixed assets	7 350	-	7 503	-
Valuation adjustments and provisions	3 227	-	3 063	-
Accrued income and prepaid expenses	-	(2 246)	535	-
Accrued liabilities and deferred income	7 264	-	-	(1 909)
Other assets	-	(2 735)	-	(2 595)
Other liabilities	-	(5 864)	11 216	-
Net cash flow	13 554	-	26 838	-

CASH FLOW FROM INVESTMENT ACTIVITIES

Participating interests	110	-	600	(210)
Other fixed assets	-	(6 691)	787	(17 182)
Intangible assets	-	(4 059)	911	(2 876)
Net cash flow	-	(10 640)	-	(17 970)

CASH FLOW STATEMENT

CASH FLOW FROM BANKING OPERATIONS

CHF in thousands	Source of funds 2002	Application of funds 2002	Source of funds 2001	Application of funds 2001
Balance brought forward	13 554	(10 640)	26 838	(17 970)
Non-current operations (> 1 year)				
Cash from client savings	-	-	29 390	-
Other cash from clients	6 600	-	-	-
Medium-term note issues	7 920	-	13 869	(1 930)
Client loans	-	(16 421)	-	-
Mortgage loans	-	(70 595)	-	(55 323)
Financial investments	11 040	-	2 218	-
Net cash flow	-	(61 456)	-	(11 776)
Current operations				
Liabilities under money market instruments	1 000	-	-	(2)
Due to banks	212 867	-	14 992	-
Due to clients	9 812	-	41 129	-
Cash from client savings	59 351	-	-	-
Medium-term note issues	7 828	-	-	-
Due from banks	-	(125 089)	-	(43 437)
Due from clients	-	(110 532)	-	(11 651)
Mortgage loans	7 997	-	-	-
Financial investments	-	(73)	-	-
Securities trading portfolio	-	(246)	91	-
Net cash flow	1 459	-	-	(10 654)
Total cash	4 373	-	-	(1 786)
Variation in cash	-	(4 373)	1 786	-



*The world was beautiful. The moon and the stars were beautiful,
the brook, the shore, the forest and rock, the goat and the golden beetle,
the flower and butterfly were beautiful.
It was beautiful and pleasant to go through the world like that,
so childlike, so awakened, so concerned
with the immediate, without any distrust.⁶*

6.
Siddhartha, 1922
(translated by Hilda ROSNER,
London, Owen, 1954)

NOTES TO THE 2002 ANNUAL ACCOUNTS

1. DESCRIPTIONS OF SECTORS AND INFORMATION ON PERSONNEL

The Bank is principally focused on asset management, credit and securities brokerage. In addition to its head office and a local town branch in Lugano-Cassarate, the Bank's network currently consists of a main branch in St. Moritz with two agencies in Poschiavo and Castasegna and a branch office in Celerina, as well as main branches in Chiasso, Locarno, Bellinzona, Chur, St. Gallen and Basel, plus prestige offices in Zurich and Monaco.

By the end of the financial year, the overall number of personnel employed stood at 183 (162 at the end of 2001).

2. ACCOUNTING, PRESENTATION AND VALUATION PRINCIPLES OF THE FINANCIAL STATEMENT

The accounts, their presentation and the valuations made are in compliance with the directives of the Swiss Banking Federation, in particular those in DEC-CFB dated 14 December 1994 (as in force on 28 October 1999).

PRINCIPLES OF PRESENTATION AND VALUATION OF THE FINANCIAL STATEMENT:

DUE FROM BANKS AND CLIENTS, MORTGAGE LOANS

Loan accounting is based on the nominal value of loans. For potential client risks, lump-sum adjustments are made through a provision for this purpose included under "Valuation adjustments and provisions".

SECURITIES TRADING PORTFOLIO

Securities that are held for trading are stated at their market value at the balance sheet date provided. They are traded on a recognized 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 taken to the income statement.

FINANCIAL INVESTMENTS

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

PARTICIPATING INTERESTS

Valuation is made according to cost, that is cost less any economically necessary writedowns.

FIXED ASSETS

These are disclosed 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 estimated service life of the assets.

VALUE ADJUSTMENTS AND PROVISIONS

Compatible with prudence, separate valuation adjustments and provisions are made in respect of all the risks recognizable on the balance sheet date.

Potential risks are covered by lump-sum valuation adjustments and provisions.

TAXES

The Bank allocates a provision for the taxes levied at communal, cantonal and federal level on profit for the period.

FOREIGN CURRENCY

Assets and liabilities in foreign currencies are converted at the exchange rate in force on the balance sheet date. Transactions conducted in foreign currency during the year are converted at the exchange rate in force on the date of the transaction. Any profits/losses are incorporated in the income statement.

Outright transactions are converted using the residual rates in force on the balance sheet day. Any profits/losses are incorporated in the income statement.

SWAPS

The Swaps correspond to hedging operations. Interest due is recorded in the interest margin. Any profits/losses on the replacement value calculation are taken to the compensation account (Other assets or Other liabilities), without affecting the income statement.

CHANGE IN ACCOUNTING PRINCIPLES RELATING TO THE PRESENTATION DURING 2002

There were no such changes compared with the previous period.

OVERDUE INTEREST

Overdue interest is processed in accordance with the legislation. Interest accrued after the 90th day overdue is not recorded in the statement of income but is deferred using the heading "Value adjustments, provisions".

REFINANCING TRADING POSITIONS

The Bank does not offset trading portfolio interest and dividends against the portfolio refinancing costs.

RISK MANAGEMENT

MARKET RISKS

RATE RISKS

The Bank adopts a prudent policy on adopted rate risk positions. Exposure to rate risks is calculated on the maturity gap per currency. These positions are restricted and verified by senior managers on a regular basis.

FOREIGN CURRENCY RISKS

The Bank conducts transactions in foreign currencies on behalf of clients and does not take out any substantial positions on its own account. The foreign currency risk positions are monitored daily.

RISKS ON SECURITIES (TRADING PORTFOLIO)

The Bank does not trade actively in the securities market.

CREDIT RISKS

The Bank grants principally secured loans (Lombard loans and mortgage loans) and blank loans (commercial). The limits are set according to the limits that can be authorized by each level of management and observance of the limits is monitored by regular credit control. Limits to counterparty banks are ratified every six months.

BANK POLICY ON USE OF DERIVATIVE INSTRUMENTS

Positions in derivatives are taken mostly on behalf of clients. For the purpose of balance sheet management, the Bank hedges interest rate exposure through interest rate swaps.

PRINCIPLES FOR RECORDING OPERATIONS

Operations conducted by the Bank are recorded on the principle of value date accounting. Cash transactions not settled on 31 December 2002 were incorporated in forward transactions.



Banca Popolare di Sondrio (suisse)





... I felt a shudder of delight run down my spine at finding myself standing close to a friend for the first time, staring together with him into the alluring remoteness of life ahead of us, overhung with rose-tinged clouds. In the evening light the water of the lake became alive with a soft play of colours.⁷

7.
Peter Camenzind, 1904
(translated by
Walter John STRACHAN,
London, Owen, 1961)

3. BALANCE SHEET INFORMATION

3.1. CONTENTS OF LOAN COLLATERAL AND OFF-BALANCE SHEET TRANSACTIONS

in CHF	Type of Collateral			Total
	Mortgage Guarantee	Other Collateral	Unsecured	
Loans				
Due from clients	20 250 835	173 066 944	80 104 165	273 421 944
Mortgage Loans				
Residential property	154 520 560	-	-	154 520 560
Commercial property	9 646 350	-	-	9 646 350
Others	34 068 586	-	-	34 068 586
Current year	218 486 331	173 066 944	80 104 165	471 657 440
At 31 st December 2001	150 026 409	79 005 107	53 075 255	282 106 771
Off-balance-sheet transactions				
Contingent liabilities	-	26 529 549	2 814 547	29 344 096
Additional payment liabilities	-	-	300 000	300 000
Current year	-	26 529 549	3 114 547	29 644 096
At 31 st December 2001	-	26 576 501	512 760	27 089 261

3.2. BREAKDOWN OF SECURITIES AND PRECIOUS METALS TRADING PORTFOLIOS, OF FINANCIAL INVESTMENTS AND OF PARTICIPATING INTERESTS

Securities trading portfolio

in CHF	2002	2001	Change
Equities (unlisted)	1 148 819	902 969	245 850
of which eligible for discounting or as collateral with the Central Bank	-	-	-

Financial investments

in CHF	2002	2001	Change
Non equity investment securities, valued at lowest value	33 476 449	46 673 596	(13 197 147)
Acquisition cost	33 503 692	48 030 000	(14 526 308)
Market value	33 798 955	47 011 000	(13 212 045)
Equities	4 624 003	2 393 671	2 230 332
Total financial investments	38 100 452	49 067 267	(10 966 815)
of which eligible for discounting or as collateral with the Central Bank	1 002 402	1 002 402	-

Participating interests

in CHF	2002	2001	Change
With no market value	350 000	459 800	(109 800)

3.3. COMPANY NAME, REGISTERED OFFICE, ACTIVITY, SHARE CAPITAL AND PERCENTAGE INTEREST (PERCENTAGE OF CAPITAL AND VOTING RIGHTS, AND ANY CONTRACTUAL RESTRICTIONS) IN THE MAIN PARTICIPATING INTERESTS

Company name	Reg. office	Activity	Share capital	% interest
SOFIPO Fiduciaire SA	Lugano	Fiduciary services	2 000 000	30 %

In conformity to the provisions of art. 23a OB, there is no obligation to present the Group accounts as of 31 December 2002.

3.4. SCHEDULE OF INVESTMENTS

in CHF							
	At cost	Depreciation & Writedowns to Date	Book value 2001	Additions	Disposals	Depreciation & writedowns	Book value 2002
Participating interests							
Of which minority	950 000	(600 000)	350 000	-	-	-	350 000
Of which majority	119 225	(9 425)	109 800	-	(109 800)	-	-
Total	1 069 225	(609 425)	459 800	-	(109 800)	-	350 000
Fixed assets							
Property used by the Bank	10 000 000	(500 000)	9 500 000	-	-	(500 000)	9 000 000
Other tangible fixed assets	21 337 281	(15 859 367)	5 477 914	6 691 086	-	(4 642 359)	7 526 641
Intangible fixed assets	8 862 689	(7 137 366)	1 725 323	4 058 298	-	(2 207 641)	3 575 980
Total	40 199 970	(23 496 733)	16 703 237	10 749 384	-	(7 350 000)	20 102 621
Insurance value							
Property used by the Bank			4 500 000				4 500 000
Other tangible fixed assets			15 250 000				15 250 000

3.5. ASSETS PLEDGED OR CEDED TO SECURE OWN LIABILITIES AND ASSETS SUBJECT TO RESERVATION OF TITLE

in CHF		
	2002	2001
Security deposits for Lombard loan at BNS (not used)	1 002 402	1 002 402
Security deposits in schemes run in association with other banks	3 992 153	3 987 000
Property used by the Bank	9 000 000	9 500 000
Total	13 994 555	14 489 402

For the heading "Property used by the Bank" the liabilities are represented by mortgages of nominal amount CHF 8 000 000.-.

3.6. 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.

3.7. DEBENTURE LOANS

On the balance sheet closing day there were no debenture loans.

The following medium term bonds were outstanding.

CHF in thousands

Interest rate	Maturity								
	2003	2004	2005	2006	2007	2008	2009	2010	Total
1.500 %		20							20
1.625 %		2 000							2 000
1.750 %		3 000	121						3 121
2.000 %		395	385	70					850
2.125 %			60						60
2.500 %		404	150		510	60			1 124
2.625 %	109	152	100						361
2.700 %		10							10
2.750 %	5 000	394	195				90		5 679
2.875 %		1 624	2 197						3 821
3.000 %		50	5 555	440	165		20	150	6 380
3.125 %	647	67	1 300	265	73				2 352
3.250 %	1 592	442	2 150	50	242	51	7		4 534
3.375 %			496	55		50	50		651
3.500 %	831	1 211	100	250			83	55	2 530
3.625 %			589	30					619
3.750 %	230	1 589			10				1 829
4.000 %	350	512	2 470	465	70	2 684	17		6 568
4.250 %			115		20	505	10		650
Total	8 759	11 870	15 983	1 625	1 090	3 350	277	205	43 159

3.8. VALUATION ADJUSTMENTS AND PROVISIONS

in CHF	Balance at 31.12.01	Applications & reversals consistent with specific purpose	Change of purpose	Doubtful Interests	New provisions charged to income statement	Reversals credited to income statement	Balance at 31.12.02
Loss risk adjustments and provisions (del credere and country risks)	4 255 841	-		231 025	2 884 951	-	7 371 817
Value adjustments for financial investments	300 000	-		-	-	(300 000)	-
Provision for taxes and latent taxes	1 788 171	(1 071 683)	(572 064)	-	-	-	144 424
Other provisions	16 539 811	-	572 064	-	1 482 633	-	18 594 508
Total value adjustments and provisions	22 883 823	(1 071 683)	-	231 025	4 367 584	(300 000)	26 110 749

3.9. CAPITAL STOCK

in CHF	Par value	% Share-holding	Par value holding
Capital stock	50 000 000	500 000	50 000 000

The Banca Popolare di Sondrio Scarl, Sondrio (Italia) holds 100% of the share capital and voting rights in the bank.

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 shareholders may hold more than 0.5% of the capital stock. Entry in the shareholders' register is subject to an acceptance clause. At membership meetings, each member is entitled to one vote, regardless of any shareholding they have. The shares are listed on the second-tier unlisted securities market (Mercato Ristretto) of the Milan Stock Exchange.

3.10. STATEMENT OF CHANGES IN EQUITY TRANSACTIONS

in CHF	2002	2001
Total shareholders' equity at start of period		
Paid-up share capital	50 000 000	50 000 000
General statutory reserve	22 537 193	14 102 307
Balance sheet profit	9 025 396	8 434 886
Total	81 562 589	72 537 193
Allocation to general statutory reserve	(9 025 396)	(8 434 886)
Dividend and other payments deducted from profit for previous year	9 025 396	8 434 886
Profit for current financial year	6 558 516	9 025 396
Total shareholders' equity	88 121 105	81 562 589
of which:		
Paid-up share capital	50 000 000	50 000 000
General statutory reserve	31 562 589	22 537 193
Balance sheet profit	6 558 516	9 025 396
Total	88 121 105	81 562 589

3.11. MATURITY STRUCTURE OF CURRENT ASSETS OF FINANCIAL INVESTMENTS AND OF LIABILITIES

in CHF	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 after 5 years	
Current assets							
Cash	15 955 263	-	-	-	-	-	15 955 263
Due from banks	147 066 703	-	128 320 478	-	-	-	275 387 181
Due from clients	-	54 474 213	135 978 137	39 148 344	24 321 250	19 500 000	273 421 944
Mortgage loans	1 970 561	86 095 185	4 248 500	5 803 000	100 118 250	-	198 235 496
Securities trading portfolio	1 148 819	-	-	-	-	-	1 148 819
Financial investments	4 624 003	-	2 997 900	13 633 698	16 844 851	-	38 100 452
Current financial year	170 765 349	140 569 398	271 545 015	58 585 042	141 284 351	19 500 000	802 249 155
Previous financial year	56 951 393	127 617 564	184 892 058	39 688 016	64 772 500	20 035 109	493 956 640
Liabilities							
Money market instruments	1 000 000	-	-	-	-	-	1 000 000
Due to banks	6 004 535	-	255 913 067	21 665 000	-	-	283 582 602
Due to clients in savings and investment accounts	127 983 422	-	-	-	-	-	127 983 422
Other amounts due to clients	230 092 734	-	5 681 160	6 476 587	-	3 000 000	245 250 481
Medium-term notes	-	-	1 131 000	7 628 000	30 568 000	3 832 000	43 159 000
Current financial year	365 080 691	-	262 725 227	35 769 587	30 568 000	6 832 000	700 975 505
Previous financial year	220 058 151	68 632 551	48 822 520	34 035 943	20 732 000	3 316 000	395 597 165

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

in CHF	2002	2001	Change
Loans to Bank's governing bodies	4 597 800	3 600 000	997 800

Loans to organisations are of a mortgage type and are granted in compliance with the normal parameters concerning advances.

3.13. BREAKDOWN OF ASSETS AND LIABILITIES BY SWISS AND FOREIGN ORIGIN

CHF in thousands	2002		2001	
	Switzerland	Abroad	Switzerland	Abroad
Assets				
Cash	15 955	-	11 582	-
Due from banks	130 615	144 772	130 391	19 907
Due from clients	101 203	172 219	67 997	78 472
Mortgage loans	198 235	-	135 638	-
Securities trading portfolio	-	1 149	-	903
Financial investments	7 329	30 772	7 392	41 675
Participating interests	350	-	350	110
Fixed assets	20 103	-	16 703	-
Accrued income and prepaid expense	3 601	87	1 158	285
Other assets	16 617	184	8 470	5 595
Total assets	494 008	349 183	379 681	146 947
Liabilities				
Money market instruments	1 000	-	-	-
Due to banks	10 206	273 377	22 479	48 237
Due to clients in savings and investment accounts	78 275	49 708	39 419	29 214
Other amounts due to clients	129 206	116 044	61 583	167 255
Medium-term note issues	43 159	-	27 411	-
Accrued liabilities and deferred income	9 437	-	1 898	275
Other liabilities	17 206	1 341	18 720	5 691
Valuation adjustments and provisions	26 111	-	22 884	-
Share capital	50 000	-	50 000	-
General statutory reserve	31 562	-	22 537	-
Profit for the period	6 559	-	9 025	-
Total liabilities	402 721	440 470	275 956	250 672

3.14. BREAKDOWN OF ASSETS AND LIABILITIES BY COUNTRIES OR GROUPS OF COUNTRIES

CHF in thousands	2002		2001	
	Total	in %	Total	in %
Switzerland	494 008	58	379 681	72
OECD Countries	344 409	41	137 524	26
Other Countries	4 774	1	9 423	2
Total assets	843 191	100	526 628	100

3.15. BREAKDOWN OF ASSETS AND LIABILITIES BY CURRENCY

CHF in thousands

Assets	CHF	USD	EURO	Others
Cash	9 656	162	6 035	102
Due from banks	26 624	34 395	193 869	20 499
Due from clients	157 108	2 713	111 373	2 228
Mortgage loans	198 235	-	-	-
Securities trading portfolio	1 084	25	40	-
Financial investments	26 190	1 092	10 621	198
Participating interests	350	-	-	-
Fixed assets	20 088	-	15	-
Accrued income and prepaid expense	3 686	-	-	2
Other assets	10 524	4 476	590	1 211
Total assets	453 545	42 863	322 543	24 240

Liabilities	CHF	USD	EURO	Others
Money market instruments	1 000	-	-	-
Due to banks	73 448	95	209 301	739
Due to clients in savings and investment accounts	106 185	1	21 792	5
Other amounts due to clients	113 698	25 614	97 840	8 098
Medium-term note issues	43 159	-	-	-
Accrued liabilities and deferred income	9 381	-	56	-
Other liabilities	12 157	4	5 868	518
Valuation adjustments and provisions	26 111	-	-	-
Share capital	50 000	-	-	-
General statutory reserve	31 562	-	-	-
Profit for the period	6 559	-	-	-
Total liabilities	473 260	25 714	334 857	9 360

4. OFF-BALANCE-SHEET INFORMATION

4.1. CONTINGENT LIABILITIES

in CHF	2002	2001	Change
Guarantees and similar instruments	29 063 884	26 576 501	2 487 383
Documentary credits	280 212	512 761	(232 549)
Total contingent liabilities	29 344 096	27 089 262	2 254 834

4.2. DERIVATIVE INSTRUMENTS OUTSTANDING AT YEAR END

in CHF	Positive replacement value	Negative replacement value	Contract volume
Interest-rate instruments			
Swaps	-	5 151 308	94 421 250
Foreign exchange contracts			
Forward contracts	5 735 040	5 321 462	278 679 459
Options (OTC)	4 238 456	4 238 456	229 051 476
Equity/Index contracts			
Exchange-traded options	161 570	161 570	21 376 143
Others			
Outright	-	-	73 732 725
At 31 December 2002	10 135 066	14 872 796	697 261 053
At 31 December 2001	11 355 030	11 559 208	797 403 630

in CHF	2002	2001	Change
Of which – under Other assets			
Replacement value gains on trading	5 735 040	9 469 793	(3 734 753)
Compensation account	5 151 308	574 000	4 577 308
Of which – under Other liabilities			
Replacement value losses on trading	5 312 462	9 099 594	(3 787 132)

4.3. FIDUCIARY TRANSACTIONS

in CHF	2002	2001	Change
Fiduciary investments with other banks	433 753 604	455 259 573	(21 505 969)
Fiduciary investments with Group banks	128 793 411	-	128 793 411
Total	562 547 015	455 259 573	107 287 442

5. INFORMATION ON THE INCOME STATEMENT

5.1. BREAKDOWN OF INCOME FROM TRADING OPERATIONS

in CHF	2002	2001	Change
Currency trading	3 486 669	3 778 655	(291 986)
Options trading	3 432	50 486	(47 054)
Total	3 490 101	3 829 141	(339 040)

5.2. BREAKDOWN OF PERSONNEL EXPENSES

in CHF	2002	2001	Change
Salaries	16 410 655	13 574 591	2 836 064
Social Security Contributions	2 662 554	2 311 481	351 073
Other expenses	264 955	240 425	24 530
Total	19 338 164	16 126 497	3 211 667

5.3. BREAKDOWN OF OTHER OPERATING EXPENSES

in CHF	2002	2001	Change
Occupancy expenses	3 768 885	2 984 044	784 841
Expenses for IT, machinery, furnishings, vehicles and other equipment	2 055 467	2 578 107	(522 640)
Other expenses	5 844 809	4 448 240	1 396 569
Total	11 699 161	10 010 391	1 688 770



Banca Popolare di Sondrio (suisse)



INDEPENDENT AUDITORS' REPORT



AUDITORS' REPORT

To the General Meeting of the shareholders of
Banca Popolare di Sondrio (Suisse) S.A., Lugano

As statutory auditors, we have audited the accounting records and the financial statements (pages 21 to 46) of Banca Popolare di Sondrio (Suisse) S.A. for the year ended December 31, 2002. The prior year corresponding figures were audited by other auditors.

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 Swiss 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, the financial statements and the proposed appropriation of available earnings comply with Swiss law and the Company's articles of incorporation.

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

DELOITTE & TOUCHE SA


Roland Loup
Auditors in charge


Antonio Sisto

Lugano, January 24, 2003

OUR SERVICES

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ASSET MANAGEMENT

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GENERALI (SCHWEIZ)

TRUSTEE BUSINESS IN ASSOCIATION WITH
SOFIPO FIDUCIAIRE SA

THE NEW HEAD OFFICE IN LUGANO

Lugano is the third most important financial market in Switzerland. Determined to confirm its commitment and presence in Switzerland, with its head office in Lugano, the Bank recently acquired an attractive building on via Luvini.

The completion of the building's refurbishment and the transfer of the head office to the new premises is to take place in 2005. A city agency will also be created. The transfer will meet the needs of locals, tourists and the public in general.

Preparation of the scheme for refurbishing the building has been entrusted to the architect Sandro Cantoni from CKCS, Lugano. He will be responsible for every detail, including the design of an innovative high tech bank in the heart of Lugano. Respect for the 1920s building outline and design is mandatory.

The new prestigious offices, discreet and respectful of the architectural heritage, represent an act of faith and optimism in the financial capital of Canton Ticino.

Lugano, January 2003

The President
Piero Melazzini



*... I felt renewed pleasure at the thought
of all the paths in my life
which lay before me as if illumined by
a brilliant new sun, and which
I thought I could travel along steadily...⁸*

8.
Gertrude, 1910
(translated by Hilda ROSNER,
London, Owen, 1963)



FOREWORD

Not simply to keep faith in what has now become something like a tradition, but to continue lending a human dimension to the annual report, this year the spotlight falls on Hermann Hesse. A great spirit of a bygone age, a German novelist who acquired Swiss nationality and spent much of his life in Ticino, gazing at his beloved Italy. Many people will celebrate this eminent but tormented writer in this year, the 125th anniversary of his birth – and the 40th of his death.

We, too, would like to pay him a tribute, for he expressed the resonance of the relationship between Switzerland and Italy, reflecting the bond between our Bank and its Italian parent.

On Ticino, where he settled in 1919, he wrote: “On seeing once more this blessed region on the Southern slopes of the Alps, I always feel as if I am returning home after a period of exile, as if finally, I have arrived on the right side of the mountain”. And again in Montagnola, where he spent tranquil days wandering with his easel tucked under his arm, ready to paint every outline, every tree and every flower, he said: “Creating with the pen and brush is like wine to me. The intoxication makes life so wonderful it becomes bearable”. He loved Umbria and Tuscany, and also the towns of Spoleto and Soresina, as we learn from the yellowed postcards sent to his various remote and contemporaneous loves.

The double commemoration of Hesse, particularly of his death, has spurred cultural interest in Switzerland, focusing public attention through writings, symposia and exhibitions. He left behind some 3 000 water colors. We sought to make an albeit modest contribution by displaying the thoughts and works of the giant from Calw, winner of the Goethe award and the Nobel prize for literature.

I would like to extend my thanks to the contributors for their excellent work, beginning with Dr Giuseppe Curonici, literary critic and critic of modern and contemporary art, who spoke with great knowledge and science. I would also like to make special mention of the diligent and talented Pier Carlo Della Ferrera. Finally, an affectionate thought to my fifth child, Alessandro, now a student of philosophy and German in Heidelberg, who spent a great deal of his last summer vacation studying the literary works of the great novelist.

If memory is the secular version of the religious relic, the true value of memory, as the Nobel prizewinner and German author once said, is that nothing is lost – for all lives on in our memory.

Lugano, January 2003

The President
Piero Melazzini