

FOREWORD FROM THE PRESIDENT

The accounting period in question has to be seen in the context of a difficult year shaped predominantly by war. The effects of the conflict can be likened to throwing a stone in a pond.

It was a year that was also vexing and problematic for the world economy. It was especially difficult for Europe, which is governed by the euro, but also for our own country, which flies the Swiss flag and uses the Swiss franc. Even though it has been possible to maintain the purchasing power of the currency, owing to fluctuations in business the respite has been brief, and there have been periods of considerable anxiety.

Notwithstanding the lack of movement in the Swiss economy despite the support offered by the so-called “second line of defence”, hopes of a sound recovery are reasonable. Although they may still be weak, signs of a resurgence in Europe are evident and are further confirmed by a series of positive factors, notably the stability provided by low interest rates.

I am pleased to remind you that, in terms of technological innovation, Swiss pharmaceutical and bio-technology companies still claim superiority.

The results of our work are expressed succinctly in the predominant activity. It is carried out by a concern which, by employing banking methods and criteria, deals in credit by receiving and loaning out capital. The two most significant pieces of information concern collection, which has risen by 45%, and investment, which has expanded even more sharply, by 41%. These figures are important in themselves, but they do not paint the whole picture. It is interesting to note that net profits are practically stable, despite the quickening pace of operations. That is clear evidence of the complexity of the market.

Brokering has generated significant rewards and the percentage distribution of individual items has shown modest oscillations.

All aspects of Costs have risen, but the increases have been properly justified by the evolution in management.

Owing to the effect of the fall in interest rates, the unitary margin has been compressed. However, that contraction has not upset profits, owing to the expansion in the dimensions of the operations and consequent growth in the volume of services.

Territorial coverage has expanded with the opening of the branch office in the Principality of Monaco. That brought the number of our offices to 13, a number generally regarded as unlucky. However, the conversion within the first six months of the year of the agency at Zurich into an affiliate will bring our operating network up to a more propitious 14. The addition should herald even better fortunes. We are even operating a virtual Contract Centre, albeit on an experimental basis, apart from nine Bancomat® facilities.

Work to restructure the real estate in the via Luvini at Lugano is progressing rapidly, so it is reasonable to predict that we will be functional by next spring.

The number of clients who choose to become members of our partner continues to grow. That choice proves rewarding for them and is a tribute to us. We are also flattered by the ever increasing clientele that calls on us to manage their assets and takes advantage of the trustee services of our subsidiary, Sofipo.

Our primary asset, human capital or resources, amounts to a staff of 193.

We remain faithful to what by now has become a cultural tradition of ours. This year you may read, in the second part of the bulletin, essays which discuss the Italian painter Giovanni Segantini. His artistic production was inspired by and unfolded in the Canton of Grigioni.

We would like to take this opportunity to thank the Clientele for electing to give its business to us and we are committed to proving that we are worthy of its choice. We pay a warm tribute to our staff, whose collaboration is an essential factor in the results that we achieve. It is particularly important to mention the following: the good sense shown by the Executives, who have given repeated demonstrations of their readiness to act and sound professional judgment; the members of the Board of Directors, who agreed upon strategic approaches and whose experience and personal credibility has been reflected in the stable rise in the company's value; and, finally, our auditors, Deloitte & Touche SA, following their unequivocal backing of the policy to implement and verify a sound and prudent course of management.

We give the esteemed Federal Banking Commission our repeated assurance to operate according to sound practices, as we are indeed obliged to do, and in exchange for the trust shown in us. That faith reflects a personal judgment, yet it is critical.

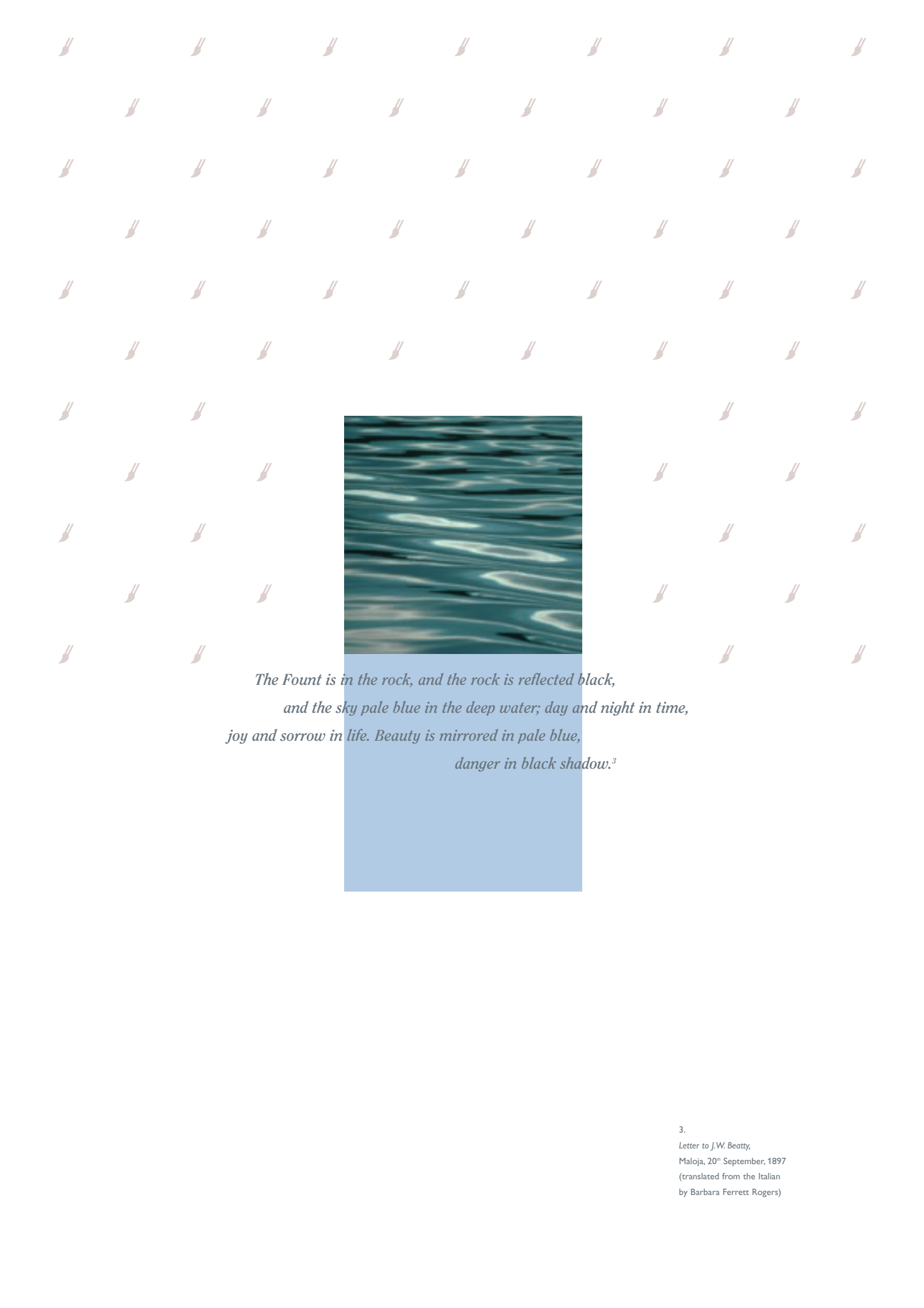
Despite the difficulties faced by the Confederation, either as a whole or at a structural level, we are delighted that it continues to serve as the moving axis of Europe.

We retain our desire to work at least as hard as anybody else and to provide a service that is at least the equal of anyone else's. This position reflects the real world in which we operate and an attitude that lasts much longer than any single transaction.

Lugano, January 1, 2004

The President
Piero Melazzini

Banca Popolare di Sondrio (suisse)



*The Fount is in the rock, and the rock is reflected black,
and the sky pale blue in the deep water; day and night in time,
joy and sorrow in life. Beauty is mirrored in pale blue,
danger in black shadow.³*

3.

Letter to J.W. Beatty,
Maloja, 20th September, 1897
(translated from the Italian
by Barbara Ferrett Rogers)



*As I opened the window, the sun shone in enveloping me
with its warm golden light, and embraced my whole being;
I half-closed my eyes inebriated by its kiss of life,
and felt that life is still good, and my heart was filled with the youth
and hope of when I was twenty.⁴*

4.
Diary,
Savognin, January 1, 1889
(translated from the Italian
by Barbara Ferrett Rogers)

REPORT OF THE BOARD OF DIRECTORS AT DECEMBER 31, 2003

The international scenario has exerted a growing influence on the circumstances of individual States, including our own. Apart from the usual effects of globalisation, events of a military nature and the threat of terrorism are paramount. Some believe that our society must accept these problems. Yet the real hope is that the most effective arms of all will be used to resolve these disputes: politics and the rule of law. The economy can only develop and prosper in clear and well-defined environments. It cannot do so when uncertainty or, even worse, fear prevail.

Expectations in Switzerland in 2003 were disappointing and frustrating. Now, attention is focused on the American economy, which is enjoying pronounced and hopefully durable growth, and Japan, which is finally emerging after a long recession.

After an undistinguished initial period of six months, which could even be described as stagnant, the economy in the region under the influence of the Euro has recovered slightly. Though that pick-up has been frail in Germany and France, others such as we have gradually headed towards the right track. The Chinese economy is an exceptional example of exuberance and is progressing at full speed.

There is an awareness of the key rôle played by external factors (international demand) in the development of our country. The hope is that we will be able to cling on to the recovery and also take advantage of the revaluation of the Euro, which makes our own exports more competitive.

During a period of economic stagnation, we welcome the initiative from the Department of Finance and Economy of the Ticino Canton, which has produced a guide to the opportunities and advantages of investing, manufacturing and living in Ticino.

Let us look at the credit system. The fiscal accord in Europe recognises the client's right to bank secrecy, admittedly subject to a tax charge to be paid by the recipients abroad, and this has been broadly welcomed. However, opinions remain guarded until important issues are ironed out and until the treaty is ratified. It is also important to point out that the anticipated changes will expose the bank to onuses arising from new informational investment that are difficult to quantify but will most likely be considerable.

We leave other issues that dictate the world panorama to those who normally specialise in them owing to their profession, studies or interests.

We will now focus on the situation closer to home.

The accounting period has been relatively normal for an organisation that is both alive and active. In fact, it is constantly growing and strengthening and desires to attain its natural and full expansion. The period has been marked by unusually significant events both internationally and within the Confederation.

The figures in the accounts, the statement of assets and liabilities and the profit and loss statement are satisfactory.

The deposits are a significant item in the balance sheet, as they remain healthy, consistent, stable and equally distributed among the various groups. They represent the lifeblood and essential victuals of credit generation. Direct deposits from clientele amount to CHF 604 096 371 (+45.1%), among which the key figure for savings and investment reaches CHF 209 864 546 (+64%).

Another important item is credit paid out. Indeed, credit is the main *raison d'être* of a bank and is the most accurate gauge of its activity. A bank which does not give credit is not a bank at all. Employment is put at CHF 667 407 679 (+41.5%), but the average figure for each disbursement has been reduced. That reflects our policy of dividing risk. Even we have experienced some problems, but these have occurred not owing to misfortune but rather a malaise which has been accompanied by a few hiccups. Credit for mortgages amounts to CHF 326 022 899, representing a rise of 64.5%, and it is almost invariably targeted at residential property.

Managing money remains the very core of all our work. The margin from that management has felt a cut, but the negative effect has been mitigated by the increase in volumes. There is no doubt that low rates of interest have stimulated family spending. For the same reasons, but contrasting motives, bank bonds have not repeated the exploits of the previous period and the figure on the balance sheet for this item shows a slight progression to CHF 46 863 000 (+8.6%).

On all fronts, it has been a good year for liquidity. The other items require no special comments as the facts speak for themselves.

Despite the familiar vicissitudes of the domestic and international markets, brokering has grown in proportion to the whole.

Moving on to the income statement, there is little to say. The probable explanation for this is the close correlation between the statement of assets and liabilities and the profit and loss statement. The former is the instant reflection of the position of the accounts at a given moment, while the second is a snap shot of all the operations carried out during the period. In a way, the statement of assets and liabilities and the income statement mutually govern and control one another. The tie is reflected in the final figure that projects a pleasant or unpleasant image in the mirror, the profit or loss on the period. In our case, since our foundation we have always closed the year on a positive note and we hope to continue this pattern in the future. Naturally, we will spare no effort to ensure that this comes true.

Despite what was said earlier, we feel we ought to say rather more about the income statement to the effect that our bank has attained its objective of increasing all aspects of receipts while containing costs.

As we are pursuing a prudent path towards territorial growth, an actual reduction in costs or staff is unlikely. What is important is to keep a tight rein on expenditure and ensure it is commensurate with the development of our activity.

The result from operations on interest shows a notable progression to CHF 13 822 399 (+23.5%). Despite the reduction in margins and the long-lasting situation of the monetary market, that rise has been brought about by the exceptional expansion in credit activity.

Commissions have grown substantially owing to the expansion of the portfolios of the clientele, to the point where they have passed the notable landmark of 3 thousand million francs in overall receipts (+15%). The result becomes even more significant if we take into account the brake exerted by the reintroduction in Italy of the fiscal amnesty measure (the so-called second shield), which led to an outflow of funds, though less than under the previous version.

The figure for commissions shown in the income statement is CHF 36 566 824 (+8.9%) and all the components performed positively. This item includes the components that derive from management and consultation connected to the Popso (SUISSE) Investment Fund, "Sicav". The various divisions, which will be increased gradually, may either be managed directly (that is the current situation of the European share division) or entrusted for sub-management by leading international specialists.

The Sicav shares are placed at the cashiers' desks of our head office and they are increasingly coveted.

Among other services, there has been a healthy take-up of the "Personal Benefit" policy, which is a policy with a high degree of social content offered to the clientele at minimum costs. In the same context, the profitable collaboration with Assicurazioni Generali (Switzerland) has led to ever closer relations with our partners.

Negotiation, almost exclusively conducted in foreign exchange for the sake of the clientele, has developed satisfactorily and in line with the evolution of brokering for securities. The figure is CHF 4 537 258 (+30%).

Net earnings from ordinary bank operations settled at CHF 55 206 685 (+9.8%).

The bank's development programme has involved increased costs.

Staff expenditure has risen to CHF 21 694 216 (+12.2%), which matches the growth in the number of actual employees, who expanded to 193 from 183 in the last period.

The costs of materials (general expenditure) rose to CHF 13 765 419 (+17.7%), bringing operative costs to CHF 35 459 635.

Now that we have completed the presentation of the items and figures in the balance sheet, the statement of assets and liabilities is justified by the economic result, in which development has been harmonious on all fronts.

Gross profits emerge as CHF 19 747 050, while net profits, following the outlays for depreciation and reserve funds and prior to the deduction of extra tax due on the period, were CHF 6 934 950 (+5.7%), which more or less conforms to the previous year.

To summarise, we should also point out that the scheduled initiatives over human resources and equipment were taken with the dual objective of amplifying and updating the range of our products and services and to develop at the same time our sphere of action.

The goal is to maintain and ideally increase the satisfaction of a larger clientele.

The territorial network has been enriched by the first ever branch abroad, in the Principality of Monaco. Early results have been comforting and matched our expectations.

We now have 13 branches open to the public, apart from a representative office at Zurich and a virtual unit still regarded as experimental and known as a “Contact Centre”. We also operate 9 Bancomat facilities in the various regions where we are represented.

We are confident that the representative office at Zurich will be transformed into a branch office very soon. As you will know, Zurich stands at the crossroads of important routes of communications and is the major commercial, industrial and cultural centre of the Confederation. As a financial centre, its importance cannot be overstated, including in international circles. By the way, speaking of Zurich, we must stress our continued faith in the principle of healthy and prudent banking, which must mean lending and distributing credit where, when and as it is necessary. The numerous and well integrated Italian community in this Canton comes to our mind first and foremost and they enjoy our special confidence.

Restructuring Work has continued on the prestigious premises in the historic centre of Lugano that will accommodate the branch’s new office and a city centre agency. Although the work is complex in nature, we are ahead of schedule.

During our next annual report, we trust that we will be able to announce the official opening date. The opening will have a symbolic value as a mark of integration in a city on the threshold of a truly historic event. We refer of course to “New Lugano”, an ambitious project of aggregation which will require the broad consensus of the population if we are to achieve common objectives and satisfy collective interests.

Naturally, we are always conscious of technological innovations which are interchangeable and reinforce one another. They bring economic and financial advantages and enable us to both survive and thrive on the market.

Finally, and in accordance with Article 22 of the Articles of Association, the Directors propose that the General Meeting should agree to earmark all the profits to the general statutory reserve to boost the structure of the balance sheet.

We thank our valued Clientele for the growing confidence they have placed in us. We pay tribute to our Staff, which is distinguished by its professionalism and its style and spirit of service, to the worthy Federal Banking Commission for its authoritative backing and to the external auditors, Deloitte & Touche SA, for their indispensable support.

We sincerely hope that we will be allowed to continue to serve a society which seeks to reconcile economic development with social cohesion.

Lugano, January 19, 2004

The Board of Directors



*Will I be able to give the Nature that I paint that light
which brings colour to life, and which illuminates
and gives atmosphere to distances and renders the sky boundless? ⁵*

5.
Letter to Bibb,
undated, but subsequent to 1897
(translated from the Italian
by Barbara Ferrett Rogers)

BALANCE SHEET AT DECEMBER 31, 2003

ASSETS

in CHF	Note	2003	2002	Change
Cash		16 537 397	15 955 263	582 134
Due from banks		151 341 723	275 387 181	(124 045 458)
Due from clients	3.1	341 384 780	273 421 944	67 962 836
Mortgage loans	3.1	326 022 899	198 235 496	127 787 403
Securities and precious metals trading portfolio	3.2	129 259	1 148 819	(1 019 560)
Financial investments	3.2	41 972 993	38 100 452	3 872 541
Participating interests	3.4	350 000	350 000	-
Fixed assets	3.4	18 982 491	20 102 621	(1 120 130)
Accrued income and prepaid expense		9 033 965	3 688 450	5 345 515
Other assets	3.16	48 598 949	16 801 021	31 797 928
Total assets		954 354 456	843 191 247	111 163 209
Total amounts receivable from group companies and significant shareholders		49 230 289	135 904 696	(86 674 407)

LIABILITIES

in CHF	Note	2003	2002	Change
Money market instruments		12 607	1 000 000	(987 393)
Due to banks		164 721 019	283 582 602	(118 861 583)
Due to clients in savings and investment accounts		209 864 546	127 983 422	81 881 124
Other amounts due to clients		347 368 825	245 250 481	102 118 344
Medium term notes	3.7	46 863 000	43 159 000	3 704 000
Accrued liabilities and deferred income		6 918 982	9 436 979	(2 517 997)
Other liabilities	3.17	53 916 508	18 546 909	35 369 599
Valuation adjustments and provisions	3.8	29 633 814	26 110 749	3 523 065
Share capital	3.9	50 000 000	50 000 000	-
General statutory reserve		38 121 105	31 562 589	6 558 516
Profit for the period		6 934 050	6 558 516	375 534
Total liabilities		954 354 456	843 191 247	111 163 209
Total liabilities to group companies and significant shareholders		157 753 583	245 060 715	(87 307 132)

OFF-BALANCE-SHEET TRANSACTIONS AT DECEMBER 31, 2003
(COMPARED TO 2002)

in CHF	Note	2003	2002	Change
Contingent liabilities	4.1	31 193 791	29 344 096	1 849 695
Additional payment liabilities		300 000	300 000	-
Derivative instruments	4.2	1 275 021 079	697 261 053	577 760 026
Positive gross replacement values		41 894 970	10 135 066	31 759 904
Negative gross replacement values		45 212 627	14 872 796	30 339 831
Fiduciary transactions	4.3	476 837 090	562 547 015	(85 709 925)

INCOME STATEMENT FOR THE YEAR AS AT DECEMBER 31, 2003

PROFIT & LOSS STATEMENT ON THE PERIOD AT DECEMBER 31, 2003 (COMPARED TO 2002)

in CHF	Note	2003	2002	Change
Interest and discount income		24 848 832	18 954 881	5 893 951
Interest and dividend income on trading portfolios		12 691	14 057	(1 366)
Interest and dividend income on financial investments		760 036	986 231	(226 195)
Interest expense		(11 799 220)	(8 764 295)	(3 034 925)
Net interest income		13 822 339	11 190 874	2 631 465
Commission income on lending activities		513 087	1 017 454	(504 367)
Commission income on securities and investment transactions		35 892 167	32 656 541	3 235 626
Commission income on other services		3 154 055	2 865 912	288 143
Commission expenses		(2 992 485)	(2 956 368)	(36 117)
Net income on fee and commission business		36 566 824	33 583 539	2 983 285
Net income on trading operations	5.1	4 537 258	3 490 101	1 047 157
Net income from disposal of financial investments		166 185	424 443	(258 258)
Income from participating interests		-	3 340 396	(3 340 396)
Other ordinary income		629 704	95 155	534 549
Other ordinary expenses		(515 625)	(1 836 628)	1 321 003
Other ordinary results		280 264	2 023 366	(1 743 102)
Net operating income from ordinary banking		55 206 685	50 287 880	4 918 805
Personnel expenses	5.2	21 694 216	19 338 164	2 356 052
Other operating costs	5.3	13 765 419	11 699 161	2 066 258
Total operating expenses		35 459 635	31 037 325	4 422 310
Gross profit		19 747 050	19 250 555	496 495

INCOME STATEMENT

PROFIT FOR THE PERIOD				
in CHF	Note	2003	2002	Change
Depreciation/write-offs of fixed assets	3.4	(6 600 000)	(7 350 000)	750 000
Valuation adjustments, provisions and losses		(3 800 000)	(4 500 000)	700 000
Extraordinary income		-	302 511	(302 511)
Extraordinary expenses		-	-	-
Taxes		(2 413 000)	(1 144 550)	(1 268 450)
Profit for the period		6 934 050	6 558 516	375 534
PROPOSAL FOR EMPLOYMENT OF THE PROFIT IN THE BALANCE SHEET (COMPARED TO 2002)				
in CHF		2003	2002	Change
Profit for year		6 934 050	6 558 516	375 534
Profit carried forward		-	-	-
Profit available		6 934 050	6 558 516	375 534
The Board of Directors proposes to set aside the profit in the balance sheet sheet on December 31, 2003, of CHF 6 934 050 for the general legal reserve		6 934 050	6 558 516	375 534
Retained earnings carried forward		-	-	-

CASH FLOW STATEMENT FOR THE YEAR AS AT DECEMBER 31, 2003

FLOW FUNDS ACCOUNT FOR THE PERIOD AT DECEMBER 31, 2003 (COMPARED TO 2002)

FLOW OF FUNDS ON THE BASIS OF THE OPERATING RESULT (INTERNAL FINANCING)

CHF in thousands	2003		2002	
	Source	Application	Source	Application
Profit for the year	6 934	-	6 558	-
Depreciation and write-offs of fixed assets	6 600	-	7 350	-
Valuation adjustments and provisions	3 523	-	3 227	-
Accrued income and prepaid expenses	-	5 345	-	2 246
Accrued liabilities and deferred income	-	2 518	7 264	-
Other assets	-	31 798	-	2 735
Other liabilities	35 370	-	-	5 864
Net cash flow	12 766		13 554	

FLOW OF FUNDS RESULTING FROM CHANGES IN FIXED ASSETS

Participating interests	-	-	110	-
Other fixed assets	-	3 259	-	6 691
Intangible fixed assets	-	2 221	-	4 059
Net cash flow		5 480		10 640

CASH FLOW STATEMENT

CASH FLOW FROM BANKING OPERATIONS

CHF in thousands	2003		2002	
	Source	Application	Source	Application
Balance brought forward	12 766	5 480	13 554	10 640
Non-current operations (> 1 year)				
Cash from client	-	3 000	6 600	-
Medium-term note issues	603	-	7 920	-
Client loans	9 708	-	-	16 421
Mortgage loans	-	109 620	-	70 595
Financial investments	-	16 661	11 040	-
Current operations				
Liabilities under money market instruments	-	987	1 000	-
Due to banks	-	118 863	212 867	-
Due to clients	105 118	-	9 812	-
Cash from client savings	81 881	-	59 351	-
Medium-term note issues	3 101	-	7 828	-
Due from banks	124 045	-	-	125 089
Due from clients	-	77 671	-	110 532
Mortgage loans	-	18 167	7 997	-
Financial investments	12 789	-	-	73
Securities trading portfolio	1 020	-	-	246
Net cash flow		6 704	1 459	
Total cash	582		4 373	
Variation in cash		582		4 373

NOTES TO THE 2003 ANNUAL ACCOUNTS

1. DESCRIPTIONS OF SECTORS AND INFORMATION ON PERSONNEL

Banca Popolare di Sondrio (SUISSE) S.A. is a universal bank that was founded at Lugano on May 3, 1995. Its main activities concern asset management, the brokering of securities and credit brokering.

Apart from a main office and counter at Lugano, its current network amounts to a branch at St. Moritz, with two agencies at Poschiavo and Castasegna, a counter at Celerina and branches at Bellinzona, Chiasso, Locarno, Coira, San Gallo and Basle. During 2003 a new branch was opened in the Principality of Monaco that had previously operated as an agency office.

Finally, the bank also has an agency office at Zurich.

By the end of the period, overall staff amounted to 193, compared to 183 in 2002.

The Bank does not resort to outsourcing as that is defined in the CFB Circular 99/2 called "Outsourcing".

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 December 14, 1994 (as in force on December 18, 2002).

PRINCIPLES OF PRESENTATION AND VALUATION OF THE FINANCIAL STATEMENT

SPECIFICATION OF ACCOUNTING PRINCIPLES

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

Tangible fixed assets are entered in the balance sheet at cost price, after making a deduction to reflect the economically justified depreciation, which is applied according to the linear method and quantified according to the estimated working life of the items.

	2003	2002
Own real estate	40 years	20 years
Restructuring offices	5 years	5 years
Equipment	10 years	10 years
Furniture	8 years	8 years
Office machinery	5 years	5 years
Motor vehicles	5 years	5 years
Hardware	4 years	3 years
Software	4 years	3 years

ACCRUALS AND DEFERMENTS

Costs and earnings from interest, commissions from the management of assets, costs of staff and other operating costs are identified in time.

TAXES

The Bank proceeds to record reserves set aside for municipal and federal taxation and the dues of the Canton according to the result of the period and fiscal regulations in force at the time. The funds set aside are entered in the heading "accrued liabilities and deferred income" (2002: in "Rectifications to figures and reserve funds").

COMMITMENTS TO BANKS AND THE CLIENTELE AND BANK BONDS

Obligations to banks, the clientele and others are assessed according to their nominal value.

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.

DERIVED FINANCIAL INSTRUMENTS

Derived financial instruments are negotiated on behalf of the clientele and according to the Bank's structural management of the balance sheet (hedging).

The figures for the positive and negative replacement of derived financial instruments opened at the close of accounts generated by the clientele are valued at market prices. If such prices are not available, they are valued at cost price and entered in the accounts under the headings "Other assets" and "Other liabilities". The result of the valuation is entered in the accounts in the profit and loss statement.

On the other hand, hedging operations are valued according to the covered instruments to which they refer. The result after fixing the replacement values is entered in the accounts in the set-off account (Other assets or Other liabilities), without any ramifications for the profit and loss statement.

If the hedging operations happen to refer to products which attract interest, they are entered in "Result of operations on interest".

CONVERSION OF FOREIGN CURRENCY

Assets and liabilities in foreign currency are converted at the exchange rates in force on the day when the balance sheet is closed. Operations in foreign currency carried out during the year are converted at the exchange rate that applies on the day of the transaction (average rate / course of exchange).

The result of the valuation is entered in the accounts and in the profit and loss statement among the "Result from negotiation operations".

At term (outright) contracts are converted by using the residual rates that apply on the day when the balance sheet is closed. The result of the valuation is entered in the accounting and in the profit and loss statement. The end of year conversion rates used for the main foreign bills are: EUR 1.5584 (2002: 1.4529); USD 1.2358 (2002: 1.3871).

CONVERSION OF FOREIGN CURRENCY: MONACO BRANCH

The assets and liabilities and the items in the profit and loss statement are converted by the exchange rate that applies on the day the accounts are closed. Any discrepancies in exchange resulting from this conversion are classified in the profit and loss statement and in the corresponding headings (interest, commissions, etc.).

REPURCHASE AGREEMENTS (REPO)

The main purpose of securities that the Bank negotiates in the sphere of REPO operations is to support financing activities. These operations are entered in the accounting as deposits, with the creation of pledges of securities. The securities remain in the balance, while the financing joins the liabilities in the heading "Obligations to banks". The result of these operations is found in the "Result from operations on interest".

IRS

Income and costs connected to these contracts are entered in the accounting in the profit and loss statement among "Result from operations on interest".

The positive and negative figures for replacement for operations currently underway are fixed every six months. The gap that emerges is allocated to a set-off account under the heading "Other assets" or "Other liabilities".

CHANGE IN ACCOUNTING PRINCIPLES RELATING TO THE PRESENTATION DURING 2003

During 2003, "Earnings from commissions" generated from maximum unsecured commissions (CHF 695 524) were classified under the heading "Result from operations on interest". Last year, though, this income was classified in "Proceeds from commissions on credit operations" (CHF 556 432).

During the present period, "Other liabilities" include the items that cover debt to suppliers (CHF 1 926 389). Last year, these items were classified among "Deferred income and accrued liabilities" (CHF 1 269 003).

As envisaged in the temporary provisions of DEC-CFB of December 18, 2002, owing to their introduction comparative adjustments were not made.

INTEREST AT RISK

Interest at risk is treated according to the law. Interest that matures and is not collected within the next 90 days is not entered in the profit and loss statement but is deferred under the item "Rectifications to figures and reserve funds set aside".

REFINANCING TRADING POSITIONS

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

RISK MANAGEMENT

Risk management is a key aspect of the Bank's corporate policy.

It is geared to preserve the Bank's own means, encourage profitability and increase the corporate value.

At all organisational levels, the Bank is committed to propagating a corporate culture that is sensitive to risk.

The strategy, objectives and internal regulations of the Bank, accompanied by the legal rules and duties that govern banking in Switzerland, are the foundations of the policy.

The identification of risks and their integration in the systems for management, control and reporting are the responsibility of the General Management, which is expected to report to the Board of Directors in this connection.

Moreover, an Assets and Liabilities Management Committee (A.L.C.O.) has been formed to oversee and apply the Bank's financial risk policy.

TYPES OF RISK THAT CHARACTERISE THE BANK'S ACTIVITY

The various risks are classified as arising from credit, the market, liquidity, operating, legal, compliance and reputation.

CREDIT RISKS

This concerns the risk of losses owing to the insolvency of the other party.

When default occurs, a bank generally sustains a loss equal to the amount of debt due, net of any amount recovered from the liquidation of any cover supplied.

The Bank's exposure mainly revolves around credit activity vis-à-vis the clientele. For the most part, the Bank grants mortgage credit, Lombard credit and commercial credit.

Prudent margins are fixed for guaranteed credit. For Lombard credit, margins depend on the market value of the pledged assets, while for mortgage credit they are dictated by the sale value of the property (established from an internal or external expert report) or the rental value.

For commercial credit, the analysis relates to qualitative and quantitative factors and trends. The results of this analysis are reflected in the maintenance of the exposure and the originally agreed conditions.

The risk is assessed by following a methodology which classifies the clientele into different classes of risk (default risk or probability of insolvency) and fixes recovery rates according to the cover given. A unit that is separate from applications to buy and sell carries out periodic checks. The purpose of these checks is to identify any signs of deterioration in creditworthiness and foresee situations that could result in default. Checks are made by monitoring precise compliance with the contractual terms of the credit. Special attention is paid to the correct use and prompt service of debt.

Economically necessary reserve funds are established when the analyses are completed.

MARKET RISKS

Risk of losses in value owing to diminished assets / increased liabilities induced by adverse trends on the financial markets – these can consequently be attributed to risks on "interest", "exchange" and "price".

RATE RISKS

The Bank's exposure is strongly bound up with the discrepancy in time between operations to collect and employ funds.

Interest rate Swap (micro and macro Hedge) operations are performed with the head office to cover significant mid and long-term exposure.

RISKS ON EXCHANGE

The Bank's exposure is limited, as operations depend on the demands of the clientele

In order to minimise residual risks, prudent plafonds / ceilings are fixed as maximum exposure. The treasury manages on a daily basis positions that are not individually balanced.

PRICE RISKS

Positions taken in the sphere of the trading portfolio are marginal.

RISKS OF LIQUIDITY AND REFINANCING

The level of liquidity is supervised by heeding the legal provisions. Refinancing from the Bank derives from own funds, customers' credit deposited at the Bank, deposits of other financial brokers and from the head office.

REPO operations with banking counterparts are carried out to minimise the costs of refinancing.

OPERATING RISKS

These concern the risks of direct and indirect losses caused by bankruptcies or the inadequacy of internal procedures, human resources, technological systems or extraneous events.

Risk exposure is kept to a minimum owing to the introduction of a system to control the creation and running of offices geared to verifying the application of rules and procedures.

In order to guarantee informational security, the Bank has set up a control network that relies on support from specialist external firms.

LEGAL RISKS

These concern the risk of losses bound up with potential legal proceedings

With risk prevention in mind, the Bank regulates its own activities, especially those liable to external impact. It does so in compliance with legal rules and duties in force for banking and by ensuring the understanding and transparency of operating and contractual conditions for the clientele.

The legal service is guaranteed by a department of the Bank that can resort to collaboration from external studios that specialise in particular fields or geographical regions.

RISKS OF REPUTATION AND COMPLIANCE

The Bank limits its exposure by, on the one hand, investing in training and increasing awareness among Staff placed in direct contact with the clientele (obligations of diligence, confidentiality and prevention in the recycling of capital) and, on the other, by monitoring the correct application of the investment policy.

In the sphere of compliance and activities geared to guarantee the respect of legal regulations in force, the Bank operates a control system based on internal procedures for checking.

That task is allocated to a department from the Bank, but without prejudice to the powers reserved for the Board of Directors and General Management.

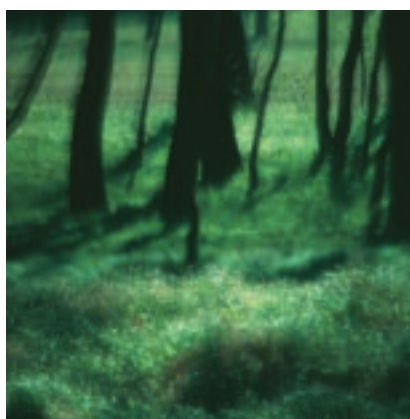
BANK POLICY ON USE OF DERIVATIVE INSTRUMENTS

In the main, positions taken in derived instruments are held on behalf of the clientele. For the structural management of the balance, the Bank resorts to operations to cover the risk on interest rates via "Interest Rate Swap".

PRINCIPLES FOR RECORDING OPERATIONS

Operations carried out by the Bank are recorded according to the principle of accounting by virtue of the currency date.

Operations in cash, which by December 31, 2003, had still not been regulated, are integrated in at-term contracts.



*My gaze is consumed by contemplation of the blue sky,
Then it lowers to the purity of the snowy peaks,
sees the white and feels the blue. Then it falls to the grey of the rocks
before finally resting on the surrounding green.⁷*

7.

Letter to Neera,
Savognin, April 8, 1893
(translated from the Italian
by Barbara Ferrett Rogers)

3. BALANCE SHEET INFORMATION

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

in CHF	Type of Collateral			
	Mortgage Guarantee	Other Collateral	Unsecured	Total
Credit				
Due from clients	36 322 049	232 891 830	72 170 901	341 384 780
Mortgage loans				
Residential property	295 553 624	-	-	295 553 624
Commercial property	9 646 350	-	-	9 646 350
Others	20 822 925	-	-	20 822 925
Current year	362 344 948	232 891 830	72 170 901	667 407 679
At December 31, 2002	218 486 331	173 066 944	80 104 165	471 657 440
Off-balance-sheet				
Contingent liabilities	-	22 196 260	8 997 531	31 193 791
Current year	-	22 196 260	8 997 531	31 193 791
At December 31, 2002	-	26 529 549	3 114 547	29 644 096

ARRANGED CREDIT

in CHF	Gross figure	Estimated value of enforcing guarantees	Net figure	Specific reserve fund
Current year	5 473 577	465 000	5 008 577	4 983 022
At December 31, 2002	4 844 756	465 000	4 379 756	4 367 507

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

Securities trading portfolio

in CHF	2003	2002	Change
Equities	129 259	1 148 819	(1 019 560)
own securities for contribution	-	-	-

Financial investments

in CHF	2003	2002	Change
Non equity investment securities, valued at lowest value	37 199 919	33 476 449	3 723 470
market value	37 422 781	33 798 955	3 623 826
own bonds or bank bonds	-	-	-
Equities	4 773 074	4 624 003	149 071
market value	4 913 226	4 624 003	289 223
qualified holdings	-	-	-
Total financial investments	41 972 993	38 100 452	3 872 541
securities that can be discounted or that can be pledged at the National Bank	1 002 402	1 002 402	-

Participating interests

in CHF	2003	2002	Change
With no market value	350 000	350 000	-

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 December 31, 2003.
The share capital has been paid-up at 50%.

3.4. SCHEDULE OF INVESTMENTS

in CHF	At cost	Depreciation & Writedowns to Date	Book value 2002	Reclassifi- cation	Additions	Disposals	Depreciation & writedowns	Book value 2003
Participating interests								
Of which minority	950 000	(600 000)	350 000	-	-	-	-	350 000
Of which majority	-	-	-	-	-	-	-	-
Total	950 000	(600 000)	350 000	-	-	-	-	350 000
Fixed assets								
Property used by the Bank	10 000 000	(1 000 000)	9 000 000	942 487	2 000 846	-	(1 134 801)	10 808 532
Other tangible fixed assets	28 028 367	(20 501 726)	7 526 641	(942 487)	1 258 215	-	(2 438 913)	5 403 456
Intangible fixed assets	12 920 987	(9 345 007)	3 575 980	-	2 220 809	-	(3 026 286)	2 770 503
Total	50 949 354	(30 846 733)	20 102 621	-	5 479 870	-	(6 600 000)	18 982 491
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	2003	2002
Security deposits for Lombard loan at BNS	1 002 402	1 002 402
Security deposits in schemes run in association with other banks	3 916 000	3 992 153
Property used by the Bank	8 750 000	9 000 000
Credit instruments (financial fixed assets) used to guarantee REPO operations	4 965 030	-
Total	18 633 432	13 994 555

Regarding the item "Deposits to guarantee Lombard credit at BNS", on December 31, 2003, there was a Lombard credit for CHF 800 000 (cf. 2002: CHF 0)

Regarding the item "Premises for bank use", the commitment is represented by mortgage bonds held by third parties for a nominal value of CHF 3 000 000 (2002: CHF 8 000 000).

Commitments arising from REPO operations that existed on December 31, 2003, reached CHF 5 000 000.

3.6. COMMITMENTS TO WELFARE INSTITUTIONS

On the day that the accounts closed, the Bank had no commitments to the professional welfare institution. The same was true when the previous period closed.

The Bank is the registered holder of two welfare plans. All employees, including the Management Team, belong to the first, which is “general” in nature. The second was created for just the Management Team.

Both welfare plans are dictated by the record of contributions.

General Plan

Information	2003
Ring of insured/rights	All employees (including the Management Team) with an annual salary – AVS – above the maximum of the basic AVS pension. Pension credits range from 6% of the insured salary to 13% and vary according to gender and age group. The amount of pension income depends on the pension capital available at retirement age and the rate for the transformation of capital into income based on the tariff for collective insurance. This plan also envisages capital in the event of death and income for the disabled, widows / widowers, orphans and the offspring of pensioners. Forty per cent of the financing for the plan comes from the employee, while the Bank contributes 60%.
Existing reserves of contributions	The employer has no contribution reserves.
Commitments arising from termination of employer-employee relations when there is no specific reserve fund	No special obligations apart from “Free passage services”.
Current amount of future reductions in existing contributions to free funds	No free funds.

Plan for Management Team

Information	2003
Ring of insured/rights	All members of the Management Team, at the end of a waiting period of 24 months but but not before reaching 40th birthday. The amount of the pension depends on the pension capital available at retirement age and the rate for the transformation of capital into income based on the tariff for collective insurance. This plan also envisages capital in the event of death and income for the disabled, widows / widowers, orphans and the offspring of pensioners. The Bank bears all the costs of financing this plan
Existing reserves of contributions	The employer has no contribution reserves.
Commitments arising from termination of employer-employee relations when there is no specific reserve fund	No special obligations apart from “Free passage services”.
Current amount of future reductions in existing contributions to free funds	No free funds.

3.7. DEBENTURE LOANS

On the day the balance sheet was closed, no bond issues existed.

The bank bonds indicated below were circulating instead.

CHF in thousands

Interest rate	Maturity									Total
	2004	2005	2006	2007	2008	2009	2010	2011		
0.875 %		200								200
1.000 %		713	670							1 383
1.125 %		1 077								1 077
1.250 %			90							90
1.375 %			5 000							5 000
1.500 %	20		2 248	100	10					2 378
1.625 %	2 000		60							2 060
1.750 %	3 000	121		100						3 221
1.875 %				310						310
2.000 %	395	385	70	60	50					960
2.125 %		60								60
2.250 %					970	50				1 020
2.375 %					40					40
2.500 %	404	150		510	60	47				1 171
2.625 %	152	100					100			352
2.750 %	404	195					90			689
2.875 %	1 624	2 197						428		4 249
3.000 %	50	5 555	390	165		20	150	210		6 540
3.125 %	67	1 300	265	73						1 705
3.250 %	442	2 240	50	242	51	7				3 032
3.375 %		496	55		50	50				651
3.500 %	1 201		250				83	55		1 589
3.625 %		599	30							629
3.750 %	1 589			10						1 599
4.000 %	512	2 460	465	70	2 684	17				6 208
4.250 %		115		20	505	10				650
Total	11 860	17 963	9 643	1 660	4 420	474	205	638		46 863

3.8. VALUATION ADJUSTMENTS AND PROVISIONS

in CHF	Balance at 31.12.02	Applications & reversals consistent with specific purpose	Change of purpose	Doubtful Interests	New provisions charged to income statement	Reversals credited to income statement	Balance at 31.12.03
Loss risk adjustments and provisions (del credere and country risks)	7 371 817	(100 314)	-	292 028	1 627 242	-	9 190 773
Other provisions	18 594 508	-	-	-	1 848 533	-	20 443 041
Total value adjustments and provisions	25 966 325	(100 314)	-	292 028	3 475 775	-	29 633 814

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	2003	2002
Total shareholders' equity at start of period		
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
Allocation to general statutory reserve	(6 558 516)	(9 025 396)
Dividend and other payments deducted from profit for previous year	6 558 516	9 025 396
Profit for current financial year	6 934 050	6 558 516
Total shareholders' equity	95 055 155	88 121 105
of which:		
Share capital	50 000 000	50 000 000
General statutory reserve	38 121 105	31 562 589
Balance sheet profit	6 934 050	6 558 516
Total	95 055 155	88 121 105

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	16 537 397	-	-	-	-	-	16 537 397
Due from banks	84 024 263	-	67 317 460	-	-	-	151 341 723
Due from clients	-	102 089 443	137 535 438	67 647 102	14 612 797	19 500 000	341 384 780
Mortgage loans	3 081 999	72 181 675	7 495 050	33 525 500	204 973 175	4 765 500	326 022 899
Securities trading portfolio	129 259	-	-	-	-	-	129 259
Financial investments	4 800 903	-	1 713 772	1 952 123	29 894 696	3 611 499	41 972 993
Current financial year	108 573 821	174 271 118	214 061 720	103 124 725	249 480 668	27 876 999	877 389 051
Previous financial year	170 765 349	140 569 398	271 545 015	58 585 042	141 284 351	19 500 000	802 249 155
Liabilities							
Money market instruments	12 607	-	-	-	-	-	12 607
Due to banks	811 236	-	163 909 783	-	-	-	164 721 019
Due to clients in savings and investment accounts	209 864 546	-	-	-	-	-	209 864 546
Other amounts due to clients	310 322 162	-	33 134 663	3 912 000	-	-	347 368 825
Medium-term notes	-	-	2 107 000	9 753 000	33 686 000	1 317 000	46 863 000
Current financial year	521 010 551	-	199 151 446	13 665 000	33 686 000	1 317 000	768 829 997
Previous financial year	365 080 692	-	262 725 227	30 769 587	30 568 000	11 832 000	700 975 506

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

in CHF	2003	2002	Change
Loans to Bank's governing bodies	4 595 400	4 597 800	(2 400)

Credit to the organs are mortgage-based or Lombard credit and are agreed while complying with the usual prior parameters. The credit and commitments shown at the foot of the balance sheet derive solely from inter-bank operations with the head office. The conditions of these transactions mirror those on the market.

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

CHF in thousands	2003		2002	
	Switzerland	Abroad	Switzerland	Abroad
Assets				
Cash	15 739	798	15 955	-
Due from banks	76 418	74 924	130 615	144 772
Due from clients	129 835	211 550	101 203	172 219
Mortgage loans	326 023	-	198 235	-
Securities trading portfolio	-	129	-	1 149
Financial investments	1 490	40 483	7 329	30 772
Participating interests	350	-	350	-
Fixed assets	17 557	1 425	20 103	-
Accrued income and prepaid expense	8 856	178	3 601	87
Other assets	44 117	4 482	16 617	184
Total assets	620 385	333 969	494 008	349 183
Liabilities				
Money market instruments	13	-	1 000	-
Due to banks	6 967	157 754	10 206	273 377
Due to clients in savings and investment accounts	144 503	65 362	78 275	49 708
Other amounts due to clients	191 868	155 501	129 206	116 044
Medium-term note issues	46 863	-	43 159	-
Accrued liabilities and deferred income	5 800	1 119	9 437	-
Other liabilities	49 391	4 524	17 206	1 341
Valuation adjustments and provisions	29 634	-	26 111	-
Share capital	50 000	-	50 000	-
General statutory reserve	38 121	-	31 562	-
Profit for the period	6 934	-	6 559	-
Total liabilities	570 094	384 260	402 721	440 470

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

CHF in thousands	2003		2002	
	Total	in %	Total	in %
Switzerland	617 742	65	494 008	58
OECD Countries	335 047	34	344 409	41
Other Countries	1 565	1	4 774	1
Total assets	954 354	100	843 191	100

3.15. BREAKDOWN OF ASSETS AND LIABILITIES BY CURRENCY

CHF in thousands

Assets	CHF	USD	EURO	Others	Total
Cash	6 778	262	9 430	67	16 537
Due from banks	2 858	41 898	84 786	21 800	151 342
Due from clients	194 290	14 613	129 260	3 222	341 385
Mortgage loans	326 023	-	-	-	326 023
Securities trading portfolio	15	63	51	-	129
Financial investments	29 786	973	10 982	232	41 973
Participating interests	350	-	-	-	350
Fixed assets	17 557	-	1 425	-	18 982
Accrued income and prepaid expense	7 638	22	1 369	5	9 034
Other assets	37 415	7 777	1 349	2 058	48 599
Total assets in the balance sheet	622 710	65 608	238 652	27 384	954 354
Applications for delivery derived from operations in cash, at-term and on options on debt	6 478	330 908	377 382	31 180	745 948
Total assets	629 188	396 516	616 034	58 564	1 700 302
Liabilities					
Money market instruments	13	-	-	-	13
Due to banks	37 193	233	127 091	204	164 721
Due to clients in savings and investment accounts	178 361	6	31 498	-	209 865
Other amounts due to clients	176 141	34 114	133 155	3 959	347 369
Medium-term note issues	46 863	-	-	-	46 863
Accrued liabilities and deferred income	5 862	58	961	38	6 919
Other liabilities	43 580	261	8 547	1 527	53 915
Valuation adjustments and provisions	29 634	-	-	-	29 634
Share capital	50 000	-	-	-	50 000
General statutory reserve	38 121	-	-	-	38 121
Profit for the period	6 934	-	-	-	6 934
Total liabilities in the balance sheet	612 702	34 672	301 252	5 728	954 354
Commitments arising from operations in cash, at-term operations and on options on debt	4 570	321 333	343 007	50 531	719 441
Total liabilities	617 272	356 005	644 259	56 259	1 673 795
Net position for debt	11 916	40 511	(28 225)	2 305	26 507

The "Net position for debt" derives mainly from operations on options for debt carried out exclusively on behalf of the clientele.

3.16. MAKE-UP OF OTHER ASSETS

in CHF	2003	2002	Change
Down-payments on tax and VAT to recover	515 110	531 493	(16 383)
Positive replacement values of derived financial instruments	41 894 970	10 135 066	31 759 904
Set-off account	4 390 389	5 151 308	(760 919)
Other	1 798 480	983 154	815 326
Total	48 598 949	16 801 021	31 797 928

3.17. MAKE-UP OF OTHER LIABILITIES

in CHF	2003	2002	Change
Federal administration of contributions	3 241 397	3 386 753	(145 356)
Negative replacement values of derived financial instruments	45 212 628	14 872 796	30 339 832
Other	5 462 483	287 360	5 175 123
Total	53 916 508	18 546 909	35 369 599

4. OFF-BALANCE-SHEET INFORMATION

4.1. CONTINGENT LIABILITIES

in CHF	2003	2002
Guarantees and similar instruments	28 050 852	29 063 884
Documentary credits	3 142 939	280 212
Total contingent liabilities	31 193 791	29 344 096

4.2. DERIVATIVE INSTRUMENTS OUTSTANDING AT YEAR END

in CHF	Positive replacement value	Negative replacement value	Contract volume
Hedging			
Interest-rate instruments			
IRS (OTC)	-	4 390 389	197 421 250
Negotiation			
Foreign exchange contracts			
Forward contracts (OTC)	9 709 983	8 637 251	216 667 571
Options (OTC)	31 934 451	31 934 451	786 056 968
Equity/Index contracts			
Exchange-traded options	250 536	250 536	20 991 747
Others			
Forward contracts (OTC)	-	-	53 883 543
At December 31, 2003	41 894 970	45 212 627	1 275 021 079
At December 31, 2002	10 135 066	14 872 796	697 261 053

The item "Sundries" reflects transactions concluded by December 31, 2003, but to be settled in 2004 according to the accounting principle dictated by the currency date.

4.3. FIDUCIARY TRANSACTIONS

in CHF	2003	2002	Change
Fiduciary investments with other banks	359 610 225	433 753 604	(74 143 379)
Fiduciary investments with Group banks	117 226 865	128 793 411	(11 566 546)
Total	476 837 090	562 547 015	(85 709 925)

4.4. ASSETS CREDIT OF CLIENTELE

CHF in million	2003
Type of assets	
Assets credit managed via funds	298.2
Assets credit with mandate to manage	860.7
Other assets credit	2 173.3
Total assets credit of clientele (including credit considered twofold)	3 332.2
Considered twofold	215.6

5. INFORMATION ON THE INCOME STATEMENT

5.1. BREAKDOWN OF INCOME FROM TRADING OPERATIONS

in CHF	2003	2002	Change
Currency trading	4 501 636	3 486 669	1 014 967
Options trading	35 622	3 432	32 190
Total	4 537 258	3 490 101	1 047 157

5.2. BREAKDOWN OF PERSONNEL EXPENSES

in CHF	2003	2002	Change
Salaries	17 440 850	16 410 655	1 030 195
Social Security Contributions	3 247 534	2 662 554	584 980
Other expenses	1 005 832	264 955	740 877
Total	21 694 216	19 338 164	2 356 052

5.3. BREAKDOWN OF OTHER OPERATING EXPENSES

in CHF	2003	2002	Change
Occupancy expenses	4 223 806	3 768 885	454 921
Expenses for IT, machinery, furnishings, vehicles and other equipment	2 072 057	2 055 467	16 590
Other expenses	7 469 556	5 874 809	1 594 747
Total	13 765 419	11 699 161	2 066 258

5.4. INCOME AND COSTS OF ORDINARY BANKING ACTIVITY
BETWEEN SWITZERLAND AND ABROAD

in CHF	2003		
	Switzerland	Abroad*	Total
Result from operations on interest	13 608 587	213 752	13 822 339
Result from operations on commission and provisions of services	36 270 314	296 510	36 566 824
Result from operations of negotiation	4 514 858	22 400	4 537 258
Result from other ordinary proceeds	280 264	-	280 264
Net result of ordinary banking operations	54 674 023	532 662	55 206 685
Running costs	33 481 184	1 978 451	35 459 635
Gross profit	21 192 839	(1 445 789)	19 747 050

* "Foreign" data refer to the Principality of Monaco.

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 52) of Banca Popolare di Sondrio (Suisse) S.A. for the year ended December 31, 2003.

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

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

DELOITTE & TOUCHE AG


Roland Loup
Auditors in charge


Loris Alzati

Lugano, January 26, 2004