

FOREWORD FROM THE PRESIDENT

The year that closed yesterday left humanity devastated by the awesome Asiatic sea-quake. A keenly-felt solidarity brings us close to the unfortunate people of the countries affected.

In Europe, recovery struggles to keep up with the rest of the world economy. The Swiss Confederation is more or less in line with Euroland. I should mention in passing that, for some years now, our economy has not managed to emerge from the malaise of frailty and stagnation. However, the fact that inflation has been contained brings some stability.

Unemployment exceeds average historical levels in Switzerland. Investment has been steady but consumption has slowed down. The exchange rate compared to the euro is a key to the fortune of Swiss exports, which have remained fairly stable, while the devaluation of the dollar has acted like a cold shower for exporters to the US. Despite the two adjustments upwards of interest rates, the new measure very nearly tallies with the historic minimum levels reached in 2003.

The performance of the financial markets has been generally disappointing and the Swiss stock exchange has followed in the tail-lights of the leading world markets.

The most significant event is known as the "Second bilateral accords", in which the agreement over fiscal arrangements for savings forms the cornerstone. Whilst Europe endorses the recognition of banking secrecy, in return, Switzerland shall withhold a tax on accrued interest by residents in the EU.

Our own growth has been constant and notable. It has been both balanced and spontaneous. The tangible expansion that has occurred more or less merits the motto: "vires acquirit eundo". But, rather than higher profits, this is more a reflection of greater exertions. There has been a measured growth in all the items in the balance sheet, guaranteed by a continual reinforcement of our structure. This is reflected, in turn, by the ever more stable equilibrium in the Profit and Loss Statement. There has also been an increased stability in the development of Costs and Incomes. Although activity on the Exchange remains spasmodic, even profits from brokering have not disappointed.

In July, territorial coverage grew with the branch office in Zurich. Amidst the presence of mythical gnomes, it is located in the city centre in a street named Uraniastrasse, where there is a significant number of Italian residents. During its first accounting period, the branch office in the Principality of Monaco was able to confirm the significance of our choice.

Next May, which will mark a decade since the bank's foundation, a new office at Lugano will be opened in the heart of the city centre.

It is with particular satisfaction that I now turn to our Popso(Suisse) Investment Fund Sicav. It has gained two new sections in the euro, one predominantly shareholding and another monetary. Both have awakened considerable interest among the clientele. The electronic bank has grown from strength to strength. During the same accoun-

ting period, orders placed electronically exceeded, for the first time, those placed via traditional channels.

Finally, the subsidiary Sofipo Fiduciaria closed in profit and is currently meeting its objectives.

There are 217 members of staff, and I wish to thank each and every one of them for their gratifying service. In addition, I am both delighted and compelled to give a special mention to the Management. I would like to point out the quality and value of such service. The ability to do what others do not do, to valorise what makes us unique and induce clients to turn to us. Our team of staff are our secret force and business flourishes when everyone shares a common goal.

It is important to recognise that our Clientele is growing constantly, as it has been given the necessary support. Recognition is also due to the Directors, whose competence, experience and disposition guarantee the successful outcome of the delicate task of looking after the affairs of others. We can assure the audit firm Deloitte & Touche SA of our commitment to provide full collaboration in the prevailing interest of the company, as well as for the sake of the Group Leader.

We express our gratitude to the Federal Banking Commission for the perpetually open dialogue and its understanding when considering our problems. This company administration assures the bank that it will provide "everything that it deserves".

The second part of the pamphlet is reserved for cultural matters. In fact, it is dedicated to one of the leading exponents of music in the 20th Century, the Italian pianist Arturo Benedetti Michelangeli, who was born in Brescia and passed away at Lugano.

Showing both prudence and wisdom, Switzerland remains at the margin of the European Community. It maintains its customary reputation for solidity and continues to show hospitality towards foreigners who, above all, make an important contribution to the overall domestic product.

Just as the river expresses its source and fruit is an expression of its roots, the Confederation reflects order, discipline and true democracy.

The nature of our country is to be compared with the precious Louvre. Thank you!

Lugano, January 1st, 2005

The President
Piero Melazzini



Banca Popolare di Sondrio (suisse)





The Maestro's Steinway concert grand piano dominated over everything, secluded in the southern corner of the house; and he, faithful and steadfast, played it day and night. Listening to it gave me a sense of security and joy.

It was a light. In the enormous tragedy of the war that instrument defined the only pure and uncontaminated area.³

3.

Clara MARTINENGO VILLAGANA
and Stefania MONTI,
Arturo Benedetti Michelangeli.
Genio e compostezza,
Bornato in Franciacorta,
Fausto Sardini, 1998



*If we listen to the monophonic version
of Chopin's smooth andante and brilliant grand polonaise in the performance
by B. Michelangeli, we are immersed in its glow, we experience the perfection
of the touch, the orderly measure of the passage.*

*Reason keeps watch to ensure that
nothing comes to disturb the full silvery light.⁴*

4.

Sergio DELLA MURA,
A. Benedetti Michelangeli,
Empoli, Ibiskos, 1998

REPORT OF THE BOARD OF DIRECTORS AT DECEMBER 31, 2004

The key event of the year – the American elections – is now over and the international scenario seems to have settled down. Even so, the anxieties that characterised the year as a whole remain.

The variable factors and risks are so numerous that, to repeat an oft-repeated maxim in our sector, caution is mandatory.

In the financial world, attention has focused on the gradual collapse of the American dollar. That trend has been induced or at least facilitated by the continual lack of equilibrium of the USA.

The catalyst for that process may have been decisions on monetary policy taken by the leading protagonist in recent worldwide changes: China.

China appears to be an emblematic case of a country that is developing at a prodigious rate. It raises fears that are deeply held (at least in some sectors) of succumbing to an apparently invincible competitor. At the same time, there is a short-term opportunity to benefit from savings in de-localisation and, in the long-term, earn profit from the opening of markets (including in India), with enormous possibilities for merger.

The fears of deflation have vanished and there has been a moderate level of inflation, caused in part by the hike upwards in the price of oil and international uncertainties. It should persuade the central banks to maintain a monetary policy geared to permit a fair amount of expansion and so prevent a repetition of mistakes made in the past, while steering towards a gradual increase in the cost of money.

From the Swiss point of view, relations with the European Union in 2004 took on important developments with the introduction of the agreement on the free movement of people and the approval, after lengthy negotiations, of the Bilateralis Bis (bilateral accords), which are likely to have clear and concrete effects not only on institutions but on private citizens too.

In our sector, attention has focused predominantly on the agreement over the fiscal treatment of savings. From July 1, 2005, taxation will be due at source on interest from residents of the European Union. The bulk of the tax revenue will be reserved for the countries of origin.

This is a sacrifice that has been imposed on the banks. It will involve a further aggravation of informational costs and a burden on a traditionally important part of the clientele. Only in the future will it be possible to gauge the clients' reactions.

The main positive sign is the banishment of the uncertainty over the future of the market for Swiss banking. Over the years, it has been exposed to growing international pressures, designed to suppress banking secrecy over fiscal matters.

So banks, including our own, can continue to invest with confidence in various fields of activity, whether at home or abroad. The goal is to satisfy an ever more demanding and well-prepared clientele.

The Basle II accord, which fixes new criteria for the calculation of own bank resources, updates the regulatory framework that has been in force since 1988. It has featured in numerous conventions and debates, whether in official, institutional or academic circles or within the sector, about the frequently critical nature of the content.

Approval in the various countries, including our own, is still awaited on certain aspects and details. All the same, the accord is expected to come into effect from January 1, 2007.

Our own view of the change remains positive because, generally speaking, high own banking funds help to increase public confidence in the economic system. What is more, from the point of view of a single bank, a more focused and transparent risk assessment can only lead to their improved and more prudent management. In any case, the goal tends to boost banking efficiency and stability.

As far as we are concerned, the accounting period that has just passed by has brought generally satisfactory results which, in some cases, have exceeded targets. During the second six-month period, we opened a "City" branch in Zurich. That move brought the total number of operating units to 14, of which 13 are located in five different Cantons, and one more lies in the Principality of Monaco.

The decision was programmed some time ago and became concrete after we had reached maturity, so to speak. We now believe we offer a range of products and services, as well as sufficient experience, to tackle the new challenge of asserting ourselves in the leading Swiss financial center, which is one of the most important internationally.

The work to restructure the prestigious premises that we own in the historic centre of Lugano and which is destined to house, within the next few months, the bank's head office and a city agency, continues apace and compares favourably to the programme and budget.

The transfer, which has been eagerly awaited during the decade since the bank's foundation, has not led to any neglect of the premises currently occupied in the street via Maggio. They will be subjected to an extensive reallocation that will take advantage of the further space available in the newly constructed office building that stands alongside.

This whole move is designed to increase the functionality of the offices, for the benefit and improved service of our customers.

Through this investment, the bank wishes to openly demonstrate its firm intention to establish itself in the Swiss Confederation. It is a message that speaks for itself.

The collection of funds from the Popso(Suisse) Investment Fund Sicav, which was also placed in Italy by our head office, has grown significantly. It benefited from the launch of two new sections (Global Opportunity, shareholding; Short Term Maturity, monetary), which brought to 10 the investment alternatives offered to the public.

Our subsidiary, Sofipo Fiduciaire, broadened the range of its own services and they are in close harmony with our banking activities. Its business has shown a reassuring growth.

The now well-established collaboration with Generali (Schweiz) in the sale of insurance products, whether standard or tailored for our clientele, has been positive.

By the end of the accounting period, the economic results and capital showed a notable and harmonious growth. Percentages were above average for the market.

For the very first time, our assets management with discretionary mandate exceeded the figure of a thousand million Swiss francs. In a sector where competition is high-quality, fierce and international, this concrete sign of confidence from our clientele is particularly gratifying and stimulates us to work with even greater determination.

The trend in direct collection has been positive. It rose to CHF 705 567 335 (+17%). The growth arose above all in the most prized area, in other words investment and savings, which amounted to CHF 253 192 435 (+21%) and, in the mid and long-term, in bank bonds, representing CHF 63 111 000 (+35%). This picture emerged despite the fact that interest rates were close to minimum historic levels.

If we add the indirect element, overall collections from the clientele exceed the figure for the previous year by 14% and amount to CHF 3 448 900 000.

Fiduciary assets remain stable, as the deposits amount mostly to capital in formation rather than expectations of other investment.

The increase in credit paid out to the clientele has been constant, regardless of the various technical forms it takes, and has reached CHF 749 382 659 (+12%). Mortgage credit has been nothing less than effervescent, reaching CHF 457 860 887 (+40%). We are particularly proud of that result, as it was achieved in a fiercely competitive environment. On the other hand, other credit to clientele showed a downward trend and closed at CHF 291 521 772 (-15%), owing to the natural expiry of certain extraordinary operations. In this way, even we feel we have made available the means needed to generate, improve and preserve the activities that nourish the economic life of the Confederation.

The evolution of the profit and loss statement was satisfactory, especially during the first six-month period of the year.

Interest rose by 13% and reached CHF 15 612 870, despite the slow-down exerted by the compression of margins and the situation on the monetary market described earlier.

Commissions settled at CHF 39 346 898 (+8%). That represents a good result, bearing in mind the still haphazard course of the markets.

If we include operations of negotiation (+4%), the net result of ordinary banking operations increases to CHF 60 204 137 (+9%), which matches expectations.

Although special attention was paid to containing costs, there was a slight rise. However, the increase is not attributed to an open-handed management but to development and expansion, which we will fund with the cash flow derived from current management.

The Board recently approved the mid-term development plan for 2005 – 2007. For the most part, it was able to appreciate the sound realisation of initiatives which follow in the tracks of the direction taken so far but and which will be manifold and important in the three-year period in question.

Returning to the figures in the profit and loss statement, costs in the period reached CHF 38 829 604 (+10%), of which CHF 24 193 532 relates to the costs of staff (+12%) and CHF 14 636 072 to expenditure on material (+6%).

The gradual entrenchment of the electronic bank (GoBanking via the Internet), which will be further developed and updated, has allowed notable savings in running costs and, at the same time, a more efficient service to a greater band of clientele.

The number of staff rose from 193 to 217, owing to special factors such as the opening of the new branch in Zurich and the need to boost central and peripheral structures made necessary by a welcome expansion in business.

The bank's gross profit reached CHF 21 374 533 (+9%).

Appropriate amortisation was carried out, both ordinary and accelerated, and suitable provisions were set aside. The net operating result settled at CHF 7 669 533, up 11% compared to the previous year.

In line with Article 22 in the Articles of Association, the Board of Directors proposes to the General Meeting to allocate the entire profit to the general reserve in order to reinforce the structure of the capital.

As a result, the bank's own resources will exceed the symbolic figure of one hundred million francs (CHF 102 724 688) for the first time. About a half will be made up of share capital and another half will consist in operating profit accumulated so far.

For these results, we are compelled to thank the clientele for choosing us, the executives and our staff for their zeal and the initiative they have shown, the Federal Banking Commission for its kind support and the audit company Deloitte & Touche for its valued collaboration.

Lugano, January 24, 2005

The Board of Directors



*In his last appearances it seemed as though Michelangeli
was endeavouring to surpass the smoothness and impeccable
perfection of his executions, depriving of value the self same sonorous
matter, with which he was able to render his thoughts perceptible.
As though the same almost maniacal cult for tone,
which had always characterised his interpretations,
were superseded by a heightened comprehension of the Idea
which was the source and foundations of sound.⁵*

5.
Ottavio DE CARLI, Postscript to
Clara MARTINENGO VILLAGANA
and Stefania MONTI,
*Arturo Benedetti Michelangeli.
Genio e compostezza,*
Bornato in Franciacorta,
Fausto Sardini, 1998

BALANCE SHEET AT DECEMBER 31, 2004

ASSETS

in CHF	Note	2004	2003	Change
Cash		20 318 699	16 537 397	3 781 302
Due from banks		243 125 046	151 341 723	91 783 323
Due from clients	3.1	291 521 772	341 384 780	(49 863 008)
Mortgage loans	3.1	457 860 887	326 022 899	131 837 988
Securities and precious metals trading portfolio	3.2	-	129 259	(129 259)
Financial investments	3.2	44 217 621	41 972 993	2 244 628
Participating interests	3.4	350 000	350 000	-
Fixed assets	3.4	24 762 250	18 982 491	5 779 759
Accrued income and prepaid expense		8 833 358	9 033 965	(200 607)
Other assets	3.16	16 635 140	48 598 949	(31 963 809)
Total assets		1 107 624 773	954 354 456	153 270 317
Total amounts receivable from group companies and significant shareholders		84 587 504	49 230 289	35 357 215

LIABILITIES

in CHF	Note	2004	2003	Change
Money market instruments		201 000	12 607	188 393
Due to banks		232 394 047	164 721 019	67 673 028
Due to clients in savings and investment accounts		253 192 435	209 864 546	43 327 889
Other amounts due to clients		389 263 900	347 368 825	41 895 075
Medium term notes	3.7	63 111 000	46 863 000	16 248 000
Accrued liabilities and deferred income		12 742 479	6 918 982	5 823 497
Other liabilities	3.17	22 037 610	53 916 508	(31 878 898)
Valuation adjustments and provisions	3.8	31 957 614	29 633 814	2 323 800
Share capital	3.9	50 000 000	50 000 000	-
General statutory reserve		45 055 155	38 121 105	6 934 050
Profit for the period		7 669 533	6 934 050	735 483
Total liabilities		1 107 624 773	954 354 456	153 270 317
Total liabilities to group companies and significant shareholders		195 373 534	157 753 583	37 619 951

OFF-BALANCE-SHEET TRANSACTIONS AT DECEMBER 31, 2004

in CHF	Note	2004	2003	Change
Contingent liabilities	4.1	76 301 821	31 193 791	45 108 030
Additional payment liabilities		300 000	300 000	-
Derivative instruments	4.2	1 198 616 245	1 275 021 079	(76 404 834)
Positive gross replacement values		9 820 223	41 894 970	(32 074 747)
Negative gross replacement values		14 207 766	45 212 627	(31 004 861)
Fiduciary transactions	4.3	504 900 899	476 837 090	28 063 809

INCOME STATEMENT FOR THE YEAR AS AT DECEMBER 31, 2004

PROFIT & LOSS STATEMENT ON THE PERIOD AT DECEMBER 31, 2004

in CHF	Note	2004	2003	Change
Interest and discount income		28 370 666	24 848 832	3 521 834
Interest and dividend income on trading portfolios		684	12 691	(12 007)
Interest and dividend income on financial investments		499 219	760 036	(260 817)
Interest expense		(13 257 699)	(11 799 220)	(1 458 479)
Net interest income		15 612 870	13 822 339	1 790 531
Commission income on lending activities		595 826	513 087	82 739
Commission income on securities and investment transactions		39 566 049	35 892 167	3 673 882
Commission income on other services		3 571 133	3 154 055	417 078
Commission expenses		(4 386 110)	(2 992 485)	(1 393 625)
Net income on fee and commission business		39 346 898	36 566 824	2 780 074
Net income on trading operations	5.1	4 716 337	4 537 258	179 079
Net income from disposal of financial investments		102 695	166 185	(63 490)
Income from participating interests		4 000	-	4 000
Profits from real estate		49 257	-	49 257
Other ordinary income		563 509	629 704	(66 195)
Other ordinary expenses		(191 429)	(515 625)	324 196
Other ordinary results		528 032	280 264	247 768
Net operating income from ordinary banking		60 204 137	55 206 685	4 997 452
Personnel expenses	5.2	24 193 532	21 694 216	2 499 316
Other operating costs	5.3	14 636 072	13 765 419	870 653
Total operating expenses		38 829 604	35 459 635	3 369 969
Gross profit		21 374 533	19 747 050	1 627 483

INCOME STATEMENT

PROFIT FOR THE PERIOD				
in CHF	Note	2004	2003	Change
Depreciation/write-offs of fixed assets	3.4	(8 500 000)	(6 600 000)	(1 900 000)
Valuation adjustments, provisions and losses		(2 500 000)	(3 800 000)	1 300 000
Extraordinary income		-	-	-
Extraordinary expenses		-	-	-
Taxes		(2 705 000)	(2 413 000)	(292 000)
Profit for the period		7 669 533	6 934 050	735 483
PROPOSAL FOR EMPLOYMENT OF THE PROFIT IN THE BALANCE SHEET				
in CHF		2004	2003	Change
Profit for year		7 669 533	6 934 050	735 483
Profit carried forward		-	-	-
Profit available		7 669 533	6 934 050	735 483
The Board of Directors proposes to set aside the profit in the balance sheet sheet on December 31, 2004, of CHF 7 669 533 for the general legal reserve		7 669 533	6 934 050	735 483
Retained earnings carried forward		-	-	-

CASH FLOW STATEMENT FOR THE YEAR AS AT DECEMBER 31, 2004

FLOW FUNDS ACCOUNT FOR THE PERIOD AT DECEMBER 31, 2004

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

CHF in thousands	2004		2003	
	Source	Application	Source	Application
Profit for the year	7 670	-	6 934	-
Depreciation and write-offs of fixed assets	8 500	-	6 600	-
Valuation adjustments and provisions	2 324	-	3 523	-
Accrued income and prepaid expenses	201	-	-	5 345
Accrued liabilities and deferred income	5 823	-	-	2 518
Other assets	31 964	-	-	31 798
Other liabilities	-	31 879	35 370	-
Net cash flow	24 603		12 766	

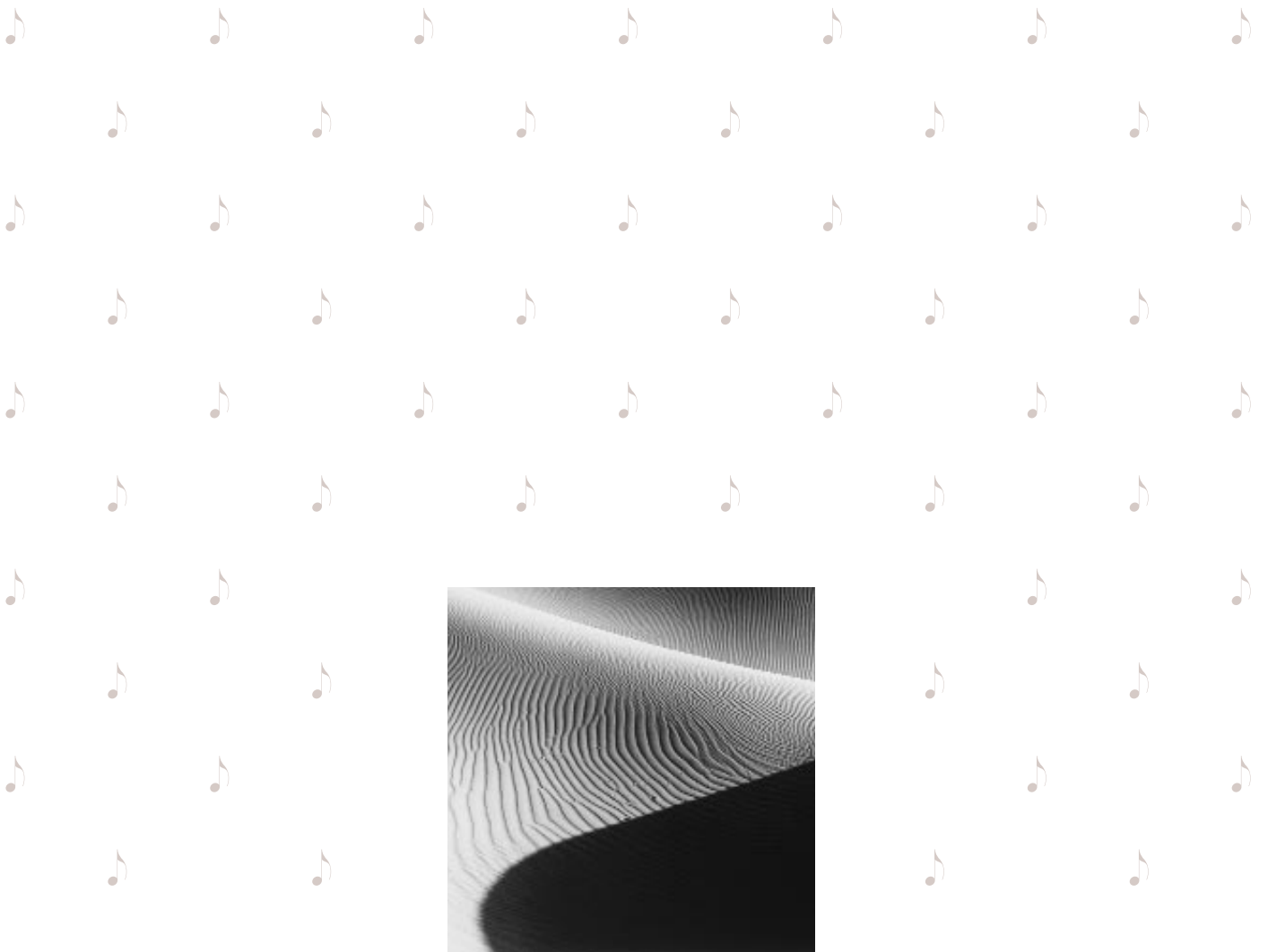
FLOW OF FUNDS RESULTING FROM CHANGES IN FIXED ASSETS

Participating interests	-	-	-	-
Bank buildings	-	5 404	-	-
Other fixed assets	21	6 961	-	3 259
Intangible fixed assets	-	1 935	-	2 221
Net cash flow		14 279		5 480

CASH FLOW STATEMENT

CASH FLOW FROM BANKING OPERATIONS

CHF in thousands	2004		2003	
	Source	Application	Source	Application
Balance brought forward	24 603	14 279	12 766	5 480
Non-current operations (> 1 year)				
Due to clients - savings	-	-	-	-
Due to clients - other	400	-	-	3 000
Medium-term note issues	10 304	-	603	-
Client loans	-	93	9 708	-
Mortgage loans	-	94 711	-	109 620
Financial investments	33 246	-	-	16 661
Current operations				
Liabilities under money market instruments	188	-	-	987
Due to banks	67 673	-	-	118 863
Due to clients	41 495	-	105 118	-
Cash from client savings	43 328	-	81 881	-
Medium-term note issues	5 944	-	3 101	-
Due from banks	-	91 783	124 045	-
Due from clients	49 956	-	-	77 671
Mortgage loans	-	37 127	-	18 167
Financial investments	-	35 491	12 789	-
Securities trading portfolio	129	-	1 020	-
Net cash flow		6 542		6 704
Total cash	3 782		582	
Variation in cash		3 782		582



In "Reflets dans l'eau"
the cold light which brushes the ripples of the gentle waves appears
in the perfection of a constantly re-created design.⁶

6.

Fernando DE CARLI,
Così il pianoforte nella sua materialità
si piega alla mente del grande Maestro,
in "Corriere del Ticino"
(15th May, 1986 and 8th June, 1996)

NOTES TO THE 2004 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 purpose is to collect savings, operate credit and develop services, especially with regard to asset management services and retail banking.

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, Basle and Monaco (Principality of Monaco). In 2004, a new branch was opened in Zurich that had previously operated as a representative office.

By the end of the period, overall staff amounted to 217, compared to 193 in 2003.

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.

	2004	2003
Own real estate	40 years	40 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	3 years	4 years
Software	3 years	4 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.

COMMITMENTS TO BANKS AND THE CLIENTELE AND BANK BONDS

Commitments to banks, the clientele and with cash bonds have been assessed at 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 positive and negative replacement values of derivative financial instruments generated by the clientele and open at the closing of accounts were 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".

Time bargains (outright) and part of the time swap operations have been converted by using the residual rates of exchange in force on the day when the balance sheet closed. The result of the valuation is entered in the accounts under "Result of negotiation operations". The end of year conversion rates used for the main foreign bills are: EUR 1.5435 (2003: 1.5584); USD 1.1318 (2003: 1.2358).

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

Compared to the accounting period that closed on December 31, 2003, no changes have been made to the accounting principles for presentation.

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 "Valuation adjustments and provisions".

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

The positions taken in the context of the negotiation 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 firms 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

The positions in derivate instruments are, for the most part, held on behalf of clients. 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 had still not been regulated at the moment of closure are included among the time bargains.



We recall his fulminating and extremely precise skilled accomplishment of the more compelling passages, the rapid quadruplets of semiquavers which were always brilliant and perfectly identical.

His typical virtuosity, taken care of with such obsessive precision as to no longer seem such, on the contrary appears to be the outcome of a perfect timing of all the muscular and mechanical mechanisms which go to make up the prodigious man-instrument system which is the motor of the performance.⁷

7.
Daniele SPINI,
"Il nous a été frère", in
Il suono ritrovato
di Benedetti Michelangeli,
Milano, Banca Intesa, 1999

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	31 663 913	201 614 867	58 242 992	291 521 772
Mortgage loans				
Residential property	402 917 581	-	-	402 917 581
Commercial property	16 249 658	-	-	16 249 658
Others	38 693 648	-	-	38 693 648
Current year	489 524 800	201 614 867	58 242 992	749 382 659
Previous year	362 344 948	232 891 830	72 170 901	667 407 679
Off-balance-sheet				
Contingent liabilities	-	73 031 287	3 270 534	76 301 821
Commitments to make payments and additional depositing	-	-	300 000	300 000
Current year	-	73 031 287	3 570 534	76 601 821
Previous year	-	22 196 260	9 297 531	31 493 791

ARRANGED CREDIT

in CHF	Gross figure	Estimated value of enforcing guarantees	Net figure	Specific reserve fund
Current year	7 255 046	1 406 706	5 848 340	5 425 391
Previous year	5 473 577	465 000	5 008 577	4 983 022

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

Securities trading portfolio

in CHF	2004	2003	Change
Equities	-	129 259	(129 259)
own securities for contribution	-	-	-

Financial investments

in CHF	2004	2003	Change
Non equity investment securities, valued at lowest value	35 929 144	37 199 919	(1 270 775)
cost price	36 232 224	37 555 756	(1 323 532)
market value	36 177 412	37 422 781	(1 245 369)
own bonds or bank bonds	-	-	-
Equities	7 938 477	4 773 074	3 165 403
market value	8 094 603	4 913 226	3 181 377
qualified holdings	-	-	-
Real estate	350 000	-	350 000
market value	450 000	-	450 000
Total financial investments	44 217 621	41 972 993	2 244 628

Participating interests

in CHF	2004	2003	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 %

The share capital has been paid-up at 50%.

In conformity to the provisions of art. 23a OB, there is no obligation to present the Group accounts as of December 31, 2004.

3.4. SCHEDULE OF INVESTMENTS

in CHF	At cost	Depreciation & Writedowns to Date	Book value 2003	Reclassifi- cation	Additions	Disposals	Depreciation & Writedowns	Book value 2004
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	12 943 333	(2 134 801)	10 808 532	-	5 403 855	-	(2 061 401)	14 150 986
Other tangible fixed assets	28 344 095	(22 940 639)	5 403 456	-	6 961 001	(20 526)	(3 896 412)	8 447 519
Intangible fixed assets	15 141 796	(12 371 293)	2 770 503	-	1 935 429	-	(2 542 187)	2 163 745
Total	56 429 224	(37 446 733)	18 982 491	-	14 300 285	(20 526)	(8 500 000)	24 762 250
Insurance value								
Property used by the Bank			4 500 000					4 500 000
Other tangible fixed assets			15 250 000					15 750 000

3.5. ASSETS PLEDGED OR CEDED TO SECURE OWN LIABILITIES AND ASSETS SUBJECT TO RESERVATION OF TITLE (BOOK VALUE)

in CHF	2004	2003
Security deposits for Lombard loan at BNS	1 002 402	1 002 402
Security deposits in schemes run in association with other banks	3 920 350	3 916 000
Property used by the Bank	14 150 986	10 808 532
Credit instruments (financial fixed assets) used to guarantee REPO operations	8 926 306	4 965 030
Part for which the right to alienate or subsequently place on pledge was granted without restrictions	-	-
Total	28 000 044	20 691 964

Regarding the item "Deposits to guarantee Lombard credit at BNS", note that, on December 31, 2004, no credit existed (2003: CHF 800,000).

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 (2003: CHF 3 000 000).

Commitments arising from REPO operations that existed on December 31, 2004, reached CHF 8 000 000 (2003: CHF 5 000 000).

3.6. COMMITMENTS TO WELFARE INSTITUTIONS

in CHF	31.12.2004	31.12.2003
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Commitments to welfare fund	-	-
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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	2004
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	2004
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
	2005	2006	2007	2008	2009	2010	2011	2012		
0.875 %	200									200
1.000 %	713	670								1 383
1.125 %	836	1 009								1 845
1.250 %	170	1 690								1 860
1.375 %	115	8 321								8 436
1.500 %		2 249	2 319	10						4 578
1.625 %	75	60	530							665
1.750 %	121		4 590							4 711
1.875 %	4		2 310	394						2 708
2.000 %	385	70	60	1 512						2 027
2.125 %	60			1 000	305					1 365
2.250 %	35		50	990	1 629	20				2 724
2.375 %				40	3 741					3 781
2.500 %	150		510	60	2 262	616	100			3 698
2.625 %	100				100	80		40		320
2.750 %	195				90			15		300
2.875 %	2 217						428	52		2 697
3.000 %	5 442	440	165		20	150	210	809		7 236
3.125 %	1 300	265	73		100			200		1 938
3.250 %	2 250	50	242	51	7					2 600
3.375 %	496	55		50	50					651
3.500 %		250			83	55				388
3.625 %	599	30								629
3.750 %			10							10
4.000 %	2 475	465	70	2 684	17					5 711
4.250 %	115		20	505	10					650
Total	18 053	15 624	10 949	7 296	8 414	921	738	1 116		63 111

3.8. VALUATION ADJUSTMENTS AND PROVISIONS

in CHF	Balance at 31.12.03	Applications & reversals consistent with specific purpose	Change of purpose	Recoveries, overdue interest, forex differ	New provisions charged to earning	Reversals credited to income statement	Balance at 31.12.04
Loss risk adjustments and provisions (del credere and country risks)	9 190 773	(135 580)	-	159 336	649 880	-	9 864 409
Other provisions	20 443 041	-	-	-	1 650 164	-	22 093 205
Total value adjustments and provisions	29 633 814	(135 580)	-	159 336	2 300 044	-	31 957 614

3.9. CAPITAL STOCK

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

The share capital has not changed compared to December 31, 2003.

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 Expandi of the Milan Stock Exchange.

The situation remains the same compared to December 31, 2003.

3.10. STATEMENT OF CHANGES IN EQUITY TRANSACTIONS

in CHF	2004	2003
Total shareholders' equity at start of period		
Paid-up 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
Allocation to general statutory reserve	(6 934 050)	(6 558 516)
Dividend and other payments deducted from profit for previous year	6 934 050	6 558 516
Profit for current financial year	7 669 533	6 934 050
Total shareholders' equity	102 724 688	95 055 155
of which:		
Share capital	50 000 000	50 000 000
General statutory reserve	45 055 155	38 121 105
Balance sheet profit	7 669 533	6 934 050
Total	102 724 688	95 055 155

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	Without maturity	
Current assets								
Cash	20 318 699	-	-	-	-	-	-	20 318 699
Due from banks	107 068 786	-	136 056 260	-	-	-	-	243 125 046
Due from clients	-	176 997 479	31 904 902	48 413 141	28 706 250	5 500 000	-	291 521 772
Mortgage loans	9 534 942	85 693 570	10 323 000	47 860 500	296 287 675	8 161 200	-	457 860 887
Securities trading portfolio	-	-	-	-	-	-	-	-
Financial investments	43 867 621	-	-	-	-	-	350 000	44 217 621
Current financial year	180 790 048	262 691 049	178 284 162	96 273 641	324 993 925	13 661 200	350 000	1 057 044 025
Previous financial year	108 573 821	174 271 118	214 061 720	103 124 725	249 480 668	27 876 999	-	877 389 051
Liabilities								
Money market instruments	201 000	-	-	-	-	-	-	201 000
Due to banks	1 057 304	-	231 336 743	-	-	-	-	232 394 047
Due to clients in savings and investment accounts	-	253 192 435	-	-	-	-	-	253 192 435
Other amounts due to clients	336 987 022	-	44 955 178	6 921 700	400 000	-	-	389 263 900
Medium-term notes	-	-	5 683 000	12 121 000	42 397 000	2 910 000	-	63 111 000
Current financial year	338 245 326	253 192 435	281 974 921	19 042 700	42 797 000	2 910 000	-	938 162 382
Previous financial year	311 146 005	209 864 546	199 151 446	13 665 000	33 686 000	1 317 000	-	768 829 997

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

in CHF	2004	2003	Change
Loans to Bank's governing bodies	4 725 655	4 595 400	130 255

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	2004		2003	
	Switzerland	Abroad	Switzerland	Abroad
Assets				
Cash	19 730	589	15 739	798
Due from banks	127 725	115 400	76 418	74 924
Due from clients	137 661	153 861	129 835	211 550
Mortgage loans	457 861	-	326 023	-
Securities trading portfolio	-	-	-	129
Financial investments	2 487	41 731	1 490	40 483
Participating interests	350	-	350	-
Fixed assets	23 937	825	17 557	1 425
Accrued income and prepaid expense	8 396	437	8 856	178
Other assets	9 548	7 087	44 117	4 482
Total assets	787 695	319 930	620 385	333 969
Liabilities				
Money market instruments	201	-	13	-
Due to banks	27 372	205 022	6 967	157 754
Due to clients in savings and investment accounts	175 114	78 078	144 503	65 362
Other amounts due to clients	218 119	171 145	191 868	155 501
Medium-term note issues	63 111	-	46 863	-
Accrued liabilities and deferred income	12 013	729	5 800	1 119
Other liabilities	12 958	9 080	49 391	4 524
Valuation adjustments and provisions	31 958	-	29 634	-
Share capital	50 000	-	50 000	-
General statutory reserve	45 055	-	38 121	-
Profit for the period	7 670	-	6 934	-
Total liabilities	643 571	464 054	570 094	384 260

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

CHF in thousands	2004		2003	
	Total	in %	Total	in %
Switzerland	787 695	71	620 385	65
OECD Countries	308 920	28	332 404	34
Other Countries	11 010	1	1 565	1
Total assets	1 107 625	100	954 354	100

3.15. BREAKDOWN OF ASSETS AND LIABILITIES BY CURRENCY

CHF in thousands

Assets	CHF	EUR	USD	Others	Total
Cash	11 294	8 647	243	135	20 319
Due from banks	11 111	197 585	24 052	10 377	243 125
Due from clients	151 816	128 214	10 863	629	291 522
Mortgage loans	457 713	148	-	-	457 861
Securities trading portfolio	-	-	-	-	-
Financial investments	30 352	12 724	901	241	44 218
Participating interests	350	-	-	-	350
Fixed assets	23 937	825	-	-	24 762
Accrued income and prepaid expense	7 103	1 677	42	11	8 833
Other assets	7 227	402	8 664	342	16 635
Total assets in the balance sheet	700 903	350 222	44 765	11 735	1 107 625
Applications for delivery derived from operations in cash, at-term and on options on debt	46 592	414 837	325 687	152 182	939 298
Total assets	747 495	765 059	370 452	163 917	2 046 923
Liabilities					
Money market instruments	201	-	-	-	201
Due to banks	72 943	158 271	725	455	232 394
Due to clients in savings and investment accounts	211 395	41 794	3	-	253 192
Other amounts due to clients	185 465	159 596	35 746	8 457	389 264
Medium-term note issues	63 111	-	-	-	63 111
Accrued liabilities and deferred income	10 810	1 762	115	55	12 742
Other liabilities	11 257	10 411	83	287	22 038
Valuation adjustments and provisions	31 958	-	-	-	31 958
Share capital	50 000	-	-	-	50 000
General statutory reserve	45 055	-	-	-	45 055
Profit for the period	7 670	-	-	-	7 670
Total liabilities in the balance sheet	689 865	371 834	36 672	9 254	1 107 625
Commitments arising from operations in cash, at-term operations and on options on debt	70 050	397 314	324 898	154 240	946 502
Total liabilities	759 915	769 148	361 570	163 494	2 054 127
Net position for debt	(12 420)	(4 089)	8 882	423	(7 204)

3.16. MAKE-UP OF OTHER ASSETS

in CHF	2004	2003	Change
Down-payments on tax and VAT to recover	1 461 744	515 110	946 634
Positive replacement values of derived financial instruments	10 011 894	41 894 970	(31 883 076)
Set-off account	4 309 751	4 390 389	(80 638)
Other	851 751	1 798 480	(946 729)
Total	16 635 140	48 598 949	(31 963 809)

3.17. MAKE-UP OF OTHER LIABILITIES

in CHF	2004	2003	Change
Federal administration of contributions	3 692 801	3 241 397	451 404
Negative replacement values of derived financial instruments	14 399 437	45 212 628	(30 813 191)
Other	3 945 372	5 462 483	(1 517 111)
Total	22 037 610	53 916 508	(31 878 898)

4. OFF-BALANCE-SHEET INFORMATION

4.1. CONTINGENT LIABILITIES

in CHF	2004	2003
Guarantees and similar instruments	75 695 778	28 050 852
Documentary credits	606 043	3 142 939
Total contingent liabilities	76 301 821	31 193 791

4.2. DERIVATIVE INSTRUMENTS OUTSTANDING AT YEAR END

in CHF	Positive replacement value	Negative replacement value	Contract volume
Hedging			
Interest-rate instruments			
Swap (OTC)	-	4 309 751	259 421 250
Negotiation			
Foreign exchange contracts			
Swap (OTC)	1 904 985	1 202 187	22 475 456
Forward contracts (OTC)	7 287 569	8 068 159	413 106 771
Options (OTC)	627 669	627 669	201 063 704
Others			
Forward contracts (OTC)	-	-	302 549 064
At December 31, 2004	9 820 223	14 207 766	1 198 616 245
At December 31, 2003	41 894 970	45 212 627	1 275 021 079

The item "Sundries" reflects transactions concluded by December 31, 2004, but to be settled in 2005 according to the accounting principle dictated by the currency date.

4.3. FIDUCIARY TRANSACTIONS

in CHF	2004	2003	Change
Fiduciary investments with other banks	366 089 416	359 610 225	6 479 191
Fiduciary investments with Group banks	138 811 483	117 226 865	21 584 618
Total	504 900 899	476 837 090	28 063 809

4.4. ASSETS CREDIT OF CLIENTELE

CHF in million	2004	2003	Change
Type of assets			
Assets in own administrated funds	450.7	298.2	152.5
Assets credit with mandate to manage	1 048.8	860.7	188.1
Other assets credit	2 400.1	2 173.3	226.8
Total assets credit of clientele (including credit considered twofold)	3 899.6	3 332.2	567.4
Considered twofold	279.8	215.6	64.2
Net increase / (decrease) of clients assets	489.6		

5. INFORMATION ON THE INCOME STATEMENT

5.1. BREAKDOWN OF INCOME FROM TRADING OPERATIONS

in CHF	2004	2003	Change
Currency trading	4 717 381	4 501 636	215 745
Options trading	(1 044)	35 622	(36 666)
Total	4 716 337	4 537 258	179 079

5.2. BREAKDOWN OF PERSONNEL EXPENSES

in CHF	2004	2003	Change
Salaries	19 489 564	17 440 850	2 048 714
Social Security Contributions	3 563 232	3 247 534	315 698
Other expenses	1 140 736	1 005 832	134 904
Total	24 193 532	21 694 216	2 499 316

5.3. BREAKDOWN OF OTHER OPERATING EXPENSES

in CHF	2004	2003	Change
Occupancy expenses	4 521 644	4 223 806	297 838
Expenses for IT, machinery, furnishings, vehicles and other equipment	2 565 426	2 072 057	493 369
Other expenses	7 549 002	7 469 556	79 446
Total	14 636 072	13 765 419	870 653

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

in CHF	2004		
	Switzerland	Abroad*	Total
Result from operations on interest	15 323 513	289 357	15 612 870
Result from operations on commission and provisions of services	38 586 973	759 925	39 346 898
Result from operations of negotiation	4 684 314	32 023	4 716 337
Result from other ordinary proceeds	528 032	-	528 032
Net result of ordinary banking operations	59 122 832	1 081 305	60 204 137
Running costs	36 208 396	2 621 208	38 829 604
Gross profit	22 914 436	(1 539 903)	21 374 533

* "Abroad" 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 51) of Banca Popolare di Sondrio (Suisse) S.A. for the year ended December 31, 2004.

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


Sandro Treighler

Lugano, January 25, 2005

Banca Popolare di Sondrio (suisse)



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