

FOREWORD FROM THE PRESIDENT

During the 12 months that have just gone by, the world's attention focused on the economic explosion in South-East Asia. It has even been said that the sun of enterprise rises in the East.

The international panorama suggests a resistant American economy, growth in Japan and stability in the Euro region, which, however, reflects distinct trends among the various States.

Among European countries, the Swiss Federation has performed well. Despite the various setbacks and the all-embracing fiscal shield, Switzerland is always Switzerland: a State that combines its own merits with the demerit of others. It is a truly democratic State – the type of democracy that is distinguished from terrorism because the word revenge is hardly in our vocabulary.

In the banking sector, the domestic system has marched forward steadily and results have been satisfactory. The preparation of the Basle II accord continues. It is an agreement that, from January 1, 2007, will control the determination of own capital in the light of possible risks that may emerge. The accord with the European Union over tax on savings came into force on July 1, 2005, but banking secrecy has not been compromised. Competition is increasingly vigorous. For us, it serves as a motive for reflection and, above all, action, as well as the quest for improvement in cultural and human terms.

At the same time, there has been an encouraging quantitative increase in the balance sheet. The equilibrium between assets and finance is now more harmonious. The most significant aspect to point out, though, is that stability has been achieved owing to the solid growth in direct collections, even in the most desirable segment (small savings). The increase has been employed in transactions that support and foster the economy. Against the background of an effervescent stock market, brokering activities have revealed a general picture of increases in proportion to development.

The satisfying levels of profit are the reward and confirmation of the equilibrium in management. The statement of assets and liabilities confirms the economic result and a matching growth has been recorded in all the items.

Turning now to territorial expansion, it is worth drawing attention to the ceremony to mark the 10th anniversary of the bank's foundation, which coincided with the transfer to the new headquarters of the General Management in the via Luvini and the simultaneous opening, on the same premises, of the first agency in the city. As the year drew to a close, we became established at Mendrisio. We are now operating with 16 branches, distributed in five Cantons and in the Principality of Monaco. The outcome is that Banca Popolare di Sondrio (SUISSE) is the foreign bank with the most territorial coverage in the Confederation. On the other hand, it is worth pointing out the growing importance of GoBanking (Internet banking) and the technological and organisational infrastructure. They are mutually balanced features that enable the provision of competitive and efficient services.

The subsidiary Sofipo Fiduciaire SA has developed according to schedule. Management has been conducted profitably and has breathed life, together with Unione Fiduciaria, the parent company and other Italian "people's" banks, into SOFIPO UF TRUSTEE LTD., which is governed by Cypriot law. As a result, it has been possible to offer services geared to meet the ad hoc requirements of high-ranking clients.

Moreover, in conjunction with the members of Sofipo, we have set up a trust company governed by Austrian law, Sofipo (Austria) GmbH, which has its headquarters at Vienna. It represents an attempt to repeat the profitable experience in Switzerland. Harmony with Banca Popolare di Sondrio is a constant feature that is both convenient and agreeable. As a result, the number of Swiss citizens who are members of the parent company is growing constantly. They represent hundreds of members who benefit not only from the dividend but also from a high quotation for the stock. So activity is significant in the sphere of financial services in favour and on behalf of primary Swiss institutional operators who find, in Banca Popolare di Sondrio, a bank that is reliable in terms of both innovation and flexibility in performance.

Human resources rose by 28 employees: there are now 245 team members. If the chief factor in the success of a bank is the human being, then we must pay tribute to him / her and hope to continue along the same lines. A special tribute should be given to the General Management.

Each of us works to ensure the satisfaction of the Clients and we must recognise their importance. We should express our grateful appreciation for the Board of Directors, who share a commitment to and the success of the sound trajectory of the company. We acknowledge the firm of auditors, Deloitte SA, for their scrupulous work and guarantee of exceptional diligence in the furtherance of our duties.

We pledge our customary and constant respect for the orientations, which are compatible with the development of healthy and prudent management, of the Swiss Federal Banking Commission, to whom we are bound by years of association.

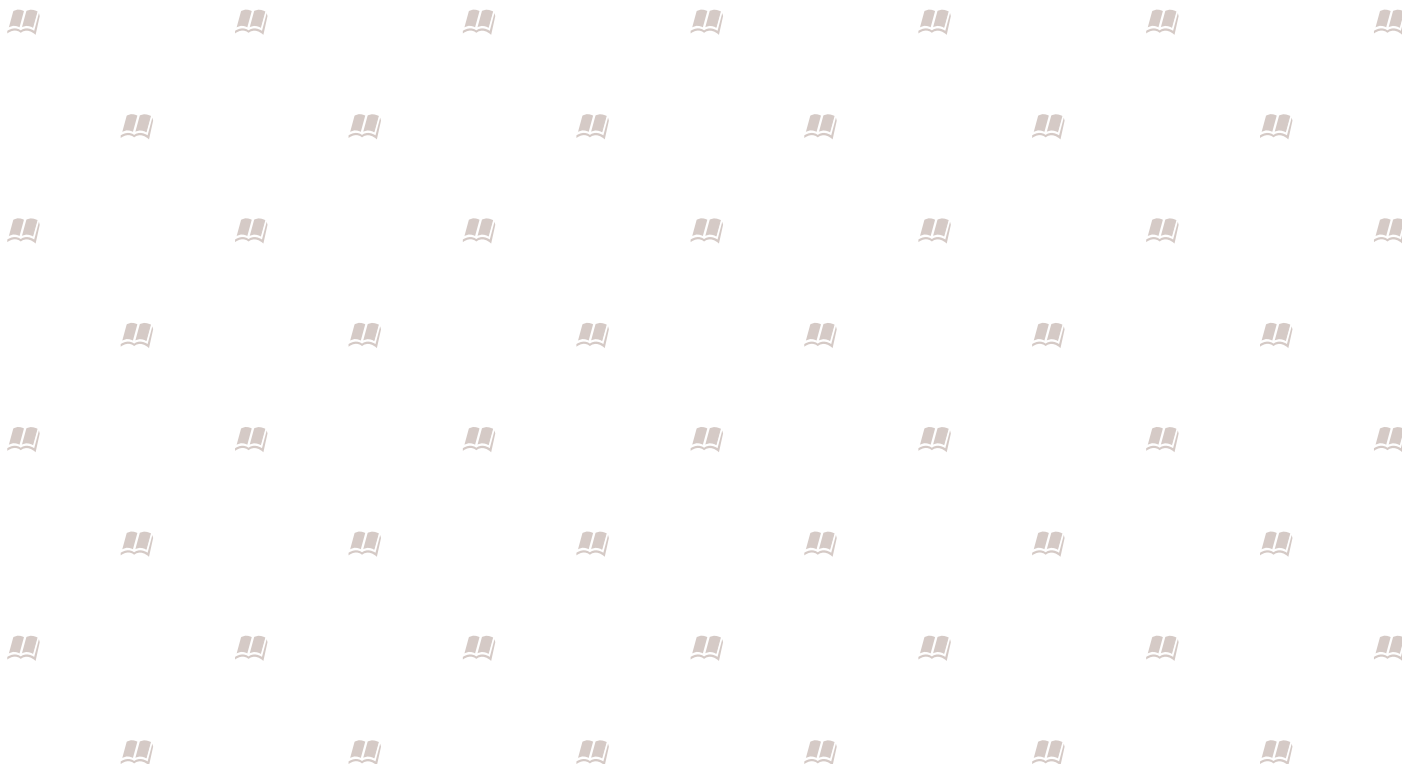
Despite being aware of our cultural limitations, we will spare no effort to meet the expectations of those who value that section in the pamphlet of the annual report. It evokes a character from the past that time must not allow us to forget. Seventy years after his death, we mean, of course, to Ulrico Hoepli, publisher and bookseller.

Lugano, January 1, 2006

The President
Piero Melazzini



Banca Popolare di Sondrio (suisse)





*Time is more important than money.
If I lose a lira I can earn it again,
but if I lose a day, it is lost for ever.³*



3.
Editorial interview in
"Il Natale del libro. Edizioni Hoepli
per regalo, novità del 1899-1900"
("A book for Christmas. Hoepli Editions
for gifts and original ideas dated
1899-1900"),
10th December 1899.
Photo: Milan, vehicular traffic
in via Orefici, 1935 ca.
(Milan, Civico Archivio Fotografico,
All rights reserved)



"Give me the right man and I'll do business".⁴

4.

Ulrico HOEPLI,
Letter to Rudolf Jakob Humm
dated 8th November 1930.

Photo: Milan, advertising billboards
in piazza del Duomo.

(Milan, Publifoto - Olycom)

REPORT OF THE BOARD OF DIRECTORS AT DECEMBER 31, 2005

The year closed with an international, macro-economic picture distinguished by a robust American economy, a recovery in Japan and substantial stability in the overall sphere of the Europe, although trends in that area varied from country to country.

Switzerland performed well compared to other European countries. It benefited from the climate of increased optimism, the traditional picture of stability in prices and low rates of unemployment.

The overall recovery should go ahead on broader foundations than anticipated, with robust demand from abroad, a boost to corporate investment and increased confidence among consumers.

The modest adjustment to official rates of interest by the Swiss National Bank should not prove to be an obstacle to economic growth, bearing in mind the continuation of an expansive monetary policy.

If we turn to the exchange markets, the average rates of the dollar compared to the euro and to the Swiss franc reveal a surprising stability in comparison to the previous year. It was achieved owing to the recovery of the American currency, which saw consolidation in the second half of the year.

The coming into force on July 1, 2005, of the controversial accord over the application of tax regulations led to the umpteenth undertaking by the Swiss banking system in terms of IT and organisation.

Generally speaking, the clientele is prepared for the change by now. It has withstood the inconvenience without upset and feels reassured by the implied recognition of banking secrecy in Switzerland by neighbouring countries.

Given that only a few months have passed by since the real application of the norms, it would be premature to draw conclusions.

The steady march towards Basle II, the new accord over own resources of the banks needed to tackle the credit risks, market risks and (and this is one of the important novelties that have been introduced) operating risks, has been swift.

The final directives for application by the Swiss supervision Authorities are expected in the next few months and their coming into force on January 1, 2007, appears to be beyond doubt.

Our Bank has continued with the investments and adaptations needed to ensure precise compliance with the new provisions.

With attention focused on our progress as a business, the past accounting period has been geared to both consolidation and growth.

In May – 10 years after the Bank's foundation – we transferred the registered office, the General Management and some central offices to the new office block owned in

the via Luvini, in the heart of Lugano.

The radical redevelopment – needed for the modern and functional use of space – and effective restoration of the external facades have added extra value – as we have clearly seen – to that elegant building in the historic city centre that dates from the early 1900's.

In the meantime, the head office in via Maggio has been boosted by the chance to take advantage of a newly-constructed piece of real estate that is adjacent to its predecessor and communicates to the present structure. In this way, the space available to the Clientele could be sufficiently expanded, while meeting the altered requirements of the Bank.

The opening of the agency at Mendrisio (TI), which is included within the territorial sphere of the branch office of Chiasso, means that the number of operating branches has risen to 16.

Once the works to redevelop the relevant premises have been completed, over the next few months we expect to open new agencies at Biasca (TI) and, after securing authorisation from the proper Authorities, at Pontresina (GR) in Engadina.

The policy of territorial expansion reflects our “Mid-Term Development Plan”. It has targeted the opening of branches of modest dimensions in interesting areas. They take advantage of the support of branch offices that have a positive impact on the local setting.

The objective is proximity – including in logistic terms – to the Clientele. This strategy increases our presence in the lives of people and small and medium-sized enterprises and is in harmony with our Group's focus on a people's bank deeply rooted within the territory.

Continual progress in IT has facilitated an improved operating efficiency.

Personnel has grown sharply, and not just in numbers, from 217 to 245 staff and constitutes a key asset in the provision of specialist and customised services.

Take-up has risen steeply for the Popso(SUISSE) Investment Fund Sicav, which is divided into 10 sections and has been placed successfully by our Parent Company in Italy, too. The interest generated has induced us to extend further the available range, which might soon be enriched by new sections.

Collaboration has been profitable with the subsidiary Sofipo Fiduciaire SA, which has developed its business and structure. During the course of the year, that enterprise funded SOFIPO UF TRUSTEE LTD., a company governed by Cypriot law, to offer Clients in our Group a new specialist service that is now much in demand.

Together with the partner at Sofipo and with the goal of replicating the positive experience in Switzerland, we have created a new trust company in Austria, a country that

is close to us and not just from a geographical point of view. The business name chosen was “Sofipo (Austria) GmbH”. It has its headquarters at Vienna and will begin to operate in the next few months.

That venue is widely agreed to be ideal for clientele wishing to penetrate Eastern Europe.

At the close of the accounting period, we launched with the “Life Benefit” brand the third pillar Foundation and is geared to the development of an integral social security system for employees and the self-employed. The accounts not only benefit from the deductions allowed by the fiscal regulation but are remunerated by us at particularly favourable rates. We are delighted to announce a sparkling and propitious start for this new initiative.

Collaboration with Generali (Schweiz) in the field of sales of insurance products has continued to yield good results.

Apart from the provision of standardised products that are typical of the universal, Swiss tradition, the chance to invest part of savings in the sections of our Investment Company with Variable Capital is envisaged.

Moreover, owing to the support of our specialists, we are in a position to offer a wide-ranging and customised consultation service in order to protect the long-term lifestyles of the applicants and their families.

We now present, with a numerical arrangement, the balance sheet for the accounting period that has just gone by. It shows that the constant commitment of the entire structure, both at the centre and on the peripheries, has enabled significant progress in both volumes and receipts, despite the continual thrust of the competition.

Direct collections exceeded the fixed targets and show a considerable rise, settling at CHF 928'943'358 (+32%).

The forging of significant relations with public bodies in various Cantons has permitted the support of consistent liquidity, even though part of it may be temporary in nature.

Just as much satisfaction can be derived from the mid and long-term components that featured strongly in the collections. Deposits by clientele as savings and investment reached CHF 307'131'862 (+21%) and bank bonds recorded CHF 105'068'000 (+67%).

Indirect collections, which were also nourished by favourable trends on the financial markets, registered CHF 3'177'415'456 (+16%), bringing total takings from clientele to CHF 4'106'358'814 (+19%).

On the other side of the balance sheet, economic employment has progressed particularly in the mortgage sector, which consists chiefly in residential buildings. Credit paid out to the clientele, amounting overall to CHF 917'851'981 (+22%), repre-

sents a healthy and diversified portfolio. It is the fruit of a search for quality rather than quantity, though that too has grown in a reassuring manner.

The impact on the profit and loss statement of the above results has been satisfactory, despite the slight erosion of margins found in all sectors of activity, in line with a tendency that is destined to continue.

The result on interest was CHF 16'897'660 (+8%), while commissions came to CHF 44'065'630 (+12%).

Brokering generated receipts of CHF 5'159'893 (+9%) and concern almost exclusively transactions in foreign currencies carried out on behalf of the Clientele. In fact, the Bank does not take positions in foreign exchange or securities that are speculative in nature.

Total net returns derived from ordinary bank transactions reached CHF 67'064'664 (+11%).

The strengthening of the structure, the expansion of the operating network and the continual improvement in the range of products and services available have involved a significant increase in operating expenses.

Costs of staff amounted to CHF 26'561'151 (+10%), while other operating costs amounted to CHF 17'513'716 (+20%).

Gross profits settled at CHF 22'989'797 (+8%).

After routine and accelerated depreciation and appropriate setting aside of reserves, the result on the period net of tax was CHF 8'684'907 (+13%).

In accordance with Article 22 of the Articles of Association, the Board of Directors proposes to the General Meeting to allocate the entire profits to the general reserve. The purpose is to provide further reinforcement for the Bank's assets structure. After this allocation, own means rise to CHF 111'409'595.

We express due and warm appreciation to the Clientele – who have risen in number considerably – for their constant loyalty, to the Management and to the Staff of the Bank for their zeal and professionalism, to the esteemed Swiss Federal Banking Commission for its welcome support and to the external auditor, Deloitte SA, for their tireless collaboration.

Lugano, January 23, 2006

The Board of Directors



*All of my co-workers helped me enthusiastically;
they all shared my personal conviction that work
in itself produces a joyful spirit and a healthy mind;
they were real companions to me:
therefore I have great acknowledgment and affection for them all.⁵*

5.

Ulrico HOEPLI,
Foreword to *Mezzo secolo
di vita editoriale. 1872-1922*
(*Half a century of publishing. 1872-1922*),
1922.

Photo: Blue and white collar workers
in front of the Pirelli factory gates
in a souvenir group photo.
(Milan, Archivio Storico Pirelli)



BALANCE SHEET AT DECEMBER 31, 2005

ASSETS

| in CHF | Note | 2005 | 2004 | Change |
|--|----------|----------------------|----------------------|--------------------|
| Cash | | 21 485 451 | 20 318 699 | 1 166 752 |
| Due from banks | | 210 877 684 | 243 125 046 | (32 247 362) |
| Due from clients | 3.1 | 343 271 962 | 291 521 772 | 51 750 190 |
| Mortgage loans | 3.1 | 574 580 019 | 457 860 887 | 116 719 132 |
| Financial investments | 3.2 | 53 329 045 | 44 217 621 | 9 111 424 |
| Participating interests | 3.2, 3.4 | 408 362 | 350 000 | 58 362 |
| Fixed assets | 3.4 | 24 917 328 | 24 762 250 | 155 078 |
| Accrued income and prepaid expense | | 13 721 058 | 8 833 358 | 4 887 700 |
| Other assets | 3.16 | 7 917 917 | 16 635 140 | (8 717 223) |
| Total assets | | 1 250 508 826 | 1 107 624 773 | 142 884 053 |
| Total amounts receivable from group companies and significant shareholders | | 73 018 448 | 84 587 504 | (11 569 056) |

LIABILITIES

| in CHF | Note | 2005 | 2004 | Change |
|---|-----------|----------------------|----------------------|--------------------|
| Money market instruments | | 26 000 | 201 000 | (175 000) |
| Due to banks | | 150 707 036 | 232 394 047 | (81 687 011) |
| Due to clients in savings and investment accounts | | 307 131 862 | 253 192 435 | 53 939 427 |
| Other amounts due to clients | | 516 743 496 | 389 263 900 | 127 479 596 |
| Medium term notes | 3.7 | 105 068 000 | 63 111 000 | 41 957 000 |
| Accrued liabilities and deferred income | | 11 093 827 | 12 742 479 | (1 648 652) |
| Other liabilities | 3.17 | 15 611 260 | 22 037 610 | (6 426 350) |
| Valuation adjustments and provisions | 3.8 | 32 717 750 | 31 957 614 | 760 136 |
| Share capital | 3.9, 3.10 | 50 000 000 | 50 000 000 | - |
| General statutory reserve | 3.10 | 52 724 688 | 45 055 155 | 7 669 533 |
| Profit for the period | 3.10 | 8 684 907 | 7 669 533 | 1 015 374 |
| Total liabilities | | 1 250 508 826 | 1 107 624 773 | 142 884 053 |
| Total liabilities to group companies and significant shareholders | | 130 198 351 | 195 373 534 | (65 175 183) |

OFF-BALANCE-SHEET TRANSACTIONS AT DECEMBER 31, 2005

| in CHF | Note | 2005 | 2004 | Change |
|-----------------------------------|------|-------------|---------------|---------------|
| Contingent liabilities | 4.1 | 79 464 999 | 76 301 821 | 3 163 178 |
| Additional payment liabilities | | 300 000 | 300 000 | - |
| Derivative instruments | 4.2 | 972 858 386 | 1 198 616 245 | (225 757 859) |
| Positive gross replacement values | | 4 083 821 | 9 820 223 | (5 736 402) |
| Negative gross replacement values | | 5 741 485 | 14 207 766 | (8 466 281) |
| Fiduciary transactions | 4.3 | 498 891 856 | 504 900 899 | (6 009 043) |

INCOME STATEMENT FOR THE YEAR AS AT DECEMBER 31, 2005

PROFIT & LOSS STATEMENT ON THE PERIOD AT DECEMBER 31, 2005

| in CHF | Note | 2005 | 2004 | Change |
|---|------|-------------------|-------------------|------------------|
| Interest and discount income | | 33 413 062 | 28 370 666 | 5 042 396 |
| Interest and dividend income on trading portfolios | | - | 684 | (684) |
| Interest and dividend income on financial investments | | 578 796 | 499 219 | 79 577 |
| Interest expense | | (17 094 198) | (13 257 699) | (3 836 499) |
| Net interest income | | 16 897 660 | 15 612 870 | 1 284 790 |
| Proceeds from commissions: | | | | |
| - On credit transactions | | 385 744 | 595 826 | (210 082) |
| - On transactions for the brokering of stocks and investments | | 45 114 648 | 39 566 049 | 5 548 599 |
| - On other provisions of services | | 4 235 004 | 3 571 133 | 663 871 |
| Commission expenses | | (5 669 766) | (4 386 110) | (1 283 656) |
| Net income on fee and commission business | | 44 065 630 | 39 346 898 | 4 718 732 |
| Net income on trading operations | 5.1 | 5 159 893 | 4 716 337 | 443 556 |
| Net income from disposal of financial investments | | 355 062 | 102 695 | 252 367 |
| Income from participating interests | | 10 000 | 4 000 | 6 000 |
| Profits from real estate | | (1 703) | 49 257 | (50 960) |
| Other ordinary income | | 578 122 | 563 509 | 14 613 |
| Other ordinary expenses | | - | (191 429) | 191 429 |
| Other ordinary results | | 941 481 | 528 032 | 413 449 |
| Net operating income from ordinary banking | | 67 064 664 | 60 204 137 | 6 860 527 |
| Personnel expenses | 5.2 | 26 561 151 | 24 193 532 | 2 367 619 |
| Other operating costs | 5.3 | 17 513 716 | 14 636 072 | 2 877 644 |
| Total operating expenses | | 44 074 867 | 38 829 604 | 5 245 263 |
| Gross profit | | 22 989 797 | 21 374 533 | 1 615 264 |

INCOME STATEMENT

| PROFIT FOR THE PERIOD | | | | |
|---|------|------------------|------------------|------------------|
| in CHF | Note | 2005 | 2004 | Change |
| Depreciation/write-offs of fixed assets | 3.4 | (9 379 233) | (8 500 000) | (879 233) |
| Valuation adjustments, provisions and losses | | (2 200 000) | (2 500 000) | 300 000 |
| Extraordinary income | | 9 343 | - | 9 343 |
| Extraordinary expenses | | - | - | - |
| Taxes | | (2 735 000) | (2 705 000) | (30 000) |
| Profit for the period | | 8 684 907 | 7 669 533 | 1 015 374 |
| PROPOSAL FOR EMPLOYMENT OF THE PROFIT IN THE BALANCE SHEET | | | | |
| in CHF | | 2005 | 2004 | Change |
| Profit for year | | 8 684 907 | 7 669 533 | 1 015 374 |
| Profit carried forward | | - | - | - |
| Profit available | | 8 684 907 | 7 669 533 | 1 015 374 |
| The Board of Directors proposes to set aside the profit in the balance sheet sheet on December 31, 2005, of CHF 8 684 907 for the general legal reserve | | 8 684 907 | 7 669 533 | 1 015 374 |
| Retained earnings carried forward | | - | - | - |

CASH FLOW STATEMENT FOR THE YEAR AS AT DECEMBER 31, 2005

FLOW FUNDS ACCOUNT FOR THE PERIOD AT DECEMBER 31, 2005

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

| CHF in thousands | 2005 | | 2004 | |
|---|---------------|-------------|---------------|-------------|
| | Source | Application | Source | Application |
| Profit for the year | 8 685 | - | 7 670 | - |
| Depreciation and write-offs of fixed assets | 9 379 | - | 8 500 | - |
| Valuation adjustments and provisions | 760 | - | 2 324 | - |
| Accrued income and prepaid expenses | - | 4 888 | 201 | - |
| Accrued liabilities and deferred income | - | 1 649 | 5 823 | - |
| Other assets | 8 717 | - | 31 964 | - |
| Other liabilities | - | 6 426 | - | 31 879 |
| Net cash flow | 14 578 | | 24 603 | |

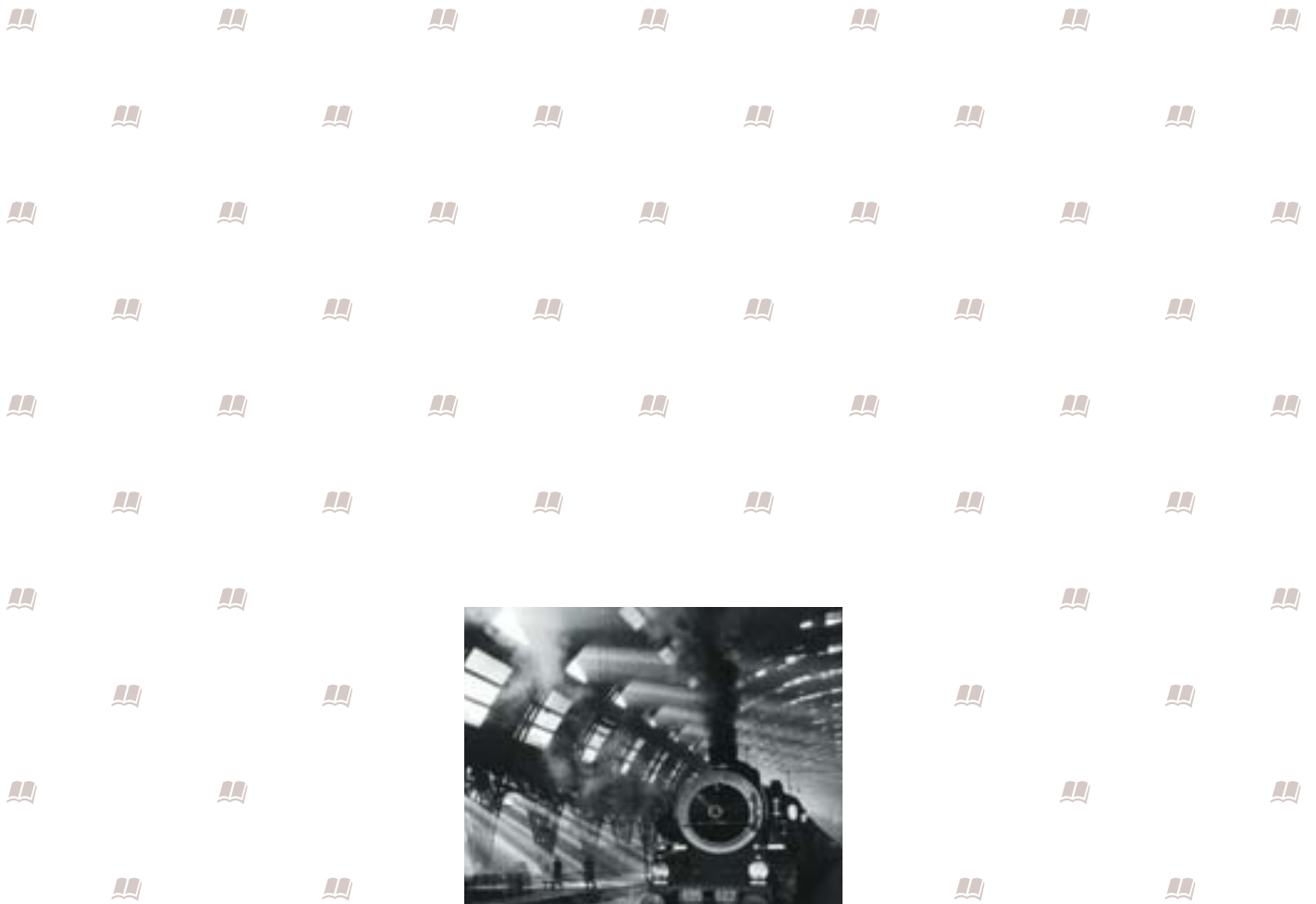
FLOW OF FUNDS RESULTING FROM CHANGES IN FIXED ASSETS

| | | | | |
|-------------------------|----|--------------|----|---------------|
| Participating interests | - | 58 | - | - |
| Bank buildings | - | 2 942 | - | 5 404 |
| Other fixed assets | 15 | 4 468 | 21 | 6 961 |
| Intangible fixed assets | 13 | 2 152 | - | 1 935 |
| Net cash flow | | 9 592 | | 14 279 |

CASH FLOW STATEMENT

CASH FLOW FROM BANKING OPERATIONS

| CHF in thousands | 2005 | | 2004 | |
|---|---------|-------------|--------|-------------|
| | Source | Application | Source | Application |
| Balance brought forward | 14 578 | 9 592 | 24 603 | 14 279 |
| Non-current operations (> 1 year) | | | | |
| Due to clients - savings | - | - | - | - |
| Due to clients - other | - | 200 | 400 | - |
| Medium-term note issues | 43 987 | - | 10 304 | - |
| Client loans | 1 709 | - | - | 93 |
| Mortgage loans | - | 63 546 | - | 94 711 |
| Financial investments | 350 | - | 33 246 | - |
| Current operations | | | | |
| Liabilities under money market instruments | - | 175 | 188 | - |
| Due to banks | - | 81 687 | 67 673 | - |
| Due to clients | 127 680 | - | 41 495 | - |
| Cash from client savings | 53 939 | - | 43 328 | - |
| Medium-term note issues | - | 2 030 | 5 944 | - |
| Due from banks | 32 247 | - | - | 91 783 |
| Due from clients | - | 53 459 | 49 956 | - |
| Mortgage loans | - | 53 173 | - | 37 127 |
| Financial investments | - | 9 461 | - | 35 491 |
| Securities trading portfolio | - | - | 129 | - |
| Net cash flow | | 3 819 | | 6 542 |
| Total cash | 1 167 | | 3 782 | |
| Variation in cash | | 1 167 | | 3 782 |



*I have not returned to my beloved Swiss Homeland since 30th July 1914;
in the past fifty years I had always returned “home” at least once a year,
even if just for a few days.*

*I am now seventy years old, this has been my home
for 46 years and I suffer from homesickness because I have never felt
so lucky to be “Swiss” as in these tremendously difficult times.⁶*

6.

Ulrico HOEPLI,
Undated letter [although from 1917]
to Hermann Escher, Director of
Zurich's Central Library.

Photo: Milan, the arrival of a
steam train under the old roof
of the Central Station.

(Photograph Mario De Biasi)

NOTES TO THE 2005 ANNUAL ACCOUNTS

1. DESCRIPTIONS OF SECTORS AND INFORMATION ON PERSONNEL

Banca Popolare di Sondrio (SUISSE) S.A., a universal bank founded at Lugano on May 3, 1995, is chiefly active in services to manage assets, negotiations over securities and the brokering of credit.

Apart from a main office, an agency and a branch at Lugano, its current network amounts to a branch at St. Moritz, with two agencies at Poschiavo and Castasegna, a branch office at Celerina and branches at Bellinzona, Chiasso, with an agency at Mendrisio, Locarno, Chur, St. Gallen, Basle, Zurich and Monaco (Principality of Monaco).

By the end of the period, overall staff amounted to 245, compared to 217 in 2004.

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 Federal Banking Commission, in particular those in DEC-CFB dated December 14, 1994 (as in force on December 18, 2002).

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".

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.

| | 2005 | 2004 |
|-----------------------|----------|----------|
| 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 | 3 years |
| Software | 3 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.

COMMITMENTS TO BANKS AND THE CLIENTELE AND BANK BONDS

Commitments to banks, the clientele and 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 1.5547 (2004: 1.5435); USD 1.3180 (2004: 1.1318).

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 2004

Compared to the accounting period that closed on December 31, 2004, no changes have been made to the accounting principles for presentation.

INTEREST AT RISK

Interest of doubtful collection is handled in accordance with the law. Interest that matures and is not collected within the following 90 days is not recorded in the profit and loss statement but deferred via the entry for “Rectifications to values and funds set aside”.

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 risks have been sub-divided into risks of credit, the market, liquidity and re-financing, operating, legal, reputation and compliance.

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 type and 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.

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 in 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 derivative 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.



*I donate the Planetarium to Generous Milan,
my adoptive homeland, as a sign of my great appreciation.⁷*



7.

Ulrico HOEPLI,
May 1930.

Photo: Milan, the Civic Planetarium
in its first few years of operation.
(Milan, Archivio Fondazione Piero Portaluppi,
photograph by Antonio Paoletti)

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 | 45 772 491 | 214 754 393 | 82 745 078 | 343 271 962 |
| Mortgage loans | | | | |
| Residential property | 517 122 017 | - | - | 517 122 017 |
| Commercial property | 17 237 400 | - | - | 17 237 400 |
| Others | 40 220 602 | - | - | 40 220 602 |
| Current year | 620 352 510 | 214 754 393 | 82 745 078 | 917 851 981 |
| Previous year | 489 524 800 | 201 614 867 | 58 242 992 | 749 382 659 |
| Off-balance-sheet | | | | |
| Contingent liabilities | - | 75 798 469 | 3 666 530 | 79 464 999 |
| Commitments to make payments and additional depositing | - | - | 300 000 | 300 000 |
| Current year | - | 75 798 469 | 3 966 530 | 79 764 999 |
| Previous year | - | 73 031 287 | 3 570 534 | 76 601 821 |

ARRANGED CREDIT

| in CHF | Gross figure | Estimated value of enforcing guarantees | Net figure | Specific reserve fund |
|---------------------|------------------|---|------------------|-----------------------|
| | | | | |
| Current year | 4 556 615 | 769 643 | 3 786 972 | 3 736 061 |
| Previous year | 7 255 046 | 1 406 706 | 5 848 340 | 5 425 391 |

3.2. SUB-DIVISION OF FINANCIAL INVESTMENTS AND PARTICIPATING INTERESTS

Financial investments

| in CHF | 2005 | 2004 | Change |
|---|-------------------|------------|-------------|
| Non equity investment securities, valued at lowest value | 47 436 302 | 35 929 144 | 11 507 158 |
| cost price | 47 672 995 | 36 232 224 | 11 440 771 |
| market value | 47 675 558 | 36 177 412 | 11 498 146 |
| own bonds or bank bonds | - | - | - |
| Equities | 5 892 743 | 7 938 477 | (2 045 734) |
| market value | 6 498 871 | 8 094 603 | (1 595 732) |
| qualified holdings | - | - | - |
| Real estate | - | 350 000 | (350 000) |
| market value | - | 450 000 | (450 000) |
| Total financial investments | 53 329 045 | 44 217 621 | 9 111 424 |

Participating interests

| in CHF | 2005 | 2004 | Change |
|----------------------|----------------|---------|--------|
| With no market value | 408 362 | 350 000 | 58 362 |

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, 2005.

3.4. SCHEDULE OF INVESTMENTS

| in CHF | At cost | Depreciation & Writedowns to Date | Book value 2004 | Reclassifi- cation | Additions | Disposals | Depreciation & Writedowns | Book value 2005 |
|--------------------------------|-------------------|---|--------------------|-----------------------|------------------|-----------------|------------------------------|--------------------|
| Participating interests | | | | | | | | |
| Of which minority | 950 000 | (600 000) | 350 000 | - | 58 362 | - | - | 408 362 |
| Of which majority | - | - | - | - | - | - | - | - |
| Total | 950 000 | (600 000) | 350 000 | - | 58 362 | - | - | 408 362 |
| Fixed assets | | | | | | | | |
| Property used by the Bank | 18 347 188 | (4 196 202) | 14 150 986 | - | 2 941 915 | - | (3 203 040) | 13 889 861 |
| Other tangible fixed assets | 35 284 570 | (26 837 051) | 8 447 519 | - | 4 468 421 | (14 977) | (3 900 716) | 9 000 247 |
| Intangible fixed assets | 17 077 225 | (14 913 480) | 2 163 745 | - | 2 151 952 | (13 000) | (2 275 477) | 2 027 220 |
| Total | 70 708 983 | (45 946 733) | 24 762 250 | - | 9 562 288 | (27 977) | (9 379 233) | 24 917 328 |
| Insurance value | | | | | | | | |
| Property used by the Bank | | | 4 500 000 | | | | | 11 800 000 |
| Other tangible fixed assets | | | 15 750 000 | | | | | 16 605 000 |

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

| in CHF | 2005 | 2004 |
|---|------------------|-------------------|
| Deposits as guarantee for "Engpassfinanzierung" | 3 491 500 | 1 002 402 |
| Security deposits in schemes run in association with other banks | 3 978 000 | 3 920 350 |
| Property used by the Bank | - | 14 150 986 |
| Credit instruments (financial fixed assets) used to guarantee REPO operations | - | 8 926 306 |
| Part for which the right to alienate or subsequently place on pledge was granted without restrictions | - | - |
| Total | 7 469 500 | 28 000 044 |

The credit line for "Engpassfinanzierung" has replaced the one in place for Lombard credit at BNS, in line with the instructions given, and is backed up by the deposit of stocks as guarantees set up in its favour at SIS Segaintersettle AG. By 31/12/2005, the credit line had not been used (2004, for Lombard credit: CHF 0.-).

3.6. COMMITMENTS TO WELFARE INSTITUTIONS

| | | |
|--------|-------------------|------------|
| in CHF | 31.12.2005 | 31.12.2004 |
|--------|-------------------|------------|

| | | |
|-----------------------------|---|---|
| Commitments to welfare fund | - | - |
|-----------------------------|---|---|

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 | 2005 |
|-------------|-------------|

| | |
|--|--|
| Ring of insured/rights | <p>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.</p> <p>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.</p> <p>Forty per cent of the financing for the plan comes from the employee, while the Bank contributes 60%.</p> |
| 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 | 2005 |
|-------------|-------------|

| | |
|--|---|
| Ring of insured/rights | <p>All members of the Management Team, at the end of a waiting period of 24 months 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.</p> <p>The Bank bears all the costs of financing this plan.</p> |
| 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 |
|---------------|---------------|---------------|---------------|---------------|---------------|--------------|--------------|--------------|--|----------------|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | | |
| 1.000 % | 670 | | | | | | | | | 670 |
| 1.125 % | 1 009 | 1 641 | | | | | | | | 2 650 |
| 1.250 % | 1 690 | 105 | | | | | | | | 1 795 |
| 1.375 % | 8 431 | 2 669 | 1 165 | | | | | | | 12 265 |
| 1.500 % | 2 249 | 7 174 | 10 | | | | | | | 9 433 |
| 1.625 % | 60 | 955 | 4 331 | 591 | 10 | | | | | 5 947 |
| 1.750 % | | 4 589 | 25 173 | 4 166 | 652 | | | | | 34 580 |
| 1.875 % | | 2 310 | 398 | 693 | 2 000 | 38 | | | | 5 439 |
| 2.000 % | 110 | 60 | 1 482 | 700 | 3 634 | | | | | 5 986 |
| 2.125 % | | | 1 000 | 305 | 4 581 | | 33 | | | 5 919 |
| 2.250 % | | | 990 | 1 794 | 655 | 405 | 100 | 336 | | 4 280 |
| 2.375 % | | | 40 | 3 716 | | | | | | 3 756 |
| 2.500 % | | 510 | 60 | 2 147 | 616 | 100 | 210 | 165 | | 3 808 |
| 2.625 % | | | | 100 | 80 | | 40 | 209 | | 429 |
| 2.750 % | | | | 90 | | | 15 | | | 105 |
| 2.875 % | | | | | | 428 | 52 | | | 480 |
| 3.000 % | 440 | 165 | | 20 | 150 | 210 | 809 | 390 | | 2 184 |
| 3.125 % | 265 | 73 | | | | | 300 | | | 638 |
| 3.250 % | 50 | 242 | 51 | 7 | | | | | | 350 |
| 3.375 % | 55 | | 50 | 50 | | | | | | 155 |
| 3.500 % | 250 | | | 83 | 55 | | | | | 388 |
| 3.625 % | 30 | | | | | | | | | 30 |
| 3.750 % | | 10 | | | | | | | | 10 |
| 4.000 % | 465 | 70 | 2 684 | 17 | | | | | | 3 236 |
| 4.250 % | | 20 | 505 | 10 | | | | | | 535 |
| Total | 15 774 | 20 593 | 37 939 | 14 489 | 12 433 | 1 181 | 1 559 | 1 100 | | 105 068 |

3.8. VALUATION ADJUSTMENTS AND PROVISIONS

| in CHF | Balance at 31.12.04 | Applications & reversals consistent with specific purpose | Change of purpose | Recoveries, overdue interest, forex differ | New provisions charged to earnings | Reversals credited to income statement | Balance at 31.12.05 |
|--|------------------------|---|----------------------|---|---|---|------------------------|
| Loss risk adjustments and provisions (del credere and country risks) | 9 864 409 | (1 375 301) | - | 293 865 | 2 218 112 | (1 367 293) | 9 633 792 |
| Other provisions | 22 093 205 | - | - | - | 990 753 | - | 23 083 958 |
| Total value adjustments and provisions | 31 957 614 | (1 375 301) | - | 293 865 | 3 208 865 | (1 367 293) | 32 717 750 |

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, 2004.

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, 2004.

3.10. STATEMENT OF CHANGES IN EQUITY TRANSACTIONS

| in CHF | 2005 | 2004 |
|--|--------------------|--------------------|
| Total shareholders' equity at start of period | | |
| Paid-up 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 |
| Allocation to general statutory reserve | (7 669 533) | (6 934 050) |
| Dividend and other payments deducted from profit for previous year | 7 669 533 | 6 934 050 |
| Profit for current financial year | 8 684 907 | 7 669 533 |
| Total shareholders' equity | 111 409 595 | 102 724 688 |
| of which: | | |
| Share capital | 50 000 000 | 50 000 000 |
| General statutory reserve | 52 724 688 | 45 055 155 |
| Balance sheet profit | 8 684 907 | 7 669 533 |
| Total | 111 409 595 | 102 724 688 |

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 within 3 to 12 months | Due within 12 months to 5 years | Due after 5 years | Without maturity | |
| Current assets | | | | | | | | |
| Cash | 21 485 451 | - | - | - | - | - | - | 21 485 451 |
| Due from banks | 97 793 685 | - | 104 083 999 | 9 000 000 | - | - | - | 210 877 684 |
| Due from clients | - | 81 597 848 | 162 321 687 | 66 855 177 | 26 997 250 | 5 500 000 | - | 343 271 962 |
| Mortgage loans | 4 068 342 | 99 420 749 | 13 893 200 | 89 202 670 | 343 513 575 | 24 481 483 | - | 574 580 019 |
| Financial investments | 53 329 045 | - | - | - | - | - | - | 53 329 045 |
| Current financial year | 176 676 523 | 181 018 597 | 280 298 886 | 165 057 847 | 370 510 825 | 29 981 483 | - | 1 203 544 161 |
| Previous 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 |
| Liabilities | | | | | | | | |
| Money market instruments | 26 000 | - | - | - | - | - | - | 26 000 |
| Due to banks | 3 014 585 | 17 494 100 | 130 198 351 | - | - | - | - | 150 707 036 |
| Due to clients in savings and investment accounts | 307 131 862 | - | - | - | - | - | - | 307 131 862 |
| Other amounts due to clients | 427 296 553 | 69 961 339 | 6 264 232 | 13 021 372 | 200 000 | - | - | 516 743 496 |
| Medium-term notes | 40 000 | 709 000 | 749 000 | 14 276 000 | 85 454 000 | 3 840 000 | - | 105 068 000 |
| Current financial year | 737 509 000 | 88 164 439 | 137 211 583 | 27 297 372 | 85 654 000 | 3 840 000 | - | 1 079 676 394 |
| Previous financial year | 338 245 326 | 253 192 435 | 281 974 921 | 19 042 700 | 42 797 000 | 2 910 000 | - | 938 162 382 |

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

| in CHF | 2005 | 2004 | Change |
|----------------------------------|------------------|-----------|-------------|
| Loans to Bank's governing bodies | 3 707 483 | 4 725 655 | (1 018 172) |

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 thousand | 2005 | | 2004 | |
|---|----------------|----------------|----------------|----------------|
| | Switzerland | Abroad | Switzerland | Abroad |
| Assets | | | | |
| Cash | 20 993 | 493 | 19 730 | 589 |
| Due from banks | 91 391 | 119 487 | 127 725 | 115 400 |
| Due from clients | 176 122 | 167 150 | 137 661 | 153 861 |
| Mortgage loans | 574 580 | - | 457 861 | - |
| Financial investments | 3 320 | 50 009 | 2 487 | 41 731 |
| Participating interests | 408 | - | 350 | - |
| Fixed assets | 24 255 | 662 | 23 937 | 825 |
| Accrued income and prepaid expense | 13 598 | 123 | 8 396 | 437 |
| Other assets | 7 824 | 94 | 9 548 | 7 087 |
| Total assets | 912 491 | 338 018 | 787 695 | 319 930 |
| Liabilities | | | | |
| Money market instruments | 26 | - | 201 | - |
| Due to banks | 18 217 | 132 490 | 27 372 | 205 022 |
| Due to clients in savings and investment accounts | 215 839 | 91 293 | 175 114 | 78 078 |
| Other amounts due to clients | 265 961 | 250 783 | 218 119 | 171 145 |
| Medium-term note issues | 105 068 | - | 63 111 | - |
| Accrued liabilities and deferred income | 10 488 | 606 | 12 013 | 729 |
| Other liabilities | 15 261 | 350 | 12 958 | 9 080 |
| Valuation adjustments and provisions | 32 599 | 118 | 31 958 | - |
| Share capital | 50 000 | - | 50 000 | - |
| General statutory reserve | 52 725 | - | 45 055 | - |
| Profit for the period | 8 685 | - | 7 670 | - |
| Total liabilities | 774 869 | 475 640 | 643 571 | 464 054 |

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

| CHF in thousands | 2005 | | 2004 | |
|---------------------|------------------|------------|------------------|------------|
| | Total | in % | Total | in % |
| Switzerland | 912 490 | 73 | 787 695 | 71 |
| OECD Countries | 318 372 | 25 | 308 920 | 28 |
| Other Countries | 19 647 | 2 | 11 010 | 1 |
| Total assets | 1 250 509 | 100 | 1 107 625 | 100 |

3.15. BREAKDOWN OF ASSETS AND LIABILITIES BY CURRENCY

CHF in thousands

| Assets | CHF | EUR | USD | Others | Total |
|--|----------------|----------------|----------------|---------------|------------------|
| Cash | 11 714 | 9 028 | 601 | 143 | 21 486 |
| Due from banks | 14 705 | 171 514 | 4 206 | 20 453 | 210 878 |
| Due from clients | 179 467 | 152 387 | 8 951 | 2 467 | 343 272 |
| Mortgage loans | 574 438 | 142 | - | - | 574 580 |
| Financial investments | 31 745 | 18 763 | 2 008 | 813 | 53 329 |
| Participating interests | 408 | - | - | - | 408 |
| Fixed assets | 24 401 | 516 | - | - | 24 917 |
| Accrued income and prepaid expense | 12 526 | 1 137 | 56 | 2 | 13 721 |
| Other assets | 4 290 | 3 462 | 101 | 65 | 7 918 |
| Total assets in the balance sheet | 853 694 | 356 949 | 15 923 | 23 943 | 1 250 509 |
| Applications for delivery derived from operations in cash, at-term and on options on debt | 39 785 | 351 721 | 196 999 | 46 194 | 634 699 |
| Total assets | 893 479 | 708 670 | 212 922 | 70 137 | 1 885 208 |
| Liabilities | | | | | |
| Money market instruments | 26 | - | - | - | 26 |
| Due to banks | 6 185 | 130 769 | 11 483 | 2 270 | 150 707 |
| Due to clients in savings and investment accounts | 255 326 | 51 804 | 2 | - | 307 132 |
| Other amounts due to clients | 225 465 | 228 743 | 38 051 | 24 485 | 516 744 |
| Medium-term note issues | 105 068 | - | - | - | 105 068 |
| Accrued liabilities and deferred income | 9 596 | 1 303 | 95 | 100 | 11 094 |
| Other liabilities | 9 812 | 2 688 | 2 873 | 238 | 15 611 |
| Valuation adjustments and provisions | 32 599 | 118 | - | - | 32 717 |
| Share capital | 50 000 | - | - | - | 50 000 |
| General statutory reserve | 52 725 | - | - | - | 52 725 |
| Profit for the period | 8 685 | - | - | - | 8 685 |
| Total liabilities in the balance sheet | 755 487 | 415 425 | 52 504 | 27 093 | 1 250 509 |
| Commitments arising from operations in cash, at-term operations and on options on debt | 159 820 | 282 924 | 162 853 | 40 626 | 646 223 |
| Total liabilities | 915 307 | 698 349 | 215 357 | 67 719 | 1 896 732 |
| Net position for debt | (21 828) | 10 321 | (2 435) | 2 418 | (11 524) |

3.16. MAKE-UP OF OTHER ASSETS

| in CHF | 2005 | 2004 | Change |
|--|------------------|-------------------|--------------------|
| Down-payments on tax and VAT to recover | 1 490 684 | 1 461 744 | 28 940 |
| Positive replacement values of derived financial instruments | 4 160 762 | 10 011 894 | (5 851 132) |
| Set-off account | 2 131 624 | 4 309 751 | (2 178 127) |
| Other | 134 847 | 851 751 | (716 904) |
| Total | 7 917 917 | 16 635 140 | (8 717 223) |

3.17. MAKE-UP OF OTHER LIABILITIES

| in CHF | 2005 | 2004 | Change |
|--|-------------------|-------------------|--------------------|
| Federal administration of contributions | 5 839 034 | 3 692 801 | 2 146 233 |
| Negative replacement values of derived financial instruments | 5 774 718 | 14 399 437 | (8 624 719) |
| Other | 3 997 508 | 3 945 372 | 52 136 |
| Total | 15 611 260 | 22 037 610 | (6 426 350) |

4. OFF-BALANCE-SHEET INFORMATION

4.1. CONTINGENT LIABILITIES

| in CHF | 2005 | 2004 |
|-------------------------------------|-------------------|-------------------|
| Guarantees and similar instruments | 78 563 919 | 75 695 778 |
| Documentary credit | 901 080 | 606 043 |
| Total contingent liabilities | 79 464 999 | 76 301 821 |

4.2. DERIVATIVE INSTRUMENTS OUTSTANDING AT YEAR END

| in CHF | Positive replacement value | Negative replacement value | Contract volume |
|--------------------------------|----------------------------|----------------------------|--------------------|
| Hedging | | | |
| Interest-rate instruments | | | |
| Swap (OTC) - IRS | - | 2 131 624 | 316 421 250 |
| Negotiation | | | |
| Foreign exchange contracts | | | |
| Forward contracts (OTC) - Swap | 3 747 397 | 3 273 437 | 362 410 536 |
| Options (OTC) | 336 424 | 336 424 | 40 224 268 |
| Others | | | |
| Forward contracts (OTC) | - | - | 253 802 332 |
| At December 31, 2005 | 4 083 821 | 5 741 485 | 972 858 386 |
| At December 31, 2004 | 9 820 223 | 14 207 766 | 1 198 616 245 |

The item "Others" reflects transactions concluded by December 31, 2005, but to be settled in 2006 according to the accounting principle dictated by the currency date.

4.3. FIDUCIARY TRANSACTIONS

| in CHF | 2005 | 2004 | Change |
|--|--------------------|--------------------|--------------------|
| Fiduciary investments with other banks | 402 281 661 | 366 089 416 | 36 192 245 |
| Fiduciary investments with Group banks | 96 610 195 | 138 811 483 | (42 201 288) |
| Total | 498 891 856 | 504 900 899 | (6 009 043) |

4.4. ASSETS CREDIT OF CLIENTELE

| CHF in million | 2005 | 2004 | Change |
|---|----------------|----------------|--------------|
| Type of assets | | | |
| Assets in own administrated funds | 706.6 | 450.7 | 255.9 |
| Assets credit with mandate to manage | 1 307.1 | 1 048.8 | 258.3 |
| Other assets credit | 2 799.3 | 2 400.1 | 399.2 |
| Total assets credit of clientele (including credit considered twofold) | 4 813.0 | 3 899.6 | 913.4 |
| Considered twofold | 499.1 | 279.8 | 219.3 |
| Net increase / (decrease) of clients assets | 598.1 | 489.6 | 108.5 |

The datum "Other assets credits" refers to the total of credit deposited by the clientele for which the Bank also carries out services of an administrative nature. There are no assets among the credits in mere custody. The Bank calculates net contributions (withdrawals) by the clientele without including interest that matures.

5. INFORMATION ON THE INCOME STATEMENT

5.1. BREAKDOWN OF INCOME FROM TRADING OPERATIONS

| in CHF | 2005 | 2004 | Change |
|------------------|------------------|------------------|----------------|
| Currency trading | 5 174 397 | 4 717 381 | 457 016 |
| Options trading | (14 504) | (1 044) | (13 460) |
| Total | 5 159 893 | 4 716 337 | 443 556 |

5.2. BREAKDOWN OF PERSONNEL EXPENSES

| in CHF | 2005 | 2004 | Change |
|-------------------------------|-------------------|-------------------|------------------|
| Salaries | 21 669 931 | 19 489 564 | 2 180 367 |
| Social Security Contributions | 3 744 798 | 3 563 232 | 181 566 |
| Other expenses | 1 146 422 | 1 140 736 | 5 686 |
| Total | 26 561 151 | 24 193 532 | 2 367 619 |

5.3. BREAKDOWN OF OTHER OPERATING EXPENSES

| in CHF | 2005 | 2004 | Change |
|---|-------------------|-------------------|------------------|
| Occupancy expenses | 5 122 960 | 4 521 644 | 601 316 |
| Expenses for IT, machinery, furnishings, vehicles and other equipment | 4 158 707 | 2 565 426 | 1 593 281 |
| Other expenses | 8 232 049 | 7 549 002 | 683 047 |
| Total | 17 513 716 | 14 636 072 | 2 877 644 |

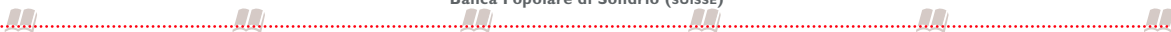
5.4. INCOME AND COSTS OF ORDINARY BANKING ACTIVITY
BETWEEN SWITZERLAND AND ABROAD

| in CHF | 2005 | | |
|---|-------------------|------------------|-------------------|
| | Switzerland | Abroad* | Total |
| Result from operations on interest | 16 460 958 | 436 702 | 16 897 660 |
| Result from operations on commission and provisions of services | 42 731 989 | 1 333 641 | 44 065 630 |
| Result from operations of negotiation | 5 130 445 | 29 448 | 5 159 893 |
| Result from other ordinary proceeds | 941 481 | - | 941 481 |
| Net result of ordinary banking operations | 65 264 873 | 1 799 791 | 67 064 664 |
| Running costs | 41 303 427 | 2 771 440 | 44 074 867 |
| Gross profit | 23 961 446 | (971 649) | 22 989 797 |

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



Banca Popolare di Sondrio (suisse)



INDEPENDENT AUDITORS' REPORT

Deloitte.

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CH-6901 Lugano
Tel: +41 (0)91 913 74 00
Fax: +41 (0)91 913 74 99
www.deloitte.ch

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, 2005.

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 the Swiss Standards on auditing (PS / NAS), 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 statements 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 SA



Stephan Schmidli

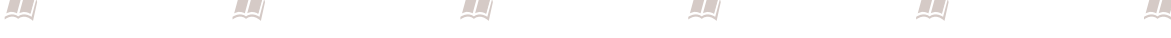
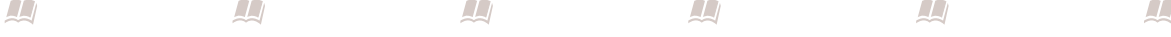
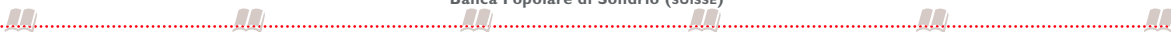


Herbert Ott
Auditor in charge

Lugano, January 23, 2006



Banca Popolare di Sondrio (suisse)



OUR PRODUCTS AND SERVICES

CURRENT ACCOUNTS

DEPOSIT AND INVESTMENT ACCOUNTS
AND BOOKS

FIDUCIARY AND FORWARD DEPOSITS

MEDIUM-TERM NOTE ISSUES

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COMMERCIAL LOANS

DOCUMENTARY CREDITS AND COLLECTIONS

MORTGAGE LOANS

LOMBARD LOANS

GUARANTEES AND SURETYSHIPS

INVESTMENT FUNDS

POPSO(SUISSE) INVESTMENT FUND SICAV

INSURANCE PRODUCTS
GENERALI (SCHWEIZ)

TRUSTEE BUSINESS IN ASSOCIATION WITH
SOFIPO FIDUCIAIRE SA

PERSONAL BENEFIT

LIFE BENEFIT (3RD PILLAR)

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