

ANNUAL REPORT 2007



Banca Popolare di Sondrio (suisse)

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

General Management and City Agency
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BOARD OF DIRECTORS

Piero Melazzini

Chairman

Flavio Pedrazzoli

Vice Chairman

Plinio Bernardoni

Secretary

Giovanni Ruffini

Kurt Spinnler

GENERAL MANAGEMENT

Brunello Perucchi

Chief Executive Officer

Mauro De Stefani

Deputy General Manager

Head of Credits, Controlling and Market Division

Enrico Vitali

President

Head of Private Banking and Asset Management Division

Roberto Rossi

President

Head of Retail, Corporate and Branches Division

Paolo Camponovo

President

Head of Logistics Division

INTERNAL AUDITING

Alberto Bradanini

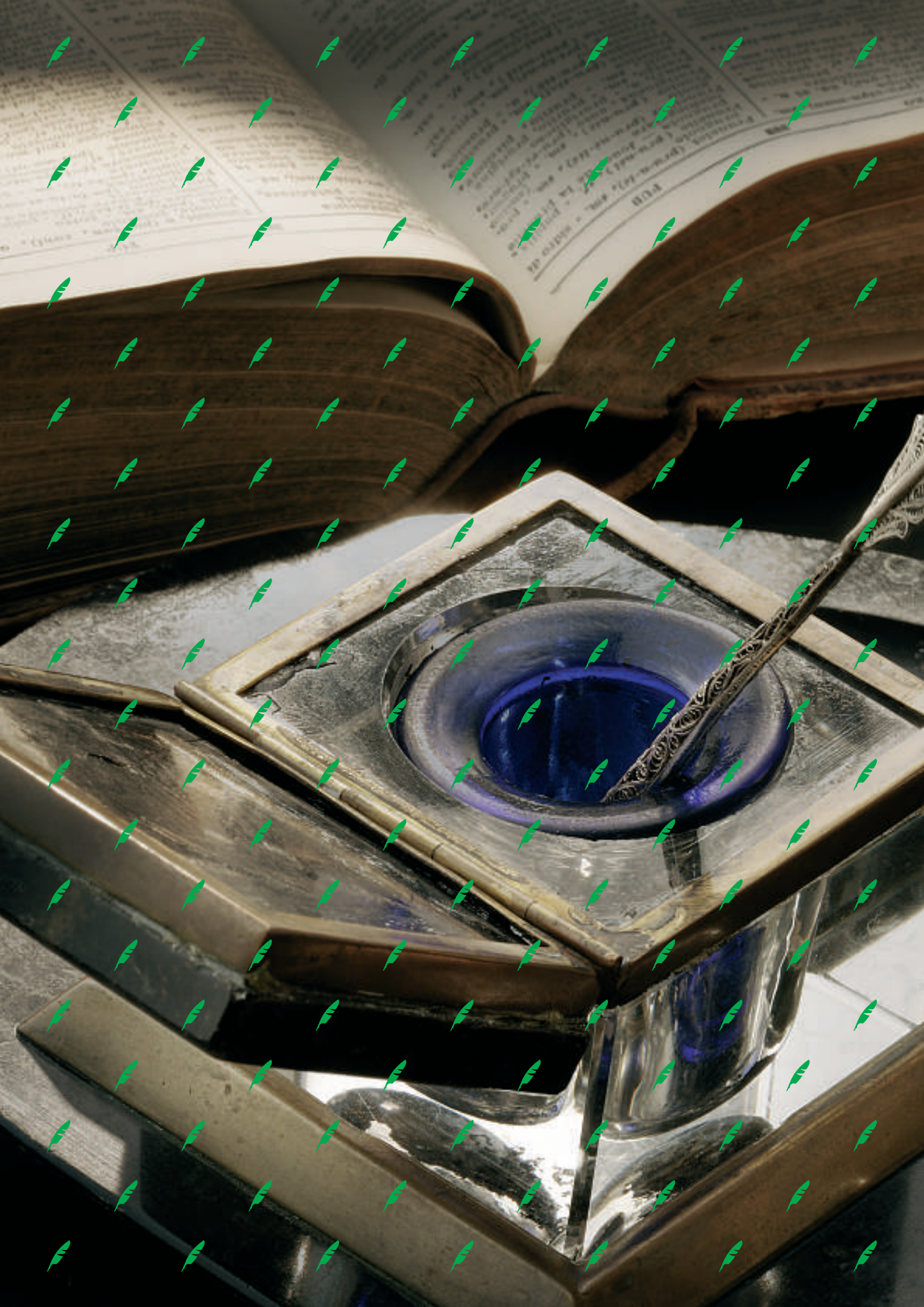
President

(since January 1, 2008)

EXTERNAL AUDITOR

Deloitte SA

Lugano





*Where the farmer is tenacious in preserving his ancestral home,
and the distinguished scientist seeks in it comfort for his declining years
and his final rest, there is no sunset, but perpetual rebirth.¹*



Banca Popolare di Sondrio (suisse)

This report is available in
Italian, German, English and French.
In the German version the
president's preface is also translated
into Romansh.

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*Will we manage to raise the multitudes to the level of the elect minorities
and persuade them that financial well-being cannot be attained if not through
moral and political freedom?²*

1.
Luigi EINAUDI,
Francesco Ruffini,
in "La riforma sociale"
(March-April 1934).

2.
Luigi EINAUDI,
Un secolo dopo,
in "Nuova Gazzetta del Popolo"
(8 February 1948).

Photo
*An Ethiopian with a copy
of "Il Giornale di Genova".*
Istituto Nazionale per la Storia del
Movimento di Liberazione in Italia
(Milan), Fondo Ferdinando Scarpetta.

FOREWORD FROM THE CHAIRMAN

The timing of this report provides an opportunity to wish you all a very Happy New Year: may every day be a good one!

The world economic system, despite its lessening dependence on the United States, has been shaken by financial turbulence resulting from the crisis in so-called "sub-prime" mortgages which originated in the US. The serious problems in this market segment began manifesting several months ago and are now gradually easing. The international economy has nevertheless made good progress, being increasingly buoyed by China and India.

Our own economy has done well, over and above what might have been reasonably expected and better than the European average. And since nothing happens by chance in the world of economics, it should be pointed out that in Switzerland the institutional conditions have always existed for a coherent policy based on an organic vision. This has been confirmed by the recent federal elections, expressing a determination to govern in order to achieve.

Forecasts remain positive, helped by the weakness of the Swiss franc and high employment levels, which have bolstered consumer spending. It should also be noted that Switzerland is experiencing a short-term phase of over-heating, in excess of its growth potential, which inhibits expansion, particularly in the engineering, electronics and metallurgical industries.

Having pioneered and worked to perfect the science of asset management over the centuries, the attractiveness of the banking sector remains undiminished.

The results of our work can be summarized as follows: deposits increased by 13%, loans rose by 21% and profit went up by 37%. Where the management of services is concerned, our performance has been exemplary.

Though competition has been extremely fierce, it has also stimulated our professionalism, tenacity and determination, qualities which drive our business activity. That we are able to live these values to the full is ensured by the flexibility of our organization and the disciplined intelligence of our staff, who have repeatedly proven their ability to respond quickly and work to high professional standards.

With the opening of a branch in Davos, we now have nineteen branches in all, covering five cantons. We also have a branch in the Principality of Monaco.

The building where our St. Moritz branch is located is now under our ownership.

In conducting our business, which we hope will become ever more dynamic and profitable, we know we can rely on our team of highly trained staff, who once again this year have shown they possess the requisite skills and corporate spirit to achieve success. To the General Management, which sets a fine example of leadership, and indeed to each and every one of our employees, we express our appreciation and gratitude. Owing to

the especially demanding nature of their work, special thanks are due to the members of our internal audit department.

To my colleagues on the Board, I am, as always, grateful, and to Deloitte SA, for their support.

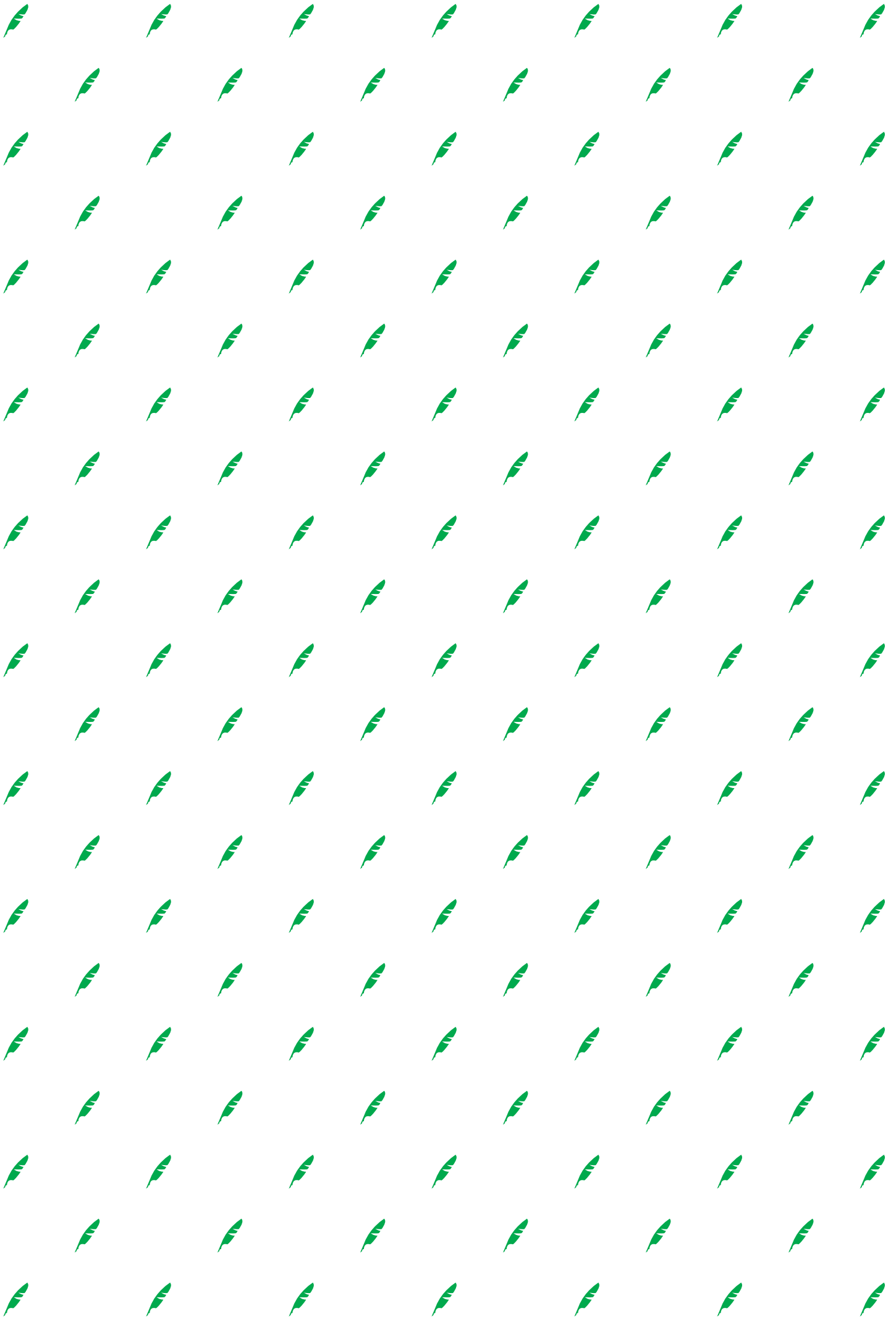
We recognize the institutional responsibility incumbent on the Swiss Federal Banking Committee, whom we hold in high esteem, and pledge our full and dutiful cooperation.

To our clients, as always, we express our heartfelt thanks, in the hope that they will continue to find our bank attentive, professional and discreet, and thus deserving of their trust.


The cultural section of this report is devoted to the economist and liberal politician Luigi Einaudi, who, during the Second World War, found refuge and hospitality in Switzerland. The idea of commemorating this great Italian was born of the inspiring little volume “Luigi Einaudi – Luigi Albertini. Lettere (1908-1925)” edited by Prof. Marzio Achille Romani. Luigi Einaudi, champion of a strict monetary policy, was elected second President of the Italian Republic in 1948. A great Italian, and a father of his country.

Lugano, January 1, 2008

The Chairman
Piero Melazzini







*The peaceful instinct of the merchant, the banker, the manufacturer, the peasant gave way to the patriotic impulse of the man willing to throw his material goods into the blazing furnace if that would save and nourish certain spiritual or intangible goods which, if not clearly seen by all, were somehow so deeply felt by most as to drive them into the heart of danger.*³



3.
Luigi EINAUDI,
*Liberismo, borghesia e
origini della guerra*,
in "La riforma sociale"
(September-October 1928).

Photo
"Over the Top"
First World War. Western trenches.
British troops (1914-1918).
TopFoto / Archivi Alinari.



*May the steadfast upholders of spirit over matter,
of mind over body take care not to be the first ones guilty of
destroying the supreme goods of national political tradition!⁴*

4.

Luigi EINAUDI,
I valori morali della tradizione politica.
A proposito di dittatura, in
"Corriere della Sera"
(8 August 1922).

Photo

*In the Tuscan countryside during
Mussolini's "Battle of Wheat".*
Archivio Angelo Scala.

REPORT OF THE BOARD OF DIRECTORS AS AT DECEMBER 31, 2007

The situation on the international markets as depicted by a year-end snapshot is one of contrasts and consequently difficult to interpret. The global economy has maintained healthy rates of growth. The contribution made by industrialized, old-Europe countries has come as more of a surprise than the persistent headlong growth of the BRIC economies (Brazil, Russia, India and China). Conversely, analysts fear that the financial upheaval triggered by the US subprime mortgage debacle may extend to the real economy, having upset the markets in the second half of 2007. The main central banks, trying to head off a liquidity crisis, have been forced into sizable and repeated interventions.

Economists and pundits are less than optimistic. Many raise the spectre of a credit crunch, stagflation, a worldwide recession, the end of the securitization era and more. Steeper inflation is looming, making the governance of money an all-consuming task.

Our humble opinion is that the model of economic development based on finance – especially the forms of “extreme finance” we have witnessed in recent years – must be reconsidered so that economics are once again at the core. Thus, we hope this period of uncertainty will soon pass, as the economy cannot remain unaffected for long.

In Switzerland, where we live and work, we can be confident in the future as we have always been. GDP is up, and prospects for the immediate future remain positive in all areas of business. Prudently, we should not feel immune to unwelcome economic turns, but we can be encouraged by our ability to “put hay in the barn.” The depreciation of the Swiss franc with respect to the euro has been a welcome development for exporters. A further slide seems unlikely, however, especially since the Swiss National Bank is against any more depreciation due to the potential effect on inflation. In the currency markets, the most serious risk is the impairment of the US dollar, while the euro is as strong as ever. If global portfolios shift to alternative currencies, the effects of the resulting movements would be anyone’s guess.

The worldwide stock markets, if we consider opening and closing figures only, enjoyed a positive year all told. But volatility was high, as were tensions during the second half of the year. Taking a closer look, emerging markets did exceptionally well, while industrialized countries had a shaky year with heavy losses in the financial sector. Asian and Middle Eastern investors caused a sensation by stepping in to rescue prestigious but faltering western banks. If this trend continues, it could mark the prelude to a new and once unheard-of form of globalization, in which money from emerging economies flows into wealthy ones. Through its major financial associations, Switzerland is reacting to the situation head-on, with a “master plan” to further its position as a worldwide financial centre. Here, too, the best defence appears to be a good offence.

BPS Suisse maintains the utmost confidence in this country.

Our “Medium-Term Development Plan for 2008 – 2010” sets its sights on expanding the branch network, upgrading central and peripheral units especially in terms of IT,

investing in risk control, and adding ever more products and services. In this vein, the support provided by the parent bank is a long-standing strength that allows us to count on synergies and the fruitful sharing of expertise and experience, in a climate of cooperation fostered by our common banking roots.

The objective, of course, is to increase volumes in every area of business, as we continue to expand geographically. Recently we opened a new branch in Davos (GR), raising the total to 18, plus a foreign office in Monaco. Our most precious asset in achieving ambitious new goals is our personnel, who now number 303 and are still growing (35 more than at the close of 2006), and who demonstrate our commitment to professional advancement. Significant sums have been invested in information technology, to satisfy current and future needs, and thus to reinforce over time our active stance in the face of competition. Our staff combines professional expertise with a profound understanding of the art of customer service. Ultimately, the prestige that companies and individuals enjoy in the extension of credit draws its substance from the recognition of their competence, which is none other than the cornerstone of trust.

Our "Popso (Suisse) Investment Fund," a Luxembourg-based SICAV, now offers three new sub-funds, in an effort to meet our customers' demand for new forms of investment and diversification. The "Life Benefit" foundation, which manages individual, third-pillar retirement funds, has substantially increased its assets.

The fine performance of our trust company "Sofipo Fiduciaire SA" has helped extend our sphere of action. We have therefore accepted the request to free up the remainder of capital initially authorized. Vienna's "Sofipo Austria GmbH," held both directly and through Sofipo Fiduciaire, has completed its hiring process and is ready to back up business initiatives in Central Europe.

Our external partnerships, with "Generali Schweiz" in insurance and especially with "Fortis Lease Svizzera" in corporate leasing, have been highly profitable. Our online banking service "GoBanking" is growing fast, in keeping with the rest of the market. Security is a constant priority, in this sector and well beyond.

Following the positive reception of Basel II, the banking system is now faced with other regulatory adjustments, requiring appropriate organizational and procedural measures. These projects will take a great deal of resources, and will sometimes pre-empt other priorities set in the past.

Against this complex backdrop, BPS Suisse was able to meet, and in some cases exceed, its stated objectives.

Total funds from customers climbed to CHF 5,602,833,329 (+13%), including indirect funds amounting to CHF 4,302,880,502 (+14%). Direct funds, at CHF 1,299,952,827

(+9%), are comprised of savings and investment accounts worth CHF 327,918,581 (-3%); other amounts due to customers worth CHF 768,804,246 (+7%); and medium-term notes worth CHF 203,230,000 (+48%).

Tension in the interbank markets has highlighted the growing need to benefit from the internal refinancing of loans. "Take in to lend out" is a rule that the bank has always made a top priority.

Customer loans in their various forms stand at CHF 1,464,902,419, up 21%. The lion's share consists of mortgage loans, totalling CHF 996,350,129 (+31%), nearly all secured by homes and featuring a high diversification of risk. Other customer loans, including Lombard loans, business loans, loans to public entities, and other minor categories, amount to CHF 468,552,290 (+4%). The degree of risk of our portfolio, according to internal evaluation models, is low. Historical trends confirm that assessment with even greater assurance.

Our products and services in Private, Retail, and Corporate Banking allowed for a profitable year.

Net interest income amounted to CHF 29,013,871 (+37%), thanks to the growth of the loan portfolio and the money market situation of the main currencies. Net income from commission business and services, the bank's primary source of income, came to CHF 49,484,029 (+4%), a somewhat disappointing trend due to ongoing troubles in the equity markets. Net trading income, comprised almost wholly of foreign exchange trading on behalf of customers, climbed 14% to CHF 7,496,621. Total net revenues from ordinary banking transactions rose to CHF 86,015,463 (+14%).

The bank does not hold derivatives on its own account, even in the form of structured products. It has no direct or indirect exposure to the subprime market or similar segments.

Personnel expenses totalled CHF 36,001,084 (+19%), which includes a voluntary extraordinary payment into our second-pillar pension fund. This extraordinary item was a unilateral employer-paid expense incurred for the purpose of improving retirement benefits. Other operating expenses stood at CHF 20,944,526 (+10%), increasing in proportion to the size of the bank. Total operating expenses came to CHF 56,945,610 (+15%).

The bank earned a gross profit for the year of CHF 29,069,853 (+11%). Net of standard and accelerated depreciation, provisions (in proportion to actual risks) and taxes, the year closed with a profit of CHF 13,871,827 showing an increase of 37%.

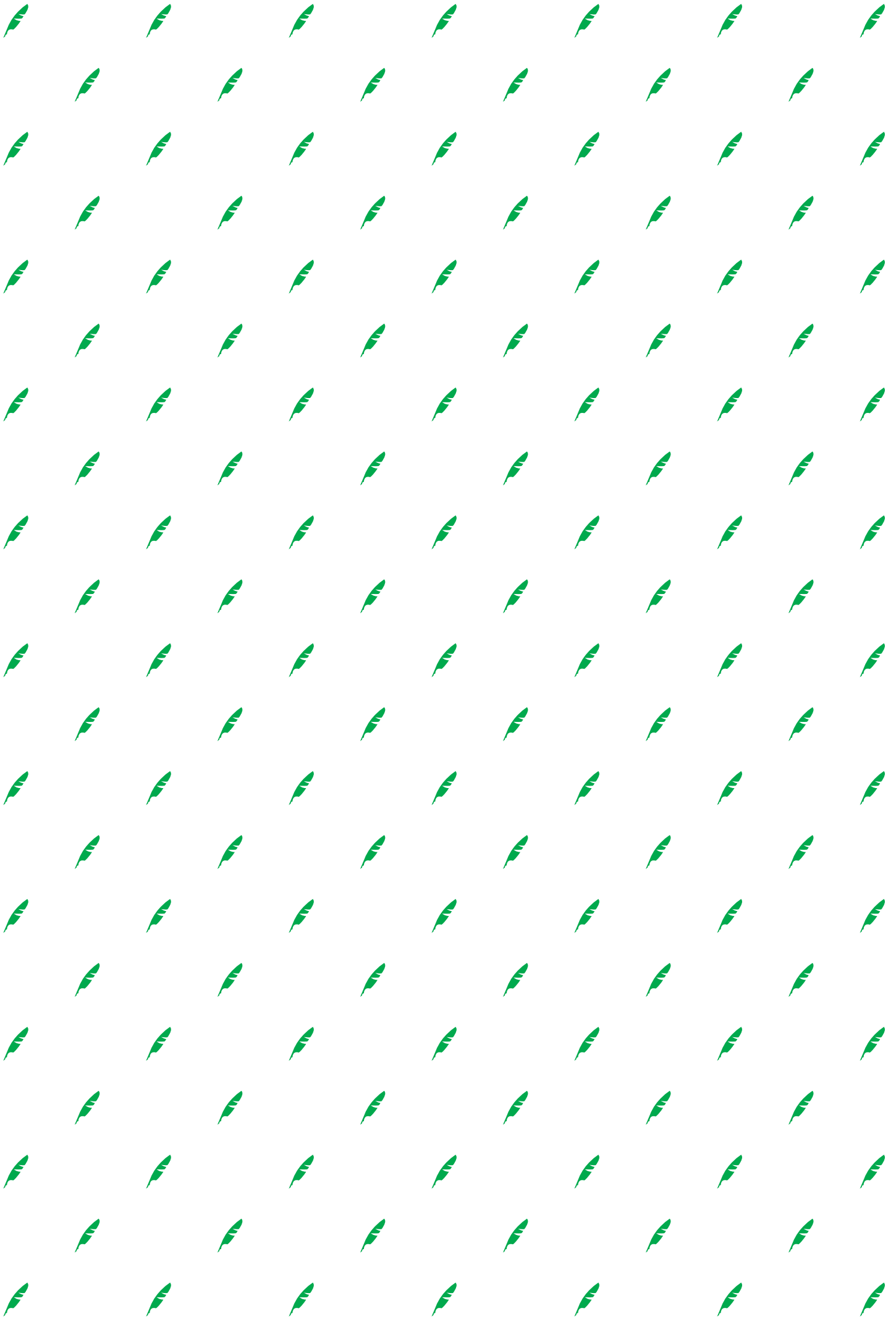
In consideration of these results and the bank's objectives, which call for a gradual reinforcement of equity, the Board of Directors recommends allocating the entire net profit to the "general legal reserve" in accordance with Article 22 of the by-laws.

We would like to thank our growing body of customers for their confidence in our work, which gives us a renewed sense of optimism for the future; to the honourable Federal Banking Commission for its welcome support, and to our external auditors, Deloitte SA, for their helpful collaboration.

We are especially grateful to our personnel, who have distinguished themselves as always through their dedication, skill and hard work.

Lugano, 21 January 2008

The Board of Directors



*For a humanity ravaged by two terrible world wars and threatened by
a third one capable of eradicating life on Earth, the cry "We want peace!"
is too human, too beautiful, too natural not to be echoed and applauded by all men
whose hearts are not that of a savage beast.⁵*

5.
Luigi EINAUDI,
Chi vuole la pace?, in
"Corriere della Sera"
(4 April 1948).

Photo
*Apartment building bombed
during an air strike (ca. 1942).*
Ministry of the Interior; Fire Fighting,
Public Rescue and Civil Defense
Department / © Fratelli Alinari.

2007 FINANCIAL STATEMENTS

BALANCE SHEET AS AT DECEMBER 31, 2007

ASSETS

in CHF	Note	2007	2006	Change
Cash		53 698 115	26 176 069	27 522 046
Due from banks		248 854 580	290 987 404	(42 132 824)
Due from clients	3.1	468 552 290	452 358 016	16 194 274
Mortgage loans	3.1	996 350 129	760 131 860	236 218 269
Financial investments	3.2	63 473 758	56 600 397	6 873 361
Participating interests	3.2, 3.4	803 943	411 500	392 443
Fixed assets	3.4	31 029 058	24 329 760	6 699 298
Accrued income and prepaid expense		14 273 475	11 185 532	3 087 943
Other assets	3.17	10 922 221	7 184 584	3 737 637
Total assets		1 887 957 569	1 629 365 122	258 592 447
Total amounts receivable from group companies and significant shareholders		168 105 276	93 278 650	74 826 626

LIABILITIES

in CHF	Note	2007	2006	Change
Money market instruments		221 132	127 000	94 132
Due to banks		371 560 303	251 022 913	120 537 390
Due to clients in savings and investment accounts		327 918 581	336 437 544	(8 518 963)
Other amounts due to clients		768 804 246	716 840 898	51 963 348
Medium term notes	3.8	203 230 000	136 866 000	66 364 000
Accrued liabilities and deferred income		15 367 415	10 863 644	4 503 771
Other liabilities	3.18	25 529 164	18 415 108	7 114 056
Valuation adjustments and provisions	3.9	39 938 112	37 275 225	2 662 887
Share capital	3.10, 3.11	50 000 000	50 000 000	-
General statutory reserve	3.11	71 516 789	61 409 596	10 107 193
Profit for the period	3.11	13 871 827	10 107 194	3 764 633
Total liabilities		1 887 957 569	1 629 365 122	258 592 447
Total liabilities to group companies and significant shareholders		279 712 051	197 688 113	82 023 938

OFF-BALANCE-SHEET TRANSACTIONS AS AT DECEMBER 31, 2007

in CHF	Note	2007	2006	Change
Contingent liabilities	3.1, 4.1	121 020 057	101 946 684	19 073 373
Additional payment liabilities		-	300 000	(300 000)
Irrevocable liabilities	3.1, 4.2	2 804 000	1 862 000	942 000
Derivative instruments	4.3	1 099 665 572	1 096 712 275	2 953 297
Positive gross replacement values		6 850 451	1 991 648	4 858 803
Negative gross replacement values		3 901 785	3 015 011	886 774
Fiduciary transactions	4.4	1 194 810 137	714 052 015	480 758 122

INCOME STATEMENT FOR THE YEAR AS AT DECEMBER 31, 2007

PROFIT & LOSS STATEMENT ON THE PERIOD AS AT DECEMBER 31, 2007

in CHF	Note	2007	2006	Change
Interest and discount income		61 108 381	44 144 420	16 963 961
Interest and dividend income on financial investments		1 328 633	919 666	408 967
Interest expense		(33 423 143)	(23 824 465)	(9 598 678)
Net interest income		29 013 871	21 239 621	7 774 250
Proceeds from commissions:				
- on credit transactions		837 988	464 365	373 623
- on transactions for the brokering of stocks and investments		50 775 063	48 928 571	1 846 492
- on other provisions of services		5 363 995	4 726 870	637 125
Commission expenses		(7 493 017)	(6 432 905)	(1 060 112)
Net income on fee and commission business		49 484 029	47 686 901	1 797 128
Net income on trading operations	5.2	7 496 621	6 577 803	918 818
Net income from disposal of financial investments		59 702	323 295	(263 593)
Income from participating interests		36 690	18 630	18 060
Profits from real estate		15 023	-	15 023
Other ordinary income		554 363	285 790	268 573
Other ordinary expenses		(644 836)	(463 374)	(181 462)
Other ordinary results		20 942	164 341	(143 399)
Net operating income from ordinary banking		86 015 463	75 668 666	10 346 797
Personnel expenses	5.3	36 001 084	30 376 098	5 624 986
Other operating costs	5.4	20 944 526	19 037 601	1 906 925
Total operating expenses		56 945 610	49 413 699	7 531 911
Gross profit		29 069 853	26 254 967	2 814 886

INCOME STATEMENT

PROFIT FOR THE PERIOD

in CHF	Note	2007	2006	Change
Depreciation/write-offs of fixed assets	3.4	(7 756 904)	(7 667 713)	(89 191)
Valuation adjustments, provisions and losses		(2 400 000)	(5 398 828)	2 998 828
Extraordinary income	5.5	89 878	399 768	(309 890)
Taxes		(5 131 000)	(3 481 000)	(1 650 000)
Profit for the period		13 871 827	10 107 194	3 764 633

PROPOSAL FOR EMPLOYMENT OF THE PROFIT
IN THE BALANCE SHEET

in CHF	Note	2007	2006	Change
Profit for year		13 871 827	10 107 194	3 764 633
Profit carried forward		-	-	-
Profit available		13 871 827	10 107 194	3 764 633
The Board of Directors proposes to set aside the profit in the balance sheet sheet on December 31, 2007 of CHF 13 871 827 for the general legal reserve		13 871 827	10 107 194	3 764 633
Retained earnings carried forward		-	-	-

CASH FLOW STATEMENT FOR THE YEAR AS AT DECEMBER 31, 2007

FLOW FUNDS ACCOUNT FOR THE PERIOD AS AT DECEMBER 31, 2007

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

CHF in thousands	2007		2006	
	Source	Application	Source	Application
Profit for the year	13 872	-	10 107	-
Depreciation and write-offs of fixed assets	7 757	-	7 668	-
Valuation adjustments and provisions	2 663	-	4 557	-
Accrued income and prepaid expenses	-	3 088	2 536	-
Accrued liabilities and deferred income	4 504	-	-	230
Other assets	-	3 737	733	-
Other liabilities	7 114	-	2 804	-
Net cash flow	29 085		28 175	

FLOW OF FUNDS RESULTING FROM CHANGES IN FIXED ASSETS

Participating interests	-	392	-	3
Bank buildings	-	6 131	37	79
Other fixed assets	30	6 502	41	5 103
Intangible fixed assets	-	1 853	-	1 976
Net cash flow		14 848		7 083

CASH FLOW STATEMENT

CASH FLOW FROM BANKING OPERATIONS

CHF in thousands	2007		2006	
	Source	Application	Source	Application
Balance brought forward	29 085	14 848	28 175	7 083
Non-current operations (> 1 year)				
Due to clients - savings	-	-	-	-
Due to clients - other	-	6 200	6 000	-
Medium-term note issues	33 193	-	27 009	-
Client loans	-	6 376	-	3 895
Mortgage loans	28 155	-	-	20 481
Financial investments	-	4 950	-	36 006
Current operations				
Liabilities under money market instruments	94	-	101	-
Due to banks	120 537	-	100 317	-
Due to clients	58 163	-	194 097	-
Cash from client savings	-	8 519	29 306	-
Medium-term note issues	33 171	-	4 789	-
Due from banks	42 131	-	-	80 110
Due from clients	-	9 818	-	105 191
Mortgage loans	-	264 373	-	165 071
Financial investments	-	1 923	32 734	-
Securities trading portfolio	-	-	-	-
Net cash flow	13 285			16 401
Total cash	27 522		4 691	
Variation in cash		27 522		4 691



We have the unique opportunity to reconstruct the state starting with the units we all know and love: family, town, vicinity, and region.

Thus we will finally have a true and living state.⁶

6.
Luigi EINAUDI,
Via il prefetto!, in
"L'Italia e il secondo risorgimento",
supplement to "Gazzetta ticinese"
(17 July 1944).

Photo
*Town of Polizzi Generosa (Palermo).
1955 election.*
© Enzo Sellerio.

NOTES TO THE 2007 ANNUAL ACCOUNTS

1. DESCRIPTIONS OF SECTORS AND INFORMATION ON PERSONNEL

Banca Popolare di Sondrio (SUISSE) S. A., a universal bank founded in 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 in Lugano, its current network amounts to a branch in St. Moritz, with three agencies in Poschiavo, Castasegna and Pontresina, a branch office in Celerina and branches in Bellinzona with an agency in Biasca, Chiasso with an agency in Mendrisio, Chur with an agency in Davos, Locarno, St. Gallen, Basle, Zurich and Monaco (Principality of Monaco).

By the end of the period, overall staff amounted to 303, compared to 268 in 2006, for a total of 291,90 full time employees (2006: 256,90 employees).

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 21, 2006).

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.

	2007	2006
Own real estate	33.3 years	33.3 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 identifiable 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 1.6562 (2006: 1.6079); USD 1.1257 (2006: 1.2205).

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

Compared to the accounting period that closed on December 31, 2006, 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 "Valuation adjustments and provisions".

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.) exists 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 credit, 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 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.

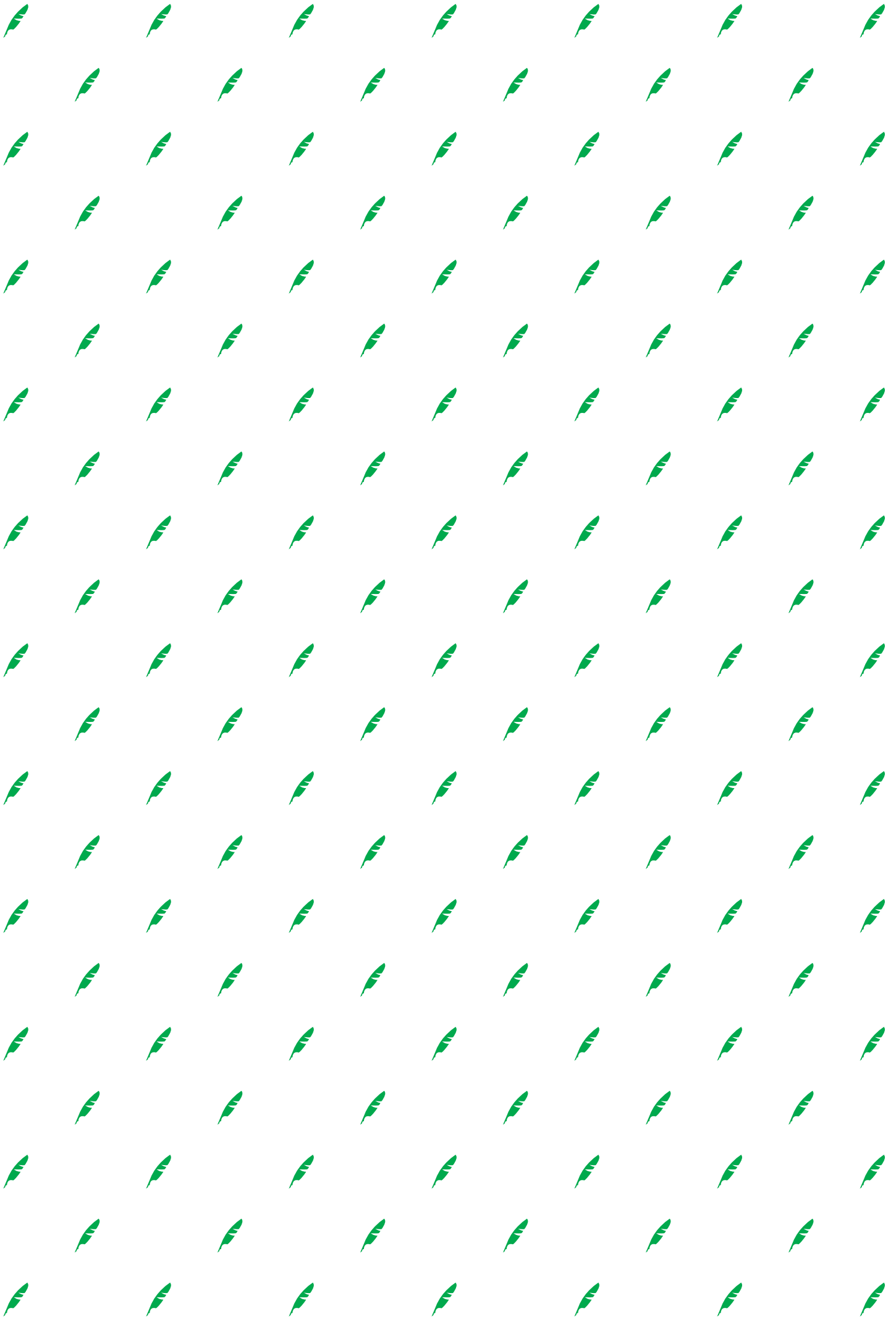
BANK POLICY ON USE OF DERIVATIVE INSTRUMENTS

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.





*The true master of the economic world is not he who provides the raw material
«capital», nor the material objects, bricks and mortar,
machines and motors of which a business is built.*

*Rather, it is man. The intelligent man, who knows and acts:
from the chief executive to the managers, technicians and labourers.⁷*

7.
Luigi EINAUDI,
*Liberismo, borghesia
e origini della guerra*, in
“La riforma sociale”
(September-October 1928).

Photo
*Turin, Mirafiori. Finishing line
for the Fiat Nuova 500 (1957).*
Archivio Storico Fiat.

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	125 070 097	230 683 740	112 798 453	468 552 290
Mortgage loans				
Residential property	895 407 304	-	-	895 407 304
Commercial property	100 942 825	-	-	100 942 825
Others	-	-	-	-
Current year	1 121 420 226	230 683 740	112 798 453	1 464 902 419
Previous year	810 270 289	302 831 809	99 387 778	1 212 489 876
Off-balance-sheet				
Contingent liabilities	550 215	57 352 988	63 116 854	121 020 057
Commitments to make payments and additional depositing	-	-	-	-
Irrevocable liabilities	-	-	2 804 000	2 804 000
Current year	550 215	57 352 988	65 920 854	123 824 057
Previous year	-	90 958 521	13 150 063	104 108 584

ARRANGED CREDIT

in CHF	Gross figure	Estimated value of enforcing guarantees	Net figure	Specific reserve fund
Previous year	4 792 298	985 000	3 807 298	4 026 992

3.2. SUB-DIVISION OF FINANCIAL INVESTMENTS AND PARTICIPATING INTERESTS

Financial investments

in CHF	2007	2006	Change
Non equity investment securities, valued at lowest value	47 880 483	43 914 719	3 965 764
cost price	48 039 102	44 356 942	3 682 160
market value	48 395 244	44 162 992	4 232 252
own bonds or bank bonds	-	-	-
Equities	10 584 275	7 676 678	2 907 597
market value	11 912 204	8 673 317	3 238 887
qualified holdings	-	-	-
Deposit bonds (acquisition value)	5 009 000	5 009 000	-
Total financial investments	63 473 758	56 600 397	6 873 361
Including securities as collateral in accordance with the regulations on liquidity	41 159 826	27 039 060	14 120 766

Participating interests

in CHF	2007	2006	Change
With no market value	803 943	411 500	392 443

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 100%.

In conformity to the provisions of art. 23a OB, there is no obligation to present the Group accounts as of December 31, 2007.

3.4. SCHEDULE OF INVESTMENTS

in CHF	At cost	Depreciation & Writedowns to Date	Book value 2006	Reclassifi- cation	Additions	Disposals	Depreciation & Writedowns	Book value 2007
Participating interests								
Of which	1 011 500	(600 000)	411 500	-	392 443	-	-	803 943
minority	-	-	-	-	-	-	-	-
Total	1 011 500	(600 000)	411 500	-	392 443	-	-	803 943
Fixed assets								
Property used by the Bank	13 931 356	(443 315)	13 488 041	60 083	6 131 118	-	(721 339)	18 957 903
Other tangible fixed assets	44 800 706	(35 237 758)	9 562 948	(60 083)	6 502 073	(30 000)	(5 082 853)	10 892 085
Intangible fixed assets	21 192 135	(19 913 364)	1 278 771	-	1 853 011	-	(1 952 712)	1 179 070
Total	79 924 197	(55 594 437)	24 329 760	-	14 486 202	(30 000)	(7 756 904)	31 029 058
Insurance value								
Property used by the Bank			11 800 000					11 800 000
Other tangible fixed assets			18 535 000					18 535 000

Following the recent purchase of the building which houses our St Moritz branch (November 2007), the insured value of Bank premises will be adjusted in the course of 2008.

3.5. CAPITALIZED SET-UP, CAPITAL INCREASE AND ORGANIZATION COSTS

No comments.

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

in CHF	2007	2006
Deposits as guarantee for "Engpassfinanzierung"	3 486 219	3 482 400
Security deposits in schemes run in association with other banks	3 982 027	3 954 000
Credit instruments (financial fixed assets) used to guarantee REPO operations	33 691 580	19 602 660
Part for which the right to alienate or subsequently place on pledge was granted without restrictions	-	-
Total	41 159 826	27 039 060

3.7. COMMITMENTS TO WELFARE INSTITUTIONS

in CHF 31.12.2007 31.12.2006

Commitments to welfare fund - -

The Bank has two pension plans: one is a general scheme to which all employees belong (including members of senior management) and the other is for members of senior management only.

Both plans operate on a defined-contribution basis. All liabilities of the social security institution are covered in full and at all times by the insurance company. Consequently the Bank incurs neither an economic benefit nor a cover liability. Pension fund expenses stated for the fiscal year ending on 31 December 2007 amount to CHF 3 274 543 (2006: CHF 1 791 557) and are included in personnel expenses. In the course of 2007, an extraordinary payment of CHF 1 600 000 was made to the company pension foundation to improve old-age benefits for staff. These expenses will be borne entirely by the Bank.

General Plan

Information	2007
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 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	2007
Ring of insured/rights	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. 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.

3.8. 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								
	2008	2009	2010	2011	2012	2013	2014	2015	Total
1.375 %	1 115								1 115
1.625 %	5 927	591	10						6 528
1.750 %	25 357	4 815	652						30 824
1.875 %	662	693	2 282	38					3 675
2.000 %	3 750	1 305	3 634						8 689
2.125 %	1 000	1 372	4 645	363	33				7 413
2.250 %	11 060	3 445	1 130	550	120	336			16 641
2.375 %	1 263	19 073	379	490	320				21 525
2.500 %	310	3 451	4 402	571	210	275			9 219
2.625 %		100	612	10 698	385	209	10		12 014
2.750 %		155	24 152	1 397	1 316	90	124	20	27 254
2.875 %		4 728	133	428	132	57	65		5 543
3.000 %		9 320	150	830	784	1 048	350		12 482
3.125 %			2 456	130	355				2 941
3.250 %	51	7		3 915	20		75	71	4 139
3.375 %	50	50			4 067				4 167
3.500 %		83	55	25 000			567	140	25 845
4.000 %	2 684	17							2 701
4.250 %	505	10							515
Total	53 734	49 215	44 692	44 410	7 742	2 015	1 191	231	203 230

3.9. VALUATION ADJUSTMENTS AND PROVISIONS

in CHF	Balance as at 31.12.06	Applications & reversal consistent with specific purpose	Change of purpose	Recoveries overdue interest, forex differ	New provisions charged to earnings	Reversal credited to income statement	Balance as at 31.12.07
Provisions for deferred taxation	-	-	-	-	-	-	-
Value adjustments and provisions for default and other risks:							
Value adjustments and provisions for default and other risks (credit and country risks)	11 359 993	(102 141)	-	430 438	1 674 660	(9 878)	13 353 072
Value adjustments and provisions for other business risks	-	-	-	-	-	-	-
Restructuring provisions	-	-	-	-	-	-	-
Value adjustments for pension liabilities	-	-	-	-	-	-	-
Other provisions	25 915 232	-	-	-	669 808	-	26 585 040
Subtotal	37 275 225	(102 141)	-	430 438	2 344 468	(9 878)	39 938 112
Total value adjustments and provisions	37 275 225	(102 141)	-	430 438	2 344 468	(9 878)	39 938 112
Less:							
Value adjustments set off directly against assets	-	-	-	-	-	-	-
Total value adjustments and provisions as per balance sheet	37 275 225	(102 141)	-	430 438	2 344 468	(9 878)	39 938 112
Reserves for general banking risks	-	-	-	-	-	-	-

3.10. 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, 2006.

Banca Popolare di Sondrio Scpa, Sondrio (Italy) holds 100% of the share capital and voting rights.

The Banca Popolare di Sondrio Scpa, Sondrio (Italy), is a cooperative limited by shares and as such, subject to specific regulations concerning the profile of its shareholders. On the basis of the legislative provisions, no shareholder may hold more than 0.5% of share capital; inclusion in the shareholders register is governed by an approval clause. At the General Meeting of Shareholders, each shareholder is entitled to one vote irrespective of the size of his or her shareholding. The shares are listed on the mercato Espandi section of the Milan Stock Exchange.

The situation remains the same compared to December 31, 2006.

3.11. STATEMENT OF CHANGES IN EQUITY TRANSACTIONS

in CHF	2007	2006
Total shareholders' equity at start of period		
Paid-up share capital	50 000 000	50 000 000
General statutory reserve	61 409 595	52 724 688
Balance sheet profit	10 107 194	8 684 907
Total	121 516 789	111 409 595
Allocation to general statutory reserve	(10 107 194)	(8 684 907)
Dividend and other payments deducted from profit for previous year	10 107 194	8 684 907
Profit for current financial year	13 871 827	10 107 194
Total shareholders' equity	135 388 616	121 516 789
of which:		
Share capital	50 000 000	50 000 000
General statutory reserve	71 516 789	61 409 595
Balance sheet profit	13 871 827	10 107 194
Total	135 388 616	121 516 789

3.12. 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	53 698 115	-	-	-	-	-	-	53 698 115
Due from banks	126 603 121	-	122 251 459	-	-	-	-	248 854 580
Due from clients	156 306 737	-	190 721 374	78 755 859	27 017 000	15 751 320	-	468 552 290
Mortgage loans	6 064 691	518 085 863	29 171 875	82 707 000	241 872 500	118 448 200	-	996 350 129
Financial investments	10 584 293	-	-	11 933 863	35 469 352	5 486 250	-	63 473 758
Current financial year	353 256 957	518 085 863	342 144 708	173 396 722	304 358 852	139 685 770	-	1 830 928 872
Previous financial year	262 910 018	236 169 040	461 000 037	165 301 107	400 189 773	60 683 771	-	1 586 253 746
Borrowed funds								
Money market instruments	221 132	-	-	-	-	-	-	221 132
Due to banks	3 939 290	-	311 241 817	56 379 196	-	-	-	371 560 303
Due to clients in savings and investment accounts	327 918 581	-	-	-	-	-	-	327 918 581
Other amounts due to clients	553 096 479	-	197 559 104	18 148 663	-	-	-	768 804 246
Medium-term notes	-	-	6 508 000	47 226 000	146 059 000	3 437 000	-	203 230 000
Current financial year	885 175 482	-	515 308 921	121 753 859	146 059 000	3 437 000	-	1 671 734 262
Previous financial year	836 208 153	1 112 000	437 565 738	43 905 464	117 885 000	4 618 000	-	1 441 294 355

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

in CHF	2007	2006	Change
Loans to Bank's governing bodies	3 198 092	3 695 456	(497 364)

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.

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

CHF in thousands	2007		2006	
	Switzerland	Abroad	Switzerland	Abroad
Assets				
Cash	53 150	548	24 073	2 103
Due from banks	44 355	204 500	137 367	153 620
Due from clients	334 580	133 972	271 579	180 779
Mortgage loans	996 350	-	760 132	-
Financial investments	8 284	55 190	8 329	48 271
Participating interests	804	-	412	-
Fixed assets	30 278	751	23 507	823
Accrued income and prepaid expense	13 719	554	11 007	178
Other assets	8 478	2 444	6 956	229
Total assets	1 489 998	397 959	1 243 362	386 003
Liabilities				
Money market instruments	221	-	127	-
Due to banks	25 742	345 818	24 834	226 189
Due to clients in savings and investment accounts	215 975	111 944	226 211	110 226
Other amounts due to clients	411 083	357 721	433 947	282 894
Medium-term note issues	203 230	-	136 866	-
Accrued liabilities and deferred income	13 878	1 489	10 057	807
Other liabilities	23 898	1 631	18 098	317
Valuation adjustments and provisions	39 928	10	37 236	39
Share capital	50 000	-	50 000	-
General statutory reserve	71 517	-	61 410	-
Profit for the period	13 872	-	10 107	-
Total liabilities	1 069 344	818 613	1 008 893	620 472

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

CHF in thousands	2007		2006	
	Total	in %	Total	in %
Switzerland	1 482 274	79	1 236 638	76
OECD Countries	372 573	20	376 764	23
Other Countries	33 110	1	15 963	1
Total assets	1 887 957	100	1 629 365	100

3.16. BREAKDOWN OF ASSETS AND LIABILITIES BY CURRENCY

CHF in thousands

Assets	CHF	EUR	USD	Other	Total
Cash	41 817	11 445	282	154	53 698
Due from banks	145	220 584	13 708	14 417	248 854
Due from clients	285 825	127 064	51 763	3 900	468 552
Mortgage loans	996 350	-	-	-	996 350
Financial investments	34 103	27 695	850	826	63 474
Participating interests	804	-	-	-	804
Fixed assets	30 374	655	-	-	31 029
Accrued income and prepaid expense	11 575	2 400	287	11	14 273
Other assets	7 470	573	2 366	514	10 923
Total assets in the balance sheet	1 408 463	390 416	69 256	19 822	1 887 957
Applications for delivery derived from operations in cash, at-term and on options on debt	40 022	511 369	127 458	74 667	753 516
Total assets	1 448 485	901 785	196 714	94 489	2 641 473
Liabilities					
Money market instruments	221	-	-	-	221
Due to banks	175 493	182 075	12 847	1 145	371 560
Due to clients in savings and investment accounts	250 400	77 519	-	-	327 919
Other amounts due to clients	331 287	353 899	62 529	21 089	768 804
Medium-term note issues	203 230	-	-	-	203 230
Accrued liabilities and deferred income	12 393	2 602	229	143	15 367
Other liabilities	19 213	5 555	332	429	25 529
Valuation adjustments and provisions	39 928	10	-	-	39 938
Share capital	50 000	-	-	-	50 000
General statutory reserve	71 517	-	-	-	71 517
Profit for the period	13 872	-	-	-	13 872
Total liabilities in the balance sheet	1 167 554	621 660	75 937	22 806	1 887 957
Commitments arising from operations in cash, at-term operations and on options on debt	300 979	266 722	117 449	72 629	757 779
Total liabilities	1 468 533	888 382	193 386	95 435	2 645 736
Net position for debt	(20 048)	13 403	3 328	(946)	(4 263)

3.17. MAKE-UP OF OTHER ASSETS

in CHF	2007	2006	Change
Down-payments on tax and VAT to recover	1 892 277	1 922 673	(30 396)
Positive replacement values of derived financial instruments	7 495 628	2 169 279	5 326 349
Set-off account	-	1 837 215	(1 837 215)
Other	1 534 316	1 255 417	278 899
Total	10 922 221	7 184 584	3 737 637

3.18. MAKE-UP OF OTHER LIABILITIES

in CHF	2007	2006	Change
Federal administration of contributions	9 510 714	7 081 192	2 429 522
Negative replacement values of derived financial instruments	4 549 385	3 192 642	1 356 743
Set-off account	3 862 965	-	3 862 965
Suppliers	4 067 558	5 208 873	(1 141 315)
Other	3 538 542	2 932 401	606 141
Total	25 529 164	18 415 108	7 114 056

4. OFF-BALANCE-SHEET INFORMATION

4.1. CONTINGENT LIABILITIES

in CHF	2007	2006
Guarantees and similar instruments	83 413 795	92 347 244
Documentary credit	37 606 262	9 599 440
Total contingent liabilities	121 020 057	101 946 684

4.2. IRREVOCABLE COMMITMENTS

in CHF	2007	2006
Guarantees on deposit	2 804 000	1 862 000
Total irrevocable commitments	2 804 000	1 862 000

4.3. DERIVATIVE INSTRUMENTS OUTSTANDING AT YEAR END

in CHF	Positive replacement value	Negative replacement value	Contract volume
Hedging			
Interest-rate instruments			
Swap (OTC) - IRS	3 862 965	-	340 600 000
Negotiation			
Foreign exchange contracts/Precious metals			
Forward contracts (OTC) - Swap	2 899 998	3 814 297	436 988 076
Options (OTC)	87 488	87 488	4 665 414
Others			
Forward contracts (OTC)	-	-	317 412 082
As at December 31, 2007	6 850 451	3 901 785	1 099 665 572
As at December 31, 2006	1 991 648	3 015 011	1 096 712 275

The item "Others" reflects transactions concluded by December 31, 2007, but to be settled in 2008 according to the accounting principle dictated by the currency date.

4.4. FIDUCIARY TRANSACTIONS

in CHF	2007	2006	Change
Fiduciary investments with other banks	774 751 386	519 226 666	255 524 720
Fiduciary investments with Mother Company	420 058 751	194 825 349	225 233 402
Total	1 194 810 137	714 052 015	480 758 122

4.5. MANAGED ASSETS

CHF in million	2007	2006	Change
Type of managed assets			
Assets in own administrated funds	881.1	860.6	20.5
Assets with mandate to manage	1 380.4	1 460.6	(80.2)
Other managed assets	4 222.4	3 502.2	720.2
Total managed assets (including assets considered twofold)	6 483.9	5 823.4	660.5
Considered twofold	507.7	581.8	(74.1)
Net increase / (decrease) (including assets considered twofold)	831.6	812.0	19.6

The item "Other managed assets" refers to the total amount of assets on deposit by customers, for which the Bank performs services including of an administrative nature. Assets on simple deposit were not presented.

Net deposits/(withdrawals) by customers were calculated by the Bank without including matured interest, exchange rate differences, variations in rates, commission and debited expenses.

5. INFORMATION ON THE INCOME STATEMENT

5.1. REFINANCING INCOME BOOKED UNDER INTEREST AND DISCOUNT INCOME

No comments.

5.2. BREAKDOWN OF INCOME FROM TRADING OPERATIONS

in CHF	2007	2006	Change
Currency trading	7 498 857	6 593 303	905 554
Options trading	(2 236)	(15 500)	13 264
Total	7 496 621	6 577 803	918 818

5.3. BREAKDOWN OF PERSONNEL EXPENSES

in CHF	2007	2006	Change
Salaries	27 946 206	24 648 651	3 297 555
Social Security Contributions	6 224 432	4 413 147	1 811 285
Other expenses	1 830 446	1 314 300	516 146
Total	36 001 084	30 376 098	5 624 986

5.4. BREAKDOWN OF OTHER OPERATING EXPENSES

in CHF	2007	2006	Change
Occupancy expenses	6 284 174	5 501 511	782 663
Expenses for IT, machinery, furnishings, vehicles and other equipment	4 257 821	4 043 063	214 758
Other expenses	10 402 531	9 493 027	909 504
Total	20 944 526	19 037 601	1 906 925

5.5. EXTRAORDINARY INCOME AND EXPENSE

Extraordinary income comprised CHF 9 878 resulting from the release of value adjustments and provisions on loans no longer needed for operating purposes and CHF 80 000 from the sale of land in Canton Thurgau (balance-sheet value CHF 30 000).

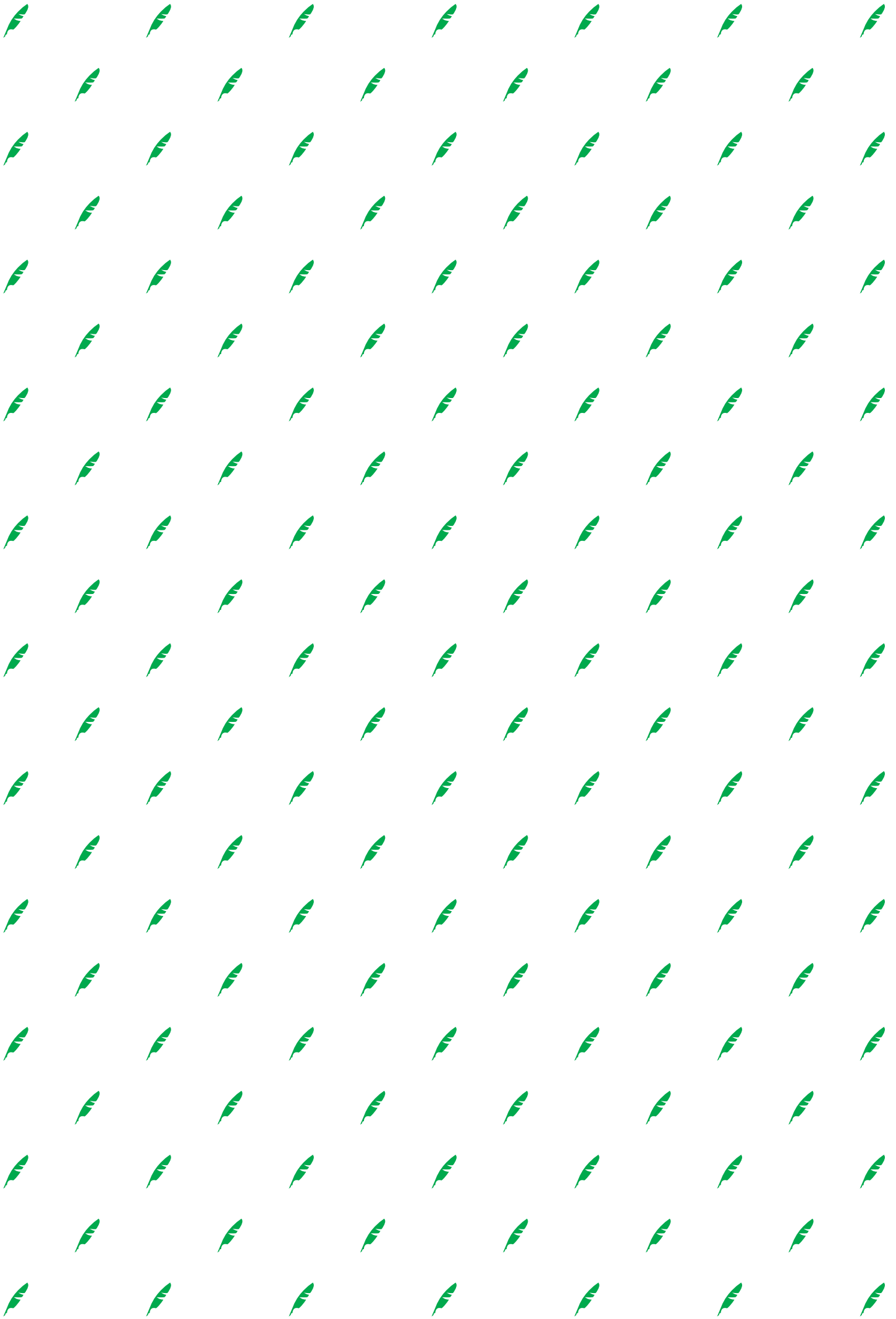
5.6. REVALUATION OF FIXED ASSETS UP TO A MAXIMUM OF THE PURCHASE VALUE
(ART. 665 AND 665A OF THE SWISS CODE OF OBLIGATIONS)

No comments.

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

in CHF	2007		
	Switzerland	Abroad*	Total
Result from operations on interest	27 758 378	1 255 493	29 013 871
Result from operations on commission and provisions of services	47 138 586	2 345 443	49 484 029
Result from operations of negotiation	7 405 626	90 995	7 496 621
Result from other ordinary proceeds	20 942	-	20 942
Net result of ordinary banking operations	82 323 532	3 691 931	86 015 463
Running costs	53 050 455	3 895 155	56 945 610
Gross profit	29 273 077	(203 224)	29 069 853

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



INDEPENDENT AUDITORS' REPORT

Deloitte.

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REPORT OF THE STATUTORY AUDITORS

To the General Meeting of the shareholders of
Banca Popolare di Sondrio (SUISSE) SA, Lugano

As statutory auditors, we have audited the accounting records and the financial statements (pages 21 to 51) of Banca Popolare di Sondrio (SUISSE) SA for the year ended December 31, 2007.

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 and with the International Standards on Auditing (ISA), 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 Swiss law and the Company's articles of incorporation.

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

Deloitte SA



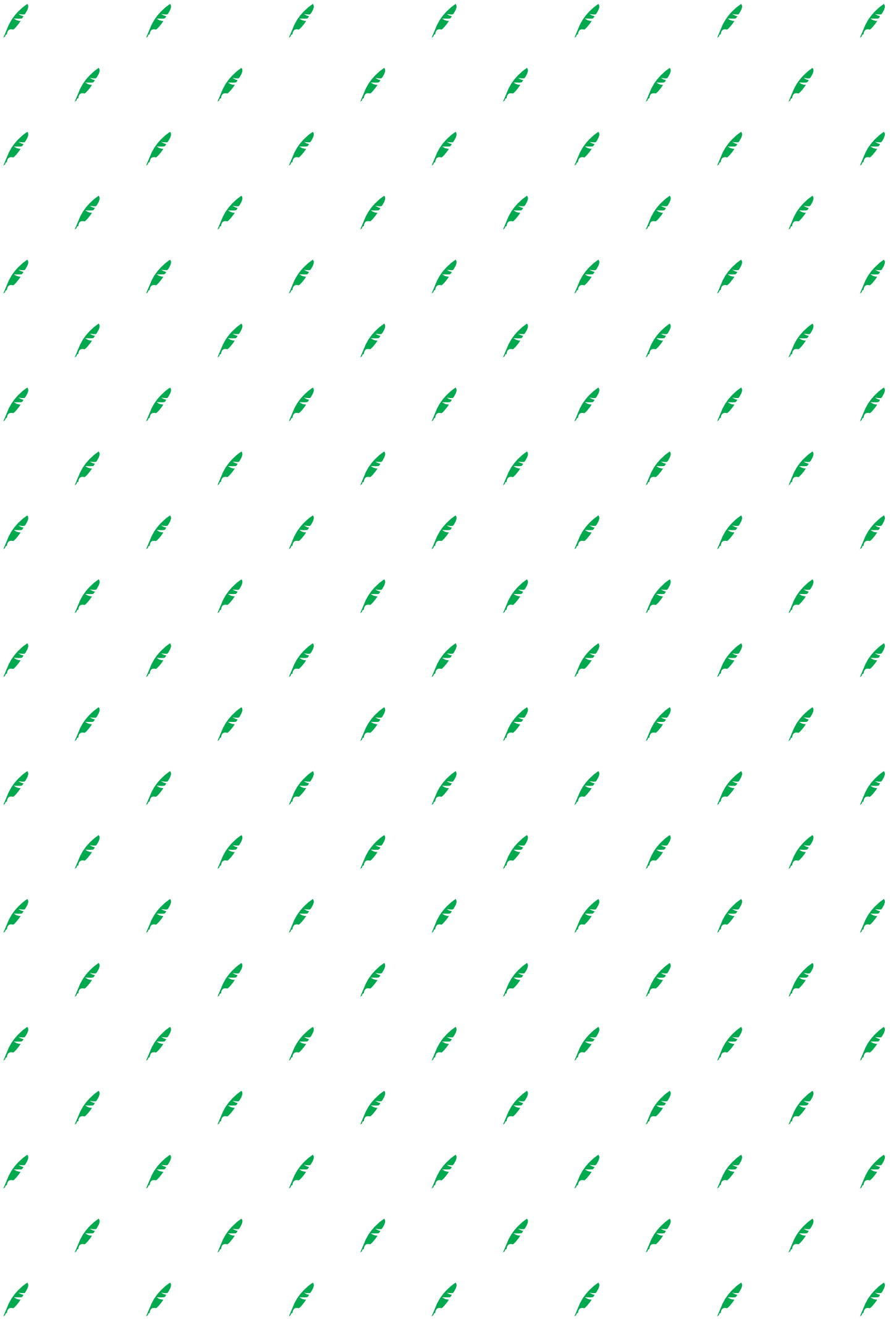
Herbert Ott
Auditor in charge



Dario Bistoletti

Lugano, January 24, 2008

Member of
Deloitte Touche Tohmatsu



OUR PRODUCTS AND SERVICES

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DEPOSIT AND INVESTMENT ACCOUNTS
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TRUSTEE BUSINESS IN ASSOCIATION WITH
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FOREWORD

The person featured in our cultural section – Luigi Einaudi – was a leading academic and political figure in Italy who benefited from Switzerland’s tradition of neutrality during World War II. Following the Italian armistice on 8 September 1943, Luigi Einaudi, then rector of the University of Turin, was wanted by the German police and therefore took refuge in Switzerland until he was able to return to his homeland the following year. It is important to note that Switzerland’s history of neutrality, political stability and strict rules on banking secrecy have made this land of William Tell a safe haven in both financial and humanitarian terms.

The idea of commemorating this great Italian came about after reading the inspiring little volume “Luigi Einaudi – Luigi Albertini. Lettere (1908-1925)” edited by Prof. Marzio Achille Romani, which prompted us to explore Einaudi’s life in greater depth.

Here I will provide you with just the briefest summary, leaving it to the experts to tell the whole story.

Luigi Einaudi, economist and statesman, was born in Carrù (Cuneo) in 1874 and died in Rome in 1961. Work was his best friend and consequently, for him, the ideal way of spending his life. Having taken his degree in law, he taught financial science at both the University of Turin and Bocconi University (Milan), while also occupying the chair of political economy at the Turin Polytechnic. A journalist of great renown, he contributed to many Italian and foreign newspapers and periodicals. Luigi Luzzatti, father of the “people’s banks” (banche popolari) cooperative movement, appointed him to head up the periodical “Credito e cooperazione”.

Appointed governor of the Bank of Italy in January 1945, two years later he began his political career as Deputy Prime Minister and Minister for the Budget. He introduced the measures collectively known as the “Einaudi line” (restrictions on bank lending and reduction of the public spending deficit) that made it possible to bring down inflation and stabilize the purchasing power of the lira.

On 11 May 1948, he was elected President of the Republic, and performed his duties with wisdom and authority, earning him widespread admiration.

Convinced of the “one Europe” idea, he supported the birth of the European Economic Community, hoping for a federation that would reduce the sovereignty of each nation state in favour of a pooled, supra-national form of sovereignty.

To us bankers, he left an extraordinary piece of writing entitled “Banche con aggettivi” (“banks with adjectives”, i.e. banks with different political leanings) which features in his book “La difficile arte del banchiere” (The difficult art of banking), the main thrust of which is that the more a bank forgets its “adjective”, the more likely it is to thrive and prosper.

I would like to quote the conclusion of Mario Monti’s preface to “Luigi Einaudi – Luigi Albertini. Lettere (1908-1925)”: “At a time when renewed attention is being paid to the subjects of the economy and the open society – which are being increasingly undermined by various forms of populism – Einaudi’s thinking is well worth revisiting. In the light of today’s problems.”

Luigi Einaudi, a man to whom only adjectives of praise apply, has gone down in history as a great Italian.

This monograph features an article written by Dr. Carlo Azeglio Ciampi, former President of the Italian Republic and Honorary Governor of the Bank of Italy. I would like to thank him for this significant contribution. I would also like to thank Roberto Einaudi, architect, and Professors Francesco Forte and Giuliana Limiti for the excellent contributions they have made to this endeavour through their commitment to research and the verve and clarity of their writing.

Lugano, January 2008

The Chairman
Piero Melazzini