

# 2010 ANNUAL REPORT

Banca Popolare di Sondrio (SUISSE) SA  
Capital: CHF 100 000 000

Head Office and General Management  
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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 Chief Executive Officer

Head of Credits, Controlling and Market Division

**Paolo Camponovo**

Member of the Executive Committee

Head of Logistics Division

**Roberto Rossi**

Member of the Executive Committee

Head of Retail, Corporate and Branches Division

**Enrico Vitali**

Member of the Executive Committee

Head of Private Banking and Asset Management Division

## INTERNAL AUDITING

**Alberto Bradanini**

President

## EXTERNAL AUDITOR

**KPMG SA**

Zurich





*Work should be a great joy, yet it is still a torment for many:  
the torment of not finding a job, the torment of having to do a job without any apparent noble end.  
Primitive man survived unclothed on Earth, among the rocks, forests and marshes,  
having no tools or machinery. Only work has transformed the world and we are now on the brink  
of a definite transformation.*

This report is available in  
Italian, German, English and French.

In the German version the  
president's preface is also translated  
into Romansh.

## CONTENTS

CHAIRMAN'S FOREWORD	9
REPORT OF THE BOARD OF DIRECTORS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2010	15
2010 FINANCIAL STATEMENTS	21
BALANCE SHEET AS AT DECEMBER 31, 2010	22
2010 INCOME STATEMENT	24
CASH FLOW STATEMENT AS AT DECEMBER 31, 2010	26
NOTES TO THE 2010 ANNUAL ACCOUNTS	29
INDEPENDENT AUDITORS' REPORT	56
OUR PRODUCTS AND SERVICES	59
ADRIANO OLIVETTI A BUILDER OF THE FUTURE	I
Introduction by Carlo De Benedetti	III
Adriano Olivetti and the "short century"	V
Adriano Olivetti, portrait of an enlightened businessman	XV
Adriano Olivetti: a dream and reality	XXIII
Community and cantons: the search for political freedom	XXXV
The Fondazione Adriano Olivetti	XLIII



*This two-fold struggle in the material world and spiritual sphere – for this factory  
we all love – is the greatest commitment and the very purpose of my life.  
The light of truth, my father used to tell me, only shines through deeds, not words.*

**Quotes:**

See page XLVII of the cultural section  
for the sources of all quotes.

**Photo on the double-page spread:**

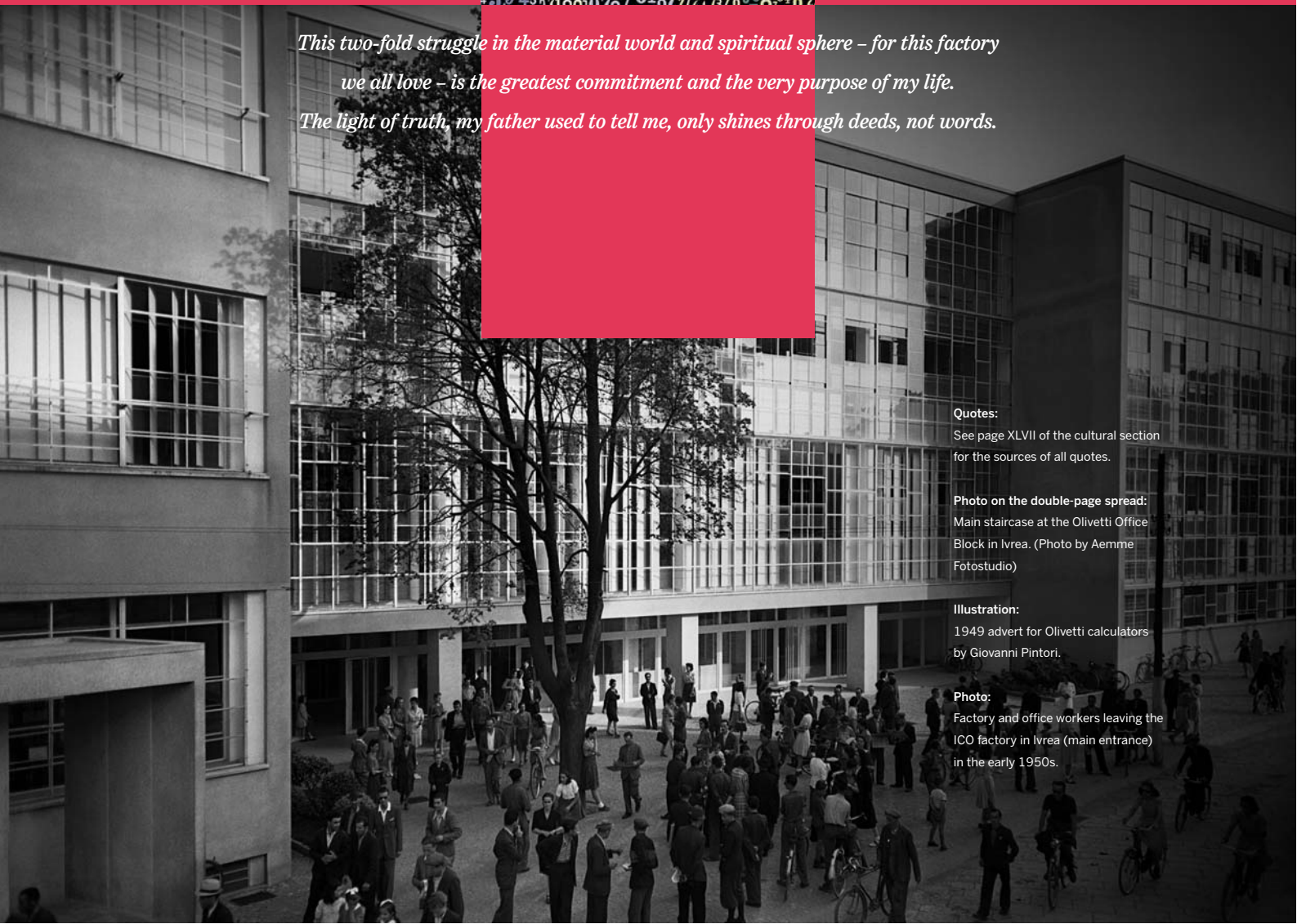
Main staircase at the Olivetti Office  
Block in Ivrea. (Photo by Aemme  
Fotostudio)

**Illustration:**

1949 advert for Olivetti calculators  
by Giovanni Pintori.

**Photo:**

Factory and office workers leaving the  
ICO factory in Ivrea (main entrance)  
in the early 1950s.





## CHAIRMAN'S FOREWORD

Another year is gone, and in the words of the immortal Dante: "Time passes, and a man perceives it not." May this presentation be accompanied by our hopes for a better year than those we have seen of late.

We can hardly avoid the word "crisis", given the persistent slowdown in economic activity as a whole, although glimmers of recovery are perceptible. An authoritative voice recently said that the economy is vigorous in the so-called emerging countries, weak in the United States, and varied in the eurozone.

From a financial perspective, 2010 marked the end of a period, and simultaneously the beginning of an epochal change which is not only needed but indispensable. We have chosen to reflect the strength and intensity of this change in the colour of the insert for the five data sections of this report.

The global economic and financial crisis left its mark on Switzerland too, but only for 2007, 2008 and 2009. In 2009 the Swiss economy showed the first signs of tentative growth, and the following year it was back on track and outperforming its European peers.

By and large, however, 2010 was difficult and tiring. We feel the strain, especially in our bottom line. But if we place it in the economic context—domestic and international—in which it was achieved, if we view it as part of an uninterrupted chain of progress, and most of all, if we interpret it in light of our two basic balance sheet items, deposits and loans, it takes on a significance we think deserving of attention.

Financial statements speak an eloquent language to those who deal on a daily basis with the calculation of costs and returns.

The Swiss banking industry has gone through a year of transition, the duration of which is hard to predict. Switzerland's chosen strategy is to not have an interest in attracting money kept hidden from tax authorities.

The government, especially through the Financial Market Supervisory Authority (FINMA), has taken steps in this direction by focusing on cross-border activity, i.e. transactions by customers resident abroad. The subject brings two popular sayings to mind: that "nothing in life is sure except death and taxes"; and that "it's the duty of a good shepherd to shear his sheep, not to skin them".

Some good news heard in much of the world was the breakthrough of the Gotthard rail tunnel (AlpTransit). Once completed in 2017, the 57 km tunnel will be the longest in the world, and will make a welcome contribution to transport and communications in Switzerland and the rest of Europe. Our bank continues to participate in this extraordinary achievement by providing loans to a number of consortiums working on the tunnel.

We are pleased to recall that the franc, in its role as a refuge currency, mirrors the credibility of Switzerland and the health of its public finances.

The 22 branches we had at the start of this year will soon be joined by a location in Samedan.

It is with well-deserved pride that, in thanking our officers and general management for their wise leadership, we confirm their absolute independence in representing ideas and principles (in accordance with directives from above) rather than interests.

We extend warmest wishes to our employees at every level, whom we prize for their contribution to our success.

Our parent bank, we are pleased to note, is honoured that its owners/members include employees of its Swiss subsidiary, as well as customers of BPS (SUISSE), whose numbers are steadily on the rise.

We respectfully salute FINMA, the Swiss Financial Market Supervisory Authority, for its consistently helpful oversight.

We thank our customers, whose ranks continue to grow, for their business.

The cultural insert paired with our report is dedicated to Adriano Olivetti, an industrialist, engineer, intellectual and politician who was born in Ivrea and died in Aigle, Switzerland. Adriano was the son of Camillo, founder of the Olivetti company.

Lugano, 1 January 2011

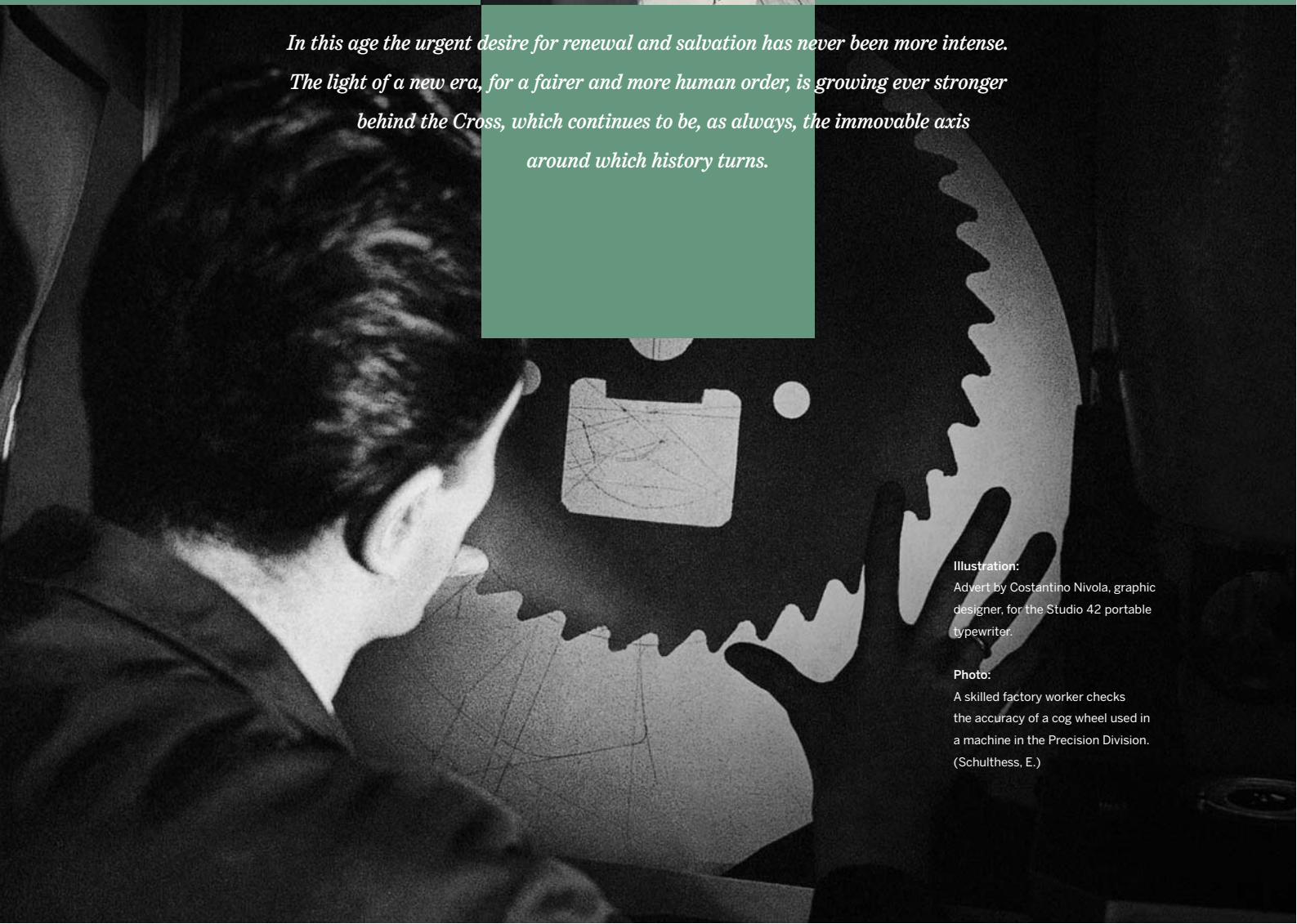
The Chairman  
**Piero Melazzini**







*In this age the urgent desire for renewal and salvation has never been more intense.  
The light of a new era, for a fairer and more human order, is growing ever stronger  
behind the Cross, which continues to be, as always, the immovable axis  
around which history turns.*



**Illustration:**  
Advert by Costantino Nivola, graphic designer, for the Studio 42 portable typewriter.

**Photo:**  
A skilled factory worker checks the accuracy of a cog wheel used in a machine in the Precision Division. (Schulthess, E.)



*Too many workers are now asking themselves whether there is not something fundamentally unjust and tragic in the fact that the wealth they help create is not used to better address the needs and problems of their community.*



**Illustration:**  
1955 advert for the Olivetti 82  
Diaspron typewriter by Giovanni  
Pintori.

**Photo:**  
Housing for Olivetti employees not  
far from the Pozzuoli factory, built in  
the 1950s.

## REPORT OF THE BOARD OF DIRECTORS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2010

In an international comparison, Switzerland stands out as one of the few industrialized countries enjoying solid economic growth and especially healthy public accounts.

The strength of the franc, which has regained its role as a refuge currency, faithfully mirrors the situation. Despite interest rates hovering around zero and costly intervention by the Swiss National Bank, the franc has scaled new heights against the other main currencies, in particular the euro and the US dollar.

Economic prospects are good, and although a temporary slowdown may call for caution, optimism is the prevailing mood.

Around us, the situation is complex and mostly problematic, with the laudable exception of Germany. The debt levels of the EU's "peripheral" states are an ongoing cause for concern. Their economic growth is listless, and unemployment is high. From the world of finance to the real economy, the crisis has spread upward, and now threatens the public accounts due to massive bailouts conducted without enough tax revenue to support them.

On the other side of the Atlantic, the risk of a "double-dip recession" seems to have passed, but the situation remains fragile, as witnessed by the Federal Reserve's extension of quantitative easing.

The news is definitely good in emerging countries, which are increasingly powerful industrial forces and future drivers of the global economy. These are markets with enormous potential; the more mature economies—Germany, but Italy and Switzerland as well—could profit from this by boosting exports. The restrictive measures taken by China seem unable to slow the wave of change.

The stock markets have reacted differently, but on average fairly well, to a situation that is ever vacillating between growth and recession, between recovery targets and the hurdles that stand in their way. The bond markets have struggled under the weight of sovereign debt (country risk) and the threat of interest rate growth.

Raw materials have made a strong comeback, and precious metal investors are euphoric.

In these complex and uncertain times, the self-adjustment mechanisms of the market economy have shown their limitations. The public authorities have therefore picked up the reins and new economic, financial and tax regulations are in the works. The primary goal, and the biggest challenge, is to rebuild the confidence of private citizens—entrepreneurs, investors and workers—so they will believe in the future and stop being too nervous to take risks.

The Swiss banking system, its troubles with the US overcome, is attracting international attention with renewed lustre thanks to its tried-and-true qualities of reliability

and expertise (which in turn reflect a solid, politically stable country). Likewise, the “Swiss Finish” calls for more ambitious standards than Basel III.

Our bank has stayed ahead of the game, raising the share capital by CHF 50 million in the first half of the year. Our parent has tangibly demonstrated its support and confidence in the Swiss market and in the growth of its subsidiary. The new Medium-Term Development Plan for 2010-2012 sets ambitious goals for strengthening our hold in the areas we have traditionally covered: private, retail and corporate banking.

The settlement of off-shore taxation disputes over the next few months will bring historical changes to our sector. At a time when serenity and cooperation are more necessary than ever, the consequences for relations with our most important economic partners would finally be positive. Switzerland itself, we should remember, plays an all but negligible role in foreign trade with the countries in question. The interest in finding a rapid and satisfactory conclusion to these issues is therefore mutual.

Before we comment on performance, we can summarize by saying that the efforts made under some of the most difficult circumstances in recent years have produced visible rewards for our balance sheet, but the impact on earnings is not yet evident.

Our employees have gritted their teeth and closed ranks when necessary, demonstrating loyalty and faith in their own abilities and in the bank’s potential. At the close of the year we had a team of 340, a decrease of 9 caused by normal internal fluctuation.

The quality of customer loans remained excellent, thanks to shrewd management and the health of the Swiss economy.

As for interbank positions, cooperation with the parent bank was broad and effective. Difficult relations among banks, where apparently trust has not been rebuilt, have shed a stronger light than ever on the value of belonging to a respected group.

Logistical investments are underway as we prepare to open a branch in Samedan (GR), in the Engadine, and to transfer the Berne office to its spacious and practical new location.

Our fiduciary and real estate affiliate, Sofipo Fiduciaire SA, afforded new synergies and additional prospects for growth and partnership within the altered business landscape.

Total funding from customers amounted to CHF 4,777,200,000 (-5% on the previous year), including CHF 2,647,100,000 (-10%) in indirect deposits. Given the preponderance of customer assets in euros, the closing balance was influenced strongly by the CHF/EUR exchange rate, which rose by 15% for the year.

Our Luxembourg-based SICAV, “Popso (SUISSE) Investment Fund”, enjoyed an increase in funding (+7%) and solid performance.



Direct deposits were unchanged at CHF 2,130,100,000 and consist of savings and investment accounts (CHF 616,600,000, +5%), other amounts due to customers (CHF 1,334,600,000, -4%), and medium-term notes (CHF 178,800,000, +17%).

“Life Benefit”, our occupational pension foundation, continued its rapid growth (+85%) thanks to the high yields it offers on money market investments that are safe from market fluctuations.

Loans disbursed to customers came to CHF 2,512,600,000, a solid 17% increase on the previous year. The trend reflects a 23% rise in mortgage loans (CHF 1,925,700,000), while other customer loans were stable at CHF 586,900,000 (=). Of particular note is the conclusion of a highly significant loan for financing construction work on AlpTransit, the longest tunnel in the world, conducted with support from the parent bank.

Moving on to the income statement, interest income came to CHF 27,818,445, falling by 4% due to interest rates and tougher competition.

Net income from commission business and services declined by 14%, to CHF 42,653,505. This is explained by the decrease in indirect funding with respect to 2009. The substantial appreciation of the Swiss franc also reduced the result of converting commissions from their original currency. Although the general uncertainty did little to boost investment in stocks, equity market volumes were strong, and the risk profile remained relatively low.

Net trading income was essentially stable at CHF 12,168,571 (+2%). Currency and bond trading went well, with volumes at a respectable level.

Net ordinary banking income came to CHF 79,724,563 (-13%).

On the cost side, personnel expenses amounted to CHF 44,679,233 and other operating expenses to CHF 23,112,586, bringing total operating expenses to CHF 67,791,819 (=). The fact that these expenses were unchanged since the previous year shows how well the bank has managed costs even as its investments grow, especially in IT infrastructure.

Our online banking service “GoBanking” continued to be a popular choice with customers, as it offers greater efficiency and lower costs in a highly secure environment.

The bank's gross profit was CHF 11,932,744 (-49%).

After depreciation and amortization, provisions, taxes and extraordinary items, the net profit for the year came to CHF 4,700,780 (-51%).

The Board of Directors proposes that the profit be allocated to the general legal reserve, in accordance with Art. 22 of the by-laws. Should the shareholders approve this measure, the bank's equity will amount to CHF 227,352,785 (+32%), including the capital increase performed during the year.

To conclude, we want to thank our long-term customers for their continued patronage, and the new customers who have chosen to do business with our bank; our employees for their hard work and dedication, the honourable FINMA for its support and our external auditors, KPMG, whose work is appreciated as always.

Lugano, 24 January 2011

**The Board of Directors**





*I would also like to remind you how we have never asked anyone in this factory in recent years about their religious faith, about their political leanings or even about what part of Italy they and their families come from.*



**Illustration:**  
1935 advert for the MP1 typewriter  
by the painter Xanti Schawinsky.

**Photo:**  
Ivrea - Olivetti, 1969, from the book  
"Una città una fabbrica" - Ivrea and  
Olivetti from 1967 to 1985.  
(Photos by Gianni Berengo Gardin)

## 2010 FINANCIAL STATEMENTS

## BALANCE SHEET AS AT DECEMBER 31, 2010

## ASSETS

in CHF	Note	2010	2009	Change
Cash		58 588 960	61 787 821	(3 198 861)
Due from banks		706 189 117	529 873 762	176 315 355
Due from clients	3.1	586 834 327	587 553 494	(719 167)
Mortgage loans	3.1	1 925 748 466	1 568 582 184	357 166 282
Financial investments	3.2	40 999 305	44 908 750	(3 909 445)
Participating interests	3.2, 3.3, 3.4	653 138	653 138	-
Fixed assets	3.4	34 333 118	37 759 970	(3 426 852)
Accrued income and prepaid expenses		9 324 524	14 137 706	(4 813 182)
Other assets	3.17	50 936 693	27 374 201	23 562 492
<b>Total assets</b>		<b>3 413 607 648</b>	<b>2 872 631 026</b>	<b>540 976 622</b>
Total amounts receivable from group companies and significant shareholders		554 463 829	497 161 083	57 302 746

## LIABILITIES

in CHF	Note	2010	2009	Change
Money market instruments		152	6 152	(6 000)
Due to banks		927 812 566	485 024 527	442 788 039
Due to clients in savings and investment accounts		616 598 215	585 405 370	31 192 845
Other amounts due to clients		1 334 649 395	1 383 363 614	(48 714 219)
Cash bonds	3.8	178 829 000	152 610 000	26 219 000
Accrued liabilities and deferred income		14 345 795	15 771 277	(1 425 482)
Other liabilities	3.18	80 635 903	44 680 392	35 955 511
Valuation adjustments and provisions	3.9	33 383 837	33 117 689	266 148
Reserve for general banking risks	3.9	15 000 000	15 000 000	-
Share capital	3.10, 3.11	100 000 000	50 000 000	50 000 000
General legal reserve	3.11	107 652 005	98 055 235	9 596 770
Profit of the period	3.11	4 700 780	9 596 770	(4 895 990)
<b>Total liabilities</b>		<b>3 413 607 648</b>	<b>2 872 631 026</b>	<b>540 976 622</b>
Total liabilities to group companies and significant shareholders		734 035 879	354 463 324	379 572 555

## OFF-BALANCE-SHEET TRANSACTIONS AS AT DECEMBER 31, 2010

in CHF	Note	2010	2009	Change
Contingent liabilities	3.1, 4.1	227 759 852	219 565 352	8 194 500
Additional payment liabilities	3.1	15 000 000	13 200 000	1 800 000
Irrevocable commitments	4.2	2 633 792 892	2 256 032 166	377 760 726
Positive replacement values		16 843 497	4 047 409	12 796 088
Negative replacement values		71 905 059	32 654 893	39 250 166
Fiduciary transactions	4.3	211 415 310	336 021 230	(124 605 920)

## 2010 INCOME STATEMENT

INCOME STATEMENT FOR THE FINANCIAL YEAR  
ENDING DECEMBER 31, 2010

in CHF	Note	2010	2009	Change
<b>Interest income:</b>				
- interest and discount		66 862 662	67 033 928	(171 266)
- interest and dividends on financial investments		947 964	1 358 877	(410 913)
Interest expense		39 992 181)	(39 419 075)	(573 106)
<b>Net interest result</b>		<b>27 818 445</b>	<b>28 973 730</b>	<b>(1 155 285)</b>
<b>Commission income:</b>				
- on credit transactions		1 523 022	947 350	575 672
- on securities trading and investment transactions		41 491 496	46 945 592	(5 454 096)
- on other services		5 583 186	6 618 302	(1 035 116)
Commission expense		5 944 199)	(5 073 089)	(871 110)
<b>Net commission and service result</b>		<b>42 653 505</b>	<b>49 438 155</b>	<b>(6 784 650)</b>
<b>Net trading result</b>	5.2	<b>12 168 571</b>	<b>11 975 457</b>	<b>193 114</b>
Net income from disposal of financial investments		406 895)	224 354	(631 249)
Income from participating interest		25 000	25 000	-
Profit from real estate		168 752	154 427	14 325
Other ordinary income		1 087 567	1 099 518	(11 951)
Other ordinary expenses		3 790 382)	(585 218)	(3 205 164)
<b>Other ordinary result</b>		<b>2 915 958)</b>	<b>918 081</b>	<b>(3 834 039)</b>
<b>Net ordinary banking income</b>		<b>79 724 563</b>	<b>91 305 423</b>	<b>(11 580 860)</b>
<b>Operating expenses:</b>				
Personnel expenses	5.3	44 679 233	44 476 518	202 715
Other operating expenses	5.4	23 112 586	23 511 892	(399 306)
<b>Total operating expenses</b>		<b>67 791 819</b>	<b>67 988 410</b>	<b>(196 591)</b>
<b>Gross profit</b>		<b>11 932 744</b>	<b>23 317 013</b>	<b>(11 384 269)</b>



## INCOME STATEMENT

in CHF	Note	2010	2009	Change
Depreciation/amortization of fixed assets	3.4	7 788 765)	(8 487 057)	698 292
Valuation adjustments, provisions and losses		154 701)	(3 217 984)	3 063 283
<b>Profit before extraordinary items and taxes</b>		<b>3 989 278</b>	11 611 972	(7 622 694)
Extraordinary income	5.5	929 502	1 016 798	(87 296)
Extraordinary expenses	5.5	-	(10 000)	10 000
Taxes		218 000)	(3 022 000)	2 804 000
<b>Net profit for the year</b>		<b>4 700 780</b>	9 596 770	(4 895 990)
<b>PROPOSAL FOR APPROPRIATION OF BALANCE SHEET PROFIT</b>				
in CHF	Note	2010	2009	Change
Profit for the period		4 700 780	9 596 770	(4 895 990)
Profit brought forward		-	-	-
<b>Available earnings at the period-end</b>		<b>4 700 780</b>	9 596 770	(4 895 990)
The Board of Directors proposes to allocate the profit in the balance sheet as at December 31, 2010, totalling CHF 4 700 780, to General Legal Reserve		4 700 780	9 596 770	(4 895 990)
<b>Retained earnings carried forward</b>		<b>-</b>	-	-

## CASH FLOW STATEMENT AS AT DECEMBER 31, 2010

### CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2010 WITH 2009 COMPARATIVE FIGURES)

#### CASH FLOW (STATEMENT) ON THE BASIS OF THE OPERATING RESULT (INTERNAL FINANCING)

CHF in thousands	2010		2009	
	Source	Utilization	Source	Utilization
Profit of the period	4 701	-	9 597	-
Depreciation write-offs of fixed assets	7 789	-	8 487	-
Valuation adjustments and provisions	266	-	2 798	-
Accrued income and prepaid expenses	4 813	-	637	-
Accrued liabilities and deferred income	-	1 425	-	746
Other assets	-	23 562	-	7 847
Other liabilities	35 956	-	-	13 301
<b>Net operating cash flow</b>	<b>28 538</b>			<b>375</b>

#### CASH FLOWS FROM EQUITY TRANSACTIONS

Share capital	50 000	-	-	-
<b>Total cash flows from equity transactions</b>	<b>50 000</b>	<b>-</b>	<b>-</b>	<b>-</b>

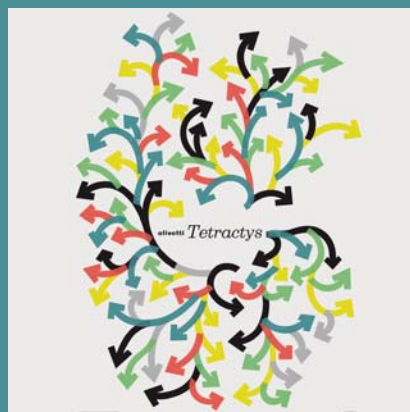
#### CASH FLOW (STATEMENT) RESULTING FROM CHANGES IN FIXED ASSETS

Participating interests	-	-	-	-
Bank buildings	-	36	-	1 039
Other fixed assets	-	2 094	-	8 296
Intangible fixed assets	-	2 232	-	2 372
<b>Net cash flow from investment activities</b>		<b>4 362</b>		<b>11 707</b>

## CASH FLOW STATEMENT

## CASH FLOW FROM BANKING OPERATIONS

CHF in thousands	2010		2009	
	Source	Utilization	Source	Utilization
<b>Balance brought forward</b>	78 538	4 362	-	12 082
<b>Non-current operations (&gt; 1 year)</b>				
Due to clients - savings	-	-	-	-
Due to clients - other	-	2 159	2 159	-
Medium-term note issues	26 303	-	-	45 279
Client loans	22 302	-	-	20 834
Mortgage loans	-	386 616	-	537 282
Financial investments	16 186	-	-	2 589
<b>Current operations</b>				
Liabilities under money market instruments	-	6	5	-
Due to banks	442 788	-	23 123	-
Due to clients	-	46 555	348 760	-
Cash from client savings	31 193	-	214 517	-
Medium-term note issues	-	84	7 953	-
Due from banks	-	176 315	-	210 035
Due from clients	-	21 583	12 535	-
Mortgage loans	29 450	-	219 467	-
Financial investments	-	12 278	14 215	-
Securities trading portfolio	-	-	-	-
<b>Net cash flow from banking activities</b>		77 374	26 715	
<b>Total cash flow</b>	78 538	81 736	26 715	12 082
<b>Variation in cash</b>	3 198			14 633



*If the material forces are removed from spiritual impulses,  
if the economy, technology and machinery prevail over man with their inexorable  
mechanical logic, then the economy, technology and machinery will have no  
other purpose than to be devices of destruction and disorder.*

**Illustration:**

Advert for the Tetractys mechanical calculator by Giovanni Pintori.

**Photo:**

Ivrea - Olivetti, 1983, from the book  
"Una città una fabbrica" - Ivrea and  
Olivetti from 1967 to 1985.  
(Photos by Gianni Berengo Gardin)

## NOTES TO THE 2010 ANNUAL ACCOUNTS

### 1. DESCRIPTIONS OF SECTORS AND INFORMATION ON PERSONNEL

Banca Popolare di Sondrio (SUISSE) SA, a universal bank founded in Lugano on May 3, 1995, is mainly active in providing loans, portfolio management, and trading in securities.

The Bank's current network comprises its head office, an agency and a sub-branch in Lugano, an agency in Paradiso, a branch in St. Moritz (with three agencies in Poschiavo, Castasegna and Pontresina plus a sub-branch in Celerina), branches in Bellinzona (with an agency in Biasca), Chiasso (with an agency in Mendrisio), Chur (with two agencies in Davos and St. Gallen) and Basel (with an agency in the same city) plus branches in Locarno, Zurich, Bern and the Principality of Monaco.

At the end of the period, total staff amounted to 340, compared to 349 at the end of 2009, with a total of 325.60 full time equivalent employees (2009: 335.30 employees).

The Bank does not outsource any activities as defined in the FINMA 2008/7 circular "Bank outsourcing".

### 2. ACCOUNTING AND VALUATION PRINCIPLES USED IN THE ANNUAL ACCOUNTS

The accounts, their presentation and the valuations made are in compliance with the directives of FINMA, the Swiss federal financial market supervisory authority, and in particular those of Circular FINMA 2008/2 "Directives on rules concerning the presentation of accounts (Articles 23-27 OBCR)" of January 1, 2009 (in force on November 19, 2009). The transactions carried out by the Bank are recorded in the books on the value date. Cash transactions that had not been settled as of the balance sheet date are included in forward transactions.

#### ACCOUNTING PRINCIPLES

##### DUE FROM BANKS AND CLIENTS, MORTGAGE LOANS

These items are recorded in the balance sheet at nominal value. For potential client risks, global valuation adjustments are made through a provision for this purpose included under "Valuation adjustments and provisions".

Interest at risk is treated as prescribed by law. Accrued interest not collected within 90 days after the due date is not recognized in the income statement but is deferred through the item "Valuation adjustments and provisions".

##### FINANCIAL INVESTMENTS

Securities purchased by the Bank on a proprietary basis which are not intended for trading and not held until maturity (in the case of interest/dividend-bearing securities) are valued on an individual basis, according to the principle of the lower of cost or market value (LOCOM).

##### PARTICIPATING INTERESTS

Valuation is at historical cost less any economically necessary writedowns.

## FIXED ASSETS

Tangible fixed assets are recorded in the balance sheet at historical cost, less a deduction reflecting the depreciation economically necessary, calculated on a straight-line basis and based on the estimated useful life of the asset.

	2010	2009
Freehold premises (Own real estate)	33.3 years	33.3 years
Offices restructuring	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

## ACRRUALS, PREPAYMENTS AND DEFERRED INCOME

Interest income and expense, asset management fees, staff costs and other operating expenses are shown on the accrual method.

## TAXES

The Bank records provisions for federal, cantonal and council taxes according to the result for the period and on the basis of the tax regulations in force.

## DUE TO BANKS AND DUE TO CLIENTS, BANK'S BONDS

Amounts due to banks and due to clients, as well as medium-term notes, are recorded at their nominal values.

## VALUE ADJUSTMENTS AND PROVISIONS

Individual valuation adjustments and provisions are made in respect of all risks identifiable on the balance sheet date. Potential credit risks are covered by global valuation adjustments and general provisions calculated for each rating class, with the exception of non-performing loans, for which individual provisions are made. For further information please refer to the "Credit risks" section.

## DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are purchased/sold on behalf of clients and for the Bank's asset and liability management (hedging). Positive and negative replacement values of derivative financial instruments generated by the clients and open at the balance sheet date are valued at market prices. If such prices are not available, they are valued at cost and recorded as "Other assets" or "Other liabilities" in the balance sheet. The result of the valuation is recorded in the income statement.

Hedging transactions are valued on the same basis as the underlying instruments. The result arising from the difference between the replacement values is recorded in the compensation account "Other assets" or "Other liabilities", without any effect on the income statement.

If hedging operations relate to interest-bearing products, the interest is booked under "Net interest income".

## TRANSLATIONS OF FOREIGN CURRENCIES

Assets and liabilities in foreign currencies are converted at the exchange rates prevailing on the balance sheet closing date.

Operations in foreign currencies carried out during the year are converted at the exchange rate applicable on the day of the transaction (average rate of exchange).

The result of the valuation is entered in the income statement in "Net income on trading operations".

Forward contracts (outright) and the forward portion of swaps are converted using the residual rates in force on the balance sheet date.

The result of the valuation is recorded in "Net income from trading" in the accounts.

The year-end conversion rates used for the main currencies were as follows: EUR 1.2522 (2009: 1.4839); USD 0.9372 (2009: 1.0298).

## FOREIGN CURRENCIES TRANSLATION: MONACO BRANCH

Assets, liabilities and items in the income statement are converted at the exchange rate applicable at the balance sheet date. Exchange differences resulting from this conversion are then booked in the income statement in the corresponding items (interest, commission, etc.).

## REPURCHASE AGREEMENTS (REPO)

Securities traded by the Bank as part of REPO operations are mainly used as collateral to support refinancing activities. These operations are recorded as deposits with a pledge over securities. The securities remain in the balance sheet of the Bank while the financing is recorded as a liability in the item "Amounts due to banks". The results of these operations are recorded in "Net interest income".

## INTEREST RATES SWAPS (IRS)

Income and expense connected to these contracts are entered in the income statement in "Net interest income".

Positive and negative replacement values for outstanding operations are calculated every six months. The difference is recorded in a compensation account under "Other assets" or "Other liabilities" and has no impact on the income statement.

## CHANGES IN ACCOUNTING PRINCIPLES RELATING TO PRESENTATION AND VALUATION

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During 2010, compared to the year ended December 31, 2009, there were no changes in the accounting and valuation principles used.

## LIABILITIES TO OWN PENSION SCHEMES

The Bank does not have its own occupational pension fund, and instead relies entirely on a private, external insurance company (Swisslife's Fondazione Collettiva LPP) for this purpose. Two pension plans have been underwritten: one for all employees and the second for members of Management. Details of risk coverage are provided in the annex to the annual financial statements.

The pension funds operate on a defined contribution basis. Thus, the Bank's sole liability is to pay the premiums calculated by the external company and recorded under personnel expenses in the item "Social contributions". There is no economic liability or benefit for the purposes of Swiss GAAP RPC 16.

## SIGNIFICANT POST-BALANCE-SHEET EVENTS

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Since the balance sheet date, no significant events have occurred that might have had an impact on figures in the balance sheet or income statement as at December 31, 2010.

## RISK MANAGEMENT

The Board of Directors has performed an analysis of the main risks to which Banca Popolare di Sondrio (Suisse) SA is exposed. The analysis is based on the risk management data and techniques used by the Bank, as described below, and on an estimate of its potential future risks. The internal control system, designed to manage and reduce risk exposure, was duly taken into account by the Board of Directors during its risk analysis

### GENERAL INFORMATION ON RISK MANAGEMENT

The Bank's policy reflects that of the parent company, which is responsible for group-wide policy and coordination.

Risk management is an integral part of the Bank's corporate policy.

It aims to preserve the Bank's resources, improve profitability and increase enterprise value.

The policy is based on the Bank's strategy, objectives and internal regulations, together with the laws and ethical standards that govern Swiss banking and form the basis of its policy in this area. This is commensurate with the Bank's willingness to accept certain risks, strictly dependent on its organization and financial structure.

The Bank is committed to promulgating, at all levels in its organization, a corporate culture that is sensitive to risk.

The Board of Directors establishes the Bank's risk tolerance and is responsible for approving the risk policy, as proposed by General Management.

The identification of risks and their incorporation in the management, control and reporting systems are the responsibility of General Management, which reports on these matters to the Board of Directors.

For the supervision and enforcement of the financial risk policy, the General Manager relies on the Assets and Liabilities Management Committee (A.L.CO) whose functions are detailed in internal regulations.

A risk management unit exists in order to monitor, measure and analyze the risks assumed by the Bank and to ensure compliance with the risk policy and risk limits, in conjunction with other auditing and control departments.

### SPECIFIC RISKS RELATED TO THE BANK'S ACTIVITY

Risks are subdivided into: credit, market, liquidity and re-financing, operational, legal, reputation and compliance risks.

#### CREDIT RISKS

This concerns the risk of losses owing to the insolvency of a counterpart.

In case of default, a bank generally sustains a loss equal to the amount of the debt, net of any amount recovered from the liquidation of any collateral.

The Bank's exposure relates primarily to its lending to clients. The Bank mainly grants mortgage loans, principally consisting of loans for residential construction, Lombard loans and commercial credit.

Prudential collateral margins are set for all secured loans. For Lombard loans, margins depend on the type and market value of pledged assets, while for mortgage loans they are based on the market value of the property (as reflected in an appropriate internal or external valuation), or on the rental value.

Risk is assessed by grouping customers into 10 risk classes (according to default risk or probability of insolvency) and setting recovery rates on the basis of the collateral provided. The risk class is assigned, on the basis of the Bank's internal criteria, by a unit that is independent from the front office. These are differentiated for retail customers (simplified criteria) and corporate customers, based on quantitative criteria (analysis of the financial statements) qualitative factors and performance. Recovery rates are established as flat rates according to the type of collateral (mortgage, Lombard or unsecured) and the security margin.

Risk assessments are updated through regular controls, file reviews and the monitoring of normal debt service. On these occasions, changes can be made to the rating or recovery rate of the loan.



Provisions and valuation adjustments which are economically necessary to cover credit risk are calculated on a lump-sum basis by rating class, using a computerized procedure that adds up the individual risk positions, weighted by the respective default and recovery rates. For non-performing loans, however, individual provisions are made which take into account the estimated realizable value of the collateral provided.

## MARKET RISKS

This is the risk of loss of value due to decreases in the asset value and or increases in liabilities caused by adverse trends in financial markets, and hence related to "interest rate", "foreign exchange" and price risks.

## INTEREST RATE RISKS

The Bank's exposure arises mainly from timing differences between the raising of funds and their use.

The Bank hedges significant medium- and long-term exposures by means of interest rate swaps (micro and macro hedges) arranged solely with its parent bank.

These hedging operations are undertaken to cover the risk of interest rate fluctuations on the refinancing of medium- and long-term fixed-interest loans to clients

In these transactions, the Bank acts as swap payer, paying the fixed portion to the parent bank and receiving the variable (Libor-based) portion in return.

The effectiveness criteria are those defined by the parent bank (80-125 %). Any ineffective portions of hedging operations are recognized in "Net income on trading operations".

## FOREIGN EXCHANGE RISK

The Bank's exposure to foreign currency risk is limited as virtually all transactions are undertaken to meet the needs of clients and on their behalf.

In order to minimize any residual risks, the Bank has set prudential maximum exposure limits. The Treasury manages, on a daily basis, positions that are not individually matched.

## LIQUIDITY AND REFINANCING RISKS

The level of liquidity is monitored in accordance with legal requirements.

The Bank's funding is derived from its own resources, clients' deposits and the deposits of the parent bank and other financial intermediaries.

REPO operations are also carried out with other banking counterparts to minimize refinancing costs.

## OPERATIONAL RISKS

Operational risks comprise the risk of direct and indirect losses caused by human or technological error, shortcomings in internal procedures or extraneous events.

Risk exposure is minimized by using an internal management system, and by the establishment of departments to check that rules and procedures are applied.

In order to guarantee IT security, the Bank has set up a control network using support from specialist external companies.

## LEGAL RISKS

Legal risks consist of the risk of loss resulting from potential legal action.

To prevent risk, the Bank ensures that its activity, particularly that involving any external impact, is governed by legal and ethical standards applicable in the banking sector, and by ensuring understanding and transparency in its operational and contractual dealings with clients.

The Bank has an internal legal department that can call on the assistance of external firms specializing in particular fields or geographical regions.

## REPUTATION AND COMPLIANCE RISKS

The Bank limits its exposure by investing, on the one hand, in the training and awareness of its staff in direct contact with clients (duty of due diligence, confidentiality and the prevention of money laundering) and, on the other, by monitoring the proper implementation of its investment policy.

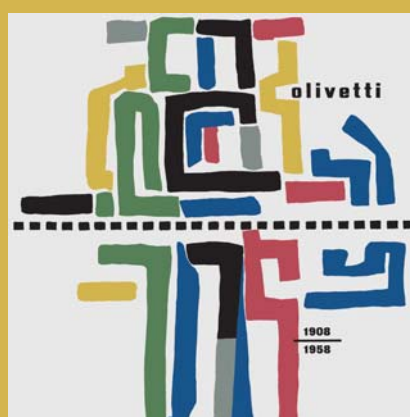
With regard to compliance activities, which are intended to ensure adherence to applicable laws and regulations, the Bank has a control system based on internal verification procedures. This role is carried out by one of the Bank's departments.

## BANK POLICY FOR THE USE OF DERIVATIVE FINANCIAL INSTRUMENTS

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Derivative instruments are, for the most part, held on behalf of clients. For the structural management of the balance sheet, the Bank hedges interest rate risk via the use of Interest Rate Swaps.





*“Comunità”, as its name implies and the manifesto underscores, is a movement aimed at uniting, not dividing. Its goal is collaboration, it wants to teach and its target is to build. We have not come, therefore, to divide, but to exalt the best, to protect the weak, to elevate the ignorant and to discover vocations.*

**Illustration:**  
The cover of the book  
“Olivetti 1908 - 1958” published by  
Olivetti to celebrate its first 50 years,  
by Giovanni Pintori.

**Photo:**  
Brusson, Olivetti summer camp (1969)  
from the book “Una città una fabbrica”  
- Ivrea and Olivetti from 1967 to 1985.  
(Photos by Gianni Berengo Gardin)

### 3. BALANCE SHEET INFORMATION

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

in CHF	Type of collateral			
	Mortgage collateral	Other collateral	Unsecured	Total
<b>Credit</b>				
Due from clients	174 660 630	246 338 065	165 835 632	586 834 327
Mortgage loans				
Residential property	1 728 626 271	-	-	1 728 626 271
Commercial property	197 122 195	-	-	197 122 195
Others	-	-	-	-
<b>Current year</b>	<b>2 100 409 096</b>	<b>246 338 065</b>	<b>165 835 632</b>	<b>2 512 582 793</b>
Previous year	1 767 921 403	236 708 402	151 505 873	2 156 135 678
<b>Off-balance-sheet</b>				
Contingent liabilities	2 072 310	145 446 327	80 241 215	227 759 852
Commitments of payments and additional deposits	-	-	-	-
Irrevocable commitments	-	-	15 000 000	15 000 000
<b>Current year</b>	<b>2 072 310</b>	<b>145 446 327</b>	<b>95 241 215</b>	<b>242 759 852</b>
Previous year	1 174 433	135 110 288	96 480 631	232 765 352

#### IMPAIRED LOANS

in CHF	Gross amount of debt	Estimated liquidation value of collateral	Net amount of debt	Individual
				value adjustment
<b>Current year</b>	<b>13 038 560</b>	<b>3 003 205</b>	<b>10 035 355</b>	<b>10 035 355</b>
Previous year	9 525 404	3 219 083	6 306 321	6 306 321

## 3.2. FINANCIAL INVESTMENTS AND PARTICIPATING INTERESTS

Financial investments in CHF	Carrying value		Market value	
	2010	2009	2010	2009
<b>Debt instruments</b>	<b>34 520 623</b>	38 659 044	<b>34 648 268</b>	39 040 656
of which: own bonds or medium-term notes	-	-	-	-
of which: held to maturity	-	-	-	-
of which: valued at lower of cost or market	34 520 623	38 659 044	34 648 268	39 040 656
<b>Instruments</b>	<b>6 478 682</b>	6 249 706	<b>6 485 741</b>	6 320 182
qualified participating interests	-	-	-	-
<b>Deposit bonds</b> (purchase value)	-	-	-	-
<b>Precious metals</b>	-	-	-	-
<b>Real estate</b>	-	-	-	-
<b>Total financial investments</b>	<b>40 999 305</b>	44 908 750	<b>41 134 009</b>	45 360 838
Securities pledgeable in accordance with liquidity regulations	28 383 536	36 664 893	-	-

Information on treasury shares included in financial investments in CHF	Number		Carrying value	
	2010	2009	2010	2009
Balance at 01.01.10	-	-	-	-
Purchases (additions)	-	-	-	-
Disposals	-	-	-	-
Writedowns	-	-	-	-
Upward revaluations	-	-	-	-
Balance at 31.12.10	-	-	-	-

Participating interests in CHF	2010		2009	
	With stock market value	-	-	-
Without stock market value	653 138	653 138	-	-
<b>Total participating interests</b>	<b>653 138</b>	653 138	-	-

### 3.3. COMPANY NAME, REGISTERED OFFICE, ACTIVITY, SHARE CAPITAL AND PERCENTAGE SHAREHOLDING (PERCENTAGE OF CAPITAL AND VOTING RIGHTS, AND ANY CONTRACTUAL RESTRICTIONS) OF THE MAIN EQUITY INTERESTS

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

The company's share capital is fully paid-in.

In accordance with Art.23a of the Banking Ordinance, there is no obligation to present consolidated accounts as at December 2010.

### 3.4. ANALYSIS OF FIXED ASSETS

in CHF	Purchase price	Accumulated depreciation & amortization	Book value as at 31.12.2009	Reclassification	Additions	Disposals	Depreciation & amortization	Book value as at 31.12.2010
<b>Equity interests</b>								
Minority holding	1 253 138	(600 000)	653 138	-	-	-	-	653 138
Majority holding	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1 253 138</b>	<b>600 000)</b>	<b>653 138</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>653 138</b>
<b>Fixed assets</b>								
Properties used by the Bank	22 178 260	(3 121 444)	19 056 816	-	36 248	-	(1 054 092)	18 038 972
Other tangible fixed assets	66 822 815	(50 009 877)	16 812 938	-	2 809 207	(715 311)	(4 505 825)	14 401 009
Intangible fixed assets	28 630 131	(26 739 915)	1 890 216	-	1 720 418	-	(2 126 577)	1 484 057
Capitalised cost (Capital increase costs)	-	-	-	-	511 350	-	(102 270)	409 080
<b>Total</b>	<b>117 631 206</b>	<b>79 871 236)</b>	<b>37 759 970</b>	<b>-</b>	<b>5 077 223</b>	<b>715 311)</b>	<b>7 788 764)</b>	<b>34 333 118</b>
<b>Insurance value</b>								
Properties used by the Bank			15 923 000					15 923 000
Other tangible fixed assets			32 500 000					32 500 000

### 3.5. CAPITALIZED ESTABLISHMENT EXPENSES, CAPITAL INCREASE AND ORGANIZATION COSTS

in CHF

	<b>31.12.2010</b>	31.12.2009
Cost of capital increase (increase of CHF 50 million carried out in 2010)	409 080	-

### 3.6. ASSETS PLEDGED AS COLLATERAL OR ASSIGNED TO SECURE OWN LIABILITIES AND ASSETS SUBJECT TO RESERVATION OF TITLE (BOOK VALUE)

in CHF

	Book value of assets pledged as collateral or assigned as security	Actual liability
Securities used as collateral at the SNB	3 513 866	Nil
Securities used as collateral at SIS	4 002 011	Nil

#### **Securities repurchase (Repo) operations**

	<b>Current year</b>	Previous year
Securities (Financial investments) pledged to secure REPO operations	20 867 659	29 149 021
of which securities where unrestricted right of disposal or subsequent pledge has been granted	-	-



### 3.7. LIABILITIES TO PENSION PLANS

With regard to pension and social security, the Bank has covered all its employees through Swiss Life's "Fondazione Collettiva LPP", with two defined-contribution plans:

- the first plan covers all employees, including senior management, whose annual salaries for AHV purposes exceed the limit for the basic old-age pension
- the second plan covers all senior managers who have completed a 36-month waiting period and who have passed their 40th birthday

For both plans, the amount of pension benefits depends on the savings accumulated up to retirement age and on the annuity rate, based on the collective insurance tariff.

Lump-sum death benefits and annuities for the disabled, widows or the orphans and children of pensioners are also insured by the plans. The plans are financed one third by the employee and two thirds by the Bank. All liabilities of the pension fund are covered in full and at all times by the insurance company. There are neither economic liabilities nor economic benefits for the Bank.

Details of pension plans	31.12.2010	31.12.2009
in CHF		
<b>a) Employer's contribution reserve</b>		
Nominal value	-	-
Amount for which usage waived	-	-
Credited to employer's contribution reserve	-	-
Balance sheet value of employer's contribution reserve	-	-
<b>Net variation in employer's contribution reserve booked in "Personnel expenses"</b>		-
Creation of employer's contribution reserve	-	-
<b>b) Future economic benefits / liabilities</b>		
<i>Pension funds with no surplus or shortfall</i>		
Amount of surplus / shortfall of the pension plan	-	-
Amount of surplus / shortfall relating to the Bank	-	-
Effects on income statement	-	-
<b>c) Pension costs included in Personnel expenses (social security contributions)</b>		
Contributions for the period under review	4 153 676	3 651 107
Changes owing to future economic benefits / liabilities	-	-
Credited to employer's reserve	-	-
<b>Total pension costs included in "Personnel expenses"</b>	<b>4 153 676</b>	<b>3 651 107</b>

With the exception of transferable vested benefits, there are no particular obligations arising on the termination of employment contracts.

As there is no surplus, a present value of possible future reductions in contributions has not been calculated.

### 3.8. DEBENTURES

On the balance sheet date there were no debentures outstanding.

The following cash bonds were, however, outstanding.

CHF in thousands

Interest rate	Maturity										Total	
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		
0.500	679											679
0.625	2 681	575										3 256
0.750	500	485										985
0.875	525	351	74									950
1.000	1 035		450									1 485
1.125		2 821	668	538								4 027
1.250		1 713	2 000	440								4 153
1.375	198	6 000		30	115							6 343
1.500	81	380	2 906	385	215	25						3 992
1.625			36 852	76	200							37 128
1.750		60		50						10		120
1.875	38			9 224								9 262
2.000			65	10	739	160						974
2.125	346	33		50	29 408	6	20					29 863
2.250	600	100	336			120	11			10		1 177
2.375	602	385						1				988
2.500	764	520	445			50			246	10		2 035
2.625	10 998	400	209	10				100	88			11 805
2.750	1 564	1 616	275	124	20							3 599
2.875	2 146	300	82	65								2 593
3.000	6 995	2 295	2 494	514								12 298
3.125	802	1 826	204	20		10						2 862
3.250	5 787	395		604	111	2						6 899
3.375	500	4 237	600	48			10	4				5 399
3.500	25 000		150	667	140							25 957
<b>Total</b>	<b>61 841</b>	<b>24 492</b>	<b>47 810</b>	<b>12 855</b>	<b>30 948</b>	<b>373</b>	<b>41</b>	<b>105</b>	<b>334</b>	<b>30</b>		<b>178 829</b>

## 3.9. VALUATION ADJUSTMENTS AND PROVISIONS

in CHF	Balance as at 31.12.09	Utilization and release consistent with specific purpose	Change of purpose	Recoveries, impaired interest and currency differences	New provisions income statement	Release credited to income statement	Balance as at 31.12.10
Provisions for latent taxes	-	-	-	-	-	-	-
<b>Valuation adjustments and provisions for default and other risks:</b>							
Valuation adjustments and provisions for default and other risks (credit and country risks)	19 792 304	(223 574)	4 590 282	(1 516 541)	1 961 263	-	24 603 734
Valuation adjustments and provisions for other business risks	-	-	-	-	-	-	-
Restructuring provisions	-	-	-	-	-	-	-
Provisions for pension liabilities	-	-	-	-	-	-	-
Other provisions	13 325 385	-	(4 590 282)	-	45 000	-	8 780 103
<b>Subtotal</b>	<b>33 117 689</b>	<b>223 574)</b>	<b>-</b>	<b>1 516 541)</b>	<b>2 006 263</b>	<b>-</b>	<b>33 383 837</b>
<b>Total value adjustments and provisions</b>	<b>33 117 689</b>	<b>223 574)</b>	<b>-</b>	<b>1 516 541)</b>	<b>2 006 263</b>	<b>-</b>	<b>33 383 837</b>
Less:							
Valuation adjustments set off directly against assets	-	-	-	-	-	-	-
<b>Total valuation adjustments and provisions as per balance sheet</b>	<b>33 117 689</b>	<b>223 574)</b>	<b>-</b>	<b>1 516 541)</b>	<b>2 006 263</b>	<b>-</b>	<b>33 383 837</b>
<b>Reserves for general banking risks</b>	<b>15 000 000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15 000 000</b>

The reserve for general banking risks is not taxed.

## 3.10. SHARE CAPITAL

in CHF	Par value	Number of shares	Par value holding
<b>Share capital</b>	<b>100 000 000</b>	<b>1 000 000</b>	<b>100 000 000</b>

**There was a change in share capital.**

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

Banca Popolare di Sondrio Scpa, Sondrio (Italy), is a limited cooperative by shares and as such, subject to specific regulations concerning the shareholders' profile. Based on regulatory provisions, a shareholder may not hold more than 0.5% of share capital; the inclusion in the shareholders register is subject to an approval clause. At the General Meeting of Shareholders, each shareholder is entitled to one vote, irrespective of the size of the participant's quota (size of his or her shareholding). The shares are listed on the telematic stock market of the Milan Stock Exchange (MTA).

**On 15th March 2010 the Bank increased the share capital by CHF 50 000 000 to CHF 100 000 000.**

## 3.11. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

in CHF	2010	2009
<b>Total shareholders' equity at the beginning of the period</b>		
Paid-up share capital	50 000 000	50 000 000
General legal reserve	98 055 235	85 388 616
Reserve for general banking risks	15 000 000	15 000 000
Balance sheet profit	9 596 770	12 666 619
<b>Total</b>	<b>172 652 005</b>	163 055 235
Allocation to general legal reserve	9 596 770	12 666 619
Dividend and other payments deducted from the profit of prior year	(9 596 770)	(12 666 619)
Profit for current financial year	4 700 780	9 596 770
Capital increase	50 000 000	-
<b>Total shareholders' equity</b>	<b>227 352 785</b>	172 652 005
of which:		
Share capital	<b>100 000 000</b>	50 000 000
General legal reserve	<b>107 652 005</b>	98 055 235
Reserve for general banking risks	<b>15 000 000</b>	15 000 000
Balance sheet profit	<b>4 700 780</b>	9 596 770
<b>Total</b>	<b>227 352 785</b>	172 652 005

### 3.12. MATURITY STRUCTURE OF CURRENT ASSETS, FINANCIAL INVESTMENTS AND AMOUNTS DUE TO THIRD PARTIES

in CHF	Maturities							Total
	At sight	Call/notice	Due within 3 months	Due within 3 to 12 months	Due within 12 months to 5 years	Due after 5 years	Fixed assets	
<b>Current assets</b>								
Cash	58 588 960	-	-	-	-	-	-	58 588 960
Due from banks	442 550 225	-	263 638 892	-	-	-	-	706 189 117
Due from clients	14 855 108	250 654 840	240 149 118	53 508 151	13 020 000	14 647 110	-	586 834 327
Mortgage loans	15 962 737	452 116 929	87 343 800	117 008 950	959 329 950	293 986 100	-	1 925 748 466
Financial investments	6 478 682	-	4 271 880	8 811 039	19 462 704	1 975 000	-	40 999 305
<b>Current financial year</b>	<b>538 435 712</b>	<b>702 771 769</b>	<b>595 403 690</b>	<b>179 328 140</b>	<b>991 812 654</b>	<b>310 608 210</b>	<b>-</b>	<b>3 318 360 175</b>
Previous financial year	616 186 290	533 452 713	455 105 757	234 928 524	747 597 523	205 435 204	-	2 792 706 011
<b>Amounts due to third parties</b>								
Money market instruments	152	-	-	-	-	-	-	152
Due to banks	92 715 955	-	534 705 400	300 391 211	-	-	-	927 812 566
Due to clients on savings and investment accounts	616 598 215	-	-	-	-	-	-	616 598 215
Other amounts due to clients	1 105 650 152	-	167 656 100	61 343 143	-	-	-	1 334 649 395
Medium-term notes	-	-	3 790 000	58 051 000	116 105 000	883 000	-	178 829 000
<b>Current financial year</b>	<b>1 814 964 474</b>	<b>-</b>	<b>706 151 500</b>	<b>419 785 354</b>	<b>116 105 000</b>	<b>883 000</b>	<b>-</b>	<b>3 057 889 328</b>
Previous financial year	1 772 510 742	-	517 478 920	223 575 926	92 446 075	398 000	-	2 606 409 663

### 3.13. LOANS AND LIABILITIES TO GROUP COMPANIES AND LOANS GRANTED TO THE BANK'S GOVERNING BODIES

in CHF	2010	2009	Change
Loans to governing bodies	6 910 000	7 110 000	(200 000)

Loans to governing bodies are mortgage-based and have been granted in compliance with usual loan-to-value ratios. Claims and liabilities shown at the foot of the balance sheet relate solely to interbank operations with the parent company. These transactions have been undertaken on market terms and conditions.

## 3.14. BREAKDOWN OF ASSETS AND LIABILITIES BY GEOGRAPHICAL AREA

CHF in thousands	2010		2009	
	Switzerland	Abroad	Switzerland	Abroad
<b>Assets</b>				
Cash	57 921	668	61 093	695
Due from banks	95 471	610 719	11 068	518 806
Due from clients	436 862	149 972	409 066	178 487
Mortgage loans	1 925 748	-	1 568 582	-
Financial investments	8 271	32 728	7 273	37 636
Participating interests	653	-	653	-
Fixed assets	34 037	296	37 431	329
Accrued income and prepaid expenses	8 146	1 179	13 021	1 117
Other assets	45 403	5 534	25 334	2 040
<b>Total assets</b>	<b>2 612 512</b>	<b>801 096</b>	<b>2 133 521</b>	<b>739 110</b>
<b>Liabilities</b>				
Money market instruments	-	-	6	-
Due to banks	179 874	747 939	127 895	357 129
Due to clients in savings and investment accounts	440 961	175 637	405 197	180 208
Other amounts due to clients	882 556	452 093	681 013	702 351
Cash bonds	178 829	-	152 610	-
Accrued liabilities and deferred income	12 424	1 922	14 263	1 508
Other liabilities	63 797	16 839	38 777	5 904
Valuation adjustments and provisions	33 038	346	32 891	227
Reserve for general banking risks	15 000	-	15 000	-
Share capital	100 000	-	50 000	-
General legal reserve	107 652	-	98 055	-
Profit of the period	4 701	-	9 597	-
<b>Total liabilities</b>	<b>2 018 832</b>	<b>1 394 776</b>	<b>1 625 304</b>	<b>1 247 327</b>

## 3.15. BREAKDOWN OF ASSETS AND LIABILITIES BY COUNTRY OR GROUP OF COUNTRIES

CHF in thousands	2010		2009	
	Total	in	Total	in
Switzerland	2 611 164	77	2 133 520	74
OECD countries	762 441	22	696 883	24
Other countries	40 003	1	42 228	2
<b>Total assets</b>	<b>3 413 608</b>	<b>100</b>	<b>2 872 631</b>	<b>100</b>

## 3.16. BREAKDOWN OF ASSETS AND LIABILITIES BY CURRENCY

CHF in thousands

<b>Assets</b>	<b>CHF</b>	<b>EUR</b>	<b>USD</b>	<b>Other</b>	<b>Total</b>
Cash	51 432	6 608	343	205	58 589
Due from banks	59 647	385 806	78 269	182 467	706 189
Due from clients	416 657	130 067	13 703	26 407	586 834
Mortgage loans	1 916 079	9 669	-	-	1 925 748
Financial investments	18 480	20 336	2 183	-	40 999
Participating interests	653	-	-	-	653
Fixed assets	34 037	296	-	-	34 333
Accrued income and prepaid expense	6 992	2 211	60	61	9 325
Other assets	33 940	11 494	4 976	528	50 937
<b>Total assets in the balance sheet</b>	<b>2 537 917</b>	<b>566 488</b>	<b>99 534</b>	<b>209 668</b>	<b>3 413 608</b>
Off-balance-sheet claims from foreign exchange spot, forward and option transactions	128 885	961 893	237 722	51 683	1 380 183
<b>Total assets</b>	<b>2 666 802</b>	<b>1 528 381</b>	<b>337 256</b>	<b>261 351</b>	<b>4 793 791</b>
<b>Liabilities</b>					
Money market instruments	-	-	-	-	-
Due to banks	171 322	680 406	23 127	52 958	927 813
Due to clients in savings and investment accounts	446 209	170 390	-	-	616 598
Other amounts due to clients	711 028	465 368	118 567	39 687	1 334 649
Cash bonds	178 829	-	-	-	178 829
Accrued liabilities and deferred income	11 188	2 938	81	139	14 346
Other liabilities	75 221	3 875	399	1 141	80 636
Valuation adjustments and provisions	33 056	327	-	-	33 384
Reserve for general banking risks	15 000	-	-	-	15 000
Share capital	100 000	-	-	-	100 000
General legal reserve	107 652	-	-	-	107 652
Profit for the period	4 701	-	-	-	4 701
<b>Total liabilities in the balance sheet</b>	<b>1 854 205</b>	<b>1 323 303</b>	<b>142 174</b>	<b>93 925</b>	<b>3 413 608</b>
Off-balance-sheet from foreign exchange spot, forward and option transactions	827 838	192 591	192 731	167 023	1 380 183
<b>Total liabilities</b>	<b>2 682 043</b>	<b>1 515 894</b>	<b>334 905</b>	<b>260 948</b>	<b>4 793 791</b>
Net position for debt	(15 241)	12 487	2 351	403	-



## 3.17. OTHER ASSETS

in CHF	2010	2009	Change
Tax prepayments and recoverable VAT	1 507 731	1 855 346	(347 615)
Positive replacement values of derivative financial instruments	17 116 518	4 303 128	12 813 390
Compensation account	29 536 681	18 027 105	11 509 576
Other	2 775 763	3 188 622	(412 859)
<b>Total</b>	<b>50 936 693</b>	<b>27 374 201</b>	<b>23 562 492</b>

## 3.18. OTHER LIABILITIES

in CHF	2010	2009	Change
Administration of federal contributions	5 419 253	8 514 939	(3 095 686)
Negative replacement values of derivative financial instruments	72 178 080	32 910 613	39 267 467
Compensation account	-	-	-
Suppliers	2 034 949	1 982 881	52 068
Other	1 003 621	1 271 959	(268 338)
<b>Total</b>	<b>80 635 903</b>	<b>44 680 392</b>	<b>35 955 511</b>

## 4. OFF-BALANCE-SHEET INFORMATION

### 4.1. CONTINGENT LIABILITIES

in CHF	2010	2009
Credit guarantees and similar instruments	181 892 690	170 144 720
Documentary credit	45 867 162	49 420 632
<b>Total contingent liabilities</b>	<b>227 759 852</b>	219 565 352

## 4.2. OUTSTANDING DERIVATIVE FINANCIAL INSTRUMENTS

in CHF	Trading instruments			Hedging instruments		
	Positive replacement value	Negative replacement value	Contract volumes	Positive replacement value	Negative replacement value	Contract volumes
<b>Interest rate derivatives</b>						
Forward contracts, including FRAs	-	-	-	-	-	-
Interest rate swaps	-	-	-	-	29 536 681	1 080 550 000
Futures	-	-	-	-	-	-
Options (OTC)	-	-	-	-	-	-
Options (exchange traded)	-	-	-	-	-	-
<b>Currencies/Precious metals</b>						
Forward contracts	15 977 678	41 502 558	1 312 875 907	-	-	-
Combined swaps (interest/currency)	-	-	-	-	-	-
Futures	-	-	-	-	-	-
Options (OTC)	622 756	622 756	53 292 604	-	-	-
Options (exchange traded)	-	-	-	-	-	-
<b>Equities/Indices</b>						
Forward contracts	-	-	-	-	-	-
Swaps	-	-	-	-	-	-
Futures	225 406	225 406	16 237 680	-	-	-
Options (OTC)	17 657	17 657	5 896 980	-	-	-
Options (exchange traded)	-	-	-	-	-	-
<b>Credit derivatives</b>						
Credit default swaps	-	-	-	-	-	-
Total return swaps	-	-	-	-	-	-
First to default swaps	-	-	-	-	-	-
Other credit derivatives	-	-	-	-	-	-
<b>Other</b>						
Forward contracts	-	-	164 939 721	-	-	-
Swaps	-	-	-	-	-	-
Futures	-	-	-	-	-	-
Options (OTC)	-	-	-	-	-	-
Options (exchange traded)	-	-	-	-	-	-
<b>Total before impact of netting contracts</b>						
<b>As at December 31, 2010</b>	<b>16 843 497</b>	<b>42 368 377</b>	<b>1 553 242 892</b>	-	<b>29 536 681</b>	<b>1 080 550 000</b>
As at December 31, 2009	4 047 409	14 627 788	1 388 332 166	-	18 027 105	867 700 000

## 4.2. (CONTINUATION)

in CHF	Total after impact of netting contracts	
	Cumulative positive replacement value	Cumulative negative replacement value
<b>2010</b>	<b>16 843 497</b>	<b>71 905 059</b>
2009	4 047 409	32 654 893

Regarding interest rate swaps used for hedging purposes, the internal effectiveness criteria, as described in the Risk Management section, are those defined by the parent bank (80-125 %). Any ineffective portion of hedge transactions is recognized in "Net income on trading operations".

The replacement values of "Forward contracts" derive mainly from currency swaps conducted without forex risk for the Bank.

In the line "Forward contracts" of the voice "Other", are indicated all spot (cash) transactions occurred before 31 December 2010, which had not been settled, according to the Value-date principle.

## 4.3. FIDUCIARY TRANSACTIONS

in CHF	2010	2009	Change
Fiduciary investments with other banks	4 009 809	18 821 218	(14 811 409)
Fiduciary investments with the parent company	207 405 501	317 200 012	(109 794 511)
<b>Total</b>	<b>211 415 310</b>	<b>336 021 230</b>	<b>(124 605 920)</b>

## 4.4. CLIENT'S ASSETS

CHF in million	2010	2009	Change
<b>Client assets by type</b>			
Assets in own managed funds	798.5	749.1	49.4
Assets with discretionary mandate	903.9	991.6	(87.7)
Other client's assets	3 873.3	4 055.3	(182.0)
<b>Total client's assets (including assets double counted)</b>	<b>5 575.7</b>	<b>5 796.0</b>	<b>(220.3)</b>
Double counted	398.1	401.4	(3.3)
Net increase/(decrease) (including assets double counted)	22.1	(769.3)	791.4

The line "Other client's assets" refers to the total amount of assets on deposit by customers, for which the Bank performs any services including services of an administrative nature. The Bank does not have any assets related to the concept of "custody-only".

Loans to clients are not deducted from "Total client assets".

Net deposits/(withdrawals) by clients 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

Not applicable.

### 5.2. ANALYSIS OF THE RESULT FROM TRADING OPERATIONS

in CHF	2010	2009	Change
Foreign exchange trading	11 124 241	10 760 979	363 262
Security trading	1 044 330	1 214 478	(170 148)
<b>Total</b>	<b>12 168 571</b>	<b>11 975 457</b>	<b>193 114</b>

### 5.3. ANALYSIS OF PERSONNEL EXPENSES

in CHF	2010	2009	Change
Salaries	34 997 482	35 005 828	(8 346)
Social security contributions	7 479 301	7 116 039	363 262
Other expenses	2 202 450	2 354 651	(152 201)
<b>Total</b>	<b>44 679 233</b>	<b>44 476 518</b>	<b>202 715</b>

### 5.4. ANALYSIS OF OTHER OPERATING EXPENSES

in CHF	2010	2009	Change
Premises expenses	7 815 651	8 018 940	(203 289)
Expenses for IT, machinery, furnishings, vehicles and other equipment	4 384 823	4 316 254	68 569
Other operating expenses	10 912 112	11 176 698	(264 586)
<b>Total</b>	<b>23 112 586</b>	<b>23 511 892</b>	<b>(399 306)</b>

## 5.5. EXTRAORDINARY INCOME AND EXPENSES

The item "Extraordinary income" mainly consists of a transfer of CHF 261 003 booked to "Other liabilities" for an unrealised liability. In addition, this item includes CHF 483 934 from statute-barred items and CHF 99 689 in proceeds from the sale of real estate previously purchased by auction.

In 2009 the item "Extraordinary income" mainly consisted of CHF 407 170 from the release of loan loss provisions deemed to be no longer necessary and from a transfer of CHF 603 747 booked to "Other liabilities" for an unrealised liability.

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

No revaluation was performed in the year under review.

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

in CHF	2010		
	Switzerland	Abroad*	Total
Net interest income	26 726 082	1 092 363	27 818 445
Net commission and service income	40 158 155	2 495 350	42 653 505
Net trading income	11 945 349	223 222	12 168 571
Net other ordinary income	(2 915 958)	-	(2 915 958)
Net ordinary banking income	75 913 628	3 810 935	79 724 563
Operating expenses	64 436 698	3 355 121	67 791 819
<b>Gross profit</b>	<b>11 476 930</b>	<b>455 814</b>	<b>11 932 744</b>

\* "Abroad" data refer to the branch in the Principality of Monaco.

## 6. INFORMATION ON THE CALCULATION OF CAPITAL ADEQUACY

Regarding the disclosures required by the 3rd pillar of Basel II, as addressed in Article 35 of the Capital Adequacy Ordinance (CAO) and formalized in FINMA Circular 2008/22 "Disclosure requirements in respect of capital adequacy in the banking sector" (corresponding to the former SFBC Circular CFB 06/4 "Disclosure requirements in respect of capital adequacy"), reference should be made to the upcoming annual report of our parent bank (Banca Popolare di Sondrio) as at December 31, 2010.



## INDEPENDENT AUDITORS' REPORT



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### Rapporto dell'Ufficio di revisione sul conto annuale all'Assemblea generale della **Banca Popolare di Sondrio (SUISSE) SA, Lugano**

In qualità di Ufficio di revisione abbiamo verificato il conto annuale (pagine 21 a 54) della Banca Popolare di Sondrio (SUISSE) SA, costituito da bilancio, conto economico, conto del flusso dei fondi e allegato, per l'esercizio chiuso al 31 dicembre 2010.

#### *Responsabilità del Consiglio d'amministrazione*

Il Consiglio d'amministrazione è responsabile dell'allestimento del conto annuale in conformità alla legge e allo statuto. Questa responsabilità comprende la concezione, l'implementazione e il mantenimento di un sistema di controllo interno relativamente all'allestimento di un conto annuale che sia esente da anomalie significative imputabili a irregolarità o errori. Il Consiglio d'amministrazione è inoltre responsabile della scelta e dell'applicazione di appropriate norme di presentazione del conto annuale, nonché dell'esecuzione di stime adeguate.

#### *Responsabilità dell'Ufficio di revisione*

La nostra responsabilità consiste nell'esprimere un giudizio sul conto annuale in base alle nostre verifiche. Abbiamo effettuato la nostra verifica conformemente alla legge svizzera e agli Standard svizzeri di revisione, i quali richiedono che la stessa venga pianificata ed effettuata in maniera tale da ottenere sufficiente sicurezza che il conto annuale sia privo di anomalie significative.

Una revisione comprende l'esecuzione di procedure di verifica volte ad ottenere elementi probatori per i valori e le altre informazioni contenuti nel conto annuale. La scelta delle procedure di verifica compete al giudizio professionale del revisore. Ciò comprende una valutazione dei rischi che il conto annuale contenga anomalie significative imputabili a irregolarità o errori. Nell'ambito della valutazione di questi rischi il revisore tiene conto del sistema di controllo interno, nella misura in cui esso è rilevante per l'allestimento del conto annuale, allo scopo di definire le procedure di verifica richieste dalle circostanze, ma non per esprimere un giudizio sull'efficacia del sistema di controllo interno. La revisione comprende inoltre la valutazione dell'adeguatezza delle norme di allestimento del conto annuale, dell'attendibilità delle valutazioni eseguite, nonché un apprezzamento della presentazione del conto annuale nel suo complesso. Siamo dell'avviso che gli elementi probatori ivi da noi ottenuti costituiscano una base sufficiente ed adeguata per la presente nostra opinione di revisione.

#### *Opinione di revisione*

A nostro giudizio il conto annuale per l'esercizio chiuso al 31 dicembre 2010 è conforme alla legge svizzera e allo statuto.





*Banca Popolare di Sondrio (SUISSE) SA, Lugano  
Rapporto dell'Ufficio di revisione  
sul conto annuale  
all'Assemblea generale*

#### **Rapporto in base ad altre disposizioni legali**

Confermiamo di adempiere ai requisiti legali relativi all'abilitazione professionale secondo la Legge sui revisori (I.SR) e all'indipendenza (art. 728 CO e art. 11 I.SR) e che non sussiste alcuna fattispecie incompatibile con la nostra indipendenza.

Conformemente all'art. 728a cpv. 1 cifra 3 CO e allo Standard svizzero di revisione 890 confermiamo l'esistenza di un sistema di controllo interno per l'allestimento del conto annuale concepito secondo le direttive del Consiglio d'amministrazione.

Confermiamo inoltre che la proposta d'impiego dell'utile di bilancio è conforme alla legge svizzera e allo statuto e raccomandiamo di approvare il presente conto annuale.

KPMG SA

Patrizio Aggio  
*Perito revisore abilitato  
Revisore responsabile*

Daniel Senn  
*Perito revisore abilitato*

Zurigo, 24 gennaio 2011

#### *Allegati:*

- Conto annuale costituito da bilancio, conto economico, conto del flusso dei fondi e allegato
- Proposta d'impiego dell'utile di bilancio



## OUR PRODUCTS AND SERVICES

CURRENT ACCOUNTS

DEPOSIT AND INVESTMENT ACCOUNTS

FIDUCIARY AND FORWARD DEPOSITS

MEDIUM-TERM NOTE ISSUES

FOREX

PAYMENT TRANSFERS

INVESTMENT ADVICE

ASSET MANAGEMENT

SECURITIES CUSTODY

FOREIGN CURRENCY TRANSACTIONS

PRECIOUS METALS

TREASURY

COMMERCIAL LOANS

DOCUMENTARY CREDITS AND COLLECTIONS

MORTGAGE LOANS

LOMBARD LOANS

GUARANTEES AND SURETYSHIPS

INVESTMENT FUNDS

POPSO (SUISSE) INVESTMENT FUND SICAV

INSURANCE PRODUCTS

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## FOREWORD

Inspiration for this year's cultural feature – which has always been a part of the Annual Report for as long as BPS SUISSE has existed – comes as a result of my friendship with the great critic and writer, Giuseppe Prezzolini from Perugia. I first met Prezzolini in Lugano, where he lived from 1968 until his death in 1982 at the age of 100. He was a truly knowledgeable man with a particularly inquisitive, ever-active mind. A man rich in culture and a great promoter of ideas.

The monograph that accompanies the 2010 Annual Report is therefore dedicated to a famous Italian genius, intellectual and political figure: Adriano Olivetti. An engineer, he was the son of Camillo Olivetti, the founder of the first Italian typewriter factory in Ivrea, Prima Fabbrica Italiana Macchine per Scrivere - Ing. C. Olivetti e C. (so the sign read back in October 1908 when the workshop first opened).

Adriano Olivetti was born in Ivrea on 11th April 1901, earned a degree in chemical engineering in 1924 and then joined the family firm a couple of years later. In accordance with his father's wishes, he started his career as a factory worker, only becoming the director of the firm in 1933. Five years later he took over as company president.

Olivetti was an antifascist and, like many other Italian dissidents, he was forced to flee Italy with the Fascists at his heels and sought refuge in Switzerland, where he stayed until the end of the Second World War. Fate later decreed that Switzerland would once again play an important part in his life story: he died on 27th February 1960 at Aigle, in Canton Vaud, as he was travelling by train from Milan to Lausanne.

On returning to Italy in the immediate post-war period, Adriano Olivetti picked up the reins of the family business, which quickly flourished. He put into practice his experience and belief in the importance of research and experimentation, while always bearing in mind the rights of the individual and the principles of grassroots democracy, both in the workplace and elsewhere. The famous engineer Pier Giorgio Perotto was part of a research team set up by Adriano Olivetti. He created (albeit after Olivetti's death) the P101, affectionately known as the "Perottina". This was the world's first programmable electronic machine, a sort of forerunner of today's personal computer and a 100% Italian marvel.

The "Lettera 22" – the famous portable typewriter, one that accompanied Indro Montanelli wherever he went – was one of the best-selling products during Adriano Olivetti's time as the head of the company.

Adriano Olivetti also had a great interest in humanistic ideals, politics and philosophy. He contributed to intellectual debate through various articles, publications and books, making him a very unusual businessman.

He was strongly against both economic liberalism and the suffocating socialism of the State, proposing a third way, aimed at meeting material and moral needs.

He was also an active publisher.

My sincere thanks go to Carlo De Benedetti – engineer, cavaliere del lavoro and CEO of Olivetti from 1978 to 1996 – for his authoritative contribution. Special thanks also to Professor Valerio Castronovo, the great economic historian, for his valuable article on this year's featured personality, Adriano Olivetti. I would also like to thank Professors Mauro Baranzini, Fabrizio Fazioli, Davide Cadeddu and Laura Olivetti for their very interesting essays.

My thoughts now return to my dear friend, Prezzolini, an unforgettable master of life. As I write this in my office of the Banca Popolare in Sondrio, I have before me on my desk a post-card he sent me from Lugano on 3rd February 1982.

Lugano, January 2011

**Piero Melazzini**  
The President