Banca Popolare di Sondrio (SUISSE)

2011 ANNUAL REPORT

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

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BOARD OF DIRECTORS

Piero Melazzini
Chairman

Flavio Pedrazzoli
Vice Chairman

Plinio Bernardoni
Secretary

Giovanni Ruffini

Kurt Spinnler

GENERAL MANAGEMENT

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Chief Executive Officer

Mauro De Stefani
Deputy Chief Executive Officer
Head of Credits, Controlling, Market Division,
Retail, Corporate and Branches Division

Paolo Camponovo
Member of the Executive Committee
Head of Logistics Division

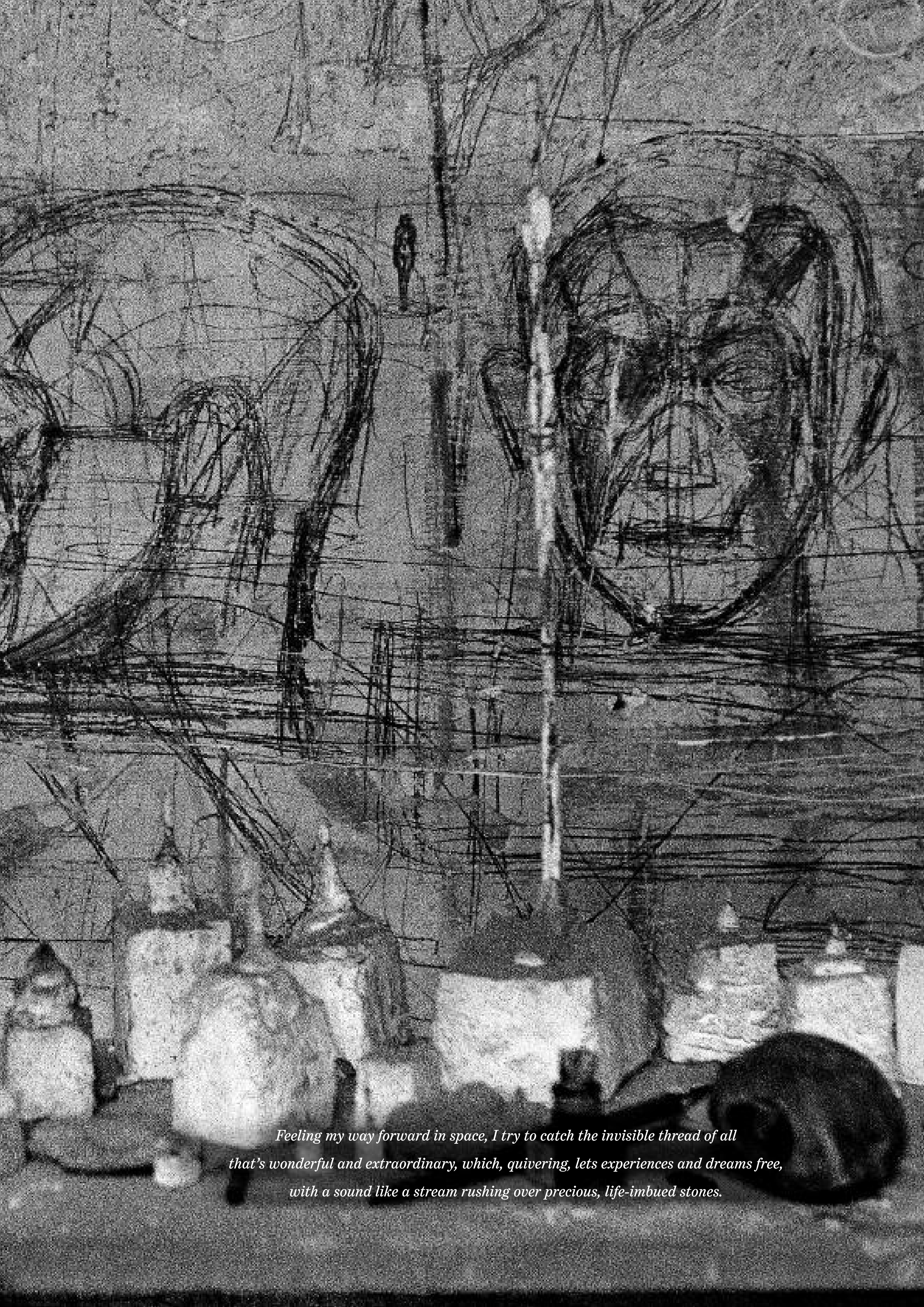
Roberto Rossi
Member of the Executive Committee
Head of Private Banking and Asset Management Division

INTERNAL AUDITING

Alberto Bradanini
President

EXTERNAL AUDITOR

KPMG SA
Zurich



Feeling my way forward in space, I try to catch the invisible thread of all that’s wonderful and extraordinary, which, quivering, lets experiences and dreams free, with a sound like a stream rushing over precious, life-imbued stones.

This report is available in
Italian, German, English and French.
In the German version the
Chairman’s Foreward is also translated
into Romansh.

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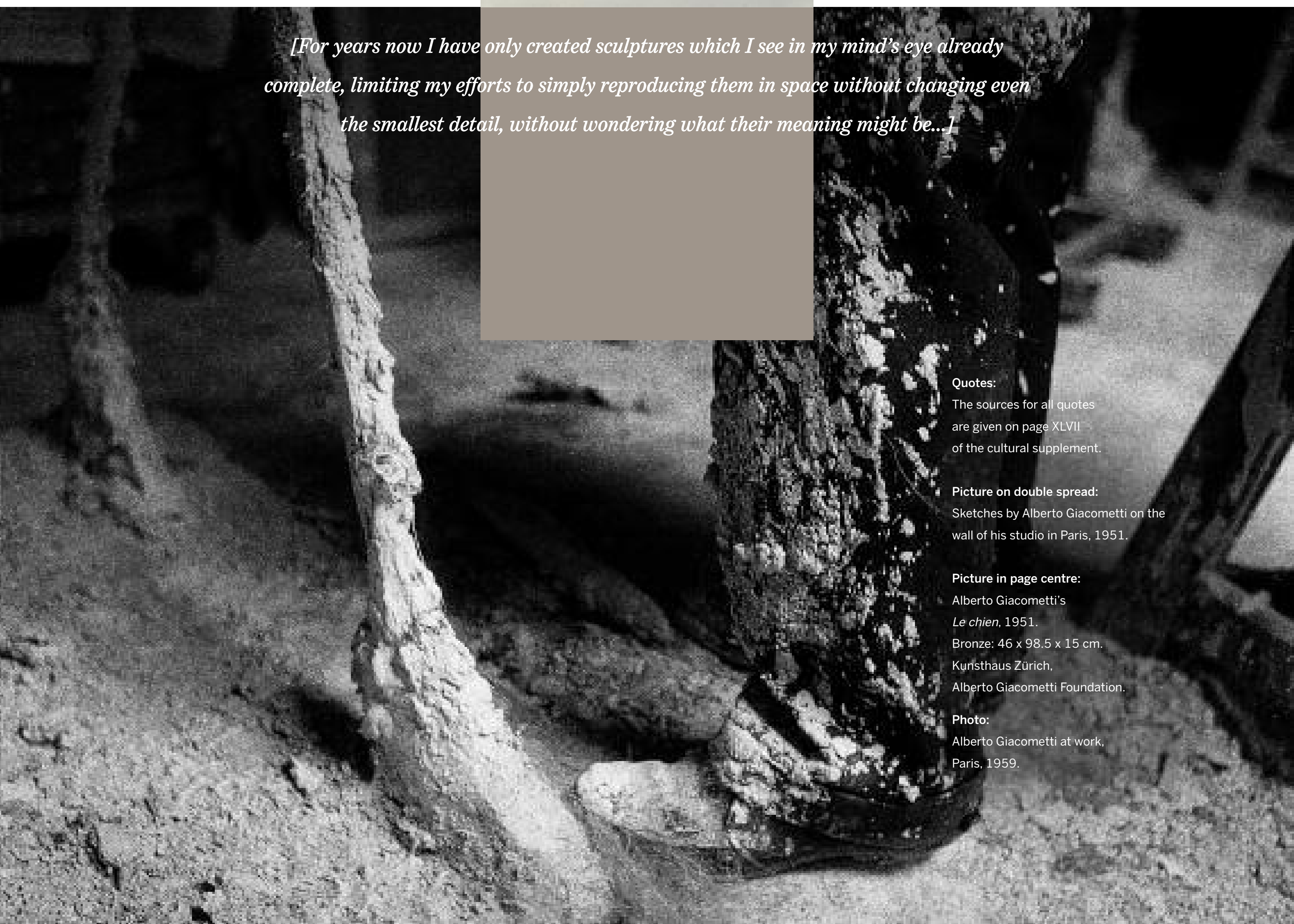

[For years now I have only created sculptures which I see in my mind's eye already complete, limiting my efforts to simply reproducing them in space without changing even the smallest detail, without wondering what their meaning might be...]

Quotes:
The sources for all quotes are given on page XLVII of the cultural supplement.

Picture on double spread:
Sketches by Alberto Giacometti on the wall of his studio in Paris, 1951.

Picture in page centre:
Alberto Giacometti's
Le chien, 1951.
Bronze: 46 x 98.5 x 15 cm.
Kunsthaus Zürich,
Alberto Giacometti Foundation.

Photo:
Alberto Giacometti at work,
Paris, 1959.

CHAIRMAN'S FOREWORD

For over a decade, people in both the USA and Europe have been familiar with the term "crisis" and now the concept has been qualified by the adjective "destructive", i.e. a destructive economic crisis. The Swiss economy, however, with its solid state budget, companies and families, represents one of the structural factors that has enabled the country to avoid being dragged down into the debt crisis. Moreover, Switzerland did not experience a real estate bubble of the type that several countries faced before the crisis set in.

We speak of this mountainous country with admiration because, almost devoid of natural resources, it was still mainly an agrarian economy until the nineteenth century. Thereafter, Switzerland developed into one of the richest countries in Europe and the world: the possibility of producing abundant electricity by exploiting its mountain watercourses favoured the rapid development of its industry, beginning in the second half of the nineteenth century. Today, the service sector, based on trade and finance, is the main pillar of the economy.

After respectable economic growth of around 2% in 2011, the forecasts for the current year are for a sharp slowdown which is likely to bring the growth rate down close to zero. Some forecasting institutions are not ruling out the possibility of a slight recession. This trend is due to the decline in exports of goods and services, which have been hit by the appreciation of the Swiss franc and by the crisis in emerging markets as well as by the severe slowdown in investments in plant and equipment. Sectors oriented to the domestic market made a positive contribution, and the construction industry turned in a satisfactory performance. Consumer spending continues to increase. These developments are likely to trigger a rise in unemployment.

Inflation will probably remain close to or even below zero, though possibly only for a transitional period, as exchange rates will take some time to readjust.

Measures to prevent the formation of a real estate bubble are being introduced. As the market is overheating – albeit only in some regions – preventative action seems justified. In this context, the Swiss Bankers Association has been asked by the supervisory authorities to formulate more stringent guidelines for issuing and managing loans granted to the real estate sector. Representatives of our Bank participated in the relevant working groups on behalf of the Association of Foreign Banks in Switzerland.

The problem of the Swiss franc/euro exchange rate has been a topic of debate for companies, authorities and the public throughout the financial year. The values at the beginning and end of the year suggest considerable stability (beginning of 2011 1.25, currently 1.22). In fact, however, the run on the Swiss franc as a safe haven currency resulted in sharp and uncontrollable fluctuations, and the currency came within a hair's breadth of 1:1 parity with the euro. The possible widespread repercussions prompted the Swiss National Bank to set the exchange rate at 1.20 to the euro, a level which has so far been successfully maintained and not challenged by the market.

New capital adequacy regulations require Swiss banks to hold a higher proportion of capital, although in an international comparison most of them have a comfortable asset base. As part of the preparation for the new agreement – known as Basel III – other regulations are being drawn up.

Even the optimistic scenarios predict considerable turbulence before stability returns. Although Switzerland will probably not avoid being affected, it is unlikely to be as hard hit as the rest of Europe.

Returning to our Bank, after the opening in March of the agency in Samedan, our network now comprises 23 branches. In July, the Berne branch moved to new premises in the historic city centre.

And finally, a word about our human resources. Human resources are found in families, and our Bank is such a family. The Board of Directors would like to thank General Management for its loyal and professional work. Thanks are also due to our staff in all positions and levels for their valuable contribution.

We would like to express our respect for the Swiss Financial Market Supervisory Authority FINMA as a consistently helpful partner.

Our Bank's growing clientele is its principal asset. We therefore thank our clients for their trust and for choosing to work with us.

Lugano, 1st January 2012

The Chairman
Piero Melazzini

[Indeed I do create pictures and sculptures, as I always have since the very first time I ever drew or painted, as a way of coming to terms with reality, to protect myself, to feed myself, to grow...]

Picture in page centre:
Alberto Giacometti's
La clairière, 1950.
Bronze: 59.5 x 65.5 x 52 cm.
Kunsthaus Zürich,
Alberto Giacometti Foundation.

Photo:
View of Giacometti's studio, 1950.

[For me, a sculpture is not a mere object of beauty; it is a means through which I attempt to get a better understanding of what I see in a head, what attracts me and fills me with wonder...]

Picture in page centre:
Alberto Giacometti's
Le père de l'artiste, 1927.
Bronze: 28 x 21.5 x 23 cm.
Kunsthaus Zürich,
Alberto Giacometti Foundation,
a gift from the artist, 1965.

Photo:
Alberto Giacometti at work on his
L'homme qui marche, Paris, 1959.

REPORT OF THE BOARD OF DIRECTORS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2011

The past financial year was characterised by uncertainty and the related difficulty in formulating realistic forecasts even for the immediate future.

The courageous and successful move by the Swiss National Bank to fix a minimum Swiss franc/euro exchange rate was perhaps the only element of support that benefited investment planning and related decisions.

A number of difficulties still remain and, because no credible solution has been found, others have also arisen in a sort of knock-on effect: the private financing crisis, the sovereign debt problem, scarce liquidity, credit problems and the spectre of recession.

Systemic risk is the main question that concerns not only the banks but also countries. It would be stating the obvious to say that there is no point in downgrading a single debtor if, in a worst-case scenario, the latter's insolvency would drag Europe down with it and as a result the rest of the world.

Global interconnections are becoming increasingly dense, despite various anachronistic attempts to protect borders. If the recession in Europe were to be confirmed, Switzerland too – one of the few "healthy" countries – could be affected by the economic slowdown. Similar repercussions are expected across the Atlantic and in Asia, where there is talk of a soft landing.

Optimists are predicting that there could be a rally in the second half of 2012, on condition that the euro crisis and the crisis in Europe can be overcome, regardless of whether the aim is to avoid even worse predicaments for everyone or to assist those in serious difficulties.

The main goal, however, is for the "critically ill patient" to survive the night and begin eating again. For the financial markets, which are called upon to anticipate trends, this could be enough to bring about a turnaround.

We could find ourselves in a new Europe, one that is more integrated and not dissolved, still a protagonist but on the world stage – in a positive sense. This vision is perhaps also a dream, though with the necessary commitment it can be made to come true.

In Switzerland, monetary policy appears to have exhausted its own possibilities for providing incentives after the latest symbolic reduction in the benchmark rates. Negative returns are being offered in some technical areas and for the most secure investments; to be sure that capital will be returned on maturity, people are prepared to pay a sort of "insurance premium".

Against this uncertain backdrop, Switzerland has negotiated taxation agreements with Germany and the United Kingdom. After a difficult preparation phase, final approval is now awaited, both in the respective political systems and at the European level. The Rubik model could thus become a new basis for a pragmatic and efficient way of regulating taxation of clients with foreign tax domiciles.

At the same time this would be an important contribution towards resolving an uncertain situation which for some time has been affecting our financial centre – already suffering from the very poor stock market trend and the effects of the Swiss franc revaluation.

The Swiss authorities have taken decisive and efficient measures to shore up the banking sector. The main decision is a fundamental one and is based on the simple equation that increasing banks' equity will ultimately make them stronger. New regulations have come into force while others are being planned in the run-up to "Basel III".

Tighter regulation at the domestic and international level will entail even greater burdens right at a time when resources are scarcer than ever. The expected outcome is a new process of concentration and streamlining that should not, however, turn into the sort of "gigantism" feared by the authorities around the world – which were thus prompted to introduce the "too big to fail" provisions.

This is the difficult environment in which we have had to operate and implement our philosophy, though without compromising the characteristics that make our Bank a "people's bank". At the same time we must not neglect the region of which we are an integral part: we help to drive this region's growth.

The Bank continued its programme of investing in IT infrastructure. Moreover, the branch network was enhanced with a new agency in Samedan, in the Engadine region of Graubünden, while our branch in Berne moved into prestigious new premises at the heart of the city.

Headcount at the end of the year amounted to 338 employees (2 fewer than in 2010).

Synergies with our parent company were varied and broad-based. Our affiliation with the Banca Popolare di Sondrio Group – well known for consistency, solidity and transparency beyond Italy's borders – made it easier for us to penetrate the Swiss domestic market.

In terms of business volumes and credit growth, results can be deemed satisfactory. However, our earnings situation is less satisfactory, as we did not reach the targets we had set.

Client deposits totalled CHF 4,710,800,000 (-1% compared with 2010). Indirect deposits, which amounted to CHF 2,372,300,000 (-10%), suffered from the slump on both the stock and bond markets. Despite the unfavourable environment, our Luxembourg-based Popso (SUISSE) Investment Fund Sicav launched three new subfunds with the aim of satisfying demand and taking the changed conditions on the market into account.

Direct funds – our most sought-after resource – advanced substantially and amounted to CHF 2,338,500,000 (+10%). The main component, "Due to clients in savings and investment accounts", totalled CHF 672,600,000 (+9%), "Other amounts due to clients" amounted to CHF 1,475,100,000 (+11%), and "Medium-term notes" to CHF 190,900,000 (+7%).

Our "Life Benefit" third-pillar pension fund again posted outstanding results (+47%, CHF 122,900,000), as it consistently offers the best returns on the market and the best quality of assets, which are entirely invested in liquidity.

Loans to clients advanced significantly, in line with previous years. As at the balance sheet date, "Mortgage loans" amounted to CHF 2,271,500,000 (+18%) while "Other amounts due from clients" came to CHF 647,300,000 (+10%), bringing the total loans to clients to CHF 2,918,800,000 (+16%).

Despite the clear growth in business, "Net interest" stood at CHF 27,256,000 (-2%) – a result of the need to keep interest rates close to zero.

"Net commission and service income" felt the negative impact of the stronger mean Swiss franc exchange rate, penalising the conversion of commissions from their original currency. We would like to point out that our clients are mainly savers and long-term investors whose portfolios comprise financial instruments with low risk and who choose to continue holding their assets rather than taking profits. The result in figures comes to CHF 38,074,000 (-11%).

"Net trading income" amounted to CHF 13,579,000 (+12%). The fall in the value of securities recognised in the balance sheet impacted negatively on this balance sheet item, but the securities were retained in the portfolio because they were deemed to be of good quality. Conversely, currency swap transactions from the refinancing of loans in Swiss francs made a substantial positive contribution.

"Net ordinary banking income" totalled CHF 77,600,000 (-3%).

Costs were closely managed, and the focus was on producing a positive return on investments within an acceptable timeframe. Without wanting to halt our initiatives, we have decided to adopt a slower pace and to remain on the lookout so as to maintain a high level of flexibility with regard to future needs.

"Personnel expenses" amounted to CHF 43,800,000 (-2%), while "Other operating expenses" were CHF 21,884,000 (-5%).

"Gross profit" remained stable at CHF 11,916,000.

Depreciation, amortisation and taxes are stated in line with the cautious policy consistently pursued by our Bank.

Of the extraordinary items, we would like to point out the dissolution of the "Fluctuation fund" amounting to CHF 1,100,000. This had been set up to neutralise the negative impact on the income statement of the slump in securities held by the Bank (book gains/losses). The amount posted under the same item of CHF 610,000 corresponds to income from the assignment of a non-strategic investment.

"Net profit" came to CHF 3,217,000 (-32%).

The Board of Directors is proposing to the General Meeting of Shareholders that net profit be transferred to the "General legal reserve", in accordance with Article 22 of the Bank's Articles of Association. If the proposal is approved, the Bank's own resources will amount to CHF 230,600,000, which is above the level currently required by the supervisory authorities.

We would like to thank our clients for their trust and interest, our staff for their hard work and team spirit, FINMA for its much appreciated support, and KPMG, our external auditors, for their highly professional cooperation.

Lugano, 30th January 2012

The Board of Directors

No human image or face is more foreign to me, having looked upon it so often,
it has withdrawn everywhere, on the steps of an unknown staircase.

Picture in page centre:
Alberto Giacometti's
Annette, 1951.
Oil on canvas: 81 x 65 cm.
Kunsthaus Zürich,
Alberto Giacometti Foundation.

Photo:
Alberto Giacometti as he paints
in his studio, Paris, 1959.

2011 FINANCIAL STATEMENTS

BALANCE SHEET AS AT DECEMBER 31, 2011

ASSETS

in CHF	Note	2011	2010	Change
Cash		47 969 891	58 588 960	(10 619 069)
Due from banks		629 306 046	706 189 117	(76 883 071)
Due from clients	3.1	647 300 640	586 834 327	60 466 313
Mortgage loans	3.1	2 271 452 640	1 925 748 466	345 704 174
Financial investments	3.2	34 491 117	40 999 305	(6 508 188)
Participating interests	3.2, 3.3, 3.4	603 138	653 138	(50 000)
Fixed assets	3.4	34 081 443	34 333 118	(251 675)
Accrued income and prepaid expenses		10 679 612	9 324 524	1 355 088
Other assets	3.17	68 885 275	50 936 693	17 948 582
Total assets		3 744 769 802	3 413 607 648	331 162 154
Total amounts receivable from group companies and significant shareholders		586 853 527	554 463 829	32 389 698

LIABILITIES

in CHF	Note	2011	2010	Change
Money market instruments		106 923	152	106 771
Due to banks		1 047 829 245	927 812 566	120 016 679
Due to clients in savings and investment accounts		672 564 635	616 598 215	55 966 420
Other amounts due to clients		1 475 070 092	1 334 649 395	140 420 697
Cash bonds	3.8	190 876 000	178 829 000	12 047 000
Accrued liabilities and deferred income		15 333 115	14 345 795	987 320
Other liabilities	3.18	78 062 643	80 635 903	(2 573 260)
Valuation adjustments and provisions	3.9	34 357 222	33 383 837	973 385
Reserve for general banking risks	3.9	15 000 000	15 000 000	-
Share capital	3.10, 3.11	100 000 000	100 000 000	-
General legal reserve	3.11	112 352 786	107 652 005	4 700 781
Net profit for the year	3.11	3 217 141	4 700 780	(1 483 639)
Total liabilities		3 744 769 802	3 413 607 648	331 162 154
Total liabilities to group companies and significant shareholders		734 035 879	734 035 879	-

OFF-BALANCE-SHEET TRANSACTIONS AS AT DECEMBER 31, 2011

in CHF	Note	2011	2010	Change
Contingent liabilities	3.1, 4.1	206 677 105	227 759 852	(21 082 747)
Additional payment liabilities	3.1	14 152 000	15 000 000	(848 000)
Irrevocable commitments	4.2	2 433 353 351	2 633 792 892	(200 439 541)
Positive replacement values		4 890 938	16 843 497	(11 952 559)
Negative replacement values		69 616 611	71 905 059	(2 288 448)
Fiduciary transactions	4.3	246 918 976	211 415 310	35 503 666

2011 INCOME STATEMENT

INCOME STATEMENT FOR THE FINANCIAL YEAR ENDING DECEMBER 31, 2011

in CHF	Note	2011	2010	Change
Interest income:				
- interest and discount		76 054 503	66 862 662	9 191 841
- interest and dividends on financial investments		777 393	947 964	(170 571)
Interest expense		(49 575 146)	(39 992 181)	(9 582 965)
Net interest result		**27 256 750**	27 818 445	(561 695)
Commission income:				
- on credit transactions		1 412 518	1 523 022	(110 504)
- on securities trading and investment transactions		36 764 492	41 491 496	(4 727 004)
- on other services		6 048 855	5 583 186	465 669
Commission expense		(6 152 024)	(5 944 199)	(207 825)
Net commission and service result		**38 073 841**	42 653 505	(4 579 664)
Net trading result	5.2	**13 578 964**	12 168 571	1 410 393
Net income from disposal of financial investments		(384 057)	(406 895)	22 838
Income from participating interest		-	25 000	(25 000)
Profit from real estate		166 653	168 752	(2 099)
Other ordinary income		300 764	1 087 567	(786 803)
Other ordinary expenses		(1 392 587)	(3 790 382)	2 397 795
Other ordinary result		**(1 309 227)**	(2 915 958)	1 606 731
Net ordinary banking income		**77 600 328**	79 724 563	(2 124 235)
Operating expenses:				
Personnel expenses	5.3	43 799 899	44 679 233	(879 334)
Other operating expenses	5.4	21 884 002	23 112 586	(1 228 584)
Total operating expenses		**65 683 901**	67 791 819	(2 107 918)
Gross profit		**11 916 427**	11 932 744	(16 317)

INCOME STATEMENT

in CHF	Note	2011	2010	Change
Depreciation/amortization of fixed assets	3.4	(7 074 590)	(7 788 765)	714 175
Valuation adjustments, provisions and losses		(2 915 924)	(154 701)	(2 761 223)
Profit before extraordinary items and taxes		1 925 913	3 989 278	(2 063 365)
Extraordinary income	5.5	2 486 228	929 502	(1 556 726)
Extraordinary expenses	5.5	(95 000)	-	(95 000)
Taxes		(1 100 000)	(218 000)	(882 000)
Net profit for the year		3 217 141	4 700 780	(1 483 639)

PROPOSAL FOR APPROPRIATION OF BALANCE SHEET PROFIT

in CHF	Note	2011	2010	Change
Profit for the year		3 217 141	4 700 780	(1 483 639)
Profit brought forward		-	-	-
Available earnings		3 217 141	4 700 780	(1 483 639)
The Board of Directors proposes to allocate the balance sheet profit as at December 31, 2011, totalling CHF 3 217 141, to the general legal reserve		3 217 141	4 700 780	(1 483 639)
Retained earnings to be carried forward		-	-	-

CASH FLOW STATEMENT AS AT DECEMBER 31, 2011

CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2011 (WITH 2010 COMPARATIVE FIGURES)

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

CHF in thousands	2011		2010	
	Source	Utilization	Source	Utilization
Profit for the year	3 217	-	4 701	-
Depreciation write-offs of fixed assets	7 075	-	7 789	-
Valuation adjustments and provisions	973	-	266	-
Accrued income and prepaid expenses	-	1 355	4 813	-
Accrued liabilities and deferred income	987	-	-	1 425
Other assets	-	17 949	-	23 562
Other liabilities	-	2 573	35 956	-
Net operating cash flow		9 625	28 538	

CASH FLOWS FROM EQUITY TRANSACTIONS

Share capital	-	-	50 000	-
Total cash flows from equity transactions			50 000	

CASH FLOW (STATEMENT) RESULTING FROM CHANGES IN FIXED ASSETS

Participating interests	50	-	-	-
Bank buildings	-	66	-	36
Other fixed assets	-	4 842	-	2 094
Intangible fixed assets	-	1 915	-	2 232
Net cash flow from investment activities		6 773		4 362

CASH FLOW STATEMENT

CASH FLOW FROM BANKING OPERATIONS

CHF in thousands	2011		2010	
	Source	Utilization	Source	Utilization
Balance brought forward	-	16 398	78 538	4 362
Non-current operations (> 1 year)				
Due to clients - savings	-	-	-	-
Due to clients - other	-	-	-	2 159
Medium-term note issues	8 961	-	26 303	-
Client loans	-	15 327	22 302	-
Mortgage loans	-	126 679	-	386 616
Financial investments	-	1 871	16 186	-
Current operations				
Liabilities under money market instruments	107	-	-	6
Due to banks	120 017	-	442 788	-
Due to clients	140 421	-	-	46 555
Cash from client savings	55 966	-	31 193	-
Medium-term note issues	3 086	-	-	84
Due from banks	76 883	-	-	176 315
Due from clients	-	45 139	-	21 583
Mortgage loans	-	219 025	29 450	-
Financial investments	8 379	-	-	12 278
Securities trading portfolio	-	-	-	-
Net cash flow from banking activities	5 779			77 374
Total cash flow	5 779	16 398	78 538	81 736
Variation in cash	10 619		3 198	

[These sensations, having become objects, all existed at the same time in the space around me and filled me with wonder.]

Picture in page centre:
Alberto Giacometti's
Nu d'après nature, 1954.
Bronze: 52.5 x 14.5 x 20 cm.
Kunsthaus Zürich,
Alberto Giacometti Foundation.

Photo:
Covered and uncovered sculptures
in the Paris studio, 1958.

NOTES TO THE 2011 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 four agencies in Poschiavo, Castasegna, Pontresina and Samedan plus one 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, Berne and the Principality of Monaco.
At the end of the year, total staff amounted to 338, compared to 340 at the end of 2010, with a total of 322.70 full time equivalent employees (2010: 325.60 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 the Swiss federal financial market supervisory authority FINMA, 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 March 4, 2011). 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 credit risks of credit granted to clients, valuation adjustments are made through a provision built 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 canceled from in the income statement and booked on 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.

	2011	2010
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 built 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 1.2178 (2010: 1.2522); USD 0.9391 (2010: 0.9372).

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

During 2011, compared to the year ended December 31, 2010, 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

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, 2011.

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 automated procedure that adds up the individual risk positions, weighted by the respective default and recovery rates. For non-performing loans, however, individual valuation adjustments 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 in majority 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

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..

When you know these little tricks,
much that once seemed like magic becomes a mere game.

Picture in page centre:
Alberto Giacometti's
Le chariot, 1950.
Bronze, with gold patina.
Wooden base, painted black:
167 x 69 x 69 cm.
Kunsthaus Zürich,
Alberto Giacometti Foundation.

Photo:
Alberto Giacometti sketching,
Paris, 1950.

3. BALANCE SHEET INFORMATION

3.1. BREAKDOWN OF LOANS AND OFF-BALANCE-SHEET TRANSACTIONS

in CHF	Type of collateral			
	Mortgage collateral	Other collateral	Unsecured	Total
Credit				
Due from clients	152 726 812	369 875 520	124 698 308	647 300 640
Mortgage loans				
Residential property	2 021 592 962	-	-	2 021 592 962
Commercial property	249 859 678	-	-	249 859 678
Others	-	-	-	-
Current year	**2 424 179 452**	**369 875 520**	**124 698 308**	**2 918 753 280**
Previous year	2 100 409 096	246 338 065	165 835 632	2 512 582 793
Off-balance-sheet				
Contingent liabilities	1 862 755	146 605 249	58 209 101	206 677 105
Commitments of payments and additional deposits	-	-	-	-
Irrevocable commitments	-	-	14 152 000	14 152 000
Current year	**1 862 755**	**146 605 249**	**72 361 101**	**220 829 105**
Previous year	2 072 310	145 446 327	95 241 215	242 759 852

IMPAIRED LOANS

in CHF	Gross amount of debt	Estimated liquidation value of collateral	Net amount of debt	Individual value adjustment
Current year	**10 396 828**	**248 826**	**10 148 002**	**10 148 002**
Previous year	13 038 560	3 003 205	10 035 355	10 035 355

3.2. FINANCIAL INVESTMENTS AND PARTICIPATING INTERESTS

Financial investments	Carrying value		Market value	
in CHF	**2011**	2010	**2011**	2010
Debt instruments	**29 370 110**	34 520 623	**29 498 788**	34 648 268
of which: own bonds or medium-term notes	-	-	-	-
of which: held to maturity	-	-	-	-
of which: valued at lower of cost or market	29 370 110	34 520 623	29 498 788	34 648 268
Instruments	**5 121 007**	6 478 682	**5 128 807**	6 485 741
qualified participating interests	-	-	-	-
Deposit bonds (purchase value)	-	-	-	-
Precious metals	**-**	-	**-**	-
Real estate	**-**	-	**-**	-
Total financial investments	**34 491 117**	40 999 305	**34 627 595**	41 134 009
Securities pledgeble in accordance with liquidity regulations	23 756 871	28 383 536	-	-

Information on treasury shares included in financial investments	Number		Carrying value	
in CHF	**2011**	2010	**2011**	2010
Balance at 01.01.11	-	-	-	-
Purchases (additions)	-	-	-	-
Disposals	-	-	-	-
Writedowns	-	-	-	-
Upward revaluations	-	-	-	-
Balance at 31.12.11	-	-	-	-

Participating interests		
in CHF	**2011**	2010
With stock market value	-	-
Without stock market value	603 138	653 138
Total participating interests	**603 138**	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 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 2011.

3.4. ANALYSIS OF FIXED ASSETS

in CHF	Purchase price	Accumulated depreciation & amortization	Book value as at 31.12.2010	Reclassifi-cation	Additions	Disposals	Depreciation & amortization	Book value as at 31.12.2011
Equity interests								
Minority holding	1 253 138	(600 000)	653 138	-	-	(50 000)	-	603 138
Majority holding	-	-	-	-	-	-	-	-
Total	**1 253 138**	**(600 000)**	**653 138**	**-**	**-**	**(50 000)**	**-**	**603 138**
Fixed assets								
Properties used by the Bank	22 214 508	(4 175 536)	18 038 972	-	109 735	(44 000)	(1 019 613)	17 085 094
Other tangible fixed assets	68 916 711	(54 515 702)	14 401 009	-	4 842 326	-	(4 321 882)	14 921 453
Intangible fixed assets	30 350 549	(28 866 492)	1 484 057	-	1 854 854	-	(1 618 825)	1 720 086
Capitalised cost (Capital increase costs)	511 350	(102 270)	409 080	-	60 000	-	(114 270)	354 810
Total	**121 993 118**	**(87 660 000)**	**34 333 118**	**-**	**6 866 915**	**(44 000)**	**(7 074 590)**	**34 081 443**
Insurance value								
Properties used by the Bank			15 923 000					16 080 700
Other tangible fixed assets			32 500 000					35 000 000

3.5. CAPITALIZED ESTABLISHMENT EXPENSES, CAPITAL INCREASE AND ORGANIZATION COSTS

in CHF

	31.12.2011	31.12.2010
Cost of capital increase (increase of CHF 50 million carried out in 2010)	354 810	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	3 410 457	Nil
Securities used as collateral at SIS	5 233 720	Nil

Securities repurchase (Repo) operations	**Current year**	Previous year
TSecurities (Financial investments) pledged to secure REPO operations	15 112 694	20 867 659
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	**31.12.2011**	31.12.2010
in CHF		
a) Employer's contribution reserve		
Nominal value	-	-
Amount for which usage waived	-	-
Credited to employer's contribution reserve	-	-
Balance sheet value of employer's contribution reserve	-	-
Net variation in employer's contribution reserve booked in "Personnel expenses"		-
Creation of employer's contribution reserve	-	-
b) Future economic benefits / liabilities		
Pension funds with no surplus or shortfall		
Amount of surplus / shortfall of the pension plan	-	-
Amount of surplus / shortfall relating to the Bank	-	-
Effects on income statement	-	-
c) Pension costs included in "Personnel expenses" (social security contributions)		
Contributions for the period under review	4 134 964	4 153 676
Changes owing to future economic benefits / liabilities	-	-
Credited to employer's reserve	-	-
Total pension costs included in "Personnel expenses"	**4 134 964**	4 153 676

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

	Maturity										
Interest rate	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
0.500 %	3 580										3 580
0.625 %	575	260									835
0.750 %	485	286	110								881
0.875 %	351	329									680
1.000 %	20 560	850	1 283	665							23 358
1.125 %	2 781	1 268	538	645							5 232
1.250 %	18 163	2 000	11 032	5	600						31 800
1.375 %	6 000		380	115	270						6 765
1.500 %	380	8 011	385	1 818	330	119					11 043
1.625 %		36 517	76	300			70			10	36 973
1.750 %	60		2 200		1 753	140			10		4 163
1.875 %			9 224		250						9 474
2.000 %		65	10	1 179	160	695	60				2 169
2.125 %	33		50	29 306	6	20	70			4	29 489
2.250 %	100	336			4 420	11		15	10		4 892
2.375 %	385						1			165	551
2.500 %	520	445			50			246	10	250	1 521
2.625 %	400	209	10				100	88			807
2.750 %	1 616	275	124	20							2 035
2.875 %	300	82	65								447
3.000 %	2 265	2 459	514								5 238
3.125 %	1 796	204	20		10						2 030
3.250 %	395		604	111	2						1 112
3.375 %	4 182	600	48			10	4				4 844
3.500 %		150	667	140							957
Total	**64 927**	**54 346**	**27 340**	**34 304**	**7 851**	**995**	**305**	**349**	**30**	**429**	**190 876**

3.9. VALUATION ADJUSTMENTS AND PROVISIONS

in CHF	Balance as at 31.12.10	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 31.12.11
Provisions for latent deferred taxes	-	-	-	-	-	-	-
Valuation adjustments and provisions for default and other risks:							
Valuation adjustments and provisions for default risks (credit and country risks)	24 603 734	(966 531)	-	(222 350)	3 247 266	-	26 662 119
Valuation adjustments and provisions for other business risks	-	-	-	-	-	-	-
Restructuring provisions	-	-	-	-	-	-	-
Provisions for pension liabilities	-	-	-	-	-	-	-
Other provisions	8 780 103	(45 000)	-	-	60 000	(1 100 000)	7 695 103
Subtotal	**33 383 837**	**(1 011 531)**	**-**	**(222 350)**	**3 307 266**	**(1 100 000)**	**34 357 222**
Total valuation adjustments and provisions	**33 383 837**	**(1 011 531)**	**-**	**(222 350)**	**3 307 266**	**(1 100 000)**	**34 357 222**
Less: Valuation adjustments set off directly against assets	-	-	-	-	-	-	-
Total valuation adjustments and provisions as per balance sheet	**33 383 837**	**(1 011 531)**	**-**	**(222 350)**	**3 307 266**	**(1 100 000)**	**34 357 222**
Reserves for general banking risks	**15 000 000**	**-**	**-**	**-**	**-**	**-**	**15 000 000**

The reserve for general banking risks is not taxed. During 2011 a hidden reserve of CHF 1 100 000 existing as at 31 December 2010 in the "Other provisions" was released in the income statement.

3.10. SHARE CAPITAL

in CHF	Par value	Number of shares	Par value holding
Share capital	**100 000 000**	**1 000 000**	**100 000 000**

Share capital has not been changed compared to 31 December 2010.

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).

The situation remains the same compared to 31 December 2010.

3.11. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

in CHF	**2011**	2010
Total shareholders' equity at the beginning of the period		
Paid-up share capital	100 000 000	50 000 000
General legal reserve	107 652 005	98 055 235
Reserve for general banking risks	15 000 000	15 000 000
Balance sheet profit	4 700 780	9 596 770
Total	**227 352 785**	172 652 005
Allocation to the general legal reserve	4 700 780	9 596 770
Dividend and other payments deducted from the profit of prior year	(4 700 780)	(9 596 770)
Profit for current financial year	3 217 141	4 700 780
Capital increase	-	50 000 000
Total shareholders' equity	**230 569 926**	227 352 785
of which:		
Share capital	**100 000 000**	100 000 000
General legal reserve	**112 352 785**	107 652 005
Reserve for general banking risks	**15 000 000**	15 000 000
Balance sheet profit	**3 217 141**	4 700 780
Total	**230 569 926**	227 352 785

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

in CHF	Maturities							
	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	Total
Current assets								
Cash	47 969 891	-	-	-	-	-	-	47 969 891
Due from banks	308 781 086	-	309 260 310	11 264 650	-	-	-	629 306 046
Due from clients	16 548 403	244 687 139	303 391 267	39 679 740	30 687 923	12 306 168	-	647 300 640
Mortgage loans	20 377 252	405 076 778	189 250 150	276 752 950	1 010 438 210	369 557 300	-	2 271 452 640
Financial investments	5 121 007	-	2 732 561	3 329 208	22 346 341	962 000	-	34 491 117
Current financial year	**398 797 639**	**649 763 917**	**804 634 288**	**331 026 548**	**1 063 472 474**	**382 825 468**	**-**	**3 630 520 334**
Previous financial year	538 435 712	702 771 769	595 403 690	179 328 140	991 812 654	310 608 210	-	3 318 360 175
Amounts due to third parties								
Money market instruments	106 923	-	-	-	-	-	-	106 923
Due to banks	75 437 323	-	781 187 920	191 204 002	-	-	-	1 047 829 245
Due to clients in savings and investment accounts	672 564 635	-	-	-	-	-	-	672 564 635
Other amounts due to clients	1 219 016 101	-	154 844 208	101 209 783	-	-	-	1 475 070 092
Medium-term notes	-	-	5 981 000	58 946 000	123 841 000	2 108 000	-	190 876 000
Current financial year	**1 967 124 982**	**-**	**942 013 128**	**351 359 785**	**123 841 000**	**2 108 000**	**-**	**3 386 446 895**
Previous financial year	1 814 964 474	-	706 151 500	419 785 354	116 105 000	883 000	-	3 057 889 328

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

in CHF	**2011**	2010	Change
Loans to governing bodies	**6 600 000**	6 910 000	(310 000)

Loans to governing bodies are mortgage-based and have been granted in compliance with usual loan-to-value ratios. These transactions have been undertaken on market terms and conditions.

3.14. BREAKDOWN OF ASSETS AND LIABILITIES BY GEOGRAPHICAL AREA

CHF in thousands	2011		2010	
	Switzerland	Abroad	Switzerland	Abroad
Assets				
Cash	47 491	479	57 921	668
Due from banks	24 380	604 926	95 471	610 719
Due from clients	508 956	138 345	436 862	149 972
Mortgage loans	2 271 453	-	1 925 748	-
Financial investments	4 225	30 266	8 271	32 728
Participating interests	603	-	653	-
Fixed assets	33 816	265	34 037	296
Accrued income and prepaid expenses	10 595	85	8 146	1 179
Other assets	66 891	1 994	45 403	5 534
Total assets	**2 968 410**	**776 360**	2 612 512	801 096

Liabilities				
Money market instruments	107	-	-	-
Due to banks	92 279	955 550	179 874	747 939
Due to clients in savings and investment accounts	474 409	198 155	440 961	175 637
Other amounts due to clients	990 754	484 316	882 556	452 093
Cash bonds	190 876	-	178 829	-
Accrued liabilities and deferred income	14 265	1 068	12 424	1 922
Other liabilities	74 425	3 638	63 797	16 839
Valuation adjustments and provisions	34 075	283	33 038	346
Reserve for general banking risks	15 000	-	15 000	-
Share capital	100 000	-	100 000	-
General legal reserve	112 353	-	107 652	-
Profit of the period	3 217	-	4 701	-
Total liabilities	**2 101 760**	**1 643 010**	2 018 832	1 394 776

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

CHF in thousands	**2011**		2010	
	Total	in %	Total	in %
Switzerland	2 966 760	79	2 611 164	77
OECD countries	737 241	20	762 441	22
Other countries	40 769	1	40 003	1
Total assets	**3 744 770**	**100**	3 413 608	100

3.16. BREAKDOWN OF ASSETS AND LIABILITIES BY CURRENCY

CHF in thousands

Assets	**CHF**	**EUR**	**USD**	**Other**	**Total**
Cash	39 311	7 972	463	224	47 970
Due from banks	8 288	593 870	3 688	23 460	629 306
Due from clients	483 656	127 705	19 191	16 749	647 301
Mortgage loans	2 249 776	21 677	-	-	2 271 453
Financial investments	14 550	18 779	1 162	-	34 491
Participating interests	603	-	-	-	603
Fixed assets	33 816	265	-	-	34 081
Accrued income and prepaid expense	10 171	490	15	4	10 680
Other assets	66 291	2 327	95	172	68 885
Total assets in the balance sheet	**2 906 462**	**773 085**	**24 614**	**40 609**	**3 744 770**
Off-balance-sheet claims from foreign exchange spot, forward and option transactions	47 814	714 845	147 450	81 869	994 978
Total assets	**2 954 276**	**1 490 930**	**172 064**	**122 478**	**4 739 748**

Liabilities					
Money market instruments	107	-	-	-	107
Due to banks	234 021	776 951	31 280	5 577	1 047 829
Due to clients in savings and investment accounts	503 759	168 806	-	-	672 565
Other amounts due to clients	856 479	470 091	98 724	49 776	1 475 070
Cash bonds	190 876	-	-	-	190 876
Accrued liabilities and deferred income	12 759	2 286	173	115	15 333
Other liabilities	75 643	598	1 264	558	78 063
Valuation adjustments and provisions	34 092	265	-	-	34 357
Reserve for general banking risks	15 000	-	-	-	15 000
Share capital	100 000	-	-	-	100 000
General legal reserve	112 353	-	-	-	112 353
Net profit for the year	3 217	-	-	-	3 217
Total liabilities in the balance sheet	**2 138 306**	**1 418 997**	**131 441**	**56 026**	**3 744 770**
Off-balance-sheet from foreign exchange spot, forward and option transactions	817 368	71 611	39 927	66 072	994 978
Total liabilities	**2 955 674**	**1 490 608**	**171 368**	**122 098**	**4 739 748**
Net position by currency	(1 398)	322	696	380	-

3.17. OTHER ASSETS

in CHF	**2011**	2010	Charge
Tax prepayments and recoverable VAT	1 576 911	1 507 731	69 180
Positive replacement values of derivative financial instruments	5 406 452	17 116 518	(11 710 066)
Compensation account	58 514 017	29 536 681	28 977 336
Other	3 387 895	2 775 763	612 132
Total	**68 885 275**	50 936 693	17 948 582

3.18. OTHER LIABILITIES

in CHF	**2011**	2010	Charge
Administration of federal contributions	5 083 015	5 419 253	(336 238)
Negative replacement values of derivative financial instruments	70 132 125	72 178 080	(2 045 955)
Compensation account	-	-	-
Suppliers	2 236 697	2 034 949	201 748
Other	610 806	1 003 621	(392 815)
Total	**78 062 643**	80 635 903	(2 573 260)

4. OFF-BALANCE-SHEET INFORMATION

4.1. CONTINGENT LIABILITIES

in CHF	**2011**	2010
Credit guarantees and similar instruments	172 661 806	181 892 690
Documentary credit	34 015 299	45 867 162
Total contingent liabilities	**206 677 105**	227 759 852

4.2. OUTSTANDING DERIVATIVE FINANCIAL INSTRUMENTS AT THE END OF THE YEAR

in CHF	Trading instruments			Hedging instruments		
	Positive replacement value	Negative replacement value	Contract volumes	Positive replacement value	Negative replacement value	Contract volumes
Interest rate derivatives						
Forward contracts, including FRAs	-	-	-	-	-	-
Interest rate swaps	-	-	-	-	58 514 017	1 284 800 000
Futures	-	-	-	-	-	-
Options (OTC)	-	-	-	-	-	-
Options (exchange traded)	-	-	-	-	-	-
Currencies/Precious metals						
Forward contracts	3 575 712	9 787 368	977 209 188	-	-	-
Combined swaps (interest/currency)	-	-	-	-	-	-
Futures	-	-	-	-	-	-
Options (OTC)	115 548	115 548	42 769 768	-	-	-
Options (exchange traded)	-	-	-	-	-	-
Equities/Indices						
Forward contracts	-	-	-	-	-	-
Swaps	-	-	-	-	-	-
Futures	30 493	30 493	802 956	-	-	-
Options (OTC)	1 169 185	1 169 185	84 608 709	-	-	-
Options (exchange traded)	-	-	-	-	-	-
Credit derivatives						
Credit default swaps	-	-	-	-	-	-
Total return swaps	-	-	-	-	-	-
First to default swaps	-	-	-	-	-	-
Other credit derivatives	-	-	-	-	-	-
Other						
Forward contracts	-	-	43 162 730	-	-	-
Swaps	-	-	-	-	-	-
Futures	-	-	-	-	-	-
Options (OTC)	-	-	-	-	-	-
Options (exchange traded)	-	-	-	-	-	-
Total before impact of netting contracts						
As at December 31, 2011	**4 890 938**	**11 102 594**	**1 148 553 351**	**-**	**58 514 017**	**1 284 800 000**
As at December 31, 2010	16 843 497	42 368 378	1 553 242 892	-	29 536 681	1 080 550 000

4.2. (CONTINUATION)

in CHF	Total after impact of netting contracts Cumulative positive replacement value	 Cumulative negative replacement value
2011	**4 890 938**	**69 616 611**
2010	16 843 497	71 905 059

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 item "Other", all spot (cash) transactions occurring before 31 December 2011 are indicated which had not been settled yet, according to the value-date principle.

4.3. FIDUCIARY TRANSACTIONS

in CHF	**2011**	2010	Change
Fiduciary investments with other banks	3 063 316	4 009 809	(946 493)
Fiduciary investments with the parent company	243 855 660	207 405 501	36 450 159
Total	**246 918 976**	211 415 310	35 503 666

4.4. CLIENT ASSETS

CHF in million	**2011**	2010	Change
Client assets by type			
Assets in own managed funds	682.2	798.5	(116.3)
Assets with discretionary mandate	779.9	903.9	(124.0)
Other client assets	3 930.9	3 873.3	57.6
Total client assets (including assets double counted)	**5 393.0**	5 575.7	(182.6)
Double counted	333.3	398.1	(64.8)
Net increase/(decrease) (including assets double counted)	(283.7)	22.1	(305.8)

The line "Other client 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 NET INTEREST RESULT

Not applicable.

5.2. ANALYSIS OF THE RESULT FROM TRADING OPERATIONS

in CHF	**2011**	2010	Change
Foreign exchange trading	13 536 735	11 124 241	2 412 494
Security trading	42 229	1 044 330	(1 002 101)
Total	**13 578 964**	12 168 571	1 410 393

5.3. ANALYSIS OF PERSONNEL EXPENSES

in CHF	**2011**	2010	Change
Salaries	34 045 035	34 997 482	(952 447)
Social security contributions	7 446 629	7 479 301	(32 672)
Other expenses	2 308 235	2 202 450	105 785
Total	**43 799 899**	44 679 233	(879 334)

5.4. ANALYSIS OF OTHER OPERATING EXPENSES

in CHF	**2011**	2010	Change
Premises expenses	7 597 418	7 815 651	(218 233)
Expenses for IT, machinery, furnishings, vehicles and other equipment	4 127 693	4 384 823	(257 130)
Other operting expenses	10 158 891	10 912 112	(753 221)
Total	**21 884 002**	23 112 586	(1 228 584)

5.5. EXTRAORDINARY INCOME AND EXPENSES

The item "Extraordinary income" of CHF 2 486 228 mainly consists of a released amount of CHF 331 359 booked in "other liabilities" referred to an unrealized liability, as well as an amount of CHF 455 517 related to statute barred liability, of a profit of CH 610 000 resulted from the sale of the participating interest Viseca and of an amount of CHF 1 100 000 resulting from the release of a part of the securities provision (hidden reserve).

In 2010 the item "Extraordinary income" mainly consisted of a release of CHF 261 003 booked in "other liabilities" referred to an unrealized liability. In addition, the item included CHF 483 934 related to statute barred liabilities and an amount of CHF 99 689 as proceeds from the sale of real estate previously purchased by auction.

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 ACTIVITIES BETWEEN SWITZERLAND AND ABROAD

in CHF	2011		
	Switzerland	Abroad*	Total
Net interest income	25 787 134	1 469 616	27 256 750
Net commission and service income	35 318 013	2 755 828	38 073 841
Net trading income	13 383 811	195 153	13 578 964
Net other ordinary income	(1 309 227)	-	(1 309 227)
Net ordinary banking income	73 179 731	4 420 597	77 600 328
Operating expenses	62 513 673	3 170 228	65 683 901
Gross profit	**10 666 058**	**1 250 369**	**11 916 427**

* "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, 2011.

INDEPENDENT AUDITORS' REPORT

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Report of the Statutory Auditor on the Financial Statements to the General Meeting of Shareholders of

Banca Popolare di Sondrio (SUISSE) SA, Lugano

As statutory auditor, we have audited the financial statements (pages 21 to 54) of Banca Popolare di Sondrio (SUISSE) SA, which comprise the balance sheet, income statement, cash flow statement and notes for the year ended 31 December 2011.

Board of Directors' Responsibility

The board of directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2011 comply with Swiss law and the company's articles of incorporation.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the board of directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

Patrizio Aggio	Daniel Senn
Licensed Audit Expert	*Licensed Audit Expert*
Auditor in Charge	

Zurich, 30 January 2012

Enclosures:
- Financial statements (balance sheet, income statement, cash flow statement and notes)
- Proposed appropriation of available earnings

OUR PRODUCTS AND SERVICES

CURRENT ACCOUNTS

DEPOSIT AND INVESTMENT ACCOUNTS

FIDUCIARY AND FORWARD DEPOSITS

MEDIUM-TERM NOTE ISSUES

FOREX

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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
GENERALI (SCHWEIZ)

TRUSTEE BUSINESS IN ASSOCIATION WITH
SOFIPO FIDUCIAIRE SA

PERSONAL BENEFIT

LIFE BENEFIT (3^{RD} PILLAR)

GOBANKING

VIRTUAL BRANCH
CALL CENTER 00 800 800 767 76

FOREWORD

The cultural section of this year's Annual Report is a monograph on an exceptional Swiss artist, the painter and sculptor Alberto Giacometti. Born on the 10^{th} of October 1901 in Bergell in the canton of Graubünden, he died in Chur on the 11^{th} of January 1966. He is buried in the cemetery of Borgonovo-Stampa.

Alberto Giacometti's giftedness as an artist became apparent from a very early age. His father, himself an accomplished painter, recognised and nurtured his son's talent, teaching, encouraging and supporting him.

At the age of about twenty, Alberto Giacometti was drawn to Italy, the land of great masters who created works of immeasurable artistic worth. He toured the cities of great Italian art: Venice, Padua, Florence, Assisi, Rome, Naples and Pompei. Struck by the astounding beauty of the artworks he found in the museums and adorning public places, Giacometti spent long hours copying paintings, mosaics and sculptures striving to gain a better understanding of the unsurpassable Italian masters.

Giacometti went on to France to study painting and sculpture. It was in Paris that the talented young artist first showed his work and made a name for himself.

In his search for new impulses and visions, Giacometti later withdrew for a period of reflection and study. During this time he focused on the human head, in particular the eyes, the mirror of the soul and the essence of life. He began creating the long, slender, gaunt figures most closely associated with his name, in which a new, unique, highly personal style found expression. Over the years he perfected his style and his international fame grew. His works became more intense, and his output increased.

Giacometti developed a habit of staring persistently and intensely – sometimes a little too much so – at the places and people he was interested in. This "occupational hazard" of his often made people feel uneasy and was a point of much criticism.

The province of Sondrio, home to the Italian parent company of Banca Popolare di Sondrio, also played a part, albeit a small one, in Alberto Giacometti's life. Two of Giacometti's closest friends in his later years came from this area: the sculptor Mario Negri from Valtellina and the doctor and art collector Serafino Corbetta from Chiavenna.

We would like to thank the authors, Beat Stutzer, Franco Monteforte, Casimiro Di Crescenzo and Christian Dettwiler for the outstanding contributions they have made to this monograph on the 20^{th}-century master artist, Alberto Giacometti.

Lugano, 1st January 2012

The Chairman
Piero Melazzini