Banca Popolare di Sondrio (SUISSE)

2012 ANNUAL REPORT

Banca Popolare di Sondrio (SUISSE) SA
Capital: CHF 150 000 000

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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 Front Division

Paolo Camponovo
Member of the Executive Committee
Head of Logistics Division

Mauro Pedrazzetti
Head of Credits, Accounting, Market Division

Roberto Mastromarchi
Head of Products and Services Division

INTERNAL AUDITING

Alberto Bradanini
President

EXTERNAL AUDITOR

KPMG SA
Zurich


LE VITTIME

I've never been anything other than a labourer. I've always been proud of this.
I have always loved and admired the oppressed poor and the martyrs of labour, people who risk their lives silently, without all the fuss of the so-called heroes of war, and who live an honest life of work.

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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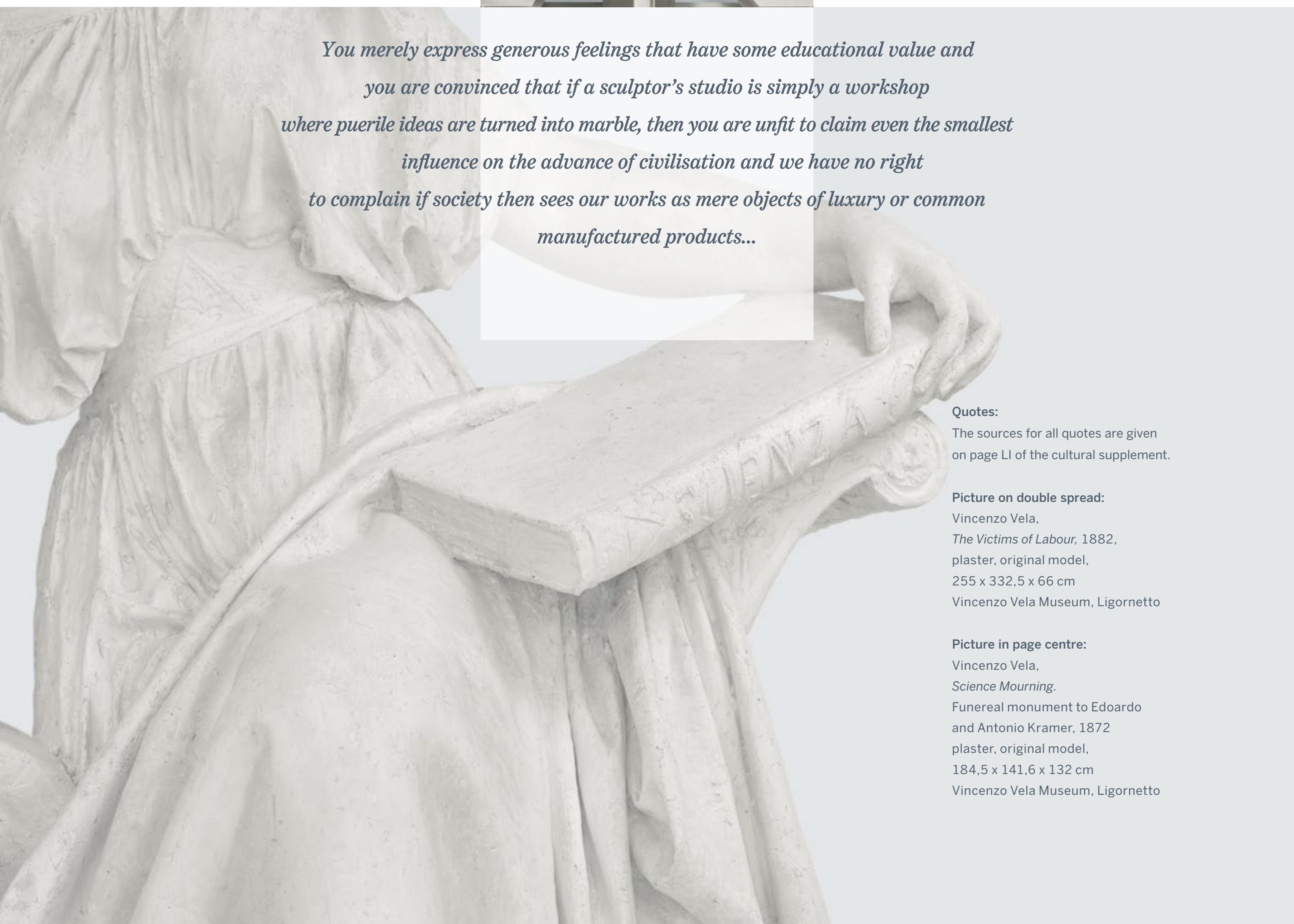

You merely express generous feelings that have some educational value and you are convinced that if a sculptor's studio is simply a workshop where puerile ideas are turned into marble, then you are unfit to claim even the smallest influence on the advance of civilisation and we have no right to complain if society then sees our works as mere objects of luxury or common manufactured products...

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

Picture on double spread:
Vincenzo Vela,
The Victims of Labour, 1882,
plaster, original model,
255 x 332,5 x 66 cm
Vincenzo Vela Museum, Ligornetto

Picture in page centre:
Vincenzo Vela,
Science Mourning.
Funereal monument to Edoardo and Antonio Kramer, 1872
plaster, original model,
184,5 x 141,6 x 132 cm
Vincenzo Vela Museum, Ligornetto

CHAIRMAN'S FOREWARD

There is no end in sight to the crisis that has gripped the entire world now for several years, spreading unemployment and malaise across the globe. What remain are the hope and desire that the winds will change and we will head for calmer seas, towards a prosperity we have nearly forgotten. Eventually this will happen, but we don't know when. In the meantime, each of us should do what we can to clear the path for recovery.

Turning now to Switzerland, even in this unfavourable economy, the country is an oasis compared with European nations in general – even our neighbours – in that it has slowed down to a lesser degree.

The issues Switzerland faced in 2012 are the same ones that concerned it the previous year: the European financial crisis, the "Rubik agreements" struck with certain countries on the Old Continent to address the long-standing problem of foreign capital kept in Swiss vaults, and negotiations with the USA for a solution to similiar fiscal quarrels by way of Washington's Foreign Account Tax Compliance Act (FATCA).

The Swiss were more interested than ever in becoming home owners. The flip side of the coin is that just when families had less money to spend, the Swiss supervisory authorities introduced mortgage lending restrictions for banks, as a means of preventing customers from defaulting and loans from going bad. As for holiday homes, applications for building permits boomed, ahead of the new restrictions, which were approved some time ago and came into effect on January 1, 2013.

Throughout the banking industry, hence for BPS (Suisse) as well, shrinking revenues led to cost-side interventions as banks pruned expenses and eliminated them wherever they could. For some banks this meant reducing the workforce, closing branches, and/or merging with other institutions.

Despite the crisis, Switzerland is still a model for our neighbours and other countries, which admire our political stability, solid public finances, strong currency, social harmony, efficient bureaucracy, and moderate taxes. This last virtue, in particular, continues to attract businesses and capital from abroad.

Although financial tensions have relaxed somewhat, the future remains uncertain.

The Swiss economy has lost some momentum, due in part to the abrupt slowdown in Germany, our largest trade partner. The negative impact is likely to last for some time. Unemployment has risen slightly, but has stayed within a normal range.

The combination of a strong Swiss franc (trading at 1.20 against the euro), an enormous influx of capital to our banks, and the absence of inflation has pushed interest rates down to zero and even into negative territory.

In this scenario, our efforts were directed at increasing transactions while maintaining our quality standards. Despite the greater volumes, we earned less than we did last year.

As for our branch network, late in the year we closed the Davos office. This territory is now covered by the branch in Chur. We currently have 21 branches in seven cantons, plus a location in the Principality of Monaco. In December we also opened a representative office in Neuchâtel. This is our first outpost in French-speaking Switzerland, tasked with investigating the possibility of pursuing more business there.

We have worked hard and achieved much this year, despite the difficult business climate. We would like to thank our governing body, our management and all of our employees for their commitment and dedication.

We are especially grateful to the Swiss Financial Market Supervisory Authority, FINMA, as a consistently helpful partner.

Warm thanks to our clients, who are continuing to grow in number. They have shown their confidence in us by choosing us as their bank. They are the raison d'être of our business.
May 2013 be a prosperous year, abounding in health and happiness for all.

Lugano, January 1, 2013

The Chairman
Piero Melazzini

Art gains nothing from unlimited compassion,
which sometimes degenerates into innocent adulation, but rather it benefits
from impartial judgement, healthy criticism and fair,
unexaggerated recompense.

Vincenzo Vela,
The Morning Prayer, 1846,
plaster, original model
139 x 59,4 x 72,6 cm
Vincenzo Vela Museum, Ligornetto

[...] I found myself in agreement with the Romantics, carried by a pure feeling for art: I saw how this had become static, so I tried to think of subjects that might reveal the truth to me, not so much in the composition of those pedantic rules that rob art of its life and motion.

Vincenzo Vela,
Portrait of the Young Contessa Leopoldina d'Adda with a Dog, 1852-1854,
plaster, original model,
104,2 x 69 x 71,7 cm
Vincenzo Vela Museum, Ligornetto

REPORT OF THE BOARD OF DIRECTORS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2012

Two thousand twelve was another complicated year for the global economy. Nevertheless, the situation at the close of the year was more reassuring than initially anticipated, at least, from our perspective.

Intervention by central banks was crucial to providing a safety network in these times of uncertainty. More specifically, during the second half of the year, the efforts of the European Central Bank and the resolve of its president began to produce the desired results.

Today, the collapse of the euro no longer appears to be an imminent threat, and the debt crisis in certain countries on the Old Continent appears to be manageable. What is needed now are credible policies, because if scepticism returns, its effects this time could be devastating.

The relief brought about by Obama's re-election in America was short-lived, due to worries about the looming "fiscal cliff", which was avoided at the very last minute.

The issue of how to shore up public finances will therefore remain on the agenda for years to come, on both sides of the Atlantic. Even in the best-case scenario, US growth will be unable to fuel the world economy on its own. Emerging countries are looking promising, especially China, since its recent change in leadership.

Europe is still busy avoiding a recession, and in the political arena is focused on regaining its pride while acting in the common interest.

The Swiss economy has been thriving. In the final quarter, however, an abrupt slowdown in the German economic motor caused results to be less brilliant than they might have been.

The Swiss National Bank deserves much of the credit for preventing a recession, thanks to its renewed commitment to maintaining a minimum exchange rate against the euro.

Inflation remained under control and is now in negative territory, though deflation is not yet an issue. Employment figures are reassuring, despite gaps among cantons and regions.

The equity markets have generally been a good investment, although their performance in 2012 fluctuated.

Bond issues in countries considered to be "safe harbours" were bought in massive quantities, despite yields close to zero, or even less than zero when fees are considered. Conversely, once the worst had passed, the bonds of non-core countries rallied strongly.

In the money market, interest rates in all the main currencies dipped toward zero, and we even witnessed negative rates as far as the Swiss franc was concerned.

The distortions caused by this situation, as it persists over time, may be very insidious and may therefore be another sword hanging over our heads.

In Switzerland, the greatest concerns stem from the real estate sector, where there is overheating in various regions. Buyers have become somewhat accustomed to the benefit of rock-bottom interest rates, to the point that they fail to consider the chance of a sudden increase. The restrictions enacted during the year to counter that threat, in the form of self-regulation and other measures, were in our opinion a good idea.

On the other hand, rate cuts seem to be the defining strategy for all those seeking to devalue the exchange rate, stimulate consumption and investment, support the markets, or simply keep government debt under control.

Switzerland's awareness that it is not an island in the middle of the ocean, but a country at the centre of a Europe in turmoil, has led it to downplay its reputation as an oasis of prosperity even though its traditional trump cards are more admired and envied than ever.

Indeed, its solid public finances – thanks to a healthy policy of balance and moderation – may sometimes look almost like a fault to a less-than-impartial outside eye.

Attacks on our financial markets have thus begun anew, although with less animosity than in the past. While the FATCA agreement with the United States advanced along its torturous path, the real scene-stealer was Rubik, the Swiss model designed as an alternative to sharing tax information.

The deal signed by Switzerland and Germany was the focus of attention for most of the year, but after passing the hurdles of the federal cabinet and the Bundestag (lower house of Parliament), it failed to be ratified by the Bundesrat (upper house).

In 2013, therefore, only the agreements with the United Kingdom and Austria will take effect.

Negotiations on this front with Italy, which are more complex due to their interactions with a number of important issues, have had their ups and downs. After a difficult start they are now moving swiftly along. The resignation of the Monti government, a bit earlier than expected, has prevented a final deal from being reached.

In a context of deep uncertainty and often conflicting news and events, our Bank worked with its usual common sense on behalf of individuals, households and small and medium-sized businesses.

Our branch network was rendered more efficient by integrating the operations of the Davos branch into our long-standing team in Chur. We also opened a representative office in the cantonal capital of Neuchâtel, which is best known for its flourishing business in high-end watches. With this new opening, we are now present in seven cantons, plus the Principality of Monaco.

Our employees at the end of the year numbered 341 (an increase of three since the previous year).

Cooperation with our parent bank was broad-based and fruitful, with new synergies constantly being sought. Popolare di Sondrio itself underwent a capital increase of CHF 50 million during the second half of the year, commensurate with plans for continued growth in the domestic market. Our Bank continued to consistently pursue this goal during the year.

Total funding from customers climbed to CHF 5,120,500,000 (+9% for the year) on the strength of a 20% increase in direct funding (to CHF 2,795,300,000). We take special pride in this result, because more than any other, it demonstrates our clients' confidence in us. Savings and investment accounts totalled CHF 702,000,000 (+4%) and other amounts due to customers increased to CHF 1,953,400,000 (+32%), while medium-term notes fell to CHF 139,900,000 (-27%) as a result of the struggling bond markets, especially those dealing in low-coupon securities.

Indirect funding, at CHF 2,325,200,000 (-2%), was hampered by market fluctuations and by a partial migration to cash. Our Popso (SUISSE) Investment Fund, a Luxembourg-based SICAV that is also distributed in Italy through the parent bank, achieved good results in 2012.

Life Benefit, our third-pillar pension foundation, grew by 75% and has reached the considerable sum of CHF 215,000,000 just a few years since its launch, as liquid investments and high yields have proved to be a winning combination.

The growth of customer loans outpaced the market average, but was somewhat slower than in recent years. The already prudent criteria used by the Bank to approve new loans were further tightened, reflecting the supervisory authorities' concerns about the trend in the real estate market.
Mortgage loans thus rose to CHF 2,525,100,000 (+11%), while other customer loans dipped by 2% to CHF 636,700,000, bringing total loans disbursed in cash to CHF 3,161,800,000 (+8%).

The well-balanced growth of funding and customer loans is the result of a clear yet ambitious policy of supporting households and depositors, by offering decent interest to those who save and rates in line with the market to those who borrow, in a context where national interest rates are at zero.

This strategy, appreciated by our swiftly growing clientele, has obviously had a short-term impact on our income statement, which has also been affected by our deliberate decision to invest in information technology and personnel training in order to best cope with the epochal changes at our door.

Interest income came to CHF 28,226,000 (+4%), thanks to the growth of the loan portfolio, but margins dropped to an all-time low. While we continued to strive to pay a decent return on deposits, interbank lending rates hovered in a very narrow range.

Net income from fee and commission business fell to CHF 34,749,000 (-9%), due to the decrease in assets under management or administration as compared to the previous year. In keeping with our philosophy, the great majority of our clients have low-risk profiles, which for some time has limited opportunities for trading.

It was an especially good year for the performance of discretionary managed portfolios. Investment recommendations and support services, such as the Advisory agreement, are becoming increasingly attractive to institutional and qualified clients.
Net trading income amounted to CHF 10,897,000 (-20%). Foreign currency swaps against the Swiss franc made a sizeable contribution, although less so than in the previous year.

Net ordinary banking income totalled CHF 74,948,000 (-3%).

Despite strict controls, operating expenses rose to CHF 67,450,000 (+3%), due to higher personnel expenses of CHF 45,144,000 (+3%), and other operating expenses of CHF 22,306,000 (+2%).

In the first half of 2013, a special study will be conducted with a view to streamlining business processes and improving efficiency.

The bank's gross profit was CHF 7,498,000 (-37%).

After depreciation, amortisation, provisions, and income and capital tax, the net profit for the year came to CHF 471,000 (-85%).

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 Art. 22 of the Articles of Association. Total equity, thanks to the capital increase mentioned above, has risen to CHF 279,765,000 (+21% on the previous year).

We are grateful to our clients for their ongoing faith in our Bank, to our personnel for their capable contributions, to the supervisory authorities for their firm support, and last but not least, to our external auditors for their professional cooperation.

We are proud to say that our presence in Switzerland is meeting with an ever growing positive response, and we will do our best to honour the trust that has been placed in us.

Lugano, February 4, 2013 **The Board of Directors**

To do a simple statue seemed almost an outrage against this glorious memory:
I never even considered it.

Vincenzo Vela,
Ecce Homo, 1868,
plaster, original model,
145 x 61 x 81,4 cm
Vincenzo Vela Museum, Ligornetto

2012 FINANCIAL STATEMENTS

BALANCE SHEET AS AT DECEMBER 31, 2012

ASSETS

in CHF	Note	2012	2011	Change
Cash		83 998 050	47 969 891	36 028 159
Due from banks		818 890 876	629 306 046	189 584 830
Due from clients	3.1	636 716 749	647 300 640	(10 583 891)
Mortgage loans	3.1	2 525 142 141	2 271 452 640	253 689 501
Financial investments	3.2	26 216 283	34 491 117	(8 274 834)
Participating interests	3.2, 3.3, 3.4	603 138	603 138	-
Fixed assets	3.4	30 683 979	34 081 443	(3 397 464)
Accrued income and prepaid expenses		7 727 486	10 679 612	(2 952 126)
Other assets	3.17	68 448 259	68 885 275	(437 016)
Total assets		**4 198 426 961**	3 744 769 802	453 657 159
Total amounts receivable from group companies and significant shareholders		731 478 842	586 853 527	144 625 315

LIABILITIES

in CHF	Note	2012	2011	Change
Money market instruments		197 585	106 923	90 662
Due to banks		1 004 028 867	1 047 829 245	(43 800 378)
Due to clients in savings and investment accounts		701 956 112	672 564 635	29 391 477
Other amounts due to clients		1 953 411 416	1 475 070 092	478 341 324
Cash bonds	3.8	139 908 000	190 876 000	(50 968 000)
Accrued liabilities and deferred income		14 539 603	15 333 115	(793 512)
Other liabilities	3.18	71 350 888	78 062 643	(6 711 755)
Valuation adjustments and provisions	3.9	33 269 809	34 357 222	(1 087 413)
Reserve for general banking risks	3.9	13 724 000	15 000 000	(1 276 000)
Share capital	3.10, 3.11	150 000 000	100 000 000	50 000 000
General legal reserve	3.11	115 569 927	112 352 786	3 217 141
Net profit for the year	3.11	470 754	3 217 141	(2 746 387)
Total liabilities		4 198 426 961	3 744 769 802	453 657 159
Total liabilities to group companies and significant shareholders		932 513 164	734 035 879	198 477 285

OFF-BALANCE-SHEET ITEMS AS AT DECEMBER 31, 2012

in CHF	Note	2012	2011	Change
Contingent liabilities	3.1, 4.1	232 631 923	206 677 105	25 954 818
Irrevocable commitments	3.1	14 436 000	14 152 000	284 000
Derivative financial instruments	4.2	2 907 281 481	2 433 353 351	473 928 130
Positive replacement values		2 751 015	4 890 938	(2 139 923)
Negative replacement values		61 629 588	69 616 611	(7 987 023)
Fiduciary transactions	4.3	253 281 352	246 918 976	6 362 376

2012 INCOME STATEMENT

INCOME STATEMENT FOR THE FINANCIAL YEAR ENDING DECEMBER 31, 2012

in CHF	Note	2012	2011	Change
Interest income:				
- interest and discount revenue		76 003 031	76 054 503	(51 472)
- interest and dividends on financial investments		422 760	777 393	(354 633)
Interest expense		(48 199 484)	(49 575 146)	1 375 662
Net interest income		28 226 307	27 256 750	969 557
Commission income:				
- on credit transactions		1 449 979	1 412 518	37 461
- on securities trading and investment transactions		32 588 013	36 764 492	(4 176 479)
- on other services		5 906 133	6 048 855	(142 722)
Commission expense		(5 195 416)	(6 152 024)	956 608
Net fee and commission income		34 748 709	38 073 841	(3 325 132)
Net trading income	5.2	10 897 002	13 578 964	(2 681 962)
Net income from disposal of financial investments		200 276	(384 057)	584 333
Income from participating interest		-	-	-
Profit from real estate		172 298	166 653	5 645
Other ordinary income		844 298	300 764	543 534
Other ordinary expenses		(141 325)	(1 392 587)	1 251 262
Other ordinary income		1 075 547	(1 309 227)	2 384 774
Net ordinary banking income		74 947 565	77 600 328	(2 652 763)
Operating expenses:				
Personnel expenses	5.3	45 143 546	43 799 899	1 343 647
Other operating expenses	5.4	22 306 090	21 884 002	422 088
Total operating expenses		67 449 636	65 683 901	1 765 735
Gross profit		7 497 929	11 916 427	(4 418 498)

INCOME STATEMENT

in CHF	Note	2012	2011	Change
Depreciation/amortisation of fixed assets	3.4	(7 038 654)	(7 074 590)	35 936
Valuation adjustments, provisions and losses		(6 930 027)	(2 915 924)	(4 014 103)
Profit before extraordinary items and taxes		(6 470 752)	1 925 913	(8 396 665)
Extraordinary income	5.5	9 089 916	2 486 228	6 603 688
Extraordinary expenses	5.5	(450 655)	(95 000)	(355 655)
Taxes		(1 697 755)	(1 100 000)	(597 755)
Net profit for the year		470 754	3 217 141	(2 746 387)

PROPOSAL FOR APPROPRIATION OF BALANCE SHEET PROFIT

in CHF	Note	2012	2011	Change
Profit for the year		470 754	3 217 141	(2 746 387)
Profit brought forward		-	-	-
Available earnings		470 754	3 217 141	(2 746 387)
The Board of Directors proposes to allocate the balance sheet profit as at December 31, 2012, totalling CHF 470 754, to the general legal reserve		470 754	3 217 141	(2 746 387)
Retained earnings to be carried forward		-	-	-

CASH FLOW STATEMENT AS AT DECEMBER 31, 2012

CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2012 (WITH 2011 COMPARATIVE FIGURES)

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

CHF in thousands	**2012**		2011	
	Source	Utilisation	Source	Utilisation
Profit for the year	471	-	3 217	-
Depreciation write-offs of fixed assets	7 039	-	7 075	-
Valuation adjustments and provisions	-	1 088	973	-
Reserve for general banking risks	-	1 276	-	-
Accrued income and prepaid expenses	2 952	-	-	1 355
Accrued liabilities and deferred income	-	794	987	-
Other assets	437	-	-	17 949
Other liabilities	-	6 712	-	2 573
Net operating cash flow	1 029			9 625

CASH FLOW 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	-	1	-	66
Other fixed assets	-	1 187	-	4 842
Intangible fixed assets	-	2 453	-	1 915
Net cash flow from investment activities		3 641		6 773

CASH FLOW STATEMENT

CASH FLOW FROM BANKING OPERATIONS

CHF in thousands	2012		2011	
	Source	Utilisation	Source	Utilisation
Balance brought forward	51 029	3 641	-	16 398
Non-current operations (> 1 year)				
Due to clients - savings	-	-	-	-
Due to clients - other	10 241	-	-	-
Cash bonds	-	51 612	8 961	-
Client loans	-	11 368	-	15 327
Mortgage loans	-	312 874	-	126 679
Financial investments	10 001	-	-	1 871
Current operations				
Liabilities under money market instruments	91	-	107	-
Due to banks	-	43 800	120 017	-
Due to clients	468 100	-	140 421	-
Cash from client savings	29 391	-	55 966	-
Cash bonds	644	-	3 086	-
Due from banks	-	189 585	76 883	-
Due from clients	21 952	-	-	45 139
Mortgage loans	59 185	-	-	219 025
Financial investments	-	1 726	8 379	-
Securities trading portfolio	-	-	-	-
Net cash flow from banking activities		11 360	5 779	
Total cash flow	51 029	15 001	5 779	16 398
Change in cash flow		36 028	10 619	

[...] I shall happily make every sacrifice possible that may be asked of me to forward the cause of art and progress; this is the duty of every artist and patriot.

Vincenzo Vela,
Right Hand of Vincenzo Vela, 1853,
marble, 12,3 x 27 x 17,2 cm
Vincenzo Vela Museum, Ligornetto

NOTES TO THE 2012 ANNUAL ACCOUNTS

1. DESCRIPTIONS OF SEGMENTS 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 an agency in 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, our staff numbered 341 (2011: 338), which represented a total of 324.85 full-time equivalent positions (2011: 322.78).
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 Financial Market Supervisory Authority FINMA, in particular Circular FINMA 2008/2 "Directives on rules concerning the presentation of accounts (Articles 23-27 OBCR)" of January 1, 2009 (in force on June 1, 2012). 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 lending risks on credit granted to clients, 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 booked to 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 (SUBSIDIARIES)

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 using the straight-line method and based on the estimated useful life of the asset.

	2012	2011
Freehold premises (Own real estate)	33.3 years	33.3 years
Office 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 accounted for on an accrual basis.

TAXES

The Bank recognizes provisions for federal, cantonal and local 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 for 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".

TRANSLATION 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 1.2072 (2011: 1.2178); USD 0.9151 (2011: 0.9391).

FOREIGN CURRENCY 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 of 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 2012, compared to the year ended December 31, 2011, 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, 2012.

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 organisation and financial structure.
The Bank is committed to promulgating, at all levels in its organisation, 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 Bank's 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 analyse 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 RISK

This concerns the risk of losses being incurred due 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 the lending activity with private custumers. The Bank mainly grants mortgage loans for property located in Switzerland, Lombard loans and commercial credits. Loans abroad are mainly granted by our Monaco branch and represent only a small portion of the overall lending volume.

Prudential collateral margins are set for all secured loans. For Lombard loans, margins depend on the type and market value of the pledged assets, which are periodically reviewed. For mortgages, the lending value is determined on the basis of the market value of the property (relying on both internal and external appraisals) or the gross rental value, taking into consideration the type of property. The appraisals are periodically reviewed at intervals of two to ten years depending on the type of property and the lending value.

Credit risk is assessed by grouping customers into 10 risk classes (according to default risk or probability of insolvency, with 1 being rating of the lowest risk and 8 being the rating of the hightest risk) 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. The risk classes 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 the existing collateral (mortgage, Lombard or unsecured) and the loan-to-value ratio.

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 an automated procedure that adds up the individual risk positions, weighted by the respective default and recovery rates. For non-performing loans and loans at risk, however, individual valuation adjustments are made which take into account the estimated realisable value of the collateral provided.

MARKET RISK

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 is hence related to interest rate, foreign exchange and price risks.

INTEREST RATE RISK

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 largely 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 recognised 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 minimise 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 RISK

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 minimise refinancing costs.

OPERATIONAL RISK

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 minimised by using an internal management system and, 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 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 specialising in particular fields or geographical regions.

REPUTATION AND COMPLIANCE RISKS

The Bank limits its exposure by investing, 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 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 by using interest rate swaps.

[...] Independence cannot be maintained unless with the force possible through Union [...].

Vincenzo Vela,
The Ensign. Monument
to the Sardinian Army, 1856-1858,
plaster, original model,
387 x 200 x 121,3 cm
Vincenzo Vela Museum, Ligornetto

3. BALANCE SHEET INFORMATION

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

in CHF	Type of collateral			
	Mortgage collateral	Other collateral	Unsecured	Total
Credit				
Due from clients	184 296 964	337 362 224	115 057 561	636 716 749
Mortgage loans				
Residential property	2 245 997 129	-	-	2 245 997 129
Commercial property	279 145 012	-	-	279 145 012
Other	-	-	-	-
Current year	**2 709 439 105**	**337 362 224**	**115 057 561**	**3 161 858 890**
Previous year	2 424 179 452	369 875 520	124 698 308	2 918 753 280
Off-balance-sheet				
Contingent liabilities	2 603 028	165 826 607	64 202 288	232 631 923
Commitments of payments and additional deposits	-	-	-	-
Irrevocable commitments	-	-	14 436 000	14 436 000
Current year	**2 603 028**	**165 826 607**	**78 638 288**	**247 067 923**
Previous year	1 862 755	146 605 249	72 361 101	220 829 105

IMPAIRED LOANS

in CHF	Gross amount of debt	Estimated liquidation value of collateral	Net amount of debt	Individual value adjustment
Current year	**20 017 230**	**1 839 427**	**18 177 803**	**18 177 803**
Previous year	10 396 828	248 826	10 148 002	10 148 002

3.2. FINANCIAL INVESTMENTS AND PARTICIPATING INTERESTS

Financial investments	Carrying value		Market value	
in CHF	**2012**	2011	**2012**	2011
Debt instruments	**21 830 781**	29 370 110	**22 060 483**	29 498 788
of which: own bonds or medium-term notes	-	-	-	-
of which: held to maturity	-	-	-	-
of which: valued at lower of cost or market	21 830 781	29 370 110	22 060 483	29 498 788
Instruments	**4 385 502**	5 121 007	**4 454 294**	5 128 807
Qualified participating interests	-	-	-	-
Deposit bonds (purchase value)	-	-	-	-
Precious metals	-	-	-	-
Real estate	-	-	-	-
Total financial investments	**26 216 283**	34 491 117	**26 514 777**	34 627 595
Securities pledgeble in accordance with liquidity regulations	18 145 383	23 756 871	-	-

Information on treasury shares included in financial investments	Number		Carrying value	
in CHF	**2012**	2011	**2012**	2011
Balance at 01.01.2012	-	-	-	-
Purchases (additions)	-	-	-	-
Disposals	-	-	-	-
Writedowns	-	-	-	-
Upward revaluations	-	-	-	-
Balance at 31.12.2012	-	-	-	-

Participating interests		
in CHF	**2012**	2011
With stock market value	-	-
Without stock market value	603 138	603 138
Total participating interests	**603 138**	603 138

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	Share-holding
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 2012.

3.4. BREAKDOWN OF FIXED ASSETS

in CHF	Purchase price	Accumulated depreciation & amorti-sation	Book value as at 31.12.2011	Reclassifi-cation	Additions	Disposals	Depreciation & amorti-sation	Book value as at 31.12.2012
Equity interests								
Minority holding	1 253 138	(650 000)	603 138	-	-	-	-	603 138
Majority holding	-	-	-	-	-	-	-	-
Total	**1 253 138**	**(650 000)**	**603 138**	**-**	**-**	**-**	**-**	**603 138**
Fixed assets								
Properties used by the Bank	22 280 243	(5 195 149)	17 085 094	-	806	-	(1 031 849)	16 054 051
Other tangible fixed assets	73 759 037	(58 837 584)	14 921 453	-	1 187 086	-	(4 281 669)	11 826 870
Intangible fixed assets	32 205 403	(30 485 317)	1 720 086	-	1 893 669	-	(1 498 940)	2 114 815
Capitalised cost (Capital increase)	571 350	(216 540)	354 810	-	559 629	-	(226 196)	688 243
Total	**128 816 033**	**(94 734 590)**	**34 081 443**	**-**	**3 641 190**	**-**	**(7 038 654)**	**30 683 979**
Insurance value								
Properties used by the Bank			16 080 700					17 170 000
Other tangible fixed assets			35 000 000					35 764 200

3.5. CAPITALISED ESTABLISHMENT EXPENSES, CAPITAL INCREASE AND ORGANISATION COSTS

Cost of capital increase in CHF

	31.12.2012	31.12.2011
Cost of capital increase (CHF 50 million increase carried out in 2010)	240 540	354 810
Cost of capital increase (CHF 50 million increase carried out in 2012)	447 704	-
	688 244	354 810

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	Effective liability
Securities used as collateral at the SNB	3 676 066	No liabilities
Securities used as collateral at SIS	5 456 065	No liabilities

Securities repurchase (Repo) operations	**Current year**	Previous year
Securities (financial investments) pledged to secure Repo operations	9 013 252	15 112 694
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	**31.12.2012**	31.12.2011
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	4 485 240	4 134 964
Changes owing to future economic benefits / liabilities	-	-
Credited to employer's reserve	-	-
Total pension costs included in "Personnel expenses"	**4 485 240**	4 134 964

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

As there is no surplus, no 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
0.500 %	3 426	40	15								3 481
0.625 %	260			50							310
0.750 %	8 290	831	100								9 221
0.875 %	329			85							414
1.000 %	950	1 283	665	530	164	20					3 612
1.125 %	1 268	538	645		15						2 466
1.250 %	2 000	11 032	5	600	360	30					14 027
1.375 %		380	115	270			20			20	805
1.500 %	7 991	385	1 818	330	119	280		136			11 059
1.625 %	36 277	76	300			70	50	125	30		36 928
1.750 %		2 200		1 753	140			50			4 143
1.875 %		9 186		250							9 436
2.000 %	65	10	1 159	160	695	60					2 149
2.125 %		50	29 277	6	20	70			4		29 427
2.250 %	336			4 420	11		15	10			4 792
2.375 %						1			165		166
2.500 %	445			50			246	10	250		1 001
2.625 %	209	10				100	88				407
2.750 %	275	124	20								419
2.875 %	82	65									147
3.000 %	2 414	514									2 928
3.125 %	204	20		10							234
3.250 %		604	111	2							717
3.375 %	600	48			10	4					662
3.500 %	150	667	140								957
Total	**65 571**	**28 063**	**34 370**	**8 516**	**1 534**	**635**	**419**	**331**	**449**	**20**	**139 908**

3.9. VALUATION ADJUSTMENTS AND PROVISIONS

in CHF

	Balance as at 31.12.2011	Utilisation and release consistent with specific purpose	Change of purpose	Recoveries, impaired interest and currency differences	New provisions in come statement	Release credited to income statement	Balance as at 31.12.2012
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)	26 662 119	(523 010)	-	658 129	6 472 571	-	33 269 809
Valuation adjustments and provisions for other business risks	-	-	-	-	-	-	-
Restructuring provisions	-	-	-	-	-	-	-
Provisions for pension liabilities	-	-	-	-	-	-	-
Other provisions	7 695 103	(60 000)	-	-	-	(7 635 103)	-
Subtotal	**34 357 222**	**(583 010)**	**-**	**658 129**	**6 472 571**	**(7 635 103)**	**33 269 809**
Total valuation adjustments and provisions	**34 357 222**	**(583 010)**	**-**	**658 129**	**6 472 571**	**(7 635 103)**	**33 269 809**
Less: Valuation adjustments set off directly against assets	-	-	-	-	-	-	-
Total valuation adjustments and provisions as per balance sheet	**34 357 222**	**(583 010)**	**-**	**658 129**	**6 472 571**	**(7 635 103)**	**33 269 809**
Reserve for general banking risks	**15 000 000**	**-**	**-**	**-**	**-**	**(1 276 000)**	**13 724 000**

The reserve for general banking risks is not taxed. During 2012 a hidden reserve of CHF 7 635 103 existing as at December 31, 2011 in “Other provisions” was released in the income statement.

3.10. SHARE CAPITAL

in CHF	Par value	Number of shares	Par value holding
Share capital	**150 000 000**	**1 500 000**	**150 000 000**

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 cooperative limited by shares and, as such, subject to specific regulations concerning the shareholders' profile. In accordance with regulatory provisions, a shareholder may not hold more than 0.5% of the 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 September 27, 2012, the Bank increased its share capital by CHF 50 000 000 to CHF 150 000 000.

3.11. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

in CHF	**2012**	2011
Total shareholders' equity at the beginning of the period		
Paid-up share capital	100 000 000	100 000 000
General legal reserve	112 352 786	107 652 005
Reserve for general banking risks	13 724 000	15 000 000
Balance sheet profit	3 217 141	4 700 780
Total	**229 293 927**	227 352 785
Allocation to the general legal reserve	3 217 141	4 700 780
Dividend and other payments deducted from the profit of prior year	(3 217 141)	(4 700 780)
Profit for current financial year	470 754	3 217 141
Capital increase	50 000 000	-
Total shareholders' equity	**279 764 681**	230 569 926
of which:		
Share capital	150 000 000	100 000 000
General legal reserve	115 569 927	112 352 785
Reserve for general banking risks	13 724 000	15 000 000
Balance sheet profit	470 754	3 217 141
Total	**279 764 681**	230 569 926

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	83 998 050	-	-	-	-	-	-	83 998 050
Due from banks	94 357 355	-	721 264 381	3 269 140	-	-	-	818 890 876
Due from clients	16 154 499	296 005 241	233 426 524	36 768 760	48 087 740	6 273 985	-	636 716 749
Mortgage loans	33 298 955	355 338 156	220 743 450	222 892 000	1 231 964 730	460 904 850	-	2 525 142 141
Financial investments	4 385 502	-	2 650 786	5 872 626	12 792 819	514 550	-	26 216 283
Current financial year	**232 194 361**	**651 343 397**	**1 178 085 141**	**268 802 526**	**1 292 845 289**	**467 693 385**	**-**	**4 090 964 099**
Previous 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
Amounts due to third parties								
Money market instruments	197 585	-	-	-	-	-	-	197 585
Due to banks	487 231	-	913 525 812	90 015 824	-	-	-	1 004 028 867
Due to clients in savings and investment accounts	701 956 112	-	-	-	-	-	-	701 956 112
Other amounts due to clients	1 542 693 137	-	147 683 630	252 793 209	10 241 440	-	-	1 953 411 416
Medium-term notes	-	-	5 746 000	59 825 000	72 483 000	1 854 000	-	139 908 000
Current financial year	**2 245 334 065**	**-**	**1 066 955 442**	**402 634 033**	**82 724 440**	**1 854 000**	**-**	**3 799 501 980**
Previous financial year	1 967 124 982	-	942 013 128	351 359 785	123 841 000	2 108 000	-	3 386 446 895

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

in CHF	**2012**	2011	Change
Loans to governing bodies	**5 900 000**	6 600 000	(700 000)

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	2012		2011	
	Switzerland	Abroad	Switzerland	Abroad
Assets				
Cash	83 372	626	47 491	479
Due from banks	28 129	790 762	24 380	604 926
Due from clients	515 454	121 262	508 956	138 345
Mortgage loans	2 525 141	-	2 271 453	-
Financial investments	3 820	22 397	4 225	30 266
Participating interests	603	-	603	-
Fixed assets	30 479	205	33 816	265
Accrued income and prepaid expenses	6 824	904	10 595	85
Other assets	67 269	1 180	66 891	1 994
Total assets	**3 261 091**	**937 336**	2 968 410	776 360
Liabilities				
Money market instruments	198	-	107	-
Due to banks	71 095	932 934	92 279	955 550
Due to clients in savings and investment accounts	491 944	210 012	474 409	198 155
Other amounts due to clients	1 357 586	595 825	990 754	484 316
Cash bonds	139 908	-	190 876	-
Accrued liabilities and deferred income	12 701	1 839	14 265	1 068
Other liabilities	69 925	1 426	74 425	3 638
Valuation adjustments and provisions	32 781	489	34 075	283
Reserve for general banking risks	13 724	-	15 000	-
Share capital	150 000	-	100 000	-
General legal reserve	115 570	-	112 353	-
Net profit for the year	470	-	3 217	-
Total liabilities	**2 455 902**	**1 742 525**	2 101 760	1 643 010

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

CHF in thousands	**2012**		2011	
	Total	in %	Total	in %
Switzerland	3 262 415	78	2 966 760	79
OECD countries	891 972	21	737 241	20
Other countries	45 362	1	40 769	1
Total assets	**4 199 749**	**100**	3 744 770	100

3.16. BREAKDOWN OF ASSETS AND LIABILITIES BY CURRENCY

CHF in thousands

Assets	**CHF**	**EUR**	**USD**	**Other**	**Total**
Cash	76 174	7 020	346	458	83 998
Due from banks	122 583	589 736	53 195	53 377	818 891
Due from clients	501 457	108 281	12 324	14 655	636 717
Mortgage loans	2 494 507	30 635	-	-	2 525 142
Financial investments	7 734	17 309	1 173	-	26 216
Participating interests	603	-	-	-	603
Fixed assets	30 479	205	-	-	30 684
Accrued income and prepaid expense	6 914	754	13	47	7 728
Other assets	64 351	2 779	399	919	68 448
Total assets in the balance sheet	**3 304 802**	**756 719**	**67 450**	**69 456**	**4 198 427**
Off-balance-sheet claims from foreign exchange spot, forward and option transactions	19 203	865 359	174 123	125 639	1 184 324
Total assets	**3 324 005**	**1 622 078**	**241 573**	**195 095**	**5 382 751**

Liabilities					
Money market instruments	174	4	4	15	197
Due to banks	81 508	854 850	20 602	47 069	1 004 029
Due to clients in savings and investment accounts	558 264	143 692	-	-	701 956
Other amounts due to clients	1 209 540	544 001	138 173	61 697	1 953 411
Cash bonds	139 908	-	-	-	139 908
Accrued liabilities and deferred income	12 173	1 933	257	177	14 540
Other liabilities	69 189	1 434	76	652	71 351
Valuation adjustments and provisions	32 798	472	-	-	33 270
Reserve for general banking risks	13 724	-	-	-	13 724
Share capital	150 000	-	-	-	150 000
General legal reserve	115 570	-	-	-	115 570
Net profit for the year	471	-	-	-	471
Total liabilities in the balance sheet	**2 383 319**	**1 546 386**	**159 112**	**109 610**	**4 198 427**
Off-balance-sheet from foreign exchange spot, forward and option transactions	945 619	73 096	80 852	84 757	1 184 324
Total liabilities	**3 328 938**	**1 619 482**	**239 964**	**194 367**	**5 382 751**
Net position by currency	(4 933)	2 596	1 609	728	-

3.17. OTHER ASSETS

in CHF	**2012**	2011	Charge
Tax prepayments and recoverable VAT	1 580 691	1 576 911	3 780
Positive replacement values of derivative financial instruments	3 251 845	5 406 452	(2 154 607)
Compensation account	57 000 551	58 514 017	(1 513 466)
Other	6 615 172	3 387 895	3 227 277
Total	**68 448 259**	68 885 275	(437 016)

3.18. OTHER LIABILITIES

in CHF	**2012**	2011	Charge
Administration of federal contributions	5 966 534	5 083 015	883 519
Negative replacement values of derivative financial instruments	62 130 418	70 132 125	(8 001 707)
Compensation account	-	-	-
Suppliers	2 036 027	2 236 697	(200 670)
Other	1 217 909	610 806	607 103
Total	**71 350 888**	78 062 643	(6 711 755)

4. OFF-BALANCE-SHEET INFORMATION

4.1. CONTINGENT LIABILITIES

in CHF	**2012**	2011
Guarantees and similar obligations	194 178 997	172 661 806
Documentary credits	38 452 926	34 015 299
Total contingent liabilities	**232 631 923**	206 677 105

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	-	-	-	-	57 000 551	1 463 600 000
Futures	134	134	266 750	-	-	-
Options (OTC)	-	-	-	-	-	-
Options (exchange-traded)	-	-	-	-	-	-
Currencies/Precious metals						
Forward contracts	2 080 374	3 958 396	1 224 722 589	-	-	-
Combined swaps (interest/currency)	-	-	-	-	-	-
Futures	160	160	40 066 250	-	-	-
Options (OTC)	184 820	184 820	31 913 231	-	-	-
Options (exchange-traded)	-	-	-	-	-	-
Equities/Indices						-
Forward contracts	-	-	-	-	-	-
Swaps	-	-	-	-	-	-
Futures	331 467	331 467	6 658 444	-	-	-
Options (OTC)	154 060	154 060	30 886 275	-	-	-
Options (exchange-traded)	-	-	-	-	-	-
Credit derivatives						-
Credit default swaps	-	-	-	-	-	-
Total return swaps	-	-	-	-	-	-
First-to-default swaps	-	-	-	-	-	-
Other credit derivatives	-	-	-	-	-	-
Other						
Forward contracts	-	-	109 167 942	-	-	-
Swaps	-	-	-	-	-	-
Futures	-	-	-	-	-	-
Options (OTC)	-	-	-	-	-	-
Options (exchange-traded)	-	-	-	-	-	-
Total before effect of netting contracts						
As at December 31, 2012	**2 751 015**	**4 629 037**	**1 443 681 481**	**-**	**57 000 551**	**1 463 600 000**
As at December 31, 2011	4 890 938	11 102 594	1 148 553 351	-	58 514 017	1 284 800 000

4.2. (CONTINUED)

in CHF	Total after effect of netting contracts	
	Cumulative positive replacement value	Cumulative negative replacement value
2012	**2 751 015**	**61 629 588**
2011	4 890 938	69 616 611

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 recognised 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 December 31, 2012 which had not been settled yet, are shown according to the value-date principle.

4.3. FIDUCIARY TRANSACTIONS

in CHF	**2012**	2011	Change
Fiduciary investments with other banks	2 573 255	3 063 316	(490 061)
Fiduciary investments with the parent company	250 708 097	243 855 660	6 852 437
Total	**253 281 352**	246 918 976	6 362 376

4.4. CLIENT ASSETS

CHF in million	**2012**	2011	Change
Client assets by type			
Assets in own managed funds	675.4	682.2	(6.8)
Assets with discretionary mandate	677.2	779.9	(102.7)
Other client assets	4 443.3	3 930.9	512.4
Total client assets (including double-counted assets)	**5 795.9**	5 393.0	402.9
Double-counted assets	307.4	333.3	(25.9)
Net increase/(decrease) (including double-counted assets)	104.7	(283.7)	388.4

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 "custody-only" assets.
Loans to clients are not deducted from "Total client assets".
Net deposits/(withdrawals) by clients were calculated by the Bank without including matured accrued, 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

The Bank does not make use of this possibility.

5.2. BREAKDOWN OF THE RESULT FROM TRADING OPERATIONS

in CHF	**2012**	2011	Change
Foreign exchange trading	10 890 515	13 536 735	(2 646 220)
Security trading	6 487	42 229	(35 742)
Total	**10 897 002**	13 578 964	(2 681 962)

5.3. BREAKDOWN OF PERSONNEL EXPENSES

in CHF	**2012**	2011	Change
Salaries	35 061 132	34 045 035	1 016 097
Social security contributions	8 006 680	7 446 629	560 051
Other expenses	2 075 734	2 308 235	(232 501)
Total	**45 143 546**	43 799 899	1 343 647

5.4. BREAKDOWN OF OTHER OPERATING EXPENSES

in CHF	**2012**	2011	Change
Premises expenses	7 710 834	7 597 418	113 416
Expenses for IT, machinery, furnishings, vehicles and other equipment	4 613 984	4 127 693	486 291
Other operating expenses	9 981 272	10 158 891	(177 619)
Total	**22 306 090**	21 884 002	422 088

5.5. EXTRAORDINARY INCOME AND EXPENSES

Extraordinary income was mainly consists of CHF 64 322 from the reversal of a liability recognized under "Other liabilities" which no longer applied, CHF 93 535 in lapsed positions, CHF 7 635 103 from the release of a securities reserve (hidden reserve) and CHF 1 276 000 from a partial release of the reserve for general banking risks.

Extraordinary expenses comprised a reversal made in the amount of CHF 450 655 for proceeds realized from the sale of securities which took place in 2010 and which were mistakenly booked to this item.

In 2011, extraordinary income mainly consisted of CHF 311 359 from the reversal of a liability recognized under "Other liabilities" which no longer applied, CHF 455 517 in lapsed positions, a gain of CHF 610 000 from the sale of the Viseca holding and CHF 1 100 000 from a partial release of a securities reserve (hidden reserve).

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	2012		
	Switzerland	Abroad*	Total
Net interest income	26 469 122	1 757 185	28 226 307
Net commission and service income	31 931 244	2 817 465	34 748 709
Net trading income	10 727 123	169 879	10 897 002
Net other ordinary income	1 075 547	-	1 075 547
Net ordinary banking income	70 203 036	4 744 529	74 947 565
Operating expenses	64 193 914	3 255 722	67 449 636
Gross profit	**6 009 122**	**1 488 807**	**7 497 929**

* "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 formalised 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, 2012.

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 2012.

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 2012 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
Licensed Audit Expert
Auditor in Charge

Daniel Senn
Licensed Audit Expert

Zurich, 4 February 2013

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

OUR PRODUCTS AND SERVICES

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DEPOSIT AND INVESTMENT ACCOUNTS

FIDUCIARY AND FORWARD DEPOSITS

MEDIUM-TERM NOTE ISSUES

FOREX

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INVESTMENT ADVISORY

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 (3RD PILLAR)

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PREFACE

The cultural section of this Annual Report for the financial year 2012 is dedicated to the nineteenth-century Swiss-Italian sculptor Vincenzo Vela (Ligornetto, Canton of Ticino, May 3, 1820 - October 3, 1891).

Born into a large family of humble means, Vela became an apprentice stonemason at a very young age, thus learning the rudiments of this arduous profession and becoming familiar with stone and the tools needed to shape it. Later he joined his elder brother in Milan and worked alongside the masters of marble at the Duomo. While improving his manual skills and broadening his experience, he also had the chance to learn about rationalism and the creative potential of art by attending classes at the Brera Academy. At the age of 15, Vela started to make a name for himself in Milan by winning several prizes in sculpture competitions. Later, aged 22, he produced a bas relief entitled *La figlia di Giairo* ("The Daughter of Jiarus"), which won him a gold medal from the Academy of Venice and earned him many commissions. One early commission was a statue of the Bishop of Pesaro, Giuseppe Maria Luvini (1845), for the city of Lugano, a statue that clearly demonstrates Vela's great talent and artistic perfection.

Attracted by the great Italian old masters, Vela moved to Rome to examine and study the works of Michelangelo and Bernini first-hand. He fell in love with Italy to such an extent that he took an active part in the politics of the time. Indeed, in 1848, he enlisted as a volunteer in the first War of Independence against the Austrians and fought on the barricades during the Five Days of Milan before eventually settling in Turin, a city that symbolised Italy's liberation from foreign occupation. There he started teaching, with great passion, energy and competence, as we can see in these, his words: "Dear students, I wish to tell you that the art to which you now dedicate yourselves demands some not inconsiderable sacrifice. Heaven help the artist who thinks art is simply a means to earn money and so sees it merely as a manual job. Let us always bear in mind that our statues are made for posterity and that sculptors will not, therefore, be judged only by their own century."

Among Vincenzo Vela's many works I would like to mention two of his greatest ones: *Spartaco* ("Spartacus"), first shown in Brera in 1851 and now kept in the Vincenzo Vela Museum in Ligornetto (Canton of Ticino), and *Napoleone morente* ("Napoleon on His Deathbed"), a sculpture for which he won first prize at the Paris International Exhibition of 1867. In this he shows Napoleon as a finished man, resigned to his fate, lacking in energy and strength and no longer filled with his former desire to conquer. Another important work by Vela is the high relief entitled *Le vittime del lavoro* ("The Victims of Work"), in memory of the men who died while working on the San Gottardo tunnel.

I could write so much more, but the authors of the pieces making up this monograph have already done so in great detail and with immense expertise. I would like to thank them all, each and every one, for their brilliant and well documented contributions.

Lugano, January 2013

The Chairman
Piero Melazzini