Banca Popolare di Sondrio (SUISSE)

2013 ANNUAL REPORT

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

Head Office and General Management
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BOARD OF DIRECTORS

Piero Melazzini
Chairman

Flavio Pedrazzoli
Vice Chairman

Plinio Bernardoni
Secretary

Giovanni Ruffini

Kurt Spinnler

GENERAL MANAGEMENT

Brunello Perucchi
Chief Executive Officer
(Until 31 December 2013)

Mauro De Stefani
Deputy Chief Executive Officer
Head of Front Division
(Until 31 December 2013)

Chief Executive Officer
(From 1 January 2014)

Paolo Camponovo
Member of the Executive Committee
Head of Logistics Division

Mauro Pedrazzetti
Head of Credits, Accounting, Market Division

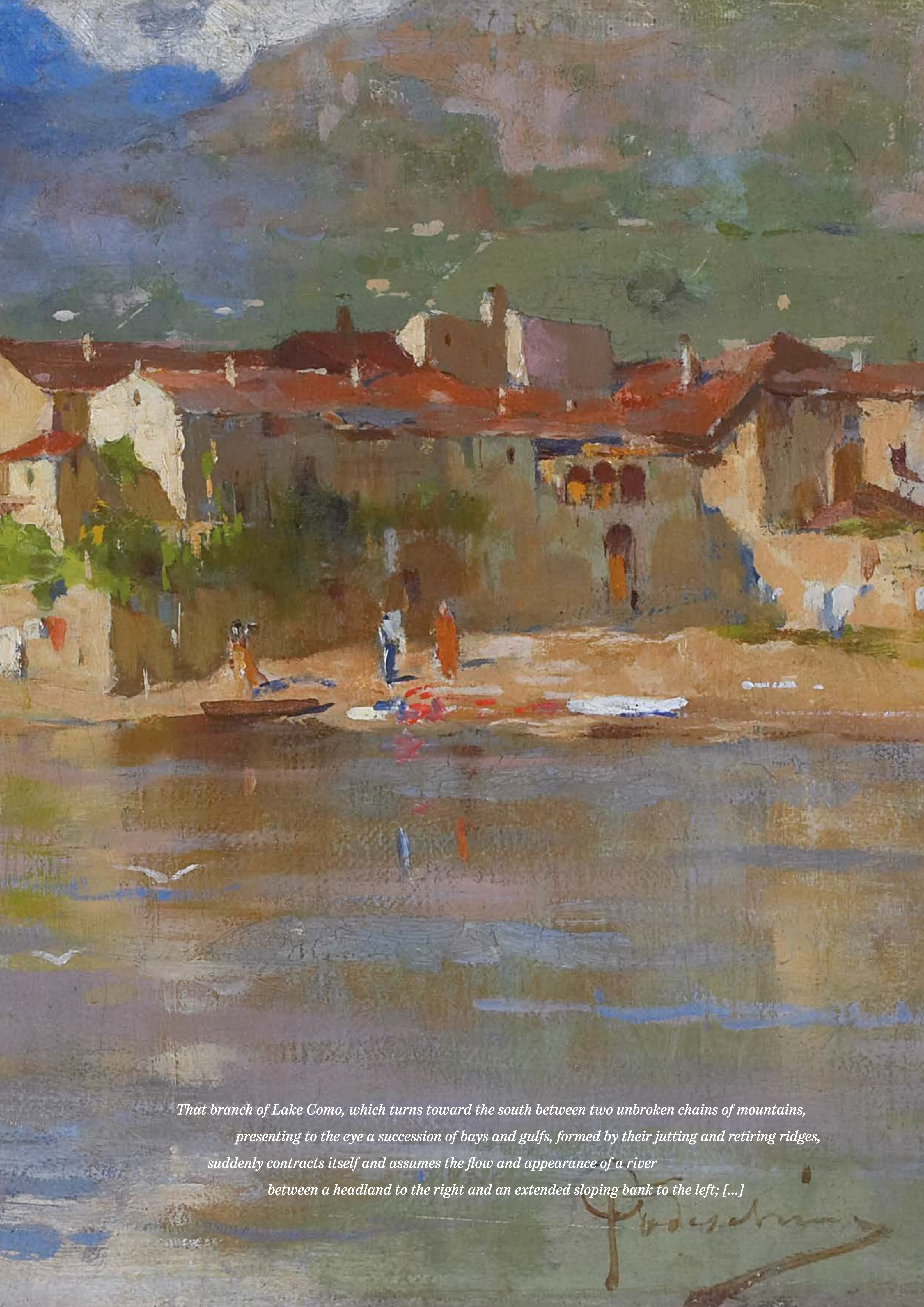
Roberto Mastromarchi
Head of Products and Services Division

INTERNAL AUDITING

Alberto Bradanini
President

EXTERNAL AUDITOR

KPMG SA
Zurich

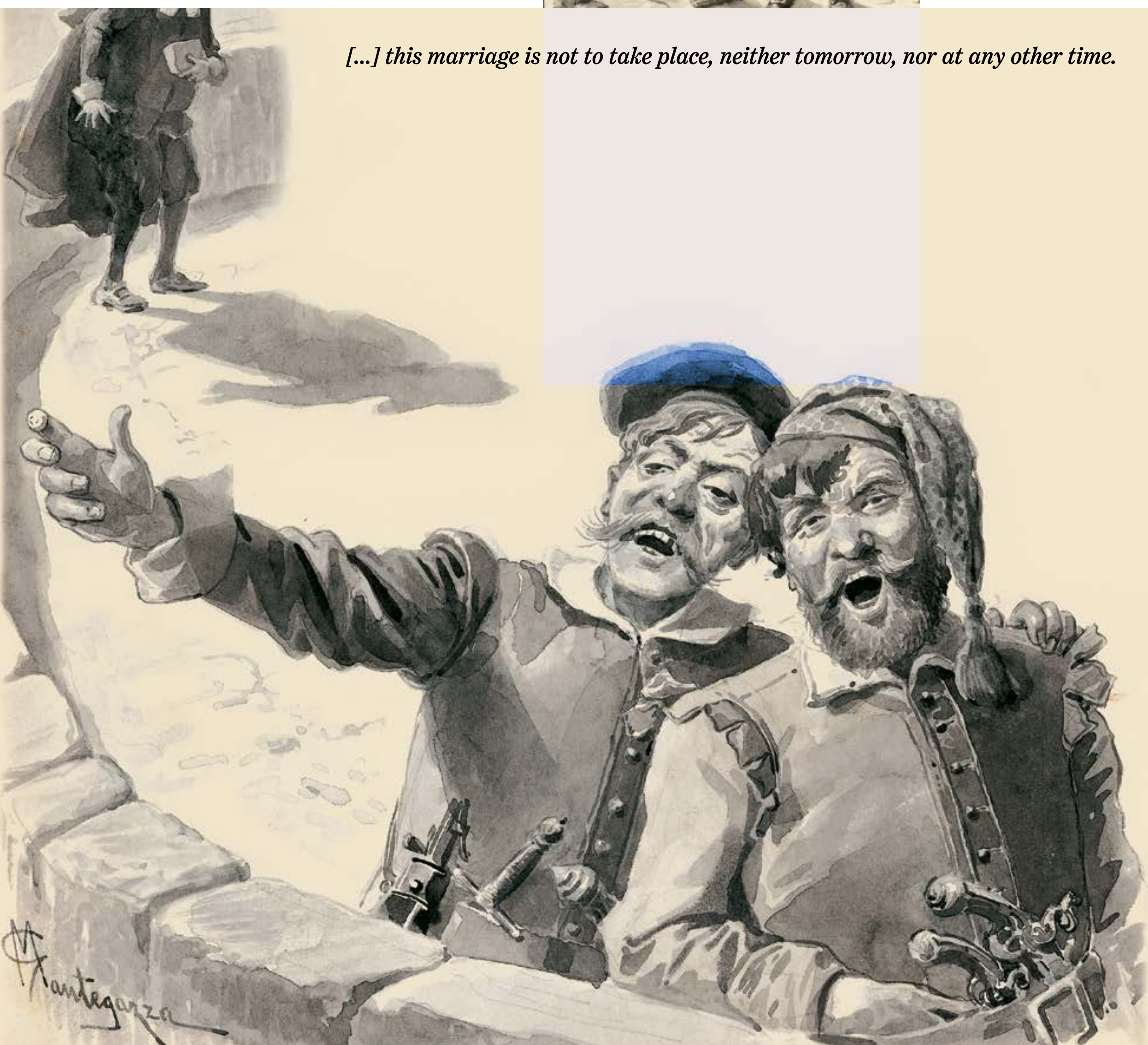


That branch of Lake Como, which turns toward the south between two unbroken chains of mountains,
presenting to the eye a succession of bays and gulfs, formed by their jutting and retiring ridges,
suddenly contracts itself and assumes the flow and appearance of a river
between a headland to the right and an extended sloping bank to the left; [...]

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

CONTENTS

[...] this marriage is not to take place, neither tomorrow, nor at any other time.



Quotations:
The sources for the quotes are on page XLVII of the cultural insert.

Double page spread:
Giovan Battista Todeschini,
Pescarenico,
second half of 19th century,
oil on canvas, 30 x 40 cm.

Illustrations by:
Giacomo Mantegazza
(1853–1920) from
Alessandro Manzoni,
I promessi sposi,
Cattaneo Editore,
Oggiono, 2009.

CHAIRMAN'S FOREWORD

At the start of each new year one tends to reflect on the year just ended. In recent years it has been impossible not to notice how the economic crisis has put strain on global business and even caused some nations' economies to go into recession. The consequence has been growing poverty and austerity for the people and even political and social instability in some places. The global economy is still relatively sluggish, despite the gradual economic recovery in the US and a few positive signs in Europe, particularly in the northern countries. However, it will take time for the economy to get back to normal, at least that is what most economists are saying.

Switzerland has only been marginally affected by the fallout of this crisis, making it the exception to the rule. In fact, Swiss GDP rose considerably in 2013, with a sudden burst in the second half of the year. This gives us hope for 2014.

A favourable wind lifted exports upwards and onwards, while unemployment figures remained at "natural" levels, though differing slightly from one canton to the next. There was no sign whatsoever of inflation, and interest rates were stable at around zero.

Switzerland's flourishing economy – together with its low taxes, efficient bureaucracy, the absence of corruption and a relatively small number of simple, straightforward laws – has attracted many foreign companies who have chosen it as the perfect place to relocate their businesses. Indeed, 2013 saw a large number of foreigners working in Switzerland (both cross-border workers and others). Many are Italian private individuals and firms and enrich our country with their hard work, experience and intelligence.

The housing industry continued to grow in 2013, striving to meet the demand coming first and foremost from Swiss citizens and a fair number of (mostly wealthy) foreigners. There has, as a result, been a marked increase in the building of new homes, despite the restrictive bank lending measures introduced by authorities requiring banks to be more cautious when granting mortgages in order to minimise cases of insolvency. The Weber Initiative, however, which set a 20% ceiling on the number of second (or "holiday") homes at the municipal level, has had the intended result of slowing down local rates of construction.

The thorny tax dispute with the US concerning assets of American citizens at Swiss banks has yet to be fully resolved. The currently proposed scheme for resolving the dispute would mean credit institutions, financial intermediaries and trust companies could face big penalties. However, a comprehensive assessment will not be possible until a definitive solution is in place and all the details are known.

Negotiations are still under way to regularise the capital held in Swiss banks by the citizens of European countries, including those belonging to the European Union. With special regard to Italy, there are several other problems that need to be solved in addition to the savings tax issue. They concern cross-border workers and their specific tax position, among other things. These are complicated matters calling for delicate negotiations and will therefore take time to finalise. Some of these issues could have a major impact on future developments in Swiss banking.

The uncertainty and complexity of these questions (and their foreseeable negative repercussions) in addition to the strength of the Swiss franc and the above-mentioned zero interest rates have been the main concerns of Swiss banks. This has moved banks, irrespective of their size, to initiate a restructuring process in order to save jobs and guarantee reasonable profitability now and in the future.

2013 therefore saw Banca Popolare di Sondrio (SUISSE) SA restructuring its business quite considerably. Wherever possible, it has made savings and cut costs, much like a good surgeon skilfully wielding the scalpel to remove unwanted or unnecessary tissue. The Bank has also strived to intensify its business activities while closely assessing the profitability of specific transactions.

The figures speak for themselves. Our acceptance of customer deposits – the business that makes a bank a bank – grew on the previous year, while our customer loans have also risen, especially mortgages. Given its geographical location, BPS (SUISSE) has, as usual, paid a lot of attention to the concerns of private individuals and SMEs, without neglecting its other customers. In other words, it has followed the tradition of its Italian parent company, Banca Popolare di Sondrio.

While net profit for the period was only moderate, it was better than in 2012, due in large part to the often painful, but crucial decisions taken as part of the restructuring process.

In 2013, operations in St. Gallen were closed and transferred to our Zurich branch, and operations in Basel were concentrated. Our representation office in Neuchâtel became a fully fledged branch, and the Contact Center has been turned into a virtual branch called "Direct Banking". BPS (SUISSE) thus operates 20 physical branches in Switzerland, plus the new virtual branch and our foreign branch in the Principality of Monaco. The Bank hopes to be able to expand its branch network in the near future and establish itself in other promising areas in French-speaking Switzerland. The feasibility of such a move will depend on how well the existing Neuchàtel branch does. Its results will be carefully scrutinised before we take any decisions regarding new branches.

In conclusion, I want to express my appreciation to Brunello Perucchi, who retired on 31 December last year and therefore gave up his post as CEO. He merits a special thanks from me and the entire Bank for all the committed service he as provided over the past 14 years at the head of the company. I wish him all the very best in his retirement, which I trust will be a long and happy one enjoyed with his family. We are all confident though that he will continue to visit "his" bank from time to time and his former colleagues, many of whom owe so much of their own banking expertise to him.

I would also like to wish Brunello Perucchi's successor as CEO, Mauro De Stefani, great success both professionally and personally. I am sure he will live up to the very high standards set by his predecessor.

My thanks also go to the members of the Board of Directors, the Management, all the Branch Managers and every member of staff for the commitment they show every day in their various areas of expertise.

My deep gratitude goes to the Swiss Financial Market Supervisory Authority (FINMA) for the helpfulness and consideration it has shown towards us.

Finally, I give my heartfelt thanks to our customers, whom I hope will continue to entrust us with their business, knowing that we are always at their disposal whatever their banking needs may be.

Lugano, 1 January 2014

The Chairman
Piero Melazzini

Tell me, tell me quickly his name, or else I'll...

Two powerful men, two hoary heads, two consummate experiences faced each other.

REPORT OF THE BOARD OF DIRECTORS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2013

The overall economic picture is one of general improvement. Although some deep-seated reservations and uncertainties are still present, the outlook is turning brighter.

The extremely favourable monetary policy has mitigated the effects of the 2007/2008 financial crisis. In other words, it has "bought" time and averted the risk of further recession in developed economies.

We are beginning to see signs of a turnaround, but the caution of central banks all over the world is all too tangible. The US has repeatedly postponed the so-called tapering of its stimulus programme. The aim is not, after all, to suffocate the financial sector, but to stop adding further incentives. In the end, the US opted for a limited reduction of incentives, if only to signal to the markets that the emergency was over. The change in the Federal Reserve's management points to continued prudence. The US is meanwhile enjoying good growth in its GDP, though not at an equal rate in all sectors and geographical areas.

After decades of stagnation, Japan's decision to "Americanise" its monetary policy by greatly devaluing the yen immediately produced several positive effects, including outstanding results for the stock market.

Europe still finds itself in mid-stream. Most importantly, the acute debt crisis in the EU member states has been overcome thanks to the European Central Bank and the breathing space it created. The individual EU member economies differ greatly – especially if one compares Germany to the Mediterranean countries – and this makes it difficult to enforce a single policy. In order to kick-start an economic recovery, Europe needs to concentrate on consumption and productivity, but strict rules make public stimulus programmes impossible as long as the credit crunch is making life hard for private citizens. Paradoxically, the weakest economic area has the strongest currency.

Even China is now experiencing ups and downs in its economy for the first time. Growth is no longer in double figures, cracks are appearing in the financial system and speculative bubbles are feared by many. The authorities' efforts are directed towards establishing a different balance, one aimed more at domestic consumption than exports.

Emerging countries have seen a fall in foreign investments, and a certain amount of caution is needed. Those countries that enjoy reasonable political stability should, in any case, benefit from the pickup in the US and Japanese economies, not to mention the continuing strength of the Chinese economy.

In such a context, Switzerland is proving to be a significant exception to the rule, and not for the first time. Although not unscathed by the crisis, it has avoided recession thanks to the diversification of its economy. GDP growth has gradually increased over the course of the year and the outlook remains good for the future. Some of the typically positive aspects of Switzerland are its federal policy encouraging private initiative, the constant attention to research and innovation, the moderate tax burden and the availability of some truly excellent services, including those offered by the banking sector. It comes as no surprise, therefore, that Switzerland continues to be highly attractive.

The sharp and sudden appreciation of the Swiss franc at the height of the financial crisis was successfully reined in by the Swiss National Bank before it became unmanageable, and the economy now seems to have come to terms with it, though the process was not a smooth and painless one for all sectors. However, the absence of inflation has gradually helped bring real and nominal exchange rates for the Swiss franc and the main foreign currencies closer.

The Swiss National Bank has said it will continue to be vigilant and will maintain its euro floor and defend the minimum exchange rate.

The Swiss Financial Market Supervisory Authority (FINMA) has increasingly focused its attention on the real estate sector due to overheating of property prices in some regions despite the restrictive measures adopted by banks regarding the granting of mortgages. Mindful of the painful consequences suffered in the 1990s, FINMA is concentrating its efforts on preventing another speculative bubble. We believe that the best strategy would be to trigger a small rise in interest rates so that the market assumes part of the responsibility for reaching a new equilibrium. The fear of another major appreciation in the Swiss franc is widespread and, therefore, new regulatory constraints are likely to be introduced soon.

The climate of highly expansionary monetary policy combined with improvements in fundamental data has benefited the stock markets, as in the case of Japan, where performance has been excellent and even extraordinary. Higher capitalisation has also had some indirect positive effects for both investors and savers. As for the future, people as always fall into one of two camps: the optimists and the pessimists. There is also strong divergence in how gold prices are viewed – this safe haven *par excellence* lost around a quarter of its value in 2013.

2014 will show whether or not the crisis is really over and if this favourable cycle will last.

The Swiss banking system has experienced a turbulent time in the wake of the debates on banking secrecy and, especially, the negotiations in the tax dispute with the US. Swiss banks were given the option of participating in the US programme for resolving the tax dispute, of which there are several different categories. The programme could entail drastic consequences for individual financial institutions.

In view of the problems governments are having in financing their public budgets, tax issues are highly relevant. The OECD has spearheaded a campaign for the automatic exchange of information to be adopted as a new model for international tax co-operation. In 2013 Switzerland joined many other countries in signing the agreement, and its provisions will now be adopted in new conventions on double taxation and in the revision of existing ones.

The declared "white money" strategy (Weissgeldstrategie) must allow banks to offer their clients the possibility of regularising their assets, both present and past. It is only on this basis that future agreements can be sought with neighbouring countries. Many important issues still have to be negotiated, in particular with Italy, including double taxation, blacklists, the question of how to deal with cross-border workers and the status of Campione d'Italia.

At a European level, negotiations are under way to revise the agreements on savings tax and to review various institutional issues. Switzerland has tabled what it feels to be a legitimate amendment that allows Swiss financial institutions to enter foreign markets based on the application of equivalent rules concerning the protection of both investors and savers. Guaranteeing good neighbourly relations is a prime concern here.

More than ever before, there is a need now to return to normal and focus again on our clients and the actual business of banking. In other words, we need to concentrate on our job and do so in a context where at least the short-term perspectives are relatively clear.

Changes in client habits have manifested in the retail sector. People are becoming less accustomed to doing business at banks' physical premises, despite extended bank opening hours. This is a rapidly growing international trend being driven by the use of sophisticated banking tools available to all at affordable prices.

Our Bank has invested in this trend direction in a timely way, neither too early nor too late, avoiding the risk of having to catch up at a critical point. Consequently, as of January 2014, our virtual banking channel is assuming the status of a branch with the name "Direct Banking".

Commensurate with clients' reduced use of cash, we have restructured our bank counter services. Staff has been re-allocated from services less in demand to where the demand is greater, i.e. our advisory services.

This has also entailed some changes in our branch network. The activities of the St. Gallen branch were taken over by our main branch in Zurich, while in Basel resources were concentrated in the main city branch.

One year after opening our representative office in Neuchâtel, we decided to strengthen our presence in Western Switzerland by turning this office into a branch as of January 2014. This move has been well received and we therefore believe that conditions are right for our success in this region, which is well-known for its high-end watch industry and nanotechnology.

The Bank now operates in six Swiss cantons, while our foreign branch in the Principality of Monaco has extended its mortgage lending to include France.
At year-end we had 312 employees (–29 compared to 2012).

Collaboration with our parent company was mutually beneficial in those areas where joint initiatives were possible and sensible. New forms of synergy are being sought to serve our international clients better. We are the only banking group currently providing commercial banking services from both sides of the border.
Our Popso (Suisse) Investment Fund SICAV range has been enlarged by three new funds, also available in Italy through the parent company's branches. The amount of assets under management has increased considerably. Our investment fund savings plans have been well received by our retail clients.

Liquidity was good throughout the year. New rules are being introduced in this area to minimise the risk of future systemic liquidity crises.

Total funding from customers amounted to CHF 5,347,600,000 (+4% year-on-year), of which indirect funding was CHF 2,366,200,000 (+2%). Direct funding rose to CHF 2,981,400,000 (+7%) thereby allowing optimal refinancing of liabilities. Developments were very satisfactory in the more stable components, i.e. savings and investment accounts, which grew by 17% to CHF 823,300,000. Despite interest rates being at an all-time low, bonds also performed well, at CHF 151,200,000 (+8%).

Life Benefit, our third-pillar pension foundation, saw a 10% rise in assets, thanks to liquid investments and high yields.

Customer lending grew in line with the budget, reaching CHF 3,310,100,000 (+5%). Mortgage loans were nearly all for residential property and amounted to CHF 2,717,600,000 (+8%). The Bank's lending policy has always been one of prudence and balance and is thus in line with the objectives of the supervisory authority, which aim at limiting exceptions to risk policy as far as possible. Other loans and advances to clients declined to CHF 592,500,000 (−7%) as a result of planned repayments of credit lines.

The income statement showed a marked improvement on 2012, reflecting the rise in business volume and efforts to increase efficiency.

Net interest income was CHF 35,001,000 (+24%), thanks to the growth in the loan portfolio, the favourable trend in direct funding, effective treasury management and a slight improvement in margins.

Net income from fee and commission business was CHF 36,608,000 (+5%), a particularly good result considering our clients are generally very conservative and prefer fixed-income portfolios, which severely limits trading opportunities in the current environment. This result may therefore be attributed to the quality of our services, the added value provided by our advisory and our endeavours to achieve the ideal balance between risk and return.

Net trading income was good at CHF 11,058,000 (+1%).

Net income from ordinary banking operations came to CHF 83,205,000 (+11%), exceeding our expectations.

Operating expenses were managed successfully and declined to CHF 65,452,000 (–3%). This item comprised personnel expenses of CHF 43,769,000 (–3%) and other operating expenses of CHF 21,683,000 (–3%).

Gross profit amounted to CHF 17,753,000 (+137%).

After depreciation, amortisation, provisions for default risk and taxes due for the financial year, net profit came to CHF 1,709,000 (+263%).

The Board of Directors is proposing to the General Meeting of Shareholders that the net profit be transferred in full to the general legal reserve for the purpose of strengthening the Bank's capital structure, in accordance with Article 22 of the Articles of Association.

The Bank's CEO, Brunello Perucchi, retired at the end of 2013 and was replaced by Mauro De Stefani, formerly the deputy CEO. At the same time, the composition of General Management was altered and other organisational changes were made to facilitate the Bank's new development strategies.

We want to thank our clients for the trust they have put in us and for their valuable feedback. We also want to thank all our staff for their professionalism and determination and express our appreciation to the Financial Market Supervisory Authority FINMA for its support and to KPMG, our esteemed independent auditors, for their impeccable and reliable collaboration.

Lugano, 27 January 2014 **The Board of Directors**

Eternal regret for her lost liberty and youth,
withering away into slow martyrdom [...]

2013 FINANCIAL STATEMENTS

BALANCE SHEET AS AT DECEMBER 31, 2013

ASSETS

in CHF	Note	2013	2012	Change
Cash		**106 803 295**	83 998 050	22 805 245
Due from banks		**916 030 391**	818 890 876	97 139 515
Due from clients	3.1	**592 460 287**	636 716 749	(44 256 462)
Mortgage loans	3.1	**2 717 640 641**	2 525 142 141	192 498 500
Financial investments	3.2	**33 413 364**	26 216 283	7 197 081
Participating interests	3.2, 3.3, 3.4	**603 138**	603 138	-
Fixed assets	3.4	**26 099 335**	30 683 979	(4 584 644)
Accrued income and prepaid expenses		**9 072 722**	7 727 486	1 345 236
Other assets	3.17	**42 437 973**	68 448 259	(26 010 286)
Total assets		**4 444 561 146**	4 198 426 961	246 134 185
Total amounts receivable from group companies and significant shareholders		**867 192 687**	731 478 842	135 713 845

LIABILITIES

in CHF	Note	2013	2012	Change
Money market instruments		118 120	197 585	(79 465)
Due to banks		1 078 120 701	1 004 028 867	74 091 834
Due to clients in savings and investment accounts		823 346 060	701 956 112	121 389 948
Other amounts due to clients		2 006 848 386	1 953 411 416	53 436 970
Cash bonds	3.8	151 212 000	139 908 000	11 304 000
Accrued liabilities and deferred income		14 544 124	14 539 603	4 521
Other liabilities	3.18	46 621 105	71 350 888	(24 729 783)
Valuation adjustments and provisions	3.9	42 276 531	33 269 809	9 006 722
Reserve for general banking risks	3.9	13 724 000	13 724 000	-
Share capital	3.10, 3.11	150 000 000	150 000 000	-
General legal reserve	3.11	116 040 680	115 569 927	470 753
Net profit for the year	3.11	1 709 439	470 754	1 238 685
Total liabilities		4 444 561 146	4 198 426 961	246 134 185
Total liabilities to group companies and significant shareholders		975 187 912	932 513 164	42 674 748

OFF-BALANCE-SHEET ITEMS AS AT DECEMBER 31, 2013

in CHF	Note	2013	2012	Change
Contingent liabilities	3.1, 4.1	257 522 303	232 631 923	24 890 380
Irrevocable commitments	3.1	14 498 000	14 436 000	62 000
Derivative financial instruments	4.2	3 048 312 692	2 907 281 481	141 031 211
Positive replacement values		3 335 250	2 751 015	584 235
Negative replacement values		38 021 959	61 629 588	(23 607 629)
Fiduciary transactions	4.3	240 323 881	253 281 352	(12 957 471)

2013 INCOME STATEMENT

INCOME STATEMENT FOR THE FINANCIAL YEAR ENDING DECEMBER 31, 2013

in CHF	Note	2013	2012	Change
Interest income:				
- interest and discount revenue		77 243 686	76 003 031	1 240 655
- interest and dividends on financial investments		425 348	422 760	2 588
Interest expense		(42 667 795)	(48 199 484)	5 531 689
Net interest income		35 001 239	28 226 307	6 774 932
Commission income:				
- on credit transactions		2 080 400	1 449 979	630 421
- on securities trading and investment transactions		32 974 836	32 588 013	386 823
- on other services		7 090 075	5 906 133	1 183 942
Commission expense		(5 537 438)	(5 195 416)	(342 022)
Net fee and commission income		36 607 873	34 748 709	1 859 164
Net trading income	5.2	11 057 675	10 897 002	160 673
Net income from disposal of financial investments		216 094	200 276	15 818
Income from participating interest		-	-	-
Profit from real estate		218 703	172 298	46 405
Other ordinary income		273 130	844 298	(571 168)
Other ordinary expenses		(169 572)	(141 325)	(28 247)
Other ordinary income		538 355	1 075 547	(537 192)
Net ordinary banking income		83 205 142	74 947 565	8 257 577
Operating expenses:				
Personnel expenses	5.3	43 768 538	45 143 546	(1 375 008)
Other operating expenses	5.4	21 683 059	22 306 090	(623 031)
Total operating expenses		65 451 597	67 449 636	(1 998 039)
Gross profit		17 753 545	7 497 929	10 255 616

INCOME STATEMENT

in CHF	Note	2013	2012	Change
Depreciation/amortisation of fixed assets	3.4	**(6 314 996)**	(7 038 654)	723 658
Valuation adjustments, provisions and losses		**(8 241 769)**	(6 930 027)	(1 311 742)
Profit before extraordinary items and taxes		**3 196 780**	(6 470 752)	9 667 532
Extraordinary income	5.5	**136 659**	9 089 916	(8 953 257)
Extraordinary expenses	5.5	**-**	(450 655)	450 655
Taxes		**(1 624 000)**	(1 697 755)	73 755
Net profit for the year		**1 709 439**	470 754	1 238 685

PROPOSAL FOR APPROPRIATION OF BALANCE SHEET PROFIT

in CHF	Note	2013	2012	Change
Profit for the year		**1 709 439**	470 754	1 238 685
Profit brought forward		**-**	-	-
Available earnings		**1 709 439**	470 754	1 238 685
The Board of Directors proposes to allocate the balance sheet profit as at December 31, 2013, totalling CHF 1 709 439, to the general legal reserve		**1 709 439**	470 754	1 238 685
Retained earnings to be carried forward		**-**	-	-

CASH FLOW STATEMENT AS AT DECEMBER 31, 2013

CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2013 (WITH 2012 COMPARATIVE FIGURES)

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

CHF in thousands	**2013**		2012	
	Source	Utilisation	Source	Utilisation
Profit for the year	1 709	-	471	-
Depreciation write-offs of fixed assets	6 315	-	7 039	-
Valuation adjustments and provisions	9 007	-	-	1 088
Reserve for general banking risks	-	-	-	1 276
Accrued income and prepaid expenses	-	1 345	2 952	-
Accrued liabilities and deferred income	4	-	-	794
Other assets	26 010	-	437	-
Other liabilities	-	24 730	-	6 712
Net operating cash flow	16 970		1 029	

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	-	-	-	-
Bank buildings	-	3	-	1
Other fixed assets	-	697	-	1 187
Intangible fixed assets	-	1 030	-	2 453
Net cash flow from investment activities		1 730		3 641

CASH FLOW STATEMENT

CASH FLOW FROM BANKING OPERATIONS

CHF in thousands	2013		2012	
	Source	Utilisation	Source	Utilisation
Balance brought forward	16 970	1 730	51 029	3 641
Non-current operations (> 1 year)				
Due to clients - savings	-	-	-	-
Due to clients - other	-	10 241	10 241	-
Cash bonds	-	778	-	51 612
Client loans	14 884	-	-	11 368
Mortgage loans	-	109 457	-	312 874
Financial investments	-	9 857	10 001	-
Current operations				
Liabilities under money market instruments	-	80	91	-
Due to banks	74 092	-	-	43 800
Due to clients	63 678	-	468 100	-
Cash from client savings	121 390	-	29 391	-
Cash bonds	12 082	-	644	-
Due from banks	-	97 139	-	189 585
Due from clients	29 372	-	21 952	-
Mortgage loans	-	83 041	59 185	-
Financial investments	2 660	-	-	1 726
Securities trading portfolio	-	-	-	-
Net cash flow from banking activities	7 565			11 360
Total cash flow	24 535	1 730	51 029	15 001
Change in cash flow		22 805		36 028

"Ah!" pondered Abbondio, as he returned home.

"If the pestilence always acted everywhere with so much discrimination,

it would be a pity to speak ill of it: we could almost do with one every generation.

We'd be happy to come to terms with it; but only if we were cured."

NOTES TO THE 2013 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), branches in Chur, Basel, Locarno, Zurich, Berne and the Principality of Monaco, in addition to a representative office in Neuchâtel which was upgraded to a branch office as of 1 January 2014.
At the end of the year, our staff numbered 312 employees (end of 2012: 341 employees), which represented a total of 299.4 employees (2012: 324.85 employees).
The Bank does not outsource any activities as defned 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 26, 2013). 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

The security portfolio that the Bank owns but is not held for trading and the equity securities that are not intended to be held on a continuous basis (for interest/dividend-bearing securities) are valued at the lower of purchase price or market value with respect to each individual security.

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.

	2013	2012
Freehold premises (Own real estate)	33.3 anni	33.3 anni
Office restructuring	5 anni	5 anni
Equipment	10 anni	10 anni
Furniture	8 anni	8 anni
Office machinery	5 anni	5 anni
Motor vehicles	5 anni	5 anni
Hardware	3 anni	3 anni
Software	3 anni	3 anni

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, or, if such prices are not available 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 accounted 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 1.2268 (2012: 1.2072); USD 0.8904 (2012: 0.9151).

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 2013, compared to the year ended December 31, 2012, 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, 2013.

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 ifnancial 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 informs the Board of Directors.
For the supervision and enforcement of the financial risk policy, the General Manager relies on the Risk Committee which replaced the Assets and Liabilities Management Committee (A.L.CO.) as of 1 January 2014; its functions are set out in detail in the internal regulations.
In accordance with the FINMA 2008/24 Circular "Supervision and internal control – banks", the Bank set up a Risk Control Department which took over the functions of the Risk Management Department from 1 January 2014 and expanded them; it is in charge of the supervision, measurement and analysis of the Bank's risk profile and ensuring compliance with risk policies, risk limits and internal rules.

SPECIFIC RISKS RELATED TO THE BANK'S ACTIVITY

Risks are subdivided into: credit, market, operational, liquidity, strategic and reputational risks.

CREDIT RISK

Credit risk is defined as the risk of incurring loss when a counterparty does not fulfil his or her contractual obligations. Credit risk includes counterparty, concentration and country risk.
If the counterparty becomes insolvent, a bank usually incurs a loss that equals the amount owed by the debtor, net of any amounts recovered from the liquidation of any collateral.

The Bank's exposure relates primarily to the lending activity with private customers. The Bank generally grants mortgage loans which are mostly for residential properties, Lombard loans and commercial loans. Loans abroad are mainly granted by the 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 highest 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.
The Bank works with leading counterparties selected on the basis of specific quality standards.
In order to reduce credit concentration risk with respect to financial investments, it allocates risks equally across its portfolio by diversifying investments to the extent necessary.
Country risk refers to the sum of risks that may apply when investments are made in foreign countries, and is mainly based on the domicile of the risk.

MARKET RISK (PRICES, RATE, EXCHANGE)

Market risk is the risk of loss due to fluctuations in the value of a position caused by a change in the factors that affect the prices of items like shares or raw materials, changes in exchange rates or fluctuations in interest rates.
Price fluctuation risk refers to unexpected changes in the price of securities, and is assumed by the Bank on a prudential basis with a view to long-term investments rather than trading in the strict sense. Interest rate risk mainly arises from the failure to properly reconcile the timing between funding transactions and use of the funds.
Interest rate swaps (micro and macro hedges) are used to hedge significant medium and long-term exposures with the parent bank only.

The bank employs this type of hedging to deal with interest rate fluctuation risks on the refinancing of loan contracts with clients who have fixed rate contracts with medium and long-term expiry dates. The Bank acts as the swap payer and pays the fixed rate to the receiving parent bank while receiving the floating rate indexed to the LIBOR rate.

The effectiveness criteria are in line with the percentages established by the parent bank (80-125%). Any ineffective portion of hedging operations are recognized in "Net income on trading operations".

The Bank is exposed to limited exchange rate risk since most transactions are carried out on behalf of clients and on the basis of their requirements.
Prudent maximum exposure levels were set to minimise residual risks. Any positions that are not balanced on an individual basis are therefore managed by the treasury department on a day-to-day basis.

LIQUIDITY AND REFINANCING RISK

Liquidity risk refers to the ability to buy or sell on the market, the risk of failing to meet payment commitments and of not being able to sell an asset or sell it at a price that is close to market prices.
The level of liquidity is monitored in accordance with legal requirements.
The Bank's funding derives 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 refnancing 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 such risks, 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 frms specialising in particular felds or geographical regions.

US TAX PROGRAM

Within the scope of the the joint statement signed at the end of August 2013 between the Swiss authorities and the US authorities to resolve the tax dispute with the United States (known as the "US Tax Program"), the Bank analysed the potential risks and implemented measures to reduce them. The Bank has never had this type of client as an acquisition target and has never operated in the United States. Therefore it believes that it has not committed "tax offenses" as set out by US laws. However, the Bank participated in the Program and informed the American Department of Justice the allocation in Category 2, while reserving the right to reclassify itself under Category 3. The Bank has taken on the services of a specialized American law firm to assist it in this matter.

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 which is not part of the operating unit.

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.

[...] suffer me to clasp this hand, which is about to repair so many wrongs,
to scatter so many blessings, to comfort so many troubled souls,
to offer itself unarmed, peaceably and humbly to so many enemies.

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	192 776 316	297 533 005	102 150 966	592 460 287
Mortgage loans				
Residential property	2 414 033 283	-	-	2 414 033 283
Commercial property	303 607 358	-	-	303 607 358
Other	-	-	-	-
Current year	**2 910 416 957**	**297 533 005**	**102 150 966**	**3 310 100 928**
Previous year	2 709 439 105	337 362 224	115 057 561	3 161 858 890
Off-balance-sheet				
Contingent liabilities	1 401 594	201 914 639	54 206 070	257 522 303
Commitments of payments and additional deposits	-	-	-	-
Irrevocable commitments	-	-	14 498 000	14 498 000
Current year	**1 401 594**	**201 914 639**	**68 704 070**	**272 020 303**
Previous year	2 603 028	165 826 607	78 638 288	247 067 923

IMPAIRED LOANS

in CHF	Gross amount of debt	Estimated liquidation value of collateral	Net amount of debt	Individual value adjustment
Current year	**20 140 761**	**1 619 550**	**18 521 211**	**18 521 211**
Previous year	20 017 230	1 839 427	18 177 803	18 177 803

3.2. FINANCIAL INVESTMENTS AND PARTICIPATING INTERESTS

Financial investments	Carrying value		Market value	
in CHF	**2013**	2012	**2013**	2012
Debt instruments	**28 840 995**	21 830 781	**29 171 195**	22 060 483
of which: own bonds or medium-term notes	-	-	-	-
of which: held to maturity	-	-	-	-
of which: valued at lower of cost or market	28 840 995	21 830 781	29 171 195	22 060 483
Instruments	**4 572 369**	4 385 502	**4 656 886**	4 454 294
Qualified participating interests	-	-	-	-
Deposit bonds (purchase value)	-	-	-	-
Precious metals	-	-	-	-
Real estate	-	-	-	-
Total financial investments	**33 413 364**	26 216 283	**33 828 081**	26 514 777
Securities pledgeble in accordance with liquidity regulations	16 334 424	18 145 383	-	-

Information on treasury shares included in financial investments	Number		Carrying value	
in CHF	**2013**	2012	**2013**	2012
Balance at 01.01.13	-	-	-	-
Purchases (additions)	-	-	-	-
Disposals	-	-	-	-
Writedowns	-	-	-	-
Upward revaluations	-	-	-	-
Balance at 31.12.13	-	-	-	-

Participating interests		
in CHF	**2013**	2012
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 2013.

3.4. BREAKDOWN OF FIXED ASSETS

in CHF	Purchase price	Accumulated depreciation & amorti-sation	Book value as at 31.12.2012	Reclassifi-cation	Additions	Disposals	Depreciation & amorti-sation	Book value as at 31.12.2013
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	22 281 049	(6 226 998)	16 054 051	-	3 330	-	(828 965)	15 228 416
Other tangible fixed assets	74 946 123	(63 119 253)	11 826 870	-	697 378	-	(3 547 550)	8 976 698
Intangible fixed assets	34 099 072	(31 984 257)	2 114 815	-	1 029 644	-	(1 712 285)	1 432 174
Capitalised cost (Capital increase)	1 130 979	(442 736)	688 243	-	-	-	(226 196)	462 047
Total	**132 457 223**	**(101 773 244)**	**30 683 979**	**-**	**1 730 352**	**-**	**(6 314 996)**	**26 099 335**
Insurance value								
Properties used by the Bank			17 170 000					17 141 000
Other tangible fixed assets			35 764 200					35 162 000

3.5. CAPITALISED ESTABLISHMENT EXPENSES, CAPITAL INCREASE AND ORGANISATION COSTS

Cost of capital increase in CHF

	31.12.2013	31.12.2012
Cost of capital increase (CHF 50 million increase carried out in 2010)	126 270	240 540
Cost of capital increase (CHF 50 million increase carried out in 2012)	335 778	447 704
	462 048	688 244

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	3 669 835	Nessun impegno
Securities used as collateral at SIS	5 485 380	Nessun impegno

Securities repurchase (Repo) operations	**Current year**	Previous year
Securities (financial investments) pledged to secure Repo operations	7 179 209	9 013 252
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	**31.12.2013**	31.12.2012
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	4 176 095	4 485 240
Changes owing to future economic benefits / liabilities	-	-
Credited to employer's reserve	-	-
Total pension costs included in "Personnel expenses"	**4 176 095**	4 485 240

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
0.500 %	10 467	1 328									11 795
0.625 %	1 776	6 000	50	135							7 961
0.700 %		638									638
0.750 %	38 431	18 830	181								57 442
0.875 %			85	40							125
1.000 %	1 253	665	530	164	158	245					3 015
1.125 %	455	635		15			115				1 220
1.250 %	11 002	5	600	360	30			220			12 217
1.375 %	380	65	270			20			230	10	975
1.500 %	385	1 718	330	119	280		136				2 968
1.625 %	76	300			70	50	125	30			651
1.750 %	2 200		1 753	140			50				4 143
1.875 %	9 116		250								9 366
2.000 %	10	1 109	160	695	60						2 034
2.125 %	50	28 797	6	20	70			4			28 947
2.250 %			4 420	11		15	10				4 456
2.375 %					1			165			166
2.500 %			50			246	10	250			556
2.625 %	10				100	88					198
2.750 %	124	20									144
2.875 %	65										65
3.000 %	514										514
3.125 %	20		10								30
3.250 %	604	111	2								717
3.375 %	48			10	4						62
3.500 %	667	140									807
Total	**77 653**	**60 361**	**8 697**	**1 709**	**773**	**664**	**446**	**669**	**230**	**10**	**151 212**

3.9. VALUATION ADJUSTMENTS AND PROVISIONS

in CHF

	Balance as at 31.12.2012	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 31.12.2013
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)	33 269 809	(18 992)	-	104 237	4 306 477	-	37 661 531
Valuation adjustments and provisions for other business risks	-	-	-	-	-	-	-
Restructuring provisions	-	-	-	-	-	-	-
Provisions for pension liabilities	-	-	-	-	-	-	-
Other provisions	-	-	-	-	4 615 000	-	4 615 000
Subtotal	**33 269 809**	**(18 992)**	**-**	**104 237**	**8 921 477**	**-**	**42 276 531**
Total valuation adjustments and provisions	**33 269 809**	**(18 992)**	**-**	**104 237**	**8 921 477**	**-**	**42 276 531**
Less: Valuation adjustments set off directly against assets	-	-	-	-	-	-	-
Total valuation adjustments and provisions as per balance sheet	**33 269 809**	**(18 992)**	**-**	**104 237**	**8 921 477**	**-**	**42 276 531**
Reserve for general banking risks	**13 724 000**	**-**	**-**	**-**	**-**	**-**	**13 724 000**

The “Reserves for general banking risks” are not taxed.

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 legislative measures 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).

3.11. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

in CHF	**2013**	2012
Total shareholders' equity at the beginning of the period		
Paid-up share capital	150 000 000	100 000 000
General legal reserve	115 569 927	112 352 786
Reserve for general banking risks	13 724 000	13 724 000
Balance sheet profit	470 754	3 217 141
Total	**279 764 681**	229 293 927
Allocation to the general legal reserve	470 754	3 217 141
Dividend and other payments deducted from the profit of prior year	(470 754)	(3 217 141)
Profit for current financial year	1 709 439	470 754
Capital increase	-	50 000 000
Total shareholders' equity	**281 474 120**	279 764 681
of which:		
Share capital	150 000 000	150 000 000
General legal reserve	116 040 681	115 569 927
Reserve for general banking risks	13 724 000	13 724 000
Balance sheet profit	1 709 439	470 754
Total	**281 474 120**	279 764 681

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	106 803 295	-	-	-	-	-	-	106 803 295
Due from banks	63 438 175	-	789 723 824	62 868 392	-	-	-	916 030 391
Due from clients	289 209 024	-	212 155 881	51 617 564	32 655 818	6 822 000	-	592 460 287
Mortgage loans	14 733 304	336 486 747	213 228 050	350 865 410	1 223 826 020	578 501 110	-	2 717 640 641
Financial investments	4 572 370	-	1 202 979	4 474 220	22 680 795	483 000	-	33 413 364
Current financial year	**478 756 168**	**336 486 747**	**1 216 310 734**	**469 825 586**	**1 279 162 633**	**585 806 110**	**-**	**4 366 347 978**
Previous 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

Amounts due to third parties								
Money market instruments	118 120	-	-	-	-	-	-	118 120
Due to banks	2 565 888	-	993 223 797	82 331 016	-	-	-	1 078 120 701
Due to clients in savings and investment accounts	823 346 060	-	-	-	-	-	-	823 346 060
Other amounts due to clients	1 676 278 383	-	155 924 249	174 645 754	-	-	-	2 006 848 386
Medium-term notes	-	-	31 041 000	46 612 000	71 540 000	2 019 000	-	151 212 000
Current financial year	**2 502 308 451**	**-**	**1 180 189 046**	**303 588 770**	**71 540 000**	**2 019 000**	**-**	**4 059 645 267**
Previous financial year	2 245 334 065	-	1 066 955 442	402 634 033	82 724 440	1 854 000	-	3 799 501 980

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

in CHF	**2013**	2012	Change
Loans to governing bodies	**5 300 000**	5 900 000	(600 000)

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

3.14. BREAKDOWN OF ASSETS AND LIABILITIES BY GEOGRAPHICAL AREA

CHF in thousands	**2013**		2012	
	Switzerland	Abroad	Switzerland	Abroad
Assets				
Cash	106 102	701	83 372	626
Due from banks	22 990	893 041	28 129	790 762
Due from clients	482 251	110 209	515 454	121 262
Mortgage loans	2 717 641	-	2 525 141	-
Financial investments	1 465	31 948	3 820	22 397
Participating interests	603	-	603	-
Fixed assets	25 972	127	30 479	205
Accrued income and prepaid expenses	8 001	1 072	6 824	904
Other assets	41 402	1 036	67 269	1 180
Total assets	**3 406 427**	**1 038 134**	3 261 091	937 336

Liabilities				
Money market instruments	118	-	198	-
Due to banks	101 782	976 339	71 095	932 934
Due to clients in savings and investment accounts	579 733	243 613	491 944	210 012
Other amounts due to clients	1 379 585	627 263	1 357 586	595 825
Cash bonds	151 212	-	139 908	-
Accrued liabilities and deferred income	12 438	2 106	12 701	1 839
Other liabilities	44 394	2 227	69 925	1 426
Valuation adjustments and provisions	41 652	625	32 781	489
Reserve for general banking risks	13 724	-	13 724	-
Share capital	150 000	-	150 000	-
General legal reserve	116 041	-	115 570	-
Net profit for the year	1 709	-	470	-
Total liabilities	**2 592 388**	**1 852 173**	2 455 902	1 742 525

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

CHF in thousands	**2013**		2012	
	Total	in %	Total	in %
Switzerland	3 406 426	77%	3 262 415	78%
OECD countries	996 530	22%	891 972	21%
Other countries	41 605	1%	45 362	1%
Total assets	**4 444 561**	**100%**	4 199 749	100%

3.16. BREAKDOWN OF ASSETS AND LIABILITIES BY CURRENCY

CHF in thousands

Assets	CHF	EUR	USD	Other	Total
Cash	99 766	6 541	319	177	106 803
Due from banks	112 268	757 474	18 323	27 965	916 030
Due from clients	475 254	96 357	11 038	9 811	592 460
Mortgage loans	2 677 798	39 843	-	-	2 717 641
Financial investments	8 391	25 022	-	-	33 413
Participating interests	603	-	-	-	603
Fixed assets	25 972	127	-	-	26 099
Accrued income and prepaid expense	8 105	907	36	25	9 073
Other assets	39 241	2 239	430	529	42 439
Total assets in the balance sheet	**3 447 398**	**928 510**	**30 146**	**38 507**	**4 444 561**
Off-balance-sheet claims from foreign exchange spot, forward and option transactions	116 558	780 154	258 429	118 054	1 273 195
Total assets	**3 563 956**	**1 708 664**	**288 575**	**156 561**	**5 717 756**

Liabilities	CHF	EUR	USD	Other	Total
Money market instruments	94	5	4	15	118
Due to banks	164 593	777 744	89 229	46 555	1 078 121
Due to clients in savings and investment accounts	666 065	157 281	-	-	823 346
Other amounts due to clients	1 188 562	601 128	155 543	61 615	2 006 848
Cash bonds	151 212	-	-	-	151 212
Accrued liabilities and deferred income	12 548	1 610	125	261	14 544
Other liabilities	44 420	1 978	144	79	46 621
Valuation adjustments and provisions	41 670	607	-	-	42 277
Reserve for general banking risks	13 724	-	-	-	13 724
Share capital	150 000	-	-	-	150 000
General legal reserve	116 041	-	-	-	116 041
Net profit for the year	1 709	-	-	-	1 709
Total liabilities in the balance sheet	**2 550 638**	**1 540 353**	**245 045**	**108 525**	**4 444 561**
Off-balance-sheet from foreign exchange spot, forward and option transactions	1 019 572	163 688	42 170	47 765	1 273 195
Total liabilities	**3 570 210**	**1 704 041**	**287 215**	**156 290**	**5 717 756**
Net position by currency	(6 254)	4 623	1 360	271	-

3.17. OTHER ASSETS

in CHF	**2013**	2012	Charge
Tax prepayments and recoverable VAT	1 568 098	1 580 691	(12 593)
Positive replacement values of derivative financial instruments	3 849 900	3 251 845	598 055
Compensation account	32 173 802	57 000 551	(24 826 749)
Other	4 846 173	6 615 172	(1 768 999)
Total	**42 437 973**	68 448 259	(26 010 286)

3.18. OTHER LIABILITIES

in CHF	**2013**	2012	Charge
Administration of federal contributions	4 714 524	5 966 534	(1 252 010)
Negative replacement values of derivative financial instruments	38 536 609	62 130 418	(23 593 809)
Compensation account	-	-	-
Suppliers	1 739 212	2 036 027	(296 815)
Other	1 630 760	1 217 909	412 851
Total	**46 621 105**	71 350 888	(24 729 783)

4. OFF-BALANCE-SHEET INFORMATION

4.1. CONTINGENT LIABILITIES

in CHF	**2013**	2012
Guarantees and similar obligations	228 045 639	194 178 997
Documentary credits	29 476 664	38 452 926
Total contingent liabilities	**257 522 303**	232 631 923

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	-	-	-	-	32 173 802	1 600 850 000
Futures	-	-	-	-	-	-
Options (OTC)	-	-	-	-	-	-
Options (exchange-traded)	-	-	-	-	-	-
Currencies/Precious metals						
Forward contracts	2 550 561	5 063 468	1 316 726 872	-	-	-
Combined swaps (interest/currency)	-	-	-	-	-	-
Futures	-	-	-	-	-	-
Options (OTC)	646 029	646 029	44 723 094	-	-	-
Options (exchange-traded)	-	-	-	-	-	-
Equities/Indices						
Forward contracts	-	-	-	-	-	-
Swaps	-	-	-	-	-	-
Futures	-	-	-	-	-	-
Options (OTC)	138 632	138 632	13 394 532	-	-	-
Options (exchange-traded)	-	-	-	-	-	-
Credit derivatives						
Credit default swaps	-	-	-	-	-	-
Total return swaps	-	-	-	-	-	-
First-to-default swaps	-	-	-	-	-	-
Other credit derivatives	-	-	-	-	-	-
Other						
Forward contracts	-	-	72 334 290	-	-	-
Swaps	-	-	-	-	-	-
Futures	28	28	283 904	-	-	-
Options (OTC)	-	-	-	-	-	-
Options (exchange-traded)	-	-	-	-	-	-
Total before effect of netting contracts						
As at December 31, 2013	**3 335 250**	**5 848 157**	**1 447 462 692**	**-**	**32 173 802**	**1 600 850 000**
As at December 31, 2012	2 751 015	4 629 037	1 443 681 481	-	57 000 551	1 463 600 000

4.2. (CONTINUED)

in CHF	Total after effect of netting contracts	
	Cumulative positive replacement value	Cumulative negative replacement value
2013	**3 335 250**	**38 021 959**
2012	2 751 015	61 629 588

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, 2013 which had not been settled yet, are shown according to the value-date principle.

4.3. FIDUCIARY TRANSACTIONS

in CHF	**2013**	2012	Change
Fiduciary investments with other banks	864 812	2 573 255	(1 708 443)
Fiduciary investments with the parent company	239 459 069	250 708 097	(11 249 028)
Total	**240 323 881**	253 281 352	(12 957 471)

4.4. CLIENT ASSETS

CHF in million	**2013**	2012	Change
Client assets by type			
Assets in own managed funds	726.9	675.4	51.5
Assets with discretionary mandate	642.5	677.2	(34.7)
Other client assets	4 705.2	4 443.3	261.9
Total client assets (including double-counted assets)	**6 074.6**	5 795.9	278.7
Double-counted assets	347.7	307.4	40.3
Net increase/(decrease) (including double-counted assets)	32.9	104.7	(71.8)

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 "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	**2013**	2012	Change
Foreign exchange trading	10 951 962	10 890 515	61 447
Security trading	105 713	6 487	99 226
Total	**11 057 675**	10 897 002	160 673

5.3. BREAKDOWN OF PERSONNEL EXPENSES

in CHF	**2013**	2012	Change
Salaries	34 047 969	35 061 132	(1 013 163)
Social security contributions	7 878 715	8 006 680	(127 965)
Other expenses	1 841 854	2 075 734	(233 880)
Total	**43 768 538**	45 143 546	(1 375 008)

5.4. BREAKDOWN OF OTHER OPERATING EXPENSES

in CHF	**2013**	2012	Change
Premises expenses	7 609 809	7 710 834	(101 025)
Expenses for IT, machinery, furnishings, vehicles and other equipment	4 428 175	4 613 984	(185 809)
Other operating expenses	9 645 075	9 981 272	(336 197)
Total	**21 683 059**	22 306 090	(623 031)

5.5. EXTRAORDINARY INCOME AND EXPENSES

"Extraordinary income" of CHF 136 659 comprises solely the reversal of a liability that had been recognized under "Other liabilities".

In 2012, the "extraordinary income" included CHF 64 322 for the reversal of a liability that had been recognized under "Other liabilities", CHF 93 535 for extraordinar y income from previous positions that had become time-barred, CHF 7 635 103 from the release of a securities reserve (hidden reserve) and CHF 1 276 000 from the partial release of the "Reserve for general banking risks".

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		**2013**	
	Switzerland	Abroad*	Total
Net interest income	32 832 952	2 168 287	35 001 239
Net commission and service income	33 079 013	3 528 860	36 607 873
Net trading income	10 946 735	110 940	11 057 675
Net other ordinary income	538 355	-	538 355
Net ordinary banking income	77 397 055	5 808 087	83 205 142
Operating expenses	61 853 216	3 598 381	65 451 597
Gross profit	**15 543 839**	**2 209 706**	**17 753 545**

* "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, 2013.

INDEPENDENT AUDITORS' REPORT

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Report of the Statutory Auditor to the General Meeting of Shareholders of

Banca Popolare di Sondrio (SUISSE) SA, Lugano

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the financial statements (pages 22 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 2013.

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 2013 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

Mirko Liberto
Licensed Audit Expert

Zurich, 13 February 2014

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

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TRUSTEE BUSINESS IN ASSOCIATION WITH
SOFIPO FIDUCIAIRE SA

PERSONAL BENEFIT

LIFE BENEFIT (3^{RD} PILLAR)

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PREFACE

Time passes and circumstances change, yet this Bank's custom of dedicating space in the Annual Report for cultural matters – something most unusual for a credit institution – thankfully stays the same. This year we have decided to produce a monograph on Alessandro Manzoni, the Italian author, poet and playwright. Born in Milan on 7 March 1785, he died in the same city on 22 May 1873. Manzoni was a figure of rare cultural importance, both in terms of his output and, especially, the quality of his works.
We chose this Italian novelist since he had direct and indirect ties with Switzerland for at least part of his life. He spent some time in Lugano as a young boy, studying at the Istituto Sant'Antonio, a school run by the Somascan Fathers, where he received a good classical education and acquired a passion for literature. There was another important influence on his life that was also linked to Switzerland: his first wife, Enrichetta Blondel. She was the daughter of the Swiss businessman François-Louis Blondel and from an established Genevan banking family. Initially a Calvinist, she later converted to Catholicism. Her conversion caused Manzoni to experience a religious crisis that eventually led him to also embrace Catholicism, which until that time he had abhorred. Indeed, he became extremely religious and this had a great influence on his later literary works.

The Italian language would have been so much poorer without Alessandro Manzoni, as he was crucial to its development. For instance, phrases from his I Promessi Sposi ("The Betrothed") are used every day by Italians from all walks of life, not just intellectuals. The novel contains passages of such intensity that one wants to go back and re-read them time and time again and learn them by heart, such are the beauty and the brilliance of Manzoni's descriptions and portrayal of human emotions:
Farewell, you mountains rising from the waters and ascending to the sky; you unequalled summits, well known to him who grew up among you and no less impressed upon his mind than the look of his dearest and nearest [...]
Especially poignant is a passage where he describes the plague. This prose infused with such poetry has the power to bring tears to the reader's eyes:
A woman stepped down from one of the doorways and approached the convoy of carts. Although the beauty of her youth was fading, she was by no means unkempt [...] A hideous monatto [corpse remover] approached the woman and, after a moment of involuntary hesitation and with unusual respect in his voice, he offered to take the child she was carrying in her arms [...] "Farewell, Cecilia! Rest in peace!" said she, "Tonight we will come to you, to be together for ever after! Pray for us; I shall pray for you and the others." Then turning again to the monatto, she said, "When you pass here this evening, you will call for me, and not for me alone!"

Manzoni's works are still relevant to us today, and will remain so. They are a paradigm of the elegance to which both poets and novelists should aspire.

My special thanks go to Cardinal Gianfranco Ravasi, President of the Pontifical Council for Culture, for his invaluable contribution. I also wish to thank the authors of the other highly interesting and outstanding essays making up this monograph: Professor Emanuele Banfi, Dr. Barbara Cattaneo, Dr. Gian Luigi Daccò and Professor Giovanni Orelli.

Lugano, January 2014

The Chairman
Piero Melazzini