

# 2015 ANNUAL REPORT



Banca Popolare di Sondrio (SUISSE) SA  
Capital: CHF 180 000 000

Head Office and General Management  
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## BOARD OF DIRECTORS

**Mario Alberto Pedranzini**  
Chairman

**Brunello Perucchi**  
Vice Chairman

**Plinio Bernardoni**  
Secretary

**Giovanni Ruffini**

**Daniel Zuberbühler**

## GENERAL MANAGEMENT

**Mauro De Stefani**  
Chief Executive Officer

**Mauro Pedrazzetti**  
Deputy Chief Executive Officer  
Head of Lending and Finance Division

**Paolo Camponovo**  
Member of the Executive Committee  
Head of Logistics Division

**Roberto Mastromarchi**  
Member of the Executive Committee  
Head of Front Division

## INTERNAL AUDITING

**Alberto Bradanini**  
President

## EXTERNAL AUDITOR

**KPMG SA**  
Zurich





*Sublime in its simplicity is the way of nature.  
Through the cognition of perceptible objects, the mind must be made amenable to truth before venturing  
into the multifarious labyrinth of the theories of words and opinion.*



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

**Opening spread (pp. 4-5):**

Hanni B., aged 13, "*We're playing at being mummy*", «Pestalozzi calendar competition», 1941.

**Drawings (p. 14 and p. 20)**

Eva B., aged 12, *Untitled*, «Pestalozzi calendar competition», 1975.

Anon., aged 5, *A Pattern of Crabs*, Japan, 1966.

The captions for the other drawings on the intersecting pages have not been listed as the works are untitled and the artists are unknown.

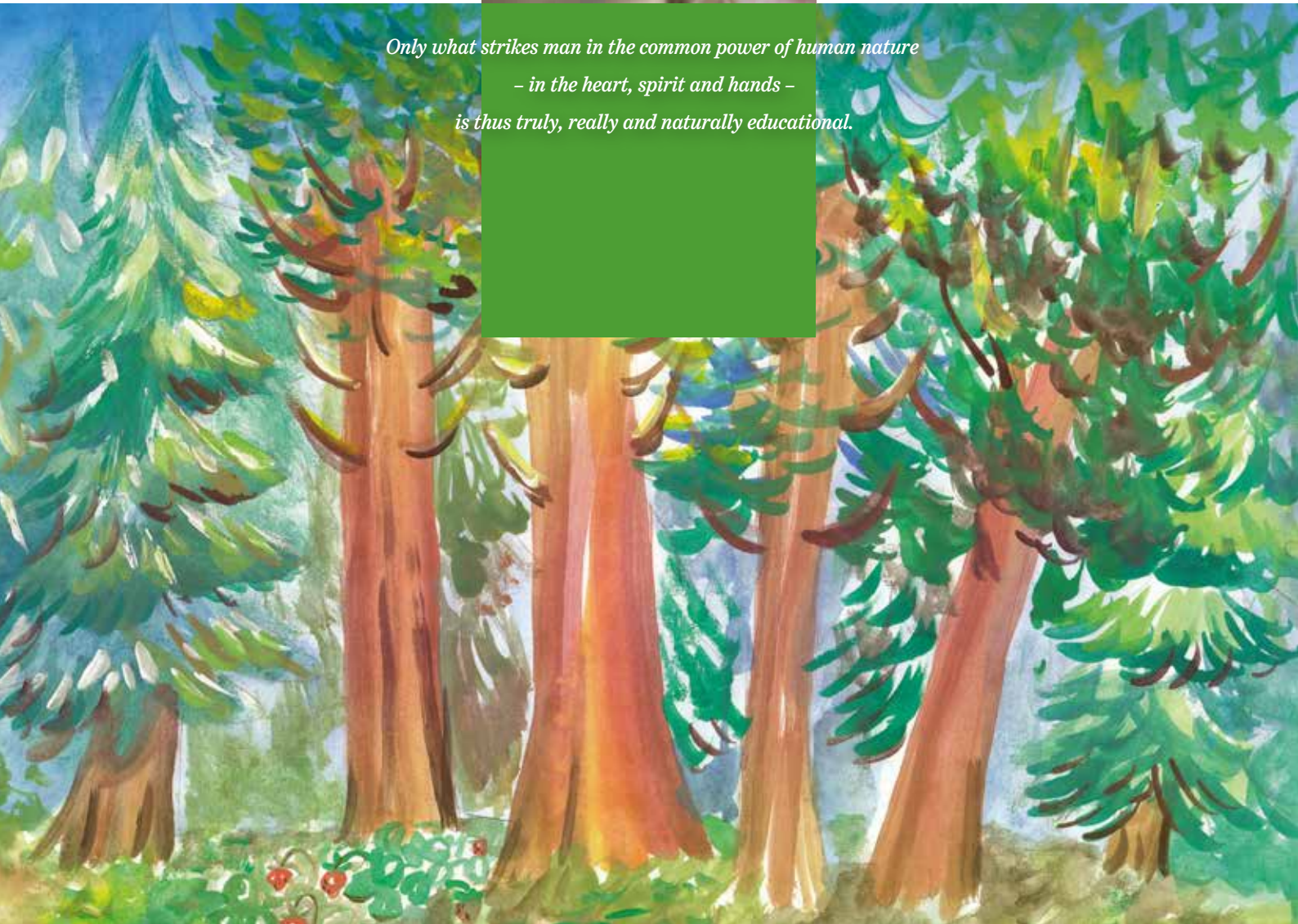
The sources of the quotes, drawings and photos can be found on p. XLIII of the cultural supplement.

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*Only what strikes man in the common power of human nature  
– in the heart, spirit and hands –  
is thus truly, really and naturally educational.*





## CHAIRMAN'S FOREWORD

In preparing to write this introduction, my first thoughts go to our dear departed colleague Piero Melazzini (December 22, 1930 – November 30, 2015), who passed away just before his 85th birthday. As a great admirer of Switzerland, it was Piero who conceived of and founded our Banca Popolare di Sondrio (SUISSE), of which he served as Chairman from its outset in May 1995 until his term of office expired at the Annual Meeting of Shareholders in February 2014. His work remains an enlightening example of industriousness and vision. In stating this, one is overcome with pride at the honour of having worked by his side, yet also beset by melancholy. His guidelines ensured that our Bank would grow through its service to individual customers and local businesses, remaining close to the territory and the real economy and replicating the fundamental values of our parent. His reputation as a capable, keen, and determined banker will remain in the archives of our institution and in each of our hearts and minds.

The past year will also go down in history for some sobering events, including the crisis in Greece, which preoccupied and concerned the eurozone and beyond; the instability and vicious wars in the Middle East (especially Syria) and in various African countries, producing an endless flow of refugees towards Europe as they flee famine and horrors of every kind; and the infamous Paris attacks on November 13, which left a legacy of fear and uncertainty around the world. Against this negative backdrop, the Catholic Extraordinary Jubilee of Mercy began in December, accompanied by the clear and candid voice of Pope Francis, who called for overcoming fear, for tolerance, and for solutions to build peace among peoples.

On the economic and financial fronts, the long crisis is showing as-of-yet timid signs that resolution may be at hand. In 2015 the global recovery grew stronger, although unevenly, with fairly significant slowdowns in some major emerging countries. Growth in the European Union did not meet expectations.

Let us turn now to Switzerland, where political stability and good administration were supported, in our best tradition, by the certainty of law, a strong currency, economic solidity and robust infrastructure. In other words, where efficiency and security continue to reign.

After a lively start, the Swiss economy retreated somewhat over the months, due in part to the international troubles mentioned above. Another reason was the steep growth of the franc against the euro, after the Swiss National Bank abandoned the minimum exchange rate of 1.20 francs to the euro. Market volatility brought the exchange rate under par, after which it stabilised in the 1.05-1.10 range.

As a collateral measure, the Swiss National Bank introduced negative interest rates, mitigated by certain exceptions designed to prevent excessive distortions and protect small investors.

By all accounts, despite the inevitable consequences, most sectors of the economy – though to different degrees depending on sector and region – managed to absorb the appreciation of the franc without suffering too many blows.

The construction and real estate industries continued to expand, driving their spin-off sectors and keeping general employment high. The jobless rate, in fact, was at its natural minimum of 3.3%.

The purchasing power of salaries enjoyed a boost from slight deflation, of around 1%.

The year closed with a positive GDP figure, the “plus” sign – despite the slim magnitude – demonstrating that there was indeed growth, to the benefit of employment and progress. Also favoured were the business owners and workers employed in our country, including many Italians (cross-border commuters and residents), who distinguished themselves as always through their dependability, energy and skill.

On the subject of international agreements, the accord signed with Italy in February aims for cooperation on matters of fiscal transparency and the fair taxation of deposits. This led to Italy’s Voluntary Disclosure programme, which influenced the financial sector in general while opening new horizons.

The twentieth anniversary of BPS (SUISSE) engendered a low-key celebration, on the conviction that the best way to honour events of this kind is to work, work hard, and work well.

Our 20 branches in 6 cantons, plus our foreign office in the Principality of Monaco and our direct banking virtual teller, operated under the long-standing guidance of Management and thanks to the professionalism and dedication of our 303 employees.

Lending business continued to favour households and small to medium-sized manufacturing and commercial businesses, without neglecting other sectors. Loans were supported by direct customer deposits, despite their slight decrease as a result of the factors mentioned above.

At CHF 14.1 million, the profit for the year increased by 73% with respect to 2014. In spite of the negative factors noted above, the final results are encouraging. We attribute them to prudence, astute cost control, and profitable trading business.

We are proud of our work this year, which if nothing else was committed and energetic, as we take satisfaction in our accomplishments. That said, if we want to keep up with the times – and today’s times are not easy – or better yet, if we hope to make progress (as we always have and will), we can’t afford to sit back. Our positive results, which are the reward for the policies decided by Management and the collective effort of our staff, are the best incentive to continue down our chosen path: the path of understanding the needs of our clientele, individuals and businesses alike, so we can provide them with just the right products and services and foster local development. What we most desire is to be an asset to the community and its people, the efficient and worthwhile institution we have always been.

I feel the need, which is also a pleasure, to offer my warmest thanks to the directors, statutory auditors and general management, whose worthy contributions of ideas, guidance, instructions and decisions have helped the bank make solid choices. I thank our capable, attentive employees for their fine work this year.

I am grateful to FINMA, the Financial Market Supervisory Authority, for its oversight and cooperative approach, which is much appreciated.

A word of gratitude also goes to our external auditors at KPMG for their careful, discerning work.

And I am particularly thankful for our customers, who I trust will always grace us with their confidence and favour. This bank will make every effort to continue to operate according to its traditional principles of integrity and helpfulness, knowing that trust, to be deserved, must be nurtured.

“New year, new life,” says an ancient proverb, and I would like to add my blessing to this: may 2016 be peaceful, prosperous and healthy for one and all.

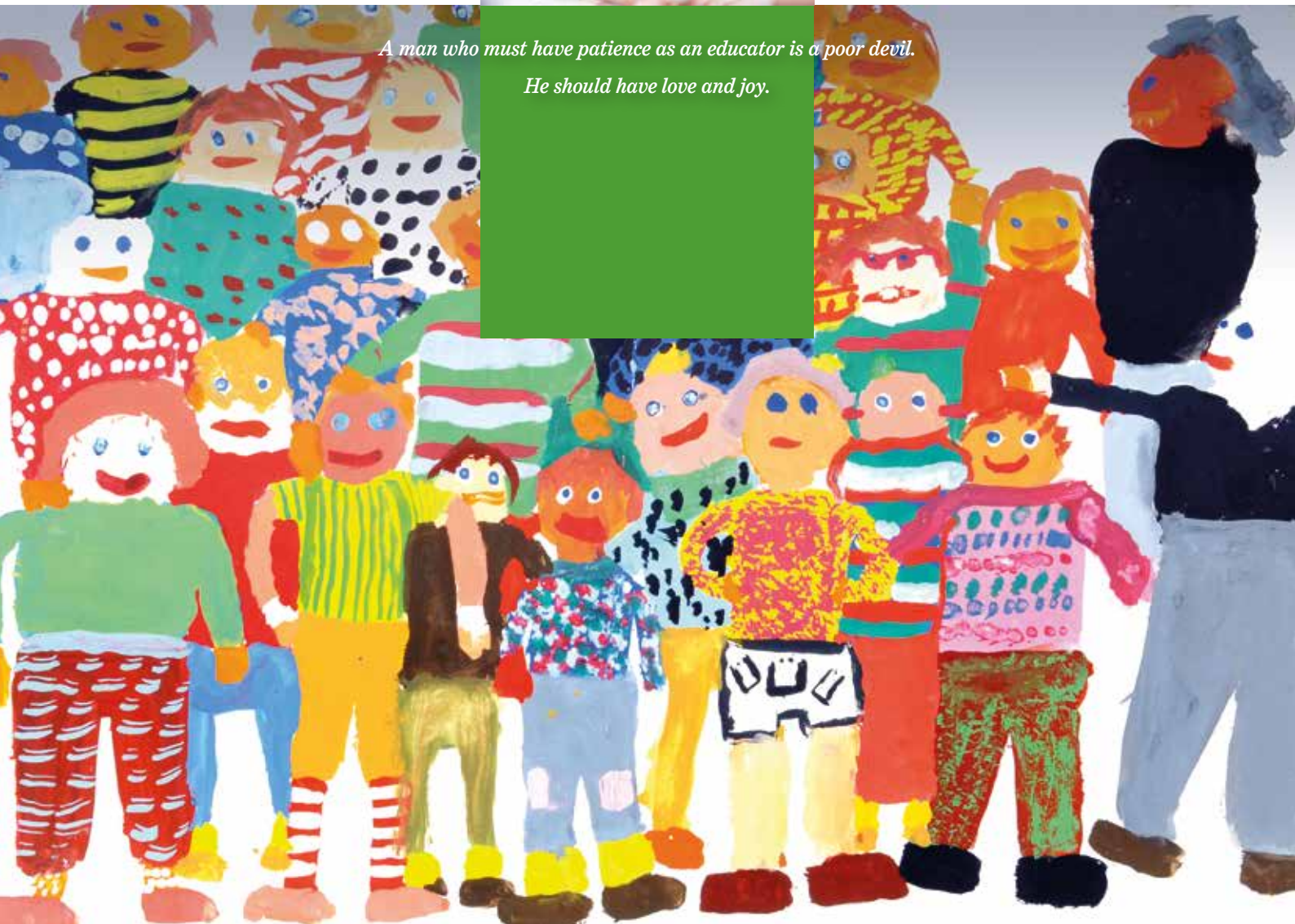
Lugano, January 1, 2016

Chairman  
**Mario Alberto Pedranzini**



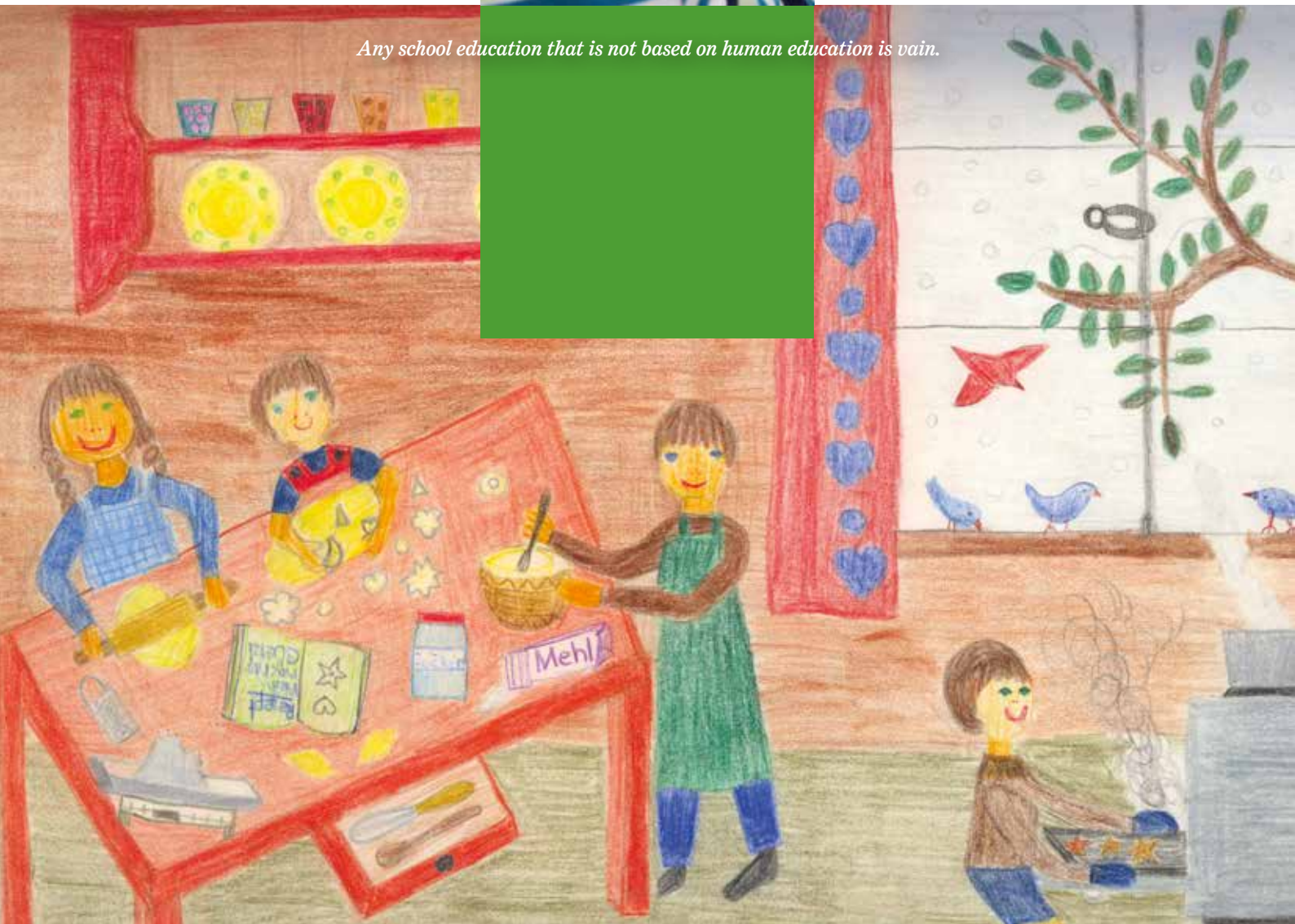


*A man who must have patience as an educator is a poor devil.  
He should have love and joy.*





*Any school education that is not based on human education is vain.*



## REPORT OF THE BOARD OF DIRECTORS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2015

### **International panorama**

Overcoming the economic crisis that exploded in 2008 turned out to be extremely complicated.

Despite forces deployed, resources applied, and strategies conducted with conventional and unconventional tools, the situation remains complex and disparate, even within the world's major economic areas.

Without secure reference points, it is not always easy to tell good from bad. The drop in oil prices is an example. While this is good for consumers and investments (meaning growth), it also feeds expectations of deflation, which lead in the opposite direction.

Interest rates are tending toward the negative, which they actually are in Switzerland for certain financial assets.

Economies appear to be heading for stagnation, from which it would be tough to emerge: take, for example, Japan.

Monetary policy continues to make headlines. Nevertheless, it appears to have lost some bite in its influence on the economic cycle and inflation.

After the extraordinary measures taken and then extended by the ECB, perhaps the most important decision came from the U.S. Federal Reserve, which raised interest rates in December – for the first time in nine years.

The good news is that there is renewed confidence in U.S. economic growth, which remains the principal driver of the global economy. The message of a return to normality, however gradual, is a reassuring one.

### **Switzerland: the economy and the financial system**

The Swiss National Bank's decision on January 15, 2015 to unpeg the Swiss franc from the euro had an explosive effect on the markets, as analysts and traders were caught unprepared.

Because the Swiss economy is highly internationalised, the repercussions were substantial. It appears that some sectors are equipped to absorb the steep appreciation of the franc, by squeezing margins or dipping into reserves, while others suffered a serious blow. There is vociferous demand for an exchange rate more in line with purchasing power, or at least better able to keep businesses competitive, but market mechanisms are at play.

The sentiment is understandable, given the gradual slowdown in worldwide growth. The situation is further aggravated by the international political instability, the resurgence of terrorism and the state of war in strategic regions. In a chain reaction, the deceleration of the Chinese economy is increasing the risk of crisis in emerging countries.

Against this backdrop of uncertainty, the uptick in Swiss GDP is an encouraging sign. Analysts and public sources, however, have repeatedly downgraded their forecasts and revised unemployment rates slightly upward.

The situation throughout Switzerland is uneven, with marked differences among sectors and regions, as well as among large, medium and small enterprises.

The real estate and construction industries are still gaining ground, thanks to demand induced partly by the low interest rates. Additional regulation over the years has managed to prevent dangerous overheating. Even in some regions subject to monitoring, the situation appears under control. Construction activity is expected to weaken, or at least stabilise.

The negative interest rates set by the Swiss National Bank upon unpegging the franc from the euro are a courageous choice, not witnessed since the 1970s. In the long run, experts fear distortive effects in the allocation of savings and credit.

Internationally, we await the favourable outcome of negotiations with the European Union regarding enforcement of the referendum against mass immigration.

Talks with Italy regarding cooperation in tax matters led to the agreement of February 23, 2015. The Voluntary Disclosure programme for deposits held abroad has all the markings of a great success. Negotiations in related areas have made laboured progress, conditioned as they are by European and international issues; the prospects are in any case good.

Ongoing regulatory efforts concerning the sale of financial services aim to provide better protection to clients and investors, ensure a level playing field, and reinforce the reputation and competitiveness of the Swiss financial market.

The purpose of applying rules in line with international standards is to expedite future access to the foreign financial markets, which is no simple task.

Updated laws against money laundering, which implies a serious tax offence, should help Switzerland pass its peer review and keep it off new black lists.

The way forward is to consolidate international commitments by adopting the new OECD standards on the automatic exchange of information.

Despite the additional burden of complying with intricate bureaucratic measures, we hope Switzerland will at least maintain its edge over competing financial markets, by leveraging its traditional assets: a mix that is hard to find elsewhere.

The massive investments and use of resources needed for the gradual implementation of Basel III have nearly faded into the background. These are important innovations in terms of liquidity, own equity, financial leverage and risk management.

The banking industry is undergoing a large-scale reorganisation, as experts have been predicting with some regularity in recent years. Specialise or concentrate: this is the new mantra.

Of course, one does not exclude the other.



The need to earn a decent, or in some cases minimal, profit from operating activities led to the further streamlining of processes, markets served, and products/services offered.

In the short term, earnings will shrink as it will be difficult to boost revenue, given the need to invest and the higher costs involved. We are confident in the medium-term outlook.

Fintech, the digitalisation of financial services, is an issue attracting ever more attention. The content and the perception of technology in finance have changed significantly in recent years, and should increasingly affect the banking industry.

“Shadow banking” is another phenomenon we need to consider, as companies without banking licences – mostly spin-offs of giant IT or phone conglomerates – plan to offer services once treated as the exclusive province of banks.

#### **Performance during the year**

The regulatory and commercial pressure on banks has made it increasingly difficult to develop and implement sustainable, profitable business strategies that will simultaneously meet the needs of customers, shareholders and the supervisory authorities.

To ensure the sustainability of the Bank's future development plan, in March 2015 the parent bank carried out a capital increase of CHF 30,000,000.

With most of our energy devoted to that goal, we were able to maintain our positions and profit from new opportunities.

Our employees, numbering 303 at year end (+3 since the previous year), were the true catalysts of these achievements.

Collaboration with our parent Bank was fruitful in the financial and the commercial spheres. The development of new synergies and the improvement of existing ones will ultimately strengthen both of our structures.

Popso (Suisse) Investment Fund, a Luxembourg Sicav that is also sold in Italy, enjoyed good results and a strong performance.

Customer deposits were affected by the extraordinary appreciation of the Swiss franc against the major currencies, as most of the funds in Private Banking accounts are denominated in euros. At the end of the year, total customer deposits amounted to CHF 4,876,600,000 (-8%), of which indirect deposits were lower at CHF 1,775,700,000 (-18%) and direct funding stood at CHF 3,100,900,000 (-1%). The savings and investment component came to CHF 823,400,000 (-1%) and current account and term deposits to CHF 2,095,600,000 (-3%), while cash bonds increased to CHF 181,900,000 (+22%). Direct deposits were boosted by an inflow from indirect funding, when expiring securities were not renewed due to the lack of attractive opportunities – risks considered – in the bond market. The low coupons and potential loss in value in case of a rise in interest rates lowered expectations even further. Cash, even at a rate of zero, is almost a good deal – at least for institutional investors who would otherwise be charged negative interest.

Italy's Voluntary Disclosure programme has so far led to a lower-than-expected volume of transfers. Considering also the burden of the one-off withholding tax, there was a decrease in administered deposits in the segment concerned.

Life Benefit, our 3rd-pillar pension foundation, saw 4% asset growth to CHF 277,400,000 (+ 4%) and consists wholly of liquid investments.

Customer loans grew in line with forecasts. The exchange effect was marginal, as nearly all loans are expressed in Swiss francs. Net of provisions, lending amounted to CHF 3,524,500,000 at the end of the year (+2%), including mortgage loans of CHF 3,053,200,000 (+6%). Other amounts "Due from clients" decreased to CHF 471,300,000 (-19%), due in part to the scheduled repayment of sizeable loans disbursed in previous years.

Provisions for risks went down thanks to the good quality of the loan portfolio, allowing us to continue to offer attractive conditions to our borrowers.

Our partnership with the central mortgage bond institution, Pfandbriefbank Schweizerischer Hypothekarinstitute AG, is making an increasing contribution to the refinancing of loans at beneficial rates.

The income statement summarises the final outcome of our efforts, while also measuring internal efficiency.

"Net result from interest operation" came to CHF 29,311,000 (-12%). The decrease stems from the negative interest rates, which raised the cost of outstanding interest rate hedges, with the perverse effect of having to pay the market not only the fixed rate agreed but also the variable rate that was supposed to balance it out.

"Net fee and commission income" declined by 13%, to CHF 32,992,000. Considering the difficult climate and the above comments with regard to the bond market, we are cautiously satisfied with that result.

"Result from trading activities" more than doubled, to CHF 29,097,000 (+118%). The increase reflects ordinary trading, favoured by periods of high market volatility, as well as the conversion into Swiss francs of direct deposits in foreign currencies (currency swaps posing no exchange risk for the Bank) to serve the internal refinancing of loans. Total net ordinary banking income rose to CHF 90,759,000 (+7%).

"Total operating expenses" came to CHF 66,198,000, rising moderately (+3%) due to the increase in "Personnel expenses" to CHF 43,970,000 (+4%). "General and administrative expenses" were unchanged at CHF 22,228,000 (0), reflecting shrewd planning and resource management.

After depreciation, amortisation and ordinary provisions, the "Operating result" before extraordinary items and taxes stood at CHF 19,086,000 (+68%) and the "Net profit for the year" at CHF 14,097,000 (+73%).

We recommend to the General Meeting of Shareholders that the net profit be allocated in full to the “Statutory retained earnings reserve”, in accordance with article 22 of the Articles of Association, thereby strengthening the Bank’s equity to CHF 335,000,000 (+15%).

We thank our customers for their ongoing trust in us, our personnel for their professionalism and dedication, the supervisory authorities, the honourable FINMA for its firm support, and our external auditors at KPMG.

Lugano, February 1, 2016

The Board of Directors



*Man does not live on earth just for himself; thus, nature also moulds him for and by means of relationships with others.*



## 2015 FINANCIAL STATEMENTS

## BALANCE SHEET AS AT DECEMBER 31, 2015 (WITH 2014 COMPARATIVE FIGURES)

### ASSETS

in CHF	Note	2015	2014	Change
Cash		725 000 488	187 724 344	537 276 144
Due from banks		500 026 746	505 156 554	(5 129 808)
Due from clients	2	471 300 093	580 224 674	(108 924 581)
Mortgage loans	2	3 053 192 850	2 886 726 457	166 466 393
Positive replacement values of derivative financial instruments	4	20 036 429	11 354 743	8 681 686
Financial investments	5	50 003 939	58 204 440	(8 200 501)
Accrued income and prepaid expenses		5 751 318	7 166 609	(1 415 291)
Participating interest	6, 7	1 122 881	611 356	511 525
Tangible fixed assets	8	24 969 186	28 961 929	(3 992 743)
Other assets	10	63 482 012	63 468 622	13 390
<b>Total assets</b>		<b>4 914 885 942</b>	<b>4 329 599 728</b>	<b>585 286 214</b>
Total subordinated claims		-	-	-

## LIABILITIES

in CHF	Note	2015	2014	Change
Due to banks		1 221 024 754	770 027 422	450 997 332
Amounts due in respect of customer deposits		2 919 018 697	2 991 733 357	(72 714 660)
Negative replacement values of derivative financial instruments	4	62 596 323	63 334 543	(738 220)
Cash bonds	15	181 862 000	149 344 000	32 518 000
Loans from central mortgage bond institutions	12, 15	161 900 000	32 200 000	129 700 000
Accrued liabilities and deferred income		17 344 327	12 757 675	4 586 652
Other liabilities	11	9 272 701	12 507 547	(3 234 846)
Provisions	16	6 855 164	6 779 840	75 324
Reserve for general banking risks	16	15 000 000	15 000 000	-
Share capital	17	180 000 000	150 000 000	30 000 000
Statutory capital reserve		-	-	-
Statutory retained earnings reserve		125 915 344	117 750 119	8 165 225
Voluntary retained earnings reserves		-	-	-
Net profit for the year		14 096 632	8 165 225	5 931 407
<b>Total liabilities</b>		<b>4 914 885 942</b>	<b>4 329 599 728</b>	<b>585 286 214</b>
Total subordinated liabilities		-	-	-

OFF-BALANCE-SHEET ITEMS AS AT DECEMBER 31, 2015  
(WITH 2014 COMPARATIVE FIGURES)

in CHF	Note	2015	2014	Change
Contingent liabilities	2, 28	204 682 006	341 946 288	(137 264 282)
Credit commitments	2, 29	193 065 688	213 804 036	(20 738 348)
Irrevocable commitments	2	19 141 500	28 126 500	(8 985 000)
Derivative financial instruments	4	3 543 278 363	3 134 154 403	409 123 960
Positive replacement values, gross		20 036 429	11 354 743	8 681 686
Negative replacement values, gross		62 596 323	63 334 543	(738 220)
Fiduciary transactions	30	39 931 346	101 173 976	(61 242 630)

## 2015 INCOME STATEMENT (WITH 2014 COMPARATIVE FIGURES)

in CHF	Note	2015	2014	Change
<b>Interest income:</b>				
- Interest and discount revenue		64 888 685	77 829 675	(12 940 990)
- Interest and dividends on financial investments		780	-	780
- Interest and dividends from trading portfolios		601 224	535 095	66 129
Interest expense		(29 180 129)	(39 804 338)	10 624 209
<b>Result from interest operations</b>		<b>36 310 560</b>	<b>38 560 432</b>	<b>(2 249 872)</b>
Changes in value adjustments for default risks and losses from interest operations		(6 999 663)	(5 134 500)	(1 865 163)
<b>Net result from interest operations</b>		<b>29 310 897</b>	<b>33 425 932</b>	<b>(4 115 035)</b>
<b>Commission income:</b>				
- on securities trading and investment transactions		25 978 526	30 844 165	(4 865 639)
- on credit transactions		1 602 241	1 816 949	(214 708)
- on other services		8 495 676	7 910 018	585 658
Commission expense		(3 084 772)	(2 841 545)	(243 227)
<b>Net fee and commission income</b>		<b>32 991 671</b>	<b>37 729 587</b>	<b>(4 737 916)</b>
<b>Result from trading activities and the fair value option</b>	32	<b>29 097 253</b>	<b>13 338 100</b>	<b>15 759 153</b>
Result from the disposal of financial investments		61 507	167 369	(105 862)
Income from participating interests		-	-	-
Profit from real estate		215 173	184 223	30 950
Other ordinary income		53 079	622 812	(569 733)
Other ordinary expenses		(970 162)	(936 833)	(33 329)
<b>Other result from ordinary activities</b>		<b>(640 403)</b>	<b>37 571</b>	<b>(677 974)</b>
<b>Operating expenses:</b>				
Personnel expenses	34	(43 970 131)	(42 268 830)	(1 701 301)
General and administrative expenses	35	(22 228 236)	(22 138 070)	(90 166)
<b>Total operating expenses</b>		<b>(66 198 367)</b>	<b>(64 406 900)</b>	<b>(1 791 467)</b>



## 2015 INCOME STATEMENT (CONTINUED)

in CHF	Note	2015	2014	Change
Value adjustments on participations and depreciation and amortisation of tangible fixed assets		(5 123 539)	(5 477 444)	353 905
Changes to provisions and other value adjustments, and losses		(351 547)	(3 276 458)	2 924 911
<b>Operating result</b>		<b>19 085 965</b>	<b>11 370 388</b>	<b>7 715 577</b>
Extraordinary income	36	89 481	1 152 649	(1 063 168)
Extraordinary expenses	36	(423 814)	(1 334 812)	910 998
Changes in reserves for general banking risks		-	-	-
Taxes	39	(4 655 000)	(3 023 000)	(1 632 000)
<b>Net profit for the year</b>		<b>14 096 632</b>	<b>8 165 225</b>	<b>5 931 407</b>

## PROPOSAL FOR APPROPRIATION OF THE BALANCE SHEET PROFIT (WITH 2014 COMPARATIVE FIGURES)

in CHF	Note	2015	2014	Change
Profit for the year		14 096 632	8 165 225	5 931 407
Profit brought forward		-	-	-
<b>Available earnings</b>		<b>14 096 632</b>	<b>8 165 225</b>	<b>5 931 407</b>
The Board of Directors proposes to allocate the balance sheet profit totalling CHF 14 096 632 as at December 31, 2015 to the statutory retained earnings reserve				
<b>Retained earnings to be carried forward</b>		<b>-</b>	<b>-</b>	<b>-</b>

## CASH FLOW STATEMENT AS AT DECEMBER 31, 2015 (WITH 2014 COMPARATIVE FIGURES)

### CASH FLOW FROM OPERATING ACTIVITIES

CHF in thousands	31.12.2015		31.12.2014	
	Source	Utilisation	Source	Utilisation
Profit for the year	14 097	-	8 165	-
Amortisation of fixed assets	5 124	-	5 477	-
Value adjustments	-	-	-	-
Provisions	75	-	3 414	-
Reserve for general banking risks	-	-	1 276	-
Accrued income and prepaid expenses	1 415	-	1 906	-
Accrued liabilities and deferred income	4 587	-	-	1 786
Positive replacement values of derivative financial instruments	-	8 682	-	-
Negative replacement values of derivative financial instruments	-	738	-	-
Other assets	-	13	-	32 385
Other liabilities	-	3 235	29 221	-
<b>Net operating cash flow</b>	<b>12 630</b>		<b>15 288</b>	

### CASH FLOW FROM SHAREHOLDER'S EQUITY TRANSACTIONS

Share capital	30 000	-	-	-
<b>Total cash flows from equity transactions</b>	<b>30 000</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

Participating interests	-	512	-	11
Bank buildings	-	10	-	10
Other fixed assets	-	1 121	-	6 001
Intangible fixed assets	-	-	-	2 329
<b>Net cash flow from investment activities</b>		<b>1 643</b>		<b>8 351</b>

## CASH FLOW STATEMENT AS AT DECEMBER 31, 2015 (CONTINUED)

### CASH FLOW FROM BANKING OPERATIONS

CHF in thousands	31.12.2015		31.12.2014	
	Source	Utilisation	Source	Utilisation
<b>Balance brought forward</b>	42 630	1 643	15 288	8 351
<b>Non-current operations (&gt; 1 year)</b>				
Due to clients	-	10 250	10 250	-
Cash bonds	81 982	-	-	51 505
Loans from central mortgage bond institutions	129 700	-	32 200	-
Client loans	10 599	-	-	7 572
Mortgage loans	-	174 037	-	185 360
Financial investments	2 789	-	-	18 367
<b>Current operations</b>				
Due to banks	450 997	-	-	308 211
Due to clients	-	62 465	151 289	-
Cash bonds	-	49 464	49 637	-
Due from banks	5 130	-	410 874	-
Due from clients	98 326	-	-	4 002
Mortgage loans	7 571	-	1 174	-
Financial investments	5 411	-	-	6 423
Securities trading portfolio	-	-	-	-
<b>Net cash flow from banking activities</b>	496 289	-	73 984	-
<b>Total cash flow</b>	538 919	1 643	89 272	8 351
<b>Change in cash flow</b>	-	537 276	-	80 921

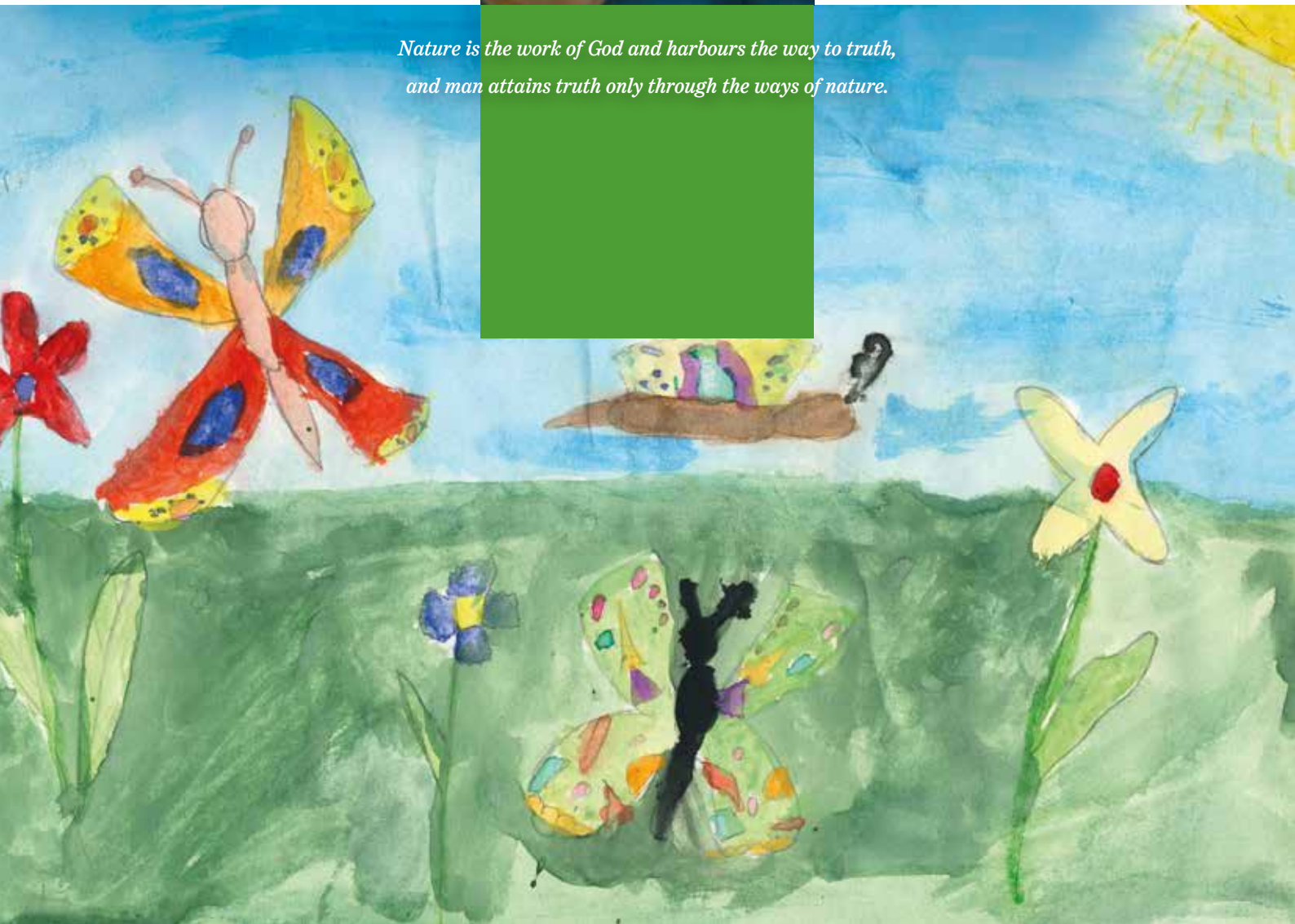
## PRESENTATION OF THE STATEMENT OF CHANGES IN EQUITY

	Bank's capital	Statutory capital reserve	Statutory retained earnings reserve	Reserves for general banking risks	Voluntary retained earnings reserves and profit carried forward	Net profit for the year	Total
Equity at Dec. 31, 2015	150 000 000	-	125 915 344	15 000 000	-	-	290 915 344
Capital increase	30 000 000	-	-	-	-	-	30 000 000
Net profit for the year	-	-	-	-	-	14 096 632	14 096 632
<b>Equity at Dec. 31, 2015</b>	<b>180 000 000</b>	<b>-</b>	<b>125 915 344</b>	<b>15 000 000</b>	<b>-</b>	<b>14 096 632</b>	<b>335 011 976</b>





*Nature is the work of God and harbours the way to truth,  
and man attains truth only through the ways of nature.*



## NOTES TO THE 2015 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), and branches in Chur, Basel, Locarno, Zurich, Berne, Neuchâtel and the Principality of Monaco.

At the end of the year, our staff numbered 303 employees (end of 2014: 300 employees), which represented a total of 289.6 full-time equivalent positions (2014: 286.8 FTEs).

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

The Bank has not set up an Audit Committee because the Board of Directors, comprised of five members with extensive banking and financial expertise, meets at frequent intervals and is therefore fully able to handle the functions normally assigned to such a committee.

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

The accounts, their presentation and the valuations made are in compliance with the Swiss Banking Ordinance (BO Arts. 25 et seqq.) as formalised in FINMA Circular 2015/1 "Accounting – banks" of March 27, 2014 (in effect since January 1, 2015). 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 recognised at face value, net of necessary adjustments in value. Interest received is recognised on a pro rata basis at the contractual interest rate.

Customer loans and mortgages are written down for potential lending risk using an internal rating model. Writedowns of non-performing loans are determined on an individual basis.

Interest at risk is treated as prescribed by law. Accrued interest not collected within 90 days after the due date is provided for and deducted from the items "Due from clients" and "Mortgage loans".

##### FINANCIAL INVESTMENTS

Securities owned by the Bank but not held for trading and equity investments not meant to be held long term (interest- and dividend-bearing securities) are valued individually at the lower of purchase cost and market value.

##### PARTICIPATING INTERESTS

These are valued individually at purchase 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.

	2015	2014
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

## DUE TO BANKS, DUE TO CLIENTS, CASH BONDS

Due to banks, due to clients and cash bonds are recognised at nominal value.

## LOANS FROM CENTRAL MORTGAGE BOND INSTITUTIONS AND OTHER LOANS

Loans are recognised at nominal value; any discount or premium is amortised over the life of the loan using the accrual method.

## VALUE ADJUSTMENTS AND PROVISIONS

Individual value adjustments and provisions, estimated reliably on the basis of prudence, are made for all risks identifiable on the balance sheet date.

## REPLACEMENT VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are purchased/sold on behalf of clients and for the Bank's asset and liability management (hedging). The positive and negative replacement values of derivative financial instruments generated by clients and open at the balance sheet date are measured at fair value based on market price – or, if market price is not available, using common estimation methods and valuation models – and recognised in the balance sheet under "Derivative financial instruments: positive replacement values" or "Derivative financial instruments: negative replacement values". For instruments traded on behalf of customers, the fair value change is recognised under "Result from trading activities". 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 contained in "Other assets" or "Other liabilities", without any effect on the income statement. If hedging operations relate to interest-bearing products, the fair value changes are recognised under "Net result from interest operations".

## ACCRUALS, 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 recognises provisions for federal, cantonal and local taxes according to the result for the period and on the basis of the tax regulations in force.



## 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 "Result from trading activities".

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 "Result from trading activities".

The year-end conversion rates used for the main currencies were as follows: EUR 1.083 (2014: 1.2065); USD 0.9930 (2014: 0.9891).

## 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 RATE 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.

## 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.

## CHANGES IN ACCOUNTING PRINCIPLES RELATING TO PRESENTATION AND VALUATION

In 2015 the Bank's accounting standards were amended in accordance with FINMA 2015/1, on the basis of which the Bank has adapted its presentation of the financial statements.

The presentation of positions contained in the 2014 financial statements has likewise been adapted to the new standards. These changes have no impact on profit or equity.

## 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, 2015.

## 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 underpin 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. In July 2015 the Board of Directors approved the "Risk Appetite Framework and Risk Policy". That document replaces the previous "Risk Policy" and expands on it with the quantitative definition of risk appetite in the various categories, using metrics designed for that purpose.

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, whose 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 has a Risk Control Department in charge of supervising, measuring and analysing the Bank's risk profile and ensuring its 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 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 every 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 the rating of the lowest risk and 8 being that 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 to 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; it is mainly based on the domicile of the risk.

### MARKET RISK (PRICES, RATES, 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 (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.

From its parent, the Bank receives a summary of the effectiveness tests of outstanding interest rate swaps. The effectiveness criteria are those specified in International Accounting Standard IAS 39 (80-125%). Whether the hedging relationship qualifies as effective is determined in accordance with the hedge accounting rules contained in FINMA Circular 2015/1: "Accounting-banks". More specifically, at the start of the hedging relationship, the risk management strategy and the risk management objective being pursued are formally documented; in addition, the economic correlation between the basic transaction and the hedging transaction is assessed.

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 the risk of not being able to sell an asset or sell it at 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.

As required by law (FINMA Circulars 2016/1 "Publications-banks" and 2011/2 "Capital buffer and capital planning-banks"), we provide the following information as of December 31, 2015:

Overall capital ratio	14.74 %
Of which:	
Common equity Tier 1 ratio	14.74 %
Tier 1 ratio	14.74 %
Leverage ratio	6.78 %
Liquidity coverage ratio	343.70 %

FINMA's capital target for our Bank is 11.20 %, while the liquidity coverage target is 100 %.

## 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 by establishing 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 by ensuring understanding and transparency in its operational and contractual dealings with clients.

## 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.





*Son, what is a life embittered by envy and hatred, by quarrelling and conflict?  
Time spent in tenderness, peace and love, that is time spent alive.*



## 1. BREAKDOWN OF SECURITIES FINANCING TRANSACTIONS (ASSETS AND LIABILITIES)

Not applicable.

## 2. PRESENTATION OF COLLATERAL FOR LOANS/RECEIVABLES AND OFF-BALANCE-SHEET TRANSACTIONS, AS WELL AS IMPAIRED LOANS/RECEIVABLES

in CHF

	Type of collateral			
	Mortgage collateral	Other collateral	Unsecured	Total
<b>Loans</b>				
Due from clients	155 584 631	255 678 324	84 945 831	496 208 786
Mortgage loans				
Residential property	2 780 738 076	-	-	2 780 738 076
Office and business premises	293 189 133	-	-	293 189 133
Commercial and industrial premises	-	-	-	-
Other	-	-	-	-
<b>Total loans (before netting with value adjustments – note 16) at Dec. 31, 2015</b>	<b>3 229 511 840</b>	<b>255 678 324</b>	<b>84 945 831</b>	<b>3 570 135 995</b>
Total at Dec. 31, 2014	3 083 652 783	330 185 561	92 022 901	3 505 861 245
<b>Total loans (after netting with value adjustments)</b>	<b>3 205 996 836</b>	<b>254 941 800</b>	<b>63 554 307</b>	<b>3 524 492 943</b>
Total at Dec. 31, 2014	3 066 359 831	329 320 389	71 270 911	3 466 951 131
<b>Off-balance-sheet</b>				
Contingent liabilities	1 000 615	165 035 951	38 645 440	204 682 006
Irrevocable commitments	-	-	19 141 500	19 141 500
Commitments of payments and additional deposits	-	-	-	-
Credit commitments	-	-	193 065 688	193 065 688
<b>Total at Dec. 31, 2015</b>	<b>1 000 615</b>	<b>165 035 951</b>	<b>250 852 628</b>	<b>416 889 194</b>
Total at Dec. 31, 2014	1 247 680	296 849 656	285 779 488	583 876 824
<b>Impaired loans</b>				
	Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Individual value adjustments
<b>Total at Dec. 31, 2015</b>	<b>22 348 918</b>	<b>2 765 270</b>	<b>19 583 648</b>	<b>19 583 648</b>
Total at Dec. 31, 2014	23 209 286	4 128 429	19 080 857	19 080 857

## 3. BREAKDOWN OF TRADING PORTFOLIOS AND OTHER FINANCIAL INSTRUMENTS AT FAIR VALUE

Not applicable.

## 4. PRESENTATION OF DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS AND LIABILITIES)

in CHF	Trading instruments			Hedging instruments		
	Positive replacement value	Negative replacement value	Contract volumes	Positive replacement value	Negative replacement value	Contract volumes
<b>Interest rate derivatives</b>						
Forward contracts, FRAS	-	-	-	-	-	-
Swaps – IRS	-	-	-	-	57 258 569	1 242 100 000
Futures	-	-	-	-	-	-
Options (OTC)	-	-	-	-	-	-
Options (exchange traded)	-	-	-	-	-	-
<b>Currencies/Precious metals</b>						
Forward contracts	19 965 337	5 266 662	2 218 700 101	-	-	-
Combined swaps (interest/currency)	-	-	-	-	-	-
Futures	10 862	10 862	1 620 714	-	-	-
Options (OTC)	38 381	38 381	5 474 820	-	-	-
Options (exchange traded)	-	-	-	-	-	-
<b>Equities/Indices</b>						
Forward contracts	-	-	-	-	-	-
Swaps	-	-	-	-	-	-
Futures	-	-	-	-	-	-
Options (OTC)	21 817	21 817	3 768 346	-	-	-
Options (exchange traded)	-	-	-	-	-	-
<b>Credit derivatives</b>						
Credit default swaps	-	-	-	-	-	-
Total return swaps	-	-	-	-	-	-
First to default swaps	-	-	-	-	-	-
Other credit derivatives	-	-	-	-	-	-
<b>Other</b>						
Forward contracts	-	-	71 294 234	-	-	-
Swaps	-	-	-	-	-	-
Futures	32	32	320 148	-	-	-
Options (OTC)	-	-	-	-	-	-
Options (exchange traded)	-	-	-	-	-	-
<b>Total before effect of netting contracts</b>						
<b>Total at Dec. 31, 2015</b>	<b>20 036 429</b>	<b>5 337 754</b>	<b>2 301 178 363</b>	-	<b>57 258 569</b>	<b>1 242 100 000</b>
Total at Dec. 31, 2014	11 354 743	6 371 088	1 753 654 403	-	56 963 455	1 380 500 000



**4. (CONTINUED)**

in CHF

**Total after netting agreements**

	Cumulative positive replacement value	Cumulative negative replacement value
<b>Total at Dec. 31, 2015</b>	<b>20 036 429</b>	<b>62 596 323</b>
Total at Dec. 31, 2014	11 354 743	63 334 543

The Bank has not concluded any netting agreements.

**Breakdown by counterparty**

	Central clearing houses	Banks and securities dealers	Other customers
<b>Positive replacement values (after netting agreements) at Dec. 31, 2015</b>	-	19 160 633	875 796

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, 2015 that had not been settled yet are shown according to the value-date principle.

## 5. BREAKDOWN OF FINANCIAL INVESTMENTS

in CHF	Carrying value		Market value			
	31.12.2015	31.12.2014	31.12.2015	31.12.2014		
<b>Financial investments</b>						
<b>Debt securities</b>	48 028 630	56 183 087	49 090 786	57 211 917		
Of which:						
Own bonds or medium-term notes	-	-	-	-		
Held to maturity	-	-	-	-		
Valued at lower of cost or market	48 028 630	56 183 087	49 090 786	57 211 917		
<b>Equity securities</b>	1 975 309	2 021 353	1 979 826	2 038 844		
Of which:						
Qualified participating interests	-	-	-	-		
Deposit bonds (purchase value)	-	-	-	-		
Precious metals	-	-	-	-		
Real estate	-	-	-	-		
<b>Total financial investments</b>	<b>50 003 939</b>	<b>58 204 440</b>	<b>51 070 612</b>	<b>59 250 761</b>		
Of which:						
Securities pledgeable in accordance with liquidity regulations	25 508 048	23 702 908	-	-		
<b>Breakdown of counterparties by rating</b>						
<b>At Dec. 31, 2015</b>	AAA to AA	A+ to A-	BBB+ to BBB-	BB + to B-	Below B-	Unrated
<b>Debt securities</b>						
Book values	41 726 921	-	-	-	-	6 301 709
<b>Equity securities</b>						
Book values	-	-	-	-	-	1 975 309

## 6. PRESENTATION OF PARTICIPATIONS

in CHF

	Acquisition cost	Accumulated value adjustments and changes in book value	Book value previous year end	Reclassifications	Additions	Disposals	Value adjustments	Changes in book value of participations valued using the equity method	Book value as at end of current year	Market value
<b>Other participations</b>										
Market value	-	-	-	-	-	-	-	-	-	-
Without market value	611 356	-	611 356	-	511 525	-	-	-	1 122 881	N/A
<b>Total</b>	<b>611 356</b>	<b>-</b>	<b>611 356</b>	<b>-</b>	<b>511 525</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1 122 881</b>	<b>N/A</b>

## 7. DISCLOSURE OF COMPANIES IN WHICH THE BANK HOLDS A PERMANENT DIRECT OR INDIRECT SIGNIFICANT PARTICIPATION

Company name and domicile	Business activity	Company capital	Share of capital (in %)	Share of votes (in %)	Held directly	Held indirectly
Sofipo SA - Lugano	Fiduciary services	2 000 000	30%	30%	600 000	-
Pfandbriefbank - Zurich	Mortgage institution	800 000 000	0.06%	0.06%	460 000	-

Regarding the participation of Sofipo the share capital has been released to the extent of 100%.

In accordance with Art. 34 OBCR of the Banking Ordinance, there is no obligation to present consolidated accounts as at December 2015.

The costs related to the purchase of the participation of "Pfandbriefbank – Zurich" amount to CHF 522 881.

## 8. PRESENTATION OF TANGIBLE FIXED ASSETS

in CHF	Current year								
	Purchase price & amortisation	Accumulated depreciation	Book value as at 31.12.2014	Reclassification	Additions	Disposals	Depreciation & amortisation	Revaluation	Book value as at 31.12.2015
<b>Fixed assets</b>									
Property used									
by the Bank	22 293 943	(7 678 072)	14 615 871	-	9 974	-	(617 805)	-	14 008 040
Other real estate	1 173 200	(80 660)	1 092 540	-	570 268	(1 295 808)	(20 000)	-	347 000
Proprietary or separately acquired									
software	37 457 901	(35 363 531)	2 094 370	-	1 089 819	-	(1 649 281)	-	1 534 908
Other tangible									
fixed assets	80 471 589	(69 548 292)	10 923 297	-	992 394	-	(2 836 453)	-	9 079 238
Capitalised cost									
(capital increase)	1 130 979	(895 128)	235 851	-	-	(235 851)	-	-	-
<b>Total</b>	<b>142 527 612</b>	<b>(113 565 683)</b>	<b>28 961 929</b>	<b>-</b>	<b>2 662 455</b>	<b>(1 531 659)</b>	<b>(5 123 539)</b>	<b>-</b>	<b>24 969 186</b>
<b>Insurance value</b>									
Property used									
by the Bank	-	-	17 645 000	-	-	-	-	-	17 665 800
Other tangible									
fixed assets	-	-	35 162 000	-	-	-	-	-	35 162 000

## 9. PRESENTATION OF INTANGIBLE ASSETS

Not applicable.

## 10. BREAKDOWN OF OTHER ASSETS AND OTHER LIABILITIES

in CHF	31.12.2015	31.12.2014	Change
Compensation account	57 258 569	56 963 455	295 114
Swiss Federal Tax Administration	1 381 261	1 822 329	(441 068)
Suppliers	-	-	-
Others	4 842 182	4 682 838	159 344
<b>Total</b>	<b>63 482 012</b>	<b>63 468 622</b>	<b>13 390</b>

**11. BREAKDOWN OF OTHER LIABILITIES**

in CHF	<b>31.12.2015</b>	31.12.2014	Change
Swss Federal Tax Administration	2 686 230	4 625 171	(1 938 941)
Suppliers	4 203 716	5 768 649	(1 564 933)
Others	2 382 755	2 113 727	269 028
<b>Total</b>	<b>9 272 701</b>	12 507 547	(3 234 846)

**12. DISCLOSURE OF ASSETS PLEDGED OR ASSIGNED TO SECURE OWN COMMITMENTS AND OF ASSETS UNDER RESERVATION OF OWNERSHIP AT DEC. 31, 2015**

in CHF	<b>Book values</b>	<b>Effective commitments</b>
<b>Pledged/assigned assets</b>		
Mortgages securing loans at central mortgage bond institutions	306 794 125	161 900 000
Securities used as collateral at the SNB	3 868 541	No liabilities
Securities used as collateral at SIS	5 685 413	No liabilities
Securities repurchase (Repo) operations	-	-
Securities (financial investments) pledged to secure Repo operations	15 954 094	-
<b>Assets under reservation of ownership</b>	-	-

### 13. LIABILITIES TO PENSION PLANS

With regard to pensions 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 insures all employees, including executives, with an annual salary of up to 500% of the maximum basic old-age pension. Executives aged 40 or more and with three years' service are insured with an annual salary of up to 500% of the maximum executive pension;
- the second plan insures all employees, including executives, for that portion of their annual salary exceeding 500% of the maximum basic old-age pension. Executives aged 40 or more and with three years' service are insured for that portion of their annual salary exceeding 500% of the maximum executive pension.

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 disabled people, 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.

#### a) Employer contribution reserves (ECR)

ECR	Nominal value at current year end	Waiver of use at current year end	Net amount at current year end	Net amount at previous year end	Influence of ECR on personnel expenses at current year end	Influence of ECR on personnel expenses at previous year end
Employer sponsored funds / employer sponsored pension schemes	-	-	-	-	-	-
Pension schemes	-	-	-	-	-	-

#### b) Presentation of the economic benefit/obligation and the pension expenses

	Overfunding/underfunding at end of current year	Economic interest of the bank/financial group at end of current year	Economic interest of the bank/financial group at end of previous year	Change in economic interest (economic benefit/obligation) versus previous year	Contributions paid for the current period	Pension expenses in personnel expenses at end of current year	Pension expenses in personnel expenses at end of previous year
Pension plans with-out overfunding/underfunding	-	-	-	-	-	4 643 404	4 233 663

## 14. PRESENTATION OF ISSUED STRUCTURED PRODUCTS

Not applicable.

## 15. PRESENTATION OF BONDS OUTSTANDING AND MANDATORY CONVERTIBLE BONDS

CHF in thousands

	Maturities													Total
	Tasso	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
<b>Loans from central mortgage bond institutions</b>														
0.050	-	20 000	-	-	-	-	-	-	-	-	-	-	-	20 000
0.175	10 000	-	-	-	-	20 000	-	-	-	-	-	-	-	30 000
0.425	-	-	-	-	-	-	-	-	-	-	-	-	20 000	20 000
0.550	-	-	-	-	-	-	-	20 000	-	-	19 700	-	-	39 700
0.675	-	-	-	-	-	-	-	22 200	-	-	-	-	-	22 200
0.800	-	-	-	-	-	-	20 000	-	-	-	-	-	-	20 000
1.050	-	-	-	-	-	10 000	-	-	-	-	-	-	-	10 000
<b>Total at 31.12.2015</b>		<b>10 000</b>	<b>20 000</b>	-	-	<b>30 000</b>	<b>20 000</b>	<b>42 200</b>	-	-	<b>19 700</b>	-	<b>20 000</b>	<b>161 900</b>
Total at 31.12.2014		-	-	-	-	10 000	-	22 200	-	-	-	-	-	32 200
<b>Bond loans</b>														
<b>Total at 31.12.2015</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total at 31.12.2014	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Grand total at Dec. 31, 2015</b>		<b>10 000</b>	<b>20 000</b>	-	-	<b>30 000</b>	<b>20 000</b>	<b>42 200</b>	-	-	<b>19 700</b>	-	<b>20 000</b>	<b>161 900</b>
Total at 31.12.2014		-	-	-	-	10 000	-	22 200	-	-	-	-	-	32 200

**15. (CONTINUED)**

The following medium-term notes were also outstanding at the end of the year.

Interest rate	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
0.010 %	13 200										13 200
0.020 %	1 200										1 200
0.030 %		60 000									60 000
0.050 %	16 155										16 155
0.070 %	3 300										3 300
0.100 %	3 973										3 973
0.120 %		2 000									2 000
0.125 %			200								200
0.150 %		2 107	40								2 147
0.200 %				140							140
0.250 %	26 683	1 270				100					28 053
0.300 %		16 109					180				16 289
0.350 %			12 755								12 755
0.400 %	1 243	420									1 663
0.500 %	770	115			20						905
0.550 %			100	175							275
0.600 %	1 665										1 665
0.625 %	50	135	145								330
0.650 %	930	5									935
0.700 %		1 630									1 630
0.750 %	261			85							346
0.875 %	85	40									125
1.000 %	480	164	158	245	1 472	85					2 604
1.100 %						150					150
1.125 %					115	45					160
1.250 %	600	310	30			220	190				1 350
1.375 %	260			20			230	90	106	10	716
1.500 %	330	119	260		136						845
1.625 %			70	50	125	30					275
1.750 %	1 743	140			50						1 933
1.875 %	250										250
2.000 %	160	685	60								905
2.125 %	6	20	70			4					100
2.250 %	4 420	11		15	10						4 456
2.375 %			1			65					66
2.500 %	50			246	10	250					556
2.625 %			100	88							188
3.125 %	10										10
3.250 %	2										2
3.375 %		10									10
<b>Total</b>	<b>77 826</b>	<b>85 290</b>	<b>13 989</b>	<b>1 064</b>	<b>1 938</b>	<b>949</b>	<b>600</b>	<b>90</b>	<b>106</b>	<b>10</b>	<b>181 862</b>



## 16. PRESENTATION OF VALUE ADJUSTMENTS AND PROVISIONS, RESERVES FOR GENERAL BANKING RISKS, AND CHANGES THEREIN DURING THE CURRENT YEAR

in CHF	Previous year end	Use in conformity with designated purpose	Change of purpose, with reclassification, transfers	Currency differences	Past due interest, recoveries	New creations charged to income	Releases to income	Balance at current year end
Provisions for deferred taxes	-	-	-	-	-	-	-	-
Provisions for pension benefit obligations	-	-	-	-	-	-	-	-
Off-balance-sheet operations	647 840	-	-	-	-	153 324	-	801 164
Provisions for other business risks	-	-	-	-	-	-	-	-
Provisions for restructuring	-	-	-	-	-	-	-	-
Other provisions	6 132 000	(813 000)	-	-	-	735 000	-	6 054 000
<b>Total provisions</b>	<b>6 779 840</b>	<b>(813 000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>888 324</b>	<b>-</b>	<b>6 855 164</b>
<b>Reserve for general banking risks</b>	<b>15 000 000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15 000 000</b>

<b>Value adjustments for default and country risks (deducted from the balance sheet receivables)</b>	<b>38 910 114</b>	<b>(113 403)</b>	<b>-</b>	<b>(155 667)</b>	<b>(425 570)</b>	<b>7 462 453</b>	<b>(34 876)</b>	<b>45 643 051</b>
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Of which:

Value adjustments for default Risks in respect of impaired Loans/receivables	19 080 857	(15 412)	-	(172 182)	(318 817)	1 009 202	-	19 583 648
Value adjustments for latent risks	-	-	-	-	-	-	-	-

The "Reserve for general banking risks" is not taxed.

## 17. PRESENTATION OF THE BANK'S CAPITAL AT DEC. 31, 2015

in CHF

	Current year			Previous year		
	Par value	Number of shares	Par value holding	Par value	Number of shares	Par value holding
Share capital	180 000 000	1 800 000	180 000 000	150 000 000	1 500 000	150 000 000

**The share capital was increased in 2015 to 30 million and is fully released.**

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 the law, a shareholder may not hold more than 0.5% of the share capital; 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).

## 18. NUMBER AND VALUE OF EQUITY SECURITIES OR OPTIONS ON EQUITY SECURITIES HELD BY ALL EXECUTIVES AND DIRECTORS AND BY EMPLOYEES, AND DISCLOSURES ON ANY EMPLOYEE PARTICIPATION SCHEMES

At Dec. 31, 2015 there was no share programme for employees.

## 19. DISCLOSURE OF AMOUNTS DUE FROM/TO RELATED PARTIES

in CHF	Amounts due from			Amounts due to		
	31.12.2015	31.12.2014	Change	31.12.2015	31.12.2014	Change
<b>Holders of qualified participations</b>						
Group companies	<b>441 091 086</b>	455 076 537	(13 985 451)	<b>1 180 199 087</b>	669 984 129	510 214 958
Governing bodies	<b>6 852 000</b>	6 020 000	832 000	-	-	-

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 at market terms and conditions.

## 20. DISCLOSURE OF HOLDERS OF SIGNIFICANT PARTICIPATIONS

All shares are held by the parent company.

## 21. DISCLOSURE OF OWN SHARES AND COMPOSITION OF EQUITY CAPITAL

At Dec. 31, 2015 there was no share programme for employees. The parent company holds 100 % of the equity capital.

## 22. DISCLOSURES IN ACCORDANCE WITH THE ORDINANCE AGAINST EXCESSIVE COMPENSATION WITH RESPECT TO LISTED STOCK CORPORATIONS\* AND ARTICLE 663C PARA. 3 CO FOR BANKS WHOSE EQUITY SECURITIES ARE LISTED

Not applicable.

## 23. PRESENTATION OF THE MATURITY STRUCTURE OF FINANCIAL INSTRUMENTS

in CHF	Maturities							Total
	At sight	Call/notice	Due within 3 months	Due within 3 to 12 months	Due within 12 months to 5 years	Due after 5 years	Fixed assets	
<b>Assets/financial instruments</b>								
Cash	725 000 488	-	-	-	-	-	-	725 000 488
Amounts due from banks	132 587 626	-	367 439 120	-	-	-	-	500 026 746
Amounts due from clients	8 579 078	185 025 916	146 856 217	94 388 404	28 746 478	7 704 000	-	471 300 093
Mortgage loans	19 691 159	289 414 426	235 184 875	362 278 120	1 458 202 450	688 421 820	-	3 053 192 850
Positive replacement values of derivative financial instruments	20 036 429	-	-	-	-	-	-	20 036 429
Financial investments	1 975 310	-	4 720 035	4 566 758	38 251 271	490 565	-	50 003 939
<b>Total at 31.12.2015</b>	<b>907 870 090</b>	<b>474 440 342</b>	<b>754 200 247</b>	<b>461 233 282</b>	<b>1 525 200 199</b>	<b>696 616 385</b>	<b>-</b>	<b>4 819 560 545</b>
Total at 31.12.2014	328 145 963	608 723 214	791 004 179	452 805 246	1 442 450 996	633 816 985	-	4 256 946 583
<b>Amounts due to third parties</b>								
Amounts due to banks	36 847 163	-	426 077 591	649 800 000	108 300 000	-	-	1 221 024 754
Amounts due in respect of customer deposits	1 813 589 945	823 437 825	212 466 437	69 524 490	-	-	-	2 919 018 697
Negative replacement values of derivative financial instruments	62 596 323	-	-	-	-	-	-	62 596 323
Cash bonds	-	-	5 098 000	72 728 000	102 281 000	1 755 000	-	181 862 000
Loans from central mortgage bond institutions	-	-	-	-	30 000 000	131 900 000	-	161 900 000
<b>Total at 31.12.2015</b>	<b>1 938 310 045</b>	<b>823 437 825</b>	<b>618 365 414</b>	<b>792 052 490</b>	<b>240 581 000</b>	<b>133 655 000</b>	<b>-</b>	<b>4 546 401 774</b>
Total at 31.12.2014	2 619 710 799	-	948 719 063	310 370 917	29 086 000	35 418 000	-	3 943 304 779

## 24. PRESENTATION OF ASSETS AND LIABILITIES BY DOMESTIC AND FOREIGN ORIGIN IN ACCORDANCE WITH THE DOMICILE PRINCIPLE

CHF in thousands	31.12.2015		31.12.2014	
	Switzerland	Abroad	Switzerland	Abroad
<b>Assets</b>				
Cash	724 440	560	186 688	1 036
Amounts due from banks	30 344	469 682	25 879	479 278
Amounts due from clients	364 641	106 660	441 364	138 861
Mortgage loans	3 053 193	-	2 886 727	-
Positive replacement values of derivative financial instruments	13 059	6 978	8 302	3 052
Financial investments	10 358	39 646	10 476	47 728
Accrued income and prepaid expenses	5 179	572	6 123	1 044
Participating interests	1 123	-	611	-
Tangible fixed assets	22 009	2 960	25 716	3 246
Other assets	62 971	511	62 575	894
<b>Total assets</b>	<b>4 287 317</b>	<b>627 569</b>	<b>3 654 461</b>	<b>675 139</b>
<b>Liabilities</b>				
Amounts due to banks	26 247	1 194 778	99 836	670 192
Amounts due in respect of customer deposits	2 002 698	916 321	2 024 840	966 893
Negative replacement values of derivative financial instruments	60 583	2 014	62 671	664
Cash bonds	181 862	-	149 344	-
Loans from central mortgage bond institutions	161 900	-	32 200	-
Accrued liabilities and deferred income	15 782	1 512	11 080	1 678
Other liabilities	6 355	2 917	8 476	4 031
Provisions	6 905	-	6 780	-
Reserve for general banking risks	15 000	-	15 000	-
Share capital	180 000	-	150 000	-
Statutory capital reserve	-	-	-	-
Statutory retained earnings reserve	125 915	-	117 750	-
Voluntary retained earnings reserves	-	-	-	-
Net profit for the year	13 856	241	8 165	-
<b>Total liabilities</b>	<b>2 797 103</b>	<b>2 117 783</b>	<b>2 686 142</b>	<b>1 643 458</b>

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

CHF in thousands	31.12.2015		31.12.2014	
	Total	in %	Total	in %
Switzerland	4 287 317	87%	3 654 462	84%
Italy	481 926	10%	525 212	12%
OECD countries	115 623	2%	102 106	2%
Other countries	30 020	1%	47 820	1%
<b>Total assets</b>	<b>4 914 886</b>	<b>100%</b>	<b>4 329 600</b>	<b>100%</b>

26. BREAKDOWN OF TOTAL ASSETS BY CREDIT RATING OF COUNTRY GROUPS  
(RISK DOMICILE VIEW)

Country	Rating Fitch	Net foreign exposure At Dec. 31, 2015		Net foreign exposure At Dec. 31, 2014	
		In CHF	Share as %	In CHF	Share as %
Germany	AAA	35 474 793	5.65 %	29 704 070	4.39 %
Canada	AAA	1 036 145	0.17 %	1 043 643	0.15 %
Netherlands	AAA	5 785 607	0.92 %	6 186 623	0.92 %
Sweden	AAA	5 665 580	0.90 %	-	0.00 %
Singapore	AAA	-	0.00 %	10 065	0.00 %
USA	AAA	-	0.00 %	8 132 240	1.20 %
United Kingdom	AA+	25 100 751	4.00 %	18 794 309	2.78 %
Belgium	AA	688 940	0.11 %	247	0.00 %
France	AA	18 407 215	2.93 %	16 538 133	2.45 %
Saudi Arabia	AA	149 133	0.02 %	-	0.00 %
Israel	A	2 184 945	0.35 %	1 212 161	0.18 %
Ireland	A-	2 700	0.00 %	12 233	0.00 %
Spain	BBB+	2 041	0.00 %	352 233	0.05 %
Italy	BBB+	481 925 877	76.79 %	525 211 800	77.71 %
Thailand	BBB+	125 345	0.02 %	168 893	0.02 %
Russia	BBB-	2 677 269	0.43 %	1 148 466	0.17 %
Turkey	BBB-	41 715	0.01 %	35 628	0.01 %
Brazil	BB+	820 858	0.13 %	873 504	0.13 %
Egypt	B	229 626	0.04 %	-	0.00 %
Greece	CCC	22 801	0.00 %	121 420	0.02 %
Monaco	Without rating	18 887 051	3.01 %	34 090 334	5.05 %
Panama	Without rating	3 353 907	0.53 %	6 237 427	0.92 %
Luxembourg	Without rating	6 380 582	1.02 %	7 943 392	1.18 %
Others	Without rating	18 606 020	2.96 %	17 321 000	2.57 %
<b>Total</b>		<b>627 568 901</b>	<b>100 %</b>	<b>675 137 821</b>	<b>100 %</b>

The Fitch rating for Switzerland is AAA.

## 27. PRESENTATION OF ASSETS AND LIABILITIES BROKEN DOWN BY THE MOST SIGNIFICANT CURRENCIES FOR THE BANK

CHF in thousands

<b>Assets</b>	<b>CHF</b>	<b>EUR</b>	<b>USD</b>	<b>Other</b>	<b>Total</b>
Cash	719 714	4 653	442	191	725 000
Amounts due from banks	356 900	82 834	24 914	35 379	500 027
Amounts due from clients	368 939	88 823	6 192	7 346	471 300
Mortgage loans	3 009 398	43 795	-	-	3 053 193
Positive replacement values					
of derivative financial instruments	18 974	823	142	97	20 036
Financial investments	19 627	6 564	23 813	-	50 004
Accrued income and prepaid expenses	4 793	642	204	113	5 752
Participating interests	1 123	-	-	-	1 123
Tangible fixed assets	22 009	2 960	-	-	24 969
Other assets	61 984	1 448	48	2	63 482
<b>Total assets in the balance sheet</b>	<b>4 583 461</b>	<b>232 542</b>	<b>55 755</b>	<b>43 128</b>	<b>4 914 886</b>
Off-balance-sheet claims due from foreign exchange					
spot, forward and option transactions	16 400	1 870 855	199 497	66 684	2 153 436
<b>Total assets at 31.12.2015</b>	<b>4 599 861</b>	<b>2 103 397</b>	<b>255 252</b>	<b>109 812</b>	<b>7 068 322</b>
<b>Liabilities</b>					
Amounts due to banks	3 515	1 183 473	12 794	21 243	1 221 025
Amounts due in respect of customer deposits	1 781 657	869 407	200 499	67 456	2 919 019
Negative replacement values of derivative					
financial instruments	61 177	143	982	294	62 596
Cash bonds	181 862	-	-	-	181 862
Loans from central					
mortgage bond institutions	161 900	-	-	-	161 900
Accrued liabilities and deferred income	15 927	1 085	104	178	17 294
Other liabilities	5 679	3 581	8	5	9 273
Provisions	6 905	-	-	-	6 905
Reserve for general banking risks	15 000	-	-	-	15 000
Share capital	180 000	-	-	-	180 000
Statutory capital reserve	-	-	-	-	-
Statutory retained earnings reserve	125 915	-	-	-	125 915
Voluntary retained earnings reserves	-	-	-	-	-
Net profit for the year	14 097	-	-	-	14 097
<b>Total liabilities in the balance sheet</b>	<b>2 553 634</b>	<b>2 057 689</b>	<b>214 387</b>	<b>89 176</b>	<b>4 914 886</b>
Off-balance-sheet claims by foreign exchange spot,					
forward and option transactions	2 044 270	48 203	40 840	20 123	2 153 436
<b>Total liabilities at 31.12.2015</b>	<b>4 597 904</b>	<b>2 105 892</b>	<b>255 227</b>	<b>109 299</b>	<b>7 068 322</b>
Net position by currency	1 957	(2 495)	25	513	-

**28. BREAKDOWN AND EXPLANATION OF CONTINGENT ASSETS AND LIABILITIES**

in CHF	31.12.2015	31.12.2014	Change
Guarantees to secure credits and similar	179 022 423	246 273 425	(67 251 002)
Performance guarantees and similar	-	-	-
Irrevocable commitments arising from documentary letters of credit	25 659 583	95 672 863	(70 013 280)
Other contingent liabilities	-	-	-
<b>Total contingent liabilities</b>	<b>204 682 006</b>	<b>341 946 288</b>	<b>(137 264 282)</b>
Contingent assets arising from tax losses carried forward	-	-	-
Other contingent assets	-	-	-
<b>Total contingent assets</b>	<b>-</b>	<b>-</b>	<b>-</b>

**29. BREAKDOWN OF CREDIT COMMITMENTS**

in CHF	31.12.2015	31.12.2014	Change
Commitments arising from deferred payments	-	-	-
Commitments arising from acceptances (for liabilities arising from acceptances in circulation)	-	-	-
Other credit commitments	193 065 688	213 804 036	(20 738 348)
<b>Total</b>	<b>193 065 688</b>	<b>213 804 036</b>	<b>(20 738 348)</b>

**30. BREAKDOWN OF FIDUCIARY TRANSACTIONS**

in CHF	31.12.2015	31.12.2014	Change
Fiduciary investments with third-party companies	758 153	121 650	636 503
Fiduciary investments by the parent company	39 173 193	101 052 326	(61 879 133)
<b>Total</b>	<b>39 931 346</b>	<b>101 173 976</b>	<b>(61 242 630)</b>

### 31. BREAKDOWN OF MANAGED ASSETS AND PRESENTATION OF THEIR DEVELOPMENT

CHF in million	31.12.2015	31.12.2014	Change
<b>A) Type of managed assets</b>			
Assets in collective investment schemes managed by the bank	678.7	731.8	(53.1)
Assets under discretionary asset management agreements	491.1	665.6	(174.5)
Other managed assets	4 385.5	4 642.6	(257.1)
<b>Total managed assets (including double counting)</b>	<b>5 555.3</b>	<b>6 040.0</b>	<b>(484.7)</b>
Of which, double-counted assets	269.9	325.7	(55.8)
Net increase/(decrease) (including double-counted assets)	(363.9)	(327.1)	(36.8)

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. 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.

#### B) Presentation of the development of managed assets

Total managed assets (including double counting) at beginning of year	6 040.0	6 074.6	(34.6)
+/- net new money inflow or net new money outflow	(363.9)	(327.1)	(36.8)
+/- price gains/losses, interest, dividends and currency gains/losses	(120.8)	292.5	(413.3)
+/- other effects	-	-	-
<b>Total managed assets (including double counting) at end of year</b>	<b>5 555.3</b>	<b>6 040.0</b>	<b>(484.7)</b>

### 32. BREAKDOWN OF THE RESULT FROM TRADING ACTIVITIES AND THE FAIR VALUE OPTION

in CHF	31.12.2015	31.12.2014	Change
Interest rate instruments (including funds)	-	-	-
Equity securities (including funds)	(9 648)	(12 528)	2 880
Foreign currencies	29 120 494	13 447 690	15 672 804
Commodities/precious metals	(13 593)	(97 062)	83 469
<b>Total result from trading activities</b>	<b>29 097 253</b>	<b>13 338 100</b>	<b>15 759 153</b>



### 33. DISCLOSURE OF MATERIAL REFINANCING INCOME IN THE ITEM INTEREST AND DISCOUNT INCOME AS WELL AS MATERIAL NEGATIVE INTEREST

The Bank does not make use of this possibility.

### 34. BREAKDOWN OF PERSONNEL EXPENSES

in CHF	31.12.2015	31.12.2014	Change
Salaries	34 166 188	33 005 282	1 160 906
Of which:			
Expenses relating to share-based compensation and alternative forms of variable compensation	3 290 010	2 767 960	522 050
Social insurance benefits	7 890 168	7 544 059	346 109
Other personnel expenses	1 913 775	1 719 489	194 286
<b>Total</b>	<b>43 970 131</b>	<b>42 268 830</b>	<b>1 701 301</b>

### 35. BREAKDOWN OF GENERAL AND ADMINISTRATIVE EXPENSES

in CHF	31.12.2015	31.12.2014	Change
Office space expenses	7 322 980	7 538 296	(215 316)
Expenses for information and communications technology	2 368 981	2 419 803	(50 822)
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	4 915 071	4 657 899	257 172
Fees of audit firm	473 728	463 288	10 440
Of which:			
for financial and regulatory audits	473 728	463 288	10 440
for other services	-	-	-
Other operating expenses	7 147 476	7 058 784	88 692
<b>Total</b>	<b>22 228 236</b>	<b>22 138 070</b>	<b>90 166</b>

### 36. EXPLANATIONS REGARDING MATERIAL LOSSES, EXTRAORDINARY INCOME AND EXPENSES, AS WELL AS MATERIAL RELEASES OF HIDDEN RESERVES, RESERVES FOR GENERAL BANKING RISKS, AND VALUE ADJUSTMENTS AND PROVISIONS NO LONGER REQUIRED

"Extraordinary income" mainly comprises income from the disposal of real estate purchased at auction CHF 57 942.

"Extraordinary expenses" mainly comprise the expenses incurred for the disposal of the real estate purchased at auction (CHF 43 750), for CHF 235 852 the liquidation of the investments recognised as at 31 December 2014 in the item "Capital increase costs", and for CHF 137 012 for settling old accrual and deferral items for financial investments.

### 37. DISCLOSURE OF AND REASONS FOR REVALUATIONS OF PARTICIPATIONS AND TANGIBLE FIXED ASSETS UP TO ACQUISITION COST AT MAXIMUM

No revaluation was performed in the year under review.

### 38. PRESENTATION OF THE OPERATING RESULT BROKEN DOWN ACCORDING TO DOMESTIC AND FOREIGN ORIGIN, ACCORDING TO THE PRINCIPLE OF PERMANENT ESTABLISHMENT

in CHF

	31.12.2015		
	Switzerland	Abroad*	Total
Net result from interest operations	27 981 337	1 329 560	29 310 897
Net commission and service income	30 491 438	2 500 233	32 991 671
Result from trading activities and the fair value option	28 619 439	477 815	29 097 254
Other result from ordinary activities	(640 403)	-	(640 403)
Operating expenses	(62 334 357)	(3 864 011)	(66 198 368)
<b>Operating result</b>	<b>24 117 454</b>	<b>443 597</b>	<b>24 561 051</b>

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

### 39. PRESENTATION OF CURRENT TAXES, DEFERRED TAXES, AND DISCLOSURE OF TAX RATE

The current taxes at Dec. 31, 2015 amounted to CHF 4 655 000.

### 40. DISCLOSURES AND EXPLANATIONS OF THE EARNINGS PER EQUITY SECURITY IN THE CASE OF LISTED BANKS

Not applicable.



## 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**

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### **Report of the Statutory Auditor on the Financial Statements**

As statutory auditor, we have audited the financial statements (pages 21 to 58) of Banca Popolare di Sondrio (SUISSE) SA, which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes for the year ended 31 December 2015.

#### *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 2015 comply with Swiss law and the company's articles of incorporation.



*Banca Popolare di Sondrio (SUISSE) SA, Lugano  
Report of the Statutory Auditor  
on the Financial Statements  
to the General Meeting of Shareholders*

### **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



Pietro Di Fluri  
*Licensed Audit Expert  
Auditor in Charge*



Tamasch Pitsch  
*Licensed Audit Expert*

Zurich, 1 February 2016



## OUR PRODUCTS AND SERVICES

CURRENT ACCOUNTS

DEPOSIT AND INVESTMENT ACCOUNTS

FIDUCIARY AND FORWARD DEPOSITS

MEDIUM-TERM NOTE ISSUES

FOREX

PAYMENT TRANSFERS

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)

PERSONAL BENEFIT

LIFE BENEFIT (3<sup>RD</sup> PILLAR)

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## FOREWORD

We usually dedicate a cultural section in our annual report to illustrious figures whose lives have impacted on both Switzerland and Italy.

In the spotlight this year is the Swiss educationalist Johann Heinrich Pestalozzi, who was born on 12 January 1746 in Zurich and died on 17 February 1827 in the village of Brugg in Canton Aargau. His roots were in Italy, with a family tree that can be traced back to Gravedona, a singular tourist centre on Lake Como's northern limb. His forebear Alberto moved from there in 1299 to Chiavenna, in Sondrio province, and begat an ample progeny; one of his descendants, Giovan Antonio, born in the mid 16th century, would emigrate to Zurich. There, a couple of hundred years and several generations later, the light dawned for the first time on the protagonist of this cultural exploration, Johann Heinrich Pestalozzi.

He lost his father aged just five and was brought up by his mother, aided by the family's dotting housemaid, in a loving, protected and peaceful environment. The education that he received, based on healthy moral and ethical principles, shaped his character and fostered the ideas for which he would gain renown.

His adult life brought him into contact with notable figures of the Swiss Enlightenment, and he studied and was beguiled by the great thinkers. In particular, he explored the theories of 18th-century Geneva writer and philosopher Jean-Jacques Rousseau, whose principles inspired and influenced Pestalozzi's own work.

He loved the rural life, the simple things. This man of some style was altruistic and concerned for the poor and the needy, even establishing orphanages and social-care institutions.

Pestalozzi's work ennobled the family as the ideal, irreplaceable environment for natural and spontaneous education from birth. He attributed important didactic value to religion and associated teachings. And he can also be credited with stressing the value and importance of educational discipline and creating an effective model for primary and general professional instruction for all, regardless of social class.

With his innovative theories and personal endeavours as a diligent teacher, supplemented by his efforts to involve the institutions in improving education generally, he made a tangible contribution to reducing illiteracy in Switzerland, which in his day was widespread, especially among the less affluent.

While we are on the theme of literacy teaching, happily, around a century later, Luigi Credaro from Valtellina, education minister in the Kingdom of Italy from 1910 to 1914, drove a revolutionary – and successful – initiative to eliminate illiteracy from the Italian boot. At BPS, we have named our library in Sondrio city centre after him.

The authors of the essays in this monograph have produced a masterly analysis of the various aspects of this eminent Swiss figure's life and work, and we trust you will find it illuminating. To them all, in a personal capacity and on behalf of the institution that I chair, I extend my thanks and congratulations. I am equally grateful to those who have put all their effort and experience into creating this interesting and elegant cultural supplement.

Lugano, January 2016

Chairman

**Mario Alberto Pedranzini**