

2016 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



...TRINITAT



*[...] and I certainly would never have pursued this profession with the aim of becoming a mere copyist,
although I know that if your work involves inventing something new,
you do not see the fruit of your labours until much later, if indeed at all, [...]*

ETD CAR

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

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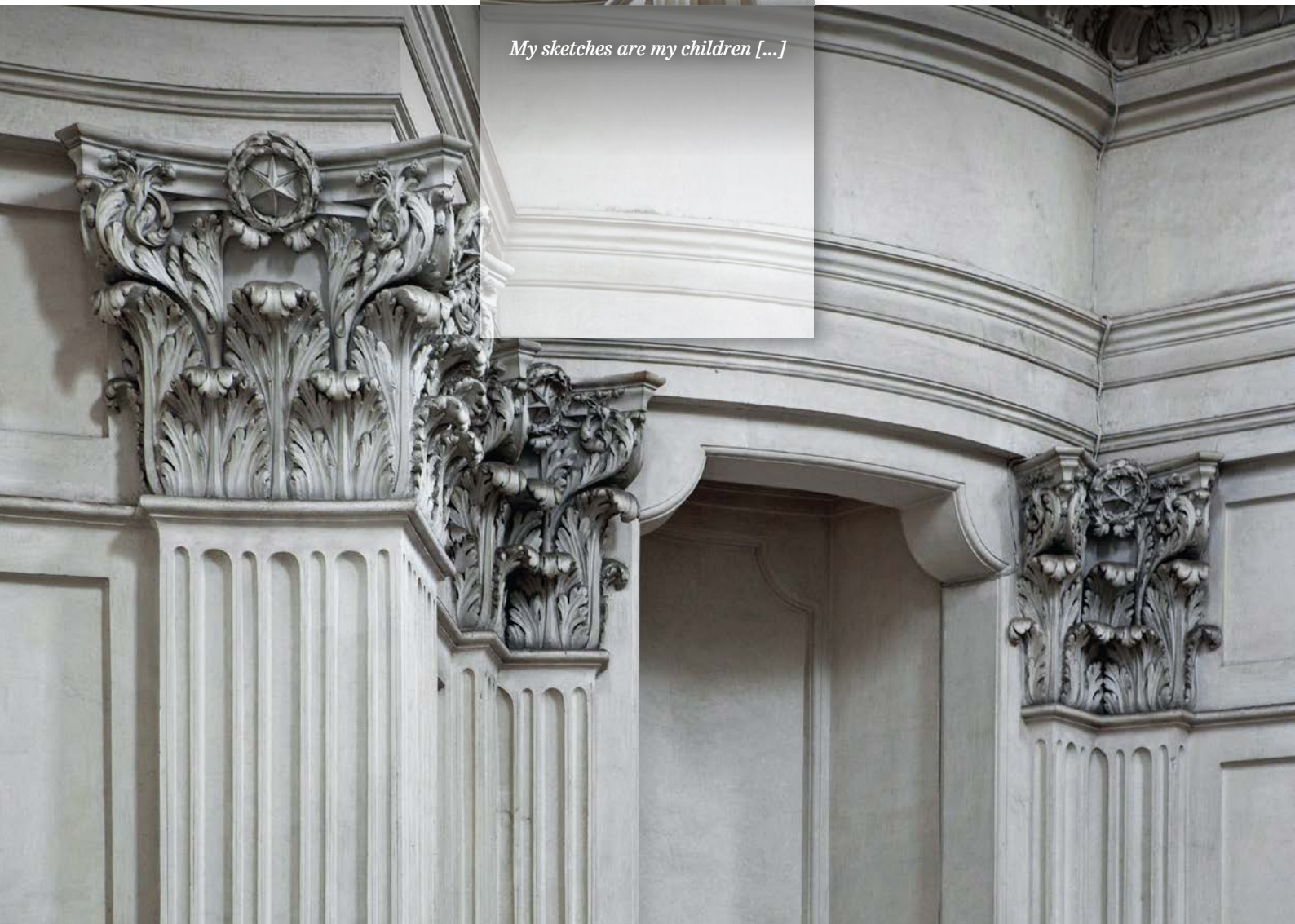
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My sketches are my children [...]



CHAIRMAN'S FOREWORD

At the beginning of another year, as we perform the familiar ritual of replacing our calendars, the events of the past twelve months pass through our minds like the scenes of a film. Reflections and observations follow, usually accompanied by good intentions and the desire to correct what we can to help us improve and move forwards.

There seemed to be no let-up in 2016: terrorist attacks, the wars in the Middle East and Africa, the mass exodus of migrants escaping from brutal conflicts in search of peace and work. What is more, our neighbour Italy was hit by a series of catastrophic earthquakes from 24 August onwards, causing death and destruction on a huge scale.

On the economic front, China put the brake on production while continuing to enjoy significant growth, while the US economy grew modestly, bringing unemployment below 5%. Although EU countries saw some improvement to their economy, progress was widely held to be inadequate and varied from country to country.

Turning our attention to Switzerland, which continues to boast a noteworthy triple-A rating as its calling card: in the period under review, it maintained its long-standing, enviable appeal of a politically stable country, where legal certainty is backed by a strong currency, a well-balanced tax system and economic stability coupled with an ability to keep on innovating. It is worth underlining how well-adapted the infrastructure in Switzerland is and, most notably, how the transport network is a constant focus. In this regard, we will remember 2016 as the year in which the Gotthard Base Tunnel (AlpTransit) was opened – the longest railway tunnel in the world. The ring road around the town of Roveredo also entered into service in November, significantly easing road traffic between Lugano and Chur. Last year, the people of Ticino also voted to build a second Saint Gotthard road tunnel – a massive undertaking. Overall, Switzerland is becoming a real magnet, able to attract businesses and minds from abroad, as well as a general workforce that includes many Italians – cross-border commuters workers on seasonal and annual contracts – who have made and continue to make a good name for themselves and do their (home) countries proud with their initiative and their ability both to adapt to any situation and to apply themselves with great professionalism.

Despite having to deal like the rest of Europe with the fallout from the notorious and lengthy financial crisis, whose negative effects are lingering persistently save for the occasional chink of light, the Swiss economy recorded moderate growth with an increase in GDP of around 1.6%. With average exchange rates of 1.09 against the euro and 0.98 against the US dollar, the stable Swiss franc failed to aid exports, which fell slightly on the previous year by around 1.1%. Robust domestic consumption helped to sustain the Swiss economy.

The construction industry performed well, providing a boost to the many companies in related industries. As regards the sector as a whole, however, it must be noted that housing supply outstripped demand, in keeping with the trend of the past few years. Nevertheless, selling prices increased – albeit not excessively so (by 1.4% on average) – yet the general trend can be said to be levelling out.

Far from rising, inflation was actually slightly negative at -0.3%. At 3.3%, unemployment remained at the previous year's natural rate.

The legendary stability of Swiss banks essentially remained unchanged despite some difficult patches, such as the very low and sometimes negative interest rates brought about by the widespread climate of uncertainty and by the wave of new regulations. These latter have been introduced to better monitor risks, particularly loan risks, and to reinforce capital adequacy – which have accelerated rising costs in no small part. All of these factors have taken their toll on the banks' balance sheets and on their plans for the short to medium term.

Banca Popolare di Sondrio (SUISSE) SA has found itself having to navigate this period of national prosperity while at the same time contending with the uphill struggle of the banking system. As ever, the Bank met these challenges with all of its energy and determination, focusing on the regions it serves and, wherever possible, keeping the money it receives in the same place by means of loans and credit lines in order to benefit the real economy, businesses, private individuals and families. Particular attention was devoted to retail, private banking, lending, portfolio management and securities trading. In short, the Bank took a well-rounded approach, as is our tradition.

Savings and investments in all their various forms go hand in hand and are the lifeblood and raw materials on which the banking system is required to operate. Specifically, customer deposits at our Bank in 2016 fell by 2% to CHF 4.78 billion, down slightly on the previous year, while lendings, provisions excluded, rose by 6% to CHF 3.72 billion, mainly to develop our regional presence.

Net profit for the year amounted to CHF 12 million, down 14%. The main reasons for this drop are exceptionally low interest rates, ever-shrinking spreads, the increasingly slim margins to be had in the intermediary business, the higher costs incurred in adjusting to the new regulations mentioned above, and, somewhat more happily, to a further reassuring boost to our workforce. The list could go on. With that in mind, this is actually a fairly reasonable figure to expect for this particular item on the balance sheet at the end of the year.

Towards the end of 2016, the decision was made to close our Mendrisio and Paradiso agencies, in a move to streamline our network. This does not mean we have abandoned our clients, however, who have been delivered into the care of other branches close by, causing as little disruption as possible. The Bank has 19 offices as of late December 2016, 18 of which are spread across the six cantons of Ticino, Basel, Zurich, Bern, Neuchâtel and Grisons, as well as the external branch in Monaco, which has its registered office in the principality of the same name. Plans are in place to open a branch in Martigny in the canton of Valais in the first quarter of 2017, increasing our total to 20. The Direct Banking sub-branch in Lugano is also worthy of mention.

The St Moritz branch, which was opened back on 5 December 1996, the year after our Bank was founded, held muted celebrations to mark its 20th anniversary, as we are wont to do in such circumstances. At the time, the decision was made to open in St Moritz, a popular hub for tourists in both winter and summer, nestled in the Engadine valley and world-famous for its exceptional natural beauty and warm hospitality. The locals are industrious and serious people who are used to hard work and being careful with money. Among other things, the environment lends itself to winter sports, which have grown over the years to represent the very peak in various disciplines, beginning

with snow sports and skiing in particular. On the subject of skiing, it is gratifying to think that it was here in the Engadine valley of all places that the FIS Alpine World Ski Championships were held in 1934, 1948, 1974 and 2003, with the men's and women's races on the Corviglia/Piz Nair slopes soon to be added in February 2017. While the year under review (and previous years too) have frequently seen bankers sacked, and in no small number, this was not the case at our Bank. In fact, we have appointed four new members of staff, bringing the total to 307.

As the years gradually go by, we find ourselves increasingly resigned to the inevitable changes brought about by globalisation, a development which, for better or worse, would have been thought impossible only a short time ago. The lengthy financial crisis, which began in the USA in 2007 with the infamous subprime mortgage scandal and spread like wildfire across the whole world, has demonstrated how it is possible to become unwittingly entangled and how every sector, including the banking industry, can so easily come under attack and have to face the consequences. Protection has come in the form of effective regulations, shrewd operations, nimble decision-making and smart planning. Conscious of the increasing uncertainty of the times, Banca Popolare di Sondrio (SUISSE) acted with great vigilance in 2016, putting its experience, professionalism and goodwill into action. It is precisely these qualities that we plan to bring to bear in the years to come.

Having shared these brief thoughts and observations, I would like to extend my warmest thanks to your Vice Chairman, Mr Brunello Perucchi, for his capability, skill and prudent decision-making; to the Secretary of the Board of Directors, Mr Plinio Bernardoni; and to our Board members, Mr Giovanni Ruffini and Mr Daniel Zuberbühler.

I would like to express my gratitude to our Chief Executive Officer, Mauro De Stefani, for his outstanding commitment, to the other members of the Executive Committee and to all our colleagues.

My thanks go to FINMA, the Swiss Financial Market Supervisory Authority, which, as ever, has overseen our work scrupulously and in a spirit of cooperation.

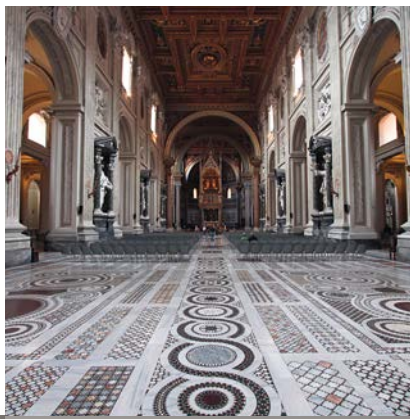
A word of thanks also goes to our external auditors at KPMG for their careful, discerning work.

I would like to offer my heartfelt thanks too to each of our clients for choosing our Bank, Banca Popolare di Sondrio (SUISSE). It goes without saying that we will continue to take the necessary care to ensure that our services always respond to all our clients' needs in full.

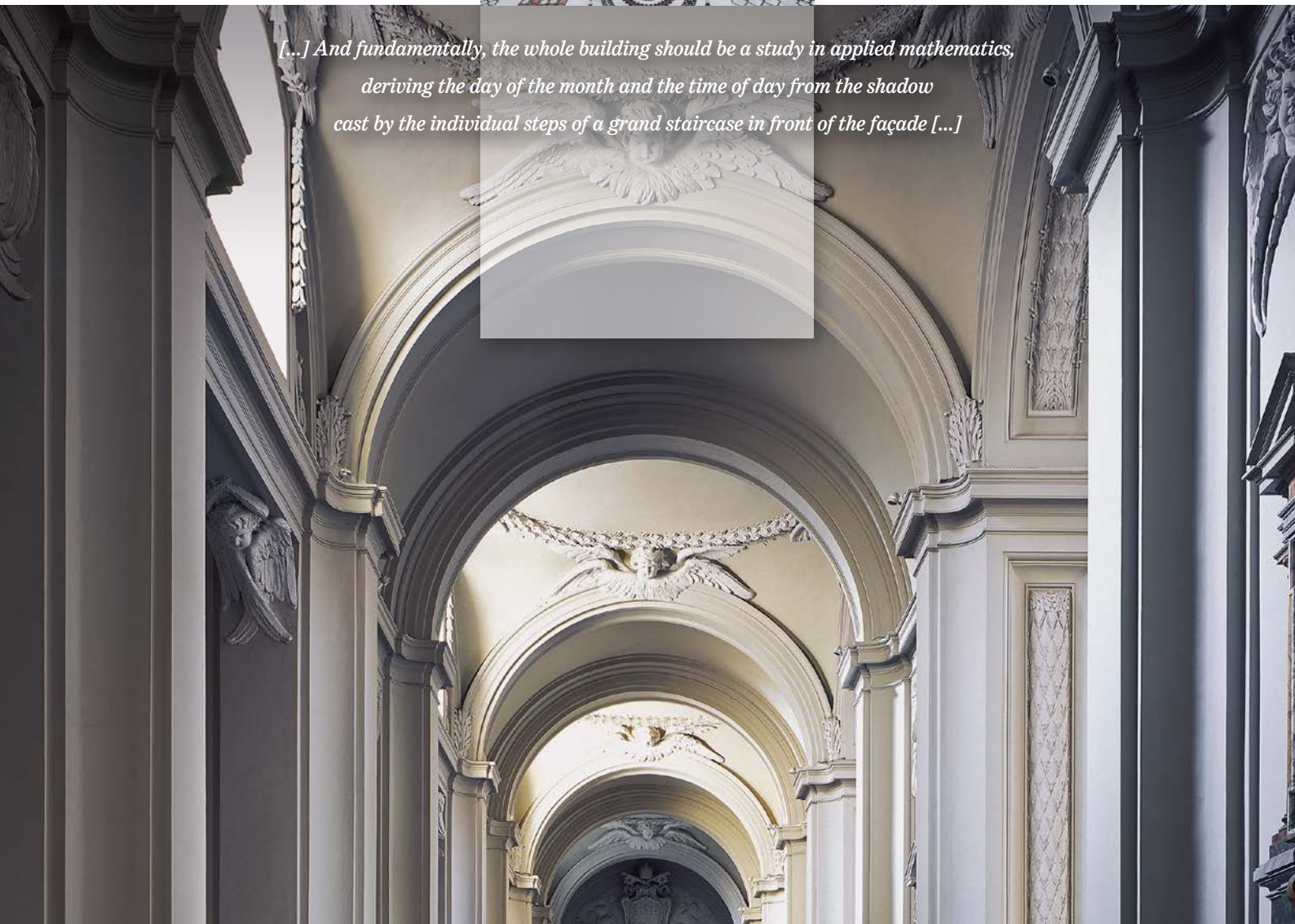
I wish you all the very best for a peaceful 2017 and send you my warmest greetings.

Lugano, 1 January 2017

Chairman
Mario Alberto Pedranzini

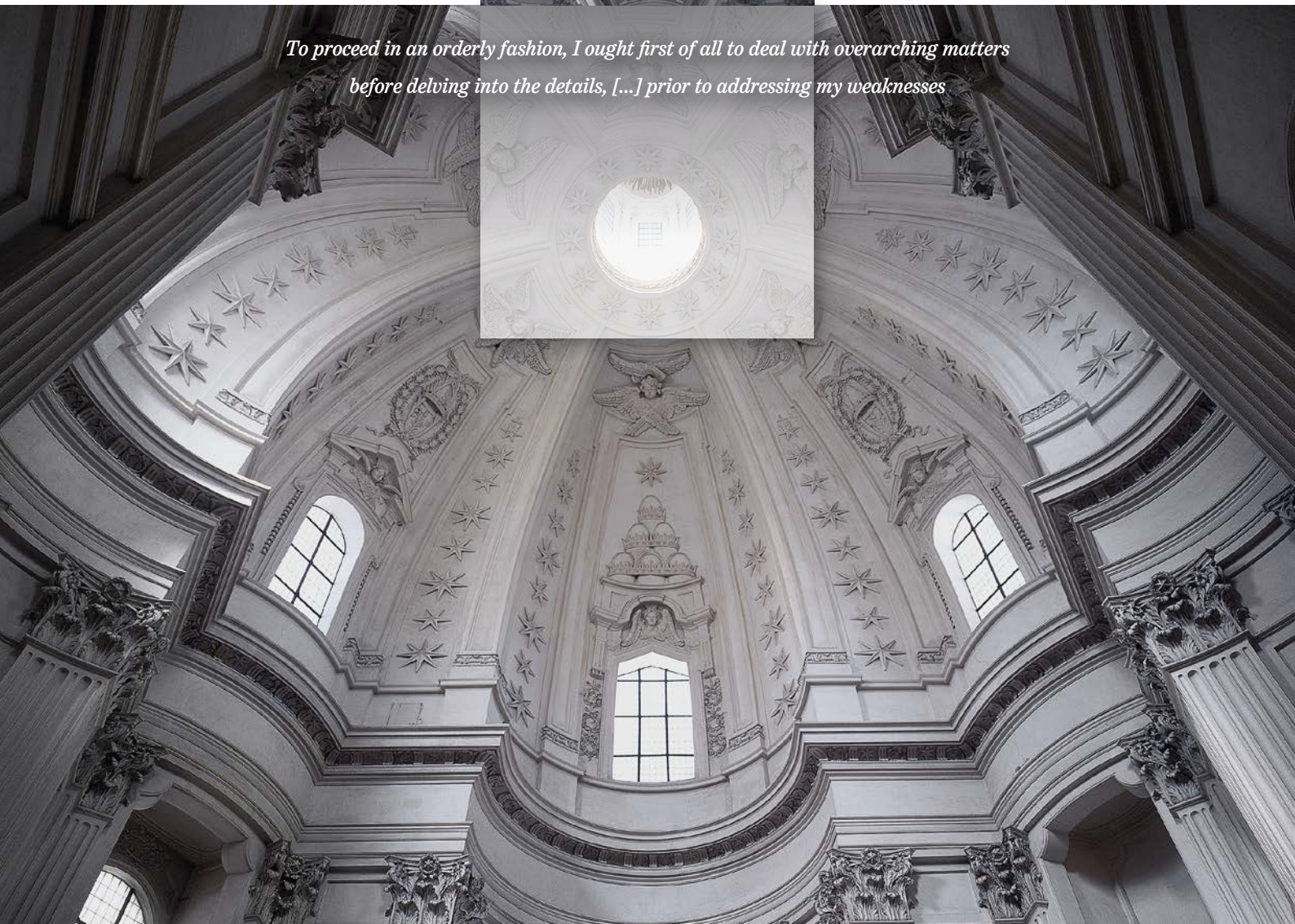


*[...] And fundamentally, the whole building should be a study in applied mathematics,
deriving the day of the month and the time of day from the shadow
cast by the individual steps of a grand staircase in front of the façade [...]*





*To proceed in an orderly fashion, I ought first of all to deal with overarching matters
before delving into the details, [...] prior to addressing my weaknesses*



REPORT OF THE BOARD OF DIRECTORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

International panorama

After years of being gripped by crisis, the world saw some signs of recovery in 2016, albeit tentative ones.

The global economy enjoyed relatively linear growth. Whilst the USA boasts the rosiest outlook of all developed countries, its peers in Europe are growing more slowly and at different speeds. Although China bucked the emerging market trend by bringing a degree of stability to its growth rate, it is facing debt problems and the need for economic restructuring.

The central banks maintained their markedly loose monetary policy in a bid to bolster consumption and investment. The decision to keep interest rates close to or even below zero contributed in some cases to distortions in the valuation of assets held for investment purposes.

The unexpected outcome of the Brexit referendum sparked market turmoil, casting a shadow over the future of the European Union and calling its very structure into question. Many people now feel insecure and uncertain as to the benefits of EU membership.

Following an initial, emotionally driven reaction, the election of the new US president boosted foreign markets thanks to the anticipatory effect of the policies announced on his campaign trail. The US stock markets have been on a steady bull run, breaking records in the process.

The US Federal Reserve increased interest rates in December for only the second time in a decade. News of its plans to bring forward further hikes sparked a marked rise in the dollar, influencing international interest rates as well. The European Central Bank (ECB), by contrast, has deferred its European tapering programme until economic growth is more robust.

Gold has had a year of ups and downs driven by political instability and US interest rate speculation. Although it ended the year on an uptrend, this fell some way short of its biggest gains, recorded in the wake of the Brexit vote.

Oil enjoyed its best performance since 2009, underpinned by efforts to slowly balance the market and by the OPEC deal designed to cut output.

Switzerland: the economy and the financial system

Switzerland experienced an encouraging trend thanks to adequate economic growth, falling unemployment and lower national debt.

Many sectors of the economy comfortably absorbed the effects of the rising franc triggered when the country abandoned its minimum exchange rate against the euro in January 2015.

The Swiss National Bank (SNB) has reaffirmed its negative interest rates for the inter-bank market.

Short-term inflation forecasts have returned to positive territory, mirroring the trend in other countries.

On the political front, relations with the EU appear to be improving following efforts to clarify certain issues of importance to both sides.

On the subject of integration – but this time of another kind – Switzerland opened the Gotthard Base Tunnel, the longest railway tunnel in the world at 57 kilometres and both a national and a genuinely historic achievement. This once-in-a-lifetime project will improve links between northern and southern Europe, further enhancing Switzerland's image as an infrastructural pioneer.

The real estate market has shown signs of stability and even slight growth, due not least to the impact of the policies adopted over the past few years to control prices.

The regulatory landscape has seen changes gradually introduced in line with international standards and geared towards mutual recognition in keeping with the trend across Europe.

It has not taken long to progress from the positive resolution of tax issues with other countries to adopting the OECD's standard procedures, with the agreements on the automatic exchange of financial information in tax matters entering into force for Switzerland on 1 January 2017.

Performance during the year

The environment outlined above proved a challenging place to operate. Nevertheless, BPS (SUISSE) positioned itself successfully and effectively and strengthened its local roots, adapting progressively and skilfully to changes in the underlying conditions and achieving its growth targets.

In its development strategy, the Bank took the opportunity to focus its activities on specific areas. It has therefore set a number of priorities in its sales policy, adding updated and more nuanced products and services to its range based on user type. Its front-office activities are to be geared increasingly towards acquiring new business in its core segments and cultivating ever-closer relationships with its clients.

The Bank also took steps to overhaul its sales channels by reorganising its network of offices and restructuring activities and responsibilities both in individual operating units and at head office.

This will mean modifying some processes, which will be planned and implemented over several years. Substantial IT investment will target these procedures as well as central systems in order to make the whole structure more efficient and effective, with clients also set to benefit.

Our project to expand our presence within Switzerland was implemented as planned.

The positive results enjoyed by the Neuchâtel branch have prompted us to consider further expansion in the French-speaking part of the country. The project in Martigny in the canton of Valais, set to welcome a new branch in February 2017, is entering its final stages. The aim is to serve a wide area with significant potential that includes the tourist hotspots of Verbier and Crans-Montana near the borders with the cantons of Bern and Vaud.

With its new branch, the Bank will have a regional structure comprising 20 brick-and-mortar offices based in seven cantons and the Principality of Monaco alongside its Direct Banking virtual branch.

Worthy of particular mention is the Engadine valley, or more precisely St Moritz, where our branch of the same name celebrated its 20th anniversary in December 2016.

Our employees numbered 307 at year end (+4 since the previous year).

Customer deposits were in line with our expectations at CHF 4,780,100,000 (-2%). Of these, direct deposits rose slightly to CHF 3,112,300,000 due to a reluctance to reinvest given the poor yields available on bonds at maturity. Indirect deposits, meanwhile, fell to CHF 1,667,800,000 (-6%). By contrast, returns on Popso (Suisse) Investment Fund SICAV remained steady.

Our 3rd-pillar pension foundation Life Benefit holds assets consisting wholly of liquid investments in the amount of CHF 245,400,000 (-12%). This fall reflects a change in the Bank's fee policy introduced towards the end of the financial year and designed to offer more favourable terms to clients who already have a banking relationship with us.

Even though we applied prudent and conservative rules to client lending, we still achieved encouraging growth in terms of both volume and revenue posted to our income statement.

Net of provisions, lending amounted to CHF 3,723,300,000 (+6%) at year end. CHF 3,288,000,000 (+8%) of this figure related to mortgages, mostly homeowner loans. Other amounts *Due from clients* totalled CHF 435,200,000 (-8%), net of the scheduled repayment of sizeable loans.

Improving the quality of the loan portfolio enabled provisions for risks to be reduced. Our partnership with the central mortgage bond institution Pfandbriefbank schweizerischer Hypothekarinstitute AG allowed us to enjoy terms reserved for the top-rated lenders on the market.

Despite the unfavourable operating environment facing the banking sector in 2016, the figures on our income statement are satisfactory.

The *Net result from interest operations* improved significantly to CHF 39,054,000 (+33%), due chiefly to the combined effect of a larger loan portfolio, a better margin and lower provisions for impairment losses.

Net fee and commission income decreased to CHF 25,130,000 (-24%) as a result of the harsh climate on the bond market and despite a good performance from our assets under management.

The *Result from trading activities and the fair value option* slipped to CHF 21,851,000 (-25%) in the wake of shrinking interest rate spreads on the interbank market and a calmer Swiss franc compared with last year.

Total operating expenses remained unchanged at CHF 65,922,000 (0) thanks to shrewd and effective management. Breaking this item down, *Personnel expenses* came to CHF 44,422,000 (+1%), while *General and administrative expenses* amounted to CHF 21,500,000 (-3%).

The *Operating result* stood at CHF 15,741,000 (-18%).

Net profit for the year came to CHF 12,068,000 (-14%).

To support our work towards our medium-term growth targets, the Board of Directors recommends 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.

Our thanks go to the supervisory authority FINMA, our clients, our personnel and, last but not least, our parent bank for its unflagging support and guidance.

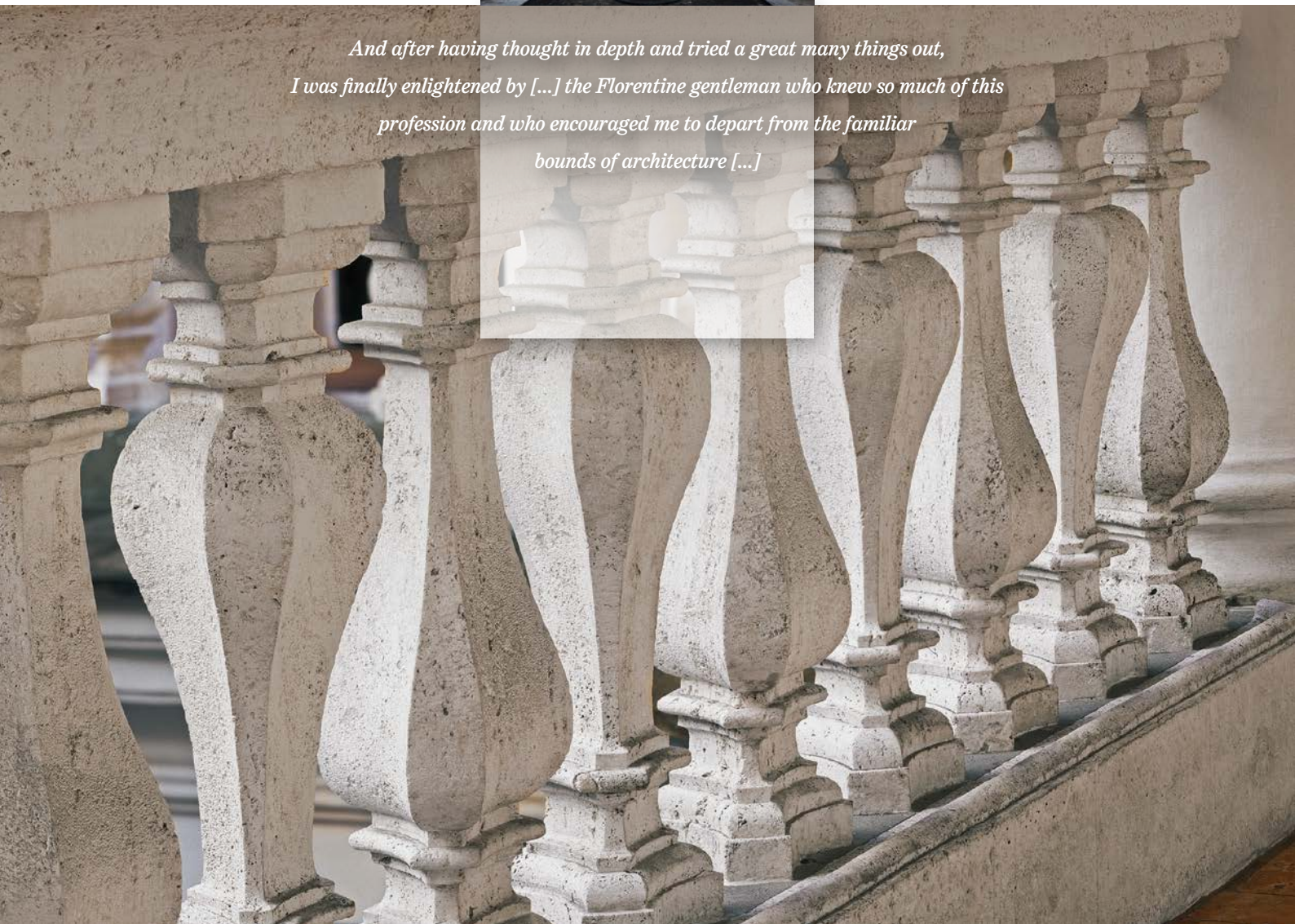
Our external auditors KPMG deserve special mention for their professionalism and expertise. Following instructions from our parent company Banca Popolare di Sondrio, the highly valued firm is ending its mandate after nine years as required by law.

Lugano, February 3, 2017

The Board of Directors



*And after having thought in depth and tried a great many things out,
I was finally enlightened by [...] the Florentine gentleman who knew so much of this
profession and who encouraged me to depart from the familiar
bounds of architecture [...]*



2016 FINANCIAL STATEMENTS

BALANCE SHEET AS AT DECEMBER 31, 2016 (WITH 2015 COMPARATIVE FIGURES)

ASSETS

| in CHF | Note | 2016 | 2015 | Change |
|---|------|----------------------|----------------------|-------------------|
| Cash | | 744 365 898 | 725 000 488 | 19 365 410 |
| Due from banks | | 402 831 405 | 500 026 746 | (97 195 341) |
| Due from clients | 2 | 435 224 929 | 471 300 093 | (36 075 164) |
| Mortgage loans | 2 | 3 288 027 752 | 3 053 192 850 | 234 834 902 |
| Positive replacement values of derivative financial instruments | 4 | 8 975 089 | 20 036 429 | (11 061 340) |
| Financial investments | 5 | 51 489 235 | 50 003 939 | 1 485 296 |
| Accrued income and prepaid expenses | | 5 523 458 | 5 751 318 | (227 860) |
| Participating interest | 6, 7 | 1 190 728 | 1 122 881 | 67 847 |
| Tangible fixed assets | 8 | 23 167 603 | 24 969 186 | (1 801 583) |
| Other assets | 10 | 45 584 416 | 63 482 012 | (17 897 596) |
| Total assets | | 5 006 380 513 | 4 914 885 942 | 91 494 571 |
| Total subordinated claims | | - | - | - |

LIABILITIES

| in CHF | Note | 2016 | 2015 | Change |
|---|------|----------------------|----------------------|-------------------|
| Due to banks | | 1 173 829 277 | 1 221 024 754 | (47 195 477) |
| Amounts due in respect of customer deposits | | 2 959 351 387 | 2 919 018 697 | 40 332 690 |
| Negative replacement values of derivative financial instruments | 4 | 67 342 270 | 62 596 323 | 4 745 947 |
| Cash bonds | 15 | 153 001 000 | 181 862 000 | (28 861 000) |
| Loans from central mortgage bond institutions | 15 | 274 900 000 | 161 900 000 | 113 000 000 |
| Accrued liabilities and deferred income | | 19 011 554 | 17 344 327 | 1 667 227 |
| Other liabilities | 10 | 4 017 971 | 9 272 701 | (5 254 730) |
| Provisions | 16 | 7 847 365 | 6 855 164 | 992 201 |
| Reserve for general banking risks | 16 | 15 000 000 | 15 000 000 | - |
| Share capital | 17 | 180 000 000 | 180 000 000 | - |
| Statutory capital reserve | | - | - | - |
| Statutory retained earnings reserve | | 140 011 976 | 125 915 344 | 14 096 632 |
| Voluntary retained earnings reserves | | - | - | - |
| Net profit for the year | | 12 067 713 | 14 096 632 | (2 028 919) |
| Total liabilities | | 5 006 380 513 | 4 914 885 942 | 91 494 571 |
| Total subordinated liabilities | | - | - | - |

OFF-BALANCE-SHEET ITEMS AS AT DECEMBER 31, 2016
(WITH 2015 COMPARATIVE FIGURES)

| in CHF | Note | 2016 | 2015 | Change |
|------------------------------------|-------|---------------|---------------|---------------|
| Contingent liabilities | 2, 28 | 198 328 206 | 204 682 006 | (6 353 800) |
| Credit commitments | 2, 29 | 189 111 683 | 193 065 688 | (3 954 005) |
| Irrevocable commitments | 2 | 23 057 993 | 19 141 500 | 3 916 493 |
| Derivative financial instruments | 4 | 3 219 540 638 | 3 543 278 363 | (323 737 725) |
| Positive replacement values, gross | | 8 975 089 | 20 036 429 | (11 061 340) |
| Negative replacement values, gross | | 67 342 270 | 62 596 323 | 4 745 947 |
| Fiduciary transactions | 30 | 34 919 733 | 39 931 346 | (5 011 613) |

2016 INCOME STATEMENT (WITH 2015 COMPARATIVE FIGURES)

| in CHF | Note | 2016 | 2015 | Change |
|--|------|---------------------|---------------------|--------------------|
| Interest income: | | | | |
| - Interest and discount revenue | | 59 325 683 | 64 888 685 | (5 563 002) |
| - Interest and dividends on financial investments | | 767 181 | 601 224 | 165 957 |
| - Interest and dividends from trading portfolios | | 44 | 780 | (736) |
| Interest expense | | (20 797 539) | (29 180 129) | 8 382 590 |
| Result from interest operations | | 39 295 369 | 36 310 560 | 2 984 809 |
| Changes in value adjustments for default risks and losses from interest operations | | (241 749) | (6 999 663) | 6 757 914 |
| Net result from interest operations | | 39 053 620 | 29 310 897 | 9 742 723 |
| Commission income: | | | | |
| - on securities trading and investment transactions | | 17 748 796 | 25 978 526 | (8 229 730) |
| - on credit transactions | | 2 080 285 | 1 602 241 | 478 044 |
| - on other services | | 7 799 019 | 8 495 676 | (696 657) |
| Commission expense | | (2 498 175) | (3 084 772) | 586 597 |
| Net fee and commission income | | 25 129 925 | 32 991 671 | (7 861 746) |
| Result from trading activities and the fair value option | 32 | 21 851 371 | 29 097 253 | (7 245 882) |
| Result from the disposal of financial investments | | (643 267) | 61 507 | (704 774) |
| Income from participating interests | | 10 120 | - | 10 120 |
| Profit from real estate | | 190 999 | 215 173 | (24 174) |
| Other ordinary income | | 1 106 693 | 53 079 | 1 053 614 |
| Other ordinary expenses | | (444 052) | (970 162) | 526 110 |
| Other result from ordinary activities | | 220 493 | (640 403) | 860 896 |
| Operating expenses: | | | | |
| Personnel expenses | 34 | (44 421 970) | (43 970 131) | (451 839) |
| General and administrative expenses | 35 | (21 499 718) | (22 228 236) | 728 518 |
| Total operating expenses | | (65 921 688) | (66 198 367) | 276 679 |

2016 INCOME STATEMENT (CONTINUED)

| in CHF | Note | 2016 | 2015 | Change |
|--|------|-------------------|-------------------|--------------------|
| Value adjustments on participations and depreciation and amortisation of tangible fixed assets | | (4 455 951) | (5 123 539) | 667 588 |
| Changes to provisions and other value adjustments, and losses | | (136 419) | (351 547) | 215 128 |
| Operating result | | 15 741 351 | 19 085 965 | (3 344 614) |
| Extraordinary income | 36 | 415 520 | 89 481 | 326 039 |
| Extraordinary expenses | 36 | (56 771) | (423 814) | 367 043 |
| Changes in reserves for general banking risks | | - | - | - |
| Taxes | 39 | (4 032 387) | (4 655 000) | 622 613 |
| Net profit for the year | | 12 067 713 | 14 096 632 | (2 028 919) |

PROPOSAL FOR APPROPRIATION OF THE BALANCE SHEET PROFIT (WITH 2015 COMPARATIVE FIGURES)

| in CHF | Note | 2016 | 2015 | Change |
|--|------|-------------------|-------------------|--------------------|
| Profit for the year | | 12 067 713 | 14 096 632 | (2 028 919) |
| Profit brought forward | | - | - | - |
| Available earnings | | 12 067 713 | 14 096 632 | (2 028 919) |
| The Board of Directors proposes to allocate the balance sheet profit totalling CHF 12 067 713 as at December 31, 2016 to the statutory retained earnings reserve | | | | |
| Retained earnings to be carried forward | | - | - | - |

CASH FLOW STATEMENT AS AT DECEMBER 31, 2016 (WITH 2015 COMPARATIVE FIGURES)

CASH FLOW FROM OPERATING ACTIVITIES

| CHF in thousands | 31.12.2016 | | 31.12.2015 | |
|---|---------------|-------------|---------------|-------------|
| | Source | Utilisation | Source | Utilisation |
| Profit for the year | 12 068 | - | 14 097 | - |
| Amortisation of fixed assets | 4 456 | - | 5 124 | - |
| Provisions | 992 | - | 75 | - |
| Reserve for general banking risks | - | - | - | - |
| Accrued income and prepaid expenses | 228 | - | 1 415 | - |
| Accrued liabilities and deferred income | 1 667 | - | 4 587 | - |
| Positive replacement values of derivative financial instruments | 11 061 | - | - | 8 682 |
| Negative replacement values of derivative financial instruments | 4 746 | - | - | 738 |
| Other assets | 17 898 | - | - | 13 |
| Other liabilities | - | 5 255 | - | 3 235 |
| Net operating cash flow | 47 861 | - | 12 630 | - |

CASH FLOW FROM SHAREHOLDER'S EQUITY TRANSACTIONS

| | | | | |
|--|----------|----------|---------------|----------|
| Share capital | - | - | 30 000 | - |
| Total cash flows from equity transactions | - | - | 30 000 | - |

CASH FLOW (STATEMENT) RESULTING FROM CHANGES IN FIXED ASSETS

| | | | | |
|---|----------|--------------|----------|--------------|
| Participating interests | - | 68 | - | 512 |
| Bank buildings | - | 49 | - | 10 |
| Other fixed assets | - | 2 605 | - | 1 121 |
| Intangible fixed assets | - | - | - | - |
| Net cash flow from investment activities | - | 2 722 | - | 1 643 |

CASH FLOW STATEMENT AS AT DECEMBER 31, 2016 (CONTINUED)

CASH FLOW FROM BANKING OPERATIONS

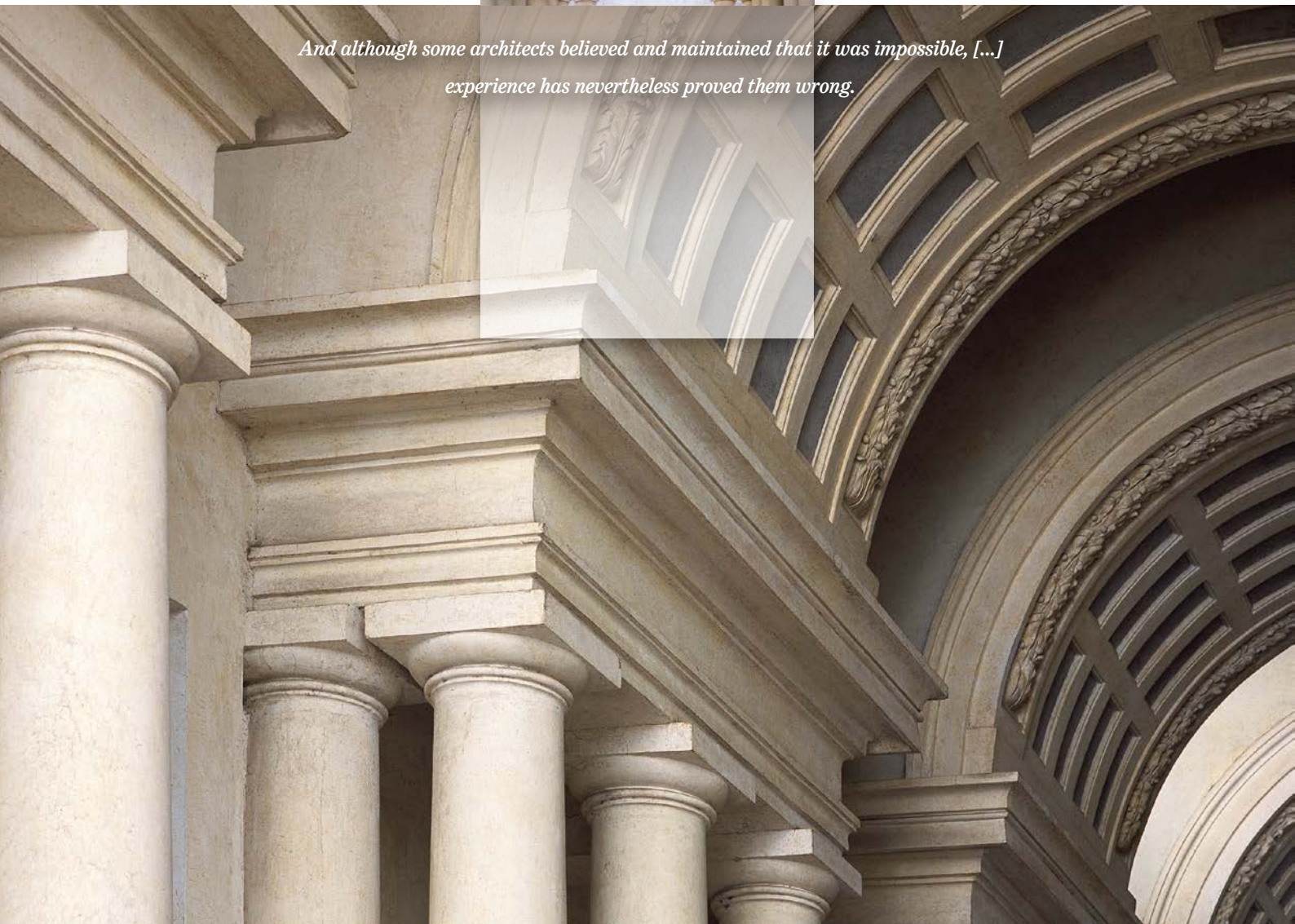
| CHF in thousands | 31.12.2016 | | 31.12.2015 | |
|---|------------|-------------|------------|-------------|
| | Source | Utilisation | Source | Utilisation |
| Balance brought forward | 47 861 | 2 722 | 42 630 | 1 643 |
| Non-current operations (> 1 year) | | | | |
| Due to banks | 320 620 | - | - | - |
| Due to clients | - | - | - | 10 250 |
| Cash bonds | - | 53 110 | 81 982 | - |
| Loans from central mortgage bond institutions | 113 000 | - | 129 700 | - |
| Client loans | - | 13 678 | 10 599 | - |
| Mortgage loans | - | 43 122 | - | 174 037 |
| Financial investments | 9 383 | - | 2 789 | - |
| Current operations | | | | |
| Due to banks | - | 367 815 | 450 997 | - |
| Due to clients | 40 333 | - | - | 62 465 |
| Cash bonds | 24 249 | - | - | 49 464 |
| Due from banks | 97 195 | - | 5 130 | - |
| Due from clients | 49 753 | - | 98 326 | - |
| Mortgage loans | - | 191 713 | 7 571 | - |
| Financial investments | - | 10 869 | 5 411 | - |
| Securities trading portfolio | - | - | - | - |
| Net cash flow from banking activities | - | 25 774 | 496 289 | - |
| Total cash flow | 47 861 | 28 496 | 538 919 | 1 643 |
| Change in cash flow | - | 19 365 | - | 537 276 |

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 01.01.2016 | 180 000 000 | - | 125 915 344 | 15 000 000 | - | 14 096 632 | 335 011 976 |
| Appropriation of net profit for 2015 | - | - | 14 096 632 | - | - | (14 096 632) | - |
| Capital increase | - | - | - | - | - | - | - |
| Net profit for the year | - | - | - | - | - | 12 067 713 | 12 067 713 |
| Equity before appropriation of net profit for 2016 | 180 000 000 | - | 140 011 976 | 15 000 000 | - | 12 067 713 | 347 079 689 |



And although some architects believed and maintained that it was impossible, [...] experience has nevertheless proved them wrong.



NOTES TO THE 2016 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, a branch in St Moritz (with four agencies in Poschiavo, Castasegna, Pontresina and Samedan plus one sub-branch in Celerina), a branch in Bellinzona (with an agency in Biasca), and branches in Chiasso, Chur, Basel, Locarno, Zurich, Berne, Neuchâtel and the Principality of Monaco. At the end of the year, our staff numbered 307 employees (end of 2015: 303 employees), which represented a total of 292.8 fulltime equivalent positions (2015: 289.6 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 seq.) as formalised in FINMA Circular 2015/1 "Accounting – banks" of March 27, 2014 according to the principle of "reliable assessment statutory single-entity financial statements". 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 corrected with value adjustments to account 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.

| | 2016 | 2015 |
|-------------------------------------|------------|------------|
| 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.

PROVISIONS

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 1.0723 (2015: 1.083); USD 1.0158 (2015: 0.9930).

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

There were no changes in the Bank's accounting principles relating to the preparation of its financial statements or to valuation in 2016 compared with the financial year ended December 31, 2015.

SIGNIFICANT POST-BALANCE-SHEET EVENTS

Since the balance sheet date, no significant events have occurred that might have warranted inclusion in the 2016 annual financial statements.

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.. In February 2016 the Board of Directors updated its "Risk Appetite Framework and Risk Policy". That document sets out the Bank's risk appetite and risk tolerance, including quantitative metrics designed for that purpose in the various risk categories.

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" (revised in Circular 2017/1 "Corporate governance – banks", which enters into force on July 1, 2017, 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.

With regard to the credit risk, the Executive Board is authorised to review the parameters used to calculate valuation adjustments periodically or as required. These criteria were reviewed in 2016 and the adjustments required to some indices used to measure default and recovery were agreed. With no net impact on the income statement, the methodology adopted resulted in a net deterioration in doubtful loan classes and an improvement in some interim classes of loan that are exclusively secured against collateral. 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.

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.

Capital and liquidity information in accordance with FINMA Circular 2016/1 "Publications – banks" is published separately on the Bank's website.

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.



*[...] but in vain, and time has now testified
how all of his works have come to be considered worthy of imitation and admiration.
And God help us.*



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 |
| Loans | | | | |
| Due from clients | 183 247 592 | 209 725 199 | 65 315 729 | 458 288 520 |
| Mortgage loans | | | | |
| Residential property | 3 034 493 545 | - | - | 3 034 493 545 |
| Office and business premises | 253 486 652 | - | - | 253 486 652 |
| Commercial and industrial premises | 15 088 956 | - | - | 15 088 956 |
| Other | - | - | - | - |
| Total loans (before netting with value adjustments – note 16) at Dec. 31, 2016 | 3 486 316 744 | 209 725 199 | 65 315 729 | 3 761 357 672 |
| Total at Dec. 31, 2015 | 3 229 511 840 | 255 678 324 | 84 945 831 | 3 570 135 995 |
| Total loans (after netting with value adjustments) | 3 468 086 265 | 209 397 694 | 45 768 721 | 3 723 252 681 |
| Total at Dec. 31, 2015 | 3 205 996 836 | 254 941 800 | 63 554 307 | 3 524 492 943 |
| Off-balance-sheet | | | | |
| Contingent liabilities | 933 650 | 133 275 436 | 64 119 120 | 198 328 206 |
| Irrevocable commitments | 7 507 812 | 1 464 181 | 14 086 000 | 23 057 993 |
| Commitments of payments and additional deposits | - | - | - | - |
| Credit commitments | 43 438 976 | 50 804 976 | 94 867 731 | 189 111 683 |
| Total at Dec. 31, 2016 | 51 880 438 | 185 544 593 | 173 072 851 | 410 497 882 |
| Total at Dec. 31, 2015 | 1 000 615 | 165 035 951 | 250 852 628 | 416 889 194 |
| Impaired loans | | | | |
| | Gross debt amount | Estimated liquidation value of collateral | Net debt amount | Individual value adjustments |
| Total at Dec. 31, 2016 | 26 071 108 | 5 937 113 | 20 133 995 | 20 133 995 |
| Total at Dec. 31, 2015 | 22 348 918 | 2 765 270 | 19 583 648 | 19 583 648 |

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 |
| Interest rate derivatives | | | | | | |
| Forward contracts, FRAS | - | - | - | - | - | - |
| Swaps – IRS | - | - | - | - | 40 802 798 | 990 800 000 |
| Futures | - | - | - | - | - | - |
| Options (OTC) | - | - | - | - | - | - |
| Options (exchange traded) | 30 474 | 30 474 | 9 832 944 | - | - | - |
| Currencies/Precious metals | | | | | | |
| Forward contracts | 8 378 693 | 25 943 076 | 2 178 444 141 | - | - | - |
| Combined swaps (interest/currency) | - | - | - | - | - | - |
| Futures | 4 687 | 4 687 | 2 330 526 | - | - | - |
| Options (OTC) | 16 253 | 16 253 | 4 917 339 | - | - | - |
| Options (exchange traded) | 28 112 | 28 112 | 4 665 062 | - | - | - |
| Equities/Indices | | | | | | |
| Forward contracts | - | - | - | - | - | - |
| Swaps | - | - | - | - | - | - |
| Futures | 229 685 | 229 685 | 6 707 994 | - | - | - |
| Options (OTC) | - | - | - | - | - | - |
| Options (exchange traded) | 287 139 | 287 139 | 16 258 480 | - | - | - |
| Credit derivatives | | | | | | |
| Credit default swaps | - | - | - | - | - | - |
| Total return swaps | - | - | - | - | - | - |
| First to default swaps | - | - | - | - | - | - |
| Other credit derivatives | - | - | - | - | - | - |
| Other | | | | | | |
| Forward contracts | - | - | 5 128 261 | - | - | - |
| Swaps | - | - | - | - | - | - |
| Futures | 46 | 46 | 455 891 | - | - | - |
| Options (OTC) | - | - | - | - | - | - |
| Options (exchange traded) | - | - | - | - | - | - |
| Total before effect of netting contracts | | | | | | |
| | | | - | | | |
| Total at Dec. 31, 2016 | 8 975 089 | 26 539 472 | 2 228 740 638 | - | 40 802 798 | 990 800 000 |
| Total at Dec. 31, 2015 | 20 036 429 | 5 337 754 | 2 301 178 363 | - | 57 258 569 | 1 242 100 000 |

4. (CONTINUED)

in CHF

Total after netting agreements

| | Cumulative positive replacement value | Cumulative negative replacement value |
|-------------------------------|--|--|
| Total at Dec. 31, 2016 | 8 975 089 | 67 342 270 |
| Total at Dec. 31, 2015 | 20 036 429 | 62 596 323 |

The Bank has not concluded any netting agreements.

Breakdown by counterparty

| | Central clearing houses | Banks and securities dealers | Other customers |
|--|----------------------------|------------------------------------|--------------------|
| Positive replacement values (after netting agreements) at Dec. 31, 2016 | - | 7 848 425 | 1 126 663 |

The internal effectiveness criteria as described in the Risk Management section for interest rate swaps used for hedging purposes are those defined by the parent bank (80–125%).

Any ineffective portion of hedging transactions is recognised in “Net income from trading operations”.

The replacement values of “Forward contracts” on foreign currencies are calculated based mainly on currency swaps conducted without forex risk for the Bank.

All spot (cash) transactions reported under “Forward contracts” in the “Other” item that occurred before December 31, 2016 and that had not been settled by the balance sheet date are shown as at their value date.

5. BREAKDOWN OF FINANCIAL INVESTMENTS

| in CHF | | Carrying value | | Market value | | |
|--|--|----------------|------------|--------------|------------|------------------|
| | | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 | |
| Financial investments | | | | | | |
| Debt securities | | | | | | |
| | | 36 921 371 | 48 028 630 | 36 975 307 | 49 090 786 | |
| Of which: | | - | - | | | |
| Own bonds or medium-term notes | | - | - | - | - | |
| Held to maturity | | - | - | - | - | |
| Valued at lower of cost or market | | 36 921 371 | 48 028 630 | 36 975 307 | 49 090 786 | |
| Equity securities | | | | | | |
| | | 3 028 864 | 1 975 309 | 3 063 412 | 1 979 826 | |
| Of which: | | | | | | |
| Qualified participating interests | | - | - | - | - | |
| Deposit bonds (purchase value) | | 2 000 000 | - | 2 000 000 | - | |
| Precious metals | | - | - | - | - | |
| Real estate | | 9 539 000 | - | 9 539 000 | - | |
| Total financial investments | | 51 489 235 | 50 003 939 | 51 577 719 | 51 070 612 | |
| Of which: | | | | | | |
| Securities pledgeable in accordance with liquidity regulations | | 11 133 055 | 25 508 048 | - | - | |
| Breakdown of counterparties by rating | | | | | | |
| At Dec. 31, 2016 | | AAA to AA | A+ to A- | BBB+ to BBB- | BB + to B- | Below B- Unrated |
| Debt securities | | | | | | |
| Book values | | 36 921 371 | - | - | - | - |
| Equity securities | | | | | | |
| Book values | | - | - | 29 490 | - | - 2 999 374 |

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 |
|-----------------------------|------------------|---|------------------------------|-------------------|---------------|-----------|-------------------|--|--------------------------------------|--------------|
| Other participations | | | | | | | | | | |
| Market value | - | - | - | - | - | - | - | - | - | - |
| Without market value | 1 122 881 | - | 1 122 881 | | 67 847 | | | | 1 190 728 | N/A |
| Total | 1 122 881 | - | 1 122 881 | | 67 847 | | | | 1 190 728 | N/A |

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 (in liquidation) - Lugano | Fiduciary services | 2 000 000 | 30% | 30% | 600 000 | - |
| Pfandbriefbank - Zurich | Mortgage institution | 900 000 000 | 0.06% | 0.06% | 517 000 | - |

The share capital of the "Sofipo" participation is fully paid up.

In accordance with Art. 34 of the Swiss Banking Ordinance (BankO), there is no obligation to prepare consolidated financial statements as at December 31, 2016.

The costs relating to the purchase of the "Pfandbriefbank – Zurich" participation amount to CHF 590,728.

8. PRESENTATION OF TANGIBLE FIXED ASSETS

in CHF

Current year

| | Purchase price | Accumulated depreciation & amortisation | Book value as at 31.12.2015 | Reclassification | Additions | Disposals | Depreciation & amortisation | Revaluation | Book value as at 31.12.2016 |
|---|--------------------|---|-----------------------------|------------------|------------------|------------------|-----------------------------|-------------|-----------------------------|
| Fixed assets | | | | | | | | | |
| Property used | | | | | | | | | |
| by the Bank | 22 303 917 | (8 295 877) | 14 008 040 | - | 49 277 | - | (611 442) | - | 13 445 875 |
| Other real estate | 447 660 | (100 660) | 347 000 | - | - | (171 000) | (11 000) | - | 165 000 |
| Proprietary or separately acquired software | 38 547 720 | (37 012 812) | 1 534 908 | - | 1 913 751 | - | (1 611 148) | - | 1 837 511 |
| Other tangible fixed assets | 81 463 983 | (72 384 745) | 9 079 238 | - | 862 340 | - | (2 222 361) | - | 7 719 217 |
| Capitalised cost (capital increase) | 895 128 | (895 128) | - | - | - | - | - | - | - |
| Total | 142 763 280 | (118 689 222) | 24 969 186 | - | 2 825 368 | (171 000) | (4 455 951) | - | 23 167 603 |
| Insurance value | | | | | | | | | |
| Property used | | | | | | | | | |
| by the Bank | - | - | 17 665 800 | - | - | - | - | - | 17 595 200 |
| 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 | 31.12.2016 | 31.12.2015 | Change |
|----------------------------------|-------------------|-------------------|---------------------|
| Compensation account | 40 802 798 | 57 258 569 | (16 455 771) |
| Swiss Federal Tax Administration | 1 462 786 | 1 381 261 | 81 525 |
| Suppliers | - | - | - |
| Others | 3 318 832 | 4 842 182 | (1 523 350) |
| Total | 45 584 416 | 63 482 012 | (17 897 596) |
| Swiss Federal Tax Administration | 1 221 017 | 2 686 230 | (1 465 213) |
| Suppliers | 1 189 897 | 4 203 716 | (3 013 819) |
| Others | 1 607 057 | 2 382 755 | (775 698) |
| Total | 4 017 971 | 9 272 701 | (5 254 730) |

11. DISCLOSURE OF ASSETS PLEDGED OR ASSIGNED TO SECURE OWN COMMITMENTS AND OF ASSETS UNDER RESERVATION OF OWNERSHIP AT DEC. 31, 2016

| in CHF | Book values | Effective commitments |
|--|-------------|-----------------------|
| Pledged/assigned assets | | |
| Mortgages securing loans at central mortgage bond institutions | 536 477 115 | 274 900 000 |
| Securities used as collateral at the SNB | 4 689 865 | No liabilities |
| Securities used as collateral at SIS | 4 356 260 | No liabilities |
| Securities repurchase (Repo) operations | - | - |
| Securities (financial investments) pledged to secure Repo operations | 2 086 930 | - |
| Assets under reservation of ownership | - | - |

12. DISCLOSURE OF LIABILITIES RELATING TO OWN PENSION PLANS, AND NUMBER AND NATURE OF EQUITY INSTRUMENTS OF THE BANK HELD BY OWN PENSION PLANS

Not applicable.

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)

| | 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 |
|---|---|---|--------------------------------------|---------------------------------------|---|--|
| AGBR | | | | | | |
| Employer sponsored funds / employer spon- sored 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 | - | - | - | - | - | 4 783 908 | 4 643 404 |

14. PRESENTATION OF ISSUED STRUCTURED PRODUCTS

Not applicable.

15. PRESENTATION OF BONDS OUTSTANDING AND MANDATORY CONVERTIBLE BONDS

CHF in thousands

| Maturities | | | | | | | | | | | | | | | | | |
|---|-----------------------|--------|--------|--------|-------|--------|--------|--------|--------|------|--------|-------|--------|--------|--------|--------|---------|
| | Inter- est rate | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | Total |
| Loans from central mortgage bond institutions | | | | | | | | | | | | | | | | | |
| | 0.050 | - | 20 000 | 20 000 | 7 400 | - | - | - | - | - | - | - | - | - | - | - | 47 400 |
| | 0.175 | 10 000 | - | - | - | 20 000 | - | - | - | 600 | 10 000 | - | - | - | 10 000 | - | 50 600 |
| | 0.300 | - | - | - | - | - | - | - | 10 000 | - | - | - | - | - | - | - | 10 000 |
| | 0.425 | - | - | - | - | - | - | 10 000 | - | - | - | - | 20 000 | - | - | - | 30 000 |
| | 0.550 | - | - | - | - | - | - | 20 000 | - | - | 39 700 | 5 000 | - | - | - | - | 64 700 |
| | 0.675 | - | - | - | - | - | - | 22 200 | - | - | - | - | - | 10 000 | - | 10 000 | 42 200 |
| | 0.800 | - | - | - | - | - | 20 000 | - | - | - | - | - | - | - | - | - | 20 000 |
| | 1.050 | - | - | - | - | 10 000 | - | - | - | - | - | - | - | - | - | - | 10 000 |
| Total at 31.12.2016 | | 10 000 | 20 000 | 20 000 | 7 400 | 30 000 | 20 000 | 52 200 | 10 000 | 600 | 49 700 | 5 000 | 20 000 | 10 000 | 10 000 | 10 000 | 274 900 |
| Total at 31.12.2015 | | 10 000 | 20 000 | - | - | 30 000 | 20 000 | 42 200 | - | - | 19 700 | - | 20 000 | - | - | - | 161 900 |
| Bond loans | | | | | | | | | | | | | | | | | |
| Total at 31.12.2016 | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total at 31.12.2015 | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Grand total at Dec. 31, 2016 | | 10 000 | 20 000 | 20 000 | 7 400 | 30 000 | 20 000 | 52 200 | 10 000 | 600 | 49 700 | 5 000 | 20 000 | 10 000 | 10 000 | 10 000 | 274 900 |
| Total at 31.12.2015 | | 10 000 | 20 000 | - | - | 30 000 | 20 000 | 42 200 | - | - | 19 700 | - | 20 000 | - | - | - | 161 900 |

15. (CONTINUED)

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

| Interest rate | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | Total |
|---------------|----------------|---------------|---------------|--------------|------------|------------|------------|------------|-----------|----------------|
| -0.230 % | | 20 000 | | | | | | | | 20 000 |
| 0.000 % | | | 10 000 | | | | | | | 10 000 |
| 0.010 % | 7 500 | | | | | | | | | 7 500 |
| 0.030 % | 60 000 | 800 | | | | | | | | 60 800 |
| 0.050 % | 10 000 | 190 | 100 | | | | | | | 10 290 |
| 0.100 % | 420 | | | 150 | | | | | | 570 |
| 0.120 % | 2 000 | | | | | | | | | 2 000 |
| 0.125 % | | 200 | | | | | | | | 200 |
| 0.150 % | 2 107 | 650 | | | | | | | | 2 757 |
| 0.200 % | | | 140 | 360 | | | 10 | | | 510 |
| 0.250 % | 470 | | | | 100 | | | | | 570 |
| 0.300 % | 15 834 | | | | | 180 | | | | 16 014 |
| 0.350 % | | 12 725 | | | | | | | | 12 725 |
| 0.400 % | 420 | | | | | | | | | 420 |
| 0.500 % | 115 | | | 20 | | | | | | 135 |
| 0.550 % | | 100 | 175 | | | | | | | 275 |
| 0.625 % | 135 | 145 | | | | | | | | 280 |
| 0.650 % | 5 | | | | | | | | | 5 |
| 0.700 % | 1 630 | | | | | | | | | 1 630 |
| 0.750 % | | | 85 | | | | | | | 85 |
| 0.875 % | 40 | | | | | | | | | 40 |
| 1.000 % | 164 | 158 | 245 | 1 472 | 85 | | | | | 2 124 |
| 1.100 % | | | | | 150 | | | | | 150 |
| 1.125 % | | | | 115 | 45 | | | | | 160 |
| 1.250 % | 260 | 30 | | | 220 | 190 | | | | 700 |
| 1.375 % | | | 20 | | | 230 | 90 | 106 | 10 | 456 |
| 1.500 % | 119 | 260 | | 136 | | | | | | 515 |
| 1.625 % | | 60 | 50 | 125 | 30 | | | | | 265 |
| 1.750 % | 140 | | | 50 | | | | | | 190 |
| 2.000 % | 675 | 60 | | | | | | | | 735 |
| 2.125 % | 20 | 70 | | | 4 | | | | | 94 |
| 2.250 % | 11 | | 15 | 10 | | | | | | 36 |
| 2.375 % | | 1 | | | 65 | | | | | 66 |
| 2.500 % | | | 246 | 10 | 250 | | | | | 506 |
| 2.625 % | | 100 | 88 | | | | | | | 188 |
| 3.375 % | 10 | | | | | | | | | 10 |
| Total | 102 075 | 35 549 | 11 164 | 2 448 | 949 | 600 | 100 | 106 | 10 | 153 001 |

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 | - | - | - | - | - | - | - | - |
| Provisions for off-balance-sheet operations | 801 164 | - | - | - | - | 1 429 | - | 802 593 |
| Provisions for other business risks | - | - | - | - | - | - | - | - |
| Provisions for restructuring | - | - | - | - | - | - | - | - |
| Other provisions | 6 054 000 | (89 000) | 1 095 080 | - | - | 121 500 | (136 808) | 7 044 772 |
| Total provisions | 6 855 164 | (89 000) | 1 095 080 | - | - | 122 929 | (136 808) | 7 847 365 |
| Reserve for general banking risks | 15 000 000 | - | - | - | - | - | - | 15 000 000 |

| | | | | | | | | |
|--|-------------------|--------------------|--------------------|---------------|--------------------|------------------|--------------------|-------------------|
| Value adjustments for default and country risks (deducted from the balance sheet receivables) | 45 643 051 | (6 276 360) | (1 095 080) | 26 281 | (7 240 196) | 8 279 276 | (1 231 982) | 38 104 991 |
|--|-------------------|--------------------|--------------------|---------------|--------------------|------------------|--------------------|-------------------|

Of which:

| | | | | | | | | |
|--|------------|-------------|---|-------|-----------|-----------|---|------------|
| Value adjustments for default risks in respect of impaired loans/receivables | 19 583 648 | (3 114 416) | - | 8 920 | (369 759) | 4 025 602 | - | 20 133 995 |
| Value adjustments for latent risks | - | - | - | - | - | - | - | - |

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

17. PRESENTATION OF THE BANK'S CAPITAL

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 | 180 000 000 | 1 800 000 | 180 000 000 |

The share capital is fully paid up.

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 makeup of its shareholders. In accordance with the law, a shareholder may not hold more than 0.5% of the share capital and inclusion in the shareholders' register is subject to an approval clause. Each shareholder is entitled to one vote at the General Meeting of Shareholders, irrespective of the number of shares held. The shares are listed on the Electronic Share Market (MTA) of the Milan Stock Exchange.

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

| | Number of participation rights | | Value in CHF of participation rights | | Number of options | | Value in CHF of options | |
|-----------------------------------|--------------------------------|------------|--------------------------------------|------------|-------------------|------------|-------------------------|------------|
| | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 |
| Members of the Board of Directors | - | - | - | - | - | - | - | - |
| Members of the Board of Directors | 8 792 | - | 29 490 | - | - | - | - | - |
| Total | 8 792 | - | 29 490 | - | - | - | - | - |

Disclosures on the participation plan

Insofar as it exceeds the materiality threshold set by the Board of Directors in terms of either its amount or its impact on the fixed remuneration component, the variable component agreed is subject to the rules governing deferral and payment with financial instruments that are deemed expedient to ensure compliance with the company's long-term targets, taking account of the limits applied to the variable remuneration:

- an up-front instalment corresponding to 60% of the total is paid by June of the following year;
- three equal annual instalments adding up to 40% of the total shall be deferred for three years from the year following that in which the up-front instalment is paid;
- 50% of the up-front instalment and 50% of the deferred instalment shall be paid in the form of shares in Banca Popolare di Sondrio. These shares shall be subject to a retention period lasting two years in respect of the up-front payment and one year in the case of the deferred payment.

19. DISCLOSURE OF AMOUNTS DUE FROM/TO RELATED PARTIES

| in CHF | Amounts due from | | | Amounts due to | | |
|--|--------------------|-------------|--------------|----------------------|---------------|--------------|
| | 31.12.2016 | 31.12.2015 | Change | 31.12.2016 | 31.12.2015 | Change |
| Holders of qualified participations | | | | | | |
| Group companies | 341 527 009 | 441 091 086 | (99 564 077) | 1 128 061 043 | 1 180 199 087 | (52 138 044) |
| Governing bodies | 9 095 000 | 6 852 000 | 2 243 000 | 5 658 189 | 5 527 588 | 130 601 |

The amounts due from governing bodies are in the form of mortgages and granted in compliance with usual loan-to-value ratios.

The above amounts due from and to the Bank's governing bodies have been loaned on the same terms and conditions as are offered to staff.

Transactions with group companies have been undertaken on 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

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

| 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 |
| Assets/financial instruments | | | | | | | | |
| Cash | 744 365 898 | - | - | - | - | - | - | 744 365 898 |
| Amounts due from banks | 114 706 405 | - | 288 125 000 | - | - | - | - | 402 831 405 |
| Amounts due from clients | 8 171 382 | 184 081 703 | 106 466 128 | 86 377 599 | 33 776 117 | 16 352 000 | - | 435 224 929 |
| Mortgage loans | 20 060 294 | 255 775 722 | 310 708 325 | 511 736 990 | 1 476 051 195 | 713 695 225 | - | 3 288 027 752 |
| Positive replacement values of derivative financial instruments | 8 975 089 | - | - | - | - | - | - | 8 975 089 |
| Financial investments | 3 028 864 | - | 2 144 192 | 7 418 726 | 28 867 888 | 490 565 | 9 539 000 | 51 489 235 |
| Total at 31.12.2016 | 899 307 932 | 439 857 426 | 707 443 645 | 605 533 315 | 1 538 695 200 | 730 537 790 | 9 539 000 | 4 930 914 307 |
| Total at 31.12.2015 | 907 870 090 | 474 440 342 | 754 200 247 | 461 233 282 | 1 525 200 199 | 696 616 385 | - | 4 819 560 545 |
| Amounts due to third parties | | | | | | | | |
| Amounts due to banks | 22 814 517 | - | 185 944 760 | 536 150 000 | 428 920 000 | - | - | 1 173 829 277 |
| Amounts due in respect of customer deposits | 1 745 626 813 | 860 004 194 | 185 916 716 | 167 803 664 | - | - | - | 2 959 351 387 |
| Negative replacement values of derivative financial instruments | 67 342 270 | - | - | - | - | - | - | 67 342 270 |
| Cash bonds | - | - | 71 566 000 | 30 509 000 | 50 110 000 | 816 000 | - | 153 001 000 |
| Loans from central mortgage bond institutions | - | - | - | - | 50 000 000 | 224 900 000 | - | 274 900 000 |
| Total at 31.12.2016 | 1 835 783 601 | 860 004 194 | 443 427 476 | 734 462 664 | 529 030 000 | 225 716 000 | - | 4 628 423 934 |
| Total at 31.12.2015 | 1 938 310 045 | 823 437 825 | 618 365 414 | 792 052 490 | 240 581 000 | 133 655 000 | - | 4 546 401 774 |

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

| CHF in thousands | 31.12.2016 | | 31.12.2015 | |
|---|------------------|------------------|------------------|------------------|
| | Switzerland | Abroad | Switzerland | Abroad |
| Assets | | | | |
| Cash | 743 768 | 598 | 724 440 | 560 |
| Amounts due from banks | 35 597 | 367 235 | 30 344 | 469 682 |
| Amounts due from clients | 308 305 | 126 920 | 364 641 | 106 660 |
| Mortgage loans | 3 288 028 | - | 3 053 193 | - |
| Positive replacement values of derivative financial instruments | 4 539 | 4 436 | 13 059 | 6 978 |
| Financial investments | 16 213 | 35 276 | 10 358 | 39 646 |
| Accrued income and prepaid expenses | 5 131 | 392 | 5 179 | 572 |
| Participating interests | 1 191 | - | 1 123 | - |
| Tangible fixed assets | 20 316 | 2 851 | 22 009 | 2 960 |
| Other assets | 45 182 | 402 | 62 971 | 511 |
| Total assets | 4 468 269 | 538 111 | 4 287 317 | 627 569 |
| Liabilities | | | | |
| Amounts due to banks | 39 564 | 1 134 265 | 26 247 | 1 194 778 |
| Amounts due in respect of customer deposits | 1 868 342 | 1 091 009 | 2 002 698 | 916 321 |
| Negative replacement values of derivative financial instruments | 59 910 | 7 432 | 60 583 | 2 014 |
| Cash bonds | 153 001 | - | 181 862 | - |
| Loans from central mortgage bond institutions | 274 900 | - | 161 900 | - |
| Accrued liabilities and deferred income | 17 117 | 1 894 | 15 782 | 1 512 |
| Other liabilities | 3 800 | 218 | 6 355 | 2 917 |
| Provisions | 7 847 | - | 6 905 | - |
| Reserve for general banking risks | 15 000 | - | 15 000 | - |
| Share capital | 180 000 | - | 180 000 | - |
| Statutory capital reserve | - | - | - | - |
| Statutory retained earnings reserve | 140 012 | - | 125 915 | - |
| Voluntary retained earnings reserve | - | - | - | - |
| Net profit for the year | 12 068 | - | 13 856 | 241 |
| Total liabilities | 2 771 562 | 2 234 818 | 2 797 103 | 2 117 783 |

25. BREAKDOWN OF TOTAL ASSETS BY COUNTRY OR GROUP OF COUNTRIES

| CHF in thousands | 31.12.2016 | | 31.12.2015 | |
|---------------------|------------------|-------------|------------------|-------------|
| | Total | in % | Total | in % |
| Switzerland | 4 468 270 | 89% | 4 287 317 | 87% |
| Italy | 381 556 | 8% | 481 926 | 10% |
| OECD countries | 110 966 | 2% | 115 623 | 2% |
| Other countries | 45 589 | 1% | 30 020 | 1% |
| Total assets | 5 006 381 | 100% | 4 914 886 | 100% |

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

| Country | Rating Fitch | Net foreign exposure At Dec. 31, 2016 | | Net foreign exposure At Dec. 31, 2015 | |
|----------------|--------------|--|---------------|--|---------------|
| | | In CHF | Share as % | In CHF | Share as % |
| Germany | AAA | 40 473 779 | 7.52 | 35 474 793 | 5.65 |
| Canada | AAA | 1 266 | 0.00 | 1 036 145 | 0.17 |
| Netherlands | AAA | 1 094 359 | 0.20 | 5 785 607 | 0.92 |
| Sweden | AAA | 9 106 484 | 1.69 | 5 665 580 | 0.90 |
| Singapore | AAA | - | 0.00 | - | 0.00 |
| USA | AAA | 2 502 905 | 0.47 | - | 0.00 |
| Luxembourg | AAA | 9 645 023 | 1.79 | 6 380 582 | 1.02 |
| United Kingdom | AA | 16 112 135 | 2.99 | 25 100 751 | 4.00 |
| Belgium | AA | 4 903 962 | 0.91 | 688 940 | 0.11 |
| France | AA | 20 627 274 | 3.83 | 18 407 215 | 2.93 |
| Saudi Arabia | AA | - | 0.00 | 149 133 | 0.02 |
| Israel | A | 2 264 196 | 0.42 | 2 184 945 | 0.35 |
| Ireland | A- | 54 | 0.00 | 2 700 | 0.00 |
| Spain | BBB+ | 674 286 | 0.13 | 2 041 | 0.00 |
| Italy | BBB+ | 381 555 794 | 70.91 | 481 925 877 | 76.79 |
| Thailand | BBB+ | 103 861 | 0.02 | 125 345 | 0.02 |
| Russia | BBB- | 2 386 766 | 0.44 | 2 677 269 | 0.43 |
| Turkey | BBB- | - | 0.00 | 41 715 | 0.01 |
| Panama | BBB | 1 393 031 | 0.26 | 3 353 907 | 0.53 |
| Brazil | BB | 704 615 | 0.13 | 820 858 | 0.13 |
| Egypt | B | 4 | 0.00 | 229 626 | 0.04 |
| Greece | CCC | 107 992 | 0.02 | 22 801 | 0.00 |
| Monaco | Ohne Rating | 38 409 168 | 7.14 | 18 887 051 | 3.01 |
| Others | Ohne Rating | 6 044 370 | 1.12 | 18 606 020 | 2.96 |
| Total | | 538 111 324 | 100.00 | 627 568 901 | 100.00 |

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

| Assets | CHF | EUR | USD | Other | Total |
|---|------------------|------------------|----------------|---------------|------------------|
| Cash | 738 754 | 5 059 | 356 | 197 | 744 366 |
| Amounts due from banks | 289 329 | 70 094 | 14 325 | 29 084 | 402 831 |
| Amounts due from clients | 306 899 | 114 578 | 6 855 | 6 893 | 435 225 |
| Mortgage loans | 3 234 132 | 53 896 | - | - | 3 288 028 |
| Positive replacement values of derivative financial instruments | 6 514 | 2 108 | 6 | 346 | 8 975 |
| Financial investments | 25 378 | 3 833 | 22 279 | - | 51 489 |
| Accrued income and prepaid expenses | 5 996 | (560) | 78 | 9 | 5 523 |
| Participating interests | 1 191 | - | - | - | 1 191 |
| Tangible fixed assets | 20 316 | 2 851 | - | - | 23 168 |
| Other assets | 44 251 | 1 307 | 17 | 10 | 45 584 |
| Total assets in the balance sheet | 4 672 759 | 253 166 | 43 915 | 36 540 | 5 006 380 |
| Off-balance-sheet claims due from foreign exchange spot, forward and option transactions | 13 015 | 1 874 456 | 267 961 | 30 599 | 2 186 031 |
| Total assets at 31.12.2016 | 4 685 774 | 2 127 621 | 311 876 | 67 138 | 7 192 411 |
| Liabilities | | | | | |
| Amounts due to banks | 10 371 | 1 162 250 | 1 196 | 13 | 1 173 829 |
| Amounts due in respect of customer deposits | 1 710 254 | 919 308 | 278 770 | 51 019 | 2 959 351 |
| Negative replacement values of derivative financial instruments | 65 472 | 97 | 1 714 | 60 | 67 342 |
| Cash bonds | 153 001 | - | - | - | 153 001 |
| Loans from central mortgage bond institutions | 274 900 | - | - | - | 274 900 |
| Accrued liabilities and deferred income | 17 529 | 923 | 535 | 24 | 19 011 |
| Other liabilities | 2 927 | 1 079 | 6 | 6 | 4 018 |
| Provisions | 7 847 | - | - | - | 7 847 |
| Reserve for general banking risks | 15 000 | - | - | - | 15 000 |
| Share capital | 180 000 | - | - | - | 180 000 |
| Statutory capital reserve | - | - | - | - | - |
| Statutory retained earnings reserve | 140 012 | - | - | - | 140 012 |
| Voluntary retained earnings reserves | - | - | - | - | - |
| Net profit for the year | 12 068 | - | - | - | 12 068 |
| Total liabilities in the balance sheet | 2 589 381 | 2 083 658 | 282 220 | 51 121 | 5 006 380 |
| Off-balance-sheet claims by foreign exchange spot, forward and option transactions | 2 092 239 | 46 259 | 31 155 | 16 378 | 2 186 031 |
| Total liabilities at 31.12.2016 | 4 681 620 | 2 129 917 | 313 375 | 67 499 | 7 192 411 |
| Net position by currency | 4 155 | (2 295) | (1 499) | (361) | - |

28. BREAKDOWN AND EXPLANATION OF CONTINGENT ASSETS AND LIABILITIES

| in CHF | 31.12.2016 | 31.12.2015 | Change |
|--|--------------------|--------------------|--------------------|
| Guarantees to secure credits and similar | 183 144 309 | 179 022 423 | 4 121 886 |
| Performance guarantees and similar | - | - | - |
| Irrevocable commitments arising from documentary letters of credit | 15 183 897 | 25 659 583 | (10 475 686) |
| Other contingent liabilities | - | - | - |
| Total contingent liabilities | 198 328 206 | 204 682 006 | (6 353 801) |
| Contingent assets arising from tax losses carried forward | - | - | - |
| Other contingent assets | - | - | - |
| Total contingent assets | - | - | - |

29. BREAKDOWN OF CREDIT COMMITMENTS

| in CHF | 31.12.2016 | 31.12.2015 | Change |
|---|--------------------|--------------------|--------------------|
| Commitments arising from deferred payments | - | - | - |
| Commitments arising from acceptances (for liabilities arising from acceptances in circulation) | - | - | - |
| Other credit commitments | 189 111 683 | 193 065 688 | (3 954 005) |
| Total | 189 111 683 | 193 065 688 | (3 954 005) |

30. BREAKDOWN OF FIDUCIARY TRANSACTIONS

| in CHF | 31.12.2016 | 31.12.2015 | Change |
|--|-------------------|-------------------|--------------------|
| Fiduciary investments with third-party companies | 675 832 | 758 153 | (82 321) |
| Fiduciary investments by the parent company | 34 243 901 | 39 173 193 | (4 929 293) |
| Total | 34 919 733 | 39 931 346 | (5 011 614) |

31. BREAKDOWN OF MANAGED ASSETS AND PRESENTATION OF THEIR DEVELOPMENT

| CHF in million | 31.12.2016 | 31.12.2015 | Change |
|---|----------------|----------------|---------------|
| A) Type of managed assets | | | |
| Assets in collective investment schemes managed by the bank | 680.0 | 678.7 | 1.3 |
| Assets under discretionary asset management agreements | 349.3 | 491.1 | (141.8) |
| Other managed assets | 4 430.9 | 4 385.5 | 45.4 |
| Total managed assets (including double counting) | 5 460.2 | 5 555.3 | (95.1) |
| Of which, double-counted assets | 254.4 | 269.9 | (15.5) |
| Net increase/(decrease) (including double-counted assets) | (286.2) | (363.9) | 77.7 |

"Other managed assets" encompass all the assets deposited by clients in respect of which the Bank performs any services, including those of an administrative nature. Loans to clients are not deducted from this amount. The Bank calculates deposits/(withdrawals) by clients net of any accrued interest, exchange rate differences, variations in rates, commissions and debited expenses.

B) Presentation of the development of managed assets

| | | | |
|--|----------------|----------------|---------------|
| Total managed assets (including double counting) at beginning of year | 5 555.3 | 6 040.0 | (484.7) |
| +/- net new money inflow or net new money outflow | (286.2) | (363.9) | 77.7 |
| +/- price gains/losses, interest, dividends and currency gains/losses | 191.1 | (120.8) | 311.9 |
| +/- other effects | - | - | - |
| Total managed assets (including double counting) at end of year | 5 460.2 | 5 555.3 | (95.1) |

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

| in CHF | 31.12.2016 | 31.12.2015 | Change |
|---|-------------------|-------------------|--------------------|
| Interest rate instruments (including funds) | - | - | - |
| Equity securities (including funds) | (5 165) | (9 648) | 4 483 |
| Foreign currencies | 21 860 685 | 29 120 494 | (7 259 809) |
| Commodities/precious metals | (4 149) | (13 593) | 9 444 |
| Total result from trading activities | 21 851 371 | 29 097 253 | (7 245 882) |

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 | 31.12.2016 | 31.12.2015 | Change |
|--|-------------------|-------------------|----------------|
| Salaries | 34 856 281 | 34 166 188 | 690 093 |
| Of which: | | | |
| Expenses relating to share-based compensation and alternative forms of variable compensation | 3 430 000 | 3 290 010 | 139 990 |
| Social insurance benefits | 7 918 024 | 7 890 168 | 27 856 |
| Other personnel expenses | 1 647 665 | 1 913 775 | (266 110) |
| Total | 44 421 970 | 43 970 131 | 451 839 |

35. BREAKDOWN OF GENERAL AND ADMINISTRATIVE EXPENSES

| in CHF | 31.12.2016 | 31.12.2015 | Change |
|---|-------------------|-------------------|------------------|
| Office space expenses | 7 019 305 | 7 322 980 | (303 675) |
| Expenses for information and communications technology | 2 336 206 | 2 368 981 | (32 775) |
| Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses | 5 300 407 | 4 915 071 | 385 336 |
| Fees of audit firm | 638 493 | 473 728 | 164 765 |
| Of which: | | | |
| for financial and regulatory audits | 638 493 | 473 728 | 164 765 |
| for other services | - | - | - |
| Other operating expenses | 6 205 307 | 7 147 476 | (942 169) |
| Total | 21 499 718 | 22 228 236 | (728 518) |

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 the recovery of an amount of CHF 286,100 previously withheld by the Debt Collection and Bankruptcy Office relating to a case and an unrealised liability in the amount of CHF 90,952 reported under "Other liabilities".

"Extraordinary expenses" in the amount of CHF 56,000 relate to the loss on the sale of a property purchased at auction.

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 | 31.12.2016 | | |
|--|-------------------|----------------|-------------------|
| | Switzerland | Abroad* | Total |
| Net result from interest operations | 37 228 515 | 1 825 105 | 39 053 620 |
| Net commission and service income | 23 427 200 | 1 702 725 | 25 129 925 |
| Result from trading activities and the fair value option | 21 529 502 | 321 869 | 21 851 371 |
| Other result from ordinary activities | 247 361 | (26 868) | 220 493 |
| Operating expenses | 62 576 229 | 3 345 459 | 65 921 688 |
| Operating result | 19 856 349 | 477 372 | 20 333 721 |

* The "Abroad" column refers to the branch in the Principality of Monaco.

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

At Dec. 31, 2016 there were only current taxes amounting to CHF 4 023 387.

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

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 2016.

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 2016 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*


Rahel Nicastro
Licensed Audit Expert

Zurich, 3 February 2017

OUR PRODUCTS AND SERVICES

CURRENT ACCOUNTS

DEPOSIT AND INVESTMENT ACCOUNTS

FIDUCIARY AND FORWARD DEPOSITS

LIFE BENEFIT - PILLAR 3A RETIREMENT ACCOUNT

CREDIT AND OTHER BANK CARDS

PACKAGE OF BANKING SERVICES

PAYMENT TRANSFERS

SAFE DEPOSIT BOXES

SECURITIES CUSTODY

ASSET MANAGEMENT
AND INVESTMENT ADVISORY SERVICES

INVESTMENT ADVISORY

INVESTMENT FUNDS
POPSO (SUISSE) INVESTMENT FUND SICAV

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FOREWORD

It is often the case that artists learn their craft and produce their best work in a country far from home. A prime example of this is the seventeenth century architect Francesco Castelli, better known by his pseudonym, Borromini. It is this exceptional man, the creator of some extraordinary works, to whom the monograph that makes up the cultural section of the Bank's 2016 Annual Report is dedicated.

Born in Bissone on the shore of Lake Lugano on 27 September 1599, Borromini moved to Milan as a young boy, where he completed an apprenticeship with the *Veneranda Fabbrica del Duomo*. He remained in Milan until the age of 20 before moving to Rome. He spent quite some time in Rome working as a humble stonemason and marble carver. His artistic career began in 1625 under the tutelage of his fellow countryman and distant relative Carlo Maderno, a judicious architect of considerable renown. After Maderno's death in 1629, Borromini collaborated with the Neapolitan architect, sculptor and painter Gian Lorenzo Bernini, who created some magnificent works and would later become his fierce rival.

Just like his adversary Bernini, Borromini is considered one of the leading representatives of Baroque art, introducing animated movement and refined embellishments to his works. His is an agile architectural style that lends an accented brilliance, vitality and lightness to his buildings. He took ornamental materials like plaster and stucco, previously considered of little interest, and exalted and ennobled them using sophisticated techniques. Borromini's work remains a shining example of dignity, fine taste and compelling creativity.

An imaginative yet level-headed character, he lived his life by a maxim which he loved to repeat: "Those who follow others will never get ahead and I certainly would never have pursued this profession with the aim of becoming a mere copyist!" Indeed, great artists would not be considered so great if they simply copied others.

Borromini's architecture has an unmistakable quality that defines and adorns the various buildings he designed throughout Rome, including the church of Sant'Ivo alla Sapienza, the façade of the church of *San Carlino alle Quattro Fontane*, the *Palazzo di Propaganda Fide*, the *Basilica of Saint John in Lateran*, the church of Sant'Agnese in Piazza Navona, the bell tower of Sant'Andrea delle Fratte, and many more.

The sheer force of his work stands at odds with the fragility of the man himself, since Borromini suffered from nervous disorders and depression. His health declined rapidly in the summer of 1667 due to persistent insomnia and never-ending fevers. On 3 August that same year, the day after having seriously injured himself with a sword while in the grip of a seizure, he was given last rites and died.

The remains of our architect from Bissone were laid to rest in the Basilica of San Giovanni Battista dei Fiorentini in Rome, the metropolis that now serves as proud custodian of his brilliant work – a crucial part of the Eternal City's great artistic heritage.

I would now like to congratulate the excellent authors behind the various contributions that make up this detailed monograph. My thanks also go to all those who have dedicated their time and experience so diligently to help make this fascinating cultural section a great success.

Lugano, January 2017

Chairman
Mario Alberto Pedranzini