Banca Popolare di Sondrio (SUISSE)

2018 ANNUAL REPORT

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

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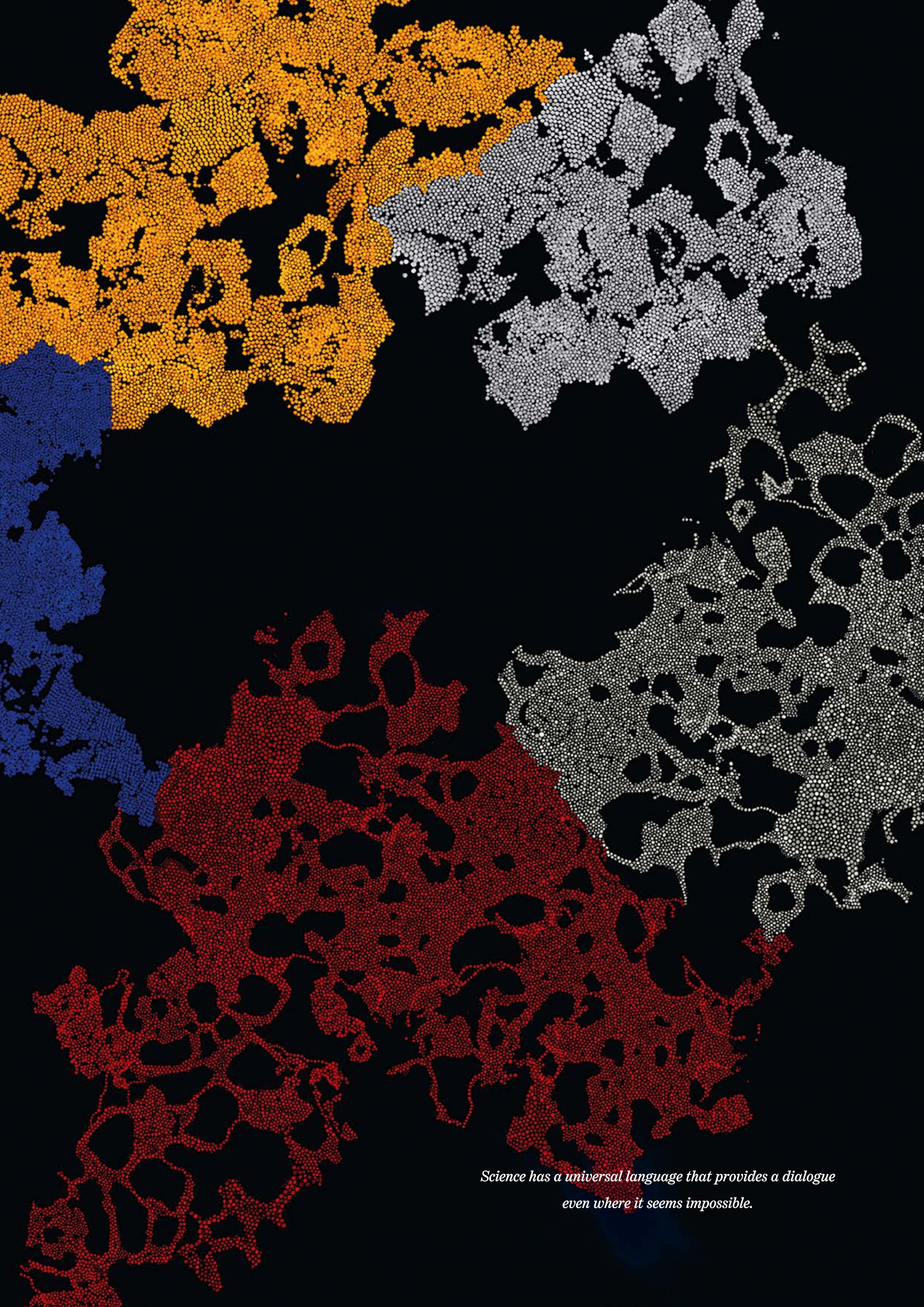

Science has a universal language that provides a dialogue even where it seems impossible.

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

The works of artist Anna Rierola were produced with scientific images including of nanoparticles of inorganic material and neurons, embryos, fibroblast and various types of cells made of biological material.

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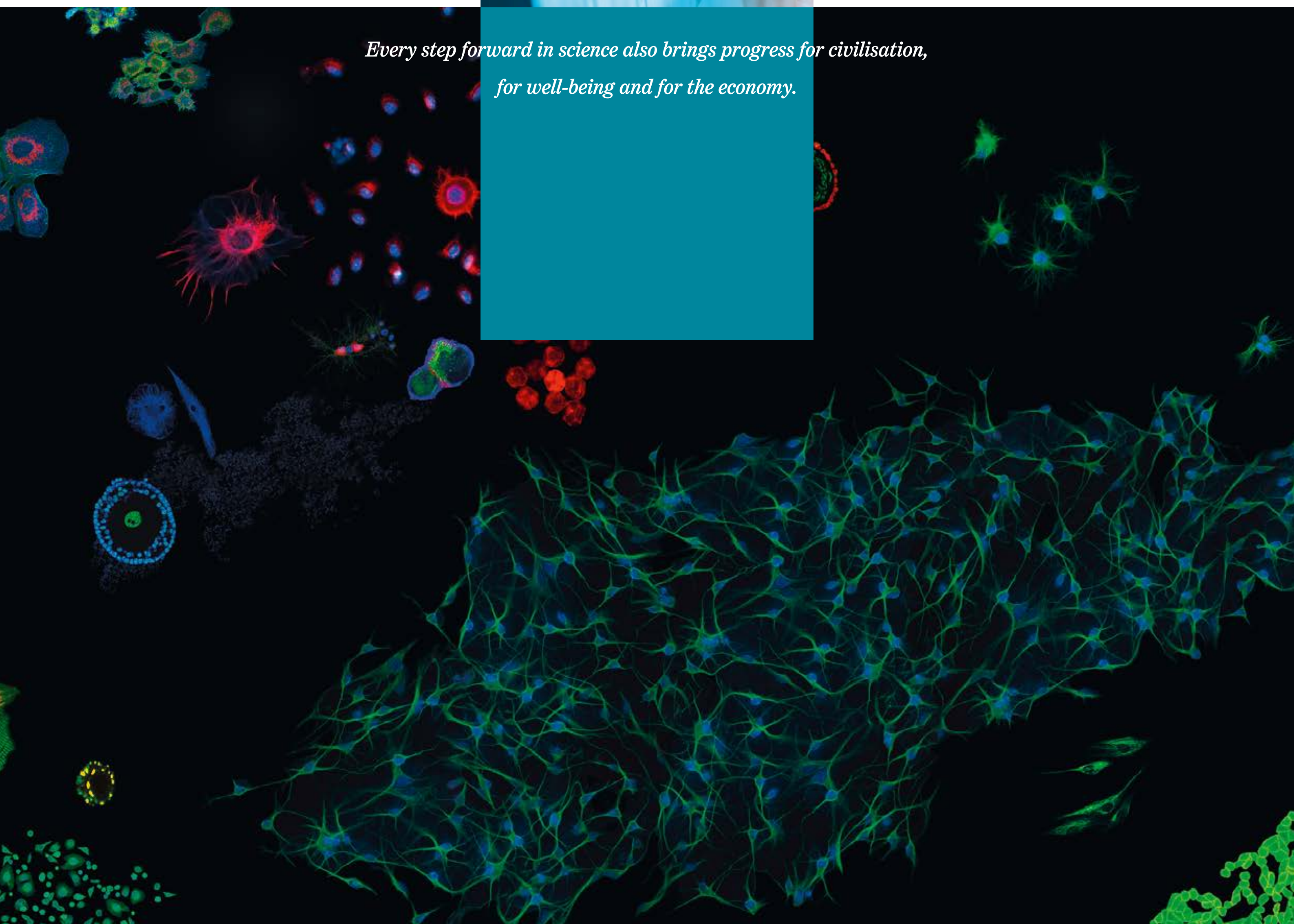


Every step forward in science also brings progress for civilisation, for well-being and for the economy.

CHAIRMAN'S FOREWORD

As I change the calendar, the thoughts that come to me spontaneously are my wishes to each of you for a new year blessed with health, prosperity and serenity.
It is the first of January, a day of hope for a better future. Even if we cannot foresee the future by referring to the past, taking stock each New Year's Day is a necessary step and the resulting reflections help us for tomorrow.
I regret having to start with painful reminders, but we have to remember such events out of respect for the many innocent victims who died last year as the dreadful consequence of criminal acts. As a sad example, I will cite the attack that was perpetrated on the evening of 11 December on the teeming Christmas market in Strasbourg, near the European Parliament. Let's hope that law and order will prevail, enabling everyone to live in a civil society founded on the values that characterise our country. For centuries, indeed, Switzerland has been a paragon of peaceful coexistence, a nation which in times of war has invariably and famously chosen instead to stand up for peace and neutrality.

Turning to economic issues, we should note that growth in 2018 was solid at the global level but that international trade suffered a slowdown. The financial markets and currencies of the weaker emerging countries were buffeted. Hikes in import duties and threats of further moves by the United States caused disruptions and insecurity in just about every quarter, at the expense of growth.
The euro zone economy recorded expansion last year, albeit unevenly and not to the expected extent. Late in the year the upturn even suffered a notable setback.
With regard to the euro zone, we can't ignore Italy which is part of the currency area and especially because the city of Sondrio, in Lombardy, is home to our parent company Banca Popolare di Sondrio, which is a solid, profitable institution that moves with the times, including difficult times such as those we are experiencing. To our network it has handed down its way of doing business, which includes caring for the needs of the communities and areas it serves. It bears repeating that the "Sondrio", as it is known, ranks among the Forbes 500 designated by the illustrious magazine as the best run companies in the world (11 of which are Italian).
Italy and Switzerland have always had good neighbourly relations that include intensive trade in goods and services. Moreover, thousands of Italians participate in the Swiss economy as seasonal, annual and frontier workers (who alone number about 65,000), to which can be added a variety of efficient companies. Together these players make an important contribution to Switzerland's output that varies from one canton to the next.

Let's turn to our national scene.
The leading agencies last year confirmed Switzerland's AAA credit rating, the highest mark possible. As usual, our country stood out by virtue of its political stability, the capability and foresight of its public administration, its balanced government budgets, its efficiency in legal matters and so on. In short, Switzerland boasts an extraordinary, enviable track record.
GDP (gross domestic product) rises regularly from year to year. In 2018 the increase was exceptionally large, thanks to extraordinary factors that won't easily be combined again.
Growth in exports was strong in the first half of the year. Despite flagging in the third quarter, the pace picked up again in the fourth, resulting in an extremely good final tally.

The real estate sector was buoyant. House and apartment prices rose significantly, driven by strong demand that was often underpinned by purchases made for investment purposes. Rents were up around 1%.
The Swiss franc saw its safe-haven status reinforced. While its exchange rate vs. the US dollar remained flat, it edged down against the euro.
Interest rates stayed in negative territory where they had already been for several years, so things were no different in 2018. Even in Switzerland, expansionary monetary policy has outlived its function as a temporary stimulus.
The economy continued to enjoy near-full employment. After already dropping to a satisfying 3.2% in 2017, the jobless rate ebbed further to about 2.6% last year. This virtuous picture was mirrored by inflation, which though edging up to 0.9% in 2018 from 0.5% the previous year remained quite mild.

Banca Popolare di Sondrio (SUISSE) SA, which forms part of Switzerland's economic and financial fabric, did its best to contribute to GDP, however modestly in absolute terms, working with determination in the areas where we operate. Our Bank has branches in seven cantons: Graubünden, Ticino, Basel Zurich, Bern, Neuchâtel and Valais. This physical presence in Switzerland is supplemented by the virtual Direct Banking branch in Lugano.
Convinced that human resources are irreplaceable, in 2018 we added 14 people to our work force, which now comprises 330 well-trained, willing, helpful employees who feel a strong attachment to their company. Their daily commitment translates into the ability to seize opportunities that benefit not only the Bank but also our clients. As the Bank receives, so it gives.
We are equally convinced that, in order to operate efficiently and effectively, we cannot skimp on state-of-the-art information technology and thus on digitalisation. Banca Popolare di Sondrio (SUISSE) has constantly kept pace in this area by adapting new tools to our structure by means of large, timely investments.

Last year, client funds in their various forms totalled CHF 4.82 billion, down 1% from the 2017 level. Our loan book rose 7% to CHF 4.24 billion. We tried as far as possible to keep this item at about the same level, granting loans and other credit facilities to "deserving" borrowers located in the same areas. Most of these were small and medium-sized industrial and commercial firms, along with artisans, individuals and families. Synergies with our parent company were exploited, to the extent possible, in the interest of our clients as well as that of our Group.
The current situation is unfriendly for banks due to high regulatory costs, low or negative interest rates, unit profits that are low or even rock-bottom, an international climate of uncertainty and so forth. As a consequence, so as not to lose ground in an uneven battle our institution has worked very intensely to emphasise retail and private banking. We offer a full range of banking and financial services in these segments while cutting costs wherever possible. The Bank's 2018 net profit came to CHF 15.15 million, up 7% on the previous year's level, and can be considered satisfactory.

Banca Popolare di Sondrio (SUISSE) is overseen by a capable, wise Board of Directors. I wish to thank the members warmly for their deep dedication, and I am equally grateful to our Senior Management and employees.
I thank our federal regulator FINMA, which supervises our operations not only with all due care but also in a spirit of cooperation.

I am also grateful to our external auditor Ernst & Young, which is auditing our financial statements for the second consecutive year.

My special thanks go to our clients, who by choosing Banca Popolare di Sondrio (SUISSE) to take care of their various banking needs have helped position us advantageously in the market. We strive to accomplish this mission to the best of our ability by providing them with top-quality services and by monitoring our working relationship with each client attentively. Needless to say, we will continue aiming for this close cooperation by constantly seeking solutions which are mutually satisfactory and in our common interest. Hopefully, we will always succeed in finding them.

In conclusion, I reiterate my heart-felt wishes to you all for a healthy, happy new year and sincerely hope that in 2019 peoples at war will open the gates to peace so that all of us can live in harmony as citizens of our great, shared City.

Lugano, 1 January 2019

Chairman
Mario Alberto Pedranzini

Innovation springs from the ability to transgress.

You need to love people to be a doctor. If you don't listen to patients, and if you don't ask yourself what they're afraid of and what they want, you're little more than a regular technocrat.

REPORT OF THE BOARD OF DIRECTORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

International panorama

The buoyant growth forecasts issued in early 2018 were revised downwards due to a widespread economic slowdown. The year just ended was a complicated one that has left a trail of uncertain prospects.

At the global level, we first have to consider how the trade dispute between the superpowers USA and China escalated worryingly halfway through the year. The tone was set by the two behemoths' technological leadership, trade balance, balance of payments and a slew of domestic issues, which combined to cast a long shadow over the economy and the political scene. As spectators intent on gauging the possible consequences of all this in our own regions, we note the resurgence of import duties and protectionism after a long period in which trade barriers were torn down in the wake of globalisation. We regret to see this happening.

Here in Europe, the scene has been dominated by the bitter Brexit negotiations which have not yet been settled. Disregarding the historical and institutional aspects of Britain's pending departure, and focusing only on the economic and financial stakes, it would still be presumptuous to predict the outcome, even from a short- or medium-term perspective. Other issues of extraordinary importance in the reporting year included compliance with the euro zone's budget rules and the policy on migration.

There is no denying the bustle and determination to improve the European Union and its currency zone, an effort that can be seen by everyone. Each political faction has its recipe and we would be extremely hard put to say which one is best. The fact remains that, in view of the great and even disproportionate interest being given to this spring's EU parliamentary election, another important event has been overshadowed: the 20th anniversary, on 1 January this year, of the birth of the euro, introduced as a virtual currency initially though with a full range of effects.

The period we are living in is fraught with political and economic uncertainty, two sides of the same coin (with the political one often reduced to a shouting match). This link is natural for companies and their bosses. In a globalised economy, if there is a slowdown in one country it has negative repercussions on the others. It is mainly to be hoped that a real downturn or even a recession can be avoided, as the consequences would be serious and could even unleash a new international crisis.

Central banks are aware of this risk and have therefore generally maintained very cautious monetary policies, with the notable exception of the Federal Reserve. Shrugging off the criticism of the US administration, it has stated its intention to go on raising interest rates. The European Central Bank, while having ended its programme of quantitative easing, has announced that it is leaving its exchange-rate and interest-rate objectives unchanged.

Switzerland: economy and financial system

Switzerland's economic growth last year outpaced the euro zone average, with genuine benefits for employment. Exports rose, driven by the lower value of the franc compared with its average level in 2017. The outlook remains upbeat, though momentum in 2019 is bound to be weaker.

Despite the shock that followed the SNB's moves in 2015 to scrap the euro peg and subsequently introduce negative interest rates (the latter measure was deemed temporary and contingent at the time yet is still in force four years later), the Swiss economy did not slide into recession and has even remained the very picture of health.

A major development in the banking sector that became operational last year was the introduction of the new OECD standard providing for the automatic exchange of information in tax matters. Despite this paradigm shift, the Swiss financial industry was able to maintain is historical leadership in wealth management for international clients, albeit with a certain amount of pain. Private banking institutions were forced to redefine their business models and review their organisational structures, as well as their sales networks and growth strategies.

The outlook for Switzerland remains a cut above average, underpinned by several special national features. The list is long but the characteristics that spring to mind include the high regard in which our country is held internationally thanks to our political and legal stability, as well as our strong currency, efficient public administration and solid economy. With foundations like these, leveraged by innovation and a highly skilled workforce, the financial sector can move forward undeterred and secure a future on the scale of its long-standing tradition. That said, the issue of access to foreign financial markets remains unresolved and is fundamental, since a large proportion of Swiss banks' clients are of foreign origin. Within the EU, the rules set by the individual member countries prevail as these are responsible for implementing the Union's directives.

Securing regulatory equivalence for Switzerland, theoretically a foregone conclusion in view of our country's high standards, is another basic issue that remains open despite considerable efforts to resolve it.

The questions being negotiated have various levels of priority. In Europe, precedence has been given to Brexit and other matters of importance within the Union. Switzerland's expectations have been put on the back burner.

For Switzerland, in view of our open economy and small size, there is no other solution besides the negotiating table. The institutions that represent us are moving in line with this awareness.

The real estate sector remained generally healthy in 2018. The authorities in charge are keeping a watchful eye on developments, however, particularly in the rental segment. The present overheating appears to be due to massive buying by institutional as well as private investors, who are looking for returns above the levels offered by financial assets or at least a way to avoid being sapped by negative interest rates.

While leaving its monetary policy unchanged, the SNB last year warned that it might take support measures if necessary. The monetary authorities' credibility is such that the market does not need to "test their will" for confirmation.

Inflation was up last year, brushing the 1% mark, but remains well short of levels that would worry the central bank.

Performance during the year

By applying an effective, coherent policy in our two main operational segments, Retail Banking and Private Banking, we were able to post a profit for the reporting year despite adverse circumstances and growing competition.

Regulatory changes and market conditions, among other factors, have prompted our Bank to alter our strategic positioning. From a generalist approach we have gradually moved towards a range of products and services that are increasingly geared towards segments and fields of action where we can be more competitive and profitable. Our efforts and investments have therefore been steered in this direction, producing encouraging results.

Our business model provides for offering products and services across a range of channels, with a view to meeting new demands of our target clientele and satisfying their needs. Among our objectives, a physical presence via our branches is a feature that we wish to maintain, given the nature of Switzerland with its rich patchwork of particularities and marked differences in terms of culture, language and economic background.

As a consequence, the forms of our presence and the marshalling of our resources have changed. Alongside the Bank’s streamlined field units staffed by highly skilled employees, we have beefed up support at our headquarters with specialist teams and IT capabilities featuring new operational functions.

In terms of geographical presence, our network of sub-branches has undergone only minor changes. At the end of 2018 it was decided to close the agency in Samedan (GR) and merge its staff and business with those of the neighbouring facility in St. Moritz (GR) while opening a representative office in Verbier (VS) directed by the branch in Martigny (VS).

Our organisation thus now includes 18 branches operating in seven cantons, plus the virtual Direct Banking unit in Lugano, the representative office in Verbier and the foreign branch in the Principality of Monaco.

Our largest capital investments in 2018 were made in the IT segment, as in previous years and as we expect to be the case in future. The new credit facility procedure, designed to automate the four phases (application, analysis, granting and remittance) has been implemented except for a few functionalities which are planned for the first half of 2019. This has required huge efforts by the employees concerned, in addition to their regular duties. Initial results have been positive in terms of process efficiency and quality, with added benefits in the form of mitigated operational risk. Another not inconsiderable plus is that we can pass on the benefit to the client while shortening the time needed for processing subsequent decisions.

The Bank made numerous investments in various areas while others are planned for the coming years. Additional efforts are required to satisfy regulatory demands: here we refer to the entry into force of the Financial Services Act, the new risk-related regulations, provisions on reporting and supervision within banking groups and other rules relating to banking oversight.

Special attention is being paid to our personnel, which represents a valuable and indispensable resource. It is vitally important to have professionals who are capable of effectively managing our state-of-the-art facilities. In our front-office we need to satisfy clients to the full, even the most demanding clients, by providing added value with quick responses and the wherewithal to understand wide-ranging requests as well as banking and financial needs.

This requires a high degree of employee training across the Bank's various business segments, which is precisely what we continue to aim for. We should also point out that each member of our workforce also hones his or her professional skills by meeting with colleagues of other institutions and, further upstream, by learning from personal operational experience. This is the course of action we recommend to all our staff members.

In 2018 the growth of our workforce was not only qualitative but also quantitative in certain segments. The year ended with the number of employees at 330, up by 14 compared with end-2017. This large increase was geared towards bolstering the Bank's productive capacity and improving our offering.

Customer deposits totalled CHF 4,820,800,000, edging down 1% due to the lower value in Swiss francs of deposits denominated in euros and the declines suffered by most asset classes. Direct deposits amounted to CHF 3,023,200,000 (+0.5%), while indirect deposits came to CHF 1,797,600,000 (-4%).

Popso (Suisse) Investment Fund, a Sicav under Luxembourg law which is also distributed in Italy via our parent company, had assets of CHF 714,800,000 (-7%) at end-2018. The fund was likewise penalised by the currency effect and asset prices.

Our 3rd-pillar pension foundation *Life Benefit* had assets of CHF 188,500,000 (-8%) entirely in liquid form. This lower total was due to the withdrawals of funds of stand-alone custormers, whereas the premium customer segment, which also subscribes other services and products of the Bank, grew satisfactorily.

The loan book, net of provisions totalled CHF 4,200,700,000 (+7%). Of this amount, CHF 3,752,400,000 (+8%) was in the form of mortgages, almost entirely for residential properties, and CHF 448,300,000 (+3%) in the form of other credit facilities granted to clients.

Refinancing via the central mortgage bond institution *Pfandbriefbank Schweizerischer Hypothekarinstitute AG* was increased on preferential terms thanks to the high credit rating and features of the financial instrument, bringing our exposure to CHF 415,400,000 (+17%).

The *Net result from interest operations* had a larger loan volume and the more favourable terms on which past facilities were renewed. This item amounted to CHF 48,862,000 (+13%).

The *Net result from commission business and services* fell 3% to CHF 23,507,000. The poor performance of financial markets around the world, which saw negative returns across nearly all types of investments together with heavy volatility, prompted caution among market participants. Even so, the portion of this item deriving from fees and commissions on securities trading and investments held up quite well (-1%).

The *Result from trading activities and the fair value option* came to CHF 20,987,000 (-10%). While ordinary business with clients produced a profit, income from foreign currency swaps was hurt by lower-than-expected spreads.

Operating expenses amounted to CHF 69,273,000 (+2%). These included *personnel expenses* totalling CHF 47,628,000, a rise of 4% due to the increase in our headcount and the impact of task forces enlisted to work on specific projects. In contrast, the *General and administrative expenses* in the reporting year totalled CHF 21,645,000 (-1%), mainly thanks to targeted cost-cutting measures.

After ordinary and accelerated write-downs and necessary provisions, the *Operating result* totalled CHF 19,971,000 (+8%).

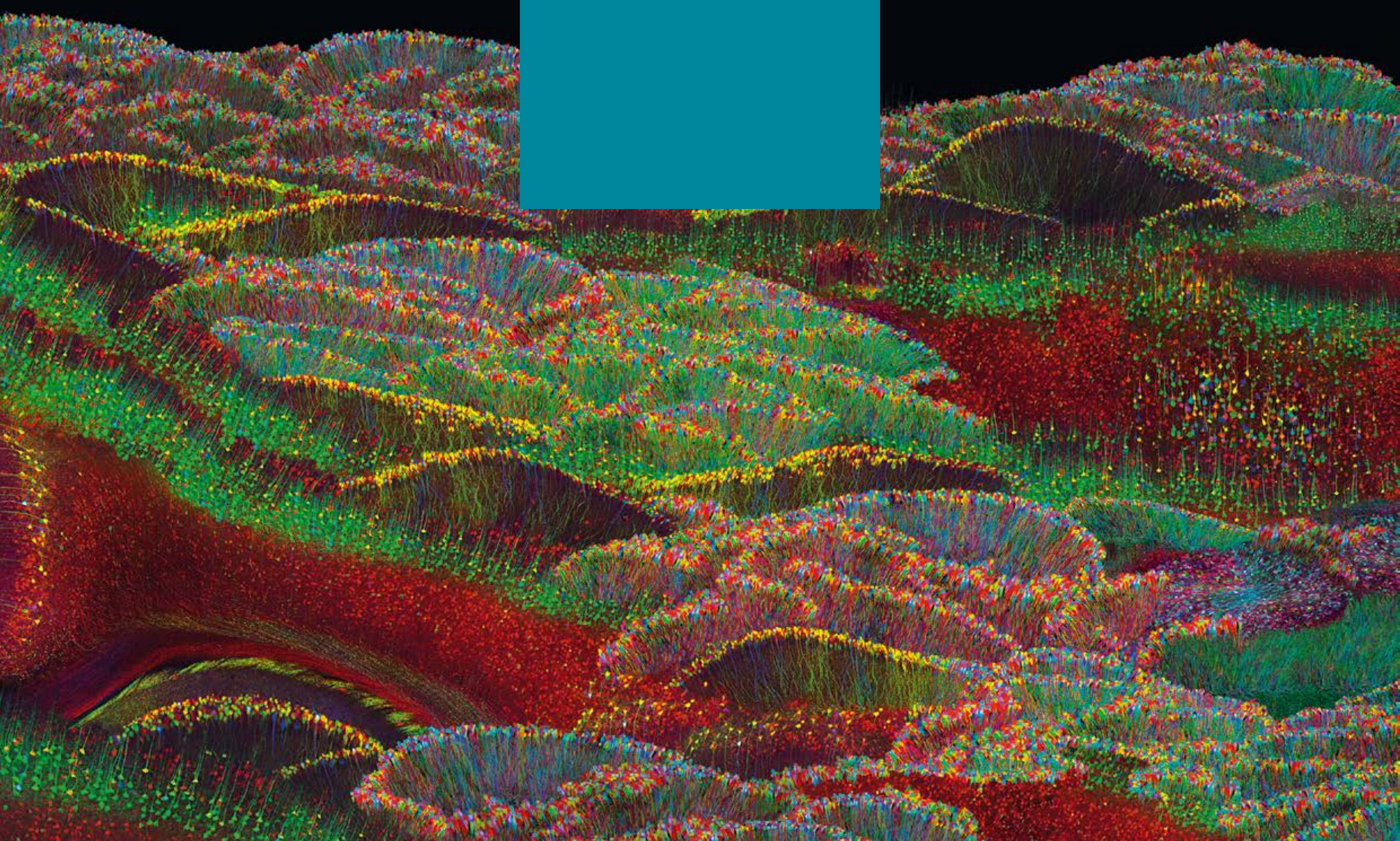
The *Net profit for the year* came out at CHF 15,152,000 (+7%).

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, to be used to continue strengthening the Bank’s asset base and pursue our growth plans.

We would like to thank our clients for their abiding confidence, our staff for their valuable contribution, our parent company for its constant support, our supervisory authority for its much-appreciated cooperation and our external auditor for its professionalism.

Lugano, 31 January 2019 **The Board of Directors**

Experience has taught me that when people want to reach a goal, they find unsuspected resources within themselves.



2018 FINANCIAL STATEMENTS

BALANCE SHEET AS AT 31 DECEMBER 2018 (WITH 2017 COMPARATIVE FIGURES)

ASSETS

in CHF	Note	2018	2017	Change
Liquid assets		**684 933 325**	687 288 547	(2 355 222)
Amounts due from banks		**120 027 453**	283 017 336	(162 989 883)
Amounts due from customers	2	**448 297 339**	436 103 479	12 193 860
Mortgage loans	2	**3 752 427 668**	3 472 727 021	279 700 647
Positive replacement values of derivative financial instruments	4	**6 323 849**	81 721 702	(75 397 853)
Financial investments	5	**52 606 390**	60 859 460	(8 253 070)
Accrued income and prepaid expenses		**7 027 692**	6 978 292	49 400
Participations	6, 7	**1 190 728**	1 190 728	-
Tangible fixed assets	8	**17 148 986**	18 310 438	(1 161 452)
Other assets	10	**23 233 955**	31 064 333	(7 830 378)
Total assets		**5 113 217 385**	5 079 261 336	33 956 049
Total subordinated claims		**-**	-	-

LIABILITIES

in CHF	Note	2018	2017	Change
Amounts due to banks		**1 215 361 423**	1 296 201 267	(80 839 844)
Amounts due in respect of customer deposits		**3 001 172 064**	2 951 841 457	49 330 607
Negative replacement values of derivative financial instruments	4	**54 445 995**	29 610 703	24 835 292
Cash bonds	15	**22 052 000**	56 772 000	(34 720 000)
Bond issues and central mortgage institution loans	15	**415 400 000**	354 500 000	60 900 000
Accrued expenses and deferred income		**18 617 411**	18 111 139	506 272
Other liabilities	10	**5 960 773**	4 774 365	1 186 408
Provisions	16	**3 766 777**	6 161 481	(2 394 704)
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		**166 288 925**	152 079 689	14 209 236
Voluntary retained earnings reserves		**-**	-	-
Profit/Loss (result of the period)		**15 152 017**	14 209 235	942 782
Total liabilities		**5 113 217 385**	5 079 261 336	33 956 049
Total subordinated liabilities		**-**	-	-

OFF-BALANCE-SHEET ITEMS AS AT 31 DECEMBER 2018 (WITH 2017 COMPARATIVE FIGURES)

in CHF	Note	2018	2017	Change
Contingent liabilities	2, 28	**224 356 331**	187 602 390	36 753 941
Irrevocable commitments	2	**19 888 906**	21 930 900	(2 041 994)
Derivative financial instruments	4	**2 706 474 031**	2 959 827 062	(253 353 031)
Positive replacement values, gross		**6 323 849**	81 721 702	(75 397 853)
Negative replacement values, gross		**54 445 995**	29 610 703	24 835 292
Fiduciary transactions	30	**49 371 725**	51 823 148	(2 451 423)

INCOME STATEMENT FOR THE 2018 FINANCIAL YEAR (WITH 2017 COMPARATIVE FIGURES)

in CHF	Note	2018	2017	Change
Interest income:				
- Interest and discount income	33	65 232 712	61 410 705	3 822 007
- Interest and dividend income from financial investments		705 827	625 019	80 808
- Interest and dividend income from trading portfolios		-	(26)	26
Interest expense		(14 893 510)	(17 730 224)	2 836 714
Gross result from interest operations		51 045 029	44 305 474	6 739 555
Changes in value adjustments for default risks and losses from interest operations		(2 182 765)	(1 105 440)	(1 077 325)
Subtotal net result from interest operations		48 862 264	43 200 034	5 662 230
Commision income:				
- from securities trading and investment activities		17 797 701	18 021 979	(224 278)
- from lending activities		1 859 188	1 978 151	(118 963)
- from other services		6 716 887	7 042 911	(326 024)
Commission expense		(2 866 388)	(2 860 155)	(6 233)
Subtotal result from commission business and services		23 507 388	24 182 886	(675 498)
Result from trading activities and the fair value option	32	20 987 467	23 349 201	(2 361 734)
Result from the disposal of financial investments		1 096 308	(304 460)	1 400 768
Income from participations		11 374	11 374	-
Result from real estate		147 554	174 156	(26 602)
Other ordinary income		507 315	76 685	430 630
Other ordinary expenses		(1 055 303)	(819 013)	(236 290)
Other result from ordinary activities		707 248	(861 258)	1 568 506
Personnel expenses	34	(47 628 431)	(45 842 369)	(1 786 062)
General and administrative expenses	35	(21 644 967)	(21 920 421)	275 454
Total operating expenses		(69 273 398)	(67 762 790)	(1 510 608)

INCOME STATEMENT FOR THE 2018 FINANCIAL YEAR (CONTINUED)

in CHF	Note	2018	2017	Change
Value adjustments on participations and depreciation and amortisation of tangible fixed assets	8	**(4 857 845)**	(6 522 858)	1 665 013
Changes to provisions and other value adjustments, and losses	36	**38 028**	2 944 876	(2 906 848)
Operating result		**19 971 152**	18 530 091	1 441 061
Extraordinary income	36	**210 865**	543 238	(332 373)
Extraordinary expenses	36	**-**	(24 094)	24 094
Changes in reserves for general banking risks		**-**	-	-
Taxes	39	**(5 030 000)**	(4 840 000)	(190 000)
Profit (Result of the period)		**15 152 017**	14 209 235	942 782

PROPOSAL FOR APPROPRIATION OF THE BALANCE SHEET PROFIT (WITH 2017 COMPARATIVE FIGURES)

in CHF	Note	2018	2017	Change
Profit (Result of the period)		**15 152 017**	14 209 235	942 782
Profit/Loss carried forward		**-**	-	-
Distributable profit		**15 152 017**	14 209 235	942 782
The Board of Directors proposes to allocate the balance sheet profit totalling CHF 15 152 017 as at 31 December 2018 to the statutory retained earnings reserve				
Retained earnings to be carried forward		**-**	-	-

CASH FLOW STATEMENT 2018 (WITH 2017 COMPARATIVE FIGURES)

CASH FLOW FROM OPERATING ACTIVITIES

CHF in thousands	2018		2017	
	Source	Utilisation	Source	Utilisation
Profit (Result of the period)	15 152	-	14 209	-
Value adjustment on participations, depreciaton and amortisation of tangible fixed assets and intangible assets	4 858	-	6 523	-
Value adjustments	-	-	-	-
Provisions and other value adjustments	-	2 394	-	1 686
Change in reserve for general banking risks	-	-	-	-
Accrued income and prepaid expenses	-	49	-	1 455
Accrued expenses and deferred income	506	-	-	900
Positive replacement values of derivative financial instruments	75 398	-	-	72 747
Negative replacement values of derivative financial instruments	24 835	-	-	37 732
Other assets	7 830	-	14 520	-
Other liabilities	1 186	-	756	-
Net operating cash flow	127 322	-	-	78 512

CASH FLOW FROM SHAREHOLDER'S EQUITY TRANSACTIONS

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

CASH FLOW (STATEMENT) RESULTING FROM CHANGES IN FIXED ASSETS

Participations	-	-	-	-
Real estate	-	17	-	31
Other fixed assets	154	3 833	2 681	4 315
Intangible fixed assets	-	-	-	-
Net cash flow from investment activities	-	3 696	-	1 666

CASH FLOW STATEMENT 2018 (CONTINUED)

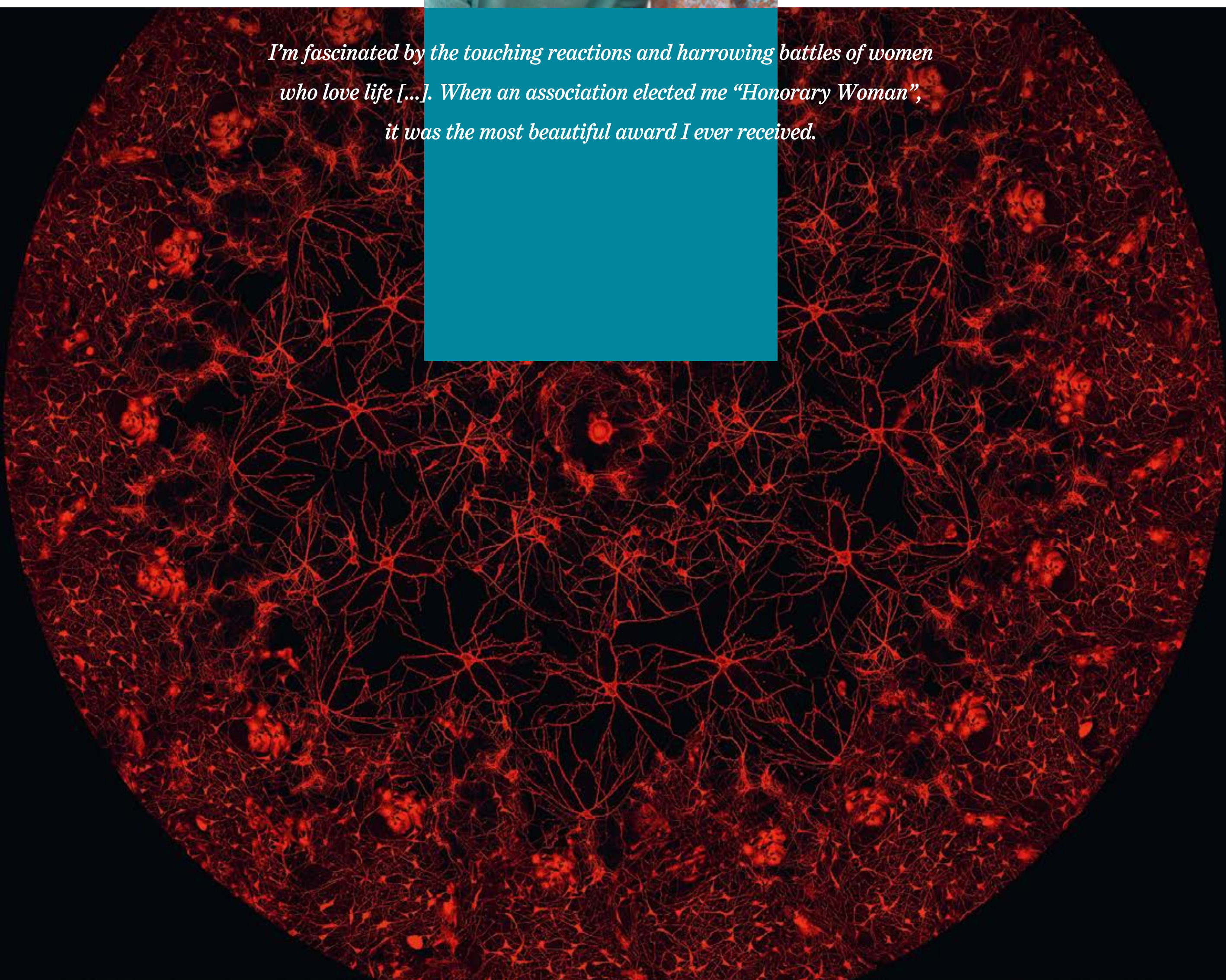
CASH FLOW FROM BANKING OPERATIONS

CHF in thousands	2018		2017	
	Source	Utilisation	Source	Utilisation
Balance brought forward	127 322	3 696	-	80 178
Non-current operations (> 1 year)				
Amounts due to banks	-	706 760	390 570	-
Amounts due in respect of customer deposits	-	-	-	-
Cash bonds	-	11 499	-	29 754
Bond issues and central mortgage institution loans	50 900	-	79 600	-
Client loans	16 380	-	-	1 012
Mortgage loans	-	134 073	-	185 127
Financial investments	2 196	-	-	5 324
Current operations				
Amounts due to banks	625 920	-	-	268 198
Amounts due in respect of customer deposits	49 331	-	-	7 510
Cash bonds	-	23 221	-	66 475
Bond issues and central mortgage institution loans	10 000	-	-	-
Amounts due from banks	162 990	-	119 814	-
Amounts due from customers	-	28 574	134	-
Mortgage loans	-	145 628	428	-
Financial investments	6 057	-	-	4 045
Trading portfolio assets/Trading portfolio liabilities	-	-	-	-
Net cash flow from banking activities	-	125 981	23 101	-
Total cash flow	127 322	129 677	23 101	80 178
Change in cash flow	-	2 355	-	57 077

STATEMENT OF CHANGES IN EQUITY

	Bank's capital	Statutory capital reserve	Statutory retained earnings reserve	Reserves for general banking risks	Own shares	Voluntary retained earnings reserves and profit carried forward	Net profit for the year	Total
Equity at 01.01.2018	180 000 000	-	152 079 689	15 000 000	-	-	14 209 235	361 288 924
Appropriation of net profit for 2017	-	-	14 209 235	-	-	-	(14 209 235)	-
Profit/Loss (result of the period)	-	-	-	-	-	-	15 152 017	15 152 017
Equity as at 31 December 2018 before appropriation of net profit for 2018	**180 000 000**	**-**	**166 288 925**	**15 000 000**	**-**	**-**	**15 152 017**	**376 440 942**

I'm fascinated by the touching reactions and harrowing battles of women who love life [...]. When an association elected me "Honorary Woman", it was the most beautiful award I ever received.



NOTES TO THE 2018 ANNUAL ACCOUNTS

1. DESCRIPTIONS OF SEGMENTS AND INFORMATION ON PERSONNEL

Banca Popolare di Sondrio (SUISSE) SA, a universal bank founded in Lugano on 3 May 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 one sub-branch in Celerina), a branch in Bellinzona (with an agency in Biasca), and branches in Chiasso, Chur, Basel, Locarno, Zurich, Berne, Neuchâtel, Martigny (with a representative office in Verbier) and the Principality of Monaco. At the end of the year, our staff numbered 330 employees (end of 2017: 316 employees), which represented a total of 312.4 fulltime equivalent positions (2017: 301.8 FTEs).
From September 2018 the Bank outsourced domestic and international interbank payments system. A dedicated contract was signed for this purpose with a segment leader in Switzerland.

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

2. ACCOUNTING AND VALUATION PRINCIPLES USED IN THE ANNUAL ACCOUNTS

The accounts, their presentation and the valuations made are in compliance with the Swiss Banking Ordinance (BO Arts. 25 et seqq.) as formalised in FINMA Circular 2015/1 "Accounting – banks" of 27 March 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.
Buildings ear-marked for sale are valued at the cost incurred or the market value, whichever is lower.

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.
The assets acquired in 2017 were subjected to accelerated depreciation in accordance with the Legislative Decree of the Canton of Ticino enacted on 13 November 1996 and subsequently extended until 31 December 2019.

	2018	2017
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 1.1273 (2017: 1.1707); USD 0.9834 (2017: 0.9735).

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 "Liabilities from other financial instruments at fair value". 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 resulting difference is assigned to a clearing account in "Other assets" or "Other liabilities" with no impact on the income statement, since the purpose is hedging; the accrued interest is recorded in the adjustment accounts.

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 2018 compared with the financial year ended 31 December 2017.

SIGNIFICANT POST-BALANCE-SHEET EVENTS

Since the balance sheet date, no significant events have occurred that might have warranted inclusion in the 2018 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 2018 the Board of Directors updated its "Risk Appetite Framework". 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 2017/1 Circular "Corporate Governance - banks" the Bank has a Risk Control Department in charge of supervising, measuring and analysing the Bank's risk profile and ensuring its compliance with risk policies, risk limits and internal rules.

SPECIFIC RISKS RELATED TO THE BANK'S ACTIVITY

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

CREDIT RISK

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

The Bank's exposure relates primarily to the lending activity with private customers. The Bank generally grants mortgage loans mostly for residential properties, Lombard loans and commercial loans. Loans abroad are 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 by a unit that is independent from the offices responsible for buying and selling and is based on parameters set out in the Bank's criteria. The risk classes are differentiated for retail customers (simplified criteria) and corporate customers, based on quantitative (analysis of the financial statements), qualitative and performance factors. Recovery rates are established as flat rates according to the type of collateral provided (mortgage, Lombard loan or unsecured) and the loan-to-value ratio.

Risk assessments are updated through regular controls, file reviews and the monitoring of normal debt servicing. 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 value adjustments periodically or as required.
Value 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 value 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, the Bank allocates risks equally across its portfolio by diversifying investments to an appropriate extent.
Country risk refers to the aggregated risk that may apply when investments are made in foreign countries; it is mainly based on the domicile of the risk.

MARKET RISKS (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 such as 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 synchronise funding transactions with the use of the funds.
Interest rate swaps (macro hedges) are used if necessary 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 parent bank while receiving the floating rate indexed to the LIBOR.

From its parent bank, the Bank receives a summary of the effectiveness tests of outstanding interest rate swaps. The effectiveness criteria are inspired by those specified in International Accounting Standard IAS 39. 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 derived therefrom are formally documented; in addition, the economic correlation between the basic transaction and the hedging transaction is determined.

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 have been 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.

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.

LIQUIDITY AND REFINANCING RISKS

Liquidity risk refers to the ability to access 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 Bank obtains refinancing from its own resources, client assets deposited with the Bank, the parent bank and deposits made by other financial intermediaries. Repurchase agreements (repos) can also be carried out with other counterparty banks to minimise refinancing costs.
Capital and liquidity information in accordance with FINMA Circular 2016/1 "Publications – banks" is published separately on the Bank's website.

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.
Legal services are provided by a dedicated department at the Bank, which may liaise with external firms that specialise in certain fields or regions.

REPUTATION AND COMPLIANCE RISKS

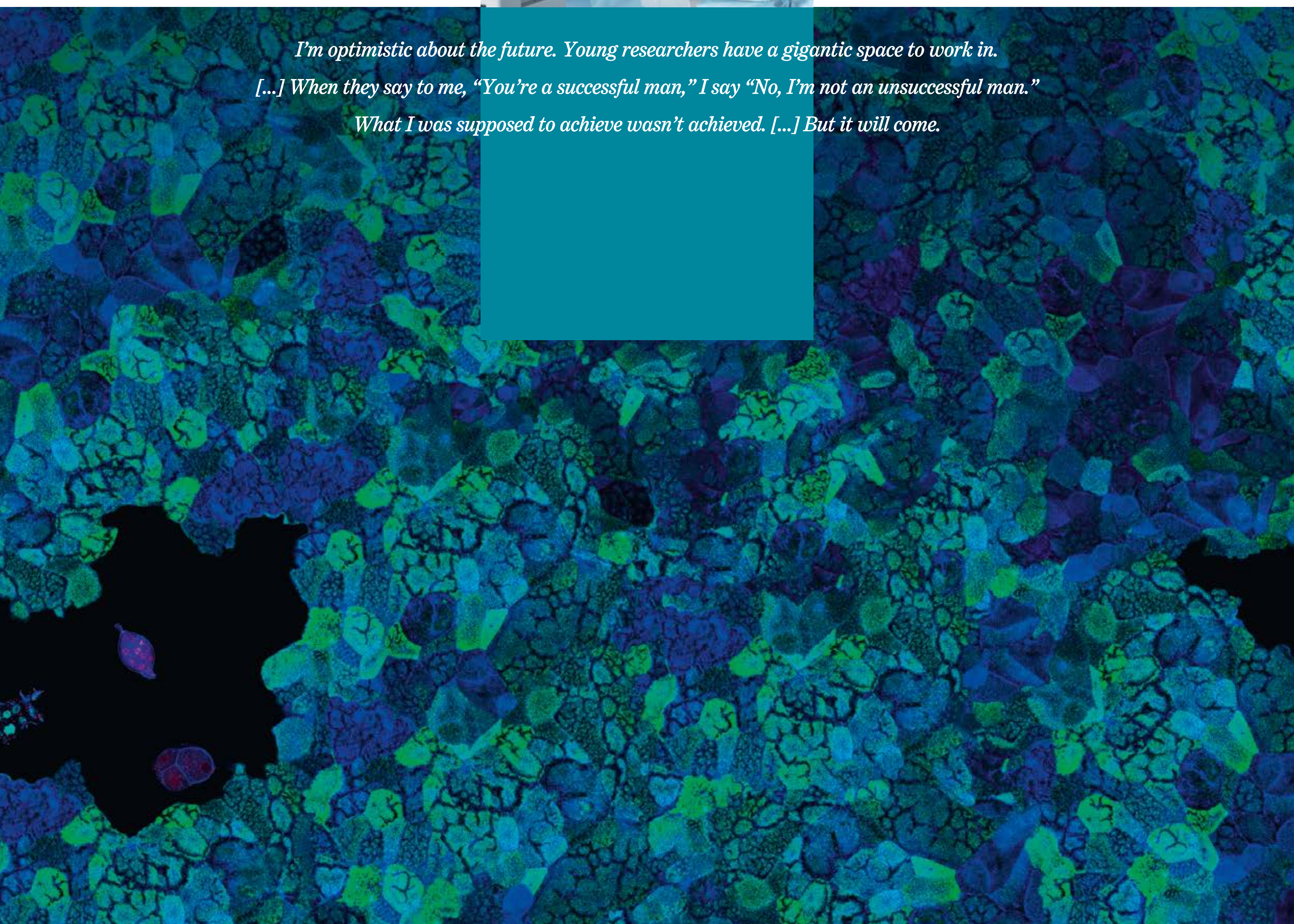
The Bank limits its exposure by investing in the training and awareness of its staff in direct contact with clients (duty of due diligence, confidentiality and the prevention of money laundering) and by carefully selecting its reference markets.
With regard to compliance activities, which are intended 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

Positions in derivative instruments are partly held for the account of clients and are covered by similar transactions with bank counterparties. For the structural management of the balance sheet, the Bank hedges interest rate risk by using Interest Rate Swaps.

INFORMATION ON CORPORATE GOVERNANCE

Corporate governance information in accordance with Annex 5 to FINMA Circular 2016/1 is available from the Bank's website.



I’m optimistic about the future. Young researchers have a gigantic space to work in. [...] When they say to me, “You’re a successful man,” I say “No, I’m not an unsuccessful man.” What I was supposed to achieve wasn’t achieved. [...] But it will come.

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				
Amounts due from customers	199 821 793	220 565 036	49 428 578	469 815 407
Mortgage loans				
Residential property	3 511 091 022	-	-	3 511 091 022
Office and business premises	240 400 273	-	-	240 400 273
Commercial and industrial premises	17 110 394	-	-	17 110 394
Other	-	-	-	-
Total loans (before netting with value adjustments – table 16) at 31 December 2018	**3 968 423 482**	**220 565 036**	**49 428 578**	**4 238 417 095**
Total at 31 December 2017	3 655 740 149	236 198 718	53 507 685	3 945 446 551
Total loans (after netting with value adjustments) at 31 December 2018	**3 950 130 327**	**220 148 582**	**30 446 099**	**4 200 725 007**
Total at 31 December 2017	3 638 572 529	235 709 729	34 548 242	3 908 830 500
Off-balance-sheet				
Contingent liabilities	1 972 191	190 092 422	32 265 897	224 330 510
Irrevocable commitments	6 015 086	362 243	13 465 535	19 842 865
Credit commitments	-	-	-	-
Total at 31 December 2018	**7 987 277**	**190 454 665**	**45 731 432**	**244 173 374**
Total at 31 December 2017	9 201 774	141 798 629	58 532 887	209 533 290

Impaired loans	Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Individual value adjust-ments
Total at 31 December 2018	**39 823 533**	**15 322 740**	**24 500 793**	**24 500 793**
Total at 31 December 2017	31 548 203	10 903 280	20 644 923	20 644 923

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 instruments						
Forward contracts, FRAS	-	-	-	-	-	-
Swaps – IRS	-	-	-	-	18 536 515	465 200 000
Futures	-	-	-	-	-	-
Options (OTC)	-	-	-	-	-	-
Options (exchange traded)	-	-	-	-	-	-
Foreign exchange/Precious metals						
Forward contracts	5 949 999	35 535 630	2 209 360 211	-	-	-
Combined swaps (interest/currency)	-	-	-	-	-	-
Futures	5 098	5 098	2 848 929	-	-	-
Options (OTC)	21 411	21 411	2 300 922	-	-	-
Options (exchange traded)	9 513	9 513	1 696 193	-	-	-
Equity securities/Indices						
Forward contracts	-	-	-	-	-	-
Swaps	-	-	-	-	-	-
Futures	252 201	252 201	12 730 091	-	-	-
Options (OTC)	-	-	-	-	-	-
Options (exchange traded)	84 887	84 887	6 868 410	-	-	-
Credit derivatives						
Credit default swaps	-	-	-	-	-	-
Total return swaps	-	-	-	-	-	-
First to default swaps	-	-	-	-	-	-
Other credit derivatives	-	-	-	-	-	-
Other						
Forward contracts	-	-	4 758 571	-	-	-
Swaps	-	-	-	-	-	-
Futures	-	-	-	-	-	-
Options (OTC)	-	-	-	-	-	-
Options (exchange traded)	739	739	710 705	-	-	-
Total before effect of netting contracts						
Total at 31 December 2018	**6 323 849**	**35 909 480**	**2 241 274 031**	**-**	**18 536 515**	**465 200 000**
Total at 31 December 2017	81 721 702	3 641 206	2 311 627 062	-	25 969 497	648 200 000

4. (CONTINUED)

in CHF

Total after netting agreements

	Cumulative positive replacement value	Cumulative negative replacement value
Total at 31 December 2018	**6 323 849**	**54 445 995**
Total at 31 December 2017	81 721 702	29 610 703

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 31 December 2018	-	4 802 772	1 521 077

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.

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 31 December 2018 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	
	31.12.2018	31.12.2017	**31.12.2018**	31.12.2017
Debt securities	38 495 803	38 130 596	39 135 129	38 293 726
Of which:				
Own bonds or medium-term notes	-	-	-	-
Held to maturity	-	-	-	-
Valued at lower of cost or market	38 495 803	38 130 596	39 135 129	38 293 726
Equity securities	1 748 587	4 078 864	1 748 587	4 412 306
Of which:				
Qualified participations	-	-	-	-
Deposit bonds (purchase value)	2 000 000	2 000 000	2 000 000	2 000 000
Precious metals	-	-	-	-
Real estate	10 362 000	16 650 000	12 624 000	16 650 000
Total financial investments	**52 606 390**	60 859 460	**55 507 716**	61 356 032
Of which:				
Securities eligible for repo transactions in accordance with liquidity requirements	13 153 053	12 786 713	-	-

Breakdown of counterparties by rating **At 31 December 2018**	AAA to AA	A+ to A-	BBB+ to BBB-	BB + to B-	Below B-	Unrated
Debt securities						
Book values	38 495 803	-	-	-	-	-
Equity securities						
Book values	-	-	-	58 932	-	1 689 655

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	1 190 728	-	1 190 728	-	-	-	-	-	1 190 728	N/A
Total	**1 190 728**	**-**	**1 190 728**	**-**	**-**	**-**	**-**	**-**	**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 31 December 2018.

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 31.12.2017	Reclassi-fication	Additions	Disposals	Depreciation & amorti-sation	Revaluation	Book value as at 31.12.2018
Fixed assets									
Bank buildings	22 384 167	(9 515 378)	12 868 789	-	17 156	-	(614 142)	-	12 271 803
Other real estate	276 660	(122 660)	154 000	-	-	(154 000)	-	-	-
Proprietary or separately acquired software	43 655 281	(42 179 260)	1 476 021	-	2 616 001	-	(2 747 984)	-	1 344 038
Other tangible fixed assets	80 767 233	(76 955 605)	3 811 628	-	1 217 236	-	(1 495 719)	-	3 533 145
Total	**147 083 341**	**(128 772 903)**	**18 310 438**	**-**	**3 850 393**	**(154 000)**	**(4 857 845)**	**-**	**17 148 986**
Insurance value									
Property used by the Bank	-	-	17 190 200	-	-	-	-	-	17 144 100
Other tangible fixed assets	-	-	32 662 000	-	-	-	-	-	36 162 000

9. PRESENTATION OF INTANGIBLE ASSETS

Not applicable.

10. BREAKDOWN OF OTHER ASSETS AND OTHER LIABILITIES

in CHF

	Other assets		
	31.12.2018	31.12.2017	Change
Compensation account	18 536 515	25 969 497	(7 432 982)
Swiss Federal Tax Administration	1 500 840	1 807 216	(306 376)
Suppliers	-	-	-
Others	3 196 600	3 287 620	(91 020)
Total	**23 233 955**	31 064 333	(7 830 378)

	Other liabilities		
	31.12.2018	31.12.2017	Change
Swiss Federal Tax Administration	661 366	1 051 670	(390 304)
Suppliers	2 684 835	2 499 932	184 903
Others	2 614 572	1 222 763	1 391 809
Total	**5 960 773**	4 774 365	1 186 408

11. DISCLOSURE OF ASSETS PLEDGED OR ASSIGNED TO SECURE OWN COMMITMENTS AND OF ASSETS UNDER RESERVATION OF OWNERSHIP AT 31 DECEMBER 2018

in CHF

Pledged/assigned assets	**Book values**	**Effective commitments**
Mortgages securing loans at central mortgage bond institutions	1 002 069 177	415 400 000
Securities used as collateral at the SNB	4 925 919	No liabilities
Securities used as collateral at SIX SIS	5 254 696	No liabilities
Securities repurchase (Repo) operations	-	-
Securities (financial investments) pledged to secure Repo operations	2 972 438	-
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 subject to old age and survivors' insurance (OASI) contributions of up to 500% of the maximum basic OASI 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 subject to OASI contributions that exceeds 500% of the maximum basic OASI 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)

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

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

	Overfunding/ underfunding at end of current year	Economic interest of the bank/financial group at end of current year	Economic interest of the bank/financial group at end of previous year	Change in economic interest (economic benefit/ obligation) versus previous year	Contributions paid for the current period	Pension expenses in personnel expenses at end of current year	Pension expenses in personnel expenses at end of previous year
Pension plans without overfunding/ underfunding	-	-	-	-	-	5 436 117	5 137 059

14. PRESENTATION OF ISSUED STRUCTURED PRODUCTS

Not applicable.

15. PRESENTATION OF BONDS OUTSTANDING AND MANDATORY CONVERTIBLE BONDS

CHF in thousands

Maturities	**Loans from central mortgage bond institutions**									**Bond loans**		**Grand total**	
Year	Interest rate									**31.12.18**	31.12.17	**31.12.18**	31.12.17
	0.050	0.175	0.300	0.425	0.550	0.675	0.800	1.050	1.425				
2019	-	10 000	-	-	-	-	-	-	-	**-**	-	**10 000**	10 000
2020	20 000	-	-	-	-	-	-	-	-	**-**	-	**20 000**	20 000
2021	20 000	-	-	-	-	-	-	-	-	**-**	-	**20 000**	20 000
2022	17 400	-	-	-	-	-	-	-	-	**-**	-	**17 400**	12 400
2023	-	20 000	-	-	-	-	-	10 000	-	**-**	-	**30 000**	30 000
2024	-	15 000	-	-	-	-	20 000	-	5 000	**-**	-	**40 000**	20 000
2025	-	13 500	-	10 000	20 000	22 200	-	-	-	**-**	-	**65 700**	65 700
2026	-	-	25 000	-	-	-	-	-	-	**-**	-	**25 000**	20 000
2027	-	5 600	5 000	4 000	-	-	-	-	-	**-**	-	**14 600**	5 600
2028	-	13 600	-	6 500	39 700	6 900	-	-	-	**-**	-	**66 700**	54 800
2029	-	-	-	-	20 000	-	-	-	-	**-**	-	**20 000**	15 000
2030	-	-	-	20 000	-	-	-	-	-	**-**	-	**20 000**	20 000
2031	-	-	-	-	-	10 000	-	-	-	**-**	-	**10 000**	10 000
2032	-	15 000	-	-	-	-	-	-	-	**-**	-	**15 000**	15 000
2033	-	-	-	-	-	10 000	-	-	-	**-**	-	**10 000**	10 000
2034	-	-	-	-	-	-	5 000	-	-	**-**	-	**5 000**	-
2035	-	-	-	-	-	5 000	-	-	-	**-**	-	**5 000**	5 000
2038	-	-	10 000	-	-	-	1 000	-	-	**-**	-	**11 000**	11 000
2039	-	-	-	5 000	-	5 000	-	-	-	**-**	-	**10 000**	10 000
Total	57 400	92 700	40 000	45 500	79 700	59 100	26 000	10 000	5 000	**-**	-	**415 400**	354 500

15. (CONTINUED)

Medium-term notes in circulation at 31.12.2018

Interest rate	2019	2020	2021	2022	2023	2024	2025	2026	2027	**Total**
0.000%	10 000	5 000								15 000
0.010%	800									800
0.050%	515	120	100							735
0.100%		150	30	40	30					250
0.200%	140	360			10	50				560
0.250%			100							100
0.300%				180				50	40	270
0.500%		20								20
0.550%	175									175
0.750%	85									85
1.000%	245	1 472	85							1 802
1.100%			150							150
1.125%		115	45							160
1.250%			220	190						410
1.375%	20			230	90	106	10			456
1.500%		136								136
1.625%	50	125	30							205
1.750%		50								50
2.125%			4							4
2.250%	15	10								25
2.375%			65							65
2.500%	246	10	250							506
2.625%	88									88
Total	**12 379**	**7 568**	**1 079**	**640**	**130**	**156**	**10**	**50**	**40**	**22 052**

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, 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	483 210	-	-	-	-	-	(156 892)	326 318
Provisions for other business risks	-	-	-	-	-	-	-	-
Provisions for restructuring	-	-	-	-	-	-	-	-
Other provisions	5 678 271	(67 124)	(2 062 000)	-	-	796 460	(905 148)	3 440 459
Total provisions	**6 161 481**	**(67 124)**	**(2 062 000)**	**-**	**-**	**796 460**	**(1 062 040)**	**3 766 777**
Reserve for general banking risks	**15 000 000**	**-**	**-**	**-**	**-**	**-**	**-**	**15 000 000**
Value adjustments for default and country risks (deducted from the balance sheet receivables)	**36 616 051**	**(801 022)**	**(200 000)**	**(146 243)**	**(3 149 896)**	**5 594 717**	**(221 518)**	**37 692 089**
Of which:								
Value adjustments for default risks in respect of impaired loans/receivables	20 642 901	(801 022)	(100 000)	128 638	(678 073)	5 588 026	(22 401)	24 500 793
Value adjustments for latent risks	-	-	-	-	-	-	-	-

The “Reserve for general banking risks” is not taxed.
“Other provisions” mainly includes provisions for litigation.

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 in Banca Popolare di Sondrio Scpa, Italy		Value in CHF of participation rights in Banca Popolare di Sondrio Scpa, Italy		Number of options		Value in CHF of options	
	31.12.2018	31.12.2017	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017
Members of the Board of Directors	-	-	-	-	-	-	-	-
Members of the Board of Directors	19 953	15 609	58 932	53 915	-	-	-	-
Employees	-	-	-	-	-	-	-	-
Total	**19 953**	15 609	**58 932**	53 915	**-**	-	**-**	-

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**		
	31.12.2018	31.12.2017	Change	**31.12.2018**	31.12.2017	Change
Holders of qualified participations	**40 274 728**	213 094 254	(172 819 526)	**1 145 844 862**	1 145 362 573	482 289
Governing bodies	**9 770 000**	9 146 502	623 498	**4 372 721**	4 726 376	(353 655)

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 Holders of qualified participations have been undertaken on market terms and conditions.
For off-balance sheet transactions, please refer to Table 4, where all the hedging operations presented are made with the parent company, as well as to Table 30, which provides a breakdown of fiduciary transactions.

20. DISCLOSURE OF HOLDERS OF SIGNIFICANT PARTICIPATIONS

All shares have been held by the parent company since the Bank was established.

21. DISCLOSURE OF OWN SHARES AND COMPOSITION OF EQUITY CAPITAL

The parent company holds 100 % of the equity capital, as it did in the 2017 financial year.

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

Not applicable.

23. PRESENTATION OF THE MATURITY STRUCTURE OF FINANCIAL INSTRUMENTS

in CHF	Maturities							
	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								
Liquid assets	684 933 325	-	-	-	-	-	-	684 933 325
Amounts due from banks	106 027 453	-	14 000 000	-	-	-	-	120 027 453
Amounts due from clients	5 527 252	191 590 180	84 940 849	131 479 014	23 852 603	10 907 441	-	448 297 339
Mortgage loans	8 620 222	250 605 649	317 719 198	666 535 390	1 767 182 669	741 764 539	-	3 752 427 668
Positive replacement values of derivative financial instruments	6 323 849	-	-	-	-	-	-	6 323 849
Financial investments	1 748 586	-	7 111 321	11 259 794	22 124 688	-	10 362 000	52 606 390
Total at 31.12.2018	**813 180 687**	**442 195 829**	**423 771 368**	**809 274 198**	**1 813 159 960**	**752 671 980**	**10 362 000**	**5 064 616 023**
Total at 31.12.2017	895 914 649	476 744 046	516 944 273	671 417 293	1 705 486 161	738 561 123	16 650 000	5 021 717 546
Amounts due to third parties								
Amounts due to banks	38 352 049	-	275 169 374	789 110 000	112 730 000	-	-	1 215 361 423
Amounts due in respect of customer deposits	1 786 432 530	955 504 790	122 606 240	136 628 504	-	-	-	3 001 172 064
Negative replacement values of derivative financial instruments	54 445 995	-	-	-	-	-	-	54 445 995
Cash bonds	-	-	1 423 000	10 956 000	9 417 000	256 000	-	22 052 000
Bond issues and central mortgage institution loans	-	-	10 000 000	-	87 400 000	318 000 000	-	415 400 000
Total at 31.12.2018	**1 879 230 574**	**955 504 790**	**409 198 614**	**936 694 504**	**209 547 000**	**318 256 000**	**-**	**4 708 431 482**
Total at 31.12.2017	1 948 109 416	913 193 102	305 402 218	327 058 691	902 746 000	292 416 000	-	4 688 925 428

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

CHF in thousands	**31.12.2018**		31.12.2017	
	Switzerland	Abroad	Switzerland	Abroad
Assets				
Liquid assets	684 309	625	686 674	615
Amounts due from banks	57 866	62 162	34 485	248 532
Amounts due from customers	292 337	155 961	303 800	132 303
Mortgage loans	3 682 801	69 627	3 472 727	-
Positive replacement values of derivative financial instruments	2 957	3 367	51 255	30 467
Financial investments	13 878	38 728	20 203	40 656
Accrued income and prepaid expenses	6 735	292	6 715	263
Participations	1 191	-	1 191	-
Tangible fixed assets	17 060	88	18 175	135
Other assets	23 146	87	30 829	236
Total assets	**4 782 280**	**330 937**	4 626 053	453 208
Liabilities				
Amounts due to banks	80 065	1 135 296	124 182	1 172 019
Amounts due in respect of customer deposits	1 887 825	1 113 348	1 864 787	1 087 055
Negative replacement values of derivative financial instruments	50 798	3 648	27 720	1 891
Cash bonds	22 052	-	56 772	-
Bond issues and central mortgage institution loans	415 400	-	354 500	-
Accrued expenses and deferred income	15 452	3 165	15 273	2 838
Other liabilities	5 846	115	4 524	251
Provisions	3 541	225	6 143	18
Reserve for general banking risks	15 000	-	15 000	-
Share capital	180 000	-	180 000	-
Statutory capital reserve	-	-	-	-
Statutory retained earnings reserve	166 289	-	152 080	-
Voluntary retained earnings reserve	-	-	-	-
Profit/Loss (result of the year)	15 152	-	14 209	-
Total liabilities	**2 857 420**	**2 255 797**	2 815 190	2 264 071

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

CHF in thousands	31.12.2018		31.12.2017	
	Total	in %	Total	in %
Switzerland	4 782 280	93%	4 626 053	91%
Italy	83 093	2%	251 031	5%
OECD countries	108 710	2%	152 854	3%
Other countries	139 134	3%	49 324	1%
Total assets	**5 113 217**	**100%**	5 079 261	100%

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

Country	Rating Fitch	Net foreign exposure **At 31 December 2018**		Net foreign exposure At 31 December 2017	
		In CHF	Share as %	In CHF	Share as %
Germany	AAA	40 579 028	15.53	67 699 472	14.94
Luxembourg	AAA	15 636 783	5.98	14 086 662	3.11
Netherlands	AAA	1 426 431	0.55	2 535 863	0.56
Sweden	AAA	5 201 269	1.99	8 756 827	1.93
Singapore	AAA	37	0.00	102	0.00
USA	AAA	3 875 791	1.48	7 566	0.00
United Kingdom	AA	18 102 114	6.93	21 157 103	4.67
Belgium	AA	2 764 404	1.06	6 126 413	1.35
France	AA	15 348 860	5.87	21 616 725	4.77
Saudi Arabia	AA	88	0.00	22	0.00
Israel	A+	1 686 854	0.65	100 701	0.02
Ireland	A+	292 728	0.11	304 716	0.07
Spain	A-	518 908	0.20	4 909 563	1.08
Thailand	BBB+	101 712	0.04	99 992	0.02
Italy	BBB	83 093 134	31.79	251 031 074	55.39
Panama	BBB	1 195 340	0.46	1 218 474	0.27
Russian Federation	BBB-	53	0.00	8 817	0.00
Brazil	BB	695 396	0.27	700 776	0.15
Greece	B	74 160	0.03	74 176	0.02
Monaco	Unrated	63 502 978	24.27	44 388 687	9.79
Others	Unrated	7 315 728	2.80	8 385 046	1.85
Total		**261 411 798**	**100.00**	453 208 779	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**
Liquid Assets	679 023	5 466	301	144	684 933
Amounts due from banks	51 514	37 703	4 965	25 846	120 027
Amounts due from customers	265 327	174 299	2 150	6 520	448 297
Mortgage loans	3 682 972	69 456	-	-	3 752 428
Positive replacement values of derivative financial instruments	4 538	1 477	48	261	6 324
Financial investments	18 179	213	34 214	-	52 606
Accrued income and prepaid expenses	7 927	(968)	60	8	7 027
Participations	1 191	-	-	-	1 191
Tangible fixed assets	17 060	89	-	-	17 149
Other assets	22 170	988	67	9	23 234
Total assets in the balance sheet	**4 749 902**	**288 722**	**41 806**	**32 787**	**5 113 217**
Off-balance-sheet claims due from foreign exchange spot, forward and option transactions	20 392	1 927 065	225 360	42 452	2 215 269
Total assets at 31.12.2018	**4 770 294**	**2 215 787**	**267 166**	**75 239**	**7 328 486**

Liabilities					
Amounts due to banks	16 897	1 184 714	10 986	2 764	1 215 361
Amounts due in respect of customer deposits	1 773 925	955 614	225 109	46 524	3 001 172
Negative replacement values of derivative financial instruments	53 386	240	666	154	54 446
Cash bonds	22 052	-	-	-	22 052
Loans from central mortgage bond institutions	415 400	-	-	-	415 400
Accrued liabilities and deferred income	15 650	2 091	831	46	18 617
Other liabilities	5 316	636	6	3	5 961
Provisions	3 541	225	-	-	3 767
Reserve for general banking risks	15 000	-	-	-	15 000
Share capital	180 000	-	-	-	180 000
Statutory capital reserve	-	-	-	-	-
Statutory retained earnings reserve	166 289	-	-	-	166 289
Voluntary retained earnings reserves	-	-	-	-	-
Profit/Loss (result of the period)	15 152	-	-	-	15 152
Total liabilities in the balance sheet	**2 682 608**	**2 143 520**	**237 598**	**49 491**	**5 113 217**
Off-balance-sheet claims by foreign exchange spot, forward and option transactions	2 076 665	80 414	32 438	25 753	2 215 269
Total liabilities at 31.12.2018	**4 759 274**	**2 223 933**	**270 036**	**75 243**	**7 328 486**
Net position by currency	11 021	(8 146)	(2 870)	(4)	-

28. BREAKDOWN AND EXPLANATION OF CONTINGENT ASSETS AND LIABILITIES

in CHF	**31.12.2018**	31.12.2017	Change
Guarantees to secure credits and similar	204 307 980	165 633 049	38 674 930
Performance guarantees and similar	-	-	-
Irrevocable commitments arising from documentary letters of credit	20 048 351	21 969 341	(1 920 990)
Other contingent liabilities	-	-	-
Total contingent liabilities	**224 356 331**	187 602 390	36 753 940
Contingent assets arising from tax losses carried forward	-	-	-
Other contingent assets	-	-	-
Total contingent assets	**-**	-	-

29. BREAKDOWN OF CREDIT COMMITMENTS

Not applicable.

30. BREAKDOWN OF FIDUCIARY TRANSACTIONS

in CHF	**31.12.2018**	31.12.2017	Change
Fiduciary investments with third-party companies	13 371 399	14 436 843	(1 065 444)
Fiduciary investment with group companies and linked companies	36 000 326	37 386 305	(1 385 979)
Total	**49 371 725**	51 823 148	(2 451 423)

31. BREAKDOWN OF MANAGED ASSETS AND PRESENTATION OF THEIR DEVELOPMENT

CHF in million	**31.12.2018**	31.12.2017	Change
A) Type of managed assets			
Assets in collective investment schemes managed by the bank	714.8	764.7	(49.9)
Assets under discretionary asset management agreements	358.4	368.0	(9.6)
Other managed assets	4 462.4	4 513.9	(51.5)
Total managed assets (including double counting)	**5 535.6**	5 646.6	(111.0)
Of which, double-counted assets	261.3	284.2	(22.9)
Net increase/(decrease) (including double-counted assets)	(89.1)	(181.0)	91.9

"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	5 646.6	5 460.2	186.4
+/- net new money inflow or net new money outflow	(89.1)	(181.0)	91.9
+/- price gains/losses, interest, dividends and currency gains/losses	(21.9)	367.4	(389.3)
+/- other effects	-	-	-
Total managed assets (including double counting) at end of year	**5 535.6**	5 646.6	(111.0)

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

in CHF	**31.12.2018**	31.12.2017	Change
Interest rate instruments (including funds)	-	-	-
Equity securities (including funds)	(8 314)	(4 288)	(4 026)
Foreign currencies	20 873 427	22 992 740	(2 119 313)
Commodities/precious metals	122 354	360 749	(238 395)
Total result from trading activities	**20 987 467**	23 349 201	(2 361 734)

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

The item "Interest and discount income" contains CHF 4.1 million in negative interest, CHF 3.9 million of which is attributable to the floating rate in interest rate swaps used for hedging.

34. BREAKDOWN OF PERSONNEL EXPENSES

in CHF	**31.12.2018**	31.12.2017	Change
Salaries	36 773 067	35 755 321	1 017 746
Of which:			
Expenses relating to share-based compensation and alternative forms of variable compensation	3 380 000	3 120 000	260 000
Social insurance benefits	9 096 950	8 536 211	560 739
Other personnel expenses	1 758 414	1 550 837	207 577
Total	**47 628 431**	45 842 369	1 786 062

35. BREAKDOWN OF GENERAL AND ADMINISTRATIVE EXPENSES

in CHF	**31.12.2018**	31.12.2017	Change
Office space expenses	6 757 044	7 215 619	(458 575)
Expenses for information and communications technology	2 186 619	2 231 489	(44 870)
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	6 054 844	5 674 821	380 023
Fees of audit firm	359 994	607 489	(247 495)
Of which:			
for financial and regulatory audits	359 994	607 489	(247 495)
for other services	-	-	-
Other operating expenses	6 286 466	6 191 003	95 463
Total	**21 644 967**	21 920 421	(275 454)

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 release of a provision amounting to CHF 37 425 for social security contributions in Monaco that is no longer necessary, a commitment amounting to CHF 129 508 in "Other liabilities" that did not materialize and CHF 43 931 of sundry recoveries.

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	31.12.2018		
	Switzerland	Abroad*	Total
Net result from interest operations	45 716 349	3 145 915	48 862 264
Net commission and service income	22 155 165	1 352 223	23 507 388
Result from trading activities and the fair value option	20 519 576	467 891	20 987 467
Other result from ordinary activities	737 799	(30 551)	707 248
Operating expenses	65 297 460	3 975 938	69 273 398
Operating result	**23 831 429**	**959 540**	**24 790 969**

* 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 31 December 2018 there were only current taxes amounting to CHF 5 030 000.

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

Not applicable.

INDEPENDENT AUDITORS' REPORT

Ernst & Young Ltd
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To the General Meeting of
Banca Popolare di Sondrio (Suisse) SA, Lugano

Lugano, 31 January 2019

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited financial statements of Banca Popolare di Sondrio (Suisse) SA, which comprise the balance sheet, income statement, cash flow statement, statement of changes in the equity and notes (pages 21-58), for the year ended 31 December 2018.

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 2018 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

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

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

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

Ernst & Young Ltd

Erico Bertoli	Beatrice Groppelli
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

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

MEDIUM-TERM NOTE ISSUES

EXCHANGE AND TRANSACTIONS IN FOREIGN CURRENCIES
AND PRECIOUS METALS

MORTGAGE, LOMBARD AND COMMERCIAL LOANS

DOCUMENTARY CREDITS AND COLLECTIONS

GUARANTEES AND SURETYSHIPS

LIFE INSURANCE PRODUCTS

GOBANKING (e-BANKING)

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