

COMMUNICATION ON PROGRESS 2014

A Cooperative Bank in the service of local territories

Founded in 1871, Banca Popolare di Sondrio is one of the first popular Italian banks that was inspired by the popular cooperative banking movement. Over time and thanks to the gradual expansion of its activities and presence on the territory, our bank gained more regional dimensions with the possibility of operating nationwide, while at the same time keeping strong ties to the zone of origin.

As a matter of fact, the branch network marks the scope of our action in the chosen territories. Our history of growth is linked with gradual expansion into new and broader markets: the nature of an institution that has enhanced its identity by transforming from a local bank to a bank present in multiple territories.

Direct customer contact is essential for us, both now and into the future: the branch is responsible for the customization of each account, the place where **bank and customer build their fiduciary relationship**, and the location where **human relations** are formed that add value to our work. For these reasons, the bank continues to believe and invest in the strengthening of the branch network.

Based on this approach, we opened nine new branches during the year. The locations selected confirm our demonstrated ability to become well established in areas that differ widely in social and economic terms, **offering effective responses to the diverse needs of customers of every type**. Five branches were positioned in large cities, while four are located in small towns with somewhat different characteristics.

The confidence of customers in our bank is founded, of course, on the conviction of savers that, in this way, they protect their savings. This guarantee is offered by Banca Popolare di Sondrio primarily via the healthy and profitable management of the bank, as demonstrated by the positive results achieved in the current year. **The propriety and transparency** that have always marked our commercial and account management practices are also important.

There are other aspects too, including one that deserves particular attention: our depositors know that their savings will be used by the bank primarily for the **benefit of local territories**; accordingly, they know that they are helping to finance the economies of which they are a part. This cannot be underestimated, in an increasingly globalized world in which cash tends to flow away from the areas that generated it, guided by a compass that points to immediate returns. In this way, as a cooperative bank that serves its local territories, we have earned growing credibility that is readily and meaningfully confirmed by the financial data.

We did not fail to support the economy in the areas served during 2014, in full awareness that this is our mission and therefore the reason for our work. The general downward trend in both lending and funding rates has allowed us to offer attractive economic conditions, while of course also remunerating risk in a proper manner.

Risk Management and Anti-Money Laundering Function

The Compliance Unit works to consolidate and spread the culture of the bank, based on the central importance of our customers and on the transparency and propriety of our relations with them. This is achieved by constant interaction with the bank's commercial and finance departments, as well as with the other control functions with the bank and the companies belonging to the banking group.

An important role is also played in the management of conflicts of interest. The Anti-money laundering function is responsible for **preventing and impeding money-laundering transactions and the financing of terrorism**. Support in this regard is provided to branch and central office colleagues via the release of authoritative opinions that seek to resolve an increasing number of situations that are difficult to interpret.

These efforts benefit all employees, both in terms of greater knowledge and their greater awareness of risk.

The entire organization benefits from actions designed to ensure constant compliance with and timely application of the related **internal regulations**, as well as to enhance the incisiveness of the approaches, tools and procedures applied. All this in the awareness that careful prevention and monitoring is essential, in order to mitigate the risk of the bank entering into or maintaining relations that might even just graze the excellent reputation enjoyed by the bank.

Labour Policy

We have been able to offer interesting professional opportunities to our men and women, backed by training and regular updates. The bank has been repaid in terms of motivation, skill, unity of purpose and shared corporate values. These elements, together with a spirit of service and our rules of conduct, establish our way of working with and relating to our customers. The resulting competitive advantage obtained has contributed tangibly to the long-term growth achieved by the bank.

The professional search for optimal solutions ensures that compliance with the regulations on **health and safety in the workplace** is reconciled with efficiency, aesthetics and cost control.

Our people work in a prudent and balanced manner every day, with a view to facilitating informed decisions that reflect the profile of each customer. They adopt a proper, long term and transparent approach to the performance of their duties. The bank reinforces this way of working via rigorous personnel selection, appropriate training programs and the efficient management of all those employed both centrally and at branch level. The personnel department addresses these areas with skill and commitment. Total employment rose by 14 units (+0.54%) during 2014 to 2,596 total.

Training receives special attention, with both classroom and multimedia sessions. The courses provided on regulatory matters were significant, including those covering the transparency of services and banking transactions, anti-money laundering, privacy and the health and safety of workers. With reference to the obligatory training required by ISVAP Regulation no. 5 of 16 October 2006, the sessions covered insurance broking for both new employees and those already qualified to provide such services.

Relations with the Trade Unions continue to be based on reciprocal respect.

Lastly, the activities of the Group Club for all employees were greatly appreciated, with the organization of many cultural, touristic and sporting events.

Promotional and Cultural Activity

Just as the safeguarding and promotion of saving are part of the bank's mission, so the safeguarding and promotion of the cultural, artistic and environmental wealth of the areas in which we work are part of our «Cooperative» approach. Our voluntary and long-term acceptance of **responsibility for contributing to social development** strengthens the reciprocal sense of belonging between the bank and the territories served.

A constant commitment, as demonstrated by: the 42 years of Notiziario, our acclaimed magazine that is published every four months; the 45 years of conferences, made unique - not just at provincial level - by authoritative speakers who have made their contributions; numerous, high level publications; the establishment and management of the "Credaro" library in Sondrio; the special websites that are dedicated to the bank's cultural activities, including popsoarte.it, which presents our artistic wealth.

As the leading local bank, we actively worked with ABI on the organization in Sondrio, on 17 - 18 January 2014, of the 8th edition of Road Show Italy. This event included analysis of such economic topics as «The banks and local territories» and «The Italian banks for Italy», with senior contributions from ABI, the institutions and entrepreneurs. The event was accompanied by an exhibition entitled «Places in Valtellina», the highlights of which included various paintings owned by the bank.

The annual programme of conferences was opened on 14 February 2014 and finished on 15th December, for a total of 8 conferences held by prestigious personalities and offered to the public.

Well stocked and visited, the characteristics of our «Luigi Credaro» library in Sondrio are drawing ever greater attention: 11.000 visits in 2014, most of whom of university students. The library, named after Luigi Credaro, illustrious compatriot and former Education Minister from 1910 to 1914, makes available to the general public our significant heritage of books and documents and has also established fruitful contacts with the world of education.

We also attended ABI's Festival of Creative Culture, the first edition of which - held on 16 May 2014 - addressed the topic of «The imaginary museum».

On the publishing front, we gave the shareholders who attended the Shareholders' Meeting on 26 April 2014 a book entitled «The 101 lakes of Valtellina and Valchiavenna». This excellent publication contains many photographs of the alpine lakes in the province of Sondrio, accompanied by detailed descriptions of suitable excursions. The 2013 financial reports of the parent bank and Banca Popolare di Sondrio (SUISSE) SA were accompanied by some interesting cultural interludes. «Words over time and the days of 2015» is the subject of the diary-book by Gigliola Magrini for the current year, distributed to customers and shareholders.

Another success at the «Mapei Day», a sporting event under the patronage of the Squinzi family, which the bank helps to organize together with Unione Sportiva Bormiese and Pirovano Stelvio (a tourist complex in the Upper Valtellina supported by the bank). The 10th edition was held on 13 July 2014, with about 3,200 runners, cyclists – many of whom participated in the 30th Re Stelvio competition – and roller skiers tackling the challenging Bormio-Stelvio Pass route.

As always, 10 August 2014 at Stelvio Pass was dedicated to the “Madonna della Neve”. On the centenary of the start of the Great War, the remembrance was attended by General Antonio Pennino, commander of the «Lombardy» brigade. Mass was said by Father Cesare Bedognè, local chaplain of the brigade and the «Teuliè» military school. The remembrance was also attended by Sister Elisabetta Serena Ciserani, Mother Superior of the Figlie di Santa Maria della Provvidenza (Opera Don Guanella) and Sister Anna Gennai, Superior of the Piccola Opera per la salvezza del fanciullo di Traona.

For the 90th World Savings Day, celebrated in 2014, Banca Popolare di Sondrio promoted a conference held by Carlo Sangalli, president of Confcommercio – Imprese per l'Italia on the subject “Imprese che non si risparmiano: come commercio e servizi contribuiscono al futuro del Paese” (Companies that do not save themselves: how commerce and services contribute to the Country's future). The service sector includes commerce, tourism, transport and services that together form over 40% of the country's GDP: hence an important sector with a differentiated universe of lively companies creating visibility for the territory and contributing to our Country's attractiveness. The intention was to highlight the tangible difficulties met by commerce in the on-going economic crisis, but also the will of entrepreneurs to maintain ideas and relations with people and property, exchanging goods and opinions, creating links, showing feelings. That is why the event slogan was “You switch off signs but not what lit them up”.

Once again, the bank participated in the ABI initiative entitled «Invito a Palazzo» (open day at the bank). The XIII edition was held on 4 October 2014: guided tours covered the works of art owned by the bank and the «Luigi Credaro» library in Sondrio, as well as the «Carlo Donegani» museum at the Stelvio Pass.

We also contributed to the Prime Minister's programme commemorating the centenary of the start of the First World War, with support for the film-documentary «Stelvio. Crossroads of peace», directed by Alessandro Melazzini. The initiative also sought to promote the province, having regard for Expo 2015, drawing acclaim from home and abroad.

At the time of the 15th Snowfestival, organized by Pirovano from 9 to 12 October 2014, significant **donations** were gathered for Fondazione Ariel, Associazione La Prima Stella and Associazione Ayuda Directa.

The bank engages itself in regular contributions in favour of public and private entities, universities, hospitals and institutions to which we provide treasury services; from the amount allocated for this purpose at the shareholders' meeting, donations are made to support entities and associations that carry out cultural, sporting or voluntary work.

Among the **charitable initiatives** promoted by the bank, significant donations (€ 38.400,00 in year 2014) were made from the Solidarity Current Account to the solidarity Italian associations ADMO, AIRC, AISLA, AVIS and UNICEF.

Mutualistic Activities

In accordance with the provisions of art. 2545 of the Italian Civil Code, the following are the criteria followed by management to achieve the Bank's mutualistic goals.

In this matter, points 1 and 2 of our Articles of Association are fundamental points of reference for us; they read: «The company's activities are based on the principles of mutuality and cooperation» and «As part of institutional work to facilitate the development of all productive activities, the company, in consideration of its specific objectives as a cooperative bank, intends to provide specific support for the smaller enterprises and cooperatives present in the territories served. In addition the company aims to implement any appropriate initiative necessary to spread and encourage savings».

Our commitment, as always, has been to satisfy the needs of our members and customers for banking products and services, including loans in particular. This mission sets us apart as a cooperative bank and we have worked to meet the needs of both individuals and the local communities in which we operate. In fact, we recognize that our role is to **enhance the economic and social growth potential of the territories served**, while respecting their individual characteristics. We seek to contribute to forms of development that reflect the real needs and aspirations of the local communities concerned.

In this way, we also comply with the guiding principles established in the Valtellina Community Statute: **solidarity and subsidiarity**.

Loans to customers amount to 20,536 million, confirming the scale of our commitment even though the macroeconomic situation continues to be very difficult.

We have supported numerous **eco-compatible economic initiatives** by making loans intended to spread further the use of renewable energy and implement rural development plans.

We have also continued our collaboration with INPS (Italian Social Security) and the Central Institute of Italian Cooperative Banks on the issue and payment of «work vouchers» for casual labour. Working together with INPS, we have signed agreements to advance such benefits as government-assisted layoff payments on an interest-free basis, without expenses.

The difficulties generated by the economic crisis, the instability and unpredictable fluctuations of the financial markets and the marked drop in interest rates have disseminated great uncertainty among investors. In order to safeguard savings - the reserve created to face the future and the raw materials for lending - we have constantly updated our commercial proposals, which are presented on a simple and transparent basis. The individual's risk appetite has always been respected too. Our catalogue also includes **ethical financial instruments** and supplementary pension products, in order to assure an adequate level of retirement income. Despite the adverse trends already discussed, direct deposits have risen to 27,025 million, +12.32%, in confirmation of the growing confidence of our customers.

Entities and institutions are among the principal recipients of our specialist services. Our offer - delivered through dedicated desks, traditional branches and electronic tools - is designed for both local entities and the numerous other institutions, with which we have cooperated for some time. Without focusing on any particular segment, we provide services to small municipalities and to regional and national entities, as well as to local associations and to major non-profit organizations with an international outlook.

The growth in membership confirms our ability to involve new partners in our work, thus playing an active role within the new communities that we serve. We now have 185,309 members. The simultaneous increase in the number of member-customers is a concrete and dynamic reflection of the way we implement the founding principles of the cooperative banking movement. It is sufficient to reflect on the response of our members to the capital increase proposed in the middle of last year, with a take up that reflects their consolidated and prospective ties with the bank. This is not speculative, short-term investment, but a commitment to help a living, healthy and profitable organism provide a broad range of **support to local economies**.

Art. 2528, final para., of the Italian Civil Code requires the annual report to describe the reasoning adopted when deciding to admit new members. This information is presented in the «Equity» section of the Annual Report. Institutional communications - carried out in full compliance with the specific regulations - take account of the nature and sheer number of our members. This is a fundamental aspect of being a cooperative bank and the importance we attach to relations with our members.

In this regard, we note that communications are the key to informed participation by the members in the life of the bank. The traditional mid-year and year-end «Chairman’s Letters» are addressed to all members and friends, in order to update them on a periodic and timely basis about the performance of the bank. The directors’ report and annual financial statements provide a comprehensive picture of the events that took place during the year, explained using language that seeks to be understandable by all. The regulations require ever broader communications to an every wider audience; accordingly, our Italian language documentation seeks to avoid the excessive use of English terms, in order to maintain transparency and avoid forms of elitism.

Contact between the bank and our members is facilitated by attendance at the annual general meeting, which is a key moment in the life of the bank when important corporate decisions are made. Direct participation is facilitated by the transport services provided and represents an opportunity to take lunch together. Indirect participation is of course possible by proxy voting. This participation by members in the life of the bank also extends to the various meetings organized directly by the Bank and in collaboration with local entities and institutions.

The will to contribute towards the economic and social development of the communities that we serve also manifests itself in the financial support that we give to a vast range of initiatives. They are the result of a **solidarity-based vision of the market**, where profit is accompanied by other objectives, reflecting a long-term assumption of responsibility towards the social context to which we belong for the enhancement of its identity.

The commitment to constantly respect the recognized universal principles promoted by Global Compact is regularly declared by the Board of Directors on the Annual Report and during the speech held on the occasion of the Annual General Meetings with shareholders and members of the bank: “We have renewed our participation in the «Global Compact» project, which is a UN initiative designed to promote universally recognized principles in the areas of human rights, employment, the environment and the fight against corruption. As required, we submitted our Communication on Progress 2013 to the New York office during the year, explaining the actions taken by the bank that contribute to the creation of a «more inclusive and sustainable global economy»”.

From “Banca Popolare di Sondrio - Annual Report 2014”