



This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

COMMUNICATION ON PROGRESS 2015

A Cooperative Bank in the service of local territories

This past year has been a period of transition, from the longest and deepest crisis since the Second World War to, hopefully, a period of significant and lasting recovery. There are still many causes for concern and, unfortunately, not all of them relate to the areas of manufacturing and finance.

Europe has finally realized the impossibility of reconciling severe budgetary discipline with a reality that, by its nature, is «undisciplined» and unwilling to be enclosed in rigid ideological cages.

Specifically, the European Central Bank was responsible for rekindling hopes by contributing to the creation of conditions for the relaunch of growth. Even Italy has benefited, by putting production systems back to work. Beyond the upturn in Gross Domestic Product, the general climate has changed with greater confidence among households and businesses.

With regard to Banca Popolare di Sondrio, we should start from the bottom line: net profit amounted to 100.064 million, up 2.58%. A satisfactory result confirming healthy and profitable operations, capable of generating self-financing and remunerating the shareholders. These are key reasons that justify the **confidence of our customers**. Our results would have been even better however, had we not had to bear the heavy burden associated with resolving the banking crises mentioned above.

Direct deposits fell by 1.47% to 26,627 million, while loans declined by 2.50% to 20,021 million. These year-end statistics do not entirely reflect reality during the year, with an increase in activity benefiting the **relations that tie the Bank to our customers and the territories** we serve.



Expanding and increasing the density of the branch network have been the principal tools used over the years to grow significantly the scale and operations of the Bank. Setting down roots in each locality is not a passing fashion, but has been a deliberate decision taken to strengthen our ethos and build our organizational structure. In summary: **we are a bank for the territory, in the territory.**

Without doubt, times are changing. The banking system is talking increasingly about branch closures, perhaps involving those branches that changed hands at exorbitant prices several years ago. We are sheltered from risks of this kind, given the care with which we have made each location decision, while the operating results delivered at branch level - including the most recent openings - confirm that there is still room to grow.

The steady reduction in interest rates, caused by the flood of liquidity injected into the system by the monetary authorities, has had effects that would have been unthinkable a short while ago, affecting all financial instruments and not just government securities. Against the difficult background summarized above, the Bank worked well during the year by presenting commercial proposals consistent with market requirements and, above all, due to the confidence in us shown by our customers.

Our entire business, whether as debtor or creditor, is built on this latter factor, which is both intangible and substantive. Our best guarantee for the protection of savings is to be a suitably capitalized bank, capable of healthy and profitable operations, as demonstrated by the results for this past year. The **propriety and transparency** that have always marked our commercial and account management practices are also important.

Also in the field of lending, we have focused on our **relationship with the economies of the territories** served. While this is the activity for which we are best equipped and organized, it is above all the mission that we have always pursued. The work illustrated by the following statistics was supported by the steady enrichment of the professional skills and procedures needed to manage all forms of lending risk.

In the context of trading in financial instruments with customers, the branch network and central organization worked with professionalism and prudence during the year, seeking a proper balance between the risk profiles of customers and their investment objectives. The resulting increase in the volume of business with the retail sector was comforting, as was the particularly low number of complaints received, which were dealt with promptly.

With regard to managed deposits, the quality of the portfolio advisory service has been well received. This seeks to recommend investment solutions that are, to the extent possible, consistent with the characteristics and expectations of customers and effective in risk/yield terms. This service receives constant attention, with efforts to refine the dedicated IT systems used and to train the personnel involved.



In relation with the Consob (National Commission for Companies and Stock Exchange) communication DEM/6064293 of 28 July 2006, transactions or balances with related parties, as defined by IAS 24 and the Consob Regulation, have a limited incidence on the balance sheet and financial position, as well as on the Bank's economic results and cash flows. In Part H of the notes to the financial statements, the section entitled «Related-party transactions» includes a table that summarizes the effect of these relations.

During 2015 and in the current year, no positions or transactions deriving from atypical or unusual operations have arisen. According to Consob Circulars DAC/98015375 of 27 February 1998 and DEM/1025564 of 6 April 2001, atypical and/or unusual transactions are those - not arising in the ordinary course of business - that may raise doubts about the completeness of the disclosures in the financial statements, conflicts of interests, the protection of the corporate assets or the safeguarding of the shareholders, by virtue of their magnitude, the nature of the counterparties, the methods for determining the transfer price or the timing of the transaction.

Also in the international market, the knowledge accumulated over decades of activity makes a fundamental contribution to the quality of the services offered by the Bank. Our true wealth, albeit intangible – comprising professional staff, specialist skills, accumulated experience, operating procedures and relations with counterparties throughout the world – sets the Bank apart in the eyes of those interested in international business. This wealth of resources is available to businesses, especially those that have already understood the importance of the internationalization process, and to national and supra-national bodies that require expert support, particularly with regard to payments. These activities enable us to establish numerous, meaningful working relationships and consolidate existing ties, while also - and just as important - facilitating the economic development of the territories served. We have always kept our feet firmly on the ground, aware of the importance of fulfilling our primary function, in order to act as **a bridge between our local economies and the global markets.**

Risk Management

The continuing climate of uncertainty about the global macroeconomic situation is severely testing the financial stability of the system. In order to avoid undesirable economic effects, financial activities have been surrounded by a strong protective shield, both to deal with possible adverse scenarios and to resolve any resulting failures. Among the elements of protection, banking supervision has been intensified and become more coordinated at a European level. As part of their in-depth assessment of the banks supervised, the authorities constantly encourage operators to improve their analytical and forecasting tools, while also maintaining appropriate levels of capitalization.

Our risk management processes and techniques are therefore evolving rapidly, in order to keep pace with the radical changes taking place. The Risk Appetite Framework (RAF) lies at the heart of these changes. This framework sets out the boundaries of the «playing field», establishing the propensity to accept risk and a



system of objectives, limits, indicators, checks and mitigating mechanisms that help to understand the business risks accepted and monitor them for signs of deterioration.

Major efforts have been made - and still more are being made – to ensure that «risk appetite» becomes a more integral part of strategic thinking, operational planning and the daily decision-making processes. From an organizational standpoint, the offices responsible for risk control are required to revolutionize their work: from mere measurement of the various risk profiles, as the alterego of the operational functions responsible for accepting them, these offices must now play a more pro-active role, investigating and providing specialist support for those called upon to make important decisions.

In implementing EC regulations on the management of banking crises, recently transposed into Italian law, during 2015 the Group prepared a **specific plan for prevention and recovery** that was presented to the Supervisory Body for evaluation. This plan establishes how the capital adequacy and financial strength of the Group are monitored, describing the measures to be implemented if a significant deterioration is identified. This new tool – which complements the «resolution plans» being prepared by the competent European bodies with reference to the most significant banking institutions, including our Bank – is an integral part, in methodological and process terms, of the set of risk management tools available and enhances their potential and degree of effectiveness.

Human Resources

Our people are the life blood of the Bank, managing constantly our relations with customers. They are also a fundamental distinguishing factor, enabling us to grow steadily and strengthen our market presence. These simple observations are enough to understand the importance of having men and women capable of playing, with skill and dynamism, a professional role whose nature and requirements have changed profoundly at every level over the years: from those who work in contact with the public to the senior managerial positions.

Professionalism and a spirit of service are key elements in the achievement of our business objectives, focused on independent growth by internal means and the constant search for **long-term relationships with our customers**. These are **founded on transparency, the consistency of our proposals with the financial and commercial profiles of each customer, and the constant search for mutual satisfaction. The readiness of our people to serve every customer, of whatever type and however important, highlights the cooperative spirit of the Bank**. All, in the context of a business culture founded on the propriety of the relationships established, not least in order to contain any legal or reputational risks.

The quality of our staff stems from the steadfast of standards and the significant efforts made in terms of recruitment, training programs and the functional management of personnel, both centrally and at branch level. The HR department looks after all these activities with skill and commitment, contributing to our competitiveness.



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

Promotional and Cultural Activity

We encourage the culture of our territories and support local identities, aware that - in doing so - we promote ourselves, as the lasting expression and positive effect of those territories and identities. This consideration underpins our commitment over the decades, in constantly renewed forms, to **promote the natural, cultural and artistic wealth of the areas** served and enhance its value in the eyes of the general public. To achieve this, we even make recourse to telematics channels and tools.

For this purpose, we dedicate work and resources to facilitate public contact with quality information, the arts, history and traditions, thus contributing to the social and economic growth of the local communities.

The work performed, carefully analysed by topic, is available on the **institutional website** «www.popso.it», not least in order to provide information and pictures of Valtellina and Valchiavenna, our original home territories, for the benefit of provincial operators. An integrated promotion, therefore, that brings together the Bank, culture and the local economy.

Among the many cultural initiatives, there is room to talk about the main ones including, first and foremost, the **Notiziario**. This magazine issued every four months is full of articles of every kind, many of which are signed by persons worthy of the greatest respect. All three issues in 2015 dedicated considerable space to «Expo Milano 2015», an event that brought millions of Italian and foreign visitors to Milan. Stand-out authors included the Minister of Agriculture, Food and Forestry, Maurizio Martina, and the Chairman of the Pontifical Council for Culture, Cardinal Gianfranco Ravasi, with respective contributions dedicated to Italy, the Italian Pavilion and the much admired «Tree of Life» monument; and to the Vatican State and the Pavilion approved by Pope Francis.

The annual cycle of **conferences** was launched on 20 February 2015 by Aldo Bonomi, Chairman and Managing Director of the Bonomi Group, who spoke on the subject of «Business networks: a growth opportunity for Italian firms». On 6 March 2015, Roberto De Martin, Chairman of the Trento Film Festival, talked about the «Trento Film Festival, 63 years of looking to the future». Another important occasion arose when, on 16 September 2015, Antonio Patuelli, Chairman of the Italian Banking Association and Cassa di Risparmio di Ravenna, visited us in Sondrio to talk about «Towards the recovery», a highly topical subject. This was followed on 6 November 2015 by a conference held by Prof. Francesco Sabatini, Honorary Chairman of Accademia della Crusca, entitled «The Italian language is not a telephone wire. The mother tongue and the others». This speaker also contributed to marking the 91st World Savings Day, which we always celebrate, with a particular focus on young people. In particular, during the morning of that date, Prof. Sabatini met around 500 interested students and their teachers, at the Policampus in Sondrio, to give a talk entitled, «Italian is the key to our brain».



Shareholders who attended the Annual General Meeting held on 18 April 2015 in Bormio received a presentation box containing a DVD entitled «Stelvio. Crossroads of Peace», a documentary produced and directed by Alessandro Melazzini, and a booklet entitled «The Stelvio Epic», written by Franco Monteforte, author and historian. These works enabled us to commemorate the centenary of the First World War.

The cultural inserts accompanying the 2014 financial statements of the Bank and Banca Popolare di Sondrio (SUISSE) SA were dedicated respectively to the collection of watercolours by Johann Jakob Meyer «Picturesque journey through Stelvio (1831)», owned by the Bank and presented by Attilio Brilli, writer and essayist, and Franco Monteforte; and the monograph entitled, «Felix Somary: man, economist and banker, between Switzerland and Italy».

Via the «**Luigi Credaro**» Library in Sondrio, the Bank contributed to the second edition of the Festival of Creative Culture held under the aegis of ABI on 21 March 2015, on the topic entitled «The alphabet of the world - Let's read the signs around us and talk about them». For its own part, the «Luigi Credaro» Library has steadily expanded its role as a cultural hub in Sondrio, not least for the specialist topics that are addressed.

In our annual tribute to the Madonna of the Snow, on 9 August 2015 Father Cesare Bedognè, military chaplain, said Mass at the Rese Basse dello Scorluzzo pastures, Stelvio Pass, and presented Pope Francis' encyclical, «Praise be to you», to the families present.

Once again, we participated in ABI's «Invitation to the Palace» initiative, which reached its XIV edition on 3 October 2015. In particular, we organized guided tours of the Bank's headquarters in Sondrio, drawing attention to the many works of art - see also the dedicated website «www.popsoarte.it» -, of the «Luigi Credaro» Library in Sondrio and the «Carlo Donegani» Museum at the Stelvio Pass.

The «ReStelvio 2015 Mapei» was held on 12 July with the Bank among the organizers. As in prior years, this event brought thousands of sports enthusiasts to Alta Valle in order to tackle, on foot and by bicycle, the challenging Bormio-Stelvio Pass route.

With regard to the skiing competitions traditionally held in the Stelvio Pass, heavy snowfall prevented the 2nd Interbank Hexagonal Meeting planned for 16 October 2015, but better weather conditions on the following day allowed the 14th Pirovano Interbank Meeting, with the friendly participation of 119 competitors from 16 banks.

Lastly, the «Fifth meeting with Nobel Laureates for Literature» was held on 29 December 2015 in Bormio. Organised together with the local Cultural Commission at the Bormio Terme Conference Hall, the meeting was entitled «Un addio alle armi - A Farewell to Arms» and dedicated to Ernest Hemingway and his famous novel of the same name. The event was coordinated by Prof. Leo Schena and led by Prof. Maximum Bacigalupo, with narrations by Mira Andriolo and Christian Poggioni.



Besides the Solidarity Current Account, which last year made a **significant contribution** of € 40.000,00 divided between the charitable associations ADMO, AIRC, AISLA, AVIS and UNICEF, the bank provided support, in collaboration with other parties, for the improvement of economic and social conditions in the various geographical contexts: contributions paid in favour of public and private entities, universities, hospitals and institutions to which we provide treasury services; donations – from the amount allocated for this purpose at the shareholders' meeting – to support entities and associations that carry out cultural, sporting or voluntary work.

A highlight was the large donation made by the Bank to renovate Teatro Sociale di Sondrio, whose re-opening has truly filled a gap.

In closing this section, the Banking Group's Recreation Centre deserves praise for the many cultural, touristic and sporting initiatives organized during the year.

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».

Once again during 2015 which, pursuant to Law 33/2015, should be our last full year as a cooperative bank, we worked to satisfy the demand for banking products and services - especially loans - from customers and, above all, from our shareholders. This is our mission and as always, we have acted accordingly, giving attention not only to the needs of individuals, but also to the more general requirements of the communities to which they belong. This means working with a vision that seeks to make **best use of the resources and specific characteristics of each territory**, thereby reflecting their nature and desires, as well as enhancing our mutual interests. We take the opportunities for work offered by the various counterparties, while they benefit from operating in a healthy and profitable environment.

In this way, we also comply with the guiding principles established in the Valtellina Community Statute, **identity, solidarity and subsidiarity**, which can be extended to the other territories in which the Bank has worked, and continues to work, in accordance with sound principles.

Loans to customers amounted to 20,021 million, -2.50% on the previous year. This reflects the repayment of major loans that fell due during year, despite a substantial flow of new loans, and confirms the scale of the financial support provided to households and businesses.



Among other things, 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. The same is true for the support provided for property renovations, which seek to save energy and, of course, upgrade the existing stock of properties.

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. The objective is to facilitate the provision of casual work to young people by improving the flexibility of businesses.

Against a background dominated by interest rates at historical minimums, funding was focused on offering investment instruments that safeguard the assets of savers. Customers were given all necessary assistance, including expert advice, in a fully transparent manner and respecting their individual propensities to accept risk.

Our catalogue includes **ethical financial instruments** and supplementary pension products too, which are essential these days in order to assure an adequate level of retirement income.

Direct deposits came in at 26,627 million, -1.47%. Although the yearend total is slightly lower, average direct funding throughout the year was more than 5% higher. This confirms the validity of the commercial offer and, above all, the trust placed in the Bank.

Entities and institutions are among the principal recipients of our specialist services. Our offer - delivered through dedicated desks, traditional branches and, more and more frequently, 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 number of shareholders was 185,479 at year-end. The wide membership confirms our ability to involve new partners in our work. A simultaneous increase in the number of member-customers is a concrete reflection of the way we implement the founding principles of the cooperative banking movement, which identifies the members as the most important and stable core of customers. This is key to the expansion and defence of market share.

Art. 2528, last 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 «BPS stock» section of the Annual Report.

Institutional communications and that to the market- carried out in full compliance with the specific regulations - take account of the nature and sheer number of 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 «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. It is our duty to ensure that **communications, increasingly required by the regulations, remain transparent and not excessively technical**, in which case they would only benefit a few readers.

The Bank and the membership also come together at the annual general meeting. This key moment in the life of our business in which the most relevant decisions are taken. Direct participation is facilitated by the transport services provided and represents an opportunity to take lunch together. Indirect participation is of course possible by the wider possibility to use 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.**

Last but not least, we have confirmed our membership to the Global Compact, the United Nations initiative involving 8,902 businesses in 166 countries, in which we have participated since 2004. Our membership to the project means making a **responsible commitment to implementing a series of business practices in support of the universally recognized human rights**, such as the dignity of work and the fight against corruption, as well as the protection of the environment.

The presence of the Bank in the «Global Compact International Yearbook 2015», alongside institutions and businesses from around the world, is a sign of our contribution to economic growth and social responsibility at a global level.

Quoted from "Banca Popolare di Sondrio - Annual Report 2015" also available on our web site www.popso.it