

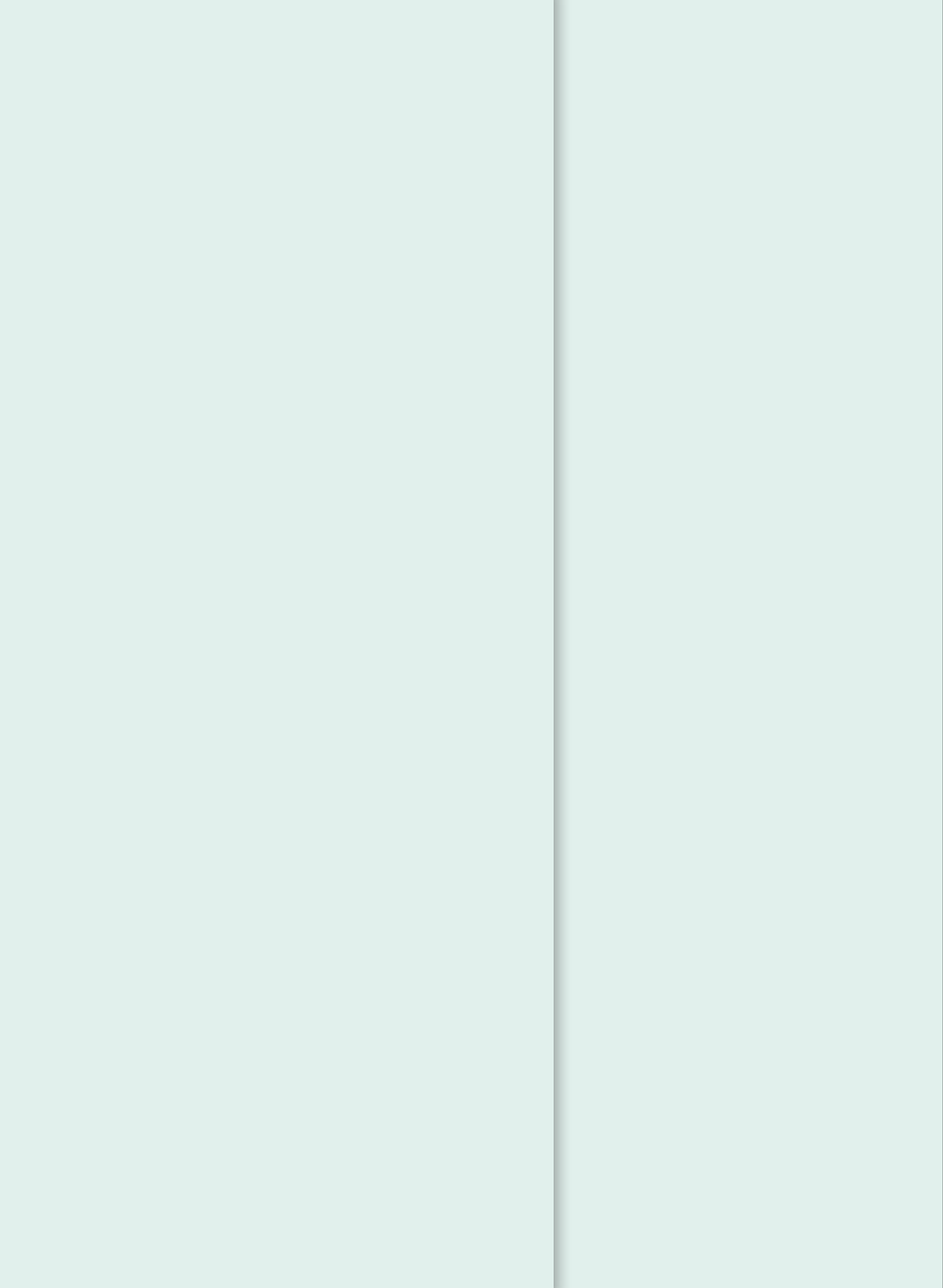


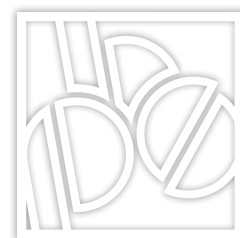
# Banca Popolare di Sondrio



## NON-FINANCIAL REPORT 2018

PURSUANT TO LEGISLATIVE DECREE 254/16





**Banca Popolare  
di Sondrio**

2018  
NON-FINANCIAL  
STATEMENT



# Banca Popolare di Sondrio

Founded in 1871

## ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING OF 27 APRIL 2019

Società cooperativa per azioni

Head office and general management: Piazza Garibaldi 16, 23100 Sondrio, Italy

Tel. 0342 528.111 - Fax 0342 528.204

Website: <http://www.popso.it> - E-mail: [info@popso.it](mailto:info@popso.it) - Certified e-mail address: [postacertificata@pec.popso.it](mailto:postacertificata@pec.popso.it)

Sondrio Companies Register no. 00053810149 - Official List of Banks no. 842

Official List of Cooperative Banks no. A160536

Parent Company of the Banca Popolare di Sondrio Group - Official List of Banking Groups no. 5696.0

Member of the Interbank Deposit Protection Fund

Fiscal code and VAT number: 00053810149

Share capital: € 1,360,157,331 - Reserves: € 983,893,092 (Figures approved at the shareholders' meeting of 27 April 2019)

Rating:

- Rating given by Fitch Ratings to Banca Popolare di Sondrio scpa on 13 June 2018:
  - Long-term: BBB-
  - Short-term: F3
  - Viability rating: bbb-
  - Outlook: Stable
- Rating given by Dagong Europe Credit Rating to Banca Popolare di Sondrio scpa on 20 November 2018:
  - Long-term: BBB
  - Short-term: A-3
  - Individual Financial Strength Assessment: bbb
  - Outlook: Stable



## CONTENT

METHODOLOGICAL INTRODUCTION	6
<hr/>	
BANCA POPOLARE DI SONDRIO: WHO WE ARE AND WHAT WE DO	
The Bank's identity	7
Business model and business strategy	12
Governance	15
Membership in United Nations Global Compact	16
Materiality analysis	17
<hr/>	
A SUSTAINABLE ECONOMIC PERFORMANCE	
Risk management	22
Financial and capital solidity	26
<i>Economic performance</i>	26
Economic support to the community	28
<i>Link with the territory</i>	28
<i>Credit access</i>	30
Sustainable initiatives	32
<i>Responsible credit</i>	35
<i>Offer of responsible products</i>	37
<i>Collaboration with institutions</i>	38
<i>Relations with the supply chain</i>	40
<i>Relationship with the community</i>	42
Attention to the customer	48
<i>Innovation in tradition</i>	59
Autonomy and integrity in company conduct	63
<i>Fairness and transparency</i>	63
<i>Privacy and data protection</i>	67
Enhancement of our human resources	70
<i>Creating value through the value of people</i>	70
<i>Enhancement of human resources</i>	76
<i>Health and safety</i>	79
<i>Corporate welfare</i>	82
<i>Diversity</i>	85
Sustainable management of our environmental impacts	90
<i>Energy consumption</i>	93
<i>Emissions into the atmosphere</i>	94
<i>Used materials and waste products</i>	95
<i>Water consumption</i>	97
<hr/>	
METHODOLOGICAL NOTE	98



## Methodological introduction

Legislative Decree 254/2016 (hereinafter “Decree”), which implemented Directive 2014/95/EU concerning non-financial and diversity reporting by certain large entities and groups<sup>1</sup> has introduced in Italy a requirement to prepare a non-financial statement (hereinafter “NFS”) addressing environmental, social and personnel-related issues, respect for human rights and the fight against active and passive corruption.

Given that it is a public interest entity and its size exceeds the parameters laid down by art. 2 of the Decree, commencing 2017, Banca Popolare di Sondrio Group publishes a consolidated non-financial statement on an annual basis.

The 2018 NFS has been prepared at consolidated level by the Parent Company, Banca Popolare di Sondrio, and includes all its fully consolidated subsidiaries falling within the scope of the consolidated financial statements.

In this document, the term “Parent Company” is used solely to indicate Banca Popolare di Sondrio, while the terms “BPS Group” or “Group” are used to indicate the entire scope of consolidation.

Details of the reporting methodology adopted are provided in the methodological note.

1) Large companies or groups and public interest entities are required to prepare such a statement when during the financial year they had, on average, more than five hundred employees and, at the financial year end, they had exceeded at least one of the following parameters: balance sheet total of Euro 20 million and/or net turnover of Euro 40 million.

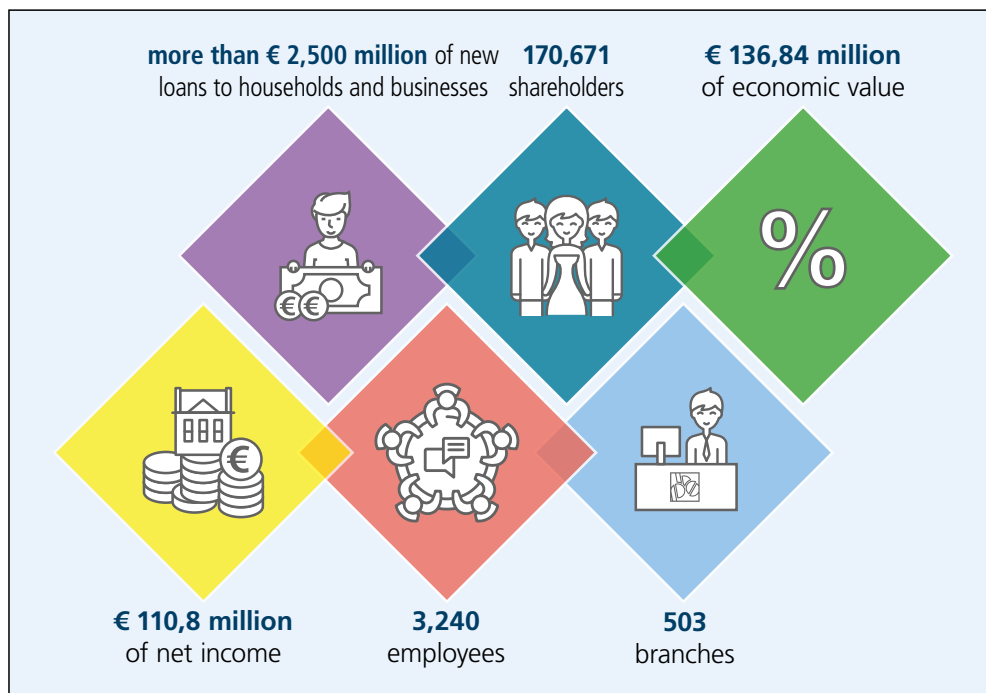


# BANCA POPOLARE DI SONDRIO: WHO WE ARE AND WHAT WE DO

## THE BANK'S IDENTITY

Having always had close ties to the territory in which it operates, Banca Popolare di Sondrio Group seeks to encourage sustainable economic development of the community, by means of attentive, personalised support to small entrepreneurs, ordinary citizens and medium and large enterprises.

Thanks to its composition and associated companies, the Group is capable of offering a series of services (e.g. traditional banking, factoring, insurance and lending-against-salary) that are able to meet any type of financial need that a customer may have.



## Our stakeholder

Banca Popolare di Sondrio Group plays a key role in the economic and social development of the territory in which it operates, and, precisely for this reason it interacts with various public and private entities that operate in the same territory. These entities are stakeholders that revolve around an organization. They constitute the universe of people and entities interested in an organization's products, services, status and welfare.

**Shareholders:** the stakeholders that come first are naturally the shareholders, which to a large extent consist of customers; they are looked upon as a kind of family for which the general meeting is an occasion for them to consolidate their relationship with the Bank.



**Customers:** customer centricity is the fulcrum around which the Bank carries out its activity. Our chairman, Mr Melazzini, used to say that “our Board of Statutory Auditors is our customers”, to highlight the importance and influence of customers for our Bank.

**Community:** “Banca Popolare di Sondrio’s mutualistic objectives are primarily pursued by focusing on the territory (composed of people and structures), by being open to deal with all those who carry out activities in the territory (artisans, merchants and all other strata of the population), by having close ties with Institutions (including the provision of Treasury services to municipalities, hospitals and schools) and by supporting activities that benefit the community. Banca Popolare di Sondrio is an institution and a benchmark for the territory”.

**Bank of Italy:** undoubtedly, Banca Popolare di Sondrio’s stakeholders include the various supervisory authorities, namely the Bank of Italy, the ECB and Consob, to which senior management attaches great importance. “I have always had great respect for the Bank of Italy and I have made sure that my actions have complied with its regulations – stated our chairman, Mr Melazzini, – the Bank of Italy has provided valuable advice and suggestions and has not just subjected us to inspections”.

**Suppliers:** provide tangible or intangible goods or services, and, generally, resources necessary for the Bank’s activities.

**Employees:** the Bank’s corporate and business objectives are pursued by all those operating within it with loyalty, seriousness, honesty, competence and transparency, in full compliance with the laws and regulations currently in force. These are the ethical principles to which the Bank aspires, in the context of its more than 100 year mission as a cooperative bank, and from which derive its models of conduct, in order to compete effectively and fairly in the market, to satisfy the expectations of the communities of the territories in which it operates, to improve customer satisfaction, increase shareholder value and develop the skills and professional growth of its human resources.

### **Brief history of the Bank**

Founded in 1871, Banca Popolare di Sondrio is one of the first Italian cooperative banks that was inspired by the cooperative banking movement.

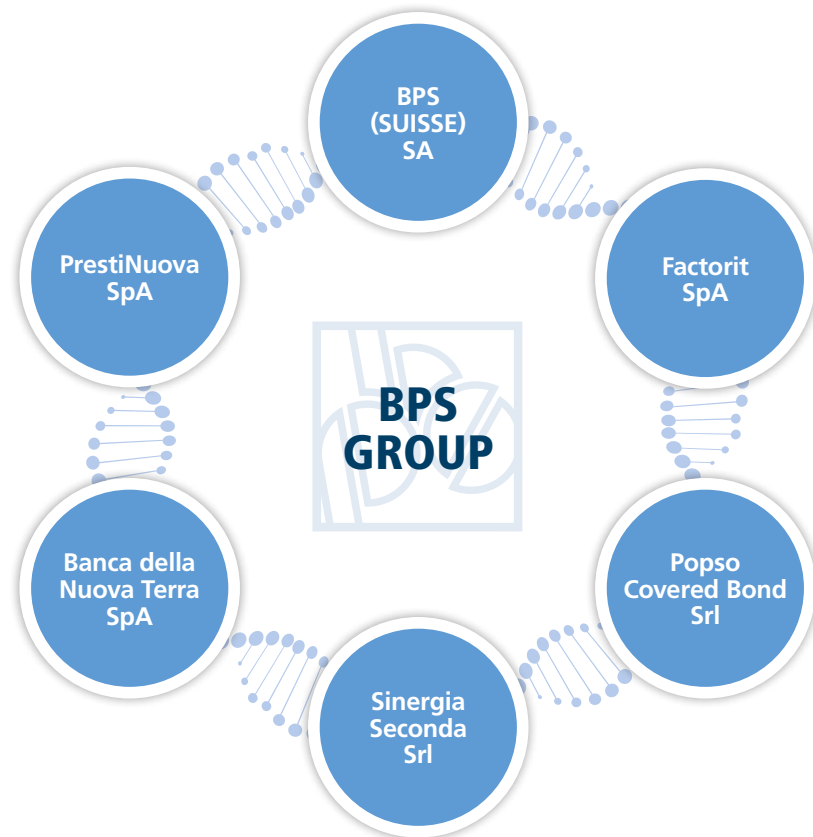
Over time and thanks to the gradual expansion of its activities and presence in the territory, it became more supraregional with the capability to operate nationwide, while at the same time retaining strong ties to the area where it originated.

The foundation of the bank and the consequent possibility for the inhabitants of Valtellina and Valchiavenna – including those less well-off – to obtain bank credit at an honest interest rate, contributed decisively to the eradication of usury, which, at the time, was widespread throughout the province, as was also the case in other poor areas around the country. With the possibility to access credit, which was granted with the primary aim of

supporting productive activity, a process of economic development was launched via the participation of more modest categories, which, with the passage of generations, were to take on a role of key protagonists in local productive activities.

Two eminent figures stand out among the numerous shareholders who have honored the bank: Fabio Besta, father of accounting, who was called upon at a very young age by the government minister Luzzatti to accept the Chair of Economic Science at Ca' Foscari University of Venice and the government minister, Ezio Vanoni, a distinguished Valtellina economist whose thinking had a profound effect on the Italian economic system.





As well as BPS, the Group consists of:

- **BPS (SUISSE) SA**, a bank formed under Swiss law and entirely held by the parent company that was founded in Lugano on 3 May 1995. In recent years, the bank has grown rapidly and it now has 20 operating units – including branches, agencies and branch offices – in Switzerland and abroad. In addition, it has a Direct Banking virtual branch. BPS (SUISSE) carries out broad, diversified activities covering all sectors with equal competence and attention, it acts as a universal bank and it operates in line with the Group's philosophy: a bank that places the customer at the centre of its attention;
- **Factorit SpA**, which factors and manages the collection of trade receivables on a with – or without – recourse basis; it also grants advances on such receivables;
- **Sinergia Seconda Srl**, active in the property sector, which mainly provides operational support for the activities of the Bank and other members of the Banking Group;
- **Popso Covered Bond Srl**, a SPV involved in the issue of covered bonds;
- **Banca della Nuova Terra SpA**, a company that supports the farming and agri-food and serves households and individuals with loans paid back through deduction of one fifth of the paycheck or pension and delegation of payment;
- **Prestinuova SpA**, a financial brokerage company, which, in synergy with Banca della Nuova Terra, grants loans that are repayable through the

assignment of one-fifth of the borrower's salary or pension and which is based in Rome.

- The following companies are also part of the Group, even though they are not members of the Banking Group: Pirovano Stelvio S.p.A., Immobiliare San Paolo S.r.l, Immobiliare Borgo Palazzo S.r.l., Servizi Internazionali e Strutture Integrate 2000 S.r.l.

## A glance at 2018

On 30 October, BPS entered into an agreement with Fondazione Cassa di Risparmio di Cento and Holding CR Cento SpA for the acquisition of a controlling interest in Cassa di Risparmio di Cento SpA, with the intention of arriving at a 100% stake in the future

Notwithstanding a fall in investment and consumption at national level, the BPS share price resulted in one of the highest market capitalisations at domestic level

Opening of the Alassio (SV) branch

BPS (SUISSE) opened a representative office in the village of Verbier in the canton of Valais. Conversely, at the end of November, it closed its Samedan branch in the canton of Grisons, the activities of which were absorbed by St. Moritz

In order to broaden its product range, in May 2018, BPS formed a partnership with Rent2Go Srl, a joint venture set up by Autotorino Group and Barchetti Group, well-known industry players, for the long-term rental of cars

The Group obtained positive ratings from Fitch Ratings and Dagong Europe

In one of its January 2019 editions, the Panorama weekly news magazine published the result of an investigation conducted in the field by a journalist who visited the branches of a sample of 8 banks, including BPS, to seek investment advice. The advice received was then subjected to assessment by AdviseOnly, a consulting firm specialised in financial investments. The research resulted in the bank being judged extremely favourably (score of 10) that makes the Group proud and clearly distinguishes it from the competition, which, to a large extent, failed to achieve a sufficiency rating

Milano Finanza Global Awards 2018: in June the Bank won the "Creators of Value" award for the Best Bank in Lombardy Region and the "Guido Carli Award" for Retail Bank of the Year



## BUSINESS MODEL AND BUSINESS STRATEGY

*«The economy and business need an ethic  
that puts the individual and the community centre-stage»*

*(Pope Francis)*

Banca Popolare di Sondrio is active in the taking of deposits, the granting of loans and the provision and intermediation of financial, lending and insurance services, as well as in the general system of payments; accordingly, it is active as a commercial retail bank operating via a network of branches and, electronically, via Internet banking applications for the provision of information and the receipt customers' instructions.

Key counterparties comprise households and SMEs, without excluding major large companies; the Bank also works with institutional customers (professional pension funds, universities, municipalities, mountain communities, schools etc.), providing them with treasury, cash flow management and other services.

These services are provided by specialist internal departments – commercial, credit, finance, international, public entities and treasury – and by affiliated or partner companies, that have operated for many years in numerous sectors: mutual funds invested in securities and property, pension funds, stockbroking, life assurance and loss cover, leasing, factoring, medium/long-term lending, consumer credit, trust services, credit cards, retail electronic payments etc.

In substance, the commercial catalogue, which is constantly updated, enables the Bank to meet the needs of private individuals, firms and institutions, and therefore – via the granting of loans and the provision of services – to support the local economies in the territories served. This is the principal and most concrete expression of the Issuer's culture as a cooperative company.

The value that the Bank creates does not come only from offering state-of-the-art products and services, but also from its members of staff: heterogeneous with a strong esprit de corps and a distinctive style shared by all, in which courtesy, willingness to help and professionalism are at the service of all our customers, whoever they are and whatever they need.

### Market

The Group is active in Italy and in Switzerland, via Banca Popolare di Sondrio (SUISSE) SA.

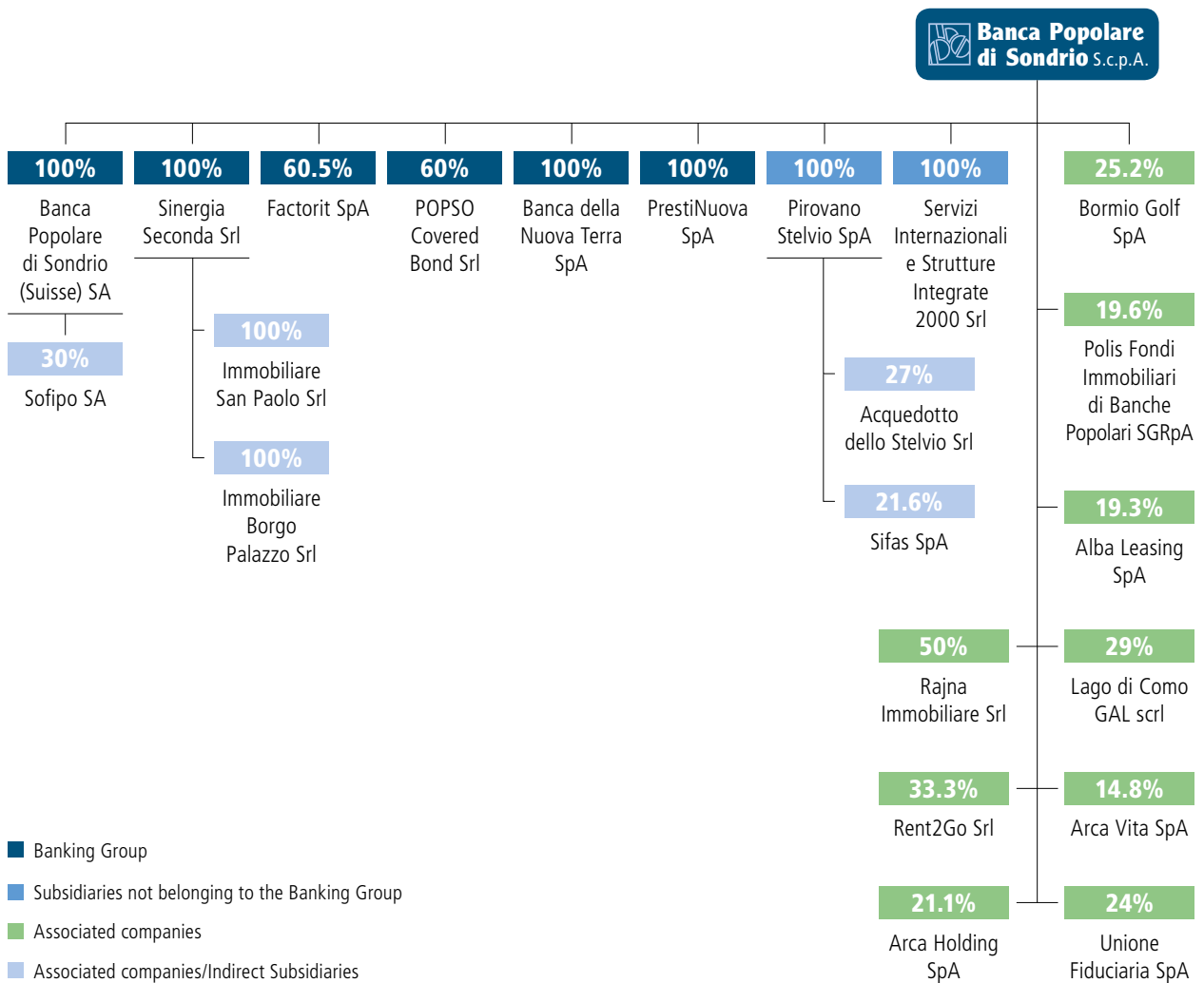
The Banking group can count on:

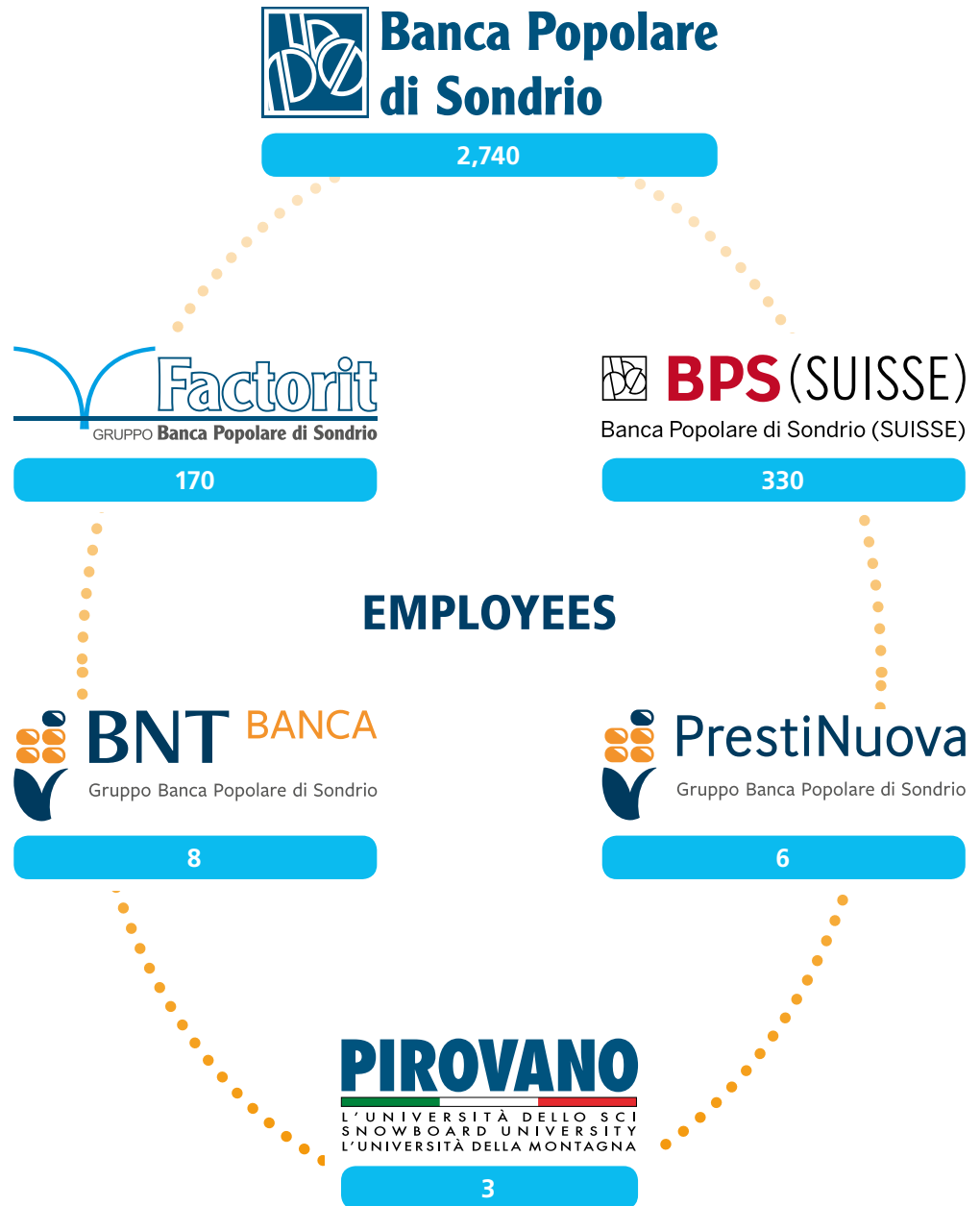
- 343 branches located in seven regions of northern Italy, as well as in Rome and its province;
- 139 treasury branches for entities and institutions;
- 18 "SUISSE" branches, located in the cantons of Grisons, Ticino, Bern,

Zurich, Basel, Neuchatel and Valais plus the Direct Banking virtual branch in Lugano, the representative office in Verbier and the foreign branch office in the Principality of Monaco.

## Group structure

More information about the Group structure and investments is disclosed in the directors' reports accompanying the separate and consolidated financial statements.





### Business strategies

The search for new products and services to make better use of all market opportunities continues unabated. The Group has always preferred working in an effective and strong way, even if for a limited market, rather than going after a wider, but less incisive presence in a much larger market.

With regard to the development of new products and services, attention has focused particularly on the following sectors: mortgages, loans, asset management, services to international operators, on-line current accounts, current accounts for young people, credit cards, insurance policies and innovative products.



The Bank conquers increasing market shares in the “load-bearing” sectors of banking, namely:

- credit intermediation
- payment systems
- asset administration and asset management

This result is attributable to a series of factors among which, without a doubt, the “special” relationship that the Bank is able to establish with new customers, while consolidating the relationship with existing customers.

The branch manager is an important point of reference, especially for individuals, households and entrepreneurs. One could say essential, as the branch manager is able to analyse a customer’s financial situation, identify his needs and, with a sense of responsibility, direct his options, even in times of difficulty.

We believe that, regardless of the changes in corporate status introduced recently for the major cooperative banks, the cooperative banking model is based on three elements that characterise its identity and which have been adopted by Banca Popolare di Sondrio:

1. link between bank and shareholder
2. business model
3. organisational model (decentralised).

Of these three elements, the first one is characterised by a strong sense of belonging for the shareholder/customer, which reflects positively on the business.

The second element, the business model, is essentially aimed at seeking medium to long term relationships with customers, with a preference for the establishment, without any hurry, of a fruitful relationship for both counterparties, as opposed to seeking new customers at any cost.

Evidence of this collective effort by employees is the high percentage of customers who decide to become shareholders of the Bank.

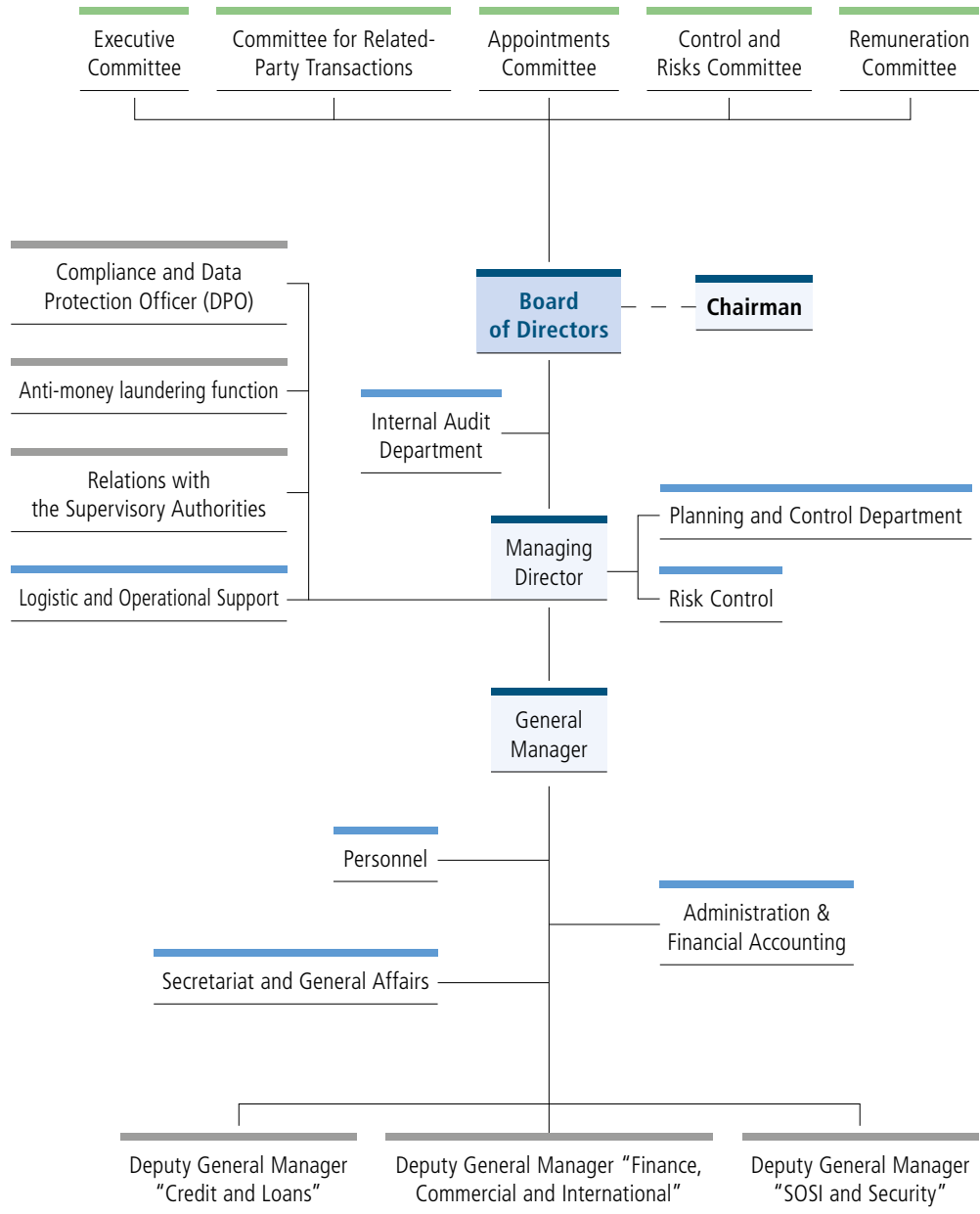
*These are the fundamental elements of the philosophy that inspired the creation of cooperative banks, which, even in these recent turbulent years experienced by the sector, when they have relied on internal management based on ethical values and high professionalism, are proof of a model that, more than ever, has been deemed to be valid and highly appropriate for the conduct of business.*

## GOVERNANCE

Banca Popolare di Sondrio adopts the traditional administration and control model.

Detailed information on the corporate governance system and the remuneration policy is provided on the bank’s website at [www.popso.it](http://www.popso.it), in the section “corporate information”.

The main administrative and management bodies are shown below.



## MEMBERSHIP OF THE UNITED NATIONS GLOBAL COMPACT

*«I invite you, individually with your companies and collectively through your trade associations, to embrace, support and implement a set of key values in the areas of human rights, labour standards and environmental practices»*

*(Kofi Annan, Secretary-General of the United Nations, World Economic Forum, 31 January 1999, Davos)*

Banca Popolare di Sondrio participates since 2004 in the "Global Compact" project launched in 2000 by the then UN Secretary-General, Kofi Annan, with the aim of creating synergies by involving the world of

entrepreneurship and non-governmental organisations in the great challenges of humanity, in order to give further impetus to achieving the objectives of the millennium development.

Companies and institutions around the world have been invited by the United Nations to embrace and uphold ten universal principles on human rights, protection and fight against corruption.

By joining the project, the business world, as primary players of the globalisation process, is committed to ensuring that markets, trade, technology and finance join forces for the economic and social benefit of the entire international community. Thanks to this initiative, the United Nations has provided a common platform of international alliances between companies, governments, civil societies and the world of work to achieve the same objectives.

Banca Popolare di Sondrio, always attentive to the issues of corporate social responsibility and the protection of moral and environmental principles, welcomed the invitation of the United Nations by signing up to the “Global Compact”. In concrete terms, our Bank has voluntarily filed a report with the UN Office in New York on the progress we have made in implementing the principles of the “Global Compact”, underlining the constant commitment of its Directors to uphold the social, ethical and environmental values that are inherent in the very nature of a “cooperative bank”.

In a dedicated space on the official UN website (<https://www.unglobalcompact.org/>), in a section entitled “Participants”, BPS describes and annually updates its initiatives implemented in the respect and continuous improvement of its business ethics, presenting its own Communication on Progress (COP).

## MATERIALITY ANALYSIS

*Materiality is a principle whereby entities should prepare their reports by including information on aspects that significantly impact their ability to create value over time, via the identification of the most important topics for the Company and its stakeholders.*

As already done in the prior year, the Group has attempted to identify topics deemed to be more relevant for the various stakeholders via a materiality analysis.

The performance of the 2018 materiality analysis, which forms the basis of preparation of this document, is the result of assessments made in accordance with the process described below:

1. **Identification of potentially relevant topics**, through the analysis of international guidelines, including the publications of the GRI, the values of BPS and the sustainability reporting of peers;



2. **Evaluation of the relevance of each topic for the bank and for the relevant stakeholders**, through internal and external engagement activities.

3. **Preparation and validation of the materiality matrix**, thanks to consolidation of the results achieved. The matrix was then submitted for validation by management, namely, Mario Alberto Pedranzini, General Manager, who, having reviewed the elements in question, deemed it appropriate to categorise the issue of environmental impact as material.

For the 2018 non-financial statement, BPS also submitted the materiality matrix for assessment by the two main subsidiaries, Factorit S.p.a. and SUISSE SA, which evaluated the relevance of the 5 macro topics, in the manner indicated in point 2 above.

During the course of 2018, the working group founded by the Group in compliance with Legislative Decree 254/2016 implemented one of the points of improvement that arose subsequent to the preparation of the first non-financial statement (NFS), namely, the engagement of stakeholders to integrate their expectations into a more accurate and representative materiality matrix.

The engagement of the Bank's stakeholders is a strategic element in the management of the Group's activities: the quality of the relationships established with the various stakeholders and the experience (past and present) gained thereby influences the matching of the Bank's promises with stakeholders's expectations, actions and perceptions. For a sustainable and responsible entity, the feedback from stakeholders is, in fact, a central, strategic aspect: stakeholder engagement, whereby an entity listens to, holds discussions with and involves its stakeholders in a spirit of mutual collaboration and responsibility, is thus of fundamental importance.

According to the materiality principle that is a key element of GRI guidance, which forms the basis of preparation of this non-financial statement, reporting is much more effective when it addresses topics deemed to be material for an entity's stakeholders.

For 2018, two categories of stakeholders were selected, customers and young people (students), for whom a questionnaire was prepared (the results are included in the "Dialogue with stakeholders" section).

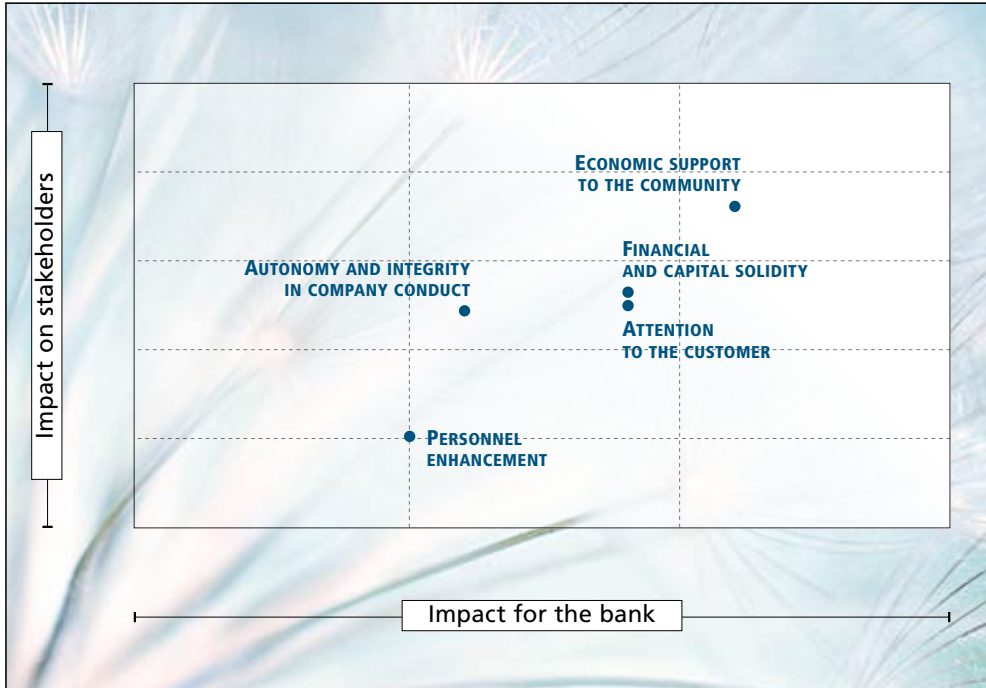
Customers were invited to complete the questionnaire by accessing Scigno (mobile app and website), while students (approximately 600) were asked to complete the questionnaire on World Savings Day, upon visits by BPS to upper secondary schools in the territory.

The scores were then weighted based on the Group companies' contribution to net interest and other banking income in the year ended 31.12.17.

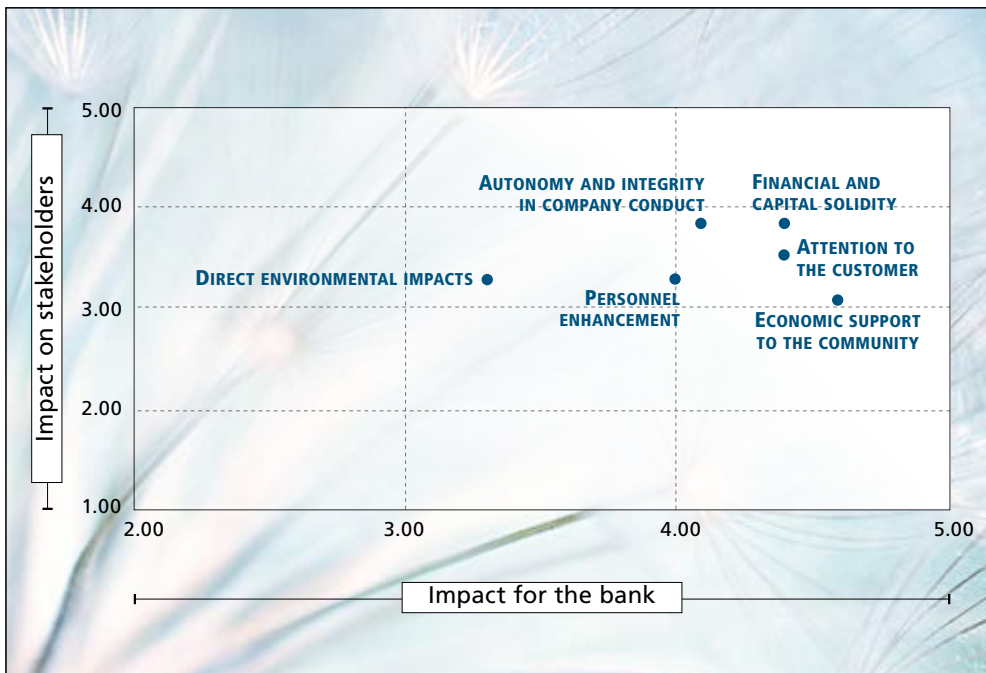
BPS Group's materiality matrix thus results from the average score obtained for each material topic pertaining to the Parent Company and the aforementioned subsidiaries, amended to reflect the results obtained from stakeholder engagement.

To highlight the changes, the 2017 and 2018 matrices are shown below.

### 2017 Materiality matrix



### 2018 Materiality matrix





Material topics	Subtopics	Description of the topic
<b>Economic support to the community</b>	<i>Link with the territory</i>	Fostering the economic and social development of local communities and the areas where it has chosen to open a branch, with particular attention to households and SMEs. Without privileging any particular segment, the provision of services to small municipalities, regional and national entities, citizen's associations and large not-for-profit entities with an international outlook. Laying down roots in each location, in a nutshell: a bank for the territory, in the territory
	<i>Relationship with the community</i>	Banca Popolare di Sondrio's commitment to cultural promotion is based on listening to the territory of the province of Sondrio with the aim of enhancing its multiple aspects and of drawing its energies – financial or otherwise – to foster the dialogue with the communities
	<i>Relations with the supply chain</i>	Monitoring the supply chain and encouraging the selection of suppliers based on criteria of transparency, correctness and attention to social and environmental issues. For the same services offered, the "supplier-customer" option constitutes a preferential title for an appointment to supply goods or services
	<i>Credit access</i>	The Bank's financing activities pay particular attention to the disbursement of loans to the weaker categories of customers, trying to assist them with specially designed products
	<i>Responsible credit</i>	The Bank pays particular attention to the granting of credit, with the creation of products specifically targeted at children and young people, students, young professionals, the elderly, non-EU citizens and individuals/households/entities and associations wishing to make a donation to one of the beneficiaries proposed by the bank
	<i>Offer of responsible products</i>	Ethical product offering by means of an equity investment in Etica SGR – the only Italian SGR to establish, promote and manage exclusively socially responsible mutual funds, which combine financial analysis with an environmental, social and governance assessment
	<i>Collaboration with institutions</i>	Promotion of dialogue and collaboration on key current issues with the public administration, small municipalities, regional entities, local associations and not-for-profit organisations
<b>Enhancement of human resources</b>	<i>Creating value through the value of people</i>	Pursuit of organic growth objectives based on the development of human resources and the recruitment of young people with the aim of developing and strengthening internal cohesion. Attention is therefore particularly focused on the following main variables: measurement of professional needs, number of employees, recruitment, selection and insertion of new recruits, evaluation, training and rotation of internal resources
	<i>Personnel enhancement</i>	Professional growth is supported by a training system that includes projects destined to specific segments of the corporate population and development of all the main issues of the banking business. Training programmes do not neglect the transversal contents of the various professions that exist within the bank, with the aim of strengthening certain abilities, such as the relationship, negotiation and management skills

Material topics	Subtopics	Description of the topic
<b>Enhancement of human resources</b>	<i>Health and safety</i>	The Group pays particular attention to protecting the health and safety of workers. Constant control and improvement in this area represent the main objectives, in drawing up measures to improve the “welfare” of workers
	<i>Corporate welfare</i>	Development of a structured corporate welfare plan, with an offering of services and subsidies to improve the quality of life of its employees inside and outside the company
	<i>Diversity</i>	Compliance with the principle of non-discrimination in access to employment, training and professional promotion and in working conditions. Measures aimed at the promotion of equal opportunities within the organisational fabric
<b>Autonomy and integrity in company conduct</b>	<i>Fairness and transparency</i>	Pursuit of the Bank’s corporate and business objectives by all those operating within it with loyalty, seriousness, honesty, competence and transparency, in full compliance with the laws and regulations currently in force
	<i>Privacy and data protection</i>	Protection of the confidentiality and integrity of customer and employee data is ensured by specific operating functions which handle the operational and regulatory aspects. Information is a fundamental asset for the Bank and is therefore protected by various levels of security depending on their value and the risks related to their treatment (known as “risk-based security”)
<b>Financial and capital solidity</b>	<i>Economic performance</i>	The Group produces wealth contributing to the economic growth of the social and environmental context in which it operates and measures this wealth in terms of Value Added produced and distributed to its reference stakeholders
	<i>Risk management</i>	The Group’s bases its risk management on a culture founded on the promotion and awareness-building of the entire corporate structure of the critical issues involved in adverse events and the adoption of behaviour consistent with internal policies and regulations, and protection of the Group’s assets and reputation. Specific attention is paid to the indirect impact on the bank’s reputation triggered by risk events by monitoring complaints or claims received from customers and ideas for constant improvement of the services offered
<b>Attention to the customer</b>	<i>Innovation in tradition</i>	The digital revolution represents a new way of living the bank. The availability of a wide range of banking services, both for getting information and giving instructions, allows a high degree of financial inclusion by eliminating the need to access the bank physically during opening hours (e.g. Scrigno)
<b>Environment</b>	<i>Direct / indirect environmental impacts</i>	The Group stands out for its strong sensitivity to environmental and territorial protection issues, with a focus on the direct and indirect impact on the ecosystem



## A SUSTAINABLE ECONOMIC PERFORMANCE

### RISK MANAGEMENT

The sustainability risks associated with corporate social responsibility are covered by the BPS risk management system, with particular attention to the aspects concerning operational and reputational risks, for which the Group adopts specific management models aimed at identifying, assessing, measuring, monitoring and mitigating potential risky phenomena and the related repercussions at a financial level.

Operational risk is the risk of suffering losses from the inadequacy or malfunctioning of procedures, human resources and internal systems, or from external events; this category also includes losses caused by malfunctioning and unavailability of systems, natural and environmental events and non-compliance with regulations.

Specifically, the qualitative and quantitative model adopted by the Group for the management of operational risk envisages, on the one hand, the identification and census of losses actually incurred in relation to operational risk events and, on the other hand, an estimate of the prospective risk that could potentially be incurred in carrying out company operations. Particular attention is paid to the monitoring of IT risks, through the systematic collection of information relating to incidents resulting from errors, failures or malfunctioning of ICT systems and the assessment of computer threats potentially inherent in the systems.

The Group's approach to risk management is based on a culture oriented to the promotion and awareness-building of the entire corporate structure of the critical issues involved in adverse events and the adoption of behaviour consistent with internal policies and regulations, and protection of the Group's assets and reputation.

Risk governance involves the collaboration of various Group structures, according to a system based on clear identification of roles and responsibilities and generally designed to ensure effective supervision of multiple risk events, through constant monitoring of the triggering factors and identification of possible areas for improvement and mitigation. With regard to reputational risk, the Group uses a management model exclusively of a qualitative nature, which identifies factors and events potentially prejudicial to the corporate image and assesses the related exposure in prospective terms.

Specific attention is also paid to the indirect impacts on the Company's reputation that risk events could have by monitoring complaints or claims received from customers, on the one hand, and, on the other, analysing the main news items published in the mass media or on the web, in order to gather useful information on the level of reputation enjoyed and ideas for constant improvement of the services offered.





The analysis of the information gained from the performance of risk management processes makes it possible to identify the causes of the most frequent and/or material adverse events and the areas in which the perception of the risk is more significant for the purpose of implementing corrective/mitigating actions.

Specific attention is paid to the evolution of the level of risk exposure, also in prospective terms, and, through the direct involvement of the company structures in which the risk phenomenon is generated or managed, to monitoring the progress of measures to strengthen existing controls for their prevention and mitigation.

In compliance with Legislative Decree 254/2016, at the end of 2018, a review was performed of the risk assessment process with the objective of adding ESG (environmental, social and governance) risks. This was achieved by means of an analysis of the current model used for the identification, assessment and management of risks, followed by a mapping of the key risks associated with material topics, distinguishing between risks generated and risks incurred (as per Legislative Decree 254/2016), and of the related monitoring procedures. The final phase of the review process led to a preliminary proposal for amendments to the existing model, which the Group is working on.



Material topics	Subtopics	RISK: description	Incurred	Generated	Monitoring procedures
<b>Economic support to the community</b>	<i>Link with the territory</i>	Reputational risk	X	X	Promotion of the naturalistic, cultural and artistic heritage of the communities served. Employee behaviour and sharing of specific values – care and availability to customers and professionalism in monitoring behaviour risks
	<i>Relationship with the community</i>				
	<i>Relations with the supply chain</i>				
	<i>Credit access</i>	Credit risk	X		Policies for economic support to the entrepreneurial fabric of local communities and the territories served
	<i>Responsible credit</i>				
	<i>Offer of responsible products</i>	Employment and safety at work	X		Contract management model – Ticket procedure for branch maintenance requests
	<i>Collaboration with institutions</i>	Execution and management of processes	X		Outsourcer selection. Verification of compliance with legal certifications. Drawing up of contractual agreements ensuring compliance with regulations
		Work product delivery	X		Use of scheduling. Check amounts that are material for accounting purposes
Fraudulent actions		X		Execution of procedures and controls over banking flows to suppliers	
Operating risks			X	Risk Control Unit (Reputational risks)	
<b>Enhancement of human resources</b>	<i>Creating value through the value of people</i>	Risks of a legal/sanctioning nature	X	X	Compliance with health and safety at work regulations
	<i>Personnel enhancement</i>	Reputational risks	X	X	Promotion and sharing with staff of ethical standards (including behaviour that is non-discriminatory or non-detrimental to human rights)
	<i>Health and safety</i>				
	<i>Corporate welfare</i>	Risks of fraudulent behaviour	X	X	Training aimed at spreading a risk culture
<i>Diversity</i>					

Material topics	Subtopics	RISK: description	Incurred	Generated	Monitoring procedures
<b>Autonomy and integrity in company conduct</b>	<i>Fairness and transparency</i> <i>Privacy and data protection</i>	Risks of a legal/ sanctioning nature	X	X	Procedures for the acquisition, management and processing of personal data that comply with privacy regulations (with the implementation of specific controls – predominantly of an IT nature)
		Reputational risks	X	X	Transparent information dissemination (both substantial and for alignment with regulations)
<b>Financial and capital solidity</b>	<i>Economic performance</i>	Reputational risks	X	X	Risk Control Unit
	<i>Risk management</i>	Risks of a legal nature	X	X	Risk Control Unit
		Risk of inadequate business risk management			X
<b>Attention to the customer</b>	<i>Innovation in tradition</i>	Risks (economic, reputational, compliance) associated with the use of information and communication technology (IT risks)	X	X	Focus on IT risk controls  New product validation procedure (product sheet)
		Operating risks		X	
<b>Environment</b>	<i>Direct / indirect environmental impacts</i>	Employment and safety at work	X		Contract management model - Ticket procedure for branch maintenance requests
		Execution and management of processes	X		Outsourcer selection. Verification of compliance with legal certifications. Drawing up of contractual agreements ensuring compliance with regulations



## FINANCIAL AND CAPITAL SOLIDITY

### ECONOMIC PERFORMANCE

The Group produces wealth contributing to the economic growth of the social and environmental context in which it operates and measures this wealth in terms of Value Added produced and distributed to its reference stakeholders. The representation shown is based on the standard drawn up by the Study Group for the Social Report and the guiding principles of the Global Reporting Initiative. The values shown here on a consistent basis over the years refer to continuing operations.

#### GRI Standard 201-1: Direct economic value generated and distributed

Economic value directly generated	UoM	2018	2017	2016
a) Revenue (Net sales + gains on financial investments and sales of assets)	€ thou.	710,501	786,433	691,489
<b>Economic value distributed</b>				
b) Operating costs (payments to suppliers, non-strategic investments, royalties and facilitating payments with a clear commercial objective)	€ thou.	227,648	223,963	236,548
c) Wages and employee benefits [total expenses for employees (current payments, not future commitments)]	€ thou.	240,542	245,170	236,834
d) Payments to lenders (all financial payments made to lenders of the organisation's capital)	€ thou.	22,669	34,087	27,203
e) Payments to the Public Administration (gross taxes) * tax expense, subtracted from operating costs, should be added to this item, while deferred tax should be excluded	€ thou.	84,413	121,663	82,673
f) Investments in the Community (voluntary contributions and fund investments in the community, including donations)	€ thou.	322	175	131
<b>Economic value obtained</b>				
Economic value generated less Economic value distributed	€ thou.	136,907	161,375	108,100

The Value Added produced in the year amounted to 711 million euro, a decrease of 76 million euro compared with 2017.

With regard to the main reference stakeholders, the Value Added was distributed as follows:

- Employees 33.9% – through direct remuneration consisting of salaries and employee termination indemnities and indirect remuneration consisting of social charges and personnel service costs (canteen services, travel expenses reimbursement);

- Public Administration 11.6% – through the payment of direct and indirect taxes;
- Shareholders 3.2% – has increased compared with the previous year due to dividends distributed by the subsidiary Factorit;
- Suppliers 32% – through payment for services received from professionals or other services.

The Value Added produced was also reinvested in the Group in the form of depreciation and amortisation of the tangible and intangible assets used in the production process, as well as in the form of self-financing for the development and supply of new services to the territories and markets served.

An amount of around 0.4 million euro has also been allocated to local and national communities through donations and sponsorships.

Further information concerning the Bank's economic performance and stability is provided in the financial report.

## RISKS ASSOCIATED WITH THE TOPIC

In a logic of business continuity, the Group assigns due importance to risk management and control, as an essential condition to guarantee a reliable and sustainable generation of value, to safeguard its financial solidity and its reputational credibility and allow a transparent representation of the level of risk assumed. All this, in line with the principles of sound and prudent management and in compliance with the provisions of prudential supervision.

Subtopics	Description of the topic	Risks generated / incurred	Monitoring procedures
<b>Economic performance</b>	<i>The Group produces wealth contributing to the economic growth of the social and environmental context in which it operates and measures this wealth in terms of Value Added produced and distributed to its reference stakeholders</i>	Reputational risks associated with inadequate earnings/ return on capital or with products/services offered to customers.	Typical controls over financial activities
		Risks of a legal nature associated with contested performance relating to investment services/activities	



## ECONOMIC SUPPORT TO THE COMMUNITY

### LINK WITH THE TERRITORY

The Banca Popolare di Sondrio Group has always been committed to fostering the economic and social development of local communities and the areas where it has chosen to open a branch, with particular attention to households and SMEs.

At 31/12/2018 loans to customers amounted to 25,845 million, +0.6% on the previous year. This statistic highlights the scale of the financial support provided to households and businesses.

Credit granted by the Group has been to support numerous economic initiatives with a positive impact on the environment and on society. In fact, there have been various projects by entrepreneurs and private individuals geared towards technological innovation, linked to the use of renewable energy or to a more intelligent use of existing resources to foster the development of urban and rural areas.

The same is true for the support provided for property renovations, which seek to save energy and, of course, upgrade.

In terms of funding, customers were given all necessary support, including expert advice, when choosing between the various investments. This reflects our absolute transparency and respect for the propensity to accept risk of each person.

The 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.

Entities and institutions are among the principal recipients of the Group's specialist services. The related 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 the Bank has cooperated for some time. Without privileging any particular segment, services are rendered to small municipalities, regional and national entities, citizen's associations and large not-for-profit entities with an international outlook.

Laying down roots in each location is not a passing fad, but a deliberate decision to strengthen our ethos and build the Group's organisational structure.

#### BPS SUISSE – THE TERRITORIAL BANK

- On-site printing and production (0 km)
- Preparation of stands for events handled by local firms (0 km)
- Where possible, execution of management and maintenance contracts (windows, etc.). We are thus faithful to our slogan

### “A bank for the territory, in the territory”

In this role, the Bank is called to the difficult task of supporting the productive and commercial world from a financial point of view, under penalty of losing competitiveness in these areas.

As often acknowledged by customers, even in these difficult times in which many banks yield to the temptation of reducing their exposure, the Group remains faithful to its mission to support the local economy: with enthusiasm and prudence it continues to carefully select its customers by means of an evaluation of the personal and entrepreneurial qualities of those who apply for loans, by performing reviews of the sustainability and profitability of projects, by taking account of indications deriving from internal rating systems and available data and by examining the organizational and financial structure of an entity.

For this availability to lend at a higher rhythm than the system, we try to achieve a more accurate remuneration of the risk. The objective is to apply conditions that effectively take into account the risk profile of the counterparty, i.e. to cover not only the expected loss, but also the cost of capital absorbed.

### RISKS ASSOCIATED WITH THE TOPIC

Subtopics	Description of the topic	Risks generated / incurred	Monitoring procedures
<b>Link with the territory</b>	<i>Fostering the economic and social development of local communities and the areas where it has chosen to open a branch, with particular attention to households and SMEs. Without privileging any particular segment, the provision of services to small municipalities, regional and national entities, citizen's associations and large not-for-profit entities with an international outlook. Laying down roots in each location, in brief: a bank for the territory, in the territory</i>	Reputational risks associated with the failure to promote natural, cultural and artistic resources in the territories served	Corporate culture that is strongly rooted in the territory and enthusiastic participation in charitable and solidarity activities, as well as by intense promotion of the naturalistic, cultural and artistic heritage of the communities that we serve
		Risk of losses being incurred due to strong ties to certain local businesses in crisis, “historical customers” of the Bank: the Bank could decide to adopt measures to support the liquidity of local businesses in crisis due to the historical ties thereto, with an adverse outcome for the business and the Bank	



## CREDIT ACCESS

The Bank's financing activities pay particular attention to the disbursement of loans to the weaker categories of customers, trying to assist them with specially designed products. In particular, solutions to finance studies are dedicated to young people, often promoted in collaboration with universities or local authorities. The life-long mortgage loan (PIV), on the other hand, was designed to provide senior citizens with a form of financing that would allow them to supplement their income, improve their living standards and meet their liquidity needs by cashing in on the value of their property assets.

**FS7 – Monetary value of products and services designed to deliver a social benefit.** *The following amounts relate solely to the Parent Company given that the other companies offer a different product range.*

FINANCING FOR SOCIAL PURPOSES	2018	2017	
<b>LOANS TO STUDENTS OF THE UNIVERSITY OF PARMA TO PARTICIPATE IN THE MASTER IN ENGINEERING MANAGEMENT (MEM)</b>	Amount of loans at 31/12 (€)	325,000	195,000
<b>LOANS TO STUDENTS FOR IULM MASTER</b>	Amount of loans at 31/12 (€)	98,000	108,486
<b>SHORT TERM PERSONAL LOAN FOR STUDENTS ENROLLED IN THE FIRST YEAR DEGREE COURSE - IULM</b>	Amount of loans at 31/12 (€)	121,300	83,989
<b>LOAN TO STUDENTS AS A GRADUATION PRIZE</b>	Amount of loans at 31/12 (€)	13,900	36,395
<b>LOANS TO STUDENTS OF BRESCIA UNIVERSITY FOR SHORT DEGREE COURSES</b>	Amount of loans at 31/12 (€)	12,800	15,090
<b>LOANS TO STUDENTS OF BRESCIA UNIVERSITY FOR OTHER DEGREE OR SPECIALISATION COURSES</b>	Amount of loans at 31/12 (€)	78,500	113,593
<b>LOANS TO STUDENTS OF THE ALTA VALTELLINA MOUNTAIN COMMUNITY</b>	Amount of loans at 31/12 (€)	160,000	110,500
<b>LOANS TO YOUNGSTERS AND TEENAGERS FOR ENGLISH COURSE ATTENDANCE</b> (marketed since September 2018)	Amount of loans at 31/12 (€)	8,770	–
<b>ONLINE FUNDING FOR YOUNG MEMBERS OF INARCASSA</b>	Amount (€)	480,000	390,000
<b>ONLINE FUNDING FOR YOUNG MEMBERS OF CASSA FORENSE</b> (on sale from 2017)	Amount (€)	2,600.000	3,210,000
<b>LIFE-LONG MORTGAGE LOAN*</b>	Amount (€)	3,350.000	6,680,000

*\* this is a medium-long term loan, backed by a first degree mortgage on a residential building, reserved for people over the age of 65. It frees up cash for senior citizens to cover various financial needs: to renovate the home, supplement income, improve living standards, financially support children or pay off other debts (on sale from October 2016)*



Products designed to deliver a social benefit: Banca Popolare di Sondrio Suisse		2018	2017
<b>Youth deposit account:</b> this account offers preferential interest rates and is ideal for the accumulation of capital for education or entry into the world of work, without incurring bank charges. It provides parents with a valid support tool for the future of their children	Existing account holders	1,286	1,329
<b>Student Account /Young Package (young people aged between 16 and 25 resident in Switzerland):</b> several accounts available, preferential interest rates, 1 card included plus a further free card, free and unlimited branch withdrawals	Existing account holders	649	611
<b>+60 deposit account:</b> with preferential interest rates above market average, it is ideal for savings accumulated over the years. Compared to a standard deposit account, it offers higher interest rates and allows higher withdrawals	Existing account holders	3,315	3,118

COMPARISON OF ALL RELATIONSHIPS	2018	2017	2016
Active +MA cards	43,345	37,005	31,306
Active Ateneo+ cards	117,722	91,488	67,760
Current accounts (Individuals and Joint accounts)	367,989	360,994	353,251
Savings deposit books (Individuals and Joint accounts)	35,782	44,520	48,335
<b>Total relationships</b>	<b>564,838</b>	<b>534,007</b>	<b>500,652</b>

RELATIONSHIPS WITH WEAKER MEMBERS OF THE COMMUNITY	2018	2017	2016
Active +MA cards <25 years old	15,773	14,839	11,926
Active Ateneo+ cards	117,722	91,488	67,760
Current accounts (Individuals and Joint accounts)	12,097	8,730	3,478
Savings deposit books (Individuals and Joint accounts)	12,910	12,781	10,907
<b>Total relationships</b>	<b>158,502</b>	<b>127,838</b>	<b>94,071</b>
<b>Percentage comparison</b>	<b>28.06%</b>	<b>23.94%</b>	<b>18.79%</b>

### **BANCA POPOLARE DI SONDRIO: SUCCESS FOR MISSION IN CHINA**

A group of entrepreneurs, operating in different product sectors – food and wine, but also sports accessories and medical devices – undertook a busy schedule of confidential meetings with Chinese counterparts interested in their products, thus laying the foundations for possible future commercial collaborations.

«Our bank – explained the Deputy General Manager Mario Erba – has always been close to businesses in their internationalisation processes. In Shanghai we have qualified personnel available to support Italian entrepreneurs in the conduct of their business in China».

### **GRADUATION PRIZE**

This provides access to a loan with favourable conditions to undertake a new course of study or to start moving towards a professional career.

It is known that often new graduates in this phase of their life have a need for money, which may be difficult to obtain from specialised companies that are not always willing to provide it.

## **SUSTAINABLE INITIATIVES**

### **First home**

The only outstanding “government measure” for the suspension of repayment of loans to households in difficulty is that ensured by the “Solidarity fund for the suspension of loan instalments for the purchase of first homes”.

The measure provides for the suspension, no more than twice and up to a maximum of 18 months, of the repayment of mortgage loans (that do not benefit from public subsidies) of up to Euro 250,000 taken out for the principal place of residence and granted to natural people with taxable income up to Euro 30,000 per annum that have suffered or suffer in the three-year period prior to the application particularly adverse events (death, loss of employment or onset of a state of non-self sufficiency).

Considering the social purpose of the initiative, the interest rate was reduced to zero and no commission or other charge is payable by the applicant.

No payments of this type were made in 2018.



The photovoltaic plant installed at the Service Centre of Banca Popolare di Sondrio in Berbenno di Valtellina, operates under the On-the-spot Exchange regime of the IV Conto Energia, having entered production in March 2011.

The structure consists of 31 panels fixed to the ground, facing south with an inclination of 30°, each one composed of 24 modules of the SCHEUTEN MULTISOL P6-66 260W type, for a total installed power of 193.44 kW.

The system is linked to the grid through three 3-phase solar inverters with a maximum power of 116 Kwp.

The construction works for the field were totally self-financed by the Bank for an amount close to 965,000 € including tax charges.

Average energy production, which is totally self-consumed by our Service Centre, is around 240,000 Kwh of electricity, for a value of about 55,000 € per year, while the average annual incentive paid by GSE under the IV Conto Energia is around 80,000 € per year (0.334 €/KWh).

Last but not least, the emissions of climate-altering gases avoided in the atmosphere, thanks to self-production and consumption on site, come to around 75 tons of CO<sub>2</sub> equivalent per year.

### **Advance on End-of-Service Benefits**

An initiative was implemented in mid-December 2017 concerning advances on end-of-service benefits reserved for retired public employees; this consists of the provision of a loan secured by the assignment, with recourse, of the receivable due from INPS for end-of-service benefits.

During the course of 2018, 84 applications were accepted with a total amount of end-of-service benefits assigned of Euro 5,973,000, while the amount advanced, with an average maturity of 32 months, came to Euro 4,744,000 (average advance equating to 80% of the amount due to the applicant).

### **Moratorium for SMEs**

The “2015 Agreement for Recovery” entered into by ABI and various trade associations in March 2015 and which had been extended to 31 December 2018 (final deadline for submission of applications) is no longer effective.

Effective 1 January 2019, a new “2019 Credit Agreement” is now in place that, in fact, repropose the government policies to support businesses (implemented in 2009) and allows businesses to resubmit applications for the suspension of loans (existing at 15 November 2018) and for which they had already benefited from such a measure in prior years, with the sole exception of those with which suspension had been agreed in the previous 24 months.

The new agreement provides for measures for the suspension of loan instalments (principal) and the extension of the loan term up to 100% of the residual life and permits banks to increase interest rates up to the amount of the additional costs incurred by the bank arising from a transaction (solely for suspensions with increases not exceeding 60 basis points).

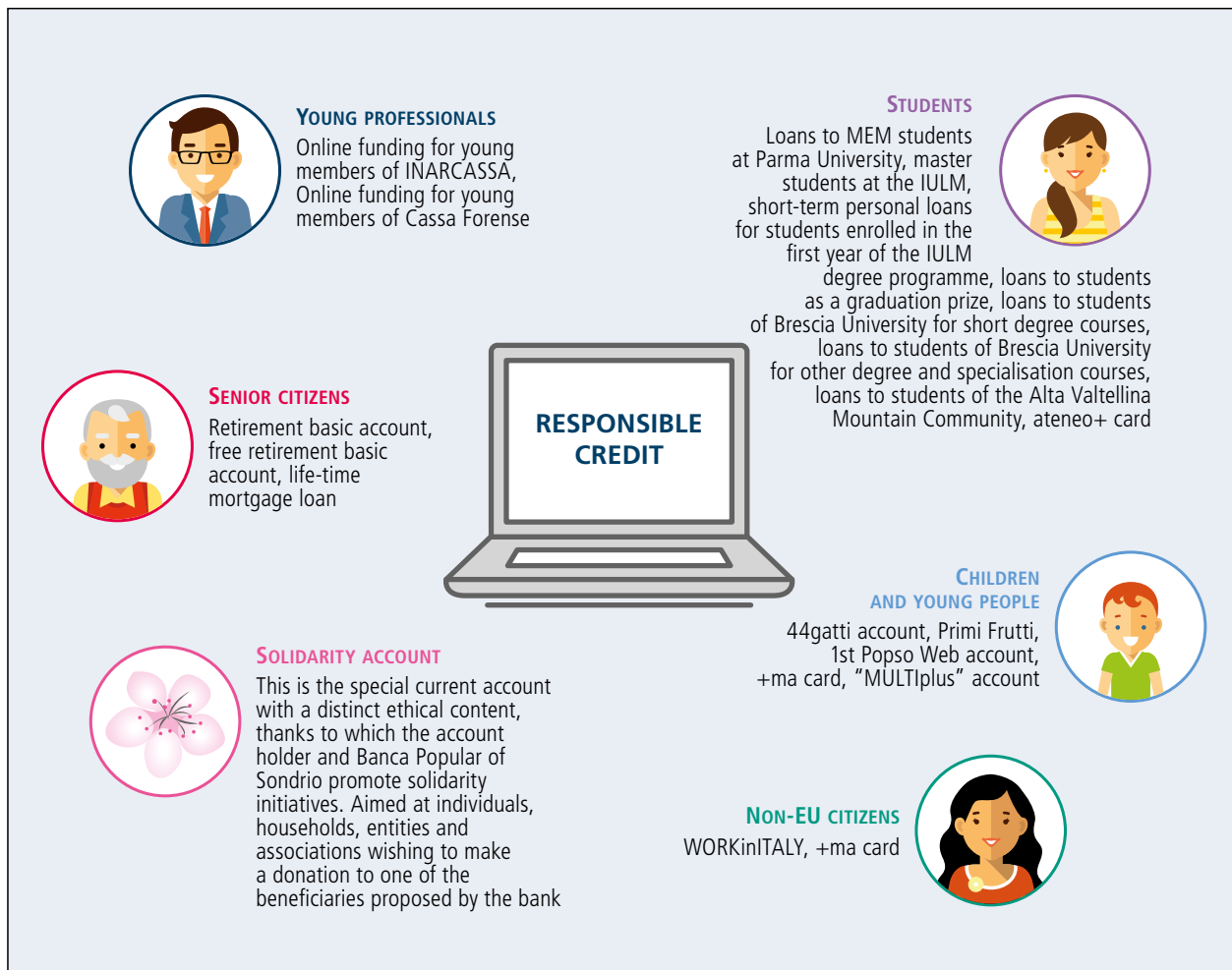
In 2018, with respect to the above measures, (within the limits and in accordance with the conditions indicated in the 2015 Agreement for Recovery) the Group approved 1,031 suspensions of principal amounting to approximately Euro 402 million of “suspended debt”. There were also 404 cases of suspensions of principal “negotiated outwith the ABI agreement” amounting to approximately Euro 34 million (Euro 141 million in 2017) of “suspended debt”.

In 2018, the bank approved 355 (387 in 2017) renegotiations of which 338 (332 in 2017) related to ordinary loans and 17 (55 in 2017) to special loans.

## RISKS ASSOCIATED WITH THE TOPIC

Subtopics	Description of the topic	Risks generated / incurred	Monitoring procedures
Credit access	The Bank's financing activities pay particular attention to the disbursement of loans to the weaker categories of customers, trying to assist them with specially designed products	Credit risks associated with the granting of loans to disadvantaged / weaker categories of the population for the purpose of financial inclusion	Credit pre-screening
		Reputational risks associated with the granting of loans to borrowers of doubtful creditworthiness or in financial difficulties	Code of Ethics of BPS Detailed analysis at the credit pre-screening stage

## RESPONSIBLE CREDIT



## Solidarity account

Since 1996, Banca Popolare di Sondrio has given its customers the chance to open an account with an ethical background, as evidence of BPS's vocation for solidarity.

In particular, through the Solidarity Current Account, the bank undertakes to donate to charity each year a sum based on the average annual amounts deposited on these accounts.

It was designed for individuals, families, entities and associations wanting to make a donation to one of the beneficiaries proposed by the Bank: UNICEF, Associazione Italiana per la Ricerca sul Cancro (AIRC), Associazione Volontari Italiani del Sangue (AVIS), Associazione Donatori Midollo Osseo (ADMO) and Associazione Italiana Sclerosi Laterale Amiotrofica (AISLA).

The Solidarity Current Account can be requested at any branch of Banca Popolare di Sondrio: the objective is to increase the donations to important charitable institutions.



ASSOCIATION	2018	2017	2016
A.I.R.C.	25,640	21,810	25,750
UNICEF	13,950	11,760	16,120
AVIS	2,520	3,080	3,670
ADMO	3,430	4,190	7,850
AISLA	3,710	3,760	4,760
<b>Total</b>	<b>49,250</b>	<b>44,600</b>	<b>58,150</b>

## RISKS ASSOCIATED WITH THE TOPIC

Subtopics	Description of the topic	Risks generated / incurred	Monitoring procedures
<b>Responsible credit</b>	<i>The Bank pays particular attention to the granting of credit, with the creation of products specifically targeted at children and young people, students, young professionals, the elderly, non-EU citizens and individuals/households/entities and associations wishing to make a donation to one of the beneficiaries proposed by the bank</i>	Reputational risks associated with the granting of loans to or relationships with customers operating in "sensitive" sectors (e.g. armaments and gambling), taking account of their socio-environmental risk profiles	Code of Ethics of BPS  Detailed analysis at the credit pre-screening stage
		Risk incurred should beneficiaries of loans granted by the bank commit environmental offences	Credit pre-screening



## OFFER OF RESPONSIBLE PRODUCTS

Banca Popolare di Sondrio holds an investment in the share capital of Etica SGR (9.87%). The management and coordination of the SGR are entrusted to Banca Popolare Etica (51.47%). The peculiarity of Etica lies in the fact that it is the only Italian SGR to establish, promote and manage exclusively socially responsible mutual funds, which combine financial analysis with an environmental, social and governance assessment. Following these principles, Etica Sgr has developed a security selection process aimed initially at excluding governments and companies involved in controversial activities. Then it identifies the most virtuous experiences based on an analysis of the social, environmental and governance aspects of the issuers.

Etica SGR's product offering consists of six ethical mutual funds:

- *Etica Obbligazionario Breve Termine*
- *Etica Rendita Bilanciata*
- *Etica Azionario*
- *Etica Obbligazionario Misto*
- *Etica Bilanciato*
- *Etica Impatto Clima*

Etica promotes micro-finance projects: whoever subscribes to the Etica SGR's Responsible Values funds can choose to devolve 0.1% of the subscribed capital (1 euro every thousand) to a fund managed by Banca Popolare Etica that guarantees micro-finance projects in Italy and which supports crowdfunding initiatives with a high social and environmental impact, again in Italy.

Etica SGR and Banca Popolare di Sondrio offer – also through SCRIGNO Internet Banking – the chance to invest in government bonds and companies that are committed to respecting the environment and human rights by subscribing to the Responsible Values Funds. The securities selected for the Responsible Values Funds are chosen according to social and environmental criteria, not only on the basis of financial valuations.

### Ethical funds

	2018	2017	2016
Assets on deposit (mn €)	369	351	313
Number BPS customers subscribers of Etica SGR funds	11,042	10,113	8,699

### RISKS ASSOCIATED WITH THE TOPIC

Subtopics	Description of the topic	Risks generated / incurred	Monitoring procedures
<b>Offer of responsible products</b>	<i>Ethical product offering by means of an equity investment in Etica SGR – the only Italian SGR to establish, promote and manage exclusively socially responsible mutual funds, which combine financial analysis with an environmental, social and governance assessment</i>	Reputational risks associated with an offer / placement of products / financial instruments not characterised by ethical profiles	Code of Ethics of BPS

## COLLABORATION WITH INSTITUTIONS

As defined in the Code of Ethics, relations with the Public Administration, public entities, supervisory and control authorities, trade unions and public bodies in general are managed with the utmost correctness, impartiality and independence, as well as with adequate transparency and integrity, giving them all the cooperation they might need.

**Entities and the Public Administration** make use of the Bank's assistance through its high quality treasury and cashier services, which are accompanied by an offer addressed to their employees.

With regard to such entities, it is forbidden to conceal information or provide false documentation or evidence of things that are not true, to prevent or hinder the performance of controls or inspections, also for those that the law grants powers of verification and control (shareholders, Statutory Auditors, Internal Auditors, Independent Auditors, Supervisory Body).

If the Bank uses consultants or, in any case, people outside the Bank as representatives in relations with the Public Administration or with concessionaires of public services, such third parties must accept the rules of the Code of Ethics.

Relations with the **Trade Unions and Political Organisations** are conducted with the utmost transparency, respecting the roles and prerogatives of each individual, in a climate of mutual respect and willingness to discuss and participate, guaranteeing the widest possible freedom and representation. Any conduct that limits or could potentially limit trade unions' freedom of association is banned.

In principle and without prejudice to compliance with current regulations, the Bank does not finance or give contributions to political parties, whether in Italy or abroad, nor to their representatives or candidates.

With regard to activities with **foreign counterparties**, the Bank is very careful that they are developed correctly and in full compliance with the law. In particular for countries subject to restrictions, we:

- verify the lawful origin of funds by acquiring adequate documentation that excludes the involvement of financial institutions subject to restrictions;
- verify the commercial counterparties involved to ascertain that they are not included on any embargo lists;
- verify in advance the codes of the goods involved in the transaction, to ascertain that they do not fall in the category of "dual use" goods, i.e. which could be used for both civil and military purposes, though, in fact, the due diligence on whether the goods can legally be exported or not is still up to the exporter.

Relations with the press and other **means of mass communication** are reserved for the competent central offices and/or expressly delegated people, as well as to General Management.

Any request for news from the press or other media received by the Bank's staff must be communicated to the corporate functions responsible



for external communication, before making any commitment to answer the request. Communication with the outside world follows the guiding principles of truth, correctness, transparency and prudence and is designed to foster knowledge of the Bank's policies, programmes and projects. Relations with the media are based on compliance with the law, the Code of Ethics, the related protocols and the principles already outlined with reference to relations with public institutions, with the objective of protecting the Bank's image.

## RISKS ASSOCIATED WITH THE TOPIC

Subtopics	Description of the topic	Risks generated / incurred	Monitoring procedures
<b>Collaboration with institutions</b>	<i>Promotion of dialogue and collaboration on key current issues with the public administration, small municipalities, regional entities, local associations and not-for-profit organisations</i>	Risk generated by compliance <ul style="list-style-type: none"> <li>– with the legislator: arising from failure to comply with laws concerning health and safety, privacy, ICT etc. (e.g. Consolidated Banking Act, GDPR, etc.);</li> <li>– with the PA: (ASL, ARPA for noise pollution, fire service) with regard to health and safety risks (e.g. lifts, earthing systems, fire prevention checks);</li> <li>– with Prefectures (e.g. robbery prevention devices)</li> </ul>	<ul style="list-style-type: none"> <li>– Code of Ethics of BPS</li> <li>– Articles of Association of BPS</li> <li>– Operating model of “widespread compliance”</li> <li>– Compliance and Data Protection Officer (DPO)</li> <li>– Anti-money laundering function</li> <li>– Relations with the Supervisory Authorities</li> </ul>
		Reputational risks arising from illegal conduct (e.g. corruption) or from obstructing or failing to collaborate with institutional stakeholders such as supervisory authorities and public entities (e.g. public administration)	Code of Ethics of BPS
		Risks primarily of an operating nature associated with the provision of treasury and cashier services to entities and the public administration	Existence of specific control functions to monitor behaviour and operating practices not in compliance with internal and external regulations



## RELATIONS WITH THE SUPPLY CHAIN

The supply chain is managed by selecting each supplier based on the ability to perform the required services over time: each one is characterised by specific mandatory and optional administrative data deemed useful for the qualification thereof. Suppliers that provide annual supplies that individually or in total exceed € 100,000 are granted qualification status by the supplies office to meet transparency objectives.

Assessments are then performed of corporate structures, references and past experience prior to arriving at a justified rating. Quantitative and qualitative assessments are revised any time an issue arises.

We envisaged an on-going monitoring system of the performance produced through the Work Flow procedure (invoicing). For the same services offered, the “supplier-customer” option constitutes a preferential title for an appointment to supply goods or services. Pursuant to art. 26 of the Security Law, the presence of disqualification and suspension measures against the contractor constitutes a reason for exclusion from an appointment to supply goods or services.

Failure to comply with the Code of Ethics (pursuant to Legislative Decree 231/2001) on the part of the supplier constitutes a valid prerequisite for the interruption of the collaboration/working relationship.

Supplier contracts contain express termination clauses in the event of non-compliance with regulations governing safety at work and the regularity of insurance and contributions.

Internal and external audits are conducted on-site for supplier qualification purposes and encompass issues such as confidentiality, data processing and regulatory compliance. Other checks are performed during accounting and operational management of contracts/supplies, via collaboration with corporate, central or peripheral operating units.

### **GRI Standard 204-1: Percentage of expenditure concentrated on local suppliers**

With respect to the Group companies, various considerations were made as to which suppliers could be considered “local”, taking account of the location and reach of each company’s activities.

For Banca Popolare di Sondrio, the local perimeter is the Lombardy Region, for Factorit it consists of Milan and Province of Milan, for BPS Suisse it coincides with Switzerland as a whole and for PIROVANO it relates to the provinces of Sondrio and Trento/Bolzano, while, for Banca della Nuova Terra, since its banking service operations are widespread, the concept of local supplier does not really apply in its case.

<b>LOCAL SUPPLIERS</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Spending on procurement	231,554,892	230,477,669	235,995,435
of which to local suppliers	157,959,407	159,748,265	161,432,054
% of total	68.2%	69.3%	68.4%

## RISKS ASSOCIATED WITH THE TOPIC

Subtopics	Description of the topic	Risks generated / incurred	Monitoring procedures
<b>Relations with the supply chain</b>	<i>Monitoring the supply chain and encouraging the selection of suppliers based on criteria of transparency, correctness and attention to social and environmental issues. For the same services offered, the "supplier-customer" option constitutes a preferential title for an appointment to supply goods or services.</i>	Risks incurred due to potential oversights and/or flaws in the supplier registration procedures	<u>Annual letter</u> to verify the reliability of the supplier, sent by the Bank to each of its suppliers on an annual basis. <u>Data collection sheets</u> ; normally handled by the Corporate Safety Office and sent by each office to its suppliers
		Risks incurred due to the bankruptcy of suppliers, with repercussions on the financial soundness of the Bank	
		Risk incurred due to failure by suppliers to pay their workers	We request receipt of appropriate documentation, including a copy of the DURC (social security contributions certificate), to check if any workers are paid off the books and that contributions have been paid
		Risk incurred due to a loss in value of properties on construction sites caused by vandalism	Building site coordinators are required to ensure security measures are in place to prevent unauthorised access and potential vandalism. Furthermore, there is a forbidden use policy in place
		Risk incurred due to health and safety issues in the supply chain. Specifically, particular attention is paid to maintenance undertaken by external firms. Maintenance may consist of building maintenance (e.g. renovations) and auxiliary services, such as cleaning, security and plant maintenance	<ul style="list-style-type: none"> <li>– <u>A record is kept of legally required checks</u> made by the Bank of building maintenance work performed by suppliers;</li> <li>– <u>letter of engagement</u> for maintenance work is sent to suppliers;</li> <li>– <u>DUVRI</u> (interference risk assessment certificate) signed by the legal representative of the maintenance firm, after verification of environments conducted by the local bank manager;</li> <li>– copy of supplier's <u>DURC</u> (social security contributions certificate);</li> <li>– <u>requirement to use compliant products</u> and to store them appropriately at branch or Bank premises</li> </ul>
Reputational risk associated with the supplier selection process, due to the fact that the Bank has no disclosure or transparency obligations in this regard	<ul style="list-style-type: none"> <li>– The selection process is conducted via <u>sealed bids and with a formal public tender process</u></li> </ul>		



Subtopics	Description of the topic	Risks generated / incurred	Monitoring procedures
<b>Relations with the supply chain</b>	<i>Monitoring the supply chain and encouraging the selection of suppliers based on criteria of transparency, correctness and attention to social and environmental issues. For the same services offered, the "supplier-customer" option constitutes a preferential title for an appointment to supply goods or services</i>	Risks associated with outsourcing of goods/services to external providers, not only in terms of technical, commercial and financial reliability, but also in terms of cost, sustainability and appropriateness of the proposed solution	– The selection process is conducted via <u>sealed bids</u> and with a <u>formal public tender process</u>
		Risks of a legal nature triggered by disputes with suppliers of goods/services due to breach of contract or failure to comply with regulatory obligations/ requirements	

## RELATIONSHIP WITH THE COMMUNITY

The commitment to cultural promotion of Banca Popolare di Sondrio has always been based on listening to the territory where it has its “feet, heart and head” with the aim of enhancing the multiple naturalistic aspects and resources available to the creativity of human work. Consequently, the life and culture of a borderland, such as the province of Sondrio, found congenial, concrete manifestation in a renewed “cultural circulation” carried out by the Bank, which draws its energies – financial or otherwise – from the land of origin to foster the dialogue with these communities, which has never been interrupted.

Although the Group’s operations have extended beyond the Valtellina for a number of years, it still wishes to perform a pivotal role for the community, by acting as a focal point for the participants in the local economy and by promoting cultural initiatives.

### **Notiziario, the magazine of Banca Popolare di Sondrio**

The cultural activity of the Bank finds a significant example of continuity and consistency in the publication that is probably its flagship: *Notiziario* ([www.popso.it/notiziario](http://www.popso.it/notiziario)).

With four-monthly regularity and uninterrupted fidelity to the original image and spirit, the magazine marks the life of the Institute since 1973, but represents much more than just a company magazine. The proof lies in its distribution, which goes beyond national borders, and in its numerous readers, who do not fail to appreciate the authoritative texts – whose contents range from economy to culture, from current events to history, from literature to health – and the fabulous illustrations.



In 2018, interesting articles were published on multiple topics, including authoritative and varied contributions focused on the theme of climate change. “The changing planet” is the title of the special column of the year, with an introduction by His Eminence, Cardinal Gianfranco Ravasi.

### **Publishing activity**

This four-monthly magazine is accompanied by the consolidated and valuable publishing activity, which began in the early fifties of the last century, and consolidated in the following decades with outstanding publications and always aimed at disseminating topics related to the territory where the Bank was born and operates.

Each year, the shareholders present at the general meeting are gifted a publication designed for the occasion. Numerous publications have become real points of reference in every bibliography as regards history, economy, art, landscape and the natural and human environment of the province of Sondrio.

Publishing activity is not limited to Banca Popolare di Sondrio, but it extends to the subsidiaries, especially BPS (Suisse), which accompanies its annual report with one of its publications dedicated to a historical and biographical research of a prominent contemporary character, linked to Switzerland and Italy.

Accordingly, in 2018, those present at the Shareholders' Meeting were gifted the book *Alpi Dipinte*, while the book on Umberto Veronesi *La forza di uno scienziato che non si è mai arreso* was used as a companion piece to BPS Suisse's 2018 annual report.

### **Conferences and conventions**

In a context that, for geographic and environmental reasons, has inherent difficulties in spreading culture, the Bank also plays a fundamental role as an intermediary, not so much in favour of the culture of the territory, but circulation of culture in the territory with the realization of top-level conferences and conventions ([www.popso.it/conferenze](http://www.popso.it/conferenze)).

The 2018 conference cycle was opened on 2 February with Monsignor Dario Edoardo Viganò, a Vatican man of culture, and continued on 26 October with the economist Professor Carlo Cottarelli and the columnist Ferruccio de Bortoli, at an event held with the subsidiary Arca Fondi SGR. The series of meetings ended on 14 December with talks given by Alessandra Dolci, deputy prosecuting magistrate and coordinator of the anti-mafia department in Milan, who first spoke to several hundred students at the Sondrio Policampus and then in the evening addressed an audience in the bank's Fabio Besta room.

The events added weight to the 94th World Savings Day.

### **"Luigi Credaro" Library**

A wide-ranging and important initiative, in which many cultural activities are combined and integrated, was the creation of a public library, inaugurated in October 2007 in the presence of the future Minister of Education, Giuseppe Fioroni.

Named after the illustrious Valtellinese Luigi Credaro (1860-1939), pedagogue, MP, senator and Minister of Public Education from 1910 to 1914, the library ([www.popso.bibliotecacredaro.it](http://www.popso.bibliotecacredaro.it)) finds its *raison d'être* in the need and willingness to make available the huge and precious documentary and book heritage possessed by Banca Popolare di Sondrio thanks to a number of substantial donations by customers and shareholders and, above all, following the acquisition of an important collection of letters of the economist and sociologist Vilfredo Pareto (1996) and the archive-library of the Sondrio scholar Battista Leoni (2000).

The project to establish the library has found the support and patronage of local public bodies, which signed a special programme agreement for this initiative in December 2005.

The rooms housing the "Luigi Credaro" Library provide a cultural space that integrates with other libraries in the city and the province, seeking to broaden opportunities and boundaries by means of the targeted and careful use of new IT and digital technologies.



## **Popsoarte**

Another particular initiative enriches and widens the Bank's contribution to the knowledge of its own land of choice and Italian culture. In fact, the art website [www.popsoarte.it](http://www.popsoarte.it) made its debut on the internet in 2004. It was created with the specific intent to make the Bank's art collection known to the general public, through a rigorous scientific catalogue. The collection grew over the years along with the Bank in more than fifty years of acquisitions and cultural patronage. In 2005, in the prestigious "e-Content Award Italy" prize, awarded ex aequo with the "Museo della Scienza di Firenze" in the category e-culture for the quality of its digital content and innovative communication creativity, Popsoarte distinguished itself for the ease of access to its content even by the motor and sensory disabled.

Each year, during the annual general meeting, as an accompaniment to the presentation of the annual report, a small exhibition is organised with a display of works that form part of the bank's cultural heritage.

## **Invitation to the Palace**

Popsoarte combines with the "Invitation to the Palace" initiative, promoted at national level by the Italian Banking Association. On the first Saturday of October, the "Palaces" of the credit institutions welcome anyone to their offices who wants to know about the cultural and civil history of our country by visiting their head offices and the collections owned by them. In this sense, the visit to the "Palaces" of the banks, transformed for a day from places of the banking profession to "museum spaces" freely accessible to citizens and tourists, is meant to put a spotlight on an important heritage, "fruit" of the conscious commitment of the banking community.

Banca Popolare di Sondrio makes this possible thanks to the extraordinary opening of the head office and general management building located in the Valtellina capital, the premises of the "Luigi Credaro" library and those of the "Carlo Donegani" historical museum at the Stelvio Pass. In fact, at the first two locations there are numerous valuable paintings (and sculptures) belonging to the collection that can also be viewed on the [www.popsoarte.it](http://www.popsoarte.it) website.

## **Pirovano Stelvio SpA**

Although not one of the primary tasks of a credit institution, the inclusion of "Pirovano" in the Group – which took place in 1985 – forms part of its vocation as a territorial and cooperative bank. Its function is also to support the economic and social development of its components, enhancing its natural resources, on the one hand, and the creativity and entrepreneurial spirit of its business people, on the other. Faithful to the teachings of its founders, Giuseppe Pirovano and his wife Giuliana Boerchio who established it in the 1940s, the Ski School at the Stelvio Pass has become a real training ground for the human values of sport.



“Pirovano” has become an irreplaceable point of reference for cycling events and motorcycle rallies at national and international level, appointments for fans of cars, vintage or otherwise, as well as a place for study and in-depth research, whether environmental, naturalistic, historical or sporting.

### **The Carlo Donegani Historical Museum**

In 1998 – on the occasion of the eightieth anniversary of the end of the First World War, of which the Stelvio and its area was the western pillar – in the rooms adjacent to the Bank’s seasonal window at the Stelvio Pass, a unique museum with free access was set up, named after the engineer from Brescia, Carlo Donegani (1775-1845), who was the brilliant designer of the Strada Imperiale dello Stelvio.

The most evocative section of the Museum is dedicated to the “Great War” (1915-18) and represents an ideal starting point for a visit to a much wider and more suggestive “museum”: the outdoor one, made up of a dense network of walkways, fortifications, trenches – as well as a spectacular restored gun embrasure, thanks to the active collaboration of the National Alpini Association – which still bear witness to the dramatic events that took place there. Another part of the Museum is dedicated to the memory of Engineer Donegani and collects a copy of the original technical and historical documentation taken from his road project.

The last part is dedicated to the events that have contributed to making the Stelvio Pass famous, events linked to snow sports, in particular summer skiing, cycling, mountaineering, motorcycling and motoring.

### **Nonsolobanca**

The cultural commitment of Banca Popolare di Sondrio obviously found a congenial outlet by being disseminated through online communication. This is why the Bank has paid much attention to building its website ([www.popso.it](http://www.popso.it)), being aware of the duty to put into circulation fragments of a story that “rewrites” itself continuously, to meet new needs and sensibilities.

The main website is accompanied by a portal, [www.nsolobanca.popso.it](http://www.nsolobanca.popso.it), which sets out the bank’s main cultural initiatives, accompanied by hill-walking, ski mountaineering and cycle tourism suggestions, richly commented and illustrated, focusing in particular on the valley, but without neglecting the numerous destinations outwith the province.

### **Sponsorship and donations**

Again in 2018, a difficult year for the entire banking sector due to the adverse effects of the notoriously long crisis, Banca Popolare di Sondrio has made donations to various causes, but after having taken account of the current state of the economy.

We have answered many requests for donations from care homes and parishes, as well as from welfare, humanitarian, volunteer, recreational and



religious organisations; from schools of all levels; from cultural, artistic and musical associations; and so on.

Many charitable initiatives include incentives to raise funds for important hospitals and organisations, customers and “friends” of Banca Popolare di Sondrio, who among other things also carry out research in the medical, scientific and other fields.

The “Solidarity Current Account” is also active; this is a category of current account established a few years ago, through which in 2018 we donated funds to the following not-for-profit organisations:

- AISLA – Associazione Italiana Sclerosi Laterale Amiotrofica
- Italian Branch of UNICEF
- AVIS – Associazione Volontari Italiani Sangue
- AIRC – Associazione Italiana Ricerca sul Cancro
- ADMO – Associazione Donatori Midollo Osseo.

<b>Donations*</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
WELFARE ORGANISATIONS	€ 35,451	77,080	36,200
HUMANITARIAN AND VOLUNTEER INSTITUTIONS	€ 23,174	21,520	31,430
CULTURAL AND ARTISTIC ASSOCIATIONS	€ 21,800	3,500	5,000
RECREATIONAL CLUBS	€ 16,283	17,750	14,750
MUSICAL ASSOCIATIONS	€ 1,885	1,100	2,400
SCHOOLS	€ 17,800	32,000	25,600
PUBLIC ENTITIES	€ 9,339	1,100	1,850
RELIGIOUS ENTITIES	€ 18,416	9,800	6,150
TRADE ASSOCIATIONS	€ 12,471	2,900	2,200
SUNDRY OTHER ASSOCIATIONS	€ 165,386	8,500	5,150
	<b>€ 322,006</b>	<b>175,250</b>	<b>130,730</b>

\* the figure for donations also includes the amounts donated through the Solidarity Account.

<b>Sponsorships*</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Cultural and recreational Associations	€ 65,891	24,785	28,128
Trade Associations	€ 15,019	12,669	11,263
Religious Schools and Associations	€ 18,856	62,196	8,096
Sports and other Associations	€ 174,324	301,332	458,516
	<b>€ 274,090</b>	<b>400,982</b>	<b>506,003</b>



## RISKS ASSOCIATED WITH THE TOPIC

The commitment to fostering the economic and social development of local communities and the areas where the bank has chosen to open a branch, with particular attention to households and SMEs, has been developed in accordance with the risk appetite established at Group level, by means of the implementation of prudent credit policies, inspired by the principles of mutuality and subsidiarity, with benefits in terms of promotion of the corporate image and the prevention of potential detrimental factors.

Protection of the Group's reputation is implicitly guaranteed by the pursuit of a corporate culture that is strongly rooted in the territory and enthusiastic participation in charitable and solidarity activities, as well as by intense promotion of the naturalistic, cultural and artistic heritage of the communities that we serve.

Subtopics	Description of the topic	Risks generated / incurred	Monitoring procedures
<b>Relationship with the community</b>	<i>Banca Popolare di Sondrio's commitment to cultural promotion is based on listening to the territory of the province of Sondrio with the aim of enhancing its multiple aspects and of drawing its energies – financial or otherwise – to foster the dialogue with the communities</i>	Reputational risk associated with bankruptcy or scandal caused by one of the charities to which BPS makes its donations (UNICEF, AIRC, Avis and Admo) due to improper commercial practices in the use of funds donated thereto by the Bank	There are no formal controls, but certain criteria are used in selecting recipients, based on an analysis of the reputation thereof
		Credit risks associated with the granting of loans to support local entrepreneurial initiatives	Credit pre-screening

## ATTENTION TO THE CUSTOMER

One of the values to which the Bank aspires is attention to its customers, who “must not constitute a certain and immediate source of income on the basis of their net worth, but on whom the Bank is willing to invest in order to secure a long-term relationship of mutual satisfaction”. This is a guideline and a value that allows us to consolidate our relationships with customers and maintain them over time, especially with those who are less experienced in financial matters, who tend to be apprehensive about banking issues. One of the Bank's main competitive strategies is to satisfy the needs of the customer, considered not as a mere number, as happens in many other situations, but as a unique element with whom to establish a personal relationship and to formulate proposals suited to their needs and not to the segment that they belong to.

As mentioned in the section on “Our Values” on the Bank’s website, our staff “have a distinctive style, shared by all, in which courtesy, willingness to help and professionalism are at the service of all our customers, whoever they are and whatever they need.”

The Bank’s main customers are households, small and medium-sized enterprises and institutions.

Any conflicts of interest essentially concern the provision of investment services, in which the Bank provides the necessary information and applies the appropriate management procedures, especially with reference to the placement of financial instruments issued by it.

The annual report that the Compliance function draws up pursuant to article 22 of the Commission Delegated Regulation (EU) 565/2017, declares that the Bank has suitable procedures to ensure effective and correct management of conflicts of interest in the field of investment services. These procedures and measures are indicated in the MiFID information document published on the company website and available at the branches via intranet.



The Bank operates in accordance with the customer’s risk profile and commercial needs. It is important to underline that the staff does not receive any incentive in connection with the placement or intermediation of products and services, which makes it possible to limit considerably any non-compliance risks with customers and potential conflicts of interest.

**FS6: Breakdown of the portfolio by business lines by region, size and sector:**

Territorial distribution of the portfolio*	UoM	2018	2017	2016
North	%	70.59%	70.28%	68.70%
Centre	%	19.02%	19.42%	19.87%
Switzerland	%	10.39%	10.30%	11.43%
		<b>100%</b>	<b>100%</b>	<b>100%</b>



<b>Distribution of the portfolio by size and type of customers**</b>	<b>UoM</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Micro businesses	%	15.98%	15.00%	15.20%
SMEs	%	20.30%	19.99%	19.63%
Large Enterprises	%	6.86%	8.74%	7.32%
Individuals	%	34.16%	33.54%	33.97%
Entities and institutions	%	22.70%	22.73%	23.88%
		<b>100%</b>	<b>100%</b>	<b>100%</b>

\* Consistent with other sector information, the location refers to the branch of the customer

\*\* the subdivision among individual customers, entities and institutions is done on the basis of the CIC, while the type of company is based on turnover

## Shareholders

Banca Popolare di Sondrio devotes particular attention to the relationship with its shareholders, who are often also customers, in order to maintain a strong link with the shareholder body, even as it develops outside the more traditional areas where the Bank has opened branches.

Enhancement of the shareholder/customer combination, in addition to increasing the loyalty of important customer segments, allows most of the shareholders to make use of the services offered by their Bank. The functions devoted to relations with the shareholders are carried out by the Secretariat and General Affairs Office and by the Shareholders' Office, under the supervision of General Management.

The Bank's website ([www.popso.it](http://www.popso.it)) contains a specific section dedicated to corporate information, in which important news items are made available to the shareholders.

The Administration dedicates time and resources to encouraging the widest possible participation on the part of shareholders in company life, particular in the Annual General Meeting, a family gathering, a moment to consolidate the relationship with the Bank and to find out how the Bank is getting on (which is also communicated twice a year by letter to all shareholders and friends).

The shareholders that took part in the Banca Popolare di Sondrio general meeting held on Saturday, 28 April 2018 at the "Pentagono" in Bormio, were gifted the book of photographic images entitled "Alpi Dipinte", which includes many beautiful images by the Valtellina nature photographer Elio Della Ferrera, and, thanks to BPS Suisse, were provided with a chance to admire the Formula One car driven in 1974 by the formidable Ticino champion Clay Regazzoni.

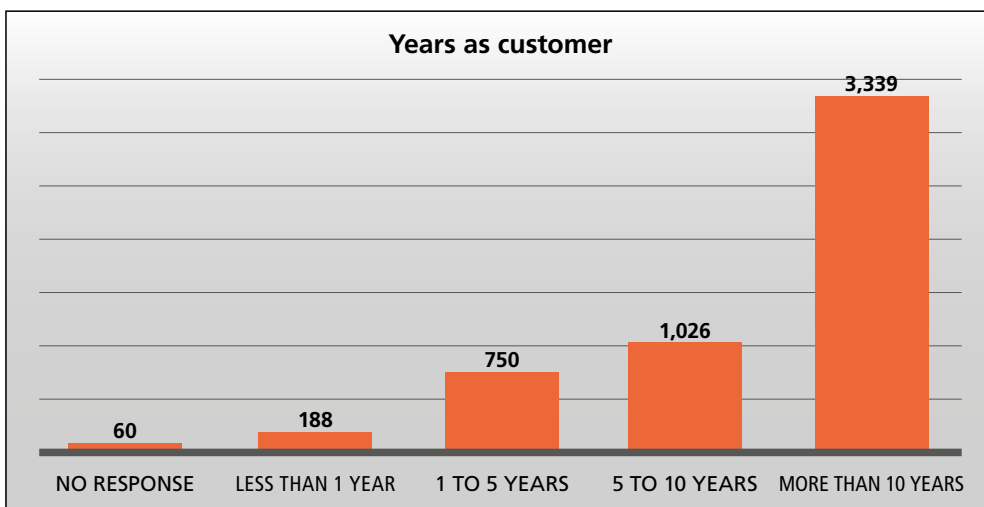
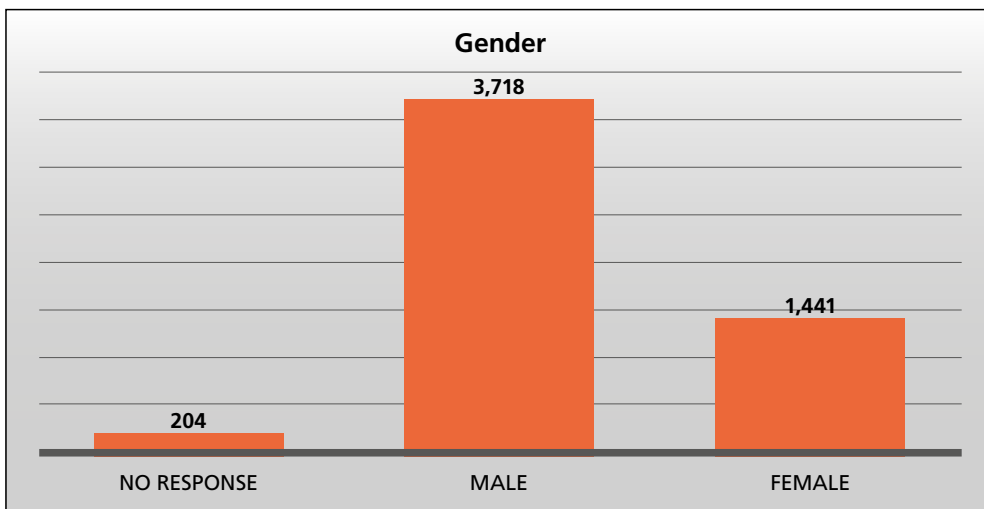
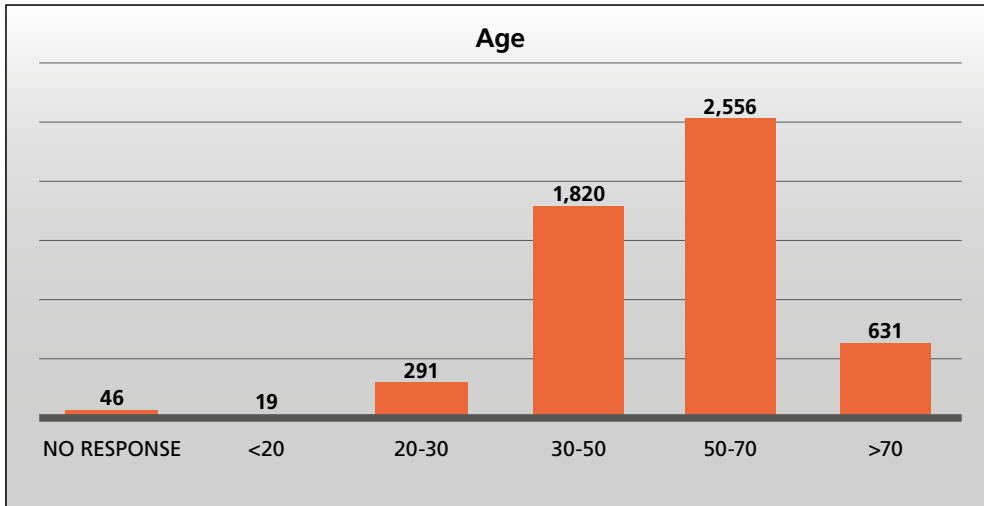
Note that from 1871 to the present day, the Bank has always distributed dividends to its shareholders.

## Dialogue with stakeholders

Customers, on accessing their home-banking (Scrigno) on the website or via the mobile app, were invited to complete a questionnaire on the

importance given by them to material topics (more significant than the Bank's operations) and to indicate which subtopics were more significant.

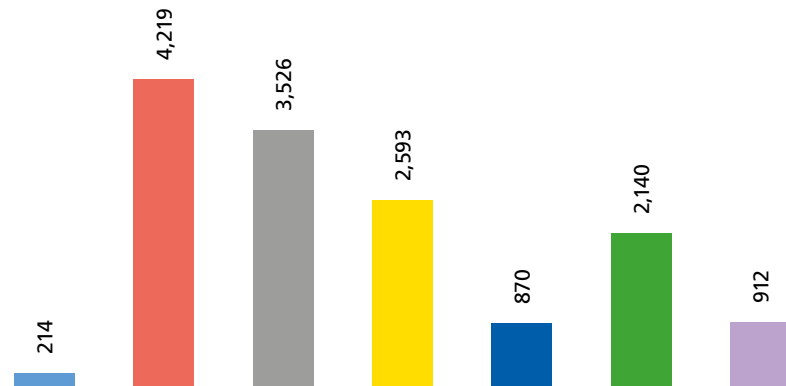
Set out below are the key data that arose from the survey.



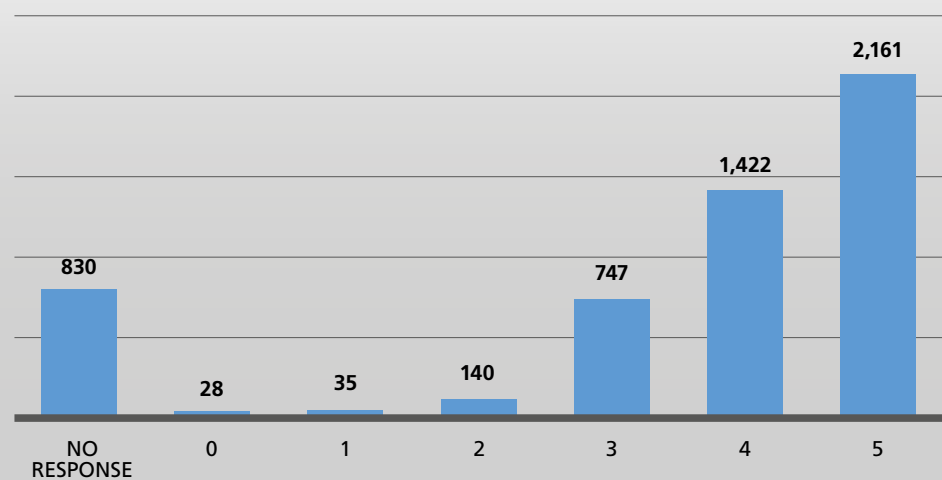


## AUTONOMY AND INTEGRITY IN COMPANY CONDUCT

- No response
- Customer privacy and security of information
- Compliance with legislation concerning transparency and integrity
- Prevention of corruption and money laundering
- Possibility for anonymous reporting of illegal or discriminatory conduct
- Transparency of decision-making processes
- Communication of the Bank's environmental and social impact

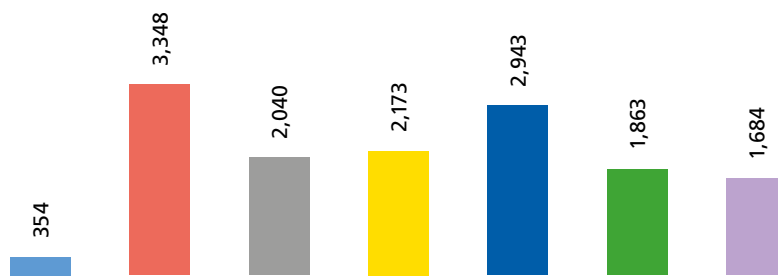


## Importance of the topic

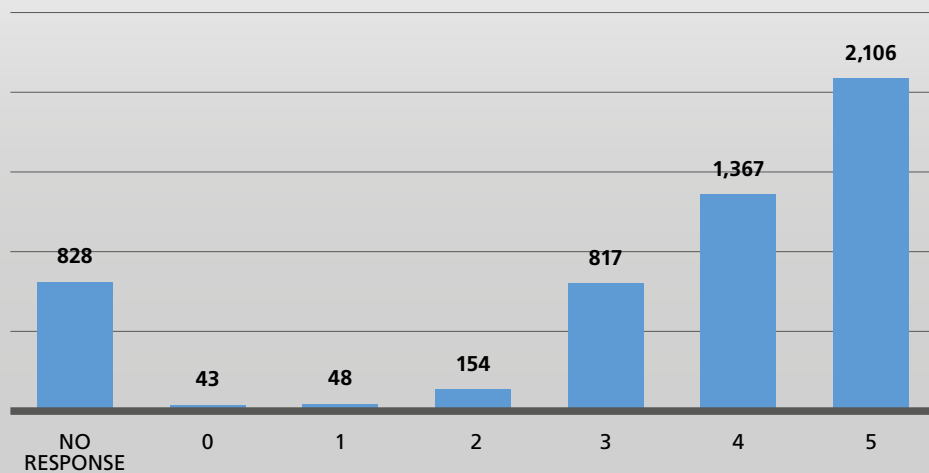


## ENHANCEMENT OF OUR HUMAN RESOURCES

- No response
- Training activities for employees
- Attention to health and safety of workers
- Fair and transparent remuneration
- Opportunities for professional growth and development
- Gender equality and promotion of diversity
- Services and subsidies to improve the quality of life of employees



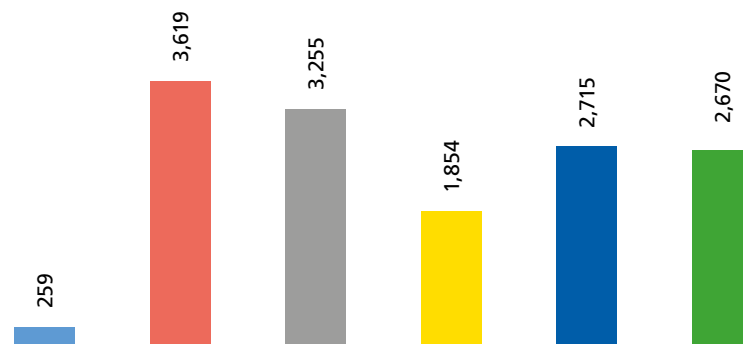
## Importance of the topic



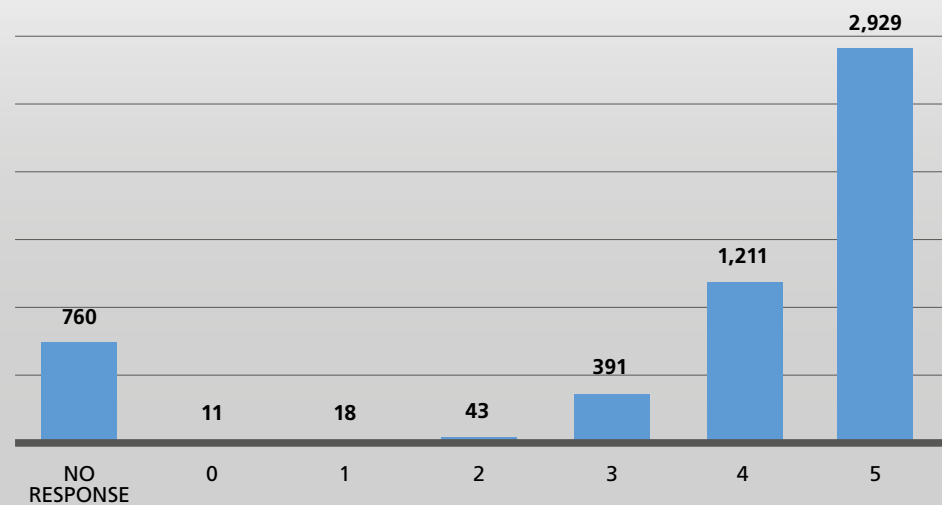


## ATTENTION TO THE CUSTOMER

- No response
- Listening and support to savers, for a relationship built on mutual trust
- Convenience, efficiency and ease of access to the bank by customers
- Specific products based on type of customer and different needs
- Digital innovation: apps, digital banking, online payment systems, etc.
- Clear communication of products and services available for savers



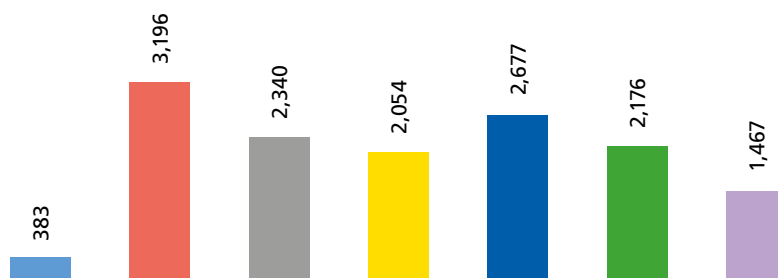
## Importance of the topic



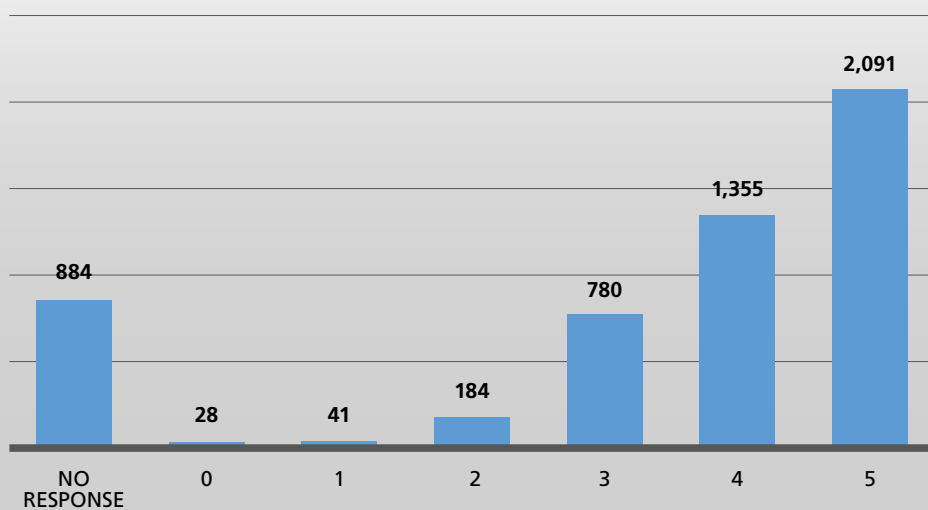


## FINANCIAL AND CAPITAL SOLIDITY

- No response
- Quality and stability of relationships between the bank and its members/shareholders
- Strategies that focus on the return on products and services offered
- Development of trust and sense of belonging by members/shareholders
- Compliance with regulatory restrictions on financial stability
- Operational and reputational risk management
- Environmental and social risk management in the Bank's credit granting and investment decisions

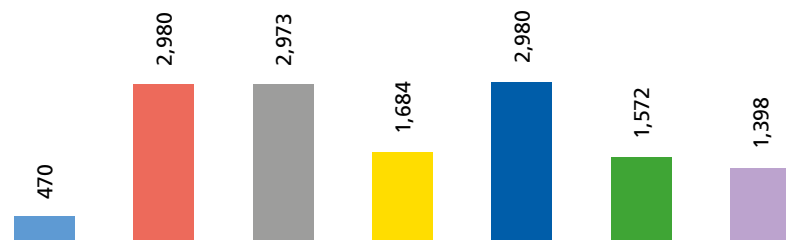


## Importance of the topic

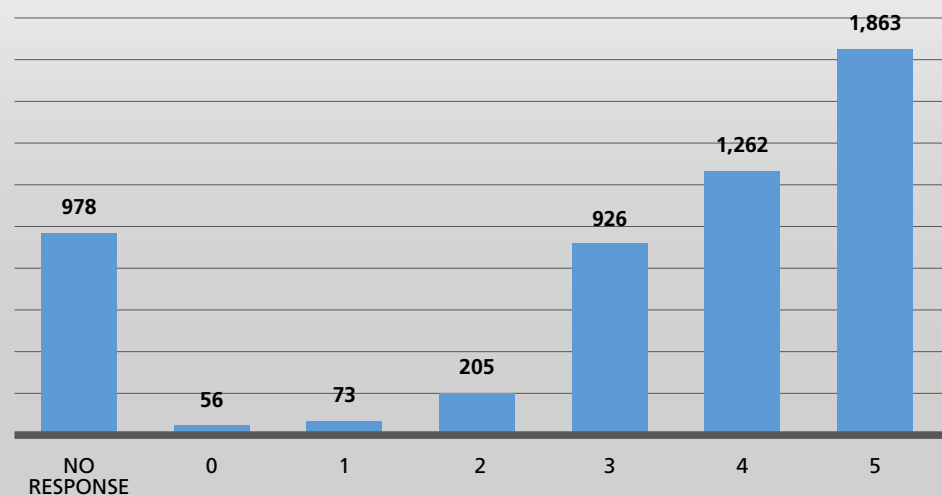


## ECONOMIC SUPPORT TO THE COMMUNITY

- No response
- Increase in the range of products on offer to businesses attentive to the impact of their operations on the environment and on people and a decrease in the product offering to controversial sectors (e.g. arms, tobacco)
- Initiatives aimed at the preservation of the entrepreneurial identity of the territory in which the Bank operates
- Selection of suppliers in the territories where the Bank operates
- Initiatives to support disadvantaged social categories (e.g. microcredit)
- Dialogue with regional entities, municipalities, local associations and not-for-profit organisations
- Sponsorship of events and promotion of the territories served



## Importance of the topic



On World Savings Day, taking advantage of BPS's presence on the Sondrio Policampus for the event named "Teaching respect for the law: because with the help of citizens crime can be beaten", approximately 600 final year upper secondary school students in the Province were given questionnaires by means of which we wished to understand the students' points of view concerning material topics and how they saw the Bank. On average, all the material topics were deemed to be important, but the subtopic considered to be the most significant was "Listening and support" under the topic "Attention to the customer", indicating a need for young people to be closer to the Bank and to have an increased dialogue therewith.

Below are the most interesting responses to the question «If you were a member of Banca Popolare di Sondrio's management team, what would you do to respond better to the needs of your contemporaries?», which proved to be of most interest to the students.



«I would grant soft loans to university students».

«I would invest in local businesses run by young people».

«Zero-interest loans for studies and activities related to education».

«Support for deserving students».

«Inform young people of the various possibilities for investment and subsidies».

«Invest in technologies».

«Scholarships».

«More functional website».

«Meetings with the schools, conferences to inform attendees of what the Bank offers».

«Visibility on social media to facilitate dialogue with young people».

«Inform us of the roles and responsibilities of the Bank because most of us have no idea of how it operates».



## Complaints

According to the area to which they refer, complaints are managed as follows:

- banking and insurance services, entrusted to the Complaints Office which is part of the Legal and Claims Department; the structure itself also handles complaints for which customers have filed an appeal with the Financial and Banking Arbitrator (FBA) regarding banking services or IVASS with regard to insurance services;
- investment services, entrusted to the Compliance Function, which makes use of collaboration from Internal Audit for the preliminary investigation and evaluation. This also in relation to possible customer appeals addressed to the Financial Disputes Arbitrator (FDA).

Complaints by customers and the Bank's reply can be sent by both ordinary mail and e-mail. Complaints are handled free of charge. The ways in which customers can submit complaints to the Bank, the FBA, the FDA and IVASS are available on the institutional website, in the "Transparency" section. Complaints are examined and answered, if possible, on the same day that they arrive or a few days later and, in any case, before the legal deadline of thirty days from receipt of the complaint. The trend of complaints received by the Bank is subject to communication to the corporate bodies and Supervisory Authorities through periodic regulatory reports.

Banca Popolare di Sondrio (SUISSE) SA handles complaints in the same way as the Parent Company; complaints are received centrally at the Front Office, whereas it is up to Risk Management, an independent unit that reports directly to General Manager, to register the complaints, monitor the situation and verify that they are resolved, preventing the emergence of a possible conflict of interest.

### **GRI Standard 417-2 incidents of non-compliance concerning product and service information and labelling.**

*There have been no reports of non-compliance with regulations or voluntary codes of conduct regarding marketing activities (including advertising, promotion and sponsorship).*

### **GRI Standard 417-3: Incidents of non-compliance concerning marketing communications.**

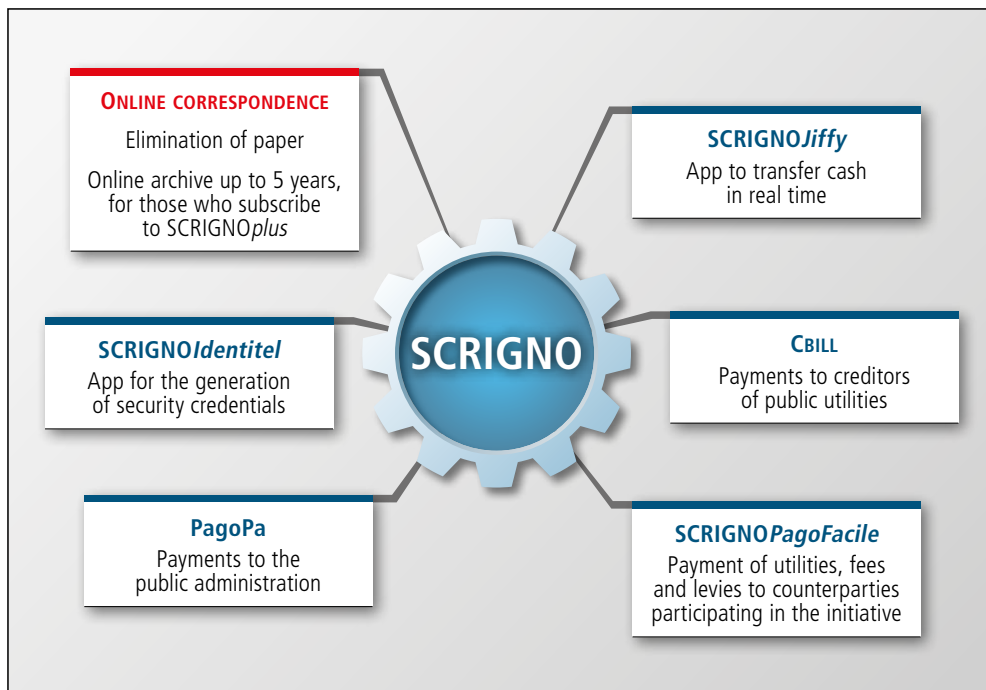
*There have been no reports of non-compliance with regulations or voluntary codes of conduct regarding the information and labelling of products or services, nor related to marketing activities (including advertising, promotion and sponsorship).*

## INNOVATION IN TRADITION

Ever since the 90's, when it set up what was then a state-of-the-art service centre as far as the Italian banking sector was concerned, Banca Popolare di Sondrio Group has sought the most advanced technological solutions for the management of its daily activities, to offer services to customers and for security.

The digital revolution that is affecting the banking sector represents a new way of living the bank, but a bank that does not forget its founding values and tradition. The first home-banking product created by our institute in 1997 was Scigno Internet Banking, a service offered free of charge, simple to use (translated into English, French and German), guaranteed by a solid security system (it obtained certification of the Security Management System according to ISO27001) and is accessible to people with reduced or impeded motor and sensory capacities through technological aids (such as special screens and vocal synthesizers).

The topic of **accessibility** is particularly dear to Banca Popolare di Sondrio and is linked to another initiative implemented fifteen years ago relating to the production of current account statements in braille. The availability of a wide range of banking services, both for getting information and giving instructions, allows a high degree of financial inclusion by eliminating the need to access the bank physically during opening hours. SCRIGNO Internet Banking is also attentive to the environment: the online Correspondence service transforms accounting documentation to a digital format, thus eliminating the need for paper and the recovery of production and delivery costs.



Increasingly more topical – with a view to the reduction of fraud and aggression – is the issue of the propagation of new distribution channels for banking services.

On the one hand, we wish to highlight the spread across our network of advanced ATMs that enable the safe acquisition of money and cheques through the simple and immediate payment into customers' accounts, while, on the other hand, we are witnessing the virtualisation of our credit cards through the use of Samsung Pay and Google Pay, which promotes the dissemination of a safeguarding and facilitating tool for the user who can go around without taking cash and payment cards with him.

Lastly, it is now possible to use Mastercard contactless cards to pay for travel on the Milan underground, thus overcoming the need to issue paper tickets, with a clear contribution to environmental sustainability (ticket production and disposal).

The bank was one of the first companies to believe in the MyBank initiative, the European payment service based on current accounts that allows online purchases of goods and services through the Internet Banking service from suppliers affiliated with this circuit, recognizable through the brand name. This initiative aims at spreading among customers a simple payment method to access the vast e-commerce market thanks to the familiarity with and security of the Internet banking tool.

Another innovation introduced by BPS was the electronic signature that allows to sign digital banking documents by eliminating the use of paper. All this is done by means of a Graphometric Signature, which is done by using an electronic device, the signature pad, with a manual gesture the same as a handwritten signature on paper and which has the technical, IT and legal requirements needed to qualify as an "advanced electronic signature" in terms of the law.

The innovation also involved Banca Popolare di Sondrio (SUISSE) SA, which revised its e-banking platform for better use on mobile devices and introduced credit cards with an e-wallet function (Apple Pay/Samsung Pay).

With regard to internal processes, the main changes concerned:

- the development of a platform for digital and centralized management of credit agreements and related flows and controls;
- the development of a platform for automatic management of compliance requirements in the field of stock exchange orders;
- the introduction of Interactive Voice Response (IVR) at the Call Centre to improve the direction of flows;
- the development of Direct Banking.

## RISKS ASSOCIATED WITH THE TOPIC

The Group constantly modernises its technological tools and infrastructures to support corporate operations, with particular attention to electronic services and internet banking, overseeing risks, mainly computer risks, connected to the implementation of measures in favour of innovation and operational efficiency, which are indispensable in a context of increasing digitisation.

Emphasis is put on monitoring cyber risk, understood as the risk of violations of computer security perpetrated mainly through the theft of access credentials and aimed, in most cases, at executing fraudulent payment instructions. Against this, the Group implements targeted investments and is constantly involved in strengthening security systems, to combat criminal attacks to protect customers and the Bank itself.

As a further safeguard, the Group adopts a structured process to assess potential critical issues related to the provision of new products /services with innovative or complex characteristics, with the involvement of various corporate structures, each according to their sphere of competence.

Subtopics	Description of the topic	Risks generated / incurred	Monitoring procedures
<b>Innovation in tradition</b>	<i>The digital revolution represents a new way of living the bank. The availability of a wide range of banking services, both for getting information and giving instructions, allows a high degree of financial inclusion by eliminating the need to access the bank physically during opening hours (for example Scrigno)</i>	Non-compliance risks with customers	No incentive for the placement or intermediation of products and services, making it possible to limit considerably any such risk
		Risk of conflicts of interest	
		Cyber risk	The Group makes targeted investments and is constantly involved in strengthening security systems, to combat criminal attacks to protect customers and the Bank itself. As a further safeguard, the Group adopts a structured process to assess potential critical issues related to the provision of new products/services with innovative or complex characteristics, with the involvement of various corporate structures, each according to their sphere of competence
		Reputational risk arising from investments in controversial sectors	Governed by BPS's Code of Ethics



Subtopics	Description of the topic	Risks generated / incurred	Monitoring procedures
<b>Innovation in tradition</b>	<i>The digital revolution represents a new way of living the bank. The availability of a wide range of banking services, both for getting information and giving instructions, allows a high degree of financial inclusion by eliminating the need to access the bank physically during opening hours (for example Scigno)</i>	Risk incurred due to incorrect conduct by sales staff	Covered by training activities and by staff remuneration policies excluding variable remuneration based on sales achieved by staff.
		Risks generated by the scarcity of customer service staff due to the large number of resources employed in (decentralised) new regulatory compliance activities	– ABI-ANIA protocol for the sale of policies linked to loans, whereby an analysis is performed of customer satisfaction in accordance with precise methodologies and the data are then sent to ABI
		Risks generated by the loss of loyal/historic customers, who prefer human contact in branches and traditional procedures, due to the increasing digitalisation of the Bank	
		Risk generated by the issue of new products or marketing campaigns	Risks sheet dedicated to the identification and analysis of all risks associated with potentially new products/marketing campaigns, compiled by all offices of the Bank, each of which addresses the risks specific to their office and operations. The final assessment as to the issue of new products or campaigns is based on the outcome of the above
		Risks incurred due to complaints by customers	Complaints policy (pertaining both to distribution and the product itself). Monthly update of operating sheets communicated periodically to the network, on work done by the Bank in terms of asset allocation and choice of portfolio on behalf of the customer. Official reports, statements and transparent information for customers



## AUTONOMY AND INTEGRITY IN COMPANY CONDUCT

### FAIRNESS AND TRANSPARENCY

Over the years, Banca Popolare di Sondrio has acquired and consolidated an excellent reputation, both nationally and internationally, as a bank characterised by sound and prudent management, which conducts business in compliance with the ethical principles of fairness, transparency, integrity and professionalism, as well as the rules of conduct set by art. 21 of the Consolidated Law on financial intermediation (Legislative Decree 58/1998).

The Bank's corporate and business objectives are pursued by all those operating within it with loyalty, seriousness, honesty, competence and transparency, in full compliance with the laws and regulations currently in force. These are the ethical principles to which the Bank aspires, in the context of its more than 100 year mission as a cooperative bank, and from which derive its models of conduct, in order to compete effectively and fairly in the market, to satisfy the expectations of the communities of the territories in which it operates, to improve customer satisfaction, increase shareholder value and develop the skills and professional growth of its human resources. The creation and dissemination of business values cannot be separated from real respect for fundamental principles such as professional correctness, personal integrity, effective protection of health and safety in the workplace, as well as transparent competition on the market by all those who work there. In this regard, the Code of Ethics, adopted by both Banca Popolare di Sondrio and Factorit, obliges all third parties with which the Bank has relations to avoid behaviour that could compromise the integrity and reputation of the parties or such as to be interpreted as aimed at obtaining improper advantages. No member of staff can accept benefits in kind connected with business relations, if not after the approval of the Supervisory Body, as this would be interpreted as corruption.

The Bank has therefore prepared a structured and organic system (organisation, management and control model pursuant to Legislative Decree 231/2001) for prevention, deterrence and control, aimed at developing awareness in favour of people directly or indirectly involved in sensitive activities susceptible of corruption. Thanks to constant monitoring of activities, the Bank has set itself the task of preventing or reacting promptly to prevent the commission of this type of crime. A Supervisory Body has been set up with the task of monitoring the functioning and observance of the model and to ensure that it is updated.

Banca Popolare di Sondrio (SUISSE) SA does not have any particular risk of corruption deriving from business activities, as it is subject to strict supervision by the Swiss Supervisory Authority.

Much attention is paid to the selection of employees and the choice of service providers, thus helping to mitigate the risk. In fact, as per internal

policy, in the fulfilment of their professional duties, employees are prohibited from accepting gifts or accepting offers or soliciting directly or indirectly advantages of any kind. Serious violations of internal, sanctioned regulations may be deemed to be grounds for dismissal.

The Bank has identified potential areas of risk of internal fraud and has implemented suitable prevention measures to ensure effective internal control. The internal regulatory apparatus, the separation of duties, inclusion in the relevant operational flows according to the “four-eyes” principle, the establishment of first level formal controls as well as the presence of independent units responsible for second level controls (Risk Control Office and Compliance Office) and third level (Internal Audit) ensure that operations are in compliance with regulatory standards in all respects.

The organisational models adopted by the Parent Company and by the subsidiary Factorit, which are designed, inter alia, to prevent corruption, explicitly state that the entities are required to provide information and training to all staff to whom the Code applies (BNT also has a model and code of ethics, albeit “inherited” from the previous management structure).

Information is transmitted by means of circulars and the publication of internal regulations. The training is developed through classroom courses and compulsory courses accessible via the multimedia platform.

Banca Popolare di Sondrio (SUISSE) SA's corporate bodies and independent control functions are also aware of the risk of corruption. However, the laws in force do not require that the latter carries out specific training on anti-corruption policies or procedures.

The situation in Switzerland does not currently represent a material risk, to the extent that in international statistics on corruption, the Swiss Confederation ranks as one of the least corrupt countries of all. The Supervisory Authority requires the Bank to provide adequate training on Compliance, Anti-Money Laundering and Rules of Conduct in the market, which takes place regularly.

All members of the governing bodies and the business partners have been informed about the anti-corruption policies and procedures adopted.

In addition to the specific issues of corruption envisaged under the organisational model as per Law 231/2001, staff training includes anti-money laundering and the fight against terrorism, which are also considered for the purposes of the Non-Financial Report. The multimedia platform contains training modules that reach all staff and two information modules for new recruits (issued every six months) dedicated specifically to these important issues.

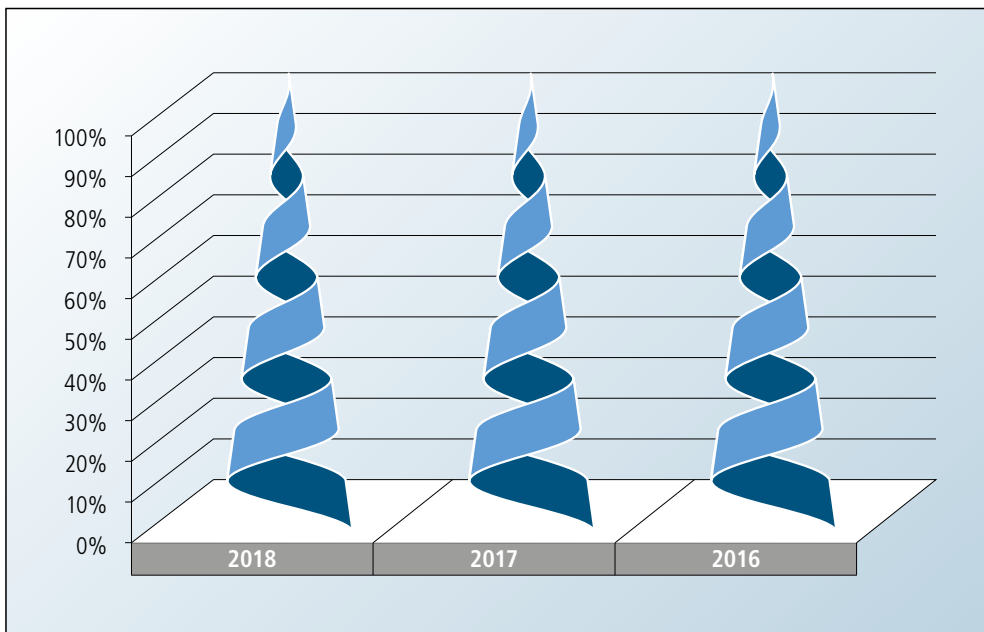
**No cases of corruption have been found in any of the Group companies.**

There are plans to update the 231/2001 organisational model in 2019 to incorporate new, recent legislation concerning administrative responsibility, such as the introduction of whistleblowing procedures.

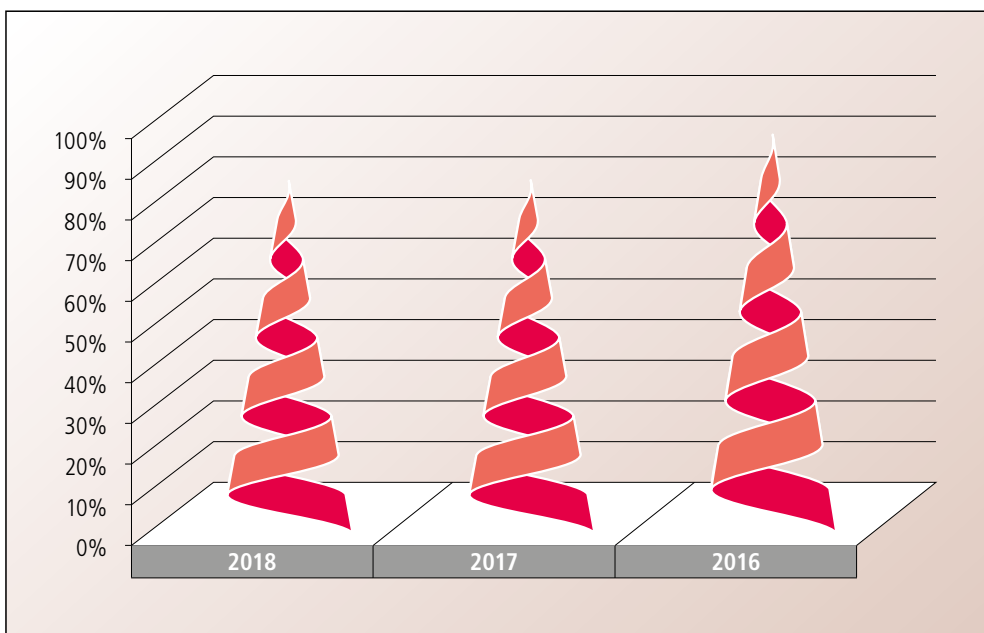
**GRI Standard 205-3: Confirmed incidents of corruption and actions taken.** *There have been no reports in the period of incidents of corruption.*

**GRI Standard 206-1: Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices.** *There were no legal actions in the period relating to this topic.*

**GRI Standard 205-2: Communication and training related to anti-corruption policies and procedures**



*Percentage of members of the governing bodies who have benefited from anti-corruption training in the three-year period*



*Total percentage of employees who have benefited from anti-corruption training*



## RISKS ASSOCIATED WITH THE TOPIC

The Group promotes an approach to banking in accordance with principles of professionalism and customer care, with a view to establishing and maintaining relationships based on fairness and mutual respect, preventing risks, mainly of a legal and reputational nature, attributable to inadequate provision of financial services or conduct detrimental to customers' interests.

Particular attention is paid to the pursuit of appropriate levels of information transparency, not only in terms of regulatory compliance, but also to ensure that customers are fully aware of the characteristics and costs of the products and services that they are offered or hold.

To protect the confidentiality and integrity of company data, above all those of customers, and the related risks of illegal manipulation and theft, the Group also adopts suitable IT processes and controls for the acquisition, custody and processing of confidential and sensitive information, in compliance with regulatory requirements.

Subtopics	Description of the topic	Risks generated / incurred	Monitoring procedures
<b>Fairness and transparency</b>	<i>Pursuit of the Bank's corporate and business objectives by all those operating within it with loyalty, seriousness, honesty, competence and transparency, in full compliance with the laws and regulations currently in force</i>	Risk of internal fraud	Gradual digitalisation of the Bank, manually managed processes are far fewer now and thus the risk is lower, although not annulled; sample checks by the heads of individual offices and by the Compliance Office; signing of Code of Conduct to create upstream awareness
		Risk generated by compliance with new regulations, particularly: <ul style="list-style-type: none"> <li>a. MiFID II (not currently totally compliant: It should there be a Consob inspection);</li> <li>b. regulatory requirements for marketing campaigns that set out precise rules (e.g. font size);</li> <li>c. IDD</li> </ul>	Technical training through online and non-online courses designed to compensate for the limited juridical-legal and financial skills of certain operators required to implement new regulations
		Risk incurred due to insufficient motivation of staff confronted with extensive regulatory obligations and of which operating staff has little knowledge for the purposes of their application (as there is no centralised organisational structure for the application of regulations)	

## PRIVACY AND DATA PROTECTION

Protection of the confidentiality and integrity of customer and employee data is ensured by specific operating functions which handle the operational and regulatory aspects, cooperating with internal and external resources. Information is a fundamental asset for the Bank and is therefore protected by various levels of security depending on their value and the risks related to their treatment.

As from January 2018, a significant step has been taken towards maturity in data management, consisting of “transferring the operational supervision of the protection of personal data to the new Data Management and Protection Office, which is also responsible for data quality and data governance”.

In May 2018, the Board of Directors approved the corporate data protection regulations, which are accompanied by detailed manuals relating to:

1. Data protection operating model: this is a process reference model, which updates and amends existing procedures to reflect new regulatory requirements concerning data protection;
2. Data protection organisational model: this details the structures and roles that guarantee the direction and governance, execution and control of the data protection operating model;
3. Data protection control model: this sets out the internal control system for data protection.

On account of the regulatory requirements laid down by the GDPR (General Data Protection Regulation), in addition to the needs of data protection governance, the bank, through its corporate regulations and detailed manuals, has completed the determination of the technical and organisational measures needed for compliance with data processing regulations, via the adoption of proactive behaviour aimed at ensuring compliance with the GDPR (as well as related regulations) and the protection of the rights of the parties concerned.

In accordance with the principle of accountability, the bank has identified, as follows, the players that essentially constitute the data protection operating model, but wishes to emphasise that the correct management of privacy legislation involves staff across the entire corporate structure:

- controller;
- internal data processors;
- external data processors;
- DPO.



The Human Resources department has activated a number of multimedia courses for employees on the following topics:

- Privacy code;
- Security of personal data within the Bank;
- Protection of privacy in the promotion and sale of products and services within the Bank;
- Management of employee data within the Bank.

Banca Popolare di Sondrio (SUISSE) SA is also very careful and scrupulous in managing the question of privacy. Cyber security is under the responsibility of the Security Officer and managed through a Control Framework (annual, monthly and continuous checks). Any incident that takes place (whether IT or specifically a Security issue) must follow a well-defined notification process and the disclosure of confidential data is part of this domain. The process foresees the immediate involvement of the Security Officer, who handles escalation to the correct organisational levels, if needed. A summary of the incidents that have taken place is communicated regularly to management (through the Risk Committee and through a section in the monthly security report). On an annual basis, the entire Control Framework is reviewed by means of a security assessment addressed to General Management. This entire process is aligned with the FINMA regulations and checked regularly.

The assessment of privacy risk is performed by the controller in close collaboration with the ICT security team based on procedures indicated in the data protection operating model.

Furthermore, it should be noted that BPS has had an information security management system in place for some time now that has been certified to ISO27000 by the certifying entity DNV GL. This certification, which relates to IT security and which has been awarded annually since 2006, has continuously evolved over the years and the scope thereof, which has been subjected to strict control, has been extended several times.

#### **GRI Standard 418-1: Substantiated complaints concerning breaches of customer privacy and losses of customer data**

	2018	2017	2016
<b>Total number of complaints concerning breaches of customer privacy</b>	<b>0</b>	<b>2</b>	<b>0</b>
of which: from external parties	0	2	0
of which: from regulators	0	0	0

*Two complaints have been handled, one concerning internet banking and the other for a potential data breach that was then deemed not to be high risk for the rights and freedoms of the people concerned.*

## RISKS ASSOCIATED WITH THE TOPIC

Subtopics	Description of the topic	Risks generated /incurred	Monitoring procedures
<b>Privacy and data protection</b>	<i>Protection of the confidentiality and integrity of customer and employee data is ensured by specific operating functions which handle the operational and regulatory aspects. Information is a fundamental asset for the Bank and is therefore protected by various levels of security depending on their value and the risks related to their treatment (known as "risk-based security")</i>	Risks associated with the processing of sensitive / personal data	Risk-based security: application of various levels of security depending on the value of information and the risks related to the processing thereof. Multimedia courses for employees. Information security management system certified to ISO27000. Security Officer. Annual security assessment conducted for the entire control framework and addressed to general management, aligned with FINMA regulations and checked regularly
		Compliance risk (GDPR)	Ad hoc meetings since 2016 to present the main changes introduced by the regulation to service managers and the Bank's deputy general managers. Register compiled via face to face interviews with all the organisational units' data processors. Configuration Management Data Base (CMDB)



## ENHANCEMENT OF OUR HUMAN RESOURCES

### CREATING VALUE THROUGH THE VALUE OF PEOPLE

The development and success of a service company cannot be separated from the quality of its personnel which, in relations with customers and in the offer of products and services, is a distinctive factor that is recognised and appreciated by the market. Over the years, Banca Popolare di Sondrio has kept faith with its principle of growth based on the implementation of an internal process to develop staff skills, which enhances young high school leavers and recent graduates in their first work experience.

The recruitment of external professionals, who must respect the balanced work environment, is limited to specific cases and is mainly to procure skills not easily available within the Group. This results in a strong sense of cohesion and the perception of organizational clarity, which staff can identify with. Underlying the foregoing is a robust and consolidated staff management and training system, which aligns individual career paths with the corporate objectives of developing skills in order to ensure the satisfaction of professional needs.

Insertion of new recruits is an essential process for the organic growth plan. It takes place mainly at the branches and in compliance with defined learning objectives, in line with the Bank's development plan. The needs of professionalism are mainly satisfied, on the one hand, with the insertion of new recruits, and on the other by means of staff rotation in different professional roles of increasing complexity; rotation that is supported by an intense training activity.

Consequently, an evaluation system has been introduced to support the development and professional improvement of each individual, to encourage their skill in interpreting organisational and behavioural models in the performance of their duties and roles. The system refers to two different types of assessments: performance assessment and the skills survey.

Performance assessment takes account of staff conduct and measures the gap between job expectations and the results obtained in the year, in accordance with the relevant national collective bargaining agreement and as agreed with the trade unions.

The skills survey aims to map the professional skills that exist within the Bank, to plan targeted actions for the management and development of personnel and to implement training plans. This survey concerns the acquired level of mastery of the processes in question and possession of the knowledge and skills needed for the role being played. To further enhance the effectiveness of the instrument – at the same time encouraging the processes of empowering people, self-diagnosis and promoting self-development skills – the survey carried out by the heads of the operating units is accompanied by a self-



assessment carried out by each employee; this also in order to acquire directly from the source employees' personal perception of their level of autonomy in the work that they perform and the technical knowledge that they have developed.

The performance assessment and the skills survey ends with an individual feedback interview by the employee's direct supervisor, during which they analyse the evidence emerged from the findings and discuss their expectations of professional growth, motivations, interests and aspirations.

The Bank complies with the regulations aimed at respecting the principle of non-discrimination in access to employment, training and professional promotion and in working conditions. The Code of Ethics confirms that the Bank undertakes to guarantee working conditions that respect the dignity of the person and that forms of discrimination contrary to the law are not admitted or tolerated. To this end, it requires that acts of psychological violence or attitudes or behaviour that discriminate or harm the person, their beliefs or preferences in internal or external work relationships are not allowed.

The Bank insists that there is no mobbing or harassment of any kind in internal or external work relationships; furthermore, the Bank will not adopt or tolerate any form of retaliation against employees who complain about discrimination or harassment, nor against other workers who report such situations.

### GRI Standard 102-8: Information on the staff

**Total employees by gender:** the number of employees is constantly increasing, in contrast to the sector. Female members of staff are showing a more rapid growth trend, favoured by new hires and by the fact that resignations are mainly of men.

2018			2017			2016		
Women	Men	Total	Women	Men	Total	Women	Men	Total
703	2,537	<b>3,240</b>	668	2,528	<b>3,196</b>	645	2,508	<b>3,153</b>

**Total employees by job category:** organic growth involves the recruitment of mainly high school leavers or recent graduates with little or no work experience. The growth trend in female employees is higher.

Category	2018			2017			2016		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Managers	0	39	39	0	38	38	0	37	37
Middle managers	71	684	755	72	668	740	64	655	719
Office workers	632	1,814	2,446	596	1,822	2,418	581	1,816	2,397



## Total employees by age

Age	2018			2017			2016		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
<= 29 years old	139	269	408	126	280	406	125	311	436
30-50 years old	441	1,671	2,112	437	1,693	2,130	428	1,685	2,113
>= 51 years old	123	597	720	105	555	660	92	512	604

**Breakdown by contract type:** the Group's growth in size favours the inclusion of employees with permanent contracts. The use of fixed-term contracts is limited to impromptu situations.

Type of contract	2018			2017			2016		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Total number of permanent contracts	686	2,507	3,193	651	2,490	3,141	628	2,483	3,111
Total number of fixed-term or temporary contracts	17	30	47	17	38	55	17	25	42

**Breakdown by type of employment:** there has been an higher use of part-time employment for female staff to help them reconcile their personal and family needs with those of the Bank.

Type of employment	2018			2017			2016		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Full-time employment as defined by national laws	605	2,519	3,124	581	2,515	3,096	554	2,497	3,051
Part-time employment as defined by national laws	96	20	116	87	13	100	91	11	102

## Breakdown by areas of employment/task

	2018			2017			2016		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Total ABI categories	703	2,537	3,240	669	2,527	3,196	645	2,508	3,153
distribution	347	1,795	2,142	318	1,818	2,136	307	1,793	2,100
business unit	65	182	247	70	173	243	63	180	243
staff	167	241	408	146	203	349	145	204	349
operational services	124	319	443	135	333	468	130	331	461

## Employees broken down by area of operations

	2018			2017			2016		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
North	525	2,098	2,623	508	2,092	2,600	486	2,085	2,571
Centre	35	252	287	29	251	280	27	248	275
Abroad	143	187	330	131	185	316	132	175	307

**Breakdown by educational qualification:** there is a higher growth trend in graduate staff, given that new recruits tend to be increasingly qualified from a scholastic point of view.

Education	2018			2017			2016		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
University degree	337	889	1,226	295	830	1,125	272	803	1,075
High school diploma	356	1,601	1,957	361	1,648	2,009	362	1,650	2,012
Middle school diploma	8	49	57	12	50	62	11	55	66

## GRI Standard 102-41: Collective agreements

As far as Banca Popolare di Sondrio and Factorit are concerned, all employees for the three-year period were covered by collective agreements, whereas Banca Popolare di Sondrio (SUISSE) SA does not apply collective agreements under Italian law. Swiss labour law is in any case complied with.

The Staff Regulations form an integral part of all employment contracts with Banca Popolare di Sondrio (SUISSE) SA and are valid for all employees and collaborators employed in Switzerland.

The rights and obligations of the employee are governed by the following rules with the following hierarchy, except for any mandatory provisions:

- individual job contract;
- the Regulation;
- the Convention on the Working Conditions of Bank Employees (CCBE);
- Code of Obligations (CO) and the Federal Labour Law;
- the Federal Law on Banks and Savings Banks.

The CCBE applies to all employment relationships stipulated for a period of more than three months.

The working relationships of the members of management are not subject to the Convention, except as provided for in the Agreement on waiving the registration of working hours, which they are asked to sign.



## Total employees covered by a collective labour agreement

	2018			2017			2016		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Employees covered by coll. labour agreement	560	2,350	2,910	537	2,343	2,880	513	2,333	2,846
Employees NOT covered by a collective labour agreement (Suisse)	143	187	330						

## GRI Standard 401-I: Total number and turnover rate by age, gender and region

New recruits: age	2018			2017			2016		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Total	82	98	180	54	122	176	57	74	131
<= 29 years old	57	78	135	39	77	116	45	45	90
30-50 years old	21	17	38	12	34	46	10	25	35
>= 51 years old	4	3	7	3	11	14	2	4	6

Incoming staff turnover	2018			2017			2016		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Ratio between new recruits and total employees	12%	4%	6%	8%	5%	6%	9%	3%	4%

**Leavers:** the number of leavers continues to be at levels that are considered physiological; there has been an increase in the number of leavers going into retirement.

Leavers	2018			2017			2016		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
<b>By age:</b>									
<= 29 years old	30	44	74	19	39	58	11	18	29
30-50 years old	11	27	38	8	31	39	8	28	36
>= 51 years old	9	24	33	4	32	36	3	22	25
<b>Reason for leaving:</b>									
Voluntary leavers (excluding retirement)	19	42	61	13	48	61	10	34	44
Retirement	3	18	21	4	28	32	2	13	15
Dismissal	3	8	11	1	8	9	4	6	10
Other (i.e. end of a fixed-term contract)	25	27	52	13	18	31	6	15	21

Outgoing turnover rate	2018			2017			2016		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Ratio between leavers and total employees	7%	4%	4%	5%	4%	4%	3%	3%	3%

## RISKS ASSOCIATED WITH THE TOPIC

The Group pursues policies of careful selection and management of human resources, sharing principles and behaviours inspired by professionalism, transparency, honesty, fairness and attention to the customer, to prevent risks, mainly of a legal and reputational nature, which could derive from improper behaviour that does not comply with the corporate spirit or current regulations, including discriminatory behaviour.

Particular attention is also paid to the growth and enhancement of staff, through constant training and professional development, with the aim, among other things, of promoting a widespread culture of risk prevention and mitigation.

The Group protects the health of its customers and employees in full compliance with the provisions on health and safety at work, making all staff aware of the risks involved and the adoption of responsible behaviour, as well as preparing appropriate prevention measures, including the stipulation of appropriate insurance.

Subtopics	Description of the topic	Risks generated / incurred	Monitoring procedures
<b>Creating value through the value of people</b>	<i>Pursuit of organic growth objectives based on the development of human resources and the recruitment of young people with the aim of developing and strengthening internal cohesion. Attention is therefore particularly focused on the following main variables: measurement of professional needs, number of employees, recruitment, selection and insertion of new recruits, evaluation, training and rotation of internal resources</i>	Risk incurred due to improper conduct affecting the Bank's growth objectives	Staff remuneration policies: fixed remuneration without any variable component based on economic/sales performance



## ENHANCEMENT OF HUMAN RESOURCES

Professional growth is supported by a training system that includes projects destined to specific segments of the corporate population, such as new recruits, and the development of all the main issues of the banking business. Training programmes do not neglect the transversal contents of the various professions that exist within the bank, with the aim of strengthening certain abilities, such as the relationship, negotiation and management skills.

A great deal of attention is given to training new recruits, in order to support the organic growth model. A new training programme is dedicated to new recruits: by integrating various methods (classroom, multimedia, targeted on-the-job support), it covers not just the specific regulatory and process aspects of the front and back office roles of the branch, but also notions regarding the organisation of the Bank, the rules governing the employment relationship, corporate security and the main business areas: the commercial products and services on offer, an introduction to lending, the securities markets and international operations. Some modules are also dedicated to behaviour and the development of personal skills.

The training offer that characterises the various activities of the banking sector is wide. In this regard, the HR Department supports the central structures in planning training initiatives for various areas such as, but not limited to, IVASS, portfolio advice, MiFID2, compliance, lending (preliminary investigation, guarantees, management and control of positions assigned, analysis of a business in financial difficulty, analysis of financial flows, monitoring and management of overruns), SEPA, transparency, privacy, health and safety of workers, administrative responsibility of banks, cash recirculation, usury and anti-money laundering.

In addition to the traditional classroom courses, there are various training proposals available through e-learning tools.

The training programmes also deal with the issues of quality certification processes in accordance with ISO9001 and ISO27001 standards. These processes are an integral part of the company strategy, in a constant search for customer satisfaction and ever-increasing efficiency, with the aim of bringing benefits in the organisation and work processes, together with the involvement (training and information) of the staff.

With regard to Banca Popolare di Sondrio (SUISSE) SA, in addition to the managerial training programmes for managers of the production units and for new resources, the employees assigned to consultancy to private customers are involved in educational activities aimed at obtaining the Federal Certification SAQ (Swiss Association for Quality).

Young members of staff are given the possibility of an internship with one of our German or French speaking branches to practice and develop their foreign language skills.

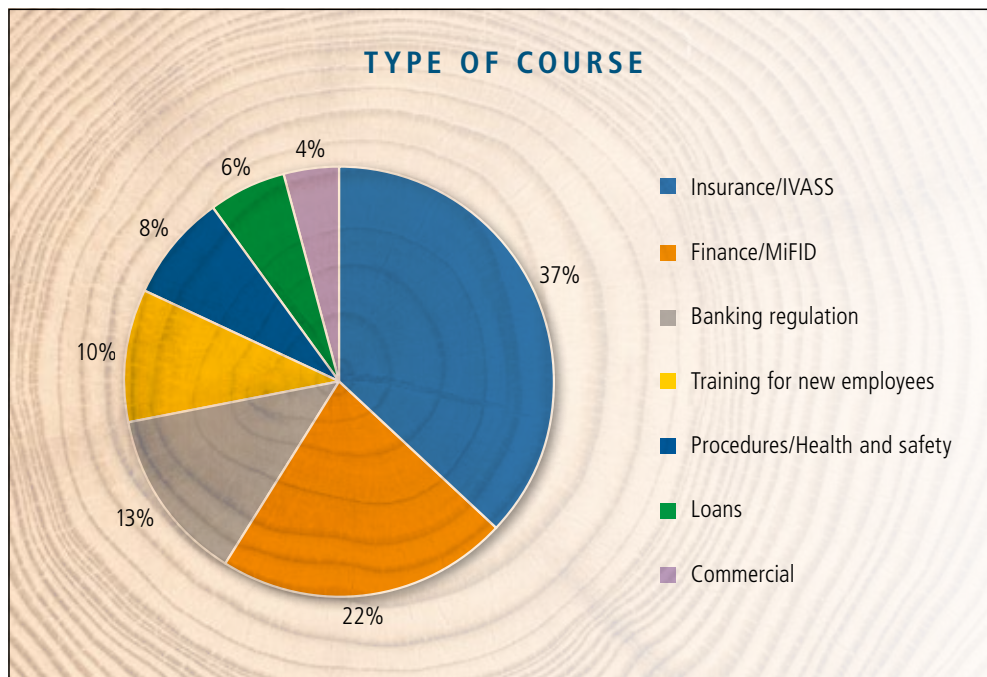
Job rotation is practised in small operating units as an opportunity for professional training.

**GRI Standard 404-1: Average annual training hours per employee the numbers refer to head counts.**

**Total number of training hours to employees**

Qualification	2018			2017			2016		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Managers	0	889	889	0	352	352	0	539	539
Middle managers	1,306	27,082	28,388	1,608	21,612	23,220	1,484	24,625	26,109
Office workers	17,902	81,859	99,761	15,048	62,653	77,701	15,518	71,926	87,444

Average training hours per employee	2018			2017			2016		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Managers	0	23	23	0	9	9	0	15	15
Middle managers	18	40	38	22	32	31	23	38	36
Office workers	28	45	41	25	34	32	27	40	36



Banca Popolare di Sondrio has for years been the point of reference for commercial and technical schools in Lombardy and collaborates with the main universities in the area for orientation activities, internships and placement of students, undergraduates and graduates.



BPS has relations with around 30 universities and 250 technical schools for post-diploma placement. In 2018, it organised orientation meetings with students of 44 of these schools, training activities with teaching in the classroom and work/school alternation projects.

Collaboration with the universities aims at encouraging orientation in the world of work and career choices, offering young people a chance to acquire the first contact tools in their search for a job that responds to their personal aptitudes and expectations. At the same time, it has allowed the Bank to select, through the university channel, the resources with the skills most suited to its recruitment needs. This consists of orientation meetings and presentation of how the Bank operates, participation in career days and the organisation of internships.

As a result of these activities, in the last 10 years, the Bank has offered internships to approximately 2900 students, 181 of which were in 2018.

### RISKS ASSOCIATED WITH THE TOPIC

Subtopics	Description of the topic	Risks generated / incurred	Monitoring procedures
<b>Personnel enhancement</b>	<i>Professional growth is supported by a training system that includes projects destined to specific segments of the corporate population and development of all the main issues of the banking business. Training programmes do not neglect the transversal contents of the various professions that exist within the bank, with the aim of strengthening certain abilities, such as the relationship, negotiation and management skills</i>	Risk generated by the potential discouragement of Bank staff, arising from a lack of mutually agreed career paths	There are no formal policies for role advancement and career development, but: <ul style="list-style-type: none"> <li>– there is a <u>well established practice</u> of recruiting staff on apprenticeship contracts with terms of approximately 3 years, generally followed by a classic professional development path;</li> <li>– <u>various staff training activities</u> are carried out</li> <li>– all deserving employees (taking account of the operating context) are offered <u>opportunities for internal growth, including in other areas of the business</u></li> </ul>
		Risk incurred due to staff conduct / performance not in line with expectations	<u>Personnel office</u> , which, through a well-structured process, monitors each individual employee and his performance over time



## HEALTH AND SAFETY

The Group pays particular attention to protecting the health and safety of workers.

Constant control and improvement in this area represent the main policy and objectives, as well as the “precautionary principle” on the basis of art. 15 of Legislative Decree 81/08, and art. 2087 of the Italian Civil Code, in drawing up measures to improve the “welfare” of workers. These are achieved through one line control (Managing Entity) and one Level II control carried out by the Bank’s Internal Audit Department.

The main management system adopted by the Bank follows what was laid down in the former art. 30 of Legislative Decree 81/2008: it is made up of operating instructions and procedures relating to the various areas of safety in the workplace, over which control is carried out by each of the Bank’s Managing Entity. In particular, some of the areas subject to monitoring are those related to compliance with technical-structural standards (e.g. equipment, systems, physical agents, etc.), risk assessment and prevention and protection measures, organisational activities (e.g. emergencies, first aid), health surveillance and information and training for workers.

In compliance with the decree (which defines the safety organisation chart and the related responsibilities), the employer has appointed the manager, the head of the prevention and protection unit, the people in charge of the prevention and protection unit, the people in charge, the fire fighters and first aid units, and the company doctor. The workers’ safety representatives are elected by the workers by means of a vote. Safety officers are trained through specific courses.

Each year, the HR Department gathers and implements data relating to work-related stress and the specific risk is reassessed every two years.

As regards the Swiss subsidiary, the control protocol and the MSSL Federal Directive (concerning the use of company doctors and other safety specialists) guide the company’s management methods and the methodology adopted. In fact, they are equipped with safety guidelines on how to organise it, for the protection of health. The guidelines regulate, among other things, ventilation and air quality, ergonomics, control of stress factors, duration of work, special protections, such as those for new mothers, environmental protection, lighting and noise checks.

All employees have carried out a general training course on this issues (updates are made according to the new indications coming from the State and Regions Agreement of 21 December 2011 and 7 July 2016); employees who work more than 20 hours per week at a video terminal are subject to health surveillance.

One of the biggest risks for the health and safety of bank workers is a robbery: this is a phenomenon due to fraudulent conduct by third parties, that obviously cannot be eliminated at source by the Company, but which is



decreasing, mainly due to the lower amount of cash held by each teller and the widespread presence of video surveillance systems.

This risk is managed through:

- use of ABI's OS.SI.F. (Observatory for Physical Safety) procedure in order to define the endogenous, exogenous and combined risk indices.
- Signing memoranda of understanding with local Prefectures (Police) with the adoption of defensive preparations.
- Implementation of specific anti-robbery training courses.
- Psychological assistance for workers who are victims of robberies.

### **GRI Standard 403-2: Type of accident, accident rate, occupational diseases, lost work days, absenteeism and number of work-related fatalities**

<b>Type of accident</b>		<b>2018</b>	<b>2017</b>	<b>2016</b>
Accidents at work	no.	39	21	29
<i>of which:</i>				
Accidents during working hours	no.	9	5	8
% of total	%	23.1%	23.8%	27.6%
Accidents while commuting	no.	30	16	21
% of total	%	76.9%	76.2%	72.4%

<b>Workdays lost, days of absence and hours worked</b>		<b>2018</b>	<b>2017</b>	<b>2016</b>
Workdays lost due to accidents	days	374	331	741
Days of absence during the period	days	15,577	14,537	13,635
Hours actually worked	hours	5,199,987	5,107,453	5,023,121
Workable days	days	801,746	783,270	784,732

<b>Accident rate</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Accident rate (frequency)*	7.5	4.112	5.773
Severity rate**	0.072	0.065	0.148

\* The accident rate is calculated by multiplying the number of injuries by one million and then dividing by the number of hours worked

\*\* The severity rate is calculated by multiplying by 1,000 the total number of days lost through injury divided by the number of hours worked

<b>Accident rate</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Absenteeism rate***	1,94	1,86	1,74

\*\*\* The absenteeism rate is the ratio between days of absence and workable days multiplied by 100

## GRI 403-4: Health and safety topics covered in formal agreements with trade unions

Health and safety in formal agreements with trade unions		2018	2017	2016
Total agreements with trade unions concerning health and safety	no.	0	0	0
Total agreements with trade unions	no.	1	1	1
Percentage of total agreements with trade unions concerning health and safety	%	0	0	0

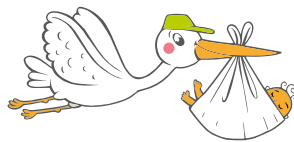
## RISKS ASSOCIATED WITH THE TOPIC

Subtopics	Description of the topic	Risks generated / incurred	Monitoring procedures
<b>Health and safety</b>	<i>The Group pays particular attention to protecting the health and safety of workers. Constant control and improvement in this area represent the main objectives, in drawing up measures to improve the "welfare" of workers</i>	Risk generated by compliance and consequent reputational risks associated with health and safety conditions of the Bank's employees	Code of Ethics of BPS The Supplies, Technical and Prevention/Safety Office deals with the monitoring of compliance risks. This is based on support provided by ABI, which, via ABIX, sends the Bank information about the Bank's health and safety regulatory compliance requirements. For risks under art. 30 of the Consolidated Banking Act: Health & Safety Manager (where one exists), Safety Management Model, Validation of Existing Appraisal/Evaluation, Interference Risk Assessment Certificate (DUVRI)
		Risk of robberies	ABI's OS.SI.F. (Observatory for Physical Safety) procedure in order to define the endogenous, exogenous and combined risk indices. – Signing memoranda of understanding with local Prefectures (Police) with the adoption of defensive preparations. – Implementation of specific anti-robbery training courses. – Psychological assistance for workers who are victims of robberies

## CORPORATE WELFARE

### “SUISSE”, a bank that has its employees at heart

Partnerships with gyms, citrus fruit distribution between November and February, birthday chocolates, FELFEL (healthy and organic food in the break room), flowers sent to hospital patients, opening of an account on birth of son/daughter (on his/her behalf), cover for occupational accidents and all the time needed to see to and care for children and parents in the event of accidents and illness.



Opening of an account on birth of child



Flowers sent to hospital patients



Partnerships with gyms



Citrus fruit distribution

The main types of corporate welfare offered by BPS are as follows:

**Corporate productivity bonus:** the current national labour contract (which leaves it to the company contract to define the criteria for awarding bonuses) for managerial staff and personnel of the professional areas envisages the adoption of a corporate productivity bonus (governed by specific second-level company agreements) linked to the company’s results in terms of real increase in productivity and/or profitability that can be objectively verified on the basis of the financial statements;

**Long-service bonus:** employees who work at Banca Popolare di Sondrio for an effective period of 30 years are paid a “long-service bonus” of 2,300 euro gross;

**Graduation bonus:** non-graduate workers who, after two years of employment, complete a three-year degree course included among those that used to lead to conventional seniority under the labour contract, are awarded a one-off bonus of 1,800 euro gross;

**Scholarships:** scholarships are offered to children and/or people who are tax dependents, the amount of which is based on the grade of school attended;

**Meal contribution:** the company gives luncheon vouchers to non-residents (Euro 7.00) and residents (Euro 4.50), as indicated in the current national labour contract.

**Contribution for out-of-town accommodation:** if an employee has to spend the night out of town due to work requirements, the Company makes a monthly contribution towards their evening meal of 132 euro gross;

**Commuting contribution:** employees who live more than 60 km away from work (i.e. who have a 120 km round-trip) receive a monthly contribution of 132 euro gross towards their travelling expenses;

**Disabled contribution:** an annual contribution of 2,300 euro gross is paid to employees for each child with a serious physical or mental handicap that affects their learning ability, ascertained according to Law 104/92.

Healthcare assistance is provided to employees and their families through an internal welfare fund.

The purpose of the Welfare Fund is to help pay for hospital and health care in general – to supplement the national health service – as well as for other reasons, according to the procedures established by the Regulation. The duration of the Welfare Fund is set until 31 December 2050, unless it is extended.

It is inspired by the principle of mutuality and is based in Sondrio, at the Bank's headquarters.

The Fund implements the social purpose of the Bank by the following means:

- a) the contributions to be paid by the members of the Fund;
- b) the equivalent amounts to be contributed by the Bank;
- c) the contribution to be paid by the Bank towards the cost of medical check-ups;
- d) income generated by the Fund's assets;
- e) any offerings or contributions from institutions and individuals;
- f) any cash surpluses, after the ordinary prescription period, in accordance with the National Labour Contract.

Another important element contributing to welfare is the Bank's Recreation Club.

The "Recreation Club of the Banca Popolare di Sondrio Group", with headquarters in Sondrio, at the offices of Banca Popolare di Sondrio, is an apolitical, non-trade union and non-profit association, which aims to promote and organise cultural activities for its members and their families, such as cultural, recreational, sporting and any other activities that involve economic and/or welfare benefits for its members. Our Recreation Club has a board of



eleven members, elected every three years from among the employees and retirees of Banca Popolare di Sondrio Banking Group companies (in the form of voluntary work outside of working hours).

In this perspective, those who join in the Recreation Club's activities must accept the principle that what has been organised is designed to satisfy colleagues who are members and is managed with the "diligence of a good father".

This premise serves to stimulate the right attitude on the part of those who choose to participate in the Club's initiatives.

The initiatives proposed by the Club are intended for its members (employees and retirees); non-members are allowed to attend, providing they have been signed up by members and, normally, if accompanied by them.

Participation in Club events is normally subject to payment of a membership fee; the fee is differentiated between:

- the fee for non-members, which is equal to the cost of the event with the usual discount for Group fees. The Club does not apply any surcharge.
- the fee for members and their families is determined by applying to the full fee (for non-members accompanying members) a reduction that is covered by the contribution paid by the Club. In other words, the difference between the two fees is borne by the Club using the funds deriving from the annual membership fees of the members and the contribution made by the companies of the Banca Popolare di Sondrio Group.

## RISKS ASSOCIATED WITH THE TOPIC

Subtopics	Description of the topic	Risks generated / incurred	Monitoring procedures
<b>Corporate welfare</b>	<i>Development of a structured corporate welfare plan, with an offering of services and subsidies to improve the quality of life of employees inside and outside the company</i>	Risks generated by difficulties in reconciling work and private life	Although there are no formal written policies or procedures, the Bank seeks to meet staff needs and to address, as far as possible, requests made, in order to plan and organise, efficiently as possible, employees' working hours and to make prudent management and organisational decisions. However, initiatives undertaken by the Bank include an offer of accommodation to employees of branches located outwith their home territory. This is not a formal policy, but is something the Bank offers.

Subtopics	Description of the topic	Risks generated / incurred	Monitoring procedures
<b>Corporate welfare</b>	<i>Development of a structured corporate welfare plan, with an offering of services and subsidies to improve the quality of life of employees inside and outside the company</i>	Risks incurred due to an increase in work-related stress	The bank's <u>remuneration policies</u> that formalise additions to basic pay, which are not regulated via an intranet platform but by the contract. A <u>well-structured process for the determination of the additional quantum</u> based initially on staff reports and then on the standardisation of data by Personnel Service and the quantum is then determined by the General Manager. <u>Work flexibility</u> guaranteed by the recent introduction of part-time working (approximately 30/40 employees) and by an exceptional offer of flexible working hours. <u>Flexible choice of available locations</u> given to future branch managers prior to their transfer. The above are not formally regulated, but are exceptions offered individually
		Risk generated by disincantation of subsidiaries' staff caused by the current lack of a structured corporate welfare plan (under preparation) for the new subsidiaries (e.g. BNT)	The procedure for the integration of the personnel administration of Prestinuova and BNT staff is currently being drawn up

## DIVERSITY

The Bank complies with the regulations aimed at respecting the principle of non-discrimination in access to employment, training and professional promotion and in working conditions.

In agreement with the trade union representatives, a specific Committee for Equal Opportunities has been set up with the purpose of:



- identifying suitable measures for the realization of equal opportunities;
- promoting suitable actions to facilitate the reintegration of female workers after maternity leave and to safeguard their professionalism;
- promoting initiatives aimed at removing any behaviour harmful to personal freedoms, including sexual harassment;
- evaluating any reports about direct or indirect discrimination at a work or professional level and making proposals on the matter.

In compliance with the contract, without prejudice to the company's organisational requirements, the Bank grants flexibility or work hour reductions, especially to female staff, to allow them a better balance between personal and family needs and those of the company. Particular attention is also given to managing personnel who are seriously disabled. There is a constant involvement and closeness on the part of the HR Manager, even when returning to work, allowing flexibility in terms of working hours.

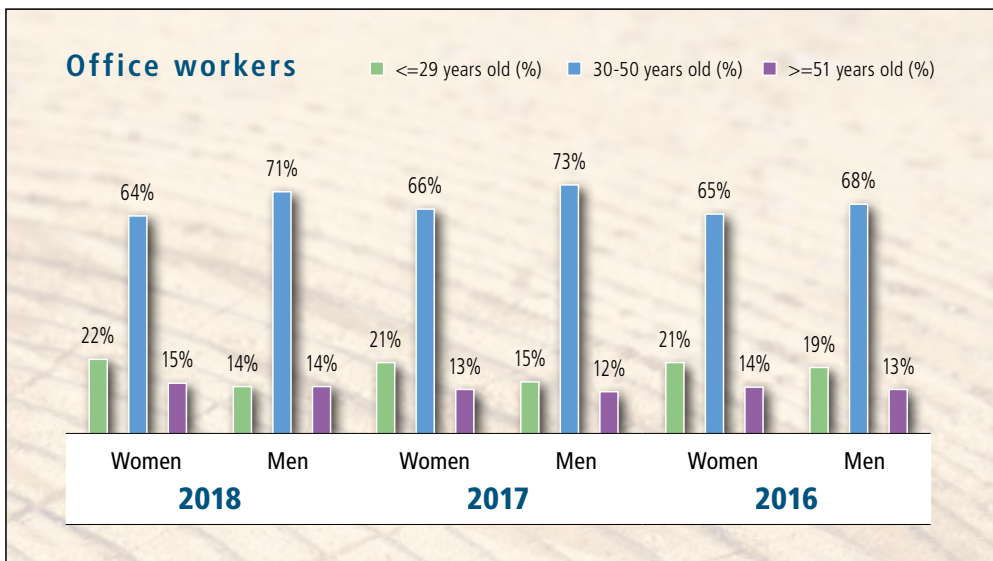
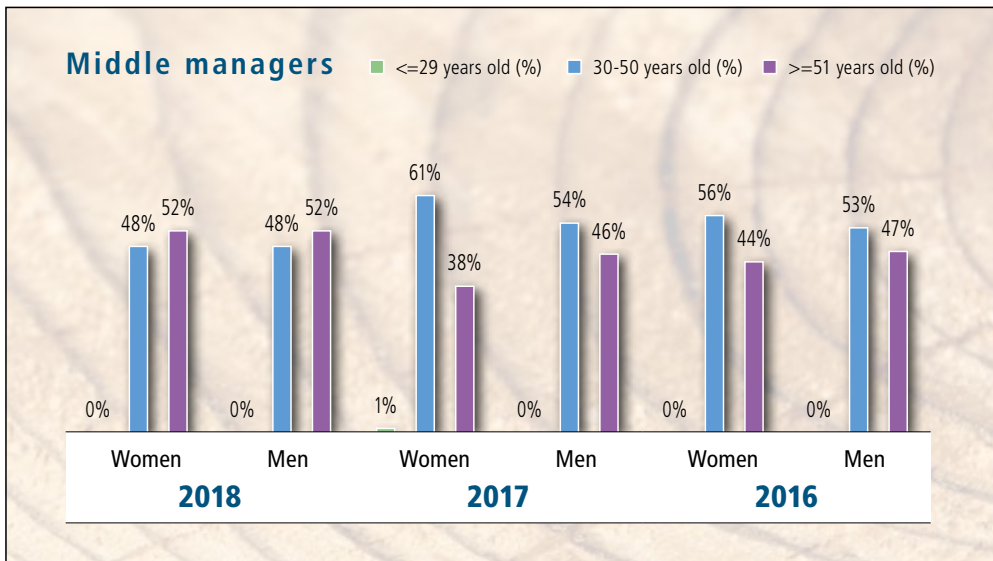
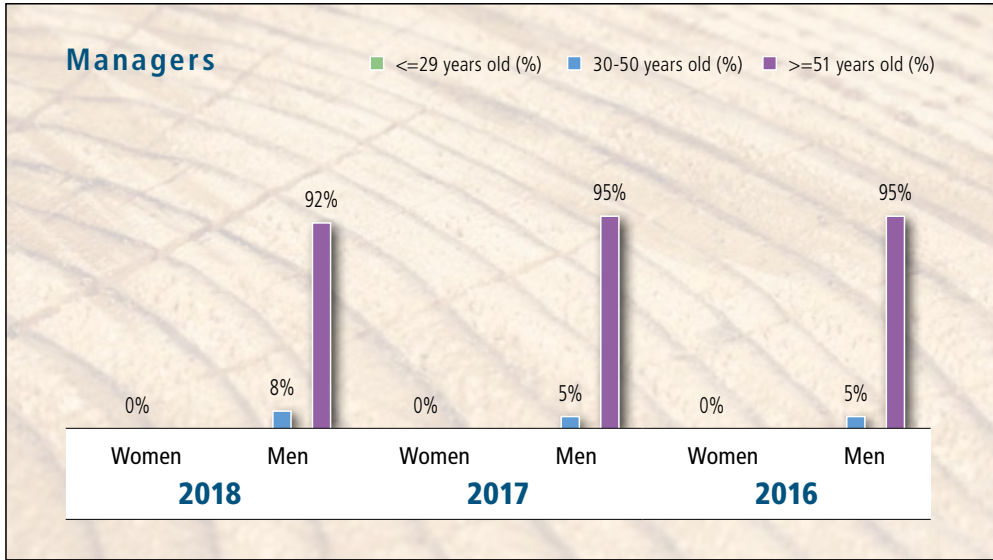
For its part, for the protection of diversity, BPS (SUISSE) has adopted a recruitment, selection and induction policy that focuses on the prevention of discrimination in terms of gender, religion and political creed. Diversity forms an integral part of its corporate policy. Training programmes are structured in a manner that involves all generations. Much attention is paid to facilitating the transfer of knowledge to younger members of staff and vice versa in order to create and spread knowledge. The teams are intergenerational and multigenerational.

### **GRI Standard 405-1: Diversity within the governing bodies and staff**

	2018		2017		2016	
	Women	Men	Women	Men	Women	Men
Total members of the Board of Directors (number)	6	9	5	10	5	10
Total members of the Board of Directors (%)	40%	60%	33%	67%	33%	67%

<b>Composition of the governing bodies: breakdown by age</b>	2018		2017		2016	
	Women	Men	Women	Men	Women	Men
<=29 years old (number)	0	0	0	0	0	0
<=29 years old (%)	0%	0%	0%	0%	0%	0%
30-50 years old (number)	1	0	1	0	0	1
30-50 years old (%)	4%	0%	5%	0%	0%	5%
>=51 years old (number)	5	9	4	10	4	10
>=51 years old (%)	33%	60%	27%	67%	27%	67%







## **GRI Standard 405-2: Ratio between average male and female basic salary by category and by operational qualification**

\* The figures do not include Banca Popolare di Sondrio (Suisse)

\*\* The percentage relative to the managers is not reported given the absence of female managers

Assuming that the base salary is the minimum, fixed amount paid to the employee for his work (excluding any additional amounts such as overtime or bonus), while remuneration means the basic salary plus any additional amounts paid to the employee, the average basic salary is the ratio between the basic salary and the number of middle managers or employees (by gender) in that particular year less any part-time employees, while the percentage is the ratio between the average female and average male basic salary.

### **MIDDLE MANAGERS**

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Average base salary	100%	96%	96%
Average remuneration	87%	89%	88%

### **OFFICE WORKERS**

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Average base salary	75%	91%	90%
Average remuneration	69%	83%	80%

## **GRI Standard 406-1: Discriminatory incidents and action taken: no discriminatory incidents were reported**

In order to promote the development of a legality culture and ensure a working environment where employees can report violations of external regulations without any problem, and thus prevent discriminatory attitudes, the Group has set up an internal system for reporting violations, implementing art. 52-bis of the TUB, which transposes into Italian law the provisions of the "CRD IV" Directive on "whistleblowing".

## GRI Standard 401-3: Maternity/Paternity

(1) Maternity/paternity leave is that which is obligatory as well as optional leave separated into periods of days

Maternity / Paternity	2018			2017			2016		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
No. of employees who have taken maternity or paternity leave	113	7	120	98	8	106	86	5	91
No. of terminations after returning from maternity or paternity <sup>1</sup> leave during the year	2	0	2	0	0	0	0	0	0
No. of terminations after returning from maternity or paternity <sup>1</sup> leave during the previous year	0	0	0	0	0	0	0	0	0
Rate of return to work after maternity or paternity <sup>1</sup> leave	98%	100%	98%	100%	100%	100%	100%	100%	100%
Work position retention rate after maternity or paternity <sup>1</sup> leave	100%	100%	100%	100%	100%	100%	97%	100%	98%

## RISKS ASSOCIATED WITH THE TOPIC

Subtopics	Description of the topic	Risks generated / incurred	Monitoring procedures
<b>Diversity</b>	<i>Compliance with the principle of non-discrimination in access to employment, training and professional promotion and in working conditions. Measures aimed at the promotion of equal opportunities within the organisational fabric</i>	1) Reputational risk associated with discriminatory incidents within the Bank	Internal system whereby staff may report acts or facts that may constitute violations of regulations governing banking activities in accordance with art. 52-bis of the Consolidated Banking Act on whistleblowing
		2) Risk generated by compliance (national rate of 7% for hiring disabled staff)	Ad hoc recruitment of disabled staff
		3) Reputational risk associated with potential imbalances in gender diversity	

## SUSTAINABLE MANAGEMENT OF OUR ENVIRONMENTAL IMPACTS

Banca Popolare di Sondrio implemented at least three years ago an energy efficiency and waste reduction policy based on a yearly comparison of the key data and parameters concerning the consumption of energy resources and materials by its properties.

This is performed by the Bank's technical service department, which, based on comparable data, conducts an extensive analysis aimed at identifying the least efficient and most impactful consumption centres, in order to propose improvement actions.

The environmental impacts, defined by the EMAS Regulation 761/2001 such as "changes to the environment resulting from the businesses, products and services of an organisation", are divided into:

**Direct:** the impacts directly related to the production, distribution and organisational processes (consumption of water or energy resources, production of waste and equivalents, emissions of climate-altering gases); with regard to their management, Banca Popolare di Sondrio has laid down a series of objectives/*modus operandi*:

- Improvement in energy utilisation systems by defining a Group standard that includes:
  - improvement in the energy class of new and existing buildings, through the use of high-performance construction and plant technologies;
  - the use of low-energy lighting systems through LED technologies;
  - the use of low-power hardware/IT equipment.
- Greater use of renewable energy sources with low CO<sub>2</sub> emissions, by means of:
  - an increase in the percentage share of electricity produced from renewable energy sources;
  - connection to district heating networks, where available;
  - progressive replacement of heating plants powered by fuels with a higher emission level.
- Reduction of paper consumption by optimising printing processes and greater use of electronic documents and increase in the use of recycled paper.
- Attention to the correct collection and disposal of waste produced by:
  - the maximisation of the portion of waste that can be recycled/reused;
  - the extension of separate waste collection for all types of waste produced;
  - continuous verification of the correct disposal of non-recyclable or reusable waste.

- Reduction of excesses in the use of water resources from aqueduct networks.
- Green purchases with lower environmental impact in their life cycle, through:
  - the use of recyclable cartridges and toner;
  - the use of ecological and/or recycled paper, or deriving from certified eco-compatible production processes (FSC);
  - the purchase, where possible, of local products and services, in order to minimize the environmental impact of transport and travel.
- Promotion of sustainable urban mobility, through:
  - the use of collective transport systems with a lower environmental impact when travelling between home and work and for work missions;
  - progressive inclusion in the company fleet of vehicles using lower emission propulsion systems.
- Management of environmental emergencies, through the implementation of appropriate prevention and protection measures in emergency situations and environmental risk assessment.

**Indirect:** they are the impacts over which the Company may not have total control, but for which it undertakes to adopt a precautionary approach, with the dual purpose of limiting the risks related to commercial operations and profit from new business opportunities in all areas of strategic activity.

Specifically, as regards its customers, the Group wants to encourage them to manage their activities in a sustainable manner, proposing banking products and services aimed at benefiting from new business opportunities and reducing the risks associated with strategic business operations.

To achieve this goal, it intends to implement:

- Consideration of environmental risk as part of the procedures for assessing creditworthiness.
- Promotion of financial instruments and products to improve energy efficiency in the following sectors:
  - business production processes.
  - eco-compatible building;
  - environmental certifications.
- Funding for the purchase of high energy class homes, for energy efficiency retrofits of buildings-plants and for the installation of systems for the production of energy from renewable sources (photovoltaic, wind and hydroelectric plants).
- Dissemination of specific insurance services for the environmental technology sectors.



- Selection of investment opportunities (private equity), with reference to companies belonging to “sensitive” sectors, through an assessment of regulatory compliance and environmental standards.
- Promotion of investment instruments characterized by a high level of environmental responsibility.

As regard suppliers, our main objectives are:

- to improve the supply chain through a selection process that takes into account ethical and environmental requirements;
- to put in place supply systems that minimise environmental impacts through an overall evaluation of the service offered.

The perimeter of environmental data reporting includes the following companies: Banca Popolare di Sondrio, Factorit SpA and Pirovano Stelvio SpA.

For the three years 2016-2017-2018 data pertaining to Banca della Nuova Terra have been excluded as they are marginal, as is also the case for Banca Popolare di Sondrio SUISSA – SA, as only partial data was available.

## ENERGY CONSUMPTION

### GRI Standard 302-1: Energy consumption in the Company\*

Direct energy consumption

	UoM	2018	2017	2016
<b>Heating</b>	<b>GJ</b>	<b>69,319</b>	<b>78,991</b>	<b>66,102</b>
natural gas	Smc	1,544,449	1,757,446	1,489,107
diesel fuel	l	451,943	517,463	417,274
LPG (liquid propane gas)	l	4,339	4,838	1,573
<b>Electricity consumed</b>	<b>kWh</b>	<b>18,138,677</b>	<b>18,318,688</b>	<b>18,329,046</b>
Purchased electricity	kWh	17,931,527	18,074,211	18,087,140
of which from renewable sources (purchased)	kWh	14,751,488	14,552,331	14,052,385
Electricity from renewable sources produced and consumed	kWh	207,150	244,477	241,906
<b>District heating</b>	<b>kWh</b>	<b>999,991</b>	<b>1,001,945</b>	<b>977,695</b>
Non-renewable district heating purchased	kWh	451,153	362,644	418,424
Renewable district heating purchased	kWh	548,838	639,301	559,271
Non-renewable air cooling purchased	kWh	0	0	0
Renewable air cooling purchased	kWh	0	0	0
<b>Total energy consumption</b>	<b>GJ</b>	<b>138,216</b>	<b>148,544</b>	<b>135,605</b>

	UoM	2018	2017	2016
Renewable energy	kWh	15,507,476	15,436,109	14,853,562
% renewable on the total	%	40,4%	37,4%	39,4%

Electricity consumption has remained largely unchanged. Gas and district heating consumption reflect the trend in seasonal weather conditions. Consumption of diesel for heating has decreased due to a number of conversions to gas thermal plants and to several interventions to improve the efficiency of old plants.

	UoM	2018	2017	2016
Non-renewable fuel consumption – Diesel	l	60,534	65,991	74,140
Non-renewable fuel consumption – Gasoline	l	19,603	31,443	27,541
<b>Total non-renewable fuels (including car park)</b>	<b>GJ</b>	<b>72,115</b>	<b>82,359</b>	<b>69,639</b>

\* Consumption is derived from fuel expenditure, based on an average pump price published annually by the Ministry of the Economy and Finance. The unit of measurement is the gigajoule



There has been a slight contraction in fuel consumption in 2018, compared to 2017, particularly with regard to petrol consumption due to the gradual ageing of the corporate car fleet and an increased use of hybrid cars.

## EMISSIONS INTO THE ATMOSPHERE

Direct emissions of greenhouse gases coming from combustion heat generators are subjected to periodic checks and combustion tests according to the indications contained in Presidential Decree 74/2013.

Each intervention report is filed in our Ordinary Routine Maintenance procedure.

Energy analyses are performed every six months or annually to determine consumption benchmarks for the various buildings.

These data are normally compared to average sector data published by ABI Energia Group in order to guide specific activities or generalised measures for energy management.

### GRI Standard 305: Emissions

Direct emissions (Scope 1)	UoM	2018	2017	2016
<b>Total direct emissions</b>	<b>t CO<sub>2</sub>e</b>	<b>4,759.40</b>	<b>5,348.50</b>	<b>4,775.80</b>
Heating oil	t CO <sub>2</sub> e	1,209.60	1,384.90	1,116.80
Diesel for motor vehicles	t CO <sub>2</sub> e	161.80	176.30	198.10
Petrol	t CO <sub>2</sub> e	46.00	73.80	70.50
LPG (liquid propane gas)	t CO <sub>2</sub> e	7.30	8.20	2.70
Natural gas	t CO <sub>2</sub> e	3,072.70	3,468.30	2,938.70
Fluorinated Greenhouse Gases (F-gas)	t CO <sub>2</sub> e	262.00	237.00	449.00
Electricity from renewable sources produced and consumed	t CO <sub>2</sub> e	0.00	0.00	0.00

Emissions data reflect those for consumption from primary energy sources.

Indirect emissions (Scope 2)	UoM	2018	2017	2016
<b>Total indirect emissions – “Location based” method</b>	<b>t CO<sub>2</sub>e</b>	<b>6,003.30</b>	<b>5,959.60</b>	<b>5,956.40</b>
Total electricity purchased (renewable or non-renewable) (national grid average emission factor)	t CO <sub>2</sub> e	5,784.10	5,659.00	5,663.10
Total district heating purchased (renewable or non-renewable)	t CO <sub>2</sub> e	219.20	300.60	293.30
Other (specify)	t CO <sub>2</sub> e			



<b>Total indirect emissions – “Market based” method</b>	<b>t CO<sub>2</sub>e</b>	<b>1,601.00</b>	<b>1,286.10</b>	<b>1,457.10</b>
Non-renewable electricity purchased (residual mix factor)	t CO <sub>2</sub> e	1,497.80	1,174.60	1,345.60
Electricity purchased from renewable sources (zero emission factor)	t CO <sub>2</sub> e	0.00	0.00	0.00
Non renewable district heating purchased	t CO <sub>2</sub> e	103.20	111.50	111.50
Renewable district heating purchased (zero emission factor)	t CO <sub>2</sub> e	0.00	0.00	0.00

<b>Other indirect emissions (Scope 3)</b>	<b>UoM</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Total other emissions</b>	<b>t CO<sub>2</sub>e</b>	<b>4,348.30</b>	<b>1,506.00</b>	<b>1,537.10</b>
Goods and services purchased				
Paper/cardboard and toner	t CO <sub>2</sub> e	3,810.20	1,005.20	1,037.30
Business trips (public transport)	t CO <sub>2</sub> e	538.10	500.80	499.80

In 2018, the CO<sub>2</sub> equivalent associated with paper consumption was also reported, given that it had never been calculated in the past. This explains the rise in the Scope 3 parameter.

	<b>UoM</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
NOx, SOx, and other significant emissions	t	4.46	5.36	4.94
NOx	t	3.51	4.23	3.94
SOx	t	0.95	1.13	1.00

## USED MATERIALS AND PRODUCED WASTE

The amount of paper used by BPS was calculated on the basis of the quantities of material ordered by our central warehouse, as well as on the basis of the quantity of material (envelopes, sheets) given by the company to which we outsourced the printing and delivery of periodical bank statements to customers.

The paper quantities used by Banca Popolare di Sondrio (SUISSE) SA and Factorit are based on average annual estimates.

### GRI Standard 301-1: Used materials by weight and volume

<b>Used materials</b>	<b>UoM</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Total weight of used materials	kg	548,882	540,553	551,058
Total FSC certified paper	kg	177,632	334,718	373,717
Total used paper (non-certified)	kg	355,531	188,604	163,288
Toner and cartridges	kg	15,719	17,231	14,053



The rising trend of paper consumption is due to an increase in the number of statements and contractual conditions printed to be sent to customers (MiFID II Directive). Non-certified paper includes the recycled portion thereof, which has increased significantly.

	UoM	2018	2017	2016
Consumption of paper per employee	kg	165.01	164.62	170.75
Toner consumption per employee	kg	4.87	5.42	4.47

\* No. of Group employees = 3,231 (average of opening and closing figures).

### GRI Standard 306-2: Waste

Waste produced, destined for recovery and disposal	UoM	2018	2017	2016
<b>Total waste produced</b>	<b>kg</b>	<b>318,400</b>	<b>434,175</b>	<b>400,668</b>
Of which dangerous	kg	0	2,104	560
Of which non-hazardous waste	kg	318,400	432,071	400,108
<b>Total waste destined for recovery (reuse or recycling)</b>	<b>kg</b>	<b>292,768</b>	<b>408,022</b>	<b>384,955</b>
Of which dangerous	kg	0	0	0
Of which non-hazardous waste	kg	292,768	408,022	384,955
<b>Total waste destined for disposal (landfill or waste-to-energy)</b>	<b>kg</b>	<b>25,632</b>	<b>26,153</b>	<b>15,713</b>
Of which dangerous	kg	0	2,104	560
Of which non-hazardous waste	kg	25,632	24,049	15,153

The consolidated perimeter is that reported to us by ALFA MACERI, which is the company that provides the waste collection, transport and disposal service.

Solid urban waste (SUW) and recyclable plastic do not appear on the list of total waste produced by BPS, as their collection and disposal is entrusted to the Municipal Companies for the area, which do not normally weigh this type of waste.

Pirovano Stelvio S.p.A., because of its business, affects very heavily the production of SUW and similar waste.

The reduction in total waste produced is primarily due to deferral of the disposal of paper stored at our Service Centre in 2018.

## WATER CONSUMPTION

Water consumption figures have been based on amounts billed and by taking account of average tariffs applied by operators in 2018, on a regional basis, and split between fixed and variable charges.

Direct readings would result in unsustainable extra costs for something that we do not consider to be essential for the environmental sustainability of a banking group.

The procedure for arriving at the figure does not allow us to compute a reliable consumption benchmark (and costs billed often include final balances due and additional costs applied by the water operator that are not attributable to consumption).

### GRI Standard 303-1: Water taken by source

Volume of water withdrawn	UoM	2018	2017	2016
<b>Total volume of water withdrawn</b>	<b>cm</b>	<b>341,138</b>	<b>267,206</b>	<b>321,456</b>
surface waters, including waters from swamps, rivers, lakes and oceans	cm	0	0	0
ground water	cm	0	0	0
rainwater collected directly from the company	cm	0	0	0
waste water from another company	cm	0	0	0
municipal water or other infrastructure supply	cm	341,138	267,206	321,456

*The scope of the analysis also includes condominium utilities, for which consumption has been derived from the share of expenses billed by administrators.*

## METHODOLOGICAL NOTE

The Consolidated Non-Financial Report (hereinafter also “NFR”) of the Banca Popolare di Sondrio Group was prepared in compliance with Legislative Decree 254/2016 concerning the disclosure of non-financial information of certain large public-interest companies.

The purpose of the NFR is to ensure an understanding of the Group’s policies, organisational model, risks and performance indicators and the related results, with particular regard to the social aspects associated with the management of personnel, the fight against active and passive corruption and respect for human rights.

The issue of Human Rights, managed through current policies (e.g. UN guidelines, Universal Declaration of Human Rights, Code of Business Ethics) does not form part of the material topics for our Company (more information on this topic can be found at the end of this methodological note).

### **The process of identifying relevant topics**

In order to identify the most relevant issues, i.e. material ones and therefore strategic for us, we carried out an analysis to understand stakeholders’ response to the issues of Legislative Decree 254/2016.

The “material” topics are made up of the aspects that, on the one hand, are considered important by our stakeholders, because they could influence their expectations, actions and decisions, while, on the other hand, they could have a significant impact in economic or environmental terms on the Group’s activities.

First of all, through an analysis of the international guidelines, including the publications of the Global Reporting Initiative (GRI), of the Banca Popolare di Sondrio Group’s values and of the sustainability reporting of peers, we identified the universe of potentially relevant topics.

Subsequently, the Company’s management was involved in a workshop to assess the importance of each issue identified for the Company and for the reference stakeholders. Firstly, considering the Company’s point of view and then that of the stakeholders, everyone had to evaluate on a scale from 1 to 5 to what extent a certain issue had to be taken into account as an important part of the activities, strategies and communications. For the 2018 non-financial statement, BPS submitted the materiality matrix for assessment by the two main subsidiaries, Factorit S.p.A. and SUISSA SA.

Furthermore, for 2018, the process also involved two categories of stakeholders, namely, customers and young people (further details are provided in the section headed “Attention to the customer”).

The validation of the matrix elevated environmental impact to the status of material topic due to the current context and dynamism of the financial

sector in which BPS operates. Moreover, the Bank has always had a good system in place to monitor the related impact, thanks to which, the topic was also reported in the 2017 NFR, making the continuity of reporting possible in line with prior periods.

The results obtained from all activities were then consolidated and a materiality matrix was developed, incorporating the new results, and was shared with and validated by the General Manager.

The table below sets out the Group's six strategic material topics. These are explained in further detail in the various aspects associated with them. The table also shows the correlation between the areas mentioned in art. 3 paragraph 2 of Legislative Decree 254/2016 and the material issues underlying this NFR.

<b>Material topics</b>	<b>Associated aspects</b>	<b>Areas of L. Decree 254/2016</b>
<b>Economic support to the community</b>	Link with the territory	Social aspects
	Relationship with the community	
	Relations with the supply chain	
	Credit access	
	Responsible credit	
	Offer of responsible products	
	Collaboration with institutions	
	Privacy and data protection	
<b>Enhancement of human resources</b>	Corporate identity	Aspects related to personnel management
		Gender equality
		Health and safety
		Dialogue with the social parties
		Implementation of the conventions of international and supranational organizations
<b>Autonomy and integrity in company conduct</b>	Fairness and transparency	Fight against corruption
<b>Financial and capital solidity</b>	Economic performance	
	Risk management	
<b>Attention to the customer</b>	Innovation in tradition	Social aspects
<b>Direct environmental impacts</b>	Energy consumption	Environmental aspects
	Emissions into the atmosphere	
	Used materials and produced waste	
	Water consumption	

### **The reporting perimeter and standard**

The reporting perimeter coincides with that of the consolidated financial statements, i.e. it includes companies consolidated line-by-line for the financial statements.



Any perimeter limitations on specific indicators have been reported and motivated in this document; they are mainly due to the low impact that they have on the total figure and/or because of the lack of a reporting system for this data at some companies. The reporting year to which this report refers is 2018.

The reporting standards adopted by the Banca Popolare di Sondrio Group for its NFR are the GRI Sustainability Reporting Standards, published in 2016 by the GRI - Global Reporting Initiative (GRI Standards), with reference to the selection of GRI Standards.

In particular, according to GRI Standard 101: Foundation, paragraph 3, we referred to the disclosures reported in the table below for this document.

<b>GRI STANDARD</b>	<b>GRI Disclosure</b>	<b>Description</b>	<b>Material theme</b>
<b>GRI 102 – General Disclosure</b>	102-1	Name of the organization	
	102-2	Activities, brands, products, and services	
	102-3	Location of headquarters	
	102-4	Location of operations	
	102-5	Ownership and legal form	
	102-6	Markets served	
	102-8	Information on employees and other workers	Personnel enhancement
	102-9	Supply chain	Economic support to the community
	102-15	Key impacts, risks, and opportunities	Financial and capital solidity
	102-16	Values, principles, standards, and norms of behavior	
	102-17	Mechanisms for advice and concerns about ethics	Autonomy and integrity in company conduct
	102-18	Governance structure	
	102-22	Composition of the highest governance body and its committees	
	102-30	Effectiveness of risk management processes	
	102-41	Collective bargaining agreements	Personnel enhancement
102-47	List of material topics		
102-50	Reporting period		
<b>GRI 103 – Management Approach 2016</b>	103-1	Explanation of the material topic and its Boundary	
	103-2	The management approach and its components	
<b>GRI 201 – Economic Performance</b>	201-1	Direct economic value generated and distributed	Financial and capital solidity
<b>GRI 204 – Procurement Practices</b>	204-1	Proportion of spending on local suppliers	Economic support to the community
<b>GRI 205 – Anti corruption</b>	205-2	Communication and training about anti-corruption policies and procedures	
	205-3	Confirmed incidents of corruption and actions taken	Autonomy and integrity in company conduct
<b>GRI 206 – Anti-competitive Behavior</b>	206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	
<b>GRI 301 – Materials</b>	301-1	Materials used by weight or volume	
<b>GRI 302 – Energy</b>	302-1	Energy consumption within the organization	

<b>GRI 303 – Water</b>	303-1	Water withdrawal by source	
	305-1	Direct (Scope 1) GHG emissions	
	305-2	Energy indirect (Scope 2) GHG emissions	
<b>GRI 305 – Emission</b>	305-3	Other indirect (Scope 3) GHG emissions	
	305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	
<b>GRI 306 – Effluents</b>	306-2	Waste by type and disposal method	
<b>GRI 401 – Employment</b>	401-1	New employee hires and employee turnover	
	401-3	Parental leave	
<b>GRI 403 – Occupational health and safety</b>	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Personnel enhancement
<b>GRI 404 – Training and education</b>	404-1	Average hours of training per year per employee	
<b>GRI 405 – Diversity and equal opportunity</b>	405-1	Diversity of governance bodies and employees	
	405-2	Ratio of basic salary and remuneration of women to men	
<b>GRI 406 – Non discrimination</b>	406-1	Incidents of discrimination and corrective actions taken	
<b>GRI 417 – Marketing and labeling</b>	417-2	Incidents of non-compliance concerning product and service information and labeling	Attention to the customer
	417-3	Incidents of non-compliance concerning marketing communications	
<b>GRI 418 – Customer Privacy</b>	418-1	Substantiated complaints regarding concerning breaches of customer privacy and losses of customer data	Autonomy and integrity in company conduct
<b>G4 FINANCIAL SERVICES SECTOR DISCLOSURES</b>	FS6	Percentage of the portfolio for business lines by specific region, size (e.g. micro/sme/large) and by sector	Attention to the customer
<b>G4 FINANCIAL SERVICES SECTOR DISCLOSURES</b>	FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	Economic support to the community

### Table of non-GRI key performance indicators

Donations	Total economic value of donations made by the Group, by type of event/activity implemented	Economic support to the community
Sponsorships	Total economic value of investment by Group in sponsorships for advertising purposes of events/ activities offering economic support to community	Economic support to the community
Ethical funds	Funds deposited and number of BPS customers that have invested in Etica SGR's funds	Economic support to the community

## The reporting process and calculation methodologies

The process of collecting data and information and drafting the NFR is coordinated and managed by the Parent Company, in collaboration with the representatives of the Group structures and companies responsible for the various areas involved in the document drafting process.

The following are the main calculation methods used:

- **The accident frequency index** is the ratio between the total number of injuries and the total number of hours worked, multiplied by 1,000,000.
- **The severity index** is the ratio between the total number of days lost and the total number of workable hours, multiplied by 1,000.
- **The rate of absenteeism** is the ratio between the days of absence during the reporting period and the total number of workable days in the same period.
- **Direct energy consumption:** the conversion factors used are those of the Italian Greenhouse Gas Inventory 1990 - 2015 - National Inventory Report 2017 Annex 6. The gas consumption figures include condominium utilities (i.e. so without a specific meter in the name of Banca Popolare di Sondrio), calculated as a percentage of the total condominium expense reported by the administrators, at 54% of the expense (as per benchmark analysis on the past 2015-2016). The consumption figures of the company car fleet have been obtained on the basis of annual fuel used, as per the fuel card registration associated with each vehicle. Consumption is derived from fuel expenditure, based on an average pump price published annually by the MEF.
- **The emission factors** used for the calculation of CO<sub>2</sub>e (CO<sub>2</sub>equivalente) emissions reported in this NFR are the following:
  - Direct emissions Scope 1: the calculation of the emissions is done on the basis of coefficients and formulas defined by ABI in the document entitled “Guidelines on the application in the bank of the Global Reporting Initiative (GRI) Environment Indicators, version G4”, December 2017 version.
  - Indirect emissions Scope 2: The calculation of CO<sub>2</sub> emissions is based on coefficients of the ratio of consumption conversion/CO<sub>2</sub>, CH<sub>4</sub> and NO<sub>2</sub> emissions, published by ISPRA and ENEA [according to indications defined by ABI in the document “Guidelines on the application in the bank of the Environment Indicators of Global Reporting Initiative (GRI), version G4”, December 2017 version].
  - Other indirect emissions Scope 3: Emission conversion factors for business trips taken from the SKY Scanner and ECO Passenger portals for average travel journeys.
  - NO<sub>x</sub>, SO<sub>x</sub> and other significant emissions: Conversion Factors from 2017 SINAnet Report.



## Human rights

As established by the Universal Declaration of Human Rights and the UN Guiding Principles on Business and Human Rights, the Banca Popolare di Sondrio Group has a duty to respect, protect and promote human rights and fundamental freedom for all, without distinction of gender, ethnicity, language, religion, age, sexual orientation and gender identity, political and trade union affiliation, origin, different ability or other particular conditions.

In this sense, as defined in the Code of Ethics and in the relevant company regulations (available on the website [www.popso.it](http://www.popso.it) "Corporate information" section):

- «The Bank undertakes to guarantee working conditions that respect the dignity of the person and that forms of discrimination contrary to the law are not admitted or tolerated. To this end, it requires that acts of psychological violence or attitudes or behaviour that discriminate or harm the person, their beliefs or preferences in internal or external work relationships are not allowed. The Bank insists that there is no mobbing or harassment of any kind in internal or external work relationships. Furthermore, the Bank will not adopt or tolerate any form of retaliation against employees who complain about discrimination or harassment, nor against other workers who report such situations».
- «Any form of abuse of authority or coordination positions is expressly prohibited. Abuse is intended as any behaviour consisting in requesting or inducing to offer, services, personal favours or other benefits detrimental to the other's dignity, professionalism or autonomy».
- «The Bank undertakes to prepare all appropriate measures to prevent risks to health and safety in the workplace, entrusting the related tasks to qualified entities».
- «In full compliance with the provisions of Legislative Decree no. 196/2003 – "Code regarding the protection of personal data" ("Privacy Code"), or local laws for foreign companies, the Bank undertakes to protect personal data acquired, stored and processed within the scope of its business in order to avoid any illegal, or even improper, use of such information».
- «Lastly, the Bank undertakes, in the event of assignment of works or services to third parties under contract, or in any case within the ordinary commercial relationships, to demand from its partners compliance with adequate safety standards for workers».
- In order to comply with the provisions of the law on whistleblowing (the reporting of illegal activities in the public administration or in private companies, by the employee who came to know it for work reasons) and therefore to strengthen within the entire corporate structure the culture of fairness and compliance with the rules, the Bank, has created a reporting



system where staff (in security and with due confidentiality) may report acts and/or facts that may constitute violations of regulations governing banking activities consistent with specific regulatory provisions.

- The risk/offence of illegal staff recruitment (included among the predicate offences of Law 231), consisting in using, hiring or employing labour, subjecting workers to exploitative conditions and taking advantage of their state of need, is widely supervised and opposed..

Banca Popolare di Sondrio participates since 2004 in the “UN Global Compact” project which involves 8,902 enterprises in 166 countries. Our participation in the project is embodied in a responsible commitment to implement a series of corporate practices in support of universally recognised human rights, such as the dignity of work and the fight against corruption, as well as the protection of the environment.

In 2011, on suggestion of the Internal Supervisory Body, all the suppliers were informed about the adoption of a Code of Ethics and invited to view it and sign the acceptance of the principles contained therein. From that moment on, all the managing bodies were instructed to include a clause relating to the Code of Ethics in contracts.



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## Independent auditor's report on the consolidated disclosure of non-financial information in accordance with article 3, par. 10, of Legislative Decree n. 254/2016 and with article 5 of CONSOB Regulation adopted with Resolution n. 20267 of January 2018 (Translation from the original Italian text)

To the Board of Directors of  
Banca Popolare di Sondrio S.C.p.A.

We have performed a limited assurance engagement pursuant to article 3, paragraph 10, of Legislative Decree of December 30, 2016, n. 254 (hereinafter, the "Decree") and article 5 of CONSOB Regulation adopted with Resolution n. 20267, on the consolidated disclosure of non-financial information of Banca Popolare di Sondrio S.C.p.A. (hereinafter, the "Company") and its subsidiaries (hereinafter, together with the Company, the "Group") for the year ended December 31, 2018 in accordance with article 4 of the Decree and approved by the Board of Directors on March 22, 2019 (hereinafter, the "DNF").

### Responsibilities of Directors and Board of Statutory Auditors for the DNF

The directors are responsible for the preparation of the DNF in accordance with the requirements of article 3 and 4 of the Decree and the "Global Reporting Initiative Sustainability Reporting Standard", defined in 2016 by GRI – Global Reporting Initiative (hereinafter, the "GRI Standards"), with reference to the selection of GRI Standards, indicated in paragraph "Methodological Note" of the DNF, identified by the directors as the reporting standard.

The directors are also responsible, within the terms provided by law, for that part of internal control that they consider necessary to allow the preparation of the DNF free from material misstatements caused by fraud or not intentional behaviors or events.

The directors are also responsible for identifying the contents of the DNF within the matters mentioned in article 3, par. 1, of the Decree, considering the business and the characteristics of the Group and to the extent deemed necessary to ensure the understanding of the Group's business, its performance and results the related impacts.

The directors are also responsible for defining the Group's management and organization business model, as well as with reference to the matters identified and reported in the DNF, for the policies applied by the Group and for identifying and managing the risks generated or incurred by the Group.

The Board of Statutory Auditors is responsible, within the terms provided by the law, for overseeing the compliance with the requirements of the Decree.

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## Auditor's independence and quality control

We are independent in accordance with the ethics and independence principles of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, based on fundamental principles of integrity, objectivity, professional competence and diligence, confidentiality and professional behavior. Our audit firm applies the International Standard on Quality Control 1 (ISQC Italia 1) and, as a result, maintains a quality control system that includes documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable laws and regulations.

## Auditor's responsibility

It is our responsibility, on the basis of the procedures performed, to express a conclusion about the compliance of the DNF with the requirements of the Decree and of the GRI Standards, with reference to the selection of GRI Standards indicated in paragraph "Methodological Note" of the DNF. Our work has been performed in accordance with "International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (hereinafter "ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. This standard requires planning and execution of work to obtain a limited assurance that the DNF is free from material misstatements. Therefore, the extent of the work performed in our examination was lower than that required for a full examination according to ISAE 3000 Revised ("reasonable assurance engagement") and, hence, it does not provide assurance that we have become aware of all significant matters and events that would have been identified in a reasonable assurance engagement.

The procedures performed on the DNF were based on our professional judgment and included inquiries, primarily with Company's personnel responsible for the preparation of the information included in the DNF, documents analysis, recalculations and other procedures to obtain evidences considered appropriate.

In particular, we have performed the following procedures:

1. analysis of the relevant topics for the activities and characteristics of the Group reported in the DNF, to assess the reasonableness of the selection process applied in accordance with the provisions of article 3 of the Decree and considering the reporting standard applied;
2. analysis and evaluation of the criteria used for identifying the consolidated entities, to evaluate their compliance with the provisions of the Decree;
3. comparison of the economic and financial data and information included in the DNF with those included in the Group's consolidated financial statements;
4. understanding of the following aspects:
  - o Group's management and organization business model, with reference to the management of the topics indicated in article 3 of the Decree;
  - o policies adopted by the Group related to the matters indicated in article 3 of the Decree, results achieved and related key performance indicators;
  - o main risks, generated or suffered related to the matters indicated in article 3 of the Decree.



With regard to these aspects, we obtained the documentation supporting the information contained in the DNF and performed the procedures described under point 5. a) below;

5. understanding of the processes that lead to the generation, detection and management of significant qualitative and quantitative information included in the DNF.

In particular, we have conducted interviews and discussions with the management of the Company and of the subsidiaries Factorit S.p.A. and Banca Popolare di Sondrio (SUISSE) SA and performed limited documentary evidence procedures, to collect information about the processes and procedures that support the collection, aggregation, processing and transmission of non-financial data and information to the management responsible for the preparation of the DNF.

Furthermore, for significant information, considering the Group activities and characteristics, we carried out the following procedures:

- at Company level:
  - a) with reference to the qualitative information included in the DNF, and in particular to the business model, policies implemented and main risks, we carried out inquiries and acquired supporting documentation to verify its consistency with the available evidence;
  - b) with reference to the quantitative information included in the DNF, we performed both analytical procedures and limited assurance procedures to ascertain on a sample basis the correct aggregation of data.
- at the level of certain Group subsidiaries (Factorit S.p.A. and the Banca Popolare di Sondrio (SUISSE) SA), selected on the basis of their operations and their contribution to the performance indicators at consolidated level, we have carried out site visits during which we have had discussions with management and acquired evidence about the appropriate application of the procedures and the calculation methods used for the identified indicators.

## Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the DNF of the Group for the year ended December 31, 2018 has not been prepared, in all material respects, in accordance with the requirements of articles 3 and 4 of the Decree and the GRI Standards, with respect to the selection of GRI Standards.

Milan, April 4, 2019

EY S.p.A.

Signed by: Davide Lisi, Partner

This report has been translated into the English language solely for the convenience of international readers.

*Photographs*  
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