Pillar 3 Report
Public Disclosures
Banca Popolare di Sondrio Group

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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 Banking Group,
Official List of Banking Groups under no. 5696.0
Member of the Interbank Deposit Protection Fund
Fiscal code and VAT number: 00053810149
Share capital: € 1,360,157,331; Reserves: € 1,253,388,214
(Figures approved at the Shareholders' meeting of 11 May 2021)
Stock listed on the Mercato Telematico Azionario (MTA or Screen-Traded Market)

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Introduction

The new harmonised framework of micro- and macro-prudential rules for banks and small investment firms has been in force since 1 January 2014:

- Regulation (EU) no. 575/2013 (Capital Requirements Regulation, known as “CRR”) of the European Parliament and Council of 26 June 2013 governing the prudential requirements for credit institutions and investment firms (“Pillar 1” provisions) and the rules on public disclosures by institutions (“Pillar 3” provisions);
- Directive 2013/36/EU (Capital Requirements Directive, known as “CRD IV”) of the European Parliament and Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms;
- Commission Implementing Regulation (EU) no. 1423/2013 of 20 December 2013, laying down implementing technical standards regarding the disclosure of own funds requirements for institutions pursuant to Regulation (EU) no. 575/2013 of the European Parliament and Council.

On 7 June 2019, following the publication in the Official Journal of the European Union, the following rules were also issued:

- Regulation (EU) no. 876/2019 of the European Parliament and Council of 20 May 2019, which amends Regulation (EU) no. 575/2013 relating to prudential requirements for credit institutions and investment firms, with regard to the leverage ratio, the net stable funding ratio, the own funds requirements and eligible liabilities, counterparty risk, market risk, exposures to central counterparties, exposures to undertakings for the collective investment of transferable securities, large exposures, reporting and disclosure obligations and Regulation (EU) no. 648/2012 (“CRR II”)[1];
- Directive (EU) 2019/878 of the European Parliament and Council of 20 May 2019, which amends Directive 2013/36/EU on access to the banking business and on prudential supervision of credit institutions and investment firms, as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures (“CRD V”)[1].

Also published in the Official Journal of the European Union on 26 June 2020 was Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 amending Regulations (EU) no. 575/2013 and 876/2019 as regards certain adjustments in response to the COVID-19 pandemic (CRR “Quick-fix”), some of which relate to the public disclosure requirements governed by those provisions.

These measures transposed into the European Union the set of prudential reforms released by the Basel Committee for Banking Supervision in recent years (the so-called “Basel 3” framework and subsequent developments and additions to the regulatory framework conventionally referred to as “Basel 4”). The CRR and its amendments have direct effect on the EU Member States, while the

[1] Except as expressly provided for by the two provisions, the “CRR II” standards have been applied since 28 June 2021, while the “CRD V” was expected to be transposed by the member states of the European Union by 28 December 2020.

rules contained in the CRD IV and its subsequent amendments provide for their transposition into the various national laws.

The regulatory framework of reference throughout the EU is completed with the execution measures contained in Regulatory or Implementing Technical Standards (RTS and ITS) adopted by the European Commission on the proposal of the European Supervisory Authorities (ESAs).

At a national level, the harmonised rules are implemented by the Bank of Italy, mainly through the following measures:

- Circular no. 285 of 17 December 2013 "*Supervisory instructions for banks*" and subsequent updates;
- Circular no. 286 of 17 December 2013 "*Instructions for banks and securities firms on the preparation of supervisory reports*" and subsequent updates.

Circular no. 285 includes the set of prudential rules applicable to Italian banks and banking groups, revised and updated to adapt national law to the changes introduced into the EU, with particular regard to the new regulatory and institutional framework of European banking supervision, outlining in this a complete, organic, rational regulatory system integrated with directly applicable EU acts, so as to facilitate their adoption by all players.

The regulatory measure groups together the applicable provisions according to the regulatory sources from which they derive, distinguishing between:

- EU regulation subject to national transposition ("CRD IV", as amended), for which specific implementing provisions are established;
- EU direct adoption legislation ("CRR", as amended), for which, for each topic, the applicable rules are referred to; furthermore, in the cases provided for in the European legislation, specific guidelines are defined that are useful for their application and areas where national discretionary powers are exercised by the Bank of Italy are identified as part of the process of transposition into national law;
- discipline of non-harmonised matters, in relation to which, even in the absence of derivation from EU legislation, specific provisions are dictated aimed at aligning the Italian legal system with the supervisory standards defined by international bodies.

Circular no. 286 laid down the national rules governing the transmission of prudential supervisory reporting on an individual and consolidated basis required to financial institutions; this is largely based on the EU Commission's Implementing Regulation no. 680/2014 of 16 April 2014 and subsequent updates thereof, which imposes binding technical standards on harmonised reporting for supervisory purposes in accordance with the CRR (so-called "COREP schemes", COmmon REPorting). These regulatory measures, together with the Bank of Italy's Circular no. 154 of 22 November 1991 ("*Supervisory reports by banks and financial institutions. Reporting formats and instructions for submitting information flows*") and subsequent updates, translate the provisions envisaged in the European Union into the uniform templates used to file prudential reports.

Circular no. 286 also provides indications for the transmission of non-harmonised reports required by the national supervisory regulations.

Even in the reformulated regulatory framework, the prudential regime applicable to financial institutions continues to be on an architecture based on three “Pillars”.

Pillar 1 (*Minimum prudential requirements*) imposes specific capital requirements to all supervised entities designed to cope with the typical risks of banking and finance, providing for alternative calculation methods, characterised by different levels of complexity. This is accompanied by the imposition of limits on excessive leverage, new requirements and supervisory arrangements for liquidity risk, and the integration of provisions under the bank resolution framework (MREL-TLAC).

Pillar 2 (*Supervisory review process*) requires banks to implement strategies and internal processes in order to verify the adequacy of both capital (ICAAP - *Internal Capital Adequacy Assessment Process*) and liquidity positions (ILAAP - *Internal Liquidity Adequacy Assessment Process*) in a current and future perspective, as well as carrying out a clear and independent assessment of the risks to which they are exposed in relation to their operations and their reference markets, also considering risk profiles other than those recognised by the Pillar 1 capital requirements. The task of verifying the reliability and consistency of the results of these two processes and to adopt appropriate corrective measures, if the situation requires it, is up to the Supervisory Authorities as part of its Supervisory Review and Evaluation Process (SREP). Increasing importance is also attributed to corporate governance structures and internal control frameworks of intermediaries as determining factors for the stability of each institution as well as of the financial system as a whole.

Pillar 3 (*Market discipline*) establishes specific public disclosure requirements in order to allow market participants to make a more accurate assessment of banks' capital strength and exposure to risks, as well as of their risk management and control systems. In this regard, the most important developments have concerned the introduction of broader transparency requirements for supervised entities, given the market's need for more information on the qualitative composition of intermediaries' regulatory capital and the ways in which they quantify their own capital ratios.

With the issuance of the CRR II Regulation, public disclosure requirements defined by “Pillar 3” prudential regulations have undergone a thorough revision. New publication requirements, effective from 28 June 2021, were detailed in Commission Implementing Regulation (EU) 2021/637 of 15 March 2021, published in the Official Journal of the European Union on 21 April 2021. The measure implemented with the force of law the draft implementing technical standards drawn up by the European Banking Authority (EBA) aimed at a comprehensive review of the framework for fulfilling “Pillar 3” obligations, in execution of the amendments to the set of rules provided for by CRR II. The measure (ITS/2020/04) instituted a new organic set of rules governing the templates for the publication of “Pillar 3” disclosures, aimed at rationalising the existing regulatory framework, while at the same time increasing the level of clarity and standardisation of the disclosures to be published[2]. The new framework has provided an integrated, comprehensive and uniform set of rules, formats and templates with the objective of ensuring high quality and comparable public disclosures.

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2 The new technical standards developed by the EBA replaced the uniform disclosure models included in a number of previous ones: a) regulatory technical standards (RTS) and implementing technical standards (ITS) issued by the European Commission on public disclosure of information regarding own funds, leverage, capital buffers, committed and uncommitted balance sheet assets and systemically important indicators; b) guidelines issued by the EBA on disclosure requirements under Part Eight of the CRR (mainly applicable to systemically important institutions), on liquidity coverage ratio (LCR) disclosures as well as on disclosure requirements regarding entities' remuneration policies, systemically important indicators, impaired exposures and exposures subject to concession measures.

Following the revision of the "Pillar 3" regulatory framework, public disclosure obligations by entities are now regulated by:

- the CRR/CRR II, Part Eight "Disclosure by institutions" (articles 431 – 455) and Part Ten, Title I, Chapter 1 "*Own funds requirements, unrealised gains and losses measured at fair value and deductions*" (article 473a) and Chapter 3 "*Transitional provisions for disclosure of own funds*" (article 492);
- the Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 laying down implementing technical standards with regard to the publication by supervised entities of information to the public;
- the Bank of Italy Circular no. 285 of 17 December 2013, Part Two "*Application in Italy of the CRR*", Chapter 13 "*Public disclosures*";
- the following guidelines issued by the EBA, which have remained in force:
  - EBA/GL/2014/14 Guidelines on the relevance, exclusivity, confidentiality and frequency of disclosures in accordance with articles 432, paragraphs 1 and 2, and 433 of the CRR;
  - EBA/GL/2018/01 Guidelines on uniform disclosures under article 473a of the CRR as regards the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds;
  - Guidelines EBA/GL/2020/11 on supervisory reporting and disclosure requirements in accordance with the CRR "Quick-fix" in response to the COVID-19 pandemic[3];
  - EBA/GL/2020/12 Guidelines amending the European Banking Authority Guidelines EBA/GL/2018/01 on uniform disclosures under article 473a of the CRR as regards transitional arrangements to mitigate the impact of the introduction of IFRS 9 on own funds in order to ensure compliance with the CRR "Quick-fix" in response to the COVID-19 pandemic[4];

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[3] The Guidelines provide indications on the reporting and public disclosure treatment to be adopted in relation to the following regulatory amendments introduced by the CRR "Quick-fix":

a) for the purposes of calculating the leverage ratio: i) the temporary exclusion of exposures to central banks from the calculation of the measure of an entity's total exposure (Article 500b CRR); ii) the anticipated entry into force, compared to the provisions of CRR II, of the regulatory treatment of purchases and sales of "standardised contracts" (so-called regular-way) pending regulation (CRR Article 500-quinquies);

b) for the purposes of calculating capital requirements for credit risk, the more favourable prudential treatment provided for SMEs, for infrastructure exposures for loans to pensioners and employees (with permanent contract) secured by the pension or salary of the borrower (Articles 123, 501 and 501a of the CRR);

c) for the purposes of reporting related to own funds: (i) the introduction of a temporary prudential filter for unrealised gains and losses on financial assets measured at fair value with an impact on other comprehensive income (FVOCI) to counterparties referred to in Articles 115, para. 2 and 116 para. 4 of the CRR (Article 468 of the CRR); ii) the amendments to the transitional arrangements for mitigating the impact of IFRS 9 on Common Equity Tier 1 capital (CET1) which provide, inter alia, for an increase in the percentage of expected losses to be reinstated in the amount of own funds and the extension of the transitional period by two years (Article 473a of the CRR).

These Guidelines also provide, in relation to the exercise of the exclusion referred to in point (a), for the integration of the public disclosure with a specific disclosure on the amount of exposure to central banks subject to exclusion and the related effect on the leverage ratio.

[4] The Guidelines amend the EBA/GL/2018/01 Guidelines to take into account the impacts on own funds of the regulatory amendments introduced by the CRR "Quick-fix". The main amendments relate to: i) the extension of the disclosure period due to the extension of the transitional arrangements for IFRS 9 and the introduction of additional qualitative disclosure requirements aimed at covering decisions taken as part of the discretions provided for in article 473a of the CRR, as amended by the CRR "Quick-fix"; ii) the introduction of new disclosure requirements relating to the transitional prudential treatment provided for unrealised gains and losses on exposures to certain counterparties measured at fair value with an impact on other comprehensive income (FVOCI).

The last two Guidelines, issued by the EBA in response to the epidemiological emergency, were implemented by the Bank of Italy in national law with a communication dated 8 September 2020.

With these quarterly Public Disclosures, Banca Popolare di Sondrio Group (also referred to as the “Group”) intends to fulfil the disclosure requirements envisaged in the Pillar 3 legislation mentioned.

This document has been prepared by Banca Popolare di Sondrio, the Parent Company, on a consolidated basis with reference to the scope of consolidation used for supervisory purposes (prudential consolidation area) and is made available in the *“Investor Relations”* section, sub-section *“Pillar 3”* of the Bank's website (https://istituzionale.popso.it), together with the consolidated interim report on operations as at 30 September 2021.

The document also contains the attestation referred to in art. 154a, paragraph 2, of Legislative Decree 58/98 (Consolidated Law on Finance, “TUF”) by the Manager responsible for preparing the accounting documents of the Parent Company Banca Popolare di Sondrio.

In compliance with article 434 of the CRR/CRR II (“Means of disclosure”), in case of similar information already published in other equivalent documents, reference is made to the document in which such piece of information is disclosed.

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NOTE: All the amounts indicated in the sections of this Public Disclosure, except where explicitly indicated, are shown in thousands of Euro. Any significant change compared with previous reporting periods are mentioned in this document.
In order to provide only significant information for users, the publication of data or information considered not relevant or not applicable to the Group is omitted. In such cases, the omitted elements and the reason of the omission are specified.

Summary of information published in accordance with CRR/CRR II requirements

The following is a summary chart that connects the articles of Regulation (EU) no. 575/2013 ("CRR"), as amended by Regulation (EU) no. 876/2019 ("CRR II"), representing the relevant disclosure requirements for Banca Popolare di Sondrio Group and their respective disclosure frequency. The chart also displays the sections of this document in which the qualitative and/or quantitative information required by the "Pillar 3" regulations are published with regard to the Group's situation as at 30 September 2021.

Art. CRR/ CRR II	Article description	Frequency of publication	Section Public Disclosures at 30 September 2021
Art. 431	Policies and disclosure requirements	-	
Art. 432	Non-relevant, exclusive or confidential information	-	
Art. 433	Frequency and scope of disclosure	-	
Art. 433a	Disclosure by large institutions	-	
Art. 433b	Disclosure by small and non-complex institutions	-	
Art. 433c	Disclosure by other institutions	-	
Art. 434	Means of disclosures	-	
Art. 435	Disclosure of risk management objectives and policies	Annual	
Art. 436	Disclosure of the scope of application	Quarterly Semi-annual *Scope of consolidation*	1 - Scope of application
		Annual *Full art. 436*	
Art. 437	Disclosure of own funds	Semi-annual *lett. a)*	
		Annual *Full art. 437*	
Art. 437a	Disclosure of own funds and eligible liabilities	Annual	
Art. 438	Disclosure of own funds requirements and risk-weighted exposure amounts	Quarterly *lett. d) and h)*	2 - Disclosure of key metrics and overview of risk-weighted exposure amounts 4 - Disclosure of the use of the IRB approach to credit risk
		Semi-annual *lett. e)*	
		Annual *Full art. 438*	
Art. 439	Disclosure of exposures to counterparty credit risk	Semi-annual *lett. e) to l)*	
		Annual *Full art. 439*	
Art. 440	Disclosure of countercyclical capital buffers	Semi-annual	
Art. 442	Disclosure of exposures to credit risk and dilution risk	Semi-annual	

		lett. c), e), f) and g)	
		Annual *Full art. 442*	
Art. 443	Disclosure of encumbered and unencumbered assets	Annual	
Art. 444	Disclosure of the use of the Standardised Approach	Semi-annual *lett. e)*	
		Annual *Full art. 444*	
Art. 445	Disclosure of exposure to market risk	Semi-annual	
Art. 446	Disclosure of operational risk management	Annual	
Art. 447	Disclosure of key metrics	Quarterly Semi-annual Annual	2 - Disclosure of key metrics and overview of risk-weighted exposure amounts
Art. 448	Disclosure of exposures to interest rate risk on positions not held in the trading book	Semi-annual *par. 1, lett. a) and b)*	
		Annual *Full art. 448*	
Art. 449	Disclosure of exposures to securitisation positions	Semi-annual *lett. j), k) and l)*	
		Annual *Full art. 449*	
Art. 449a	Disclosure of environmental, social and governance risks (ESG risks)	Annual	
Art. 450	Disclosure of remuneration policy	Annual	
Art. 451	Disclosure of the leverage ratio	Semi-annual *par. 1, lett. a) and b)*	
		Annual *Full art. 451*	
Art. 451a	Disclosure of liquidity requirements	Quarterly *par. 2*	3 - Disclosure of liquidity requirements
		Semi-annual *par. 3*	
		Annual *Full art. 451a*	
Art. 452	Disclosure of the use of the IRB Approach to credit risk	Semi-annual *lett. g)*	
		Annual *Full art. 452*	
Art. 453	Disclosure of the use of credit risk mitigation techniques	Semi-annual *lett. f) to j)*	
		Annual *Full art. 453*	
Art. 473a	Introduction of IFRS 9	Quarterly Semi-annual Annual	2 - Disclosure of key metrics and overview of risk-weighted exposure amounts

As of the reporting date of this Disclosure, the following articles of Regulation (EU) no. 575/2013, as amended by Regulation (EU) no. 876/2019, to which it would be subject as a listed "large institution" pursuant to article 433a, are not relevant for Banca Popolare di Sondrio Group:

- Art. 441 - Disclosure of indicators of global systemic importance
- Art. 454 - Disclosure of the use of the Advanced Measurement Approaches to operational risk
- Art. 455 - Use of internal market risk models

Section 1 - Scope of application (art. 436 CRR/CRR II)

These Public Disclosures, prepared by the Parent Company, apply to Banca Popolare di Sondrio Banking Group, which at the reference date is composed by the following entities:

	Company Name	Status	Registered office	Operative office
1	Banca Popolare di Sondrio ScpA	Bank – Parent Company	Sondrio	Sondrio
2	Banca Popolare di Sondrio (SUISSE) SA	Swiss bank (registered in the Lugano Commercial Register) – Wholly-owned	Lugano (CH)	Lugano (CH)
3	Factorit SpA	Factoring company (registered in the Register of Financial Intermediaries pursuant to art. 106 of the CBA) – 60.5% held	Milan	Milan
4	Sinergia Seconda Srl	Real estate company – Wholly-owned	Milan	Milan
5	Popso Covered Bond Srl	SPV for the issue of covered bonds – 60% held	Conegliano Veneto (TV)	Conegliano Veneto (TV)
6	Banca della Nuova Terra SpA	Bank – Wholly-owned	Sondrio	Milan
7	PrestiNuova S.r.l. - Agenzia in Attività Finanziaria	Financial agent entity – Wholly-owned by Banca della Nuova Terra SpA	Rome	Rome

The scope of consolidation for regulatory purposes, which is determined in accordance with the supervisory regulations currently in force, provides for full (or "line-by-line") consolidation of the subsidiaries mentioned above, as banking, financial or service entities directly controlled by the Parent Company.

Section 2 - Disclosure of key metrics and overview of risk-weighted exposure amounts (artt. 438, 447 and 473a CRR/CRR II)

The following charts provide a summary of the development of some key figures of Banca Popolare di Sondrio Group, represented by the most important prudential and regulatory metrics envisaged by the CRR/CRR II regulations. The additional Pillar 2 requirements, to which the Group is subject by virtue of regulatory provisions or decisions of the Supervisory Authority, are also represented.

Chart 1 - Template EU KM1: key metrics (1 of 2)

		a	b
		30/09/2021	**30/06/2021**
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	3.051.706	3.066.344
2	Tier 1 capital	3.059.104	3.074.806
3	Total capital	3.383.934	3.425.313
	Risk-weighted exposure (amounts)		
4	Total risk-weighted exposure amount	18.463.957	18.355.373
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	16,5279%	16,7054%
6	Tier 1 ratio (%)	16,5680%	16,7515%
7	Total capital ratio (%)	18,3272%	18,6611%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)		
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	3,0000%	3,0000%
EU 7b	*of which: to be made up of CET1 capital (percentage points)*	*1,6875%*	*1,6875%*
EU 7c	*of which: to be made up of Tier 1 capital (percentage points)*	*2,2500%*	*2,2500%*
EU 7d	Total SREP own funds requirements (TSCR) (%)	11,0000%	11,0000%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2,5000%	2,5000%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-
9	Institution specific countercyclical capital buffer (%)	0,0014%	0,0021%
EU 9a	Systemic risk buffer (%)	-	-
10	Global Systemically Important Institution buffer (%)	-	-
EU 10a	Other Systemically Important Institution buffer	-	-
11	Combined buffer requirement (%)	2,5014%	2,5021%
EU 11a	Overall capital requirements (%)	13,5014%	13,5021%
12	CET1 available after meeting the total SREP own funds requirements (%)	10,3404%	10,5179%
	Leverage ratio		
13	Leverage ratio total exposure measure	53.401.150	52.652.000
14	Leverage ratio (%)	5,7285%	5,8399%
	Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)		
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	-	-
EU 14b	*of which: to be made up of CET1 capital (percentage points)*	-	-
EU 14c	Total SREP leverage ratio requirements (%)	3,2840%	3,2860%
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)		
EU 14d	Leverage ratio buffer requirement (%)	-	-
EU 14e	Overall leverage ratio requirement (%)	3,2840%	3,2860%

	Liquidity Coverage Ratio – LCR		
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	8.757.262	8.396.953
EU 16a	Cash outflows - Total weighted value	10.040.423	9.615.741
EU 16b	Cash inflows - Total weighted value	6.412.180	6.031.582
16	Total net cash outflows (adjusted value)	3.628.243	3.584.159
17	Liquidity coverage ratio - LCR (%)	245,0845%	238,5352%
	Net Stable Funding Ratio – NSFR		
18	Total available stable funding	39.577.697	38.885.020
19	Total required stable funding	29.896.843	30.230.235
20	NSFR ratio - NSFR (%)	132,3809%	128,6296%

Source: COREP reporting - Capital Adequacy: Templates C 01.00 - C 02.00 - C 03.00 - C 04.00; Calculation of the leverage ratio: Template C 47.00; Liquidity Coverage: Templates C 72.00 - C 73.00 - C 74.00 - C 75.01 - C 76.00

Chart 2 - Template EU KM1: key metrics (2 of 2)

		c	d	e
		31/03/2021	**31/12/2020**	**30/09/2020**
	Available own funds (amounts)			
1	Common Equity Tier 1 (CET1) capital	2.942.749	2.967.432	2.843.354
2	Tier 1 capital	2.950.357	2.976.039	2.850.509
3	Total capital	3.322.293	3.373.534	3.262.151
	Risk-weighted exposure (amounts)			
4	Total risk-weighted exposure amount	17.763.117	18.187.330	17.405.791
	Capital ratios (as a percentage of risk-weighted exposure amount)			
5	Common Equity Tier 1 ratio (%)	16,5666%	16,3159%	16,3357%
6	Tier 1 ratio (%)	16,6095%	16,3633%	16,3768%
7	Total capital ratio (%)	18,7033%	18,5488%	18,7418%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)			
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	3,0000%	3,0000%	3,0000%
EU 7b	*of which: to be made up of CET1 capital (percentage points)*	*1,6875%*	*1,6875%*	*1,6875%*
EU 7c	*of which: to be made up of Tier 1 capital (percentage points)*	*2,2500%*	*2,2500%*	*2,2500%*
EU 7d	Total SREP own funds requirements (TSCR) (%)	11,0000%	11,0000%	11,0000%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
8	Capital conservation buffer (%)	2,5000%	2,5000%	2,5000%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-	-
9	Institution specific countercyclical capital buffer (%)	0,0048%	0,0030%	0,0033%
EU 9a	Systemic risk buffer (%)	-	-	-
10	Global Systemically Important Institution buffer (%)	-	-	-
EU 10a	Other Systemically Important Institution buffer	-	-	-
11	Combined buffer requirement (%)	2,5048%	2,5030%	2,5033%
EU 11a	Overall capital requirements (%)	13,5048%	13,5030%	13,5033%
12	CET1 available after meeting the total SREP own funds requirements (%)	-	-	-
	Leverage ratio			
13	Leverage ratio total exposure measure	48.880.314	46.928.386	45.753.868
14	Leverage ratio (%)	6,0359%	6,3417%	6,2301%
	Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)			
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	-	-	-
EU 14b	*of which: to be made up of CET1 capital (percentage points)*	-	-	-
EU 14c	Total SREP leverage ratio requirements (%)	-	-	-
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)			

EU 14d	Leverage ratio buffer requirement (%)	-	-	-
EU 14e	Overall leverage ratio requirement (%)	-	-	-
	Liquidity Coverage Ratio – LCR			
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	8.178.818	8.175.653	8.252.835
EU 16a	Cash outflows - Total weighted value	9.280.172	8.962.107	8.889.077
EU 16b	Cash inflows - Total weighted value	5.363.856	4.607.697	4.067.472
16	Total net cash outflows (adjusted value)	3.916.315	4.354.410	4.821.605
17	Liquidity coverage ratio - LCR (%)	217,9816%	196,3171%	173,5819%
	Net Stable Funding Ratio – NSFR			
18	Total available stable funding	-	-	-
19	Total required stable funding	-	-	-
20	NSFR ratio - NSFR (%)	-	-	-

Source: COREP reporting - Capital Adequacy: Templates C 01.00 - C 02.00 - C 03.00 - C 04.00; Calculation of the leverage ratio: Template C 47.00; Liquidity Coverage: Templates C 72.00 - C 73.00 - C 74.00 - C 75.01 - C 76.00

Capital requirements

From 1 January 2014, banking groups must comply with the following minimum capital requirements:

- Common Equity Tier 1 (CET1) ratio of 4.5%
- Tier 1 ratio of 5.5% (6% from 2015)
- Total Capital ratio of 8%.

Other capital reserves (known as “capital buffers”) have to be added to these minimum ratios provided by the CRR with the aim of providing supervised entities with high quality capital to be used in case of market tensions to prevent malfunctions of the banking system and avoid interruptions to the credit disbursement process, as well as to face risks deriving from the systemic relevance at a global or domestic level of certain banks.

Each additional capital reserve plays a specific role; in particular:

- *Capital Conservation Buffer*: made up of an additional 2.5% of Common Equity Tier 1 Capital, intended to grant the minimum amount of regulatory capital under adverse market conditions. This requirement, after a period of gradual introduction provided for in Italy through the transposition of the CRD IV Directive, is fully applicable from 1 January 2019.
- *Countercyclical Capital Buffer*: this is also made up of Tier 1 Capital items in order to protect the banking sector in periods of excessive lending growth; following measures by the competent supervisory bodies, it could be set up during periods of economic expansion to cope with losses that might arise during the downward phases of the cycle, based on a specific coefficient established at a national level. The countercyclical coefficient for exposures to Italian counterparties, which is reviewed by the Bank of Italy on a quarterly basis, was 0% in 2020 also confirmed as such in the first two quarters of 2021.
- *Global Systemically Important Institution Buffer (G-SII buffer) and Other Systemically Important Institution Buffer (O-SII buffer)*: reserves consisting of Common Equity Tier 1 capital; applied to Global Systemically Important Institutions (G-SII) and Other Systemically Important Institutions (O-SII) to account for the increased risks they potentially cause to the stability of the financial

system. The buffer for G-SIIs can vary between a minimum of 1% and a maximum of 3.5%, whereas for O-SIIs a non-binding maximum threshold of 2% is foreseen.

- *Systemic Risk Buffer*: additional reserve of an amount equal to at least 1% of the risk exposures, established by each EU Member State in order to mitigate long-term non-cyclical macro-prudential risks and, in this way, cope with the negative effects of unexpected systemic crises.

The sum of regulatory requirements and additional reserves gives the minimum level of capital conservation required for banks and banking groups (known as “combined buffer requirement”). From 1 January 2019, these minimum capital quantities for Banca Popolare di Sondrio Group are the following:

- Common Equity Tier 1 (CET1) Ratio of 7%
- Tier 1 Ratio of 8.5%
- Total Capital Ratio of 10.5%.

Banks that do not hold capital reserves to the minimum extent required are subject to distribution limits; in addition, they must adopt a capital conservation plan that indicates the measures to be taken in order to re-establish, within a reasonable period of time, the amount of capital needed to maintain their reserves above the required minimum.

On 13 December 2019, on the basis of the evidence collected as part of the annual Supervisory Review and Evaluation Process (SREP), the European Central Bank had notified Banca Popolare di Sondrio of the Supervisory Board's decision regarding the new minimum ratios to be applied on a consolidated basis for the year 2020, with effect from 1 January. Minimum capital levels to be met by the Group[5] included:

- a minimum requirement for Common Equity Tier 1 Ratio equal to 10.0%, being the sum of the Pillar 1 regulatory requirement (4.5%), the amount of Capital Conservation Buffer for the current year (2.5%) and the additional Pillar 2 Requirement - P2R (3%);
- a minimum requirement for Tier 1 Ratio of 11.5%, being the sum of the Pillar 1 regulatory requirement (6%), the amount of Capital Conservation Buffer for the current year (2.5%) and the additional Pillar 2 Requirement (3%);
- a minimum requirement for Total Capital Ratio of 13.5%, being the sum of the Pillar 1 regulatory requirement (8%), the amount of Capital Conservation Buffer for the current year (2.5%) and the additional Pillar 2 Requirement (3%).

While the first two items of each coefficient are specified by the prudential regulations and are identical for all financial institutions within the same country, the third item is determined by the ECB on the basis of the actual level of risks faced by the individual entity.

Then, with a press release dated 12 March 2020, the European Central Bank announced the introduction of a temporary loosening of the capital requirements and greater operational flexibility in the implementation of bank-specific supervisory measures as a consequence of the expansion of the Coronavirus pandemic, in order to allow banks directly supervised by the ECB to continue playing a central role in financing the real economy and thus mitigating the COVID-19 impact on the European countries. Consequently, through a communication dated 8 April 2020, the European

5 The minimum requirements are calculated net of the contribution from the Group's specific countercyclical capital buffer.

Central Bank established, with effect from 12 March 2020, that the additional Pillar 2 requirement (P2R) of the Group should be satisfied by Common Equity Tier 1 (CET1) capital for a minimum of 56.25% and by Tier 1 (T1) capital for a minimum of 75%. Following the re-composition of capital for P2R component, the following applied to the Group:

- a minimum requirement for the Common Equity Tier 1 Ratio of 8.69%;
- a minimum requirement for the Tier 1 Ratio of 10.75%;
- a minimum requirement for the Total Capital Ratio of 13.5% (unchanged).

At the same time, the possibility of operating temporarily below the level defined by the Capital Conservation Buffer was envisaged as a further measure of flexibility.

As a result of the SREP for 2020, carried out by the ECB with a pragmatic approach as a consequence of the difficulties posed by the COVID-19 crisis, the Authority communicated, as a general rule, that the capital requirements of supervised entities set for the previous year, as revised by the aforementioned decision with effect from 12 March 2020, continue to be applied for 2021.

In addition to these minimum ratios a “Pillar 2 Guidance” (P2G) was introduced, which aims to be a guideline to the prospective evolution of the Group's capital position. The latter target parameter, assigned by the Supervisory Authority as a result of the SREP process, however, assumes a confidential nature and, unlike the abovementioned capital requirements, is not publicly disclosed, as it is an element which is not relevant for the calculation of distributable dividends, also according to the Supervisory approach.

As at 30 September 2021 the Group’s capital ratios set at particularly high values with a large margin compared to the regulatory requirements. In their phased-in version, the CET1 Ratio stands at 16.53%, the Tier 1 Ratio at 16.57% and the Total Capital Ratio at 18.33%. These ratios are shown without taking into account the portion of the profit achieved in the third quarter of the year and allocated to self-financing; if included, the relief would have been approximately equal to 20 bps.

The Group's regulatory core capital fell slightly compared to the previous quarter. Weighted assets, on the other hand, grew thanks to an increase in capital absorption on market risks, only partially offset by a decrease in credit and counterparty risk requirements. As a result, the CET1 Ratio and Tier 1 Ratio showed a moderate setback from the values registered at the end of June.

In determining the total amount of own funds, a dropping trend of Tier 2 subordinated liabilities was also noted in the quarter, leading to a regular decrease in the computable values of previous securities issues, with impacts on the development of the Total Capital Ratio.

Leverage and liquidity requirements

Banca Popolare di Sondrio Group is also subject to minimum requirements related to:

- Leverage Ratio;
- Liquidity Coverage Ratio (LCR);
- Net Stable Funding Ratio (NSFR).

As at 30 September 2021 the Leverage Ratio of the Group, calculated by applying the transitional criteria in force for the year 2021 (phased in version), stands at 5.73%, remaining at levels significantly higher than the minimum regulatory requirement (3%). The drop registered in the last quarter – around 10 bps – is related both to an increase of asset volumes at the denominator and to the contraction of the amount of Tier 1 Capital at the numerator.

By adhering to the regime of temporary exclusion of exposures to central banks provided for by prudential regulations, the Group is subject for the entire duration of the exclusion to an adjusted leverage requirement ("Adjusted Leverage Ratio") exceeding the minimum Pillar 1 level defined by the CRR. This requirement, which is 3.284%, was met on the reference date.

At the same date, both the short-term liquidity indicator (Liquidity Coverage Ratio) and the medium-long term liquidity indicator (Net Stable Funding Ratio) set at values well above the minimum requirement for the current year (100%). For any additional information regarding the Liquidity Coverage Ratio please make reference to section 3 of the present document.

The chart below provides the values of regulatory own funds, risk-weighted assets (RWA), capital ratios and leverage ratio of the Group registered as at 30 September 2021 and in the four previous quarters taking into account the full adoption of the rules for the gradual introduction of IFRS 9, compared with the same figures calculated in the case of absence of transitional arrangements or of applicable temporary treatments.

Chart 3 - Template IFRS 9/art. 468-FL (EBA/GL/2020/07): comparison of own funds and capital and leverage ratios, with and without the application of the transitional arrangements for IFRS 9 and with or without the application of the temporary treatment in accordance with Article 468 of the CRR (1 of 2)

		30/09/2021	30/06/2021	31/03/2021	31/12/2020	30/09/2020
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1) capital	3.051.706	3.066.344	2.942.749	2.967.432	2.843.354
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	3.034.155	3.049.798	2.912.357	2.944.495	2.826.464
2a	CET1 capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI (other comprehensive income) in accordance with Article 468 of the CRR had not been applied	3.051.706	3.066.344	2.942.749	2.967.432	2.843.354
3	Tier 1 capital	3.059.104	3.074.806	2.950.357	2.976.039	2.850.509
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	3.041.553	3.058.260	2.919.966	2.953.102	2.833.618
4a	Tier 1 capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	3.059.104	3.074.806	2.950.357	2.976.039	2.850.509
5	Total capital	3.383.934	3.425.313	3.322.293	3.373.534	3.262.151
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	3.366.383	3.408.767	3.291.901	3.350.598	3.245.261
6a	Total capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	3.383.934	3.425.313	3.322.293	3.373.534	3.262.151
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets	18.463.957	18.355.373	17.763.117	18.187.330	17.405.791
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	18.453.781	18.345.311	17.751.558	18.174.801	17.395.298

Source: COREP reporting - Capital Adequacy: Templates C 01.00-C05.01 and Leverage ratio calculation: Template C 47.00

Chart 4 - Template IFRS 9/art. 468-FL (EBA/GL/2020/07): comparison of own funds and capital and leverage ratios, with and without the application of the transitional arrangements for IFRS 9 and with or without the application of the temporary treatment in accordance with Article 468 of the CRR (2 of 2)

		30/09/2021	30/06/2021	31/03/2021	31/12/2020	30/09/2020
		Capital ratios				
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	16,5279%	16,7054%	16,5666%	16,3159%	16,3357%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	16,4419%	16,6244%	16,4062%	16,2010%	16,2484%
10a	CET1 (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	16,5279%	16,7054%	16,5666%	16,3159%	16,3357%
11	Tier 1 (as a percentage of risk exposure amount)	16,5680%	16,7515%	16,6095%	16,3633%	16,3768%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	16,4820%	16,6705%	16,4491%	16,2483%	16,2896%
12a	Tier 1 (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	16,5680%	16,7515%	16,6095%	16,3633%	16,3768%
13	Total capital (as a percentage of risk exposure amount)	18,3272%	18,6611%	18,7033%	18,5488%	18,7418%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	18,2422%	18,5811%	18,5443%	18,4354%	18,6560%
14a	Total capital (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	18,3272%	18,6611%	18,7033%	18,5488%	18,7418%
		Leverage ratio				
15	Leverage ratio total exposure measure	53.401.150	52.652.000	48.880.314	46.928.386	45.753.868
16	Leverage ratio	5,7285%	5,8399%	6,0359%	6,3417%	6,2301%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5,6957%	5,8084%	5,9737%	6,2928%	6,1932%
17a	Leverage ratio as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	5,7285%	5,8399%	6,0359%	6,3417%	6,2301%

Source: COREP reporting - Capital Adequacy: Templates C 01.00-C05.01 and Leverage ratio calculation: Template C 47.00

Transitional IFRS 9 provisions

The Group's own funds, capital and leverage ratios as at 30 September 2021 are calculated applying the transitional provisions set out in Regulation (EU) 2017/2395 of 12 December 2017, as amended by Regulation (EU) 2020/873 of 24 June 2020 (CRR "Quick-fix")[6], aimed at containing the capital impacts of the adoption to the new accounting standard IFRS 9, effective from 1 January 2018, appropriately amending and supplementing Regulation (EU) no. 575/2013 ("CRR"). The adoption

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6 Regulation (EU) 2020/873 amended the previous transitional provisions with regard to both the time period and the eligibility percentages. The additional adjustments related to the entry into force of the IFRS 9 accounting standard continue to be calculated according to the percentages already provided for by the previous regulations, while, for those related to the COVID-19 emergency, they are applied to the value of CET1 capital taking into account a decreasing percentage of calculation over time, from 100% in 2020 and 2021, to 75% in 2022, to 50% in 2023, to 25% in 2024, until its total elimination in 2025.

of the transitional arrangements by banking entities was optional and could be both “integral” or “partial” depending on whether it concerned all the regulatory provisions or only a portion of them.

These amendments are applicable from 1/1/2018 to 31/12/2024 and allow intermediaries to temporarily include in the calculation of their Common Equity Tier 1 Capital (CET1) an additional amount, in order to “neutralise” the potentially significant impact of the possible increase in provisions to cover expected losses on financial instruments that would probably result from the immediate adoption of the new accounting standards.

The total amount related to these additional loss provisions, calculated net of tax effects, is included in regulatory capital as a positive item. This can be broken down into:

- a “static” component, representing the increase in credit risk adjustments during first-time adoption of the new accounting standards; it is calculated as the difference between the amount of impairment losses on financial assets at 31/12/2017 (determined in accordance with the previous IAS 39) and the expected credit losses calculated at 01/01/2018 (date of IFRS 9 FTA); this component remains unvaried throughout the entire transitional period;
- a “dynamic” component, measuring the further increases in credit risk adjustments that could occur at each subsequent accounting date over the transitional period, i.e. with reference to the provisions in place as 01/01/2018 (the changes in allowances for lifetime expected losses on credit-impaired assets are not included in this component).

This additional amount is applied to the value of the Common Equity Tier 1 capital of entities that choose to adhere to the aforementioned transitional provisions according to a percentage of eligibility (so-called “adjustment percentage”) progressively decreasing over time.

The amount of the value adjustments included as a positive element of CET1 is therefore “normalized” in the calculation of capital ratios through the application of a scaling factor with the effect of limiting the amounts of new write-downs, which, in relation to positions treated according to the standardised method, are deducted from the exposure value used to calculate risk-weighted assets (RWA). This would ensure that the institutions applying the transitional arrangements would not benefit from a double relief due to both an increase in their CET1 capital, related to said compensatory adjustments, as well as a reduced risk exposure amount.

The EU regulations let banks determine whether to adopt the transitional IFRS 9 arrangements in an “integral” manner, i.e. including both the “static” and “dynamic” components, or in a “partial” manner, i.e. including only the “static” component. Any institution that decided to apply the transitional provisions, in part or in full, had to make a specific communication to the competent Supervisory Authority by 1 February 2018.

Given the above, Banca Popolare di Sondrio Group has chosen to use these transitional arrangements on an “integral” basis, i.e. with reference to the additional credit risk provisions for expected credit losses on performing and credit-impaired financial instruments observed at the time of FTA of IFRS 9 (the “static” component), as well as the increase in impairment losses recorded excluding credit-impaired instruments (only positions classified into Stage 1 and Stage 2) at each reference date following FTA of IFRS 9 (the “dynamic” component). The decision of the Group was communicated to the European Central Bank within the time allowed.

Lastly, it is recalled that, considering the possible effects of the COVID-19 pandemic, Regulation (EU) 2020/873 of 24 June 2020 ("CRR Quick-fix") granted supervised entities, for the three-year period 2020-2022, the further right to mitigate, for prudential purposes, the cumulative effects of profits and losses not yet realised starting from 1 January 2020 on performing exposures to central governments and public sector entities classified in the portfolio of "Financial assets measured at fair value through other comprehensive income" (FVOCI). A complete neutralization of the effects was envisaged for 2020, with decreasing percentages in the next two years (70% in 2021 and 40% in 2022), through a corresponding increase in Common Equity Tier 1 (CET1) capital.

At 30 September 2021, the Group decided not to benefit from this temporary treatment.

An analysis of the data presented in charts 3 and 4 shows that, in the event of immediate and full recognition of the effects of IFRS 9, the Group's capital impacts were fully contained also as of 30 September 2021, with further attenuation in the last quarter. Indeed, the gaps between capital solvency and leverage ratios recorded according to the IFRS 9 transitional regime and those calculated on the assumption that the Group had not opted for such a possibility remained substantially in line, compared to those observed in the previous quarter.

As already indicated, the Group does not benefit from the temporary treatment granted by Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 (CRR "Quick-fix") and implemented in article 468 of the CRR. Therefore, the values shown in the charts do not indicate any impact related to this temporary regime as at 30 September 2021.

The chart below provides an overview of the Group's risk-weighted exposures (RWA or TREA) and capital absorptions as at 30 September 2021, broken down by type of exposure and calculation method required by the prudential regulations.

Chart 5 - Template EU OV1: overview on risk-weighted exposures (RWA)

		RWA		Capital requirements
		a	b	a
		30/09/2021	30/06/2021	30/09/2021
1	Credit risk (excluding CCR)	15.867.108	16.216.004	1.269.369
2	*Of which the standardised approach*	*9.042.401*	*9.176.057*	*723.392*
3	*Of which the foundation IRB (FIRB) approach*	-	-	-
4	*Of which: slotting approach*	-	-	-
EU 4a	*Of which: equities under the simple risk-weighted approach*	-	-	-
5	*Of which the advanced IRB (AIRB) approach*	*6.824.707*	*7.039.947*	*545.977*
6	Counterparty credit risk - CCR	119.957	138.289	9.597
7	*Of which the standardised approach*	*52.895*	*66.211*	*4.232*
8	*Of which internal model method (IMM)*	-	-	-
EU 8a	*Of which exposures to a CCP*	*345*	*224*	*28*
EU 8b	*Of which credit valuation adjustment - CVA*	*15.109*	*27.849*	*1.209*
9	*Of which other CCR*	*51.608*	*44.005*	*4.129*
15	Settlement risk	-	-	-
16	Securitisation exposures in the non-trading book (after the cap)	96.626	97.401	7.730
17	*Of which SEC-IRBA approach*	-	-	-
18	*Of which SEC-ERBA (including IAA)*	-	-	-
19	*Of which SEC-SA approach*	*86.334*	*87.792*	-
EU 19a	*Of which 1250% / deduction*	*10.293*	*9.610*	-
20	Position, foreign exchange and commodities risks (Market risk)	831.723	355.136	66.538
21	*Of which the standardised approach*	*831.723*	*355.136*	*66.538*
22	*Of which IMA*	-	-	-
EU 22a	Large exposures	-	-	-
23	Operational risk	1.548.543	1.548.543	123.883
EU 23a	*Of which basic indicator approach*	-	-	-
EU 23b	*Of which standardised approach*	*1.548.543*	*1.548.543*	*123.883*
EU 23c	*Of which advanced measurement approach*	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	661.347	96.345	52.908
29	**TOTAL**	**18.463.957**	**18.355.373**	**1.477.117**

Source: COREP reporting - Capital Adequacy: Templates C 02.00 - C 07.00 - C 04.00 - C 08.01 - C 10.01 - C 13.01 - C 14.00 - C 14.01 - C 34.10 - C 34.02

The Group's total risk-weighted assets boosted in the last quarter. The increase related to the exposure to market risks is particularly concentrated in the areas of ‘general risk on debt instruments’ and ‘exchange rate risk’. Lending volumes fell from June; nevertheless, the contribution of credit disbursements that benefit from a state guarantee as a measure to face the economic effects of the COVID-19 pandemic remained quite important. Capital requirements from operational risks, which are updated annually as required by regulations, remained unchanged. Risks related to credit value adjustment (CVA) on OTC derivative transactions are still scarcely relevant.

* * *

Given the absence of counterparty risk exposures calculated on the basis of the "Internal Model Method" (IMM), the following Pillar 3 standardized template to which the Group would be subject pursuant to art. 438(h) of the CRR is not published:

Template EU CCR7: RWEA flow statements of CCR exposures under the IMM

Furthermore, the Group does not apply the "Internal Model Approach" (IMA) for the measurement of its market risk exposures for the purpose of determining its regulatory capital requirements. Therefore, the following Pillar 3 standardized template to which the Group would be subject pursuant to art. 438(h) of the CRR is not published:

Template EU MR2-B: RWEA flow statements of market risk exposures under the IMA

Section 3 - Disclosure of liquidity requirements
(art. 451a CRR/CRR II)

The Group regularly monitors its exposure to liquidity risk and the adequacy of the related management and mitigation systems from a current, prospective and stressed perspective, using metrics calculated for both regulatory and internal purposes, the latter defined on the basis of operational specificities and the range of activities performed by the Group.

At an operational level, liquidity management is carried out by Group companies through dedicated business structures; in this context, the Parent Company acts as fund-raising preferential counterparty for its subsidiaries, intervening to cover part of their liquidity needs, as well as in the eventual use of liquidity surplus.

In compliance with the provisions dictated by EU regulations, Banca Popolare di Sondrio calculates and monitors the following synthetic liquidity indicators at a consolidated level: Liquidity Coverage Ratio and Net Stable Funding Ratio.

Liquidity Coverage Ratio (LCR) represents the short-term liquidity coverage requirement determined in accordance with Part Six of the CRR, as subsequently supplemented by Delegated Regulation (EU) 2015/61 of 10 October 2014, which in turn was partially amended by Delegated Regulation (EU) 2018/1620 of 13 July 2018. It is calculated as the ratio between the stock of high-quality liquid assets and the total amount of net cash outflows (algebraic sum of inflows and expected cash outflows) over the next 30 calendar days. This parameter aims to ensure the ability of banks to survive a severe short-term liquidity shock by ensuring that they maintain an adequate level of high-quality liquid assets that can be readily converted into cash to meet the very short-term needs that could arise under a particularly acute liquidity stress scenario. The ratio is subject to a minimum regulatory requirement of 100%.

Net Stable Funding Ratio (NSFR) represents the net stable medium to long-term funding ratio determined in accordance with Part Six of the CRR, as amended by the “CRR II” dated 20 May 2019, the application of which started with effect from the reporting date of 30 June 2021. This is the ratio of the available amount of stable funding to the required amount of stable funding. It is intended as an additional mechanism compared to the LCR requirement, with the aim of favouring more stable and longer-term financing of company assets, offsetting the incentives that banking institutions would have to finance their stock of liquid assets with short-term funds expiring immediately after the 30-day horizon. In particular, the NSFR requirement should always be kept equal to or higher than 100%, so as to ensure that long-term assets are financed with at least a minimum amount of stable liabilities according with relative liquidity risk profiles.

Overall, the liquidity conditions of the Group are adequate both in the short term (“operational liquidity”) and in the long term (“structural liquidity”), and broadly comply with the minimum levels imposed by regulations for LCR and NSFR ratios.

The charts below show the quarterly evolution of the Group’s Liquidity Coverage Ratio (LCR) average monthly values and of the main aggregates making up the ratio (liquidity reserve, liquidity outflows and inflows, high quality liquid assets).

Chart 6 - Template EU LIQ1: quantitative information of LCR (1 of 2)

		a	b	c	d
		Total unweighted value (average)			
EU 1a	Quarter ending on 30 September 2021	30/09/2021	30/06/2021	31/03/2021	31/12/2020
EU 1b	Number of data points used in the calculation of averages	12	12	12	12
	HIGH-QUALITY LIQUID ASSETS (HQLA)				
1	**TOTAL HIGH-QUALITY LIQUID ASSETS (HQLA)**				
	CASH - OUTFLOWS				
2	Retail deposits and deposits from small business customers, of which:	15.521.761	15.036.628	14.563.948	14.127.639
3	*Stable deposits*	*9.976.252*	*9.718.932*	*9.460.669*	*9.196.580*
4	*Less stable deposits*	*5.493.901*	*5.260.300*	*5.041.960*	*4.884.395*
5	Unsecured wholesale funding, of which:	18.246.095	17.500.432	16.647.769	15.917.017
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*4.247.218*	*4.060.250*	*3.797.877*	*3.491.143*
7	*Non-operational deposits (all counterparties)*	*13.980.403*	*13.418.915*	*12.830.660*	*12.413.175*
8	*Unsecured debt*	*18.474*	*21.267*	*19.232*	*12.699*
9	Secured wholesale funding				
10	Additional requirements	562.432	559.847	559.632	547.789
11	*Outflows related to derivative exposures and other collateral requirements*	*7.525*	*8.165*	*9.969*	*11.513*
12	*Outflows related to loss of funding on debt products*	-	-	-	*313*
13	*Credit and liquidity facilities*	*554.907*	*551.683*	*549.663*	*535.963*
14	Other contractual funding	3.615	3.653	45.607	45.784
15	Other contingent funding obligations	12.273.176	12.149.638	12.424.779	12.838.482
16	**TOTAL CASH OUTFLOWS**				
	CASH – INFLOWS				
17	Secured lending (e.g. reverse repos)	686.775	756.573	744.261	896.770
18	Inflows from fully performing exposures	6.141.092	5.737.763	5.043.542	3.984.997
19	Other cash inflows	3.683.615	3.707.352	3.817.143	3.981.241
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)				
EU-19b	(Excess inflows from a related specialised credit institution)				
20	**TOTAL CASH INFLOWS**	**10.511.482**	**10.201.689**	**9.604.946**	**8.863.009**
EU-20a	*Fully exempt inflows*	-	-	-	-
EU-20b	*Inflows subject to 90% cap*	-	-	-	-
EU-20c	*Inflows subject to 75% cap*	*10.511.482*	*10.201.689*	*9.604.946*	*9.102.458*
	TOTAL ADJUSTED VALUE				
EU-21	**LIQUIDITY BUFFER**				
22	**TOTAL NET CASH OUTFLOWS**				
23	**LIQUIDITY COVERAGE RATIO (%)**				

Source: COREP reporting - Liquidity coverage: Templates C 72.00 - C 73.00 - C 74.00 - C 76.00

NOTE: The figures in the chart are calculated as a simple (unweighted) average of the end-of-month observations over the twelve months preceding the end of each quarter

Chart 7 - Template EU LIQ1: quantitative information of LCR (2 of 2)

		e	f	g	h
		Total weighted value (average)			
EU 1a	Quarter ending on 30 September 2021	30/09/2021	30/06/2021	31/03/2021	31/12/2020

EU 1b	Number of data points used in the calculation of averages	12	12	12	12
	HIGH-QUALITY LIQUID ASSETS (HQLA)				
1	**TOTAL HIGH-QUALITY LIQUID ASSETS (HQLA)**	**8.757.262**	**8.396.953**	**8.178.818**	**8.175.653**
	CASH - OUTFLOWS				
2	Retail deposits and deposits from small business customers, of which:	1.221.366	1.177.670	1.136.091	1.102.227
3	*Stable deposits*	*498.813*	*485.947*	*473.033*	*459.829*
4	*Less stable deposits*	*722.553*	*691.724*	*663.057*	*642.398*
5	Unsecured wholesale funding, of which:	8.241.018	7.877.930	7.543.904	7.258.872
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*1.020.826*	*975.685*	*911.576*	*836.536*
7	*Non-operational deposits (all counterparties)*	*7.201.718*	*6.880.978*	*6.613.096*	*6.409.638*
8	*Unsecured debt*	*18.474*	*21.267*	*19.232*	*12.699*
9	Secured wholesale funding	*313*	*313*	*313*	-
10	Additional requirements	113.716	109.629	113.123	109.919
11	*Outflows related to derivative exposures and other collateral requirements*	*7.525*	*8.165*	*9.969*	*11.513*
12	*Outflows related to loss of funding on debt products*	-	-	-	*313*
13	*Credit and liquidity facilities*	*106.191*	*101.465*	*103.154*	*98.093*
14	Other contractual funding	1.600	1.623	43.563	43.730
15	Other contingent funding obligations	462.410	448.576	443.178	447.360
16	**TOTAL CASH OUTFLOWS**	**10.040.423**	**9.615.741**	**9.280.172**	**8.962.107**
	CASH – INFLOWS				
17	Secured lending (e.g. reverse repos)	-	-	-	2.333
18	Inflows from fully performing exposures	5.654.369	5.269.848	4.580.153	3.792.154
19	Other cash inflows	757.811	761.733	783.703	813.211
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)	-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)	-	-	-	-
20	**TOTAL CASH INFLOWS**	**6.412.180**	**6.031.582**	**5.363.856**	**4.607.697**
EU-20a	*Fully exempt inflows*	-	-	-	-
20b	*Inflows subject to 90% cap*	-	-	-	-
EU-20c	*Inflows subject to 75% cap*	*6.412.180*	*6.031.582*	*5.363.856*	*4.607.697*
	TOTAL ADJUSTED VALUE				
EU-21	**LIQUIDITY BUFFER**	**8.757.262**	**8.396.953**	**8.178.818**	**8.175.653**
22	**TOTAL NET CASH OUTFLOWS**	**3.628.243**	**3.584.159**	**3.916.315**	**4.354.410**
23	**LIQUIDITY COVERAGE RATIO (%)**	**245,0845%**	**238,5352%**	**217,9816%**	**196,3171%**

Source: COREP reporting - Liquidity coverage: Templates C 72.00 - C 73.00 - C 74.00 - C 76.00

NOTE: The figures in the chart are calculated as a simple (unweighted) average of the end-of-month observations over the twelve months preceding the end of each quarter

Considering the evidence reported in the charts above, with reference to the last two ends of the quarter, it is possible to observe a substantial stability of the average levels of the indicator, which sets on values well above the minimum regulatory requirement (100%) and even over 200%.

The increase in bond funding volumes has significantly contributed to the evolution of the LCR; in this case an important role was played by the first issue of a *Senior Preferred Green Bond* on the primary market for a total amount of Eur 500 million in July. Another noteworthy aspect in terms of funding is the Group's use of *Targeted Longer-Term Refinancing Operations* (TLTRO) promoted by the European Central Bank: as of 30 September 2021, the Group took advantage of TLTRO funds for a total amount of Eur 8.874 billion, whose partial repayment and simultaneous renewal for the same amount occurred in September allowed the Bank to settle on longer-term maturities (Eur 4.4 billion maturing in June 2023, Eur 800 million maturing in March 2024 and the remaining amounts maturing in September 2024).

The funds raised were partly reallocated to support the real economy through loans of different types, with preference for the lending to retail customers. A further share of funds was allocated for the purchasing of high-quality securities, especially government bonds.

The dynamics described were reflected in a substantial confirmation of the LCR average values compared to the previous quarter end.

The high-quality liquid available assets ("HQLA"), representing the liquidity buffers that can be counted in the numerator of the indicator, are held by the Group mainly in Euro currency in order to cover any financial needs in that currency; they remain predominantly constituted by instruments issued by sovereign institutions eligible in the "EHQLA" category (Level 1)[7], recognized as of the highest quality and liquidity pursuant to Delegated Regulation (EU) 2015/61. These are mainly securities issued by the Italian State, but with an increase over time in the share of investments in bond instruments issued by supranational bodies, credit institutions and financial companies. The Swiss subsidiary Banca Popolare di Sondrio (SUISSE) holds its own bond portfolio, consisting mainly of securities that can be eligible for operations with its Central Bank, as well as CHF stocks deposited with the latter, and are intended to satisfy the specific liquidity needs.

Net cash outflows are determined by applying the outflow and inflow factors provided in the prudential provisions for all demand liabilities and sight assets or other term asset and liabilities maturing within 30 days, so as to incorporate stress effects characterized by both systemic and idiosyncratic aspects into the calculation of the coefficient.

Risk profiles related to the concentration of funding sources are limited by the Group through the maintenance of a substantial retail collection base, by definition adequately diversified; other relevant supply sources are represented by funding from national and international private entities and companies as well as from bank counterparties from which the Group, given its high standing, can finance itself at market rates without difficulties.

The liquidity risks associated with exposures in derivative instruments are overall limited, given the risk strategy pursued by the Group which provides for a regular "back-to-back" hedging of open positions with customers.

With regard to the Group's Net Stable Funding Ratio (NSFR) as at 30 September 2021, its value was well above the minimum requirement (100%). The amount of available stable funding (AFS), consisting mostly of retail deposits and, secondly, of loans received from the European Central Bank, far exceeded the level of required stable funding (RSF) which is primarily related to loans granted to customers.

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7 LCR calculation rules distinguish high-quality liquid assets ("HQLA") into three categories in decreasing order by liquidity degree: "Level 1" ("EHQLA"), "Level 2A" and "Level 2B". Increasing prudential haircuts are applied to these categories as well as limits in terms of composition.

Section 4 - Disclosure of the use of the IRB approach for credit risk (artt. 438 CRR/CRR II)

The chart below shows the changes compared to the previous quarter in the amounts of risk-weighted exposure (RWA) based on the «Advanced IRB Approach», with details of the key factors that contributed significantly to the changes.

Chart 8 - Template EU CR8: RWEA flow statements of credit risk exposures under the IRB approach

		RWA
		a
1	**RISK WEIGHTED EXPOSURE AMOUNT AS AT THE END OF THE PREVIOUS REPORTING PERIOD**	**7.039.947**
2	Asset size (+/-)	(105.709)
3	Asset quality (+/-)	(116.276)
4	Model updates (+/-)	-
5	Methodology and policy (+/-)	-
6	Acquisitions and disposals (+/-)	-
7	Foreign exchange movements (+/-)	(5.838)
8	Other (+/-)	12.583
9	**RISK WEIGHTED EXPOSURE AMOUNT AS AT THE END OF THE REPORTING PERIOD**	**6.824.707**

Source: COREP reporting - Flow statements for credit risk, IRB approach to capital requirements: Template C 08.04

As at 30 September 2021, the value of total weighted assets subject to credit risk, quantified using the 'Advanced IRB' methodology, decreased compared to the value registered at the beginning of the quarter. This development was mainly due to a contraction in operating volumes in the asset classes treated with the A-IRB approach (Retail and Corporate segments) and an overall improvement in the credit quality of the related exposures. Variations in exchange rates on foreign currency loans also contributed to the decline, albeit to a very limited extent.

Certification of the Manager responsible for preparing the Company's accounting documents

The undersigned Maurizio Bertoletti, as Manager responsible for preparing the Company's accounting documents of Banca Popolare di Sondrio S.c.p.a., taking account of the provisions of article 154a, paragraph 2, of Legislative Decree no. 58 of 24 February 1998, certifies that the accounting information contained in this document corresponds with the underlying accounting entries, records and documentation.

Sondrio, 26 November 2021

Signed Maurizio Bertoletti

Manager responsible for preparing
the Company’s accounting documents

Glossary

Common Equity Tier 1 (CET1) Ratio

Prudential capital adequacy coefficient expressed by the ratio between Common Equity Tier 1 capital (CET1) and total risk exposure amount represented by risk-weighted assets (RWAs).

EBA – European Banking Authority

European Banking Authority. Regulatory body of the European Union, based in London, established by Regulation 1093/2010/EU to replace the Committee of European Banking Supervisors (in abbreviated form, “CEBS”).

Fair value

Fair value. Value for which an asset could be exchanged or a liability settled in an orderly market transaction between knowledgeable and independent parties.

IAS/IFRS

International Accounting Standards (IAS) issued by the International Accounting Standard Board (IASB), a body in which the accounting professionals of the major countries worldwide are represented, with the European Union, the IOSCO (International Organisation of Securities Commissions) and the Basel Committee on Baking Supervision taking part as observers. This body, which inherited the legacy of the International Accounting Standards Committee (IASC), aims to promote the harmonisation of the accounting rules for the preparation of company financial statements. With the transformation of the IASC into IASB, it was decided, among other things, to call the new accounting standards “International Financial Reporting Standards” (IFRS).

IFRS 9 (Financial instruments)

International accounting standard which, from 1 January 2018, replaced IAS 39 “Financial Instruments: Recognition and Measurement”. It applies to all financial instruments that can be classified as assets and liabilities in the balance sheet, having regard to the classification and measurement criteria and the methods for determining impairment adjustments.

ICAAP – Internal Capital Adequacy Assessment Process

Internal process to evaluate capital adequacy, as provided for by the “Pillar 2” rules of prudential supervisory regulations, which financial institutions are required to implement to determine an adequate level of internal capital to cope with all relevant risks; these may differ from those covered by the total regulatory capital requirements (“Pillar 1”), as they are part of an individual assessment - both current and prospective - that takes into account the business strategies and the evolution of the macro-economic context, also under stress conditions.

ILAAP – Internal Liquidity Adequacy Assessment Process

Internal process for evaluating the adequacy of the governance and management mechanisms in place to face current and prospective liquidity risks, consisting in the processes for the identification, measurement, management and monitoring of liquidity implemented by the financial institutions.

IRB – Internal Rating Based Approach

Methods Based on Internal Ratings. They can be distinguished between a “basic” (F-IRB, Foundation Internal Rating-Based Approach) and an “advanced” approach (A-IRB, Advanced Internal Rating-Based Approach) in relation to the credit risk parameters that the banks are allowed to estimate internally. In particular, the Advanced IRB method involves internal estimation of all the main risk parameters (PD, LGD, EAD, CCF and, where required, actual maturity) used in the weighting formulas for calculating the capital requirement for credit risk. Adoption of IRB methods for the purpose of calculating capital requirements is subject to authorisation from the Supervisory Authority, after verification of compliance with a set of organisational and quantitative requirements.

LCR – Liquidity Coverage Ratio

Short-term liquidity coverage indicator determined according to Part 6 of Regulation (EU) no. 575/2013 of 26 June 2013 ("CRR"). The coefficient aims to ensure that intermediaries hold an amount of high-quality liquid reserves, readily convertible into cash, sufficient to cover liquidity outflows for a period of at least 30 days, even in a scenario of particularly severe liquidity stress. The indicator is calculated as the ratio between the stock of high-quality liquid assets (HQLA) and total net cash outflows scheduled in the 30 calendar days following the observation date, determined under particularly acute stress assumptions. The parameter must always remain at or above the minimum level of 100%.

Leverage Ratio

Prudential ratio introduced by the Basel 3 framework with the aim of containing the degree of financial leverage in the banking sector, which complements the traditional risk-based capital requirements with a metric based on financial aggregates not weighted for risk. It is obtained as the ratio between Tier 1 Capital and Total Exposure, the latter being the sum of on-balance and off-balance sheet exposures.

NSFR – Net Stable Funding Ratio

Regulatory long-term liquidity indicator envisaged by the Basel 3 frameworks. It is intended as a mechanism aimed at complementing the LCR index with a view to favouring more stable and longer-term financing of assets, offsetting the incentives that banking and financial institutions would have to finance their stock of liquid assets with short-term funds that expire immediately after the 30-day horizon. The index is calculated as the ratio between the available amount of stable funding (ASF) and the required amount of stable funding (RSF). This parameter, which should always be kept equal to or greater than 100%, is structured in such a way as to ensure that long-term assets are financed with at least a minimum amount of stable liabilities in relation to the respective liquidity risk profiles.

Rating

Synthetic estimate of a debtor's ability to fulfil its credit commitments issued by specialised agencies (external rating) or by the bank itself (internal rating) on the basis of aspects such as financial solvency and growth prospects.

RWA – Risk-Weighted Assets

RWEA – Risk-Weighted Exposure Amounts

TREA – Total Risk Exposure Amount

On-balance sheet and off-balance sheet assets classified and weighted for their associated risks, established in accordance with the regulations issued by supervisory authorities in relation to calculation of capital ratios of banks.

SREP – Supervisory Review and Evaluation Process

Prudential review and assessment process with which the Supervisory Authorities periodically assess the ICAAP of financial institutions and its results. Through the SREP the Authority: a) analyses the risk profiles of a supervised entity, individually and in an aggregate perspective, also under stress conditions, and the related contribution to systemic risk; b) evaluates its corporate governance system, the functionality of its internal bodies, its organisational structure and the internal control system; c) verifies compliance of the institution with the set of prudential rules applicable.

Tier 1 Ratio

Prudential capital adequacy coefficient expressed by the ratio between Tier 1 Capital and total risk exposure amount represented by risk-weighted assets (RWA).

Total Capital Ratio

Prudential capital adequacy coefficient expressed by the ratio between Total Capital and total risk exposure amount represented by Risk-Weighted Assets (RWA).