



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

Parent Company of the Banca Popolare di Sondrio Banking Group,

Official List of Banking Groups under no. 5696.0

Member of the Interbank Deposit Guarantee Fund

Tax code and VAT number: 00053810149

Share capital: € 1,360,157,331; Reserves: € 1,380,852,212

(Figures approved at the Shareholders' meeting of 30 April 2022)

Stock listed on the Mercato Telematico Azionario (MTA or Screen-Traded Market)

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Introduction

The “Basel III” regulatory framework has been in force since 1 January 2014 and was transposed into the European Union regulatory system through:

- Regulation (EU) no. 575/2013 (Capital Requirements Regulation, known as “CRR”) of the European Parliament and Council of 26 June 2013, which regulates the prudential requirements for credit institutions and investment firms (“Pillar 1” provisions) and the rules on public disclosures (“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;

On 7 June 2019, after the publication in the Official Journal of the European Union, the following reform package introducing significant changes to the Union's regulatory framework was issued:

- Regulation (EU) no. 2019/876 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 leverage ratio, net stable funding ratio, 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 the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, which refers to exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures (“CRD V”)¹.

These measures transposed into the European Union the set of prudential reforms approved 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 subsequent amendments have a direct effect on the EU Member States, while the rules contained in the CRD IV and its subsequent amendments provide for their transposition into the various national laws.

The relevant regulatory framework throughout the EU is completed by the execution measures contained in the Regulatory or Implementing Technical Standards adopted by the European Commission on the European Supervisory Authorities (ESA) proposal.

The prudential regime applicable to financial institutions is based on three “Pillars”.

“Pillar 1” (*Minimum prudential requirements*) imposes specific capital requirements to all supervised entities designed to cope with banking and finance typical risks, providing for alternative calculation

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.

methods, characterized by different levels of complexity. This is integrated by the imposition of constraints 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 equip themselves with 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 recognized by the Pillar 1 capital requirements; verifying the reliability and consistency of the results of these two processes and adopting, if necessary, appropriate corrective measures, is up to the Supervisory Authorities as part of their Supervisory Review and Evaluation Process (SREP). Increasing importance is also attributed to corporate governance structures and internal control frameworks as determining factors for the stability of individual institutions as well as of the financial system as a whole.

“Pillar 3” (*Market discipline*) establishes specific public disclosure requirements to allow market participants to assess banks' capital strength and exposure to risks more accurately, as well as their risk management and control systems. In this regard, key developments have concerned the introduction of broader transparency requirements for supervised entities, given the market's need for more and 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 provided for by the “Pillar 3” of prudential regulations have undergone a thorough revision. The new publication requirements, effective from 28 June 2021, were detailed in the Commission Implementing Regulation (EU) 2021/637 of 15 March 2021, published on 21 April 2021 in the Official Journal of the European Union, which established innovative technical standards of implementation regarding the publication of information to the public by entities.

This 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. This measure (ITS/2020/04) instituted a new organic set of rules governing the models for the “Pillar 3” disclosures publication, aimed at rationalizing the existing regulatory framework, while at the same time increasing the level of clarity and standardization of the disclosures to be published². The new framework has provided an integrated, comprehensive and uniform set of rules, formats and schedules with the aim of ensuring high quality and comparable public disclosures.

Templates and tables provided are applied according to the entity's classification in terms of size and complexity. Starting from the reporting of 30 June 2021 Banca Popolare di Sondrio Group publishes its information in adherence to the aforementioned Implementing Regulations.

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 latest revision of the “Pillar 3” regulatory framework, public disclosure obligations by entities are now regulated by:

- the CRR, 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 473-bis) and Chapter 3 “Transitional provisions for disclosure of own funds” (article 492), as amended by Regulation (EU) 2019/876 (“CRR II”);
- the Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 laying down implementing technical standards with regard to entities publication 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 materiality, proprietary, confidentiality and on disclosure frequency under articles 432, paragraphs 1 and 2, and 433 of the CRR;
 - EBA/GL/2018/01 Guidelines on uniform disclosures under article 473-bis of the CRR as regards the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds.

Regulation (EU) 2022/631 of 13 April 2022 has also taken force, amending the Implementing Technical Standards laid down by the Implementing Regulation (EU) No 637/2021 on disclosure of information on exposures to interest rate risk on positions not held in the trading book in accordance with article 448 of CRR II (paragraph 1, points a) and b)).

Within the context created by the spread of the COVID-19 pandemic, the following additional regulations were issued:

- EU Regulation 2020/873 of 24 June 2020 (CRR Quick-fix), amending Regulations (EU) no. 575/2013 and (EU) 2019/876 with regard to certain adjustments in response to the pandemic (CRR Quick-fix), some relating to the public disclosure requirements governed by those provisions.
- the following Guidelines issued by the EBA:
 - EBA/GL/2020/07 Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis;
 - EBA/GL/2020/12 Guidelines amending the Guidelines EBA/GL/2018/01 on uniform disclosures under article 473-bis of the CRR on the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds to ensure compliance with the CRR “quick fix” in response to the COVID-19 pandemic³.

³ 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 473-bis 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).

These Guidelines, issued by the EBA in response to the epidemiological emergency, were implemented by the Bank of Italy in the national set of rules with a communication dated 8 September 2020.

With these Public Disclosures, Banca Popolare di Sondrio Group (also referred to as the “Group”) intends to fulfil the disclosure requirements envisaged in the above-mentioned Pillar 3 legislation. The frequency of disclosure conforms to the rules dictated by article 433-bis of CRR/CRR II for the category of listed “large institutions”.

This document has been prepared by Banca Popolare di Sondrio S.p.A., the Parent Company, on a consolidated basis with reference to the scope of consolidation used for supervisory purposes, and is available in the “Investor Relations” section of the Bank’s website (<https://istituzionale.popso.it>), sub-section “Pillar 3”. The document is also accompanied by the Certification of the Manager responsible for preparing the Company’s accounting documents of the Parent Company Banca Popolare di Sondrio S.p.A., pursuant to Article 154-bis, paragraph 2, of Legislative Decree 58/98 (Consolidated Law on Finance, “TUF”).

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

* * *

NOTE:

All the amounts indicated in the sections of this Disclosure, except where expressly indicated, are shown in thousands of Euro. Any failure to reconcile between the figures shown in this document depends solely on rounding.

Any significant change with respect to previous publication periods are mentioned in this document.

In order to provide only significant information for users, the publication of data or information considered irrelevant or not applicable to the Group is omitted. In such cases, the elements left out and the reasons for the publication omission are specified.

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

The following summary table links the articles of the Regulation (EU) no. 575/2013 (“CRR”), as amended by (UE) Regulation no. 876/2019 (“CRR II”), to the relevant disclosure requirements for Banca Popolare di Sondrio Group, integrated by the respective disclosure frequency and the sections of this document in which qualitative or quantitative information required by the “Pillar 3” regulations are reported with regard to the Group's situation as at 30 September 2022.

Art. CRR/ CRR II	Article description	Frequency of publication	Section Public Disclosures as at 30 September 2022
Art. 431	Disclosure requirements and policies	-	
Art. 432	Non-material, proprietary or confidential information	-	
Art. 433	Frequency and scope of disclosures	-	
Art. 433-bis	Disclosure by large institutions	-	
Art. 433-ter	Disclosure by small and non-complex entities	-	
Art. 433-quater	Disclosure by other institutions	-	
Art. 434	Means of disclosure	-	
Art. 435	Disclosure of risk management objectives and policies	Annual	
Art. 436	Disclosure of the scope of application	Quarterly/ Half-yearly <i>Scope of consolidation</i>	1 - Scope of application
		Annual <i>Full art. 436</i>	
Art. 437	Disclosure of own funds	Half-yearly <i>lett. a)</i>	
		Annual <i>Full art. 437</i>	
Art. 437-bis	Disclosure of own funds and eligible liabilities	Annual (Disclosure obligation in force from 01/01/2024)	
Art. 438	Disclosure of own funds requirements and risk-weighted exposure amounts	Quarterly <i>lett. d) and h)</i>	2 - Disclosure of key metrics and overview of risk-weighted exposure amounts
		Half-yearly <i>lett. e)</i>	
		Annual <i>Full art. 438</i>	4 - Disclosure of the use of the IRB approach to credit risk
Art. 439	Disclosure of exposures to counterparty risk	Half-yearly <i>lett. e) to l)</i>	
		Annual <i>Full art. 439</i>	
Art. 440	Disclosure of countercyclical capital buffers	Half-yearly/Annual	
		Half-yearly	



Art. CRR/ CRR II	Article description	Frequency of publication	Section Public Disclosures as at 30 September 2022
Art. 442	Disclosure of exposures to credit risk and dilution risk	<i>lett. c), e), f) and g)</i>	
		Annual <i>Full art. 442</i>	
Art. 443	Disclosure on encumbered and unencumbered assets	Annual	
Art. 444	Disclosure of the use of the Standardised Approach	Half-yearly <i>lett. e)</i>	
		Annual <i>Full art. 444</i>	
Art. 445	Disclosure of exposure to market risk	Half-yearly/Annual	
Art. 446	Disclosure of operational risk management	Annual	
Art. 447	Disclosure of key metrics	Quarterly/Half-yearly/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	Half-yearly <i>par. 1, lett. a) and b)</i>	
		Annual <i>Full art. 448</i>	
Art. 449	Disclosure of exposure to securitisation positions	Half-yearly <i>lett. j), k) and l)</i>	
		Annual <i>Full art. 449</i>	
Art. 449-bis	Disclosure of environmental, social and governance risks (ESG risks)	Annual in 2022 (disclosure at 31/12/2022), Half-yearly from 2023	
Art. 450	Disclosure of remuneration policy	Annual	
Art. 451	Disclosure of the leverage ratio	Half-yearly <i>par. 1, lett. a) and b)</i>	
		Annual <i>Full art. 451</i>	
Art. 451-bis	Disclosure of liquidity requirements	Quarterly <i>par. 2</i>	3 - Disclosure of liquidity requirements
		Half-yearly <i>par. 3</i>	
		Annual <i>Full art. 451-bis</i>	
Art. 452	Disclosure of the use of the IRB approach to credit risk	Half-yearly <i>lett. g)</i>	
		Annual <i>Full art. 452</i>	
Art. 453	Disclosure of the use of credit risk mitigation techniques	Half-yearly <i>lett. f) to j)</i>	
		Annual <i>Full art. 453</i>	
Art. 473-bis	Introduction of IFRS 9	Quarterly/Half-yearly/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 Banca Popolare di Sondrio Group would be subject as a listed “large institution” pursuant to article 433-bis of the same EU provision, are not relevant for the Group:

- Art. 441 - Disclosure of indicators of global systemic importance.
- Art. 454 - Disclosure of the use of 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 have been prepared by the Parent Company in relation to Banca Popolare di Sondrio Banking Group, which, at the reference date, is made up as follows:

Company Name		Status	Registered office	Operative office
1	Banca Popolare di Sondrio SpA	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) – wholly-owned	Milano	Milano
4	Sinergia Seconda S.r.l.	Real estate company – wholly-owned	Milano	Milano
5	Popso Covered Bond S.r.l.	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	Milano
7	PrestiNuova S.r.l. - Agenzia in Attività Finanziaria	Financial Agency – Wholly owned (100%) by Banca della Nuova Terra SpA	Roma	Roma

The scope of consolidation of the current Pillar III disclosure is determined in accordance with the prudential supervisory regulations currently in force and provides for full consolidation of the subsidiaries mentioned above, as banking, financial or service entities that are directly controlled by the Parent Company.

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

The following tables provide a summary of the performance of some Banca Popolare di Sondrio Group key figures, represented by main prudential and regulatory metrics envisaged by 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.

Table 1 - Template EU KM1 - Key metrics template (1 of 2)

		a	b
		30/09/2022	30/06/2022
Available own funds (amounts)			
1	Common Equity Tier 1 (CET1) capital	3,182,253	3,164,186
2	Tier 1 capital	3,182,253	3,164,186
3	Total capital	3,727,758	3,722,275
Risk-weighted exposure (amounts)			
4	Total risk-weighted exposure amount	20,726,040	20,849,490
Capital ratios (as a percentage of risk-weighted exposure amount)			
5	Common Equity Tier 1 ratio (%)	15.3539 %	15.1763 %
6	Tier 1 ratio (%)	15.3539 %	15.1763 %
7	Total capital ratio (%)	17.9859 %	17.8531 %
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 (%)	2.7700 %	2.7700 %
EU 7b	<i>of which: to be made up of CET1 capital (percentage points)</i>	1.5581 %	1.5581 %
EU 7c	<i>of which: to be made up of Tier 1 capital (percentage points)</i>	2.0775 %	2.0775 %
EU 7d	Total SREP own funds requirements (%)	10.7700 %	10.7700 %
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 (%)	0.0042 %	0.0026 %
EU 9a	Systemic risk buffer (%)	-	-
10	Global Systemically Important Institution buffer (%)	-	-
EU 10a	Other Systemically Important Institution buffer	-	-
11	Combined buffer requirement (%)	2.5042 %	2.5026 %
EU 11a	Overall capital requirements (%)	13.2742 %	13.2726 %
12	CET1 available after meeting the total SREP own funds requirements (%)	9.2958 %	9.1182 %
Leverage ratio			
13	Leverage ratio total exposure measure	61,797,002	59,793,592
14	Leverage ratio	5.1495 %	5.2919 %
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	<i>of which: to be made up of CET1 capital (percentage points)</i>	-	-
EU 14c	Total SREP leverage ratio requirements (%)	3.0000 %	3.0000 %
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 (%)	3.0000 %	3.0000 %
Liquidity Coverage Ratio			
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	11,081,710	10,905,487
EU 16a	Cash outflows - Total weighted value	10,289,265	10,361,286
EU 16b	Cash inflows - Total weighted value	3,369,826	4,217,353
16	Total net cash outflows (adjusted value)	6,919,439	6,143,933
17	Liquidity coverage ratio (%)	166.3570 %	188.5102 %
Net Stable Funding Ratio			
18	Total available stable funding	39,367,605	38,526,715
19	Total required stable funding	30,661,713	30,430,150
20	NSFR ratio (%)	128.3934 %	126.6071 %

Source: COREP – Capital adequacy: Models C 01.00 - C 02.00 - C 03.00 - C 04.00; Leverage ratio calculation: Model C 47.00; Liquidity Coverage Ratio: Models C 72.00 - C 73.00 - C 74.00 - C 75.01 - C 76.00

Table 2 - Template EU KM1 - Key metrics template (2 of 2)

		c	d	e
		31/03/2022	31/12/2021	30/09/2021
Available own funds (amounts)				
1	Common Equity Tier 1 (CET1) capital	3,099,270	3,163,255	3,051,706
2	Tier 1 capital	3,099,270	3,173,556	3,059,104
3	Total capital	3,656,357	3,784,789	3,383,934
Risk-weighted exposure (amounts)				
4	Total risk-weighted exposure amount	20,225,929	20,042,635	18,463,957
Capital ratios (as a percentage of risk-weighted exposure amount)				
5	Common Equity Tier 1 ratio (%)	15.3233 %	15.7826 %	16.5279 %
6	Tier 1 ratio (%)	15.3233 %	15.8340 %	16.5680 %
7	Total capital ratio (%)	18.0776 %	18.8837 %	18.3272 %
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 (%)	2.7700 %	3.0000 %	3.0000 %
EU 7b	<i>of which: to be made up of CET1 capital (percentage points)</i>	1.5581 %	1.6875 %	1.6875 %
EU 7c	<i>of which: to be made up of Tier 1 capital (percentage points)</i>	2.0775 %	2.2500 %	2.2500 %
EU 7d	Total SREP own funds requirements (%)	10.7700 %	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 (%)	0.0018 %	0.0007 %	0.0014 %
EU 9a	Systemic risk buffer (%)	-	-	-
10	Global Systemically Important Institution buffer (%)	-	-	-
EU 10a	Other Systemically Important Institution buffer	-	-	-
11	Combined buffer requirement (%)	2.5018 %	2.5007 %	2.5014 %
EU 11a	Overall capital requirements (%)	13.2718 %	13.5007 %	13.5014 %
12	CET1 available after meeting the total SREP own funds requirements (%)	9.2651 %	9.5951 %	10.3404 %
Leverage ratio				
13	Leverage ratio total exposure measure	55,997,252	54,362,126	53,401,150
14	Leverage ratio	5.5347 %	5.8378 %	5.7285 %
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	<i>of which: to be made up of CET1 capital (percentage points)</i>	-	-	-
EU 14c	Total SREP leverage ratio requirements (%)	3.2790 %	3.2740 %	3.2840 %
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 (%)	3.2790 %	3.2740 %	3.2840 %
Liquidity Coverage Ratio				
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	10,445,425	9,561,024	8,757,262
EU 16a	Cash outflows - Total weighted value	10,396,268	10,344,584	10,040,423
EU 16b	Cash inflows - Total weighted value	5,163,806	6,106,095	6,412,180
16	Total net cash outflows (adjusted value)	5,232,462	4,238,489	3,628,243
17	Liquidity coverage ratio (%)	212.5557 %	234.2043 %	245.0845 %
Net Stable Funding Ratio				
18	Total available stable funding	40,129,572	40,681,347	39,577,697
19	Total required stable funding	32,424,465	30,892,952	29,896,843
20	NSFR ratio (%)	123.7632 %	131.6849 %	132.3809 %

Source: COREP – Capital adequacy: Models C 01.00 - C 02.00 - C 03.00 - C 04.00; Leverage ratio calculation: Model C 47.00; Liquidity Coverage Ratio: Models C 72.00 - C 73.00 - C 74.00 - C 75.01 - C 76.00

Capital requirements

Banking groups must comply with the following minimum capital requirements:

- Common Equity Tier 1 (CET1) ratio of 4.5%;
- Tier 1 Ratio of 6%;
- Total Capital Ratio of 8%.

The following capital reserves (known as “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 times of market tension to prevent disruptions in the banking system and avoid interruptions to the credit disbursement process, as well as to face risks deriving from the systemic relevance of certain banks at a global or domestic level.

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, is intended to safeguard the minimum amount of regulatory capital under adverse market conditions.
- *Countercyclical Capital Buffer*: this is also made up of Tier 1 Capital to protect the banking sector at times of excessive lending growth; following measures defined by the competent supervisory bodies, it could be set up during periods of economic expansion to cope with any loss 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 towards Italian counterparties, which is reviewed by the Bank of Italy on a quarterly basis, remained unchanged at 0% also in the third quarter of 2022.
- *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 and are applied to Global Systemically Important Institutions (G-SII) and Other Systemically Important Institutions (O-SII) to account for the increased risks they potentially pose 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*: is an additional reserve of an amount equal to at least 1% of risk-weighted exposures, established by each individual 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 determines the minimum level of capital conservation required for banks and banking groups (known as the “combined buffer requirement”). From 1 January 2019, these minimum capital levels 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 measures to be taken in order to re-establish the amount of capital needed to maintain their reserves above the required minimum within a reasonable period of time.

On 2 February 2022, on the basis of the review activity conducted during the annual SREP (Supervisory Review and Evaluation Process), the European Central Bank, abandoning the previous pragmatic approach linked to the COVID-19 crisis, announced new minimum capital ratios applicable to Banca Popolare di Sondrio Group as from 1 March 2022. The new additional Pillar 2 Requirement ("P2R"), to be held in the form of Common Equity Tier 1 (CET1) at least for 56.25% and Tier 1 (T1) capital for at least 75%, has been set at 2.77% and includes a share of 0.02% as an increase in the Pillar 2 requirement for impaired exposures. Accordingly, minimum capital levels to be met by the Group⁴ include:

- a minimum requirement for Common Equity Tier 1 Ratio equal to 8.56%, made up of the sum of the Pillar 1 regulatory requirement (4.50%), the amount of Capital Conservation Buffer for the current year (2.50%) and the additional Pillar 2 Requirement - P2R (1.56%);
- a minimum requirement for Tier 1 Ratio of 10.58%, being the sum of the Pillar 1 regulatory requirement (6.0%), the amount of Capital Conservation Buffer for the current year (2.50%) and the additional Pillar 2 Requirement (2.08%);
- a minimum requirement for Total Capital Ratio of 13.27%, being the sum of the Pillar 1 regulatory requirement (8.0%), the amount of Capital Conservation Buffer for the current year (2.50%) and the additional Pillar 2 Requirement (2.77%).

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

The Group's highest quality capital resources increased during the reference period: the positive effect of the retained profits offset the decrease in the FVOCI reserves on investment securities at fair value due to the unfavorable dynamics of the financial markets. As at 30 September 2022 the phased-in CET1 Ratio and Tier 1 Ratio both amounted to 15.35%, down on the year-end figures, but up, on the other hand, compared to those of the first half of the year (about 18 basis points).

Tier 2 capital declined compared to the value registered at the end of 2021 due to the application of the gradual exclusion from the eligible capital items of subordinated securities issued in the past, resulting in a regular decline in subordinated issues' eligible values. In particular, the Tier 2 subordinated liability expired at the end of last March and the phase-out of the one expiring in October 2022 contributed to this variation.

⁴ The minimum requirements are calculated net of the contribution from the Group's specific countercyclical capital buffer.

Additional capital trends, added to the effects of Common equity and total RWA dynamics, explain the observed course in the phased-in Total Capital Ratio, which stands at 17.99% as at 30 September 2022 (18.88% as at 31 December 2021, 17,85% as at 30 June 2022).

Leverage and liquidity requirements

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

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

Starting from 30 June 2022, the Decision ECB/2021/27 of 18 June 2021, which allowed the exclusion of central bank deposit facilities from the measurement of total exposure used for the calculation of the Leverage Ratio, is no longer in force.

The Group's indicator, calculated by applying the transitional criteria in force for the current year (phased-in), decreased by around 69 basis points compared to the year-end figure, mainly due to the aforementioned regulatory change which led to an increase in assets in the denominator, and by around 14 basis points compared to the first half of 2022.

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 requirements 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 2022 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 case of transitional arrangements or applicable temporary treatments absence.

Table 3 - Template EU IFRS9 - FL - Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs, and with and without the application of the temporary treatment in accordance with Article 468 of the CRR (1 of 2)

	30/09/2022	30/06/2022	31/03/2022	31/12/2021	30/09/2021	
Available capital (amounts)						
1	Common Equity Tier 1 (CET1) capital	3,182,253	3,164,186	3,099,270	3,163,255	3,051,706
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	3,166,125	3,150,635	3,077,438	3,138,875	3,034,155
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	3,182,253	3,164,186	3,099,270	3,163,255	3,051,706
3	Tier 1 capital	3,182,253	3,164,186	3,099,270	3,173,556	3,059,104
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	3,166,125	3,150,635	3,077,438	3,149,177	3,041,553
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	3,182,253	3,164,186	3,099,270	3,173,556	3,059,104
5	Total capital	3,727,758	3,722,275	3,656,357	3,784,789	3,383,934
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	3,711,630	3,708,724	3,634,526	3,760,409	3,366,383
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	3,727,758	3,722,275	3,656,357	3,784,789	3,383,934
Risk-weighted assets (amounts)						
7	Total risk-weighted assets	20,726,040	20,849,490	20,225,929	20,042,635	18,463,957
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	20,717,686	20,842,406	20,218,490	20,035,857	18,453,781

Source: COREP – Capital adequacy: Models C 01.00 - C 05.01; Leverage ratio calculation: Model C 47.00

Table 4 - Template EU IFRS9 - FL - Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs, and with and without the application of the temporary treatment in accordance with Article 468 of the CRR (2 of 2)

		30/09/2022	30/06/2022	31/03/2022	31/12/2021	30/09/2021
Capital ratios						
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	15.3539 %	15.1763 %	15.3233 %	15.7826 %	16.5279 %
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	15.2822 %	15.1165 %	15.2209 %	15.6663 %	16.4419 %
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	15.3539 %	15.1763 %	15.3233 %	15.7826 %	16.5279 %
11	Tier 1 (as a percentage of risk exposure amount)	15.3539 %	15.1763 %	15.3233 %	15.8340 %	16.5680 %
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.2822 %	15.1165 %	15.2209 %	15.7177 %	16.4820 %
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	15.3539 %	15.1763 %	15.3233 %	15.8340 %	16.5680 %
13	Total capital (as a percentage of risk exposure amount)	17.9859 %	17.8531 %	18.0776 %	18.8837 %	18.3272 %
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17.9153 %	17.7941 %	17.9762 %	18.7684 %	18.2422 %
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	17.9859 %	17.8531 %	18.0776 %	18.8837 %	18.3272 %
Leverage ratio						
15	Leverage ratio total exposure measure	61,797,002	59,793,592	55,997,252	54,362,126	53,401,150
16	Leverage ratio	5.1495 %	5.2919 %	5.5347 %	5.8378 %	5.7285 %
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5.1234 %	5.2692 %	5.4957 %	5.7930 %	5.6957 %
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	5.1495 %	5.2919 %	5.5347 %	5.8378 %	5.7285 %

Source: COREP – Capital adequacy: Models C 01.00 - C 05.01; Leverage ratio calculation: Model C 47.00

Transitional IFRS 9 provisions

As at 30 September 2022 the Group's own funds, capital and leverage ratios are calculated in application of 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 (so-called CRR “Quick-fix”)⁵, aimed at containing the capital impacts of the adoption, effective 1 January 2018, of the new accounting standard IFRS 9, appropriately amending and supplementing Regulation (EU) no. 575/2013 (“CRR”). The adoption of transitional arrangements by banks was optional and could be either “integral” or “partial” depending on whether it concerned all 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 their Common Equity Tier 1 Capital (CET1) calculation an additional amount to “neutralize” 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 the regulatory capital as a positive item and broken down into:

- a “static” component, representing the increase in credit risk adjustments during the first-time adoption of the new accounting standards, which 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 1 January 2018 (date of FTA of IFRS 9); this component remains constant throughout the entire transitional period;
- a “dynamic” component, measuring further increases in credit risk adjustments that could occur at each subsequent accounting date over the transitional period, i.e. with respect to expected credit loss provisions in place at 1 January 2018 (changes in loss allowances for lifetime expected credit losses on financial assets that are credit-impaired are excluded).

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 “neutralised” in the calculation of capital ratios through the application of a scaling factor with the effect of limiting the number 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 transitional arrangements would not benefit from both an increase in their Common Equity Tier 1 capital, due to said compensatory adjustments, and a reduced risk exposure amount.

EU regulations have given banks the right to adopt the transitional IFRS 9 regime in an “integral” manner, i.e. including both “static” and “dynamic” components, or in a “partial” manner, i.e. including

⁵ 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.

only the “static” component. Any institution that decided to apply transitional provisions, in part or in full, had to make a specific communication to the competent Authority by 1 February 2018.

Given the above, Banca Popolare di Sondrio Group has chosen to take advantage of these transitional arrangements on an “integral” basis, i.e. with reference to both 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 to 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, in light of the possible effects of the COVID-19 pandemic, Regulation (EU) 2020/873 of 24 June 2020 (so-called CRR Quick-fix) granted supervised entities the further right, for the three-year period 2020-2022, 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). In particular, the complete elimination of the effects was envisaged for 2020, with decreasing percentages in the following two years (70% in 2021 and 40% in 2022), through a corresponding increase in Common Equity Tier 1 (CET1) capital.

Banca Popolare di Sondrio Group has decided not to take advantage of this further temporary treatment.

Figures reported in the tables above (Tables 3 and 4) show that, in the event of immediate and full recognition of the effects of the accounting standard, the impacts on the Group's capital adequacy would remain limited also at 30 September 2022. The differentials between capital solvency and financial leverage ratios, calculated taking into account the compensatory adjustments granted by the IFRS 9 transitional regime, and those available to the Group in case it had not opted for this possibility remain substantially in line with those observed in the previous quarter.

As 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 do not indicate any impact related to this temporary regime as at 30 September 2022.

* * *

The table below provides an overview of the Group's risk-weighted exposures (RWA or TREA) and capital absorption as at 30 September 2022, broken down by type of exposure and calculation method required by prudential regulations.

Table 5 - Template EU OV1 - Overview on risk-weighted exposures (RWA)

		RWA		Capital requirements
		a	b	a
		30/09/2022	30/06/2022	30/09/2022
1	Credit risk (excluding CCR)	17,780,545	17,886,499	1,422,444
2	<i>Of which the standardised approach</i>	9,728,750	9,998,339	778,300
3	<i>Of which the foundation IRB (FIRB) approach</i>	-	-	-
4	<i>Of which: slotting approach</i>	-	-	-
EU 4a	<i>Of which: equities under the simple risk weighted approach</i>	-	-	-
5	<i>Of which the advanced IRB (AIRB) approach</i>	8,051,795	7,888,160	644,144
6	Counterparty credit risk - CCR	212,512	194,211	17,001
7	<i>Of which the standardised approach</i>	52,825	54,216	4,226
8	<i>Of which internal model method (IMM)</i>	-	-	-
EU 8a	<i>Of which exposures to a CCP</i>	448	419	36
EU 8b	<i>Of which credit valuation adjustment - CVA</i>	29,584	20,175	2,367
9	<i>Of which other CCR</i>	129,655	119,401	10,372
15	Settlement risk	-	-	-
16	Securitisation exposures in the non-trading book (after the cap)	228,536	231,507	18,283
17	<i>Of which SEC-IRBA approach</i>	127,160	136,478	10,173
18	<i>Of which SEC-ERBA (including IAA)</i>	182	-	15
19	<i>Of which SEC-SA approach</i>	89,435	84,249	7,155
EU 19a	<i>Of which 1250%</i>	11,760	10,780	941
20	Position, foreign exchange and commodities risks (Market risk)	896,431	929,258	71,714
21	<i>Of which the standardised approach</i>	896,431	929,258	71,714
22	<i>Of which IMA</i>	-	-	-
EU 22a	Large exposures	-	-	-
23	Operational risk	1,608,016	1,608,016	128,641
EU 23a	<i>Of which basic indicator approach</i>	-	-	-
EU 23b	<i>Of which standardised approach</i>	1,608,016	1,608,016	128,641
EU 23c	<i>Of which advanced measurement approach</i>	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	801,700	192,104	64,136
29	Total	20,726,040	20,849,490	1,658,083

Source: COREP – Capital adequacy: Models 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

Total Group weighted assets decreased in the last quarter. The exposure to credit risk is also diminishing, thanks to specific interventions to monitor and optimize capital consumption, in addition to the effect of an overall reduction in the volumes disbursed. Capital needs from market risks declined because of a reduction in investments in UCITs, penalised by unfavorable prudential risk-weights. The capital requirement covering operational risks, updated annually at 31/12 as per regulatory requirements, is stable. Credit valuation adjustment (CVA) risks remain scarcely material.

* * *

The following Pillar 3 statement to which the Group would be subject pursuant to art. 438, point h) of CRR is not published due to the absence of counterparty risk exposures treated according to the “Internal Model Method” (IMM):

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

The Group does not adopt the “Internal Model Approach” (IMA) for measuring its exposures subject to market risk for the purposes of determining capital requirements. The following Pillar 3 statement to which the Group would be subject pursuant to art. 438, point 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. 451 bis 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, forward-looking 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 a 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 stated by EU regulations, Banca Popolare di Sondrio calculates and monitors the key liquidity indicators Liquidity Coverage Ratio and Net Stable Funding Ratio at a consolidated level.

The Liquidity Coverage Ratio (LCR) represents the short-term liquidity coverage requirement determined in accordance with Part Six of the “CRR” Regulation, 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 the ratio of the stock of high-quality liquid assets to the total amount of net cash outflows (algebraic sum of inflows and expected cash outflows) over the next 30 calendar days. The benchmark aims to ensure the ability of banking firms to survive a severe and short-term 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 particularly acute liquidity stress scenarios. This ratio is subject to a minimum regulatory requirement of 100%.

The Net Stable Funding Ratio (NSFR) represents the net stable medium to long-term funding ratio determined in accordance with Part Six of the “CRR” Regulations, as amended by the “CRR II” Regulations 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 of the LCR index with a view to favoring 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 due to expire immediately after the 30-day horizon. In particular, the NSFR requirement, which should always be kept equal to or higher than 100%, is such 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.

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

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

Table 6 - Template EU LIQ1 – Liquidity Coverage Ratio (1 of 2)

		a	b	c	d
		<i>Total unweighted value (average)</i>			
EU 1a	Quarter ending on 09/30/2022	30/09/2022	30/06/2022	31/03/2022	31/12/2021
EU 1b	Number of data points used in the calculation of averages	12	12	12	12
HIGH-QUALITY LIQUID ASSETS					
1	Total high-quality liquid assets (HQLA)				
CASH - OUTFLOWS					
2	Retail deposits and deposits from small business customers, of which:	17,162,422	16,825,935	16,390,119	15,958,136
3	<i>Stable deposits</i>	10,823,052	10,644,258	10,420,676	10,199,895
4	<i>Less stable deposits</i>	6,307,252	6,147,191	5,929,928	5,712,544
5	Unsecured wholesale funding	18,305,831	18,457,338	18,592,979	18,663,569
6	<i>Operational deposits (all counterparties) and deposits in networks of cooperative banks</i>	3,989,548	4,076,964	4,104,526	4,197,096
7	<i>Non-operational deposits (all counterparties)</i>	14,245,067	14,339,708	14,446,201	14,442,061
8	<i>Unsecured debt</i>	71,217	40,667	42,252	24,412
9	Secured wholesale funding				
10	Additional requirements	650,510	649,290	632,081	600,211
11	<i>Outflows related to derivative exposures and other collateral requirements</i>	18,413	13,704	10,845	8,543
12	<i>Outflows related to loss of funding on debt products</i>	-	-	-	-
13	<i>Credit and liquidity facilities</i>	632,097	635,586	621,236	591,668
14	Other contractual funding	7,620	3,465	3,557	3,600
15	Other contingent funding obligations	12,994,100	12,873,222	12,674,577	12,443,043
16	TOTAL CASH OUTFLOWS				
CASH – INFLOWS					
17	Secured lending (e.g. reverse repos)	178,666	346,580	532,837	672,160
18	Inflows from fully performing exposures	3,005,495	3,880,743	4,847,318	5,812,900
19	Other cash inflows	4,247,978	4,030,585	3,899,076	3,782,548
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	7,432,140	8,257,909	9,279,232	10,267,608
EU-20a	Fully exempt inflows	-	-	-	-
EU-20b	<i>Inflows subject to 90% cap</i>	-	-	-	-
EU-20c	<i>Inflows subject to 75% cap</i>	7,432,140	8,257,909	9,279,232	10,267,608
TOTAL ADJUSTED VALUE					
EU-21	LIQUIDITY BUFFER				
22	TOTAL NET CASH OUTFLOWS				
23	LIQUIDITY COVERAGE RATIO (%)				

Source: COREP – Liquidity Coverage: Models C 72.00 - C 73.00 - C 74.00 - C 76.00

NOTE: figures are calculated as a simple average of the end-of-month observations recorded in the twelve months preceding the end of each quarter.

Table 7 - Template EU LIQ1 – Liquidity Coverage Ratio (2 of 2)

		e	f	g	h
		<i>Total weighted value (average)</i>			
EU 1a	Quarter ending on 09/30/2022	30/09/2022	30/06/2022	31/03/2022	31/12/2021
EU 1b	Number of data points used in the calculation of averages	12	12	12	12
HIGH-QUALITY LIQUID ASSETS					
1	Total high-quality liquid assets (HQLA)	11,081,710	10,905,487	10,445,425	9,561,024
CASH - OUTFLOWS					
2	Retail deposits and deposits from small business customers, of which:	1,368,255	1,338,367	1,299,691	1,261,053
3	<i>Stable deposits</i>	541,153	532,213	521,034	509,995
4	<i>Less stable deposits</i>	827,102	806,154	778,657	751,059
5	Unsecured wholesale funding	8,265,426	8,384,752	8,475,396	8,482,791
6	<i>Operational deposits (all counterparties) and deposits in networks of cooperative banks</i>	950,805	973,925	982,476	1,006,999
7	<i>Non-operational deposits (all counterparties)</i>	7,243,404	7,370,161	7,450,668	7,451,380
8	Unsecured debt	71,217	40,667	42,252	24,412
9	Secured wholesale funding	313	313	313	313
10	Additional requirements	140,242	134,771	126,434	121,820
11	<i>Outflows related to derivative exposures and other collateral requirements</i>	18,413	13,704	10,845	8,543
12	<i>Outflows related to loss of funding on debt products</i>	-	-	-	-
13	<i>Credit and liquidity facilities</i>	121,829	121,066	115,589	113,276
14	Other contractual funding	5,605	1,469	1,562	1,607
15	Other contingent funding obligations	509,426	501,616	492,872	477,001
16	TOTAL CASH OUTFLOWS	10,289,265	10,361,286	10,396,268	10,344,584
CASH – INFLOWS					
17	Secured lending (e.g. reverse repos)	-	-	-	-
18	Inflows from fully performing exposures	2,494,084	3,388,547	4,362,921	5,328,717
19	Other cash inflows	875,742	828,805	800,885	777,378
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	3,369,826	4,217,353	5,163,806	6,106,095
EU-20a	Fully exempt inflows	-	-	-	-
20b	<i>Inflows subject to 90% cap</i>	-	-	-	-
EU-20c	<i>Inflows subject to 75% cap</i>	3,369,826	4,217,353	5,163,806	6,106,095
TOTAL ADJUSTED VALUE					
EU-21	LIQUIDITY BUFFER	11,081,710	10,905,487	10,445,425	9,561,024
22	TOTAL NET CASH OUTFLOWS	6,919,439	6,143,933	5,232,462	4,238,489
23	LIQUIDITY COVERAGE RATIO (%)	166.3570 %	188.5102 %	212.5557 %	234.2043 %

Source: COREP – Liquidity Coverage: Models C 72.00 - C 73.00 - C 74.00 - C 76.00

NOTE: figures are calculated as a simple average of the end-of-month observations recorded in the twelve months preceding the end of each quarter.

From the evidence reported in the previous templates regarding the last twelve months, it is possible to observe a downward trend in the average levels of the liquidity ratio, which, in any case, remained well above the minimum regulatory requirement (100%) throughout the period.

A significant contribution to the recent LCR trend was driven by the progressive decline in shorter-term lending volumes, in the form of factoring transactions and advances, while the mortgages and installment loans overall continued their growth. Regarding liabilities, substantial stability was recorded in demand deposits; at the same time, a significant boost to term funding was mainly due to customer and interbank deposits. These amounts, together with those freed up by the slowdown in loans, increased the volume of deposits with Central banks compared to the June levels.

The trends underlying the development in the LCR are reflected in a progressive increase in average cash outflows net of the denominator, determined by applying the liquidity outflow and inflow adjustment factors envisaged by the prudential provisions to all the demand items or those with maturity within 30 days, so as to incorporate stress effects of both a systemic and idiosyncratic nature in the calculation of the coefficient. Specifically, the change detected originates from the decline in average inflows, arising from the mentioned contraction in lending activity. The level of high-quality liquid assets, included in the liquidity buffer in the numerator, despite having benefited from the increased volume of deposits with central banks, is, in turn, negatively impacted by the unfavorable economic situation, burdened by the post-pandemic effects and the Russian-Ukrainian conflict, resulting in a loss of market value of the financial instruments in the portfolio.

High-quality liquid assets (“HQLA”) are held by the Group mainly in EUR in order to cover any financial need in this currency; they remain predominantly made up of instruments issued by eligible sovereign entities classified in the “EHQLA” category (Level 1)⁶, recognised as being of extremely high liquidity and credit quality pursuant to Delegated Regulation (EU) 2015/61. These are mainly securities issued by the Italian Republic, accompanied by investments in bonds issued by other sovereign countries (particularly Spain, France and Germany), supranational entities, credit institutions and companies. The subsidiary Banca Popolare di Sondrio (SUISSE) holds its own bond portfolio, which is mainly composed of national Central Bank eligible securities, integrated by cash amounts in CHF deposited with it, aimed at balancing specific liquidity requirements.

Risks associated with the concentration of funding sources are mitigated by the Group by maintaining a consistent retail funding base, which is by definition adequately diversified; further funding sources are represented by national and international private entities and companies as well as by banking counterparties, from which the Group has never had problems in raising money at market conditions, due to its high-standing.

Liquidity risks related to derivative exposures prove to be limited overall, given the risk strategy pursued by the Group which provides for a “back-to-back” hedging of all open positions related to transactions with customers.

⁶ The rules for calculating the LCR split high quality liquid assets (“HQLA”) into three categories, considered in decreasing order of liquidity: “Level 1” (“EHQLA”), “Level 2A” and “Level 2B”. Gradually increasing prudential haircuts are applied to these categories, in addition to limits in terms of composition.

Section 4 – Disclosure of the use of IRB approach to credit risk (art. 438 CRR/CRR II)

The table reported below displays the changes in risk-weighted exposure (RWA) amounts, calculated on the basis of the “Advanced IRB approach”, compared to the previous quarter, giving further details of key factors that contributed significantly to such changes.

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

		<i>RWA</i>
		a
1	RISK WEIGHTED EXPOSURE AMOUNT AS AT THE END OF THE PREVIOUS REPORTING PERIOD	8,024,638
2	Asset size	345,425
3	Asset quality	(31,499)
4	Model updates	-
5	Methodology and policy	-
6	Acquisitions and disposals	-
7	Foreign exchange movements	487
8	Other	(160,096)
9	RISK WEIGHTED EXPOSURE AMOUNT AS AT THE END OF THE REPORTING PERIOD	8,178,955

Source: COREP – RWEA flow statements of credit risk exposures under the IRB approach: Models C 08.04

As of 30 September 2022, the amount of aggregate of risk-weighted assets subject to credit risk exposures assessed using the “Advanced IRB” approach shows an increase from the value registered during the first half-year. The most relevant change is related to the increase in the volumes of operations in some credit portfolios treated with the A-IRB approach, with particular reference to *Retail secured by real-estate* and *Corporate* segments.

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 Società per Azioni, taking account of the provisions of article 154-bis, paragraph 2, of Legislative Decree no. 58 of 24 February 1998, certifies that the accounting information contained in this document agrees with the underlying accounting entries, records and documentation.

Sondrio, 28 November 2022

Firmato 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 Banking 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 favoring 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 fulfill 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).