# Pillar 3 Report
# Public Disclosures
# Banca Popolare di Sondrio Group

## Reporting date: 31/03/2022

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*This document is an English translation of the original Italian document "Terzo Pilastro Informativa al pubblico – Gruppo Banca Popolare di Sondrio – data di riferimento: 31/03/2022", prepared only for the convenience of the international readers. In cases of any conflict between the English and the Italian versions, the Italian language document prevails.*

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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 transposed into the European Union regulatory system 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 the 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. 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 activity of credit institutions and the 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].

These measures transposed into the European Union the set of prudential reforms approved by the Basel Committee on 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 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 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 (ESA).

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 typical banking and finance risks, providing for alternative calculation

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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 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, 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. 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 publication of “Pillar 3” disclosures, aimed at rationalizing the existing regulatory framework while increasing the level of clarity and standardization of the disclosures to be published[2]. The new framework has provided an integrated, comprehensive and uniform set of rules, formats and schedules with the objective of ensuring high quality and comparable public disclosures.

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

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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 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, unrealized 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 the 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 the 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.

The Regulation (EU) 2022/631 of 13 April 2022 has also taken into 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 pandemic[3];

[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 unrealized 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 abovementioned 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, the Parent company, on a consolidated basis with reference to the prudential scope of consolidation and is available in the *"Investor Relations"* section of the Bank website (https://istituzionale.popso.it), sub-section *"Pillar 3"*. The document also contains the attestation pursuant to art. 154-bis, para. 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"), 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.

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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 changes 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 omitted elements 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 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 31 March 2022.

| Art. CRR/ CRR II | Article description | Frequency of publication | Section Public Disclosures as at 31 March 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 *Scope of consolidation* | 1 - Scope of application |
| | | Annual *Full art. 436* | |
| Art. 437 | Disclosure of own funds | Half-yearly *lett. a)* | |
| | | Annual *Full art. 437* | |
| Art. 437-bis | Disclosure of own funds and eligible liabilities | Annual from 2024 | |
| 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<br>4 - Disclosure of the use of the IRB approach to credit risk |
| | | Half-yearly *lett. e)* | |
| | | Annual *Full art. 438* | |
| Art. 439 | Disclosure of exposures to counterparty risk | Half-yearly *lett. e) to l)* | |
| | | Annual *Full art. 439* | |
| 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 31 March 2022 |
|---|---|---|---|
| Art. 442 | Disclosure of exposures to credit risk and dilution risk | *points c), e), f) and g)* | |
| | | Annual<br>*Full art. 442* | |
| Art. 443 | Disclosure on encumbered and unencumbered assets | Annual | |
| Art. 444 | Disclosure of the use of the Standardised Approach | Half-yearly<br>*lett. e)* | |
| | | Annual<br>*Full art. 444* | |
| 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<br>*par. 1, lett. a) and b)* | |
| | | Annual<br>*Full art. 448* | |
| Art. 449 | Disclosure of exposure to securitisation positions | Half-yearly<br>*lett. j), k) and l)* | |
| | | Annual<br>*Full art. 449* | |
| 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<br>*par. 1, lett. a) and b)* | |
| | | Annual<br>*Full art. 451* | |
| Art. 451-bis | Disclosure of liquidity requirements | Quarterly<br>*par. 2* | 3 - Disclosure of liquidity requirements |
| | | Half-yearly<br>*par. 3* | |
| | | Annual<br>*Full art. 451-bis* | |
| Art. 452 | Disclosure of the use of the IRB approach" to credit risk | Half-yearly<br>*lett. g)* | |
| | | Annual<br>*Full art. 452* | |
| Art. 453 | Disclosure of the use of credit risk mitigation techniques | Half-yearly<br>*lett. f) to j)* | |
| | | Annual<br>*Full art. 453* | |
| 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 it would be subject as a listed “large institution” pursuant to article 433-bis of the same EU provision, 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 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 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 Srl | Real estate company – wholly-owned | Milano | Milano |
| 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 | Milano |
| 7 | PrestiNuova S.r.l. - Agenzia in Attività Finanziaria | Agenzia in Attività Finanziaria – Wholly owned (100%) by Banca della Nuova Terra SpA | Roma | Roma |

The prudential scope of consolidation, which is determined in accordance with the supervisory regulations currently in force, provides for full consolidation of the subsidiaries mentioned above, as banking, financial or service companies controlled directly by the Parent Company.

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

The following tables provide a summary of the performance of some key figures of Banca Popolare di Sondrio Group, represented by key 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.

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

| | | a | b |
|---|---|---|---|
| | | **03/31/2022** | **12/31/2021** |
| | **Available own funds (amounts)** | | |
| 1 | Common Equity Tier 1 (CET1) capital | 3,099,270 | 3,163,255 |
| 2 | Tier 1 capital | 3,099,270 | 3,173,556 |
| 3 | Total capital | 3,656,357 | 3,784,789 |
| | **Risk-weighted exposure (amounts)** | | |
| 4 | Total risk-weighted exposure amount | 20,225,929 | 20,042,635 |
| | **Capital ratios (as a percentage of risk-weighted exposure amount)** | | |
| 5 | Common Equity Tier 1 ratio (%) | 15.3233 % | 15.7826 % |
| 6 | Tier 1 ratio (%) | 15.3233 % | 15.8340 % |
| 7 | Total capital ratio (%) | 18.0776 % | 18.8837 % |
| | **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 % |
| *EU 7b* | *of which: to be made up of CET1 capital (percentage points)* | *1.5581 %* | *1.6875 %* |
| *EU 7c* | *of which: to be made up of Tier 1 capital (percentage points)* | *2.0775%* | *2.2500 %* |
| EU 7d | Total SREP own funds requirements (%) | 10.7700% | 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 (%) | 0.0018 % | 0.0007 % |
| 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 % |
| EU 11a | Overall capital requirements (%) | 13.2718% | 13.5007 % |
| 12 | CET1 available after meeting the total SREP own funds requirements (%) | 9.2651 % | 9.5951 % |
| | **Leverage ratio** | | |
| 13 | Leverage ratio total exposure measure | 55,997,252 | 54,362,126 |
| 14 | Leverage ratio | 5.5347 % | 5.8378 % |
| | **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 (%) | 3.2790 % | 3.2740 % |
| | **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 % |
| | **Liquidity Coverage Ratio** | | |

| | | a | b |
|---|---|---|---|
| | | 03/31/2022 | 12/31/2021 |
| 15 | Total high-quality liquid assets (HQLA) (Weighted value - average) | 10,445,425 | 9,561,024 |
| EU 16a | Cash outflows - Total weighted value | 10,396,268 | 10,344,584 |
| EU 16b | Cash inflows - Total weighted value | 5,163,806 | 6,106,095 |
| 16 | Total net cash outflows (adjusted value) | 5,232,462 | 4,238,489 |
| 17 | Liquidity coverage ratio (%) | 212.5557 % | 234.2043 % |
| | **Net Stable Funding Ratio** | | |
| 18 | Total available stable funding | 40,129,572 | 40,681,347 |
| 19 | Total required stable funding | 32,424,465 | 30,892,952 |
| 20 | NSFR ratio (%) | 123.7632 % | 131.6849 % |

Source: COREP reporting framework - 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

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

| | | c | d | e |
|---|---|---|---|---|
| | | 09/30/2021 | 06/30/2021 | 03/31/2021 |
| | **Available own funds (amounts)** | | | |
| 1 | Common Equity Tier 1 (CET1) capital | 3,051,706 | 3,066,344 | 2,942,749 |
| 2 | Tier 1 capital | 3,059,104 | 3,074,806 | 2,950,357 |
| 3 | Total capital | 3,383,934 | 3,425,313 | 3,322,293 |
| | **Risk-weighted exposure (amounts)** | | | |
| 4 | Total risk-weighted exposure amount | 18,463,957 | 18,355,373 | 17,763,117 |
| | **Capital ratios (as a percentage of risk-weighted exposure amount)** | | | |
| 5 | Common Equity Tier 1 ratio (%) | 16.5279 % | 16.7054 % | 16.5666 % |
| 6 | Tier 1 ratio (%) | 16.5680 % | 16.7515 % | 16.6095 % |
| 7 | Total capital ratio (%) | 18.3272 % | 18.6611 % | 18.7033 % |
| | **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 (%) | 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 (%) | 0.0014 % | 0.0021 % | 0.0048 % |
| 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 % | 2.5048 % |
| EU 11a | Overall capital requirements (%) | 13.5014 % | 13.5021 % | 13.5048 % |
| 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 | 48,880,314 |
| 14 | Leverage ratio | 5.7285 % | 5.8399 % | 6.0359 % |
| | **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 % | 3.0000% |
| | **Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)** | | | |

| | | c | d | e |
|---|---|---|---|---|
| | | 09/30/2021 | 06/30/2021 | 03/31/2021 |
| EU 14d | Leverage ratio buffer requirement (%) | - | - | - |
| EU 14e | Overall leverage ratio requirement (%) | 3.2840 % | 3.2860 % | 3.0000% |
| | **Liquidity Coverage Ratio** | | | |
| 15 | Total high-quality liquid assets (HQLA) (Weighted value - average) | 8,757,262 | 8,396,953 | 8,178,818 |
| EU 16a | Cash outflows - Total weighted value | 10,040,423 | 9,615,741 | 9,280,172 |
| EU 16b | Cash inflows - Total weighted value | 6,412,180 | 6,031,582 | 5,363,856 |
| 16 | Total net cash outflows (adjusted value) | 3,628,243 | 3,584,159 | 3,916,315 |
| 17 | Liquidity coverage ratio (%) | 245.0845 % | 238.5352 % | 217.9816 % |
| | **Net Stable Funding Ratio** | | | |
| 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 (%) | 132.3809 % | 128.6296 % | - |

Source: COREP reporting framework - 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*

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 malfunctions of the banking system and avoid interruptions to the credit disbursement process, as well as to face risks deriving from certain banks systemic relevance 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, aimed at safeguarding the minimum 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 by 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 to Italian counterparties, which is reviewed by the Bank of Italy on a quarterly basis, was 0% in 2021, also confirmed as such in the first two quarters 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; 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 financial system stability. 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 capital reserve equal to at least 1% of the 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 negative effects related to unexpected systemic crises.

The sum of regulatory requirements and additional capital reserves determines the minimum level of capital conservation required for banks and banking groups (known as the "combined buffer requirement"). From 1 January 2019, for Banca Popolare di Sondrio Group these minimum capital quantities 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, within a reasonable period of time, the amount of capital needed to maintain their reserves above the required minimum.

On 2 February 2022, on the basis of the evidence collected as a part of the annual Supervisory Review and Evaluation Process, the European Central Bank, overcoming the previous pragmatic approach related to the COVID-19 crisis, notified to the Banca Popolare di Sondrio Group the new minimum ratios applying with effect from 1° March 2022.

The new additional Pillar 2 Requirement (P2R), to be held in terms of Common Equity Tier 1 (CET1) for a minimum of 56.25% and in terms of Tier 1 (T1) for a minimum of 75%, was set at an amount equal to 2.77%. This new Requirement includes an *ad hoc* 0.02% increase in the Pillar II requirement for non-performing exposures.

As a result, minimum capital levels to be met by the Group[4] consist of:

- 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%), the amount of Capital Conservation Buffer for the current year (2.50%) and the additional Pillar 2 Requirement (2.77%).

In addition to the previous minimum ratios, a specific Pillar 2 Guidance (P2G) is also set by the Authority, 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

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

publicly disclosed, as it is an element which, also according to the Supervisory approach, is not relevant for the calculation of distributable dividends.

As of 31 March 2022, the Group capital ratios are confirmed to be at particularly high values with a wide margin over regulatory requirements. Phased-in, the CET1 Ratio and Tier 1 Ratio stand at 15.32%, while the Total Capital Ratio stands at 18.08%. Aforesaid values are calculated without including the net profit for the period. Also as a consequence of this, the regulatory ratios decrease from the levels registered at the end of 2021, counting even the negative effects related to the completion of the full acquisition of Factorit S.p.A., the greater deductions for significant and not significant investments in financial sector entities and the reduction of the valuation reserves for securities measured at fair value with an impact on overall profitability; these additional effects area overall quantifiable in a drop of about 30 bps in terms of common equity ratio. The moderate increase of the risk-weighted assets recorded in the first quarter of 20220 is concentrated in credit and market risk areas, in line with the dynamics of current operations.

### *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).

As at 31 March 2022 the Leverage Ratio of the Group, calculated by applying the transitional arrangements in force for the year 2022 (phased-in version), stands at 5.53%, dropping about 30 basis points from the value registered during the last quarter of 2021, mainly for the reduction of Tier 1 Capital at the numerator of the ratio.

By adhering to the regime of temporary exclusion of exposures to central banks provided for by prudential regulations to cope the COVID-19 crisis, 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 additional requirement, which is set equal to 3.279%, was met on the reference date.

At the same date, both the short-term (Liquidity Coverage Ratio) and the medium-long term (Net Stable Funding Ratio) liquidity indicators set at values well above the respective 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 Disclosure.

* * *

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 31 March 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 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 provisions for IFRS 9 and with or without the application of the temporary treatment referred to in article 468 of the CRR (1 of 2)**

| | | 03/31/2022 | 12/31/2021 | 09/30/2021 | 06/30/2021 | 03/31/2021 |
|---|---|---|---|---|---|---|
| | ***Available capital (amounts)*** | | | | | |
| 1 | Common Equity Tier 1 (CET1) capital | 3,099,270 | 3,163,255 | 3,051,706 | 3,066,344 | 2,942,749 |
| 2 | Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 3,077,438 | 3,138,875 | 3,034,155 | 3,049,798 | 2,912,357 |
| 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 | 3,099,270 | 3,163,255 | 3,051,706 | 3,066,344 | 2,942,749 |
| 3 | Tier 1 capital | 3,099,270 | 3,173,556 | 3,059,104 | 3,074,806 | 2,950,357 |
| 4 | Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 3,077,438 | 3,149,177 | 3,041,553 | 3,058,260 | 2,919,966 |
| 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 | 3,099,270 | 3,173,556 | 3,059,104 | 3,074,806 | 2,950,357 |
| 5 | Total capital | 3,656,357 | 3,784,789 | 3,383,934 | 3,425,313 | 3,322,293 |
| 6 | Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 3,634,526 | 3,760,409 | 3,366,383 | 3,408,767 | 3,291,901 |
| 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 | 3,656,357 | 3,784,789 | 3,383,934 | 3,425,313 | 3,322,293 |
| | ***Risk-weighted assets (amounts)*** | | | | | |
| 7 | Total risk-weighted assets | 20,225,929 | 20,042,635 | 18,463,957 | 18,355,373 | 17,763,117 |
| 8 | Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 20,218,490 | 20,035,857 | 18,453,781 | 18,345,311 | 17,751,558 |

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

**Table 4 - Template EU 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 provisions for IFRS 9 and with or without the application of the temporary treatment referred to in article 468 of the CRR (2 of 2)**

| | | 03/31/2022 | 12/31/2021 | 09/30/2021 | 06/30/2021 | 03/31/2021 |
|---|---|---|---|---|---|---|
| | | ***Capital ratios*** | | | | |
| 9 | Common Equity Tier 1 (as a percentage of risk exposure amount) | 15.3233 % | 15.7826 % | 16.5279 % | 16.7054 % | 16.5666 % |
| 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 | 15.2209 % | 15.6663 % | 16.4419 % | 16.6244 % | 16.4062 % |
| 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 | 15.3233 % | 15.7826 % | 16.5279 % | 16.7054 % | 16.5666 % |
| 11 | Tier 1 (as a percentage of risk exposure amount) | 15.3233 % | 15.8340 % | 16.5680 % | 16.7515 % | 16.6095 % |
| 12 | Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 15.2209 % | 15.7177 % | 16.4820 % | 16.6705 % | 16.4491 % |
| 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 | 15.3233 % | 15.8340 % | 16.5680 % | 16.7515 % | 16.6095 % |
| 13 | Total capital (as a percentage of risk exposure amount) | 18.0776 % | 18.8837 % | 18.3272 % | 18.6611 % | 18.7033 % |
| 14 | Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 17.9762 % | 18.7684 % | 18.2422 % | 18.5811 % | 18.5443 % |
| 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 | 18.0776 % | 18.8837 % | 18.3272 % | 18.6611 % | 18.7033 % |
| | | ***Leverage ratio*** | | | | |
| 15 | Leverage ratio total exposure measure | 55,997,252 | 54,362,126 | 53,401,150 | 52,652,000 | 48,880,314 |
| 16 | Leverage ratio | 5.5347 % | 5.8378 % | 5.7285 % | 5.8399 % | 6.0359 % |
| 17 | Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 5.4957 % | 5.7930 % | 5.6957 % | 5.8084 % | 5.9737 % |
| 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 | 5.5347 % | 5.8378 % | 5.7285 % | 5.8399 % | 6.0359 % |

Source: COREP reporting framework - 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 31 December 2021 are calculated applicating 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 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 the calculation of their Common Equity Tier 1 Capital (CET1) an additional amount in order 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; 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 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 Common Equity Tier 1 capital value 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 value adjustments included as a positive element of CET1 is therefore "sterilized" in the calculation of capital ratios through the application of a scaling factor with the effect of limiting the amount of new write-downs which, in relation to positions treated according to the standardized method, are deducted from the exposure value used to calculate risk-weighted assets (RWA). This would ensure that those 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 only the "static" component. Any institution that decided to apply the transitional provisions, in part

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[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.

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 take advantage of these transitional arrangements on an “integral” basis, i.e. with reference to 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, 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 realized starting from 1 January 2020 on performing exposures towards 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 the year 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.

An analysis of the data presented in the previous tables (Templates 3 - 4) shows that the Group's capital impacts in the event of immediate and full recognition of the effects of the accounting standard are confirmed as relatively limited also as at 31 March 2022. The gaps between the 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 the event that 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 in the tables do not indicate any impact related to this temporary regime as at 31 March 2022.

* * *

The table below provides an overview of the Group's risk-weighted exposures (RWA or TREA) and capital absorption as at 31 December 2021, broken down by type of exposure and calculation method required by prudential regulations.

**Table 5 - Template EU OV1: Overview of risk weighted exposure amounts**

| | | *RWA* | | *Capital requirements* |
|---|---|---|---|---|
| | | a | b | a |
| | | 03/31/2022 | 12/31/2021 | 03/31/2022 |
| 1 | Credit risk (excluding CCR) | 17,221,432 | 17,173,593 | 1,377,715 |
| *2* | *Of which the standardised approach* | *9,383,071* | *9,421,126* | *750,646* |
| *3* | *Of which the foundation IRB (FIRB) approach* | - | - | - |
| *4* | *Of which: slotting approach* | - | - | - |
| *EU 4a* | *Of which: equities under the simple riskweighted approach* | - | - | - |
| *5* | *Of which the advanced IRB (AIRB) approach* | *7,838,361* | *7,752,467* | *627,069* |
| 6 | Counterparty credit risk - CCR | 191,194 | 151,255 | 15,296 |
| 7 | *Of which the standardised approach* | *52,756* | *42,231* | *4,220* |
| 8 | *Of which internal model method (IMM)* | - | - | - |
| EU 8a | *Of which exposures to a CCP* | *304* | *56* | *24* |
| EU 8b | *Of which credit valuation adjustment - CVA* | *17,286* | *11,835* | *1,383* |
| 9 | *Of which other CCR* | *120,847* | *97,133* | *9,668* |
| 15 | Settlement risk | - | - | - |
| 16 | Securitisation exposures in the non-trading book (after the cap) | 198,661 | 200,477 | 15,893 |
| 17 | *Of which SEC-IRBA approach* | - | - | - |
| 18 | *Of which SEC-ERBA (including IAA)* | *102,577* | *102,581* | *8,206* |
| 19 | *Of which SEC-SA approach* | *85,138* | *87,412* | - |
| EU 19a | *Of which 1250%/ deduction* | *10,946* | *10,484* | - |
| 20 | Position, foreign exchange and commodities risks (Market risk) | 1,006,626 | 909,293 | 80,530 |
| 21 | *Of which the standardised approach* | *1,006,626* | *909,293* | *80,530* |
| 22 | *Of which IMA* | - | - | - |
| EU 22a | Large exposures | - | - | - |
| 23 | Operational risk | 1,608,016 | 1,608,016 | 128,641 |
| EU 23a | *Of which basic indicator approach* | - | - | - |
| EU 23b | *Of which standardised approach* | *1,608,016* | *1,608,016* | *128,641* |
| EU 23c | *Of which advanced measurement approach* | - | - | - |
| 24 | Amounts below the thresholds for deduction (subject to 250% risk weight) (For information) | 918,995 | 927,911 | 73,520 |
| **29** | **Total** | **20,225,929** | **20,042,635** | **1,618,074** |

Source: COREP reporting framework - 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

In the last quarter the Group's total weighted assets have raised. Capital requirement for credit and counterparty risk recorded an important positive change, especially in the RWA facility generated using the A-IRB approach, also because of a moderate increase in the volumes of new credit disbursed. Market risk exposure increased too, consistent with the dynamics of securities trading operations, which have been characterized by higher investments in debt securities and a rise in foreign exchange exposure against a lower contribute in UCITS transactions. Operational risk requirement, updated on year-end only as per regulatory provisions, remained constant in Q1 2022. Lastly, CVA risks on OTC derivative transactions remained scarcely material.

* * *

The following Pillar 3 disclosure template to which the Group would be subject pursuant the article 438, point h) of CRR is not published due to the absence of counterparty risk exposures treated according to the "Internal Model Method" (IMM) at the reference date:

***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 to market risk for the purposes of determining capital requirements. Therefore, the following Pillar 3 template to which the Group would be subject pursuant to article 438, point h), of the CRR is not subject to publication at the reference date:

***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 dictated by EU regulations, Banca Popolare di Sondrio calculates and monitors at a consolidated level the synthetic liquidity indicators Liquidity Coverage Ratio and Net Stable Funding Ratio.

The Liquidity Coverage Ratio (LCR) represents the short-term liquidity coverage requirement determined in accordance with Part Six of the “CRR” Regulation, 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, 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 a particularly acute liquidity stress scenario. 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, 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 a 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 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.

Overall, the liquidity conditions of the Group 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 Liquidity Coverage Ratio (LCR) of the Group and of the main aggregates making up the ratio (liquidity reserve, liquidity outflows and inflows, high quality liquid assets).

## Table 6 - Template EU LIQ1: Quantitative information of LCR (1 of 2)

| | | a | b | c | d |
|---|---|---|---|---|---|
| | | *Total unweighted value (average)* | | | |
| EU 1a | Quarter ending on 03/31/2022 | 03/31/2022 | 12/31/2021 | 09/30/2021 | 06/30/2021 |
| 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: | 16,390,119 | 15,958,136 | 15,521,761 | 15,036,628 |
| *3* | *Stable deposits* | *10,420,676* | *10,199,895* | *9,976,252* | *9,718,932* |
| *4* | *Less stable deposits* | *5,929,928* | *5,712,544* | *5,493,901* | *5,260,300* |
| 5 | Unsecured wholesale funding | 18,592,979 | 18,663,569 | 18,246,095 | 17,500,432 |
| *6* | *Operational deposits (all counterparties) and deposits in networks of cooperative banks* | *4,104,526* | *4,197,096* | *4,247,218* | *4,060,250* |
| *7* | *Non-operational deposits (all counterparties)* | *14,446,201* | *14,442,061* | *13,980,403* | *13,418,915* |
| *8* | *Unsecured debt* | *42,252* | *24,412* | *18,474* | *21,267* |
| 9 | Secured wholesale funding | | | | |
| 10 | Additional requirements | 632,081 | 600,211 | 562,432 | 559,847 |
| *11* | *Outflows related to derivative exposures and other collateral requirements* | *10,845* | *8,543* | *7,525* | *8,165* |
| *12* | *Outflows related to loss of funding on debt products* | - | - | - | - |
| *13* | *Credit and liquidity facilities* | *621,236* | *591,668* | *554,907* | *551,683* |
| 14 | Other contractual funding | 3,557 | 3,600 | 3,615 | 3,653 |
| 15 | Other contingent funding obligations | 12,674,577 | 12,443,043 | 12,273,176 | 12,149,638 |
| **16** | **TOTAL CASH OUTFLOWS** | | | | |
| | ***CASH – INFLOWS*** | | | | |
| 17 | Secured lending (e.g. reverse repos) | 532,837 | 672,160 | 686,775 | 756,573 |
| 18 | Inflows from fully performing exposures | 4,847,318 | 5,812,900 | 6,141,092 | 5,737,763 |
| 19 | Other cash inflows | 3,899,076 | 3,782,548 | 3,683,615 | 3,707,352 |
| 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** | **9,279,232** | **10,267,608** | **10,511,482** | **10,201,689** |
| EU-20a | *Fully exempt inflows* | - | - | - | - |
| EU-20b | *Inflows subject to 90% cap* | - | - | - | - |
| EU-20c | *Inflows subject to 75% cap* | *9,279,232* | *10,267,608* | *10,511,482* | *10,201,689* |
| | ***TOTAL ADJUSTED VALUE*** | | | | |
| **EU-21** | **LIQUIDITY BUFFER** | | | | |
| **22** | **TOTAL NET CASH OUTFLOWS** | | | | |
| **23** | **LIQUIDITY COVERAGE RATIO (%)** | | | | |

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

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

## Table 7 - Template EU LIQ1: Quantitative information of LCR (2 of 2)

| | | e | f | g | h |
|---|---|---|---|---|---|
| | | *Total weighted value (average)* | | | |
| EU 1a | Quarter ending on 03/31/2022 | 03/31/2022 | 12/31/2021 | 09/30/2021 | 06/30/2021 |
| 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)** | **10,445,425** | **9,561,024** | **8,757,262** | **8,396,953** |
| | ***CASH - OUTFLOWS*** | | | | |
| 2 | Retail deposits and deposits from small business customers, of which: | 1,299,691 | 1,261,053 | 1,221,366 | 1,177,670 |
| *3* | *Stable deposits* | *521,034* | *509,995* | *498,813* | *485,947* |
| *4* | *Less stable deposits* | *778,657* | *751,059* | *722,553* | *691,724* |
| 5 | Unsecured wholesale funding | 8,475,396 | 8,482,791 | 8,241,018 | 7,877,930 |
| *6* | *Operational deposits (all counterparties) and deposits in networks of cooperative banks* | *982,476* | *1,006,999* | *1,020,826* | *975,685* |
| *7* | *Non-operational deposits (all counterparties)* | *7,450,668* | *7,451,380* | *7,201,718* | *6,880,978* |
| *8* | *Unsecured debt* | *42,252* | *24,412* | *18,474* | *21,267* |
| *9* | Secured wholesale funding | *313* | *313* | *313* | *313* |
| 10 | Additional requirements | 126,434 | 121,820 | 113,716 | 109,629 |
| *11* | *Outflows related to derivative exposures and other collateral requirements* | *10,845* | *8,543* | *7,525* | *8,165* |
| *12* | *Outflows related to loss of funding on debt products* | - | - | - | - |
| *13* | *Credit and liquidity facilities* | *115,589* | *113,276* | *106,191* | *101,465* |
| 14 | Other contractual funding | 1,562 | 1,607 | 1,600 | 1,623 |
| 15 | Other contingent funding obligations | 492,872 | 477,001 | 462,410 | 448,576 |
| **16** | **TOTAL CASH OUTFLOWS** | **10,396,268** | **10,344,584** | **10,040,423** | **9,615,741** |
| | ***CASH – INFLOWS*** | | | | |
| 17 | Secured lending (e.g. reverse repos) | - | - | - | - |
| 18 | Inflows from fully performing exposures | 4,362,921 | 5,328,717 | 5,654,369 | 5,269,848 |
| 19 | Other cash inflows | 800,885 | 777,378 | 757,811 | 761,733 |
| 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** | **5,163,806** | **6,106,095** | **6,412,180** | **6,031,582** |
| *EU-20a* | *Fully exempt inflows* | - | - | - | - |
| *20b* | *Inflows subject to 90% cap* | - | - | - | - |
| *EU-20c* | *Inflows subject to 75% cap* | *5,163,806* | *6,106,095* | *6,412,180* | *6,031,582* |
| | ***TOTAL ADJUSTED VALUE*** | | | | |
| **EU-21** | **LIQUIDITY BUFFER** | **10,445,425** | **9,561,024** | **8,757,262** | **8,396,953** |
| **22** | **TOTAL NET CASH OUTFLOWS** | **5,232,462** | **4,238,489** | **3,628,243** | **3,584,159** |
| **23** | **LIQUIDITY COVERAGE RATIO (%)** | **212.5557 %** | **234.2043 %** | **245.0845 %** | **238.5352 %** |

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

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

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

A significant contribution to the LCR coefficient trend was given by the progressive decrease in on-demand funding volumes with relevant cash outflows attributable, in particular, to non-financial customers that are partially compensated by the growths in retail customers deposits. A minor contribution, although significant, refers to bond issues placed in the first quarter of 2022.

The level of high-quality liquid assets, included on numerator, was positively impacted by the purchasing of high-quality securities, in particular sovereign bonds, during the first months of the current year. On the other hand, the invested amounts, together with the liquidity source eroded by the contraction in the funding base, have reduced the level of deposits at the Central Bank.

The dynamics underlying the evolution of the indicator were reflected in a gradual increase of the average cash inflows and outflows. With regard to the latter, they are calculated by applying outflow/inflow adjustment factors envisaged by the prudential provisions to all the demand liabilities and assets 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. As far as liquidity inflows are concerned, in particular, a significant contraction was registered between 31 December 2021 and 31 March 2022 as a result of the shift of the deposit facility (overnight deposit with ECB) into the liquidity buffer amount according to specific Supervisory indications, with consequent negative impacts on the value of the ratio.

The high quality liquid assets ("HQLA"), representing the liquidity reserves that can be computed in the numerator of the index, are held by the Group mainly in Euro currency, 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], recognized as being of extremely high liquidity and credit quality pursuant to Delegated Regulation (EU) 2015/61. These are mainly securities issued by the Italian State with an addition of investments in bonds issued by other sovereign states (particularly Spain and France), supranational organizations, credit institutions and financial companies. The Swiss subsidiary Banca Popolare di Sondrio (SUISSE), in turn, holds its own bond portfolio, which is mainly composed of Central Bank eligible securities, integrated by cash amounts in CHF deposited with it, aimed at counterbalancing the 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 significant sources of funding are represented by national and international private entities and companies as well as from banking counterparties, from which the Group has never had problems in raising money at market conditions, given its high reputation.

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.

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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 the IRB approach to credit risk (art. 438 CRR/CRR II)

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

**Table 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** | **7,752,467** |
| 2 | Asset size | 22,524 |
| 3 | Asset quality | 26,648 |
| 4 | Model updates | - |
| 5 | Methodology and policy | - |
| 6 | Acquisitions and disposals | - |
| 7 | Foreign exchange movements | 5,253 |
| 8 | Other | 31,469 |
| **9** | **RISK WEIGHTED EXPOSURE AMOUNT AS AT THE END OF THE REPORTING PERIOD** | **7,838,361** |

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

As at 31 March 2022, the value of the aggregate of risk-weighted assets subject to credit risk assessed using the "Advanced IRB" approach shows an increase from the value registered at the beginning of the quarter. This change is mainly attributable to the increase in the volumes of operations in some of the portfolios treated with the A-IRB approach (specially in Retail and Corporate SME segments) and to an overall improvement of credit risk quality of exposures.

# 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, 3 June 2022

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

Risk-Weighted Assets (RWA) 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).