Pillar 3 Report
Public Disclosures
Banca Popolare di Sondrio Group

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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: 31/03/2023", 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: € 1,361,824,778
(Figures approved at the Shareholders' meeting of 29 April 2023)
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 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, a reform package introducing significant changes to the Union's regulatory framework, composed by the following documents, was issued:

- Regulation (EU) No 2019/876 of the European Parliament and Council of 20 May 2019, which amends Regulation (EU) No 575/2013 ("CRR II");
- Directive (EU) 2019/878 of the European Parliament and Council of 20 May 2019, which amends Directive 2013/36/EU ("CRD V").

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 the typical banking and finance risks, providing for alternative calculation methods, characterised 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 to carry out a clear and independent assessment of the risks to which they are exposed in relation to their operations and their reference markets, also considering risk profiles other than those recognised by the Pillar 1 capital requirements; 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 of intermediaries 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 how they quantify their own capital ratios.

The Pillar 3 disclosure is regulated by 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 regulations are implemented into Bank of Italy Circular No. 285 of 17 December 2013, Part Two "*Application in Italy of the CRR*", Chapter 13 "*Public disclosures*".

The regulatory framework throughout the EU is completed with the execution measures contained in regulatory or implementing technical standards adopted by the European Commission on the proposal of the European Supervisory Authorities (ESA).

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.

The measure implemented with the force of law the draft implementing technical standards drawn up by the European Banking Authority (EBA) aimed at a comprehensive review of the framework for fulfilling "Pillar 3" obligations, in execution of the amendments to the set of rules provided for by CRR II. The measure (ITS/2020/04) instituted a new organic set of rules governing the models for the publication of "Pillar 3" disclosures, aimed at rationalising the existing regulatory framework, while at the same time increasing the level of clarity and standardisation of the disclosures to be published[1]. 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 disclosure.

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.

The "Pillar 3" regulatory framework also includes:

- EBA/GL/2014/14 Guidelines on the materiality, exclusivity, confidentiality and the 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

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[1] 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 forbearance measures.

funds and the subsequent Guidelines EBA/GL/2020/12 Guidelines amending the EBA/GL/2018/01 Guidelines to ensure the compliance with the CRR “quick fix” in response to the pandemic;

- 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 COVID-19 pandemic;
- Regulation (EU) 2022/631 of 13 April 2022 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)).

On 24 January 2022, the EBA published the final draft of specific technical standards (EBA/ITS/2022/01 - Final draft implementing technical standards on prudential disclosures on ESG risks in accordance with Article 449bis of CRR II), applicable to large listed institutions, for the disclosure of environmental, social and governance (ESG) risks. The reporting standards proposed by the EBA were subsequently transposed into the EU regulatory framework through the issuance of the Commission Implementing Regulation (EU) 2022/2453 of 30 November 2022. The new disclosure on ESG risks, to be fulfilled on a half-yearly basis, is subject to a phase-in period, whereby a limited number of quantitative tables were already displayed for the first publication of the disclosure as at 31 December 2022.

The EBA/GL/2020/07 Guidelines on reporting and disclosure of exposures subject to measures applied in response to Covid-19 crisis, are repealed from 1 January 2023 in response to the reduced relevance of government support measures and the decrease in loans subject to payment moratoria and government guarantees.

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 prudential scope of consolidation and is available in the “Investor Relations” section of the Bank's website (https://istituzionale.popso.it), sub-section “Pillar 3”. It is 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.

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NOTE:

All the amounts indicated in the various sections of this Disclosure, except where expressly indicated, are shown in thousands of euro. Any failure to reconcile 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 meaningful 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 2023.

Art. CRR/ CRR II	Article description	Frequency of publication	Section Public Disclosures as at 31 March 2023
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* Annual *Full art. 436*	1 - Scope of application
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 (Disclosure obligation in force from 01/01/2024)	
Art. 438	Disclosure of own funds requirements and risk-weighted exposure amounts	Quarterly *lett. d) and h)* Half-yearly *lett. e)* Annual *Full art. 438*	2 - Disclosure of key metrics and overview of risk-weighted exposure amounts 4 - Disclosure of the use of the IRB approach to credit risk
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	

Art. CRR/ CRR II	Article description	Frequency of publication	Section Public Disclosures as at 31 March 2023
Art. 442	Disclosure of exposures to credit risk and dilution risk	Half-yearly *points c), e), f) and g)*	
		Annual *Full art. 442*	
Art. 443	Disclosure of encumbered and unencumbered assets	Annual	
Art. 444	Disclosure of the use of the Standardised Approach	Half-yearly *lett. e)*	
		Annual *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 *par. 1, lett. a) and b)*	
		Annual *Full art. 448*	
Art. 449	Disclosure of exposure to securitisation positions	Half-yearly *lett. j), k) and l)*	
		Annual *Full art. 449*	
Art. 449-bis	Disclosure of environmental, social and governance risks (ESG risks)	Annual in 2022, Half-yearly from 2023	
Art. 450	Disclosure of remuneration policy	Annual	
Art. 451	Disclosure of the leverage ratio	Half-yearly *par. 1, lett. a) and b)*	
		Annual *Full art. 451*	
Art. 451-bis	Disclosure of liquidity requirements	Quarterly *par. 2*	3 - Disclosure of liquidity requirements
		Half-yearly *par. 3*	
		Annual *Full art. 451-bis*	
Art. 452	Disclosure of the use of the IRB Approach to credit risk	Half-yearly *lett. g)*	
		Annual *Full art. 452*	
Art. 453	Disclosure of the use of credit risk mitigation techniques	Half-yearly *lett. f) to j)*	
		Annual *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)

Thise Public Disclosure, 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 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	BNT Banca SpA	Bank – Wholly-owned	Sondrio	Milano
7	PrestiNuova S.r.l. - Agenzia in Attività Finanziaria	Agenzia in Attività Finanziaria – Wholly owned (100%) by BNT SpA	Roma	Roma

The prudential scope of consolidation, 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 (artt. 438, 447 e 473-bis CRR/CRR II)

The following tables summarize the performance of some Banca Popolare di Sondrio Group key figures, represented by the 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
		31/03/2023	**31/12/2022**
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	3,211,457	3,239,887
2	Tier 1 capital	3,211,457	3,239,887
3	Total capital	3,751,453	3,779,302
	Risk-weighted exposure (amounts)		
4	Total risk-weighted exposure amount	21,032,000	21,049,013
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	15.2694 %	15.3921 %
6	Tier 1 ratio (%)	15.2694 %	15.3921 %
7	Total capital ratio (%)	17.8369 %	17.9548 %
	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 (%)	2.6600 %	2.7700 %
EU 7b	*of which: to be made up of CET1 capital (percentage points)*	*1.4963 %*	*1.5581 %*
EU 7c	*of which: to be made up of Tier 1 capital (percentage points)*	*1.9950 %*	*2.0775 %*
EU 7d	Total SREP own funds requirements (%)	10.6600 %	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 (%)	0.0078 %	0.0045 %
EU 9a	Systemic risk buffer (%)	-	-
10	Global Systemically Important Institution buffer (%)	-	-
EU 10a	Other Systemically Important Institution buffer	-	-
11	Combined buffer requirement (%)	2.5078 %	2.5045 %
EU 11a	Overall capital requirements (%)	13.1678 %	13.2745 %
12	CET1 available after meeting the total SREP own funds requirements (%)	9.2731 %	9.3340 %
	Leverage ratio		
13	Leverage ratio total exposure measure	62,783,146	62,953,892
14	Leverage ratio	5.1152 %	5.1464 %
	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 (%)	3.0000 %	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)	11,154,516	11,115,038
EU 16a	Cash outflows - Total weighted value	10,087,186	10,099,736
EU 16b	Cash inflows - Total weighted value	2,796,077	2,775,370
16	Total net cash outflows (adjusted value)	7,291,109	7,324,366
17	Liquidity coverage ratio (%)	153.0459 %	151.8126 %
	Net Stable Funding Ratio		
18	Total available stable funding	36,548,102	37,245,000
19	Total required stable funding	28,542,750	28,984,542
20	NSFR ratio (%)	128.0469 %	128.4995 %

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
		30/09/2022	**30/06/2022**	**31/03/2022**
	Available own funds (amounts)			
1	Common Equity Tier 1 (CET1) capital	3,182,253	3,164,186	3,099,270
2	Tier 1 capital	3,182,253	3,164,186	3,099,270
3	Total capital	3,727,758	3,722,275	3,656,357
	Risk-weighted exposure (amounts)			
4	Total risk-weighted exposure amount	20,726,040	20,849,490	20,225,929
	Capital ratios (as a percentage of risk-weighted exposure amount)			
5	Common Equity Tier 1 ratio (%)	15.3539 %	15.1763 %	15.3233 %
6	Tier 1 ratio (%)	15.3539 %	15.1763 %	15.3233 %
7	Total capital ratio (%)	17.9859 %	17.8531 %	18.0776 %
	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 %	2.7700 %
EU 7b	*of which: to be made up of CET1 capital (percentage points)*	*1.5581 %*	*1.5581 %*	*1.5581 %*
EU 7c	*of which: to be made up of Tier 1 capital (percentage points)*	*2.0775 %*	*2.0775 %*	*2.0775 %*
EU 7d	Total SREP own funds requirements (%)	10.7700 %	10.7700 %	10.7700 %
	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 (%)	0.0042 %	0.0026 %	0.0018 %
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 %	2.5018 %
EU 11a	Overall capital requirements (%)	13.2742 %	13.2726 %	13.2718 %
12	CET1 available after meeting the total SREP own funds requirements (%)	9.2958 %	9.1182 %	9.2651%
	Leverage ratio			
13	Leverage ratio total exposure measure	61,797,002	59,793,592	55,997,252
14	Leverage ratio	5.1495 %	5.2919 %	5.5347 %
	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 (%)	3.0000 %	3.0000 %	3.2790 %
	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 %	3.2790 %
	Liquidity Coverage Ratio			
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	11,081,710	10,905,487	10,445,425
EU 16a	Cash outflows - Total weighted value	10,289,265	10,361,286	10,396,268
EU 16b	Cash inflows - Total weighted value	3,369,826	4,217,353	5,163,806
16	Total net cash outflows (adjusted value)	6,919,439	6,143,933	5,232,462
17	Liquidity coverage ratio (%)	166.3570 %	188.5102 %	212.5557 %
	Net Stable Funding Ratio			
18	Total available stable funding	39,367,605	38,526,715	40,129,572
19	Total required stable funding	30,661,713	30,430,150	32,424,465
20	NSFR ratio (%)	128.3934 %	126.6071 %	123.7632 %

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 established 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 local level.

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

- *Capital Conservation Buffer*: made up of Common Equity Tier 1 Capital, equivalent to an additional operating requirement equal to 2.5% of weighted assets, intended to safeguard the minimum level of regulatory capital even in times of particularly adverse market.
- *Countercyclical Capital Buffer*: also made up of Tier 1 Capital to protect the banking sector at times of excessive lending growth; following measures by the competent Supervisory Bodies, it could be set up during periods of economic expansion to cope with any losses that might arise during the downward phases of the cycle, based on a specific coefficient established at a national level. The countercyclical coefficient relating to exposures to Italian counterparties, reviewed quarterly by the Bank of Italy, remains unchanged at 0% also in the first quarter of 2023.
- *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 stability of the financial system. The buffer for G-SIIs can vary between a minimum of 1% and a maximum of 3.5%, whereas for O-SIIs a non-binding maximum threshold of 2% is foreseen.
- *Systemic Risk Buffer*: additional reserve equal to at least 1% of the risk 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, for Banca Popolare di Sondrio Group these minimum capital requirements 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 minimum required.

Effective 1 January 2023, the new supervisory decision on prudential requirements resulting from SREP process conducted in 2022 by Supervisory Authority is in force. The additional Pillar 2 Requirement (P2R) imposed on the Group, to be held in the form of Common Equity Tier 1 (CET1) capital at least for 56.25% and Tier 1 (T1) capital for at least 75%, has been set at 2.66% (down from the previous 2.77%) and it includes a quota of 0.01% as an increase in the Pillar 2 requirement for non-performing exposures. Accordingly, the minimum capital levels to be met by the Group[2] for 2023 include:

- a minimum requirement for Common Equity Tier 1 Ratio equal to 8.50%, made up of the sum of the Pillar 1 regulatory requirement (4.50%), the amount of Capital Conservation Buffer (2.50%) and the additional Pillar 2 Requirement (1.50%);
- a minimum requirement for Tier 1 Ratio of 10.50%, being the sum of the Pillar 1 regulatory requirement (6.0%), the amount of Capital Conservation Buffer (2.50%) and the additional Pillar 2 Requirement (2.0%);
- a minimum requirement for Total Capital Ratio of 13.16%, being the sum of the Pillar 1 regulatory requirement (8.0%), the amount of Capital Conservation Buffer (2.50%) and the additional Pillar 2 Requirement (2.66%).

In addition to these minimum ratios, a “Pillar 2 Guidance” (P2G) is also set, which aims to be a guideline for the prospective evolution of the Group's capital position. This 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 it is an element which, also according to the Supervisory approach, is not relevant for the calculation of distributable dividends.

Even as of 31 March 2023 the Group’s capital ratios remain at high levels with a wide margin over regulatory requirements. In the phased-in version, the CET1 Ratio and the Tier 1 Ratio stand at 15.27%, while the Total Capital Ratio stands at 17.84%. Fully loaded capital ratios are respectively 15.20% and 17.77%.

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).

The Group Leverage Ratio, calculated by applying the temporary criteria in force for the current year (phased-in), stands at a level equal to 5.12% as of 31 March 2023, slightly decreasing compared

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

with the previous year–end figure; there are not changes worthy of note, neither in relation of Tier 1 Capital nor in the total exposure amount.

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 refer to section 3 of the present document.

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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 2023 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

		31/03/2023	31/12/2022	30/09/2022	30/06/2022	31/03/2022
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1) capital	3,211,457	3,239,887	3,182,253	3,164,186	3,099,270
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	3,196,676	3,220,153	3,166,125	3,150,635	3,077,438
3	Tier 1 capital	3,211,457	3,239,887	3,182,253	3,164,186	3,099,270
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	3,196,676	3,220,153	3,166,125	3,150,635	3,077,438
5	Total capital	3,751,453	3,779,302	3,727,758	3,722,275	3,656,357
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	3,736,672	3,759,569	3,711,630	3,708,724	3,634,526
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets	21,032,000	21,049,013	20,726,040	20,849,490	20,225,929
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	21,028,958	21,046,458	20,717,686	20,842,406	20,218,490
	Capital ratios					
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	15.2694 %	15.3921 %	15.3539 %	15.1763 %	15.3233 %
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	15.2013 %	15.3002%	15.2822 %	15.1165%	15.2209 %
11	Tier 1 (as a percentage of risk exposure amount)	15.2694 %	15.3921 %	15.3539 %	15.1763 %	15.3233 %
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.2013 %	15.3002%	15.2822 %	15.1165%	15.2209 %
13	Total capital (as a percentage of risk exposure amount)	17.8369 %	17.9548 %	17.9859 %	17.8531 %	18.0776 %
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17.7692 %	17.8632%	17.9153 %	17.7941%	17.9762 %
	Leverage ratio					
15	Leverage ratio total exposure measure	62,783,146	62,953,892	61,797,002	59,793,592	55,997,252
16	Leverage ratio	5.1152 %	5.1464 %	5.1495 %	5.2919 %	5.5347 %
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5.0916 %	5.1151 %	5.1234 %	5.2692 %	5.4957 %

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 and capital and leverage ratios as at 31 March 2023 are calculated by applying the transitional provisions set out in Regulation (EU) 2017/2395 of 12 December 2017, as amended by Regulation (EU) 2020/873 of 24 June 2020 (so-called CRR "Quick-fix")[3], aimed at

[3] 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.

containing the capital impacts of the adoption, effective as of 1 January 2018, of the new IFRS 9 accounting standard, 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 (CET1) Capital 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 1/1/2018 (date of the IFRS 9 FTA); 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 reference 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 chose 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 "sterilised" 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 standardised 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 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 both additional credit risk provisions for expected credit losses on performing and credit-impaired financial instruments observed at the time of the IFRS 9 FTA (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 the IFRS 9 FTA (the "dynamic" component). The decision of the Group was communicated to the European Central Bank within the time allowed.

The figures reported in the tables above demonstrate how the impacts on the Group's capital adequacy in the event of immediate and full recognition of the effects of the accounting standard would remain fully limited also as at 31 March 2023. The differentials between the capital solvency and the 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.

* * *

The table below provides an overview of the Group's risk-weighted exposures (RWA or TREA) and capital absorption as at 31 March 2023, broken down by type of exposure and calculation method required by prudential regulations.

Table 4 - Template EU OV1 - Overview on risk-weighted exposures (RWA)

		RWA		Capital requirements
		a	b	a
		31/03/2023	31/12/2022	31/03/2023
1	Credit risk (excluding CCR)	18,083,479	18,035,333	1,446,678
2	*Of which the standardised approach*	*10,323,010*	10,423,760	*825,841*
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*	*7,760,469*	7,611,573	*620,838*
6	Counterparty credit risk - CCR	173,288	189,078	13,863
7	*Of which the standardised approach*	*42,217*	57,476	*3,377*
8	*Of which internal model method (IMM)*	-	-	-
EU 8a	*Of which exposures to a CCP*	*426*	963	*34*
EU 8b	*Of which credit valuation adjustment - CVA*	*24,143*	24,999	*1,931*
9	*Of which other CCR*	*106,502*	105,640	*8,520*
15	Settlement risk	-	-	-
16	Securitisation exposures in the non-trading book (after the cap)	264,548	271,744	21,164
17	*Of which SEC-IRBA approach*	*109,992*	118,104	*8,799*
18	*Of which SEC-ERBA (including IAA)*	*50,911*	50,409	*4,073*
19	*Of which SEC-SA approach*	*90,247*	91,044	*7,220*
EU 19a	*Of which 1250%*	*13,398*	12,187	*1,072*
20	Position, foreign exchange and commodities risks (Market risk)	727,709	769,882	58,217
21	*Of which the standardised approach*	*727,709*	769,882	*58,217*
22	*Of which IMA*	-	-	-
EU 22a	Large exposures	-	-	-
23	Operational risk	1,782,976	1,782,976	142,638
EU 23a	*Of which basic indicator approach*	-	-	-
EU 23b	*Of which standardised approach*	*1,782,976*	1,782,976	*142,638*
EU 23c	*Of which advanced measurement approach*	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	782,624	774,604	62,610
29	**Total**	**21,032,000**	**21,049,013**	**1,682,560**

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

The total weighted exposures amount of the Group remained stable in the last quarter. The capital requirement for credit risks substantially stays in line with the December 2022 figure; on the other end, the market risk requirement decreased, mainly due to a significant drop in trading positions in equity securities and revised operations on currencies and options. The capital requirement covering operational risks, after the update on the end of the last year as per regulatory method, confirms in March the value recorded as at 31/12/2022. Credit valuation adjustment (CVA) risks insistent on OTC derivative transactions always 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):

Modello EU CCR7: prospetti degli RWEA delle esposizioni soggette al CCR nell'ambito dell'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:

Modello EU MR2-B: prospetti degli RWEA delle esposizioni soggette al rischio di mercato in base al metodo IMA

Section 3 – Disclosure of liquidity requirements
(art. 451 bis CRR/CRR II)

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

At an operational level, liquidity management is carried out by Group companies through dedicated business structures; in this context, the Parent Company acts as 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 concise 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, 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, 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, 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 favouring 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 greater 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 (“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 5 - Template EU LIQ1 – Liquidity Coverage Ratio (1 of 2)

		a	b	c	d
		Total unweighted value (average)			
EU 1a	Quarter ending on 31/03/2023	31/03/2023	31/12/2022	30/09/2022	30/06/2022
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:	17,340,390	17,342,465	17,162,422	16,825,935
3	*Stable deposits*	*10,987,145*	*10,942,979*	*10,823,052*	*10,644,258*
4	*Less stable deposits*	*6,297,223*	*6,360,518*	*6,307,252*	*6,147,191*
5	Unsecured wholesale funding	18,044,062	17,990,991	18,305,831	18,457,338
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*3,710,445*	*3,829,629*	*3,989,548*	*4,076,964*
7	*Non-operational deposits (all counterparties)*	*14,286,698*	*14,098,867*	*14,245,067*	*14,339,708*
8	*Unsecured debt*	*46,919*	*62,496*	*71,217*	*40,667*
9	Secured wholesale funding				
10	Additional requirements	703,436	660,207	650,510	649,290
11	*Outflows related to derivative exposures and other collateral requirements*	*17,515*	*19,061*	*18,413*	*13,704*
12	*Outflows related to loss of funding on debt products*	*319*	*70*	*-*	*-*
13	*Credit and liquidity facilities*	*685,602*	*641,076*	*632,097*	*635,586*
14	Other contractual funding	12,642	8,737	7,620	3,465
15	Other contingent funding obligations	13,745,977	13,371,513	12,994,100	12,873,222
16	**TOTAL CASH OUTFLOWS**				
	CASH - INFLOWS				
17	Secured lending (e.g. reverse repos)	25,699	50,656	178,666	346,580
18	Inflows from fully performing exposures	2,333,493	2,372,614	3,005,495	3,880,743
19	Other cash inflows	4,521,524	4,410,415	4,247,978	4,030,585
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)				
EU-19b	(Excess inflows from a related specialised credit institution)				
20	**TOTAL CASH INFLOWS**	**6,880,716**	**6,833,685**	**7,432,140**	**8,257,909**
EU-20a	Fully exempt inflows	-	-	-	-
EU-20b	Inflows subject to 90% cap	-	-	-	-
EU-20c	Inflows subject to 75% cap	6,880,716	6,833,685	7,432,140	8,257,909
	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 6 - Template EU LIQ1 – Liquidity Coverage Ratio (2 of 2)

		e	f	g	h
		Total weighted value (average)			
EU 1a	Quarter ending on 31/03/2023	31/03/2023	31/12/2022	30/09/2022	30/06/2022
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)**	**11,154,516**	**11,115,038**	**11,081,710**	**10,905,487**
	CASH - OUTFLOWS				
2	Retail deposits and deposits from small business customers, of which:	1,370,042	1,379,015	1,368,255	1,338,367
3	*Stable deposits*	*549,357*	*547,149*	*541,153*	*532,213*
4	*Less stable deposits*	*820,685*	*831,866*	*827,102*	*806,154*
5	Unsecured wholesale funding	7,983,704	8,048,814	8,265,426	8,384,752
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*878,927*	*909,662*	*950,805*	*973,925*
7	*Non-operational deposits (all counterparties)*	*7,057,858*	*7,076,657*	*7,243,404*	*7,370,161*
8	*Unsecured debt*	*46,919*	*62,496*	*71,217*	*40,667*
9	Secured wholesale funding	*41,979*	*313*	*313*	*313*
10	Additional requirements	146,294	140,901	140,242	134,771
11	*Outflows related to derivative exposures and other collateral requirements*	*17,515*	*19,061*	*18,413*	*13,704*
12	*Outflows related to loss of funding on debt products*	*319*	*70*	*-*	*-*
13	*Credit and liquidity facilities*	*128,460*	*121,770*	*121,829*	*121,066*
14	Other contractual funding	10,577	6,705	5,605	1,469
15	Other contingent funding obligations	534,591	523,989	509,426	501,616
16	**TOTAL CASH OUTFLOWS**	**10,087,186**	**10,099,736**	**10,289,265**	**10,361,286**
	CASH - INFLOWS				
17	Secured lending (e.g. reverse repos)	-	-	-	-
18	Inflows from fully performing exposures	1,854,256	1,857,833	2,494,084	3,388,547
19	Other cash inflows	941,821	917,536	875,742	828,805
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**	**2,796,077**	**2,775,370**	**3,369,826**	**4,217,353**
EU-20a	Fully exempt inflows	-	-	-	-
20b	Inflows subject to 90% cap	-	-	-	-
EU-20c	Inflows subject to 75% cap	2,796,077	2,775,370	3,369,826	4,217,353
	TOTAL ADJUSTED VALUE				
EU-21	**LIQUIDITY BUFFER**	**11,154,516**	**11,115,038**	**11,081,710**	**10,905,487**
22	**TOTAL NET CASH OUTFLOWS**	**7,291,109**	**7,324,366**	**6,919,439**	**6,143,933**
23	**LIQUIDITY COVERAGE RATIO (%)**	**153.0459 %**	**151.8126 %**	**166.3570 %**	**188.5102 %**

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, in the last twelve months it is possible to observe a stable trend in the average levels of the LCR, which remains positioned at values well above the minimum regulatory requirement (100%) throughout the period and slightly improved compared to the assessment carried out on the previous quarter.

The drop in demand deposits contributed to the recent evolution of the ratio, offset by a limited recovery of bond issues and a greater recourse to repo transactions implemented in the last quarter.

Regarding the assets, an increase in shorter-term loans was observed, particularly in the form of current account loans; the other assets substantially remained at the levels of the end of 2022, except for factoring, which slightly declined.

The dynamics described led to a reduction in the Central bank's deposit volumes compared to the December level, mainly as a consequence of the funding contraction.

The above situation was reflected in a limited decrease in average net cash outflows in the denominator of the liquidity indicator, determined by applying the outflow and inflow adjustment factors envisaged by the prudential provisions to 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 LCR. Specifically, the change compared to the previous quarter originates from the reduction in projected outflows and the increase in average liquidity inflows, which are an effect, among other things, of the mentioned evolutions.

The level of high-quality liquid assets counted in the liquidity buffer (numerator), even though impacted by the drop in the volume of deposits with Central Banks, benefited from the growth in size of the HQLA portfolio and the progressive improvement of countervalues.

The high-quality liquid assets ("HQLA") are held by the Group mainly in Euro currency to cover any financial needs in this currency; they remain predominantly made up of instruments issued by eligible sovereign entities classified in the "EHQLA" category (Level 1)[4], recognised as being of extremely high liquidity and credit quality pursuant to Delegated Regulation (EU) 2015/61. These are securities mainly issued by the Italian Government, accompanied by investments in bonds issued by other sovereign states (notably Spain and France), supranational organisations, credit institutions and non-financial companies. The subsidiary Banca Popolare di Sondrio (SUISSE), in turn, 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 coping with 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 funding sources are represented by national and international private entities and companies as well as from banking counterparties, from which the Group has never had issues in raising money at market conditions, given its good reputational standing.

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4 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.

Liquidity risks related to derivative exposures prove to be overall limited, 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.

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 according to the "Advanced IRB approach", compared to the previous quarter, giving further details of key factors that contributed significantly to such changes.

Table 7 - 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**	**7,729,677**
2	Asset size	134,859
3	Asset quality	428,352
4	Model updates	-
5	Methodology and policy	-
6	Acquisitions and disposals	-
7	Foreign exchange movements	(12,579)
8	Other	(409,847)
9	**RISK WEIGHTED EXPOSURE AMOUNT AS AT THE END OF THE REPORTING PERIOD**	**7,870,461**

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

As of 31 March 2023, the aggregate amount of credit risk-weighted assets related to exposures under A-IRB approach increased from the value registered at the end of 2022, mainly due to a general improvement of the portfolio assets quality; a rise in loan transaction volumes in some of loan segments treated with the A-IRB approach also partly contributed to the growth in RWAs. A decrease in assets at risk is instead connected to the residual item ("other"), which encompasses both effects not included in previous items and other combined effects from exposures evaluated with stand-alone analyses.

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

The undersigned Maurizio Bertoletti, as Manager responsible for preparing the Company's accounting documents of Banca Popolare di Sondrio S.p.A., 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 «*Pillar 3 report – Public disclosure as at 31 March 2023*» agrees with the underlying accounting entries, records and documentation.

Sondrio, 1 June 2023

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 specialized 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).