



**Banca Popolare  
di Sondrio** FONDATA NEL 1871

# GREEN BOND Report 2023



## **Banca Popolare di Sondrio**

Founded in 1871

Joint-Stock Company

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Sondrio Companies Register no. 00053810149

– Registered in the Register of Banks under no. 842

Parent Company of the Banca Popolare di Sondrio Banking Group –

Registered in the Register of Banking Groups under no. 5696.0

Member of the Interbank Deposit Protection Fund

Tax Code and VAT number: 00053810149

Share capital: €1,360,157,331 – Reserves: €1.385.452.113

(Figures approved by Shareholders at the General Meeting of 29 aprile 2023)

Cover photo by: **Stefano Mafezzini**, Supply Office

# SUMMARY

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Photo by: **Diego Gallotta**, Castel San Giovanni Branch

# 01. INTRODUCTION: THE ISSUANCE OF THE FIRST BANK SENIOR PREFERRED GREEN BOND

In July 2021, Banca Popolare di Sondrio (**BPS** or the **Bank**) issued its first Senior Preferred Green Bond (Green Bond), for an amount equal to 500 million euros, from the Euro Medium Term Notes (EMTN) program.

The issuance of the Green Bond is regulated by a Framework aligned with the Green Bond Principles - Voluntary Process Guidelines for Issuing Green Bonds, released by the International Capital Market Association (**ICMA Guidelines**), updated in June 2021 and approved by Sustainalytics with a Second Party Opinion issued in July 2021.

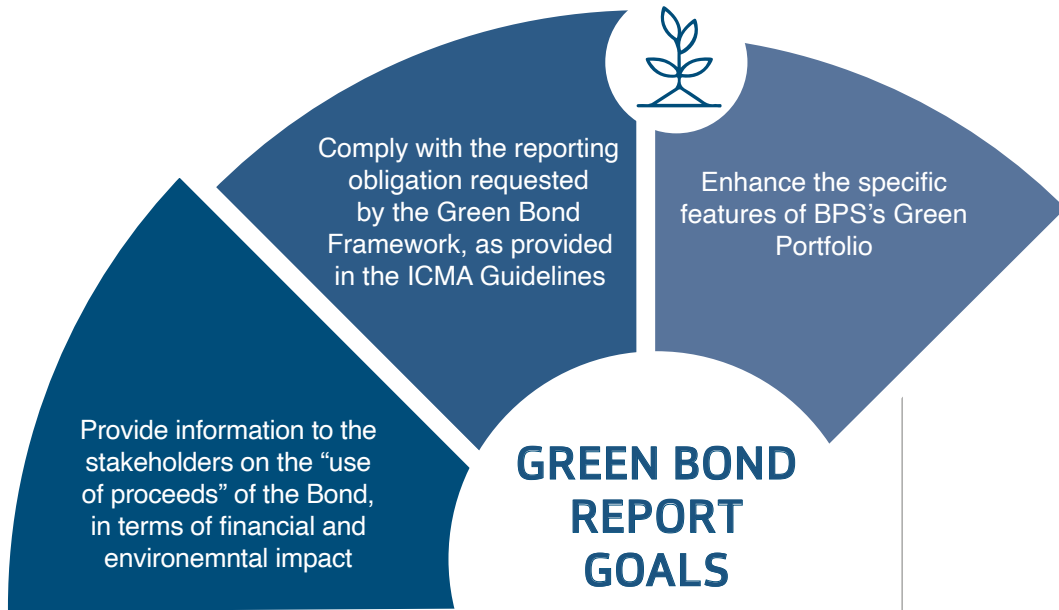
The decision to undertake this initiative comes not only from the economic - financial opportunity, but also from the awareness of having, within our customer portfolio, many exemplary realities, attentive to the territory and the well-being of the community. The proceeds of the transaction are then transferred to these positions: this annual report (Report or **Green Bond Report**), published for the first time in July 2022, aims to disclose about the selection of assets, the use of proceeds and the impacts generated by the financed activities.

BPS has undertaken to allocate the difference between how much collected from the market and how much (re) financed, over a maximum period of **36 months** and to temporarily allocate the **liquidity in excess** in favour of investments in securities which integrate ESG factors.

Despite the term initially defined, BPS managed to allocate the 500 million euros collected on the market **before the end of 2021**, quickly increasing the size of its green portfolio.

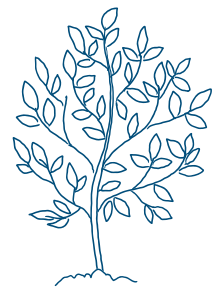
The underlying loans to the Green Bond are **more than 2,300** and include corporates, SMEs and retail.





## THE MAIN FEATURES OF THE LOAN PORTFOLIO UNDERLYING BPS GREEN BOND

- **Granularity.**  
More than 2,300 loans are included.  
The counterparties are both small and medium-sized companies and individuals.
- **Variety.**  
Loans considered cover all eligible categories indicated in the Framework
- **Inclusion of BPS (SUISSE).**  
We were among the first banks to include loans from a foreign subsidiary too.
- **The impact of the granted loans at national level.**  
Despite the absence of physical branches in some regions of Italy, BPS finances projects throughout the entire national territory.



### JUNE 2021

- Draft of the Framework
- Approval of the Framework



### JULY 2021

- Second Party Opinion
- Investor presentation
- Issuance of the Senior Preferred Green Bond



### DECEMBER 2021

- Full allocation



### JULY 2022

- Approval of the Green Bond Report
- Third-party assurance
- Publication

### JULY 2023

- Approval of the second Green Bond Report
- Third-party Assurance
- Publication

## THE PATH OF THE FIRST BPS GREEN BOND



## 02. HIGHLIGHTS: THE KEY NUMBERS OF GREEN BOND

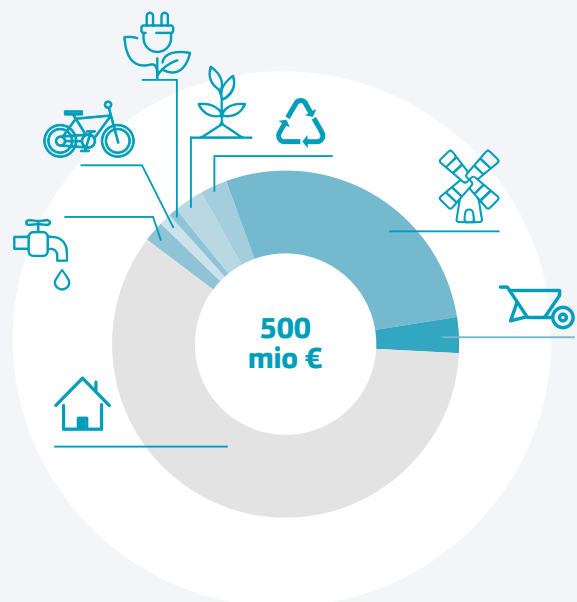
- Loans: **2,380**
- Financed assets located nationwide and in some **Swiss cantons**
- Avoided CO<sub>2</sub> emissions: **63,000**
- Percentage of portfolio for which it was possible to calculate its avoided CO<sub>2</sub> emissions: **90%**
- Energy produced from renewable resources: **151 GWh**
- Financing vs. Refinancing: **54%** vs 46%
- Average Maturity: **14.01** anni
- Waste Managed: **20** thousands Tonns<sup>1</sup>
- Total agricultural area under organic farming: **13** hectares<sup>2</sup>

### BPS Potential Green Portfolio



*Eligible Portfolio, potentially (re)financeable through the proceeds of the Green Bond in accordance to the BPS Green Bond Framework*

### BPS Green Bond Portfolio



<sup>1</sup> BPS share – category "Pollution prevention and control"

<sup>2</sup> BPS share – category "Environmentally sustainable management of living natural resources and land use"



# ESG COMMITMENT – BUSINESS PLAN 22-25

## 03.

With the approval of the 2022-2025 Business Plan, the ESG factors entered the Bank's business and operations through numerous activities divided into two strategic strands, each divided into five areas of integration.

The first line focuses on interventions that are transversal to the Bank's main business and operational areas regarding the strengthening of governance, the improvement of sustainability rating/scoring, the participation in national and international initiatives, the integration of sustainability into the Bank's main processes, the assessment of the products and services catalogue, the extension of the Green Bond Framework and the continuous updating of reporting and the definition of a broader ESG communication strategy.

The second line focuses on intervention in specific areas, originating from the Sustainability Policy, which the Group has adopted since the summer of 2021, namely: the definition of environmental performance targets and related monitoring KPIs, the strengthening of the Group's activities with a positive impact on the local area and the reference community, the implementation of new initiatives relating to personnel management, the continuous updating of internal regulations on issues related to the protection of personal data, as well as the anti-corruption sphere, including through voluntary initiatives.





# The first Business Plan integrated with the ESG Plan



Environmental impacts



Social topics



Enhancement of human resources



Protection of human rights



Fight against corruption



	ESG GOVERNANCE	INTERNATIONAL INITIATIVES AND ESG RATINGS	BUSINESS POLICIES AND STRATEGIES	PRODUCTS AND SERVICES	REPORTING AND COMMUNICATION
BY 2022	<ul style="list-style-type: none"> <li>Further strengthening of <b>ESG Governance</b></li> <li>Level II and III checks</li> <li><b>ESG training</b> for all Group personnel</li> <li><b>ESG compliance programme</b></li> <li>Internal behavioural guidelines for the <b>reduction of environmental impacts</b></li> </ul>		<ul style="list-style-type: none"> <li><b>ESG credit policy</b> and integration of the ESG Score in loan practices</li> <li><b>Integrated Risk Management:</b> RAF, ICAAP and stress testing</li> <li>Definition of the carbon neutrality path and portfolio alignment</li> </ul>	<ul style="list-style-type: none"> <li>Development of <b>ESG financing products</b> for customers</li> <li>Expansion of <b>ESG asset management lines</b></li> <li>Development of a <b>process digitisation</b> programme for customers</li> </ul>	<ul style="list-style-type: none"> <li>Improvement of analyses concerning <b>indirect emissions</b> (Scope 3)</li> <li>Strengthening of the <b>ESG communication strategy</b></li> </ul>
BY 2023	<ul style="list-style-type: none"> <li>Introduction of <b>ESG objectives</b> in remuneration policies</li> <li><b>Sustainable mobility operational plan</b></li> <li>Operational plan on <b>Diversity and Inclusion</b></li> <li>Launch of the <b>women leadership</b> programme</li> </ul>	<ul style="list-style-type: none"> <li>Participation in initiatives dedicated to ESG topics:                             <ul style="list-style-type: none"> <li>— <b>UN PRB</b></li> <li>— <b>Net-Zero Banking Alliance</b></li> <li>— <b>TCFD</b></li> <li>— <b>Valore D</b></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Definition of <b>responsible investment guidelines</b></li> <li>Increase of the <b>target on the ESG segment</b> of the proprietary portfolio</li> <li>Definition of the <b>giving strategy:</b> <ul style="list-style-type: none"> <li>— sponsorships</li> <li>— donations</li> </ul> </li> <li><b>ESG ratings for suppliers</b></li> </ul>	<ul style="list-style-type: none"> <li>Integration of the <b>Green Bond Framework</b> for the structuring of new ESG Bonds</li> <li>Integration of <b>counterparties' ESG Score</b> with Taxonomy-alignment</li> <li>Development of <b>Taxonomy-aligned</b> products</li> </ul>	<ul style="list-style-type: none"> <li>Improvement of the analyses of the environmental performance of <b>real estate assets</b></li> <li><b>ESG brand identity</b></li> </ul>
BY 2024			<ul style="list-style-type: none"> <li><b>ISO 14001</b> Environmental Management System</li> </ul>		
Continuous path		<ul style="list-style-type: none"> <li>Improvement of <b>ESG rating &amp; scoring</b> to best-in-class levels</li> <li>Intensification of the dialogue with the <b>most deserving providers</b></li> </ul>			<ul style="list-style-type: none"> <li>Evolution of the contents of the NFS as regards the <b>Corporate Sustainability Reporting Directive and the new reporting standards</b></li> <li>Integration of the NFS with the <b>TCFD recommendations</b></li> </ul>

# ESG CREDIT – POLICY AND PRODUCTS

## 04.

In line with the identification of the main issues detected by the materiality analysis, the Bank has embarked on a path aimed at integrating ESG risks into its strategic mechanisms, in the risk management systems and neuralgic processes that characterize its business model, including credit granting and monitoring processes.

This path led in 2022 to the adoption of the ESG Credit Policy, a document which identifies the approach and general principles for the formulation of a credit process attentive to ESG factors, in accordance with the EBA's Guidelines on loan origination and monitoring.

In particular, the Policy identifies the main areas such as defining the objectives pursued by the Group and the scope of application by enshrining the general guidelines for the integration of ESG factors into the credit process. Sensitive sectors and activities have also been identified in order to update the ESG sectoral and counterparty assessment methods. The document explains the roles and responsibilities, methods of oversight, monitoring, sharing and dissemination. The drafting process was oriented to the guidelines and principles of the most important international and European initiatives and organizations.



UN Global Compact (2000)



UN Sustainable Development Goals (2015)



Paris Agreement on Climate Change (2015)



European Central Bank's Good practices for climate-related and environmental risk management(2022)



Task Force on Climate-related Financial Disclosures' Recommendations (2017)



PRINCIPLES FOR RESPONSIBLE BANKING  
UNEP FI Principles for Responsible Banking (2019)



EIB eligibility, excluded activities and excluded sectors list (2022)

## HIGHLIGHTS

### BPS's first Climate-related and Environmental (C&E) targets

NOTE: Targets for the reduction of CO<sub>2</sub> emissions compared to the 2021 base year, defined for sectors identified by the NZBA, considering the emissions financed by BPS (Scope 1, 2 and 3) of customers with an NFS:



#### POWER

reduction of intensity of  
**-63%** (kgCO<sub>2</sub>e/kWh) **by 2030**



#### TRANSPORT

reduction of intensity of  
**-45%** (tCO<sub>2</sub>e/vehicles sold) **by 2030**



#### OIL&GAS

absolute reduction of  
**-25%** (kgCO<sub>2</sub>e) **by 2030**



#### RAIL TRANSPORT

reduction of intensity of  
**-35%** (gCO<sub>2</sub>e/passenger.km) **by 2030**



#### AGRICULTURE

absolute reduction of  
**-45%** (kgCO<sub>2</sub>e) **by 2030**

In order to strengthen its commitment, the Bank adhered to the Recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), publishing the first Report dedicated to climate strategy and the management of climate and environmental (C&E) risks.

The TCFD Report aims to consolidate the commitment, clearly presenting the roles and responsibilities on climate-environmental issues, the definition of an action program to integrate C&E risks into business planning, the methods of identifying, assessing and management of these risks and, finally, the objectives and metrics to measure the effectiveness of the actions.

With the adoption of the General Regulation on climate and environmental risks, guidelines were also defined for the management of risks associated with the environment and climate change and the reference processes adopted by the bank for their identification, analysis and mitigation.

More information available at the following link:  
<https://istituzionale.popso.it/it/sostenibilita/environment>



## Focus: sustainable product next

Banca Popolare di Sondrio, in line with the 2022-2025 Business Plan and with the new ESG Credit Policy, has developed a range of sustainable credit products ("next") aimed at supporting its customers in the ecological transition process by increasing their market competitiveness and protecting the environment.



## 7 Green loans lines

that support investments to protect the environment.

**next**  
for the environment

### PRIVATE

*Green energy  
sustainable  
mobility*



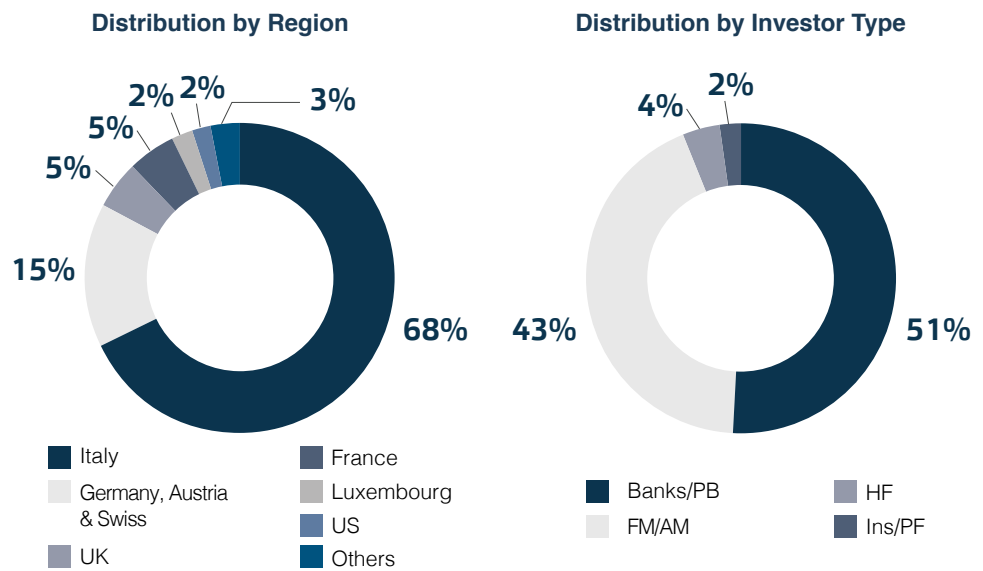
### BUSINESSES

*bioenergy  
energy efficiency  
wind  
photovoltaic  
hydroelectric*



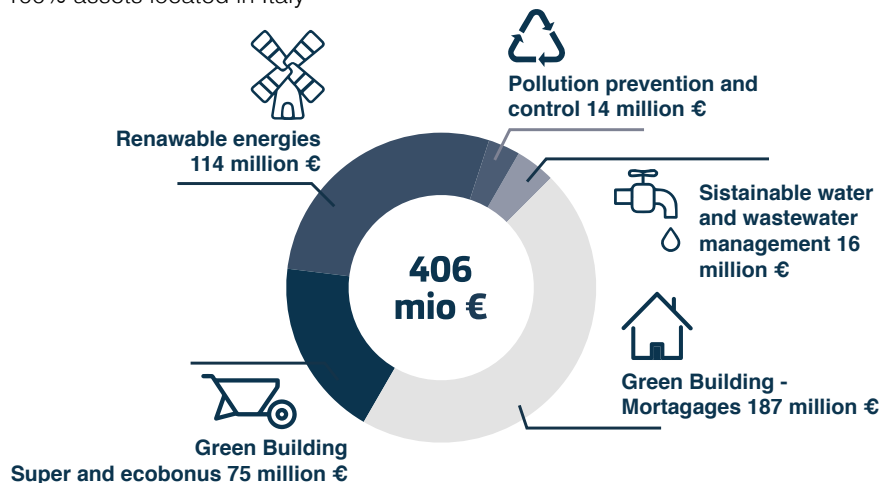
# 05. GREEN BOND OUTSTANDING

- Year: 2021
- Notional: 500 mln €
- Tenor: 6NC5
- Maturity date: 13 July 2027



## The portfolio at the time of issuance

- 81,2% of the proceeds used to refinance existing assets
- 3 years lookback period
- >12 years maturity
- 100% assets located in Italy



# GREEN BOND FRAMEWORK

# 06.

Within the BPS **Green Bond Framework di BPS**, following the guidelines set forth by the ICMA (International Capital Market Association), the so-called 4 pillars are defined:

1. how the proceeds, which must be linked to green projects or companies, will be **used and allocated**;
2. the process of **selecting and evaluating companies or projects**, which must meet environmental eligibility requirements;
3. **proceeds management**;
4. the **reporting** which, through the use of defined metrics, provides information on the allocation and environmental impact of the projects for which the revenues are used.



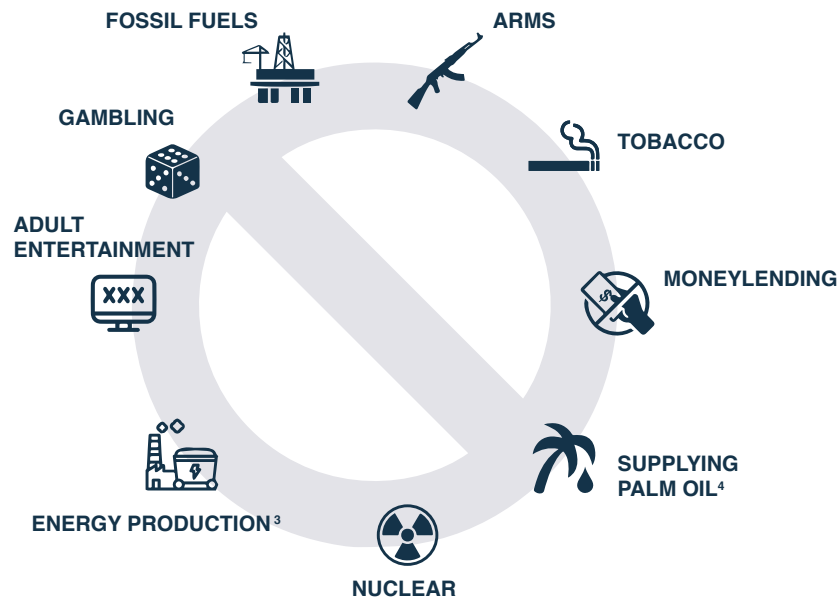
## Use of proceeds

The proceeds are used exclusively to finance or refinance activities that meet the following eligibility criteria:

- **Green Building:** loans or assets related to the acquisition, construction and renovation of residential and/or commercial energy-efficient building.
- **Renewable energy:** loans for the acquisition, development and management of infrastructure for the production of energy from renewable sources.
- **Clean transportation:** loans related to low carbon transport assets and the purchase, construction and operation of infrastructure dedicated to low-carbon transport.
- **Energy efficiency:** loans relating to assets / activities contributing to the reduction of energy consumption (e.g. energy-saving lighting or district heating).
- **Environmentally sustainable management of living natural resources and land use:** loans for activities that contribute to the sustainable management of natural resources and land use (e.g. organic agriculture or investments in protected areas such as regional natural parks).
- **Pollution prevention and control:** loans for activities that contribute to the prevention, collection, disposal and recycling of waste.
- **Sustainable water and wastewater management:** loans for activities that improve the quality, efficiency, distribution and conservation of water.

The look-back period concept is applied to all the assets making up the Bank's portfolio. Specifically, BPS has selected those loans that, in addition to meeting the environmental eligibility requirements indicated above, were disbursed in the 3 years prior to the issue of the Bond

## Sectors excluded from the Green Bond portfolio



<sup>3</sup> from oil, coal, lignite and tar sands (this also includes energy-efficient technologies that are carbon-intensive or powered by coal or oil)

<sup>4</sup> from suppliers that do not possess recognised certifications, such as Roundtable on Sustainable Palm Oil (RSPO)



## The sustainability committee role the Sustainability Committee:

- **approves** the Framework document and any subsequent updates, informing the Board of Directors;
- **reviews and evaluates** the set of eligible green projects; during the life of the bond, it reviews and evaluates new assets for inclusion in this set;
- **oversees** the internal tracking of the bond proceeds and monitors the management of collected and temporarily unallocated funds;
- **monitors** developments in the market environment and regulations for this type of bond;
- **reviews and approves** the allocation and impact reporting related to the bond, reporting to the Board of Directors.

A further classification of financed or re-financed assets is as follows:

### GREEN PROJECT

A Green Project is any type of loan whose purpose, indicated in the application and supported by appropriate attached forms, is aligned with one of the eligible categories outlined in the Green Bond Framework. The Green Project segment therefore spans the different eligible categories set out in the Green Bond Framework.

### PURE PLAYER

Pure Players are companies that derive more than 90% of their turnover from eligible activities. Once identified, any financing identified disbursed to these companies can be included in this category. The Pure Player segment therefore spans the different eligible categories set out in the Green Bond Framework.

### GREEN BUILDING – Mortgages

This segment of the portfolio includes assets related to the purchase of real estate with a high energy class. The precise eligibility criteria are set out in the Green Bond Framework.


### GREEN BUILDING - Super/EcoBonus

This segment of the portfolio includes all tax credits acquired by the Bank and already present in its tax box related to Super/EcoBonus practices. These assets are included insofar as they relate to work on buildings through which an improvement in their energy efficiency is achieved.





The table below displays the potential quantitative environmental performance metrics as indicated in the Framework. The list is not to be considered exhaustive: this document highlights some additional and more significant metrics for the characteristics of the Green Portfolio taken into consideration



ELIGIBLE CATEGORIES	POTENTIAL QUANTITATIVE PERFORMANCE MEASURES
Renewable energy	GHG emissions avoided (tCO <sub>2</sub> e)
	Total installed capacity (MW)
Energy efficiency	GHG emissions avoided (tCO <sub>2</sub> e)
	Expected energy savings per year (MWh)
Clean transportation	GHG emissions avoided (tCO <sub>2</sub> e)
	New clean transportation infrastructure built (Km)
Green Building	GHG emissions avoided (tCO <sub>2</sub> e)
	Floor space of green real estate (m <sup>2</sup> )
	Expected energy savings per year (MWh)
	Number of residential buildings belonging to the top 15% of the most carbon efficient buildings
Environmentally sustainable management of living natural resources and land use	Total surface financed (hectares)
	Numbers of agricultural business financed
	Volume of farming input avoided (t/year)
Pollution prevention and control	GHG emissions avoided (tCO <sub>2</sub> e)
	Waste diverted from landfill (tonnes)
Sustainable water and wastewater management	Volume of water saved/reduced/treated (m <sup>3</sup> )
	Total population served by the water system



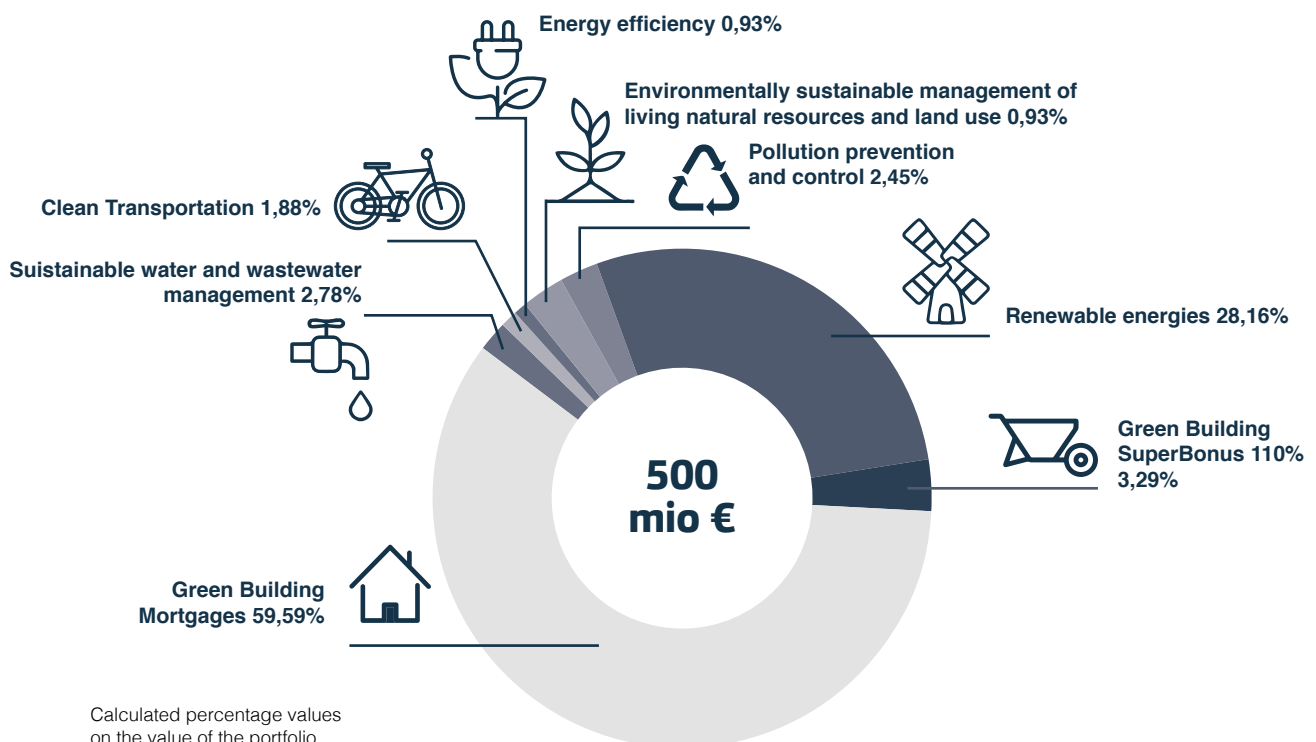
# GREEN BOND ALLOCATION REPORT: A PHOTOGRAPH OF THE PORTFOLIO AS OF MAY 31, 2023

## 07.

Already at the end of December 2021, just six months from the Green Bond issuance, the underlying portfolio has reached the amount of **500 million euros** well in advance to what was anticipated to the market.

As of May 31, 2023, the composition of the portfolio still shows a prevalence of loans in the "Green Buildings" sector, divided between the 110% Superbonus component and that of mortgage loans linked to energy-efficient properties, followed by loans to companies operating in the renewable energy sector .

- Financing vs refinancing: **271** vs 229 million €
- Number of Loans: **2,380**
- Look-back period: **2018**
- Maturity: **14.06** years
- Average amount: **210,000** €
- BPS loans: **490** million
- BPS (SUISSE) loans: **10** million
- **5 months** to reach full allocation



# 08. GREEN BOND IMPACT REPORT

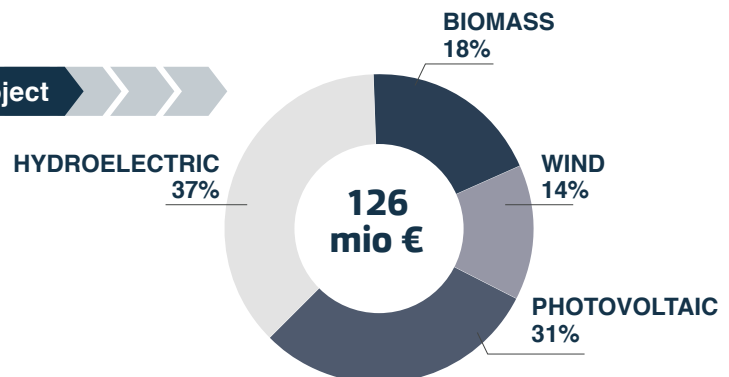
## 1. Green Project & Pure Player

In the management of the Green Bond portfolio, the Green Project and Pure Player categories group together those medium / long-term loans granted mainly to SMEs which, for specific projects or company peculiarities, ask the Bank for financial support to develop activities whose characteristics fall within those indicated in the "eligible categories" of the Green Bond Framework.



- Renewable energy plants financed in **18** different Italian regions
- Incidence on total allocated amount: **37,1%**
- Total allocated amount: **186** million
- Number of loans: **114**
- Number of (re) financed renewable energy plants: **128<sup>5</sup>**
- New financing vs refinancing: **78** vs 108 million €
- Average maturity: **8,8** years
- Average amount : **1,6** million
- Pure Player amount: **50** million
- Green Project amount: **136** million
- GHG emissions avoided<sup>6</sup>: **47,031** tCO<sub>2</sub>e
- Installed capacity: **77** MW
- Energy produced from renewable sources: **143** GWh<sup>7</sup>
- Area under organic cultivation: **13** hectares<sup>8</sup>
- Volume of water distributed: **1.1** million cubic meters<sup>9</sup>
- Waste managed: **20,107** tons<sup>10</sup>
- Thermal GWh sold by district heating: **10**

### Focus renewable energies - Green Project



<sup>5</sup> Data relating exclusively to Green Project

<sup>6</sup> BPS share – calculated considering the renewable energy plants production – Future details can be found in the Methodology section, on page 26

<sup>7</sup> BPS share – category "Renewable energy"

<sup>8</sup> BPS share – category "Environmentally sustainable management of living natural resources and land use"

<sup>9</sup> BPS share – category "Sustainable water and wastewater management"

<sup>10</sup> BPS share – category "Pollution prevention and control"



## 2. Green Building – SuperBonus 110%

The **SuperBonus 110%** is a form of tax relief born in 2020 in order to incentivize the **energy requalification** of existing buildings, through a tax credit equal to 110% of the costs incurred. Specifically, to access the tax benefit it is necessary to demonstrate a **double jump in energy class** thanks to the work carried out on the property. Further details on this case are available in the Appendix to the Report.

BPS promptly took action to support its customers in this activity, anticipating to the customers the tax credit they would be entitled to in the five years following the intervention. As of May 31, 2023, the total amount of the tax credit linked to the SuperBonus exceeds **900 million euros**. This amount is **only partially** partially included in the portfolio underlying the issuance of the Green Bond.

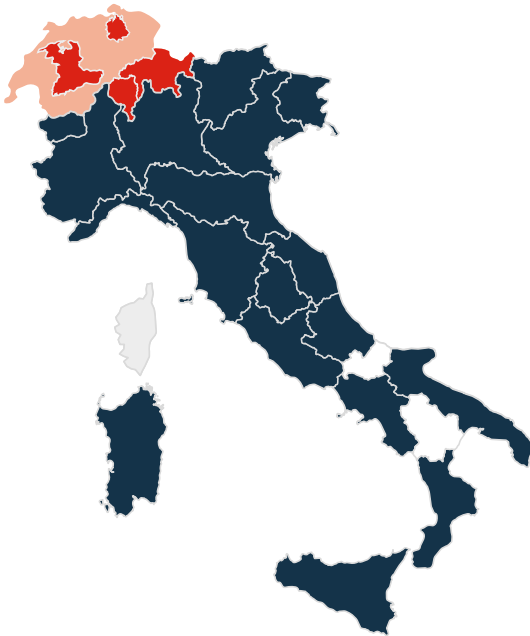
- Support for efficiency measures on properties located in **19** different Italian regions
- Incidence on the total allocated amount: **3%**
- Total allocated amount: **16** million
- Average maturity: **3.6** years
- Number of operations: **726**
- Average amount: **22,665** €
- GHG emissions avoided: **13,963** tons of CO<sub>2</sub>
- Savings in demand of primary energy: **67,560** MWh
- Renovated area: **401,381** m<sup>2</sup>



### 3. Green Building – Mortgage

A mortgage is a **loan granted** for the purchase, renovation, construction of residential or commercial properties against the issue of a **mortgage guarantee**.

In its Green Bond portfolio, the Bank has included all those loans related to the purchase of Italian and Swiss properties with **high energy performance**.



- Purchases or renovations of energy-efficient properties financed in **18 Italian regions and 4 Swiss cantons** (Canton of Grisons, Canton of Zurich, Canton of Bern and Canton of Ticino)
- Incidence on the total allocated amount: **59,6%**
- Total allocated amount: **297,960** million
- Average maturity: **17.91** years
- Number of transactions: **1,541**
- Average amount: **193.000** €
- Positive Carbon Impact (PCI): **2,155** tons di CO<sub>2</sub>
- Positive Carbon Impact per million €: **7,5** tons CO<sub>2</sub>
- Total area financed: **146,000** m<sup>2</sup>
- Loans to class A buildings A<sup>11</sup>: **139** million
- Loans to Minergie-certified buildings: **10.1** millioi CHF

## MINERGIE®

**Minergie** has been the Swiss construction standard for new, modern and energy-efficient buildings and environmental impacts since 1998.

The brand is supported by the economic sector, the cantons and the Swiss Confederation and is protected against misuse.

Minergie buildings have a very low energy requirement, are heated without fossil energy and meet their energy needs in whole or in part through self-production.

<sup>11</sup> Buildings in class A, A+, A1, A2, A3, A4 are considered



# SUSTAINABLE AGRICULTURE

# 09.

The OECD defines sustainability in the agri-food sector as an agriculture that, while using different resources and production techniques, aims not to alter the environmental balance.

Agriculture, an essential food source for human existence, provides income and employment for rural communities and also throughout the food supply chain. However, over time, the increased agricultural productivity, pursued to feed an ever-growing world population has been accompanied by an important environmental impact.

Worldwide agriculture is one of the main sources of greenhouse gas emissions, including carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O) and is an important driver for climate change, contributing to about 90% of the inputs of nitrogen (N) and phosphorus (P), 21-37% of greenhouse gas emissions and is responsible for 90% of the consumption of fresh water globally.

It is therefore essential, in order “to meet the needs of present generations without compromising the needs of future generations”, that a productive agriculture develop in the world that is nutritionally adequate and compatible with the health of the ecosystem, biodiversity and resilience; an agriculture that is sustainable not only for farmers and their families, but also for our society as a whole.

## Our support for agricultural companies

Banca Popolare di Sondrio strongly supports companies operating in the agri-food sector, offering advices and tools to face future challenges, without forgetting the daily needs linked to the current crisis situations and maintaining, traditionally, the utmost attention to the needs expressed by the territory.



<sup>12</sup> Xin Zhang et al., 2021. One Earth 4, 1262–1277

In 2023 there were many products and services that contributed to helping businesses:



#### FODDER PURCHASE LOAN

in order to support farms that were hit by the drought of summer 2022 and that did not have the necessary liquidity to make purchases. the “Fodder purchase loan”, granted on preferential terms, has allowed companies to have access to the liquidity needed to cope with fodder purchases.



#### SUPPLY CHAIN CONTRACT

to help stimulate the production, processing, marketing and distribution of agricultural, agri-food and agro-energy products. The so-called “quinto bando”, promoted by the Ministry of Agricultural, Food and Forestry Policies (now the Ministry of Agriculture, Food Sovereignty and Forests) gave the possibility to the financing banks and Cassa Depositi e Prestiti to grant facilities to companies in the sector in the form of capital grants and soft loans (co-financing).



#### FUNDING FOR THE 2022 MELAVI HARVEST

to allow farmers to collect the credits due for the apples delivered, without having to wait, as is usually the case on the market, for the beginning of the following season.

The agricultural company Melavi was thus able to concentrate on the promotion and sale of apples and their products. This operation provided substantial financial support, in line with the sustainability strategy that guides the Banca Popolare di Sondrio Group.

## Introduction to the case studies: some examples of virtuous realities included in the portfolio

The case studies described in this Report constitute some examples of the **various virtuous realities** present in the Bank’s Green Bond portfolio; each reality differs by type of activity, size and market segment.

The two examined companies demonstrate particular attention in **protecting the environment** and in having a **positive impacts on the environmental and climatic context** of reference: in fact, just as proper water management affects the quality of the soil and raw materials, sustainable management of the crops of the vite acts on the economic and landscape context, much like proper waste management represents an opportunity too, reintroducing an apparently obsolete product into the production process (according to a circular economy approach).

Despite the diversity of the counterparties in the Green Bond portfolio, the common denominator is always the same: **attention to the protection of the environment, territory, products**, raw materials and biodiversity.



## Case studies

### SOCIETA' AGRICOLA PALAZZETTO

The **Palazzetto Farm**, located in the Province of Cremona, traditionally dedicated to milk production, is a national and European excellence in the cereal sector and sustainable livestock farming with over 400 dairy cows and 900 head of livestock; it is part of the Granarolo controlled chain.

Bioenergy, animal welfare and state-of-the-art management of digestate are the three main matrices that make Palazzetto a virtuous model in terms of circular economy and path towards carbon negativity in milk production.

Already in 2019, the farm had started the production of biogas using slurry from the stables and then, in 2023, inaugurated a new innovative plant for the production of biomethane, connected directly to the SNAM network, one of the first in Italy and among the most important in Europe. This plant represents a real excellence both in terms of innovation and sustainability; it able to produce **630 cubic meters per hour of biomethane, 5 million cubic meters per year** thanks to membrane technology, equivalent to a saving of over 11,760 tonnes of CO<sub>2</sub> in the atmosphere.

Moreover, the energy needs of the new plant, assisted by a cogenerator, are satisfied by photovoltaic solar energy generated by brand new panels.

To feed the plant, in addition to the liquid sewage, a significant part of the agricultural biomass that comes from the cultivation of the company is used, representing a virtuous example of circular economy.

The company also employs innovative production techniques that allow an efficient and sustainable use of water resources through fixed pivot irrigation systems with drip wings and through recycling systems that allow the company not to buy chemical fertilizers from the outside.

The key numbers of the biomethane plant of the Agricultural Society Palazzetto:

**630 cubic meters/hour products**

**5,000,000 cubic meters/year produced**

**11,760 tonnes of CO<sub>2</sub> saved**





## AZIENDA AGRICOLA FRANCHETTI

The **Franchetti farm** is located in the heart of the Valtellina, an extraordinary and unique territory known for tourism, evocative paths, good food and heroic agriculture.

The activity, started in the 50s, starts at full capacity in 2004 when the owners decide to dedicate themselves full-time to fruit growing, making this small company a more extended entrepreneurial reality with production standards in line with those required by the market.

Starting from a solid agricultural tradition, the Franchetti family has therefore decided to evolve towards an increasingly sustainable production, that of **organic farming**, to become one of the first companies in Valtellina for the production of apples and kiwi BIO. A winning challenge that is spread over 22 hectares of land, processed respecting the discipline of organic farming, ensuring respect for the territory and enhancing the quality of the products grown.

This type of approach is aimed at encouraging the existence of insects and animals that contribute to maintaining biodiversity and creating the natural balance that allows both quality production and environmental protection.

The Biological Defense represents an important step to approach the perfect balance between human intervention and nature. This method requires that no chemicals are used and that the life of insects and microorganisms is fully respected; thanks to this innovative approach, the fruits obtained are residue-free and with an almost zero environmental impact.

The Franchetti company has decided to make this style, not only of production but of life, and to make its contribution to the preservation of the environment and the cultural and cultural change of the Valtellina.



# Methodology

## Calculation of the environmental impacts for Pure Player and Green Project

With reference to Renewable Energy loans, the documents attached to the lending procedure and relating to the plants are analyzed, or, if available, the data made public by the counterparties (for example on the website). If the technical data are not present, we request these to the customer through the reference branches. The data required are the total installed capacity (MW) and the annual energy production (MWh) necessary for the calculation of the avoided CO<sub>2</sub> emissions. The same procedure applies to loans relating to other eligible categories and with different metrics.

The indicator relating to avoided emissions was developed in line with the methodology defined in the ICMA Handbook: Harmonized Framework for Impact Reporting<sup>13</sup>.

The estimate of the emissions avoided, regarding the plants for the production of energy from renewable sources, is based on an indicator on an annual basis and carried out starting from a reference benchmark value, developed considering the electricity produced by the plants as originating from the generic electricity grid. The emission factor applied, relating to the Italian national production fuel mix, is provided in the document "Emission factors for the production and consumption of electricity in Italy" published by ISPRA. Specifically, the emission factor for 2022 corresponding to 308.9 gCO<sub>2</sub>e / kWh takes into account the climate impact of greenhouse gases CO<sub>2</sub>, CH<sub>4</sub> and N<sub>2</sub>O.

The calculation of avoided emissions for renewable energy projects shall not include processes characterised by the use of biomass fuels. Although these plants emit climate-altering gases into the atmosphere, the biogenic and non-fossil nature of the carbon involved guarantees climate neutrality, in accordance with the provisions of the UNFCCC (United Nations Framework Convention on Climate Change) for the accounting for atmospheric emissions of carbon dioxide. In this context the biomass is a neutral source with respect to CO<sub>2</sub> emissions, as the CO<sub>2</sub> emitted during combustion is equal to that absorbed during the life of the plant with the photosynthesis process.

The definition of the BPS quota is calculated according to the PCAF: The Global GHG Accounting and Reporting Standard for the Financial Industry guidelines.

With regard to Green Project, the impact that can be calculated by BPS is proportional to the ratio between the amount of the loan granted to the counterparty for an eligible project and the total cost of the investment made.

<sup>13</sup> <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Handbook-Harmonised-Framework-for-Impact-Reporting-June-2021-100621.pdf>



$$\text{Financed emissions} = \sum_i \text{Attribution factor}_i \times \text{Emissions}_i$$

(with i = borrower or investee)

$\downarrow$

$$\frac{\text{Outstanding amount}_i}{\text{Total equity} + \text{debt}_i}$$

## Definition of financing vs. re-financing

All Bank loans granted following the issuance of the Senior Green Bond, which took place in July 2021, are considered as “financing”.

The rest of the funding is labeled as “re-financing”.

## Calculation of CO<sub>2</sub> avoided for buildings

With reference to the Super Eco Bonus segment, the calculation of CO<sub>2</sub> avoided per calendar year is derived indirectly by comparing the overall energy performance indicators of the building before and after the energy redevelopment intervention, as obtainable from the relative Conventional Energy Performance Certificates attached to the 110% Super Eco-Bonus Credit Transfer.

The CO<sub>2</sub> emission factors are determined starting from the average primary energy conversion coefficients, published annually by ARERA and ISPRA.

With reference to the Green Building - Mortgage Loans segment, the calculation method used is shown in the attached document, Technical Report - Positive Carbon Impact, provided by the provider CRIF S.p.A.



# Appendix

## Superbonus 110%

The Italian Parliament, on July 17, 2020, converted a government provision into law - Legislative Decree 34/2020, so-called Relaunch Decree, which implements new urgent measures to support economic and labor policies.

For over 20 years in Italy there has been a system of tax concessions which can benefit those who undertake building and plant qualification interventions on buildings for residential or similar use.

In particular, the new regulatory system has increased the tax deduction rate, bringing it to 110% of the expenditure incurred, in relation to the execution of energy requalification interventions on existing buildings which guarantee reductions in climate emissions linked to internal conditioning services, such as configuring an improvement of two energy classes classification pursuant to Directive 2010/31 / EU).

In these cases, the incentive mechanism provides that the contractor can, as a rule, at the end of the works, benefit from a tax credit of up to 110% of the costs incurred.

This credit can be offset by the person entitled in the subsequent five tax returns, or, alternatively, it can be transferred in whole, or even in part, to a third party, including financial intermediaries, who in turn can compensate him for tax purposes.

There are two different credit transfer mechanisms:

- direct transfer: the customer finances the work and accrues the tax credit that he can offset tax or transfer to the Bank.
- indirect transfer "at invoice discount": the company offers a discount on the invoice, up to 100% of the cost of labor and indirectly benefits from the tax credit, which it can offset tax or transfer to the Bank.

The Bank has launched operations that allow the customer to pre-finance, with a commitment to assign the tax credit at the end of the work.

Basically there are two approaches:

- Frozen credit: the Bank undertakes to collect the tax credit accrued by the customer, at the end of the work, without any advance liquidity (the customer or the company finances them with its own funds).
- Committed credit: the Bank pre-finances the customer / company with a credit not exceeding the corresponding offered for the withdrawal of the tax credit (eg Credit [€] x Price).

In both cases the State will finance the customer who will benefit from the tax credit and transfer it to the Bank, but only in the second will the Bank advance a sum that allows the customer / company to finance the intervention.

<sup>14</sup> For the interventions started after 25.11.2022 and until the end of 2023 a reduction in the tax deduction rate "Super Bonus" to 90% is expected.

<sup>15</sup> Starting from the spending year 2022 - the Super Bonus credit is countervailable by the buyer transferee in 4 annual instalments following the year of expenditure support.



# Independent Auditor's Report



**Banca Popolare di Sondrio S.p.A.**

Independent Auditors' report on the Green Bond Report 2023  
(Translation from the original Italian text)





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## Independent Auditors' report on the Green Bond Report 2023 (Translation from the original Italian text)

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

We were engaged to perform a limited assurance engagement on the accompanying Green Bond Report 2023 of Banca Popolare di Sondrio S.p.A. (the "Bank") for the reporting period ended 31 May 2023, prepared for the purposes defined by the Bank's Green Bond Framework.

### Management's responsibility

Management is responsible for the preparation of the Green Bond Report 2023 in accordance with the criteria provided by the Bank's Green Bond Framework, and for the internal controls as management determines is necessary to enable the preparation of the Green Bond Report 2023, that is free from material misstatement, whether due to fraud or error.

### Independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies International Standard on Quality Control 1 (ISQC Italia 1) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### Independent Auditors' responsibility

Our responsibility is to express a conclusion on the Green Bond Report 2023 based on our limited assurance engagement. We conducted our limited assurance engagement in accordance with the provisions of the standard "*International Standard on Assurance Engagements 3000 - Assurance Engagements other than Audits or Reviews of Historical Financial Information*" ("*ISAE 3000 revised*") issued by the International Auditing and Assurance Standards Board. This standard requires that we plan and perform our procedures to obtain limited assurance whether the Green Bond Report 2023 is free from material misstatement.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with ISAE 3000 revised and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement.

The procedures we performed were based on our professional judgment and included inquiries, primarily of persons responsible for the preparation of Green Bond Report 2023, inspection of documents, recalculation, agreeing or reconciling with underlying records and other evidence-gathering procedures that are appropriate in the circumstances.

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Our limited assurance engagement also includes:

- meetings with the staff of the various Departments of the Bank involved in the preparation of the Green Bond Report 2023, in order to understand the characteristics of the projects and companies financed and refinanced through the proceeds of the Green Bond, and to verify the procedures and management systems in place with respect to what is described in the Green Bond Framework;
- verification of the application of the eligibility criteria to projects and companies financed and refinanced through the proceeds of the Green Bond as described in the Green Bond Framework;
- verification of tracking system for the allocation of proceeds raised through the Green Bond issuance to finance and refinance projects and companies as described in the Green Bond Framework;
- verification of the processes of collection, processing and consolidation of data relating to the allocation indicators included in the Green Bond Report 2023;
- verification of the process of transmission, collection, processing and consolidation of data relating to the environmental impact indicators included in the Green Bond Report 2023 and their verification through sample tests;
- verification of the methodologies and references adopted for the development of the environmental impact indicators included in the Green Bond Report 2023;

### Conclusion

Based on the procedures we have performed, nothing has come to our attention that causes us to believe that Bank's Green Bond Report for the year ended 31 May 2023 is not prepared, in all material respects, in accordance with the criteria provided by the Bank's Green Bond Framework.

Milan, 25 July 2023

EY Sp.A.

Davide Lisi  
(Auditor)

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



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