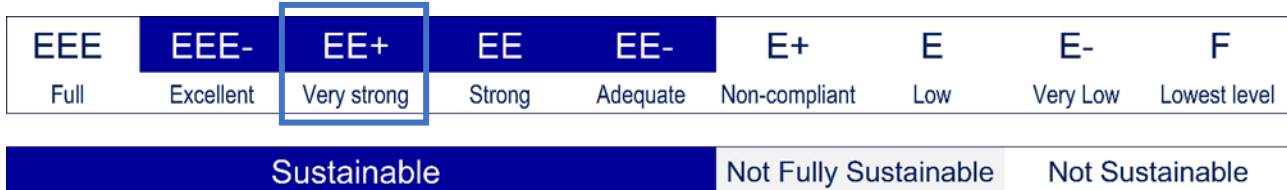


Standard Ethics Rating [corpSER]: **EE+**
 Long Term Expected corpSER [3y to 4y]: **STABLE**

Issuer: Banca Popolare di Sondrio S.p.A.
Listing: Euronext Milan
ISIN: IT0000784196
Market Capitalisation: 1.3 Bln EUR
Sector: Financials
Industry: Banking
Type of rating: Corporate Standard Ethics Rating [SER]
Date: 4 April 2024
Expiry Date: 4 April 2025
Last action: 5 April 2023
Previous SER: EE Outlook Positive
Type of document: Rating Report

Level of Compliance



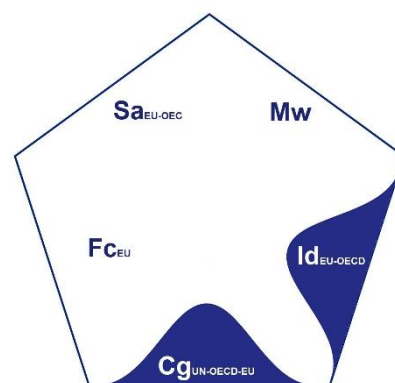
Summary

Snapshot (adj.)

Banca Popolare di Sondrio (a joint-stock company since 2022) is the head of the banking group of the same name. During 2023, the Bank continued to implement the targets set out in the Business Plan. The Plan harmonises and integrates ESG (Environmental, Social and Governance) elements within the Bank's activities.

Consistent with the implementation processes, ESG Risk Management checks were strengthened, and the main governance tools - such as the Code of Ethics and the new Sustainability Policy - were renewed, adding explicit references to UN, OECD and EU guidelines. The same approach characterises more recent internal documents, e.g., in the area of investments and Artificial Intelligence.

The integration of ESG factors, especially the environmental ones, is also visible in the risk management systems within customer relationships and the supply chain. Finally, progress was made in the area of Diversity and Inclusion.



Each side of the diamond represents one of the five "standards" measured by the Standard Ethics Algorithm. The symbolic representation of a normal (Gaussian) distribution provides an intuitive indication of those areas where the Company probably will, or should, take action. See below for further details.

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BACKGROUND, METHODOLOGY, RATING

New elements – such as the evolution of the Internet – have created open and transparent financial markets, in which growing segments of the population participate. This has resulted in:

- greater attention to **extra-financial** factors, both tangible and intangible, with repercussions on the level of trust and credibility of issuers;
- new assessments of the quality and long-term durability of listed financial products, related to both companies (stocks, bonds, green bonds) or institutional issuers (such as government bonds).

Standard Ethics has ascertained that we have reached the end of the classic financial era, which was focused exclusively on economic variables. Despite their fallibility and volatility, regulated markets have evolved and are proving to be the most important and independent system in assessing the long-term **sustainability**¹ of numerous human activities.

The Standard Ethics Rating helps refine the strategies, language and ways in which an issuer operates on the market.

STANDARD ETHICS

Standard Ethics Ltd (SE) is a Self-Regulated Sustainability Rating Agency that issues Non-Financial Solicited Ratings to companies and sovereign nations. The Standard Ethics® brand has been around since 2004 in the world of “sustainable finance” and ESG (Environmental, Social and Governance) studies.

Standard Ethics is supervised by internal control and audit offices. The composition of the Board complies with the international guidelines on diversity of nationality, professional skills, independence and gender equality.

STANDARD ETHICS RATING

The Standard Ethics Rating, which has been put to the test over the last 15 years, is a Solicited Sustainability Rating (SSR). It has 3 main characteristics:

- **Solicited:** it is issued only at the request of an applicant, by means of a direct, bilateral and regulated agreement.
- **Standard:** it is always comparable to other ratings, as the methodology and issuance parameters are aligned to pre-established guidelines, and the algorithm takes into account the size and typology of the issuer.
- **Independent:** in order to remain third party to investors, Standard Ethics does not provide any individual investor with advice, analysis or data regarding companies under rating, it does not use the data gathered for asset management advisory services (to banks or funds) and it does not share it with third parties.

In short, the Standard Ethics Rating indicates the level of compliance by companies (and sovereign nations) in the field of sustainability on the basis of documents and guidelines published by:

- The European Union;
- The Organisation for Economic Cooperation and Development (OECD);
- The United Nations (UN).

Standard Ethics uses an analyst-driven rating process, meaning the analysis performed does not require applicants to fill out forms and questionnaires or to provide

¹ Standard Ethics synthesizes its vision in three cornerstones of **sustainability**:

1. Sustainable development policies are about the generations of the future; they have taken on a global dimension; and they are implemented on a voluntary basis. It is up to the main supranational organisations, officially recognised by nations across the globe, to establish the definitions, guidelines and strategies related to sustainable development through science.

2. Economic entities do not define the guidelines, goals and strategies on sustainability: they pursue them to the extent deemed possible.

3. Measuring the sustainability of economic entities means providing comparable and third-party data on their overall compliance with international guidelines.

any documents other than those already available and that Standard Ethics does not use artificial intelligence or software either in data analysis or in decision-making.

SE ANALYSIS UNIT

According to the methodology, guidelines and procedures of Standard Ethics, the Analysis Unit working on this rating has carefully analysed the following areas based on the set-up of the Client (the areas have been divided into about **220** analysis points):

- MARKET AND COMPETITORS (13 analysis points)
- MARKET AND DOMINANT POSITIONS (10 analysis points)
- CONTRACTS, FINANCINGS AND PUBLIC AIDS (7 analysis points)
- MARKET DISTORTIONS, FAVOURITISM & CORRUPTION (8 analysis points)
- OWNERSHIP, SHARE CAPITAL AND SHAREHOLDERS (8 analysis points)
- INTERNAL VOLUNTARY RULES ON OWNERSHIP EXERTION (8 analysis points)
- INDEPENDENCE AND CONFLICT OF INTERESTS (12 analysis points)
- MINORITY MEMBERS PROTECTIONS AND DIRECTORS APPOINTMENT (7 analysis points)
- COMMUNICATION, INFORMATION AND TRANSPARENCY (5 analysis points)
- BOARD OF DIRECTORS AND EXECUTIVE GROUP TRANSPARENCY (9 analysis points)
- INTERNAL VOLUNTARY RULES REGARDING MANAGEMENT (10 analysis points)
- INDEPENDENCE AND CONFLICT OF INTERESTS (13 analysis points)
- DISCLOSURE AND TRANSPARENCY (22 analysis points)
- PARTICIPATION AND VOTE IN GENERAL MEETINGS (5 analysis points)
- EMPLOYMENT AND HUMAN RESOURCES SELECTION (11 analysis points)
- HEALTH, SAFETY AT WORK AND SOCIAL DIALOGUE (16 analysis points)
- ADAPTATION TO CHANGES (6 analysis points)
- ENVIRONMENT (17 analysis points)
- CONSUMERS AND QUALITY (9 analysis points)
- SCIENCE AND TECHNOLOGY (4 analysis points)
- LOCAL COMMUNITIES (3 analysis points)
- BUSINESS PARTNERS (9 analysis points)
- HUMAN RIGHTS (6 analysis points)
- EUROPEAN STRATEGIES (2 analysis points)

RESEARCH OFFICE AND RATING COMMITTEE

The Research Office compiles a Final Report and issues a rating based on its review of the work of the Analysis Unit.

The Rating Committee analyses the conformity of the collected data and the ensuing conclusions and it approves the issued rating.

Chinese Walls between the Analysis Unit, the Research Office, the Rating Committee and all other company offices ensure maximum transparency. A Compliance Officer oversees all steps and processes.

SE ALGORITHM OF SUSTAINABILITY ©

Standard Ethics has developed a proprietary algorithm based on five "standards" and a premium variable – "k" – to process the data provided by the Analysis Unit (F_{CEU} ; $Sa_{EU-OECD}$; Mw ; $Id_{EU-OECD}$; $Cg_{UN-OECD-EU}$). The balance between the five "standards" is the final pre-assessment underlying the rating.

F_{CEU} = Fair competition.

Main areas: Fair competition, including analysis of dominant positions, market distortions, cartels. Factors that can affect the other variables (Sources: the EU, and the main OECD regulators).

$Sa_{EU-OECD}$ = Shareholders' agreements.

Main areas: Shareholders' agreements, rights of minority shareholders, access to information (Sources: the EU and OECD, and the main OECD regulators).

Mw = Market weight.

Main areas: Shareholding structure, weight and type of major shareholders, potential conflicts of interest in relation to other variables (Sources: mainly OECD regulators).

$Id_{EU-OECD}$ = Independent directorship.

Main areas: Structure and quality of boards and executive groups, ESG Risk and Control Management system, Risk Analysis. This standard is most likely to mitigate the risks associated with other variables and can increase the "k" variable. (Sources: the EU and the OECD).

$Cg_{UN-OECD-EU}$ = Corporate Governance and Sustainability.

Main areas: Overall assessment of applicant's ESG strategies and corporate governance (in terms of

shareholding structure and sustainability) by weighting the various elements also in relation to the balance of the other variables (Sources: the EU, OECD and UN).

k = Sustainability at Risk (SaR). Statistical projections.

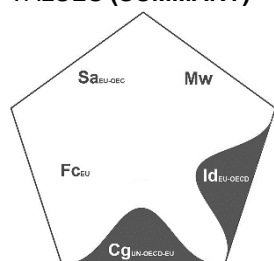
©

$$\frac{(F_{cEU} + S_{aEU-OECD} + I_{dEU-OECD} + M_w * f(S_{aEU-OECD}) * f(I_{dEU-OECD}) + C_{gUN-OECD-EU} * f(F_{cEU}) * f(I_{dEU-OECD}))}{10} + k$$

ISSUED RATING

Standard Ethics Rating [corpSER]: **EE+**
Long Term Expected corpSER [3y to 4y]: **STABLE**

ALGORITHM – INPUT VALUES (SUMMARY)



The values for each standard are between **0 and 2**.

Assigned and input values are as follows:

F_{cEU} = 1.9
S_{aEU-OECD} = 1.9
M_w = 1.5
I_{dEU-OECD} = 0.7
C_{gUN-OECD-EU} = 1.8

NB: The variable Mw may be neutral, when below 1, indicating the presence of a major shareholder restraining the influence of a controlling shareholder. The MW value assigned indicates the type of shareholding and related risks.

Each side of the diamond represents one of the five “standards” measured by the Standard Ethics Algorithm. The symbolic representation of a normal (Gaussian) distribution provides an intuitive indication of those areas where the Company probably will, or should, take action.

Other companies in the Banking industry.²

Banca Generali	EE+	Mediobanca	EE-	Natixis	E+
Banco BPM	EE+	PKO Bank Polski	EE-	OTP Bank	E+
BPER Banca	EE+	Skandinaviska Enskilda B.	EE-	Raiffeisen Bank Int.	E+
FinecoBank	EE+ (pos.)	Societe Generale	EE-	Unicaja	E+
Svenska Handelsbank.	EE+	Standard Chartered	EE-	Banca Ifis	E
Unicredit	EE+	Swedbank	EE-	Banca Sistema	E
Banca MPS	EE (pos.)	AIB Group	E+ (pos.)	Bank of Communications	E
Banco Desio	EE	Banca Profilo	E+	BNP Paribas Fortis	E
BBVA	EE	Banco Comercial Port.	E+	China Construction Bank	E
BNP Paribas	EE	Bank of China HK Hold.	E+	CITIC Limited	E
HSBC Holding	EE	Bank of Ireland	E+	Credit Industriel et Com.	E
Intesa Sanpaolo	EE	Bank Pekao	E+	Danske Bank	E
Nordea Bank	EE	Bankinter	E+ (pos.)	DNB Group	E
ABN Amro Bank	EE-	Barclays Plc	E+	KBC Group	E
Banca Mediolanum	EE- (pos.)	BFF Bank	E+ (pos.)	National Bank of Greece	E
Banco de Sabadell	EE-	CaixaBank	E+ (pos.)	Natwest Group	E
Banco Santander	EE-	Credit Agricole	E+	UBS Group	E
Bankia	EE-	CYBG Plc	E+	Credito Emiliano	E (pos.)
Commerzbank	EE- (pos.)	Erste Group Bank	E+	Bank of China	E-
Credito Valtellinese	EE- (und. mon.)	Goldman Sachs	E+	Deutsche Bank	E-
Deutsche Pfandbrief.	EE-	Hang Seng Bank	E+	Banca Carige	Pen.
Illimity Bank	EE- (pos.)	ING Group	E+	Banca Fintat	Pen.
Julius Baer Group	EE- (und. mon.)	JPMorgan Chase	E+	Banca Intermobiliare	Pen.
Lloyds Banking G.	EE-	Mitsubishi UFJ Financial	E+	Credit Suisse	Pen.

² A full list of other global and Italian companies in the Banking industry can be found at www.standardethicsrating.eu.

BANCA POPOLARE DI SONDRIO REPORT

1. MARKET AND DOMINANT POSITIONS

Banca Popolare di Sondrio S.p.A. (hereinafter 'BPS' or 'the Bank') is the parent company of the **Gruppo Bancario Banca Popolare di Sondrio** (Banca Popolare di Sondrio Banking Group).

Established in Sondrio on 4 March 1871 as a cooperative bank, BPS experienced a strong phase of development and expansion in the 1970s, culminating in the establishment of a representative office in Milan (1973), which became its operational headquarters in 1978. In 1995, Banca Popolare di Sondrio (SUISSE) SA was established in Lugano.³ Together with it, in the same year, it created the Banca Popolare di Sondrio Banking Group (hereinafter 'the Group').

The Group now also includes the following subsidiaries: Factorit S.p.A., Sinergia Seconda S.r.l., POPSO Covered Bond S.r.l., Banca della Nuova Terra S.p.A. and PrestiNuova S.r.l. - Agency in Financial Activity.⁴

On 5 January 2022, the Bank completed its transformation from '**cooperative joint-stock company**' to '**joint-stock company**'. This transformation had started in 2016.⁵

In June of the same year, BPS presented **Next Step**, its new **2022-2025 Business Plan**. The Plan identifies several specific actions as well as five **cross-cutting directions** impacting **ESG** (Environmental, Social, Governance) areas, including the adoption of an **Operational Plan**.⁶

The context in which the Bank operates - the European and Italian banking market - is free and open and amongst the most advanced globally. The market is **supervised**.⁷

The regulatory context has different levels: national,⁸ supranational (European Union) and international (OECD). The various sources regulate, with varying degrees, several common general interests such as the promotion of **financial stability**, the guarantee of the proper functioning of free market principles, respect for **fair competition**, transparency and the protection of **consumer rights**. The regulatory framework includes measures on **corporate governance** and, in increasing numbers and relevance, on **environmental protection** and **sustainable finance**.

As outlined in previous Reports, on fair competition and as part of the scope of **Standard Ethics Ratings**, the market BPS operates in is characterised by regulatory, strategic and size-related entry barriers. In any case, national and European regulatory provisions tend to remove restrictions and obstacles to the free market, and guarantee freedom of choice between different banking and/or financial operators.

³ Bank under Swiss law. Banca Popolare di Sondrio (SUISSE) SA is an all-round commercial retail bank that also operates in the asset management sector.

⁴ Source: corporate website and Bank of Italy supervisory registers and lists.

⁵ The transformation into a joint-stock company was approved by the Ordinary and Extraordinary Shareholders' Meeting of 29 December 2021. At the same meeting, the new Articles of Association were adopted. Source: Press Release, 29 December 2021.

⁶ Source: Next Step, 2022-2025 Business Plan, Milan, 29 June 2022, pages 50 and subsequent.

⁷ Supervisory and sanctioning powers are exercised jointly by the European Central Bank (ECB) and the Bank of Italy.

⁸ In Italy, banking is protected at constitutional level (Art. 41 and Art. 47 of the Constitution). Among the various sources that make up the national regulatory framework, it is worth recalling the Consolidated Banking Act (TUB), the Consolidated Act on Financial Intermediation (TUF) and the Savings Protection Act (no. 262/2005). These acts have been amended several times over the years, in particular after the government was urged to do so by the European legislator. Ministerial acts and those issued by various authorities complete the Italian regulatory framework. In addition to the Bank of Italy, other authorities are: the Italian Competition Authority, Consob (*Commissione Nazionale per le società e le borse*, Italian Securities and Exchange Commission), Isvap (*Istituto per la vigilanza sulle assicurazioni private e di interesse collettivo*, Institute for the Supervision of Insurance); and Covip (*Commissione di vigilanza sui fondi pensione*, Supervisory Commission on Pension Funds).

The Bank holds market shares in the areas of credit intermediation, payment systems and assets under administration and management, and enjoys well-established commercial agreements.⁹

As parent company of the Banking Group, the Bank holds direct shareholdings in other companies operating in the same market.¹⁰

BPS does not hold a dominant position in the market, nor have the Supervisory and Antitrust Authorities pointed out any critical issues in this sense.

2. CONTRACTS, FINANCING AND PUBLIC AID

In line with previous reports, the Bank does **not** appear to have benefited from any **public financing, subsidies** or any **other form of State aid** giving rise to market or fair competition distortions.¹¹

In the past, the Bank has submitted offers and won public tenders promoted by the European Union.¹²

3. MARKET DISTORTIONS, FAVOURITISM AND CORRUPTION

Issues concerning **corruption and related risks** are addressed in various internal documents,¹³ implementing the provisions of the Internal Organisational Model and the principles of the **Code of Ethics**,¹⁴ **updated in 2023**.¹⁵

In June 2023, a new Group-wide **policy on preventing money laundering and terrorist financing** was adopted.¹⁶

Misconduct is reported via the **whistleblowing** platform.¹⁷ A **separate and independent** procedure on **diversity and inclusion** has also been created and is available internally within the Bank.¹⁸ The system is governed by a special policy.

The person responsible for the internal systems to report violations is the current Head of Compliance and DPO. Reports concerning matters covered by Legislative Decree no. 231/2001 are also forwarded to the Supervisory Board (SB) for

⁹ In particular, agreements have been signed with: Arca Fondi SGR, Etica SGR, JP Morgan Asset Management and Pictet Asset Management for the placement of investment and pension funds; Arca Vita, Arca Assicurazioni, Arca Previdenza, Arca Futura, for the placement of insurance products; Popso (Suisse) Investment Fund Sicav for the placement of shares in the Sicav's sub-funds; Alba Leasing for the placement of leasing products. Source: Company source.

¹⁰ 2022 saw the acquisition of 100% of the capital of Factorit. Source: Consolidated Half-Year Financial Report as at 30 June 2022, pages 13 and 14.

¹¹ Source: Website of the National State Aid Register.

¹² Banca Popolare di Sondrio, following participation in specific calls for tenders, has been awarded prestigious international payment management services on behalf of the European Commission. The Bank, for instance, will handle transactions from Belgium to Switzerland. Another contract covers transactions involving Iran, Cuba, Sudan and South Sudan. Payments can also be made to Afghanistan, Cambodia, Eritrea, Iraq, Lebanon, Libya, Myanmar, Panama, Syria, Venezuela and Yemen. Source: Press release, 10 April 2020 (only available in Italian).

¹³ More precisely in various Company regulations.

¹⁴ The Code of Ethics stipulates that "*In the event of business negotiations or relations between the Bank and public entities, all the addressees of this Code are obliged to refrain from any conduct that might compromise the integrity and reputation of the parties or that might be interpreted by an impartial observer as aimed at obtaining improper advantages and favours.*" The Code also prohibits offering "*money, gifts or compensation that exceed normal courtesy practices, as well as to exert undue pressure, promise any object, service, performance or favour to public officials (...) or employees of the Public Administration.*" Source: Code of Ethics, pages 11 and 12.

¹⁵ Source: Code of Ethics, p. 1.

¹⁶ Adopted to replace the previous policy that was dated December 2020, it identifies principles, roles, responsibilities, operating methods and internal information management to prevent, manage and monitor risks in this area. Source: Policy on the prevention of money laundering and terrorist financing of Banca Popolare di Sondrio and the Banking Group Banca Popolare di Sondrio, pages 11 and 12.

¹⁷ The Whistleblowing procedure is available on the website and is open to all stakeholders. The issue of whistleblowing is well covered by national legislation under Law no. 179, dated 30 November 2017 (Provisions for the protection of whistleblowers who report offences or irregularities which have come to their attention in the context of a public or private employment relationship) and included into the Models implemented pursuant to Legislative Decree no. 231/2001. This Law deals with the fight against corruption by regulating a fundamentally important aspect: protection of the individual making the report. Whistleblowing, as an issue, was addressed by the European Commission in 2018, after a public campaign collecting comments and opinions which ended on 29 May 2018. The key EU instrument is Directive no. 2019/1937 of 23 October 2019 which aims at ensuring the protection of people reporting breaches of EU law. The Directive entered into force on 16 December 2019 with a transposition deadline of 17 December 2021. Italy implemented it with Legislative Decree no. 24 of 10 March 2023.

¹⁸ Source: Company source.

assessment within its competence.¹⁹ Safeguards are in place to protect the whistleblower and the individual being reported.²⁰

Proper management and minimisation of risks in the area of **taxation** are pursued through internal procedures²¹ and a complex organisational structure. A central role is played by the Tax Office.²²

The topic is also dealt with in the Code of Ethics²³ and in the Non-Financial Statement,²⁴ and also includes risks associated with activities with **countries with preferential tax regimes**.²⁵

4. INTERNAL VOLUNTARY RULES ON OWNERSHIP

The Bank is listed on the Euronext Milan Market, FTSE Italia All Share index.

The Bank's share capital amounts to **€1,360,157,331.00** and is divided into **453,385,777** ordinary shares, without nominal value.²⁶

As at March 2024, **Unipol Gruppo S.p.A.** holds a **19.7%** shareholding. The remaining **80.3%** belongs to other shareholders.²⁷

None of the main shareholders is an off-shore company.

No shares granting special controlling rights have been issued²⁸ nor are there any provisions in the Articles of Association allowing multiple vote or increased voting rights. The **one share, one vote** principle applies.

There are no shareholders' agreements nor change of control clauses.²⁹

There are no policies on Employee Financial Participation (EFP) in the Bank's capital.³⁰

The Bank is active in Sustainable Finance. In **September 2023**, the Bank placed an additional **Green Bond** (Senior Preferred), following an initial issue in July 2021.³¹

BPS' **Green Bond Framework** is aligned with the 2021 Green Bond Principles of **ICMA** (International Capital Market Association) and subject to **external and independent review**.³²

¹⁹ Source: Policy on Internal Reporting of Violations, Whistleblowing, p. 9 (only available in Italian).

²⁰ In particular, it provides for whistleblowers' protection from possible forms of retaliation and discrimination as a result of the report, as well as the possibility for reporters to request a transfer to other branches. In order to report potential money laundering and terrorist financing offences only, access is provided to an independent channel, where anonymity of the reporters is guaranteed. Source: Policy on Internal Reporting of Violations, Whistleblowing, pages 10 and 11 (only available in Italian).

²¹ These include the following: 'Tax Compliance Operational Manual', 'Tax Operational Risks', 'Tax Compliance Service Agreement', 'Tax Offences, Sensitive Activity Assessment', 'Tax Litigation Risk Reduction Policies'. Source: Company source.

²² Source: 2022 Consolidated Non-Financial Statement, p. 245.

²³ Source: Code of Ethics, p. 13.

²⁴ The latter specifies that "In the materiality analysis, in order to fully identify the most relevant aspects, tax issues were also submitted to the stakeholders." Source: 2022 Consolidated Non-Financial Statement, p. 246.

²⁵ 2021 Operational Handbook for Activities with Asset-Restricted and Low-Taxation Countries. Please refer to the procedure for a detailed discussion of the processes governing financial activities with asset-restricted and privileged taxation countries. The Bank has been awarded the ISO 9001:2015 Quality Management System certification for the management of transactions to and from countries with asset restrictions and/or low taxation (IAF:32), and for the management of transactions with Iranian entities.

²⁶ Source: Corporate website.

²⁷ Source: Corporate website.

²⁸ At least until 17 March 2023, the date of approval of the Report on Corporate Governance and Ownership Structures. Source: 2023 Report on Corporate Governance and Ownership Structures, pages 7 and 8 (only available in Italian).

²⁹ Source: 2023 Report on Corporate Governance and Ownership Structures, p. 8 (only available in Italian).

³⁰ Source: 2023 Report on Corporate Governance and Ownership Structures, p. 8 (only available in Italian).

³¹ The issue corresponds to "a benchmark amount of EUR 500 million and a maturity of five years (with an early redemption option starting from the fourth year). The transaction, carried out under the EUR 5 billion Euro Medium Term Notes Programme (EMTN), was undertaken for the purpose of financing and/or refinancing Green Projects that comply with the Green Bond Framework in place, replicating what happened in July 2021, when the inaugural issue of this type of instrument was made." Source: Press Release, 19 September 2023.

³² See document entitled 'Second-Party Opinion Banca Popolare di Sondrio Green Bond Framework' certifying the correct alignment to the 2021 Green Bond Principles.

Every year, the Bank publishes the **Green Bond Report** outlining how issues were allocated and their economic/environmental impact.³³

5. OWNERSHIP AND CONFLICTS OF INTEREST

No major Shareholder is involved in national governments, sectoral regulatory bodies or in regulating the market segment where the Bank operates.

The Code of Ethics deals with the prevention and proper management of **conflicts** of interest,³⁴ topics to which a policy updated in 2022 is also dedicated.³⁵

Related party transactions³⁶ are subject to strict regulatory requirements, compliance with which is ensured by specific and constantly updated internal checks³⁷

6. PROTECTION OF MINORITY SHAREHOLDERS AND APPOINTMENT OF DIRECTORS

There are no specific policies or other documents addressing the issue in a systematic manner.

However, the Articles of Association contains specific provisions in this regard. In 2023, the **Articles of Association** were amended to **broaden the representation of minority shareholders** with regard to the appointment of directors,³⁸ which takes place on the basis of the so-called list method.

Every year, the Board of Directors publishes³⁹ the **guidelines**⁴⁰ on the optimal requirements for its composition, in terms of professionalism, multiplicity of skills, time availability and diversity.

In this regard, the Bank has also adopted a Regulation on diversity in the composition of the Board of Directors and the Board of Auditors.⁴¹ As far as gender is concerned, the requirement is in line with current legislation, indicating a **bal-**

³³ According to the Green Bond Report 2023, which refers to the 2021 issue, “*The underlying loans to the Green Bond are more than 2,300 and include corporates, SMEs and retail. More than 2,300 loans are included.*” covering all “*the “eligible categories” of the Green Bond Framework.*” More in detail, “*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.*” Source: 2023 Green Bond Report, pages 5, 6, 18 and 19.

³⁴ With reference to all the Bank’s staff, including senior management. Source: Code of Ethics, p. 5.

³⁵ The reference is to the Corporate Conflict of Interest Management Policy, updated on 29 April 2022. In order to ensure compliance with European and national regulations, the Policy formalises the general principles that Banca Popolare di Sondrio applies when managing conflicts of interest in the provision of investment and/or ancillary services and/or in the distribution of insurance investment products and/or in the combination of these services/activities. It also identifies the circumstances that could generate a conflict detrimental to Clients’ interests, defines the procedures to be followed and the measures to be taken to prevent or manage such conflicts. The Policy is complemented by an annexed document mapping risk situations identified by the Bank together with the procedural and organisational measures for their management. Source: Corporate Conflict of Interest Management Policy, pages 5 and subsequent (only available in Italian).

³⁶ It should be noted that “*in the period 1 January-30 June 2023,*” five “*transactions of greater importance with related parties were approved*” whose details can be found in the Consolidated Half-Year Financial Report. The Bank specifies that, during the same period, “*no transactions were completed with related parties, neither of greater nor lesser significance, which had a significant impact on the financial position or economic results of the Banking Group. Furthermore, there are no changes and/or developments in the transactions with related parties completed in 2022 - none, however, atypical, unusual or at non-market conditions - that had significant effects on the financial position or results of the Banking Group in the first half of 2023.*” Source: Consolidated Half-Year Financial Report as at 30 June 2023, pages 25 and 26.

³⁷ Regulations of Related Party Transactions and Regulations of Transactions with Connected Persons, both renewed in March 2023 and published on the corporate website.

³⁸ In particular, see Art. 24 of the Articles of Association updated in April 2023. The change was announced in the previous month by the Bank specifying that the amendment was intended to create the conditions “*to give broader representation in the Board of Directors to the various components of the corporate structure, making it possible to increase the number of “minority directors.”*” Source: Press Release, 17 March 2023.

³⁹ Publication takes place in the run-up to the Shareholders’ Meeting called to appoint the members of the Board of Directors, one third of which is renewed every year. Source: Corporate website.

⁴⁰ This is the document entitled ‘Optimal Qualitative and Quantitative Composition of the Board of Directors of Banca Popolare di Sondrio’, available on the institutional website.

⁴¹ This document outlines the measures that have been adopted to ensure that the composition of the aforementioned corporate bodies reflects an adequate degree of diversification in terms of, inter alia, skills, experience, age, gender and international outlook. Source: Regulation on Diversity in the Composition of the Board of Directors and the Board of Auditors, pages 4 and subsequent (only available in Italian).

ance (not parity) criterion.⁴²

7. INTERNAL VOLUNTARY RULES FOR DIRECTORS

The Company adopts the traditional control system based on two bodies: a **Board of Directors**, with the broadest powers for ordinary and extraordinary management,⁴³ and a **Board of Statutory Auditors**, with control functions.

Every year, one third of the Board of Directors is renewed. The Board currently has **15** directors.⁴⁴ Of these, **7 out of 15** belong to the **least represented gender**, women.⁴⁵

An **absolute majority** of the Directors fulfil the independence requirements.⁴⁶ No Lead Independent Director has been appointed.⁴⁷ There are no employee representatives in the Board of Directors.

The Board of Directors has duly established a **Control and Risk Committee**,⁴⁸ an **Appointments Committee**,⁴⁹ a **Remuneration Committee**,⁵⁰ a **Related Parties Transactions Committee**,⁵¹ and a **Sustainability Committee**.⁵² There is also an **Executive Committee**.⁵³

Corporate bodies, including Directors, are bound by the **Code of Ethics**, the main instrument containing voluntary ethical and behavioural rules (Internal Voluntary Rules or IVR).

In 2023, the Code of Ethics was updated with **explicit references** to the **Universal Declaration of Human Rights** and the principles of the **UN Global Compact**.⁵⁴

The **Supervisory Board** is responsible for monitoring compliance with the provisions of the Code of Ethics.⁵⁵

8. DIRECTORS, CONFLICT OF INTERESTS AND RELATED COMMITTEES

No director is a member of local or national governmental bodies, tribunals or entities granting licenses or supervising the market.

Every year, BPS publishes the remuneration paid to senior management and personnel with strategic responsibilities. In 2023, the **remuneration policy** was revised to bring it in line with best practices and taking into account the objec-

⁴² Source: Optimal qualitative and quantitative composition of the Board of Directors of Banca Popolare di Sondrio S.p.A., pages 7 and 8 (only available in Italian). It is worth highlighting that Law no. 160 of 27 December 2019 lays down that at least two-fifths of the members of the Board of Directors must be of the least represented gender.

⁴³ It should be noted that in 2023, the Bank updated the Regulations of the Board of Directors and Board Committees, which govern the constitution, operating procedures and powers of the Board of Directors and Board Committees of Banca Popolare di Sondrio in order to achieve, also on the basis of the principle of proportionality, full compliance with the EBA/42/2017/11 guidelines of 26/9/2017 and any subsequent updates. Source: Regulations of the Board of Directors and Board Committees, p. 4 (only available in Italian).

⁴⁴ Members of the Board of Directors of Banca Popolare di Sondrio (March 2024): Francesco Venosta (Chairman), Lino Enrico Stoppa- ni, Mario Alberto Pedranzini, Alessandro Carretta, Nicola Cordone, Loretta Credaro, Donatella Depperu, Anna Doro, Federico Falck, Attilio Piero Ferrari, Maria Chiara Malaguti, Pierluigi Molla, Serenella Rossi, Silvia Stefini, Rossana Zambelli. Source: Corporate website.

⁴⁵ The Chairman of the Board of Directors and the Managing Director belong to the male gender.

⁴⁶ The independence requirements pursuant to the Consolidated Act on Financial Intermediation and Decree no. 169/2020 of the Ministry of Economy and Finance are met by 9 out of 15 directors. Source: 2023 Disclosure to the public as required by supervisory regulations on corporate governance, p. 3 (only available in Italian).

⁴⁷ Source: 2023 Report on Corporate Governance and Ownership Structures, p. 59 (only available in Italian).

⁴⁸ It has the following members: Alessandro Carretta (Chairman), Donatella Depperu, Anna Doro, Pierluigi Molla, Rossana Zambelli. Source: Corporate website.

⁴⁹ It has the following members: Anna Doro (Chairwoman), Maria Chiara Malaguti, Silvia Stefini. Source: Corporate website.

⁵⁰ It has the following members: Nicola Cordone (Chairman), Alessandro Carretta, Maria Chiara Malaguti. Source: Corporate website.

⁵¹ It has the following members: Rossana Zambelli (Chairwoman), Nicola Cordone, Serenella Rossi. Source: Corporate website.

⁵² It has the following members: Silvia Stefini (Chairwoman), Pierluigi Molla, Serenella Rossi. Source: Corporate website.

⁵³ It has the following members: Lino Enrico Stoppa- ni (Chairman), Mario Alberto Pedranzini, Attilio Piero Ferrari, Loretta Credaro, Federico Falck. Source: Corporate website.

⁵⁴ Source: Code of Ethics, pages 2 and 7.

⁵⁵ At the date of approval of the Report on Corporate Governance Report, the members of the Supervisory Board were Raffaele Manfredi Selvaggi, Chairman, and the then Heads of the Internal Audit Service, the Compliance Function and the Legal and Regulatory Advice Office, i.e., Mauro Donchi, Costantino Tornadù and Eros Forenzi respectively. Source: 2023 Report on Corporate Governance and Ownership Structures, p. 82.

tives of the Business Plan⁵⁶ and the Bank's **sustainability** targets.⁵⁷

Offering gifts and/or accepting them is prohibited.⁵⁸

9. DISCLOSURE, TRANSPARENCY AND INTERESTED PARTIES

The Bank prepares and publishes a Non-Financial Statement (NFS) annually, based on the standards of the Global Reporting Initiative (**GRI**) and in consideration of additional international reporting standards.⁵⁹

The 2022 NFS also includes the reports required by the Task Force on Climate-related Financial Disclosures (**TCFD**), which the Bank formally joined in early 2023.⁶⁰

The procedure formalising the non-financial reporting process was updated⁶¹ in order to identify more accurately the roles and responsibilities related to drafting the NFS as well as the related system of internal controls.⁶² The updated internal procedure is inspired by various international sustainability principles and guidelines, including the 10 Principles of the **Global Compact**, the Sustainable Development Goals (**SDGs**) of the **United Nations**, the Recommendations of the **TCFD**, and the **Guide on Climate and Environmental Risks** adopted by the ECB.⁶³

The Bank has a comprehensive **sustainability governance** function. This function is described in the **Sustainability Policy**, updated in September 2023.⁶⁴ The Board of Directors is at the top and is supported by the **Sustainability⁶⁵ and Control and Risk⁶⁶** Committees and, at operational level, by the **Sustainability Management Committee⁶⁷** and the **Sustainability Office⁶⁸**. There are also **ESG Contact Persons** in subsidiaries and main facilities of the parent compa-

⁵⁶ In particular, through a new long-term remuneration mechanism reserved for top corporate bodies. Source: 2023 Report on Remuneration Policy and Remuneration Paid, p. 32 (only available in Italian).

⁵⁷ With the introduction of ESG performance indicators in the variable components of remuneration. ESG performance reflects the success demonstrated by senior management in implementing the Group's Sustainability Operational Plan and managing sustainability risks, in line with relevant regulations. The indicators concern the Bank's positioning in sustainability rating and CDP score, product offerings and ESG emissions, reduction of CO₂ emissions, and support for international sustainability initiatives. Source: 2023 Report on Remuneration Policy and Remuneration Paid, page 48 and 53 (only available in Italian).

⁵⁸ Source: Code of Ethics, pages 9, 11 and 12.

⁵⁹ The NFS was also drafted taking into account the Financial Services Sector Disclosures as defined by the GRI in 2013, as well as "the publications of the European Securities and Markets Authority (ESMA) and Consob, with particular reference to addressing the impacts of the Covid-19 pandemic within it." The auditor's audits are conducted according to the limited assurance engagement procedure, in compliance with ISAE 3000 Revised. Source: 2021 Consolidated Non-Financial Statement, p. 55.

⁶⁰ Source: 2022 Consolidated Non-Financial Statement, p. 84.

⁶¹ This is the document entitled Drafting Process of the Non-Financial Statement which outlines the corporate functions involved in NFS drafting and the main steps in its preparation, including the collection of non-financial information. Source: Drafting Process of the Non-Financial Statement, pages 8 and subsequent (only available in Italian).

⁶² It should also be noted that, since 2020, qualitative and quantitative information for the NFS has been collected with a specialised software (this was also outlined in the previous Report). This is the 'ESGEO' software, a sustainable intelligence platform for monitoring and reporting non-financial data. Source: 2022 Consolidated Non-Financial Statement, p. 60.

⁶³ Reference is also made, among others, to the Communication from the Commission - Guidelines on non-financial reporting: Supplement on reporting climate-related information (C/2019/4490) or the Guidelines on lending and monitoring of loans, published in 2020 by the European Banking Authority. Source: Drafting Process of the Non-Financial Statement, pages 5 and 6.

⁶⁴ Originally adopted by the Board of Directors of Banca Popolare di Sondrio on 29 June 2021, the Policy "aims to identify a clear path towards sustainable development capable to guide not only its business but also the actions performed by the subjects engaged along its value chain." In addition to structural and governance aspects, the Policy defines five main areas of sustainability relevant to the Banking Group and its stakeholders, such as environmental protection and combating climate change, social issues, developing human resources, protecting human rights, and fighting corruption. Source: Sustainability Policy, pages 3, 13 and subsequent.

⁶⁵ It supports the Board of Directors by playing an investigative, advisory and proactive role in assessing sustainability factors deemed fundamental to the Bank's medium- to long-term strategy and their translation into policies. Source: Sustainability Policy, pages 8 and 9.

⁶⁶ It assists the Board of Directors in setting the guidelines of the ESG risk control system and in the periodic review of this system. Source: Sustainability Policy, p. 10.

⁶⁷ In particular, this Committee: a) coordinates activities aimed at identifying sustainability issues of relevance to the Bank and, consequently, updating the materiality matrix; b) draws up comments on the NFS and other reports on sustainability; c) assesses proposals for initiatives and related operational plans based on the guidelines; d) ensures compliance with sustainability guidelines by organisational units and subsidiaries; and e) supervises operations with debt instruments of relevance to the Banking Group's sustainability activities. Source: Sustainability Policy, pages 9 and 10.

⁶⁸ Specifically, its functions include: a) monitoring national and international sustainability regulations and provisions; c) drafting the NFS and related coordination activities; c) supporting the drafting of Group sustainability strategies; and d) supporting the Sustainability Committee in identifying and implementing sustainability initiatives. Source: Sustainability Policy, pages 11 and 12.

ny.⁶⁹

The internal control system⁷⁰ is used for the preventive identification of critical issues and the mitigation of **risks**, including **ESG risks**,⁷¹ with a focus on **climate** and **environmental risks**.⁷² The adoption of the **Guidelines for Assessing the Materiality of Climate and Environmental Risks** is also worth mentioning.⁷³

An **ESG risk and opportunity inventory** is performed annually.⁷⁴

In 2023, the Bank strengthened the integration of ESG factors into its investment processes and formalised this approach in the new **ESG Investment Policy**, which contains explicit references to key **international guidelines**.⁷⁵

The Bank has also introduced a programme to integrate **ESG assessments** of credit counterparties when granting and monitoring **loans**.⁷⁶ The approach adopted by the **Credit Policy** is based on identifying sensitive sectors and supporting the **transition**.⁷⁷

10. PARTICIPATION AND VOTE IN GENERAL MEETINGS

As reported in the previous Report, these are mainly addressed by the Articles of Association according to current legislation.⁷⁸

An internal regulation approved in 2022 governs the **dialogue** between the Bank's management and the financial community.⁷⁹

11. EMPLOYMENT AND HUMAN RESOURCES SELECTION

As at 30 September 2023, the Group had **3,539** employees.⁸⁰ The vast majority of the staff is male and employed on permanent contracts.⁸¹

⁶⁹ They contribute to disseminating the corporate culture in the area of sustainability, identifying initiatives of interest for their area of competence and disseminating information. Source: Sustainability Policy, p. 12.

⁷⁰ This is divided into the typical first, second and third level controls. As far as subsidiaries are concerned, there is often a centralised model whereby their control functions are outsourced to the parent company. Source: 2022 Consolidated Non-Financial Statement, pages 35-37.

⁷¹ It should be noted, in particular, that "the sector-level ESG risk mapping process underlying the construction of the ESG Heat Map uses the analysis and classification standard published periodically by UnepFI – an initiative developed based on the collaboration between UNEP (United Nations Environment Programme) and the global financial sector...". Source: 2022 Task Force on Climate-Related Financial Disclosure Report, p. 32. More recently, it has been reported that "steps were taken to integrate within the Bank's RAF (Risk Appetite Framework), qualitative objectives in the ESG domain already in place, as guidelines for the promotion of additional and new ESG risk assessments aimed at guiding strategic choices with a view to limiting the impacts of these factors on exposure to credit and investment, strategic, reputational and legal risks.". Source: 2022 Consolidated Non-Financial Statement, p. 54.

⁷² The supervision of which falls within the remit of the Control and Risk Committee. Board reports on the subject are updated quarterly. Source: Company source.

⁷³ It applies to the reporting of the annual ICAAP process. Source: Company source.

⁷⁴ In order to carry out the inventory, interviews were organised with the business functions most impacted by sustainability issues. The methodology underpinning the inventory was based on the recommendations of the 2017 Task Force on Climate-related Financial Disclosure (TCDF) and the Carbon Disclosure Project (CDP) initiative questionnaire. The inventory links ESG risks to the related traditional risks mapped by the Bank and categorises each ESG risk according to its extent, financial impact as well as likelihood and time horizon of each risk occurring. The same applies to ESG opportunities. Source: 2022 Consolidated Non-Financial Statement, p. 53.

⁷⁵ Source: ESG Investment Policy, p. 5 (only available in Italian).

⁷⁶ As per document entitled *ESG Program Cantiere Crediti Assessment processo di concessione e revisione del credito Sondrio* (ESG Programme, Credit Assessment, Loan Granting and Review Process), December 2022.

⁷⁷ The sensitive sectors that have been identified are as follows: coal mining, arms manufacturing and trade, gambling, oil & gas, electricity production from non-renewable sources (coal, oil & gas, nuclear), mining (other than coal), tobacco. In particular, the application of intensified checks and an escalation-based decision-making process is envisaged. Source: Presentation to Support the Sustainability Committee of 21 December 2022, p. 17 (only available in Italian).

⁷⁸ See Art. 13 on calling General Meetings and Art. 14 on attending General Meetings.

⁷⁹ This is the Policy for the Dialogue between Directors and Shareholders. Approved on 28 January 2022, this document governs the dialogue between the members of the Board of Directors and the shareholders on issues falling within the competence of the Board itself and the Committees. The Regulations defines methods, timing and channels to be used. The Planning, Investor Relations and Management Control Service is responsible for updating the Regulations and brings requests for dialogue to the attention of the Directors. Source: Policy for the Dialogue between Directors and Shareholders, pages 3 and subsequent.

⁸⁰ Of which "2,992 employed by the Parent Company, 370 by Banca Popolare di Sondrio (SUISSE) SA, 151 by Factorit spa and 26 by BNT spa. To the staff of the banking group must be added the 21 employees of the subsidiary Pirovano Stelvio spa, of whom 18 are employed on a seasonal basis, and the 14 employees of the subsidiary Rent2Go srl." Source: Consolidated Interim Financial Report at 30 September 2023, p. 20.

⁸¹ In this case, the figure refers to 31 December 2022. At that time, the number of staff was 3,456. Of the total number of employees, there were 2,607 males (compared to 849 females); 3,406 employees were on permanent contracts. Source: 2022 Consolidated Non-Financial Statement, p. 190.

According to the principles of the Code of Ethics, all stages of the relationship with human resources must be conducted with respect for the dignity of the individual. Any form of abuse and discrimination is prohibited.⁸²

The Strategic Guidelines on **Diversity and Inclusion**, adopted in 2022, require that gender balance within the Bank's workforce be taken into account in selection processes.⁸³

The issue of **diversity and inclusion** is also monitored at governance level,⁸⁴ with a dedicated reporting channel⁸⁵ and through industry initiatives the Bank has joined.⁸⁶

The **training offer** is traditionally broad, diverse and regularly delivered.⁸⁷ In line with the objectives of the Business Plan, the Bank has stepped up training on **ESG issues**.⁸⁸

12. HEALTH AND SAFETY AT WORK AND SOCIAL DIALOGUE

Occupational health and safety issues are strictly regulated, with little room for voluntary action. The Bank has implemented an Occupational Health and Safety Management System.⁸⁹

The **welfare** provisions are available to all employees⁹⁰ and are varied.⁹¹ There is also an assistance fund, inspired by the principle of mutuality.⁹²

Dialogue with trade unions takes place in respect of the parties⁹³ and is specifically protected by the Code of Ethics.⁹⁴

13. ADAPTATION TO CHANGES

Socio-environmental impacts of **corporate transformations** are central themes in the EU and OECD.

As noted in the previous Report, BPS business model, traditionally characterised by a stable shareholder base, is not affected by the change in the type of com-

⁸² Source: Code of Ethics, pages 7 and 8.

⁸³ In the Diversity and Inclusion Guidelines, adopted in 2022, the Bank defines the principles to promote an inclusive work environment as follows: a) Ensuring fairness in the selection, recruitment and remuneration processes; b) Respecting the identity and diversity of each person; c) Guaranteeing equal opportunities and treatment during the various stages of life in the company (training, assessment, professional growth); d) Promoting meritocracy and talent development using assessment approaches based on objective and inclusive criteria; and e) Encouraging work-life balance through the development of tools aimed at ensuring the correct balance between work and personal commitments. Source: 2022 Guidelines on Diversity and Inclusion, pages 10 and 11 (only available in Italian).

⁸⁴ The reference is to the establishment of the Commission for Equal Opportunities. Source: 2022 Consolidated Non-Financial Statement, p. 207.

⁸⁵ This has already been mentioned in paragraph 3 of this Report.

⁸⁶ Such as signing the 'Women in Banking: Promoting Gender Diversity' Charter sponsored by the Italian Banking Association (ABI) and the Valore D Association. Source: Press Release, 8 March 2023 (only available in Italian).

⁸⁷ Source: 2022 Consolidated Non-Financial Statement, pages 198 and 199.

⁸⁸ Source: 2022 Consolidated Non-Financial Statement, pages 14 and 15.

⁸⁹ This System "consists of operating instructions and procedures relating to the various workplace safety areas, the line control of which is the responsibility of each Bank Management Entity, while Level 3 control is carried out by the Bank's Internal Audit Office. In particular, some of the areas subject to monitoring are those related to compliance with technical-structural standards (e.g. equipment, systems, physical agents, etc.), risk assessment and prevention and protection measures, organisational activities (e.g. emergencies, first aid), health surveillance and information and training for workers." Source: 2022 Consolidated Non-Financial Statement, pages 193-197.

⁹⁰ It is also available to temporary or part-time staff. Source: 2022 Consolidated Non-Financial Statement, p. 186.

⁹¹ The benefits offered by the Bank to its staff include: a) a productivity bonus for managers and staff in professional areas, linked to the Bank's results; b) a loyalty bonus of €2,300 gross for employees with at least 30 years' seniority in the company; c) study grants and scholarships; d) meal vouchers; e) an off-site accommodation allowance; f) a commuting allowance; g) a yearly €2,300 attendance allowance for employees with disabled children; and g) supplementary pension plans. Work-life balance initiatives have also been adopted, especially for female staff, and to ensure flexible working hours for employees with severe disabilities. Source: 2022 Consolidated Non-Financial Statement, p. 186.

⁹² Source: 2022 Consolidated Non-Financial Statement, p. 187.

⁹³ With regard to the financial year 2022, it should be noted that "In 2022, relations with the union representatives were maintained on the basis of mutual respect; during the year, the meetings envisaged by company bargaining procedures between representatives of the Bank and the trade union organisations were held. Meetings are also organised on request to discuss the most interesting current topics." Source: 2022 Consolidated Non-Financial Statement, pages 202 and 203.

⁹⁴ Which states that "relations with trade unions must take place in a climate of mutual respect and willingness to engage in dialogue and participation, and must guarantee the greatest possible freedom and representativeness. Any conduct that has produced or is objectively likely to produce an infringement of trade union freedom is prohibited. Any installation and consequent use by the Bank of software for remote control of work activities may only take place with the prior agreement of the competent trade union bodies." Source: Code of Ethics, p. 13.

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However, organisational changes and company reorganisations take place in dialogue with the social partners.⁹⁵

14. ENVIRONMENT

The commitment to **environmental protection** is enshrined in the Bank's Code of Ethics,⁹⁶ and is also the subject of the Environmental Policy⁹⁷ and a series of provisions contained in various internal documents, including the Sustainability Policy.⁹⁸ The topic is consistently treated with reference to **direct**⁹⁹ and **indirect environmental impacts**.¹⁰⁰

In 2023, the Bank further strengthened the integration of environmental factors in its **risk management** processes¹⁰¹ and in its **lending** and **financing** activities.

There are also specific initiatives aimed at employees¹⁰² and policies to promote **sustainable mobility**, under the direction of a Mobility Manager.¹⁰³

BPS is active in monitoring its own emissions, including **Scope 3** emissions.¹⁰⁴

15. CONSUMERS AND QUALITY

The Code of Ethics deals with customer relations according to principles of transparency, diligence and professionalism.¹⁰⁵

The duty of **transparency** and **correct and complete information** to the customer is laid down in various internal procedures.¹⁰⁶ Of particular importance are the aspects concerning **privacy** and **data security**, areas in which the Bank enjoys **certified facilities**.¹⁰⁷

⁹⁵ As provided for in the applicable collective agreements (CCNL). Source: 2022 Consolidated Non-Financial Statement, p. 203.

⁹⁶ Source: Code of Ethics, p. 16.

⁹⁷ It contains principles aimed at ensuring that "its activities and relationships with customers, suppliers, collaborators and partners are conducted in light of a cost-benefit balance assessment that takes into account the environmental impacts, with the aim of minimising the eventual negative effects." Source: 2022 Consolidated Non-Financial Statement, p. 84.

⁹⁸ Source: Sustainability Policy, pages 13 and 14.

⁹⁹ Main measures introduced by the Bank are: a) energy efficiency measures in offices and lighting systems; b) progressive use of electricity from renewable sources; c) reduction of paper consumption also through electronic archiving of documents; d) correct waste management through efficient separate waste collection; e) use of office materials with low environmental impact; and f) promotion of efficient use of water and electricity by employees. Sources: Environmental Policy, pages 7 and 8; Next Step, 2022-2025 Business Plan, Milan, 29 June 2022, p. 53.

¹⁰⁰ As far as indirect impacts are concerned, the Bank intends to encourage the adoption of environmentally-friendly behaviour by all its stakeholders. In relation to clients, the following actions are envisaged: a) consideration of ESG risks in lending policies; b) integration of ESG factors into corporate strategy and governance; c) development of ESG investment solutions and financing products to mitigate climate risks; and d) selection of investment opportunities in companies with high environmental standards. Source: Environmental Policy, p. 9.

¹⁰¹ In order to align itself with the provisions of the European Central Bank's 2020 Guide on Climate-related and Environmental Risks and in compliance with the European Central Bank's requirements, the Bank issued an initial C&E Plan in 2021, updated in 2022 following the Thematic Review, and again in 2023 in response to the Decisions on the Process of Identification of Climate and Environmental Risks in order to improve the management of such risks. Source: Company source.

¹⁰² These include 'Next Energia Green', i.e., a loan from Banca Popolare di Sondrio to all Group employees who wish to reduce their energy consumption and, consequently, their environmental impact through energy efficiency measures. Source: Company source.

¹⁰³ Source: 2022 Consolidated non-financial statement, pages 98 and subsequent. In the area of sustainable mobility, mention may also be made of 'Next Sustainable Mobility', a loan for corporate and retail customers to modernise company fleets and carry out other infrastructural measures. Source: Company source.

¹⁰⁴ Source: 2022 Consolidated Non-Financial Statement, pages 95-97.

¹⁰⁵ Source: Code of Ethics, pages 14 and 15.

¹⁰⁶ These include, but are not limited to, the Corporate Policy on the Governance of Financial Products; the Corporate Policy on Customer Profiling for the Assessment of the Adequacy and Appropriateness of Investment Services Provided; and the Corporate Policy on Incentive Management (all updated in 2023 and only available in Italian). Please also note the Corporate Policy on Recording of Telephone Conversations and Electronic Communications, last updated in 2021, that applies to all telephone conversations between customers and Bank's Staff, between members of the Bank's Staff and third parties (e.g., broker-dealers), or between Bank's Staff who offer all investment services regulated by Directive 2014/65/EU or the Bank's own account operations. The Policy also regulates the other channels through which the Bank receives orders from customers, with particular reference to electronic communications (by e-mail or chat) and face-to-face conversations during business meetings. Source: Corporate Policy on Recording Telephone Conversations and Electronic Communications, p. 5 (only available in Italian).

¹⁰⁷ In fact, one of the various interventions in the field of data protection is "the integration of the privacy/data protection area within the Bank's Integrated ICT Risk Framework, defining the risk scenarios related to the issue and obtaining ISO/IEC 27701:2019 certification specifically on aspects related to data protection;". Finally, the IT Security Policy and the internal regulations entitled Operating Instructions for Reporting Serious Computer Incidents, updated in 2022, can be cited as further examples.

Products linked to sustainability¹⁰⁸ and dedicated to customers belonging to vulnerable groups¹⁰⁹ are on offer to the Bank's clientele.

Customer relations are also addressed in the Business Plan up to 2025. The reference is to the initiatives planned in strategic sectors related to the implementation of the National Recovery and Resilience Plan (NRRP) adopted by Italy¹¹⁰ as well as to strengthening **digitisation**.¹¹¹

As reported in the previous Report, the Bank has certified Quality Management Systems.¹¹² **Complaints** about investment services and insurance products are handled through a specific procedure.¹¹³

16. SCIENCE AND TECHNOLOGY

Over the past year, the main **innovation** has been the **digitisation** of customer services and processes to implement the **Business Plan**, which also includes **automation** and **robotics-based** solutions.¹¹⁴

The Bank addresses the issue of **Artificial Intelligence (AI)**¹¹⁵ in an internal **Regulation** prepared in December 2022¹¹⁶ and inspired by **supranational sources**.¹¹⁷

17. LOCAL COMMUNITIES

The Bank's sustainability strategy includes the forthcoming definition of a **special programme** dedicated to sponsorships and charitable donations.¹¹⁸ However, these issues are also currently reflected in the **Code of Ethics**.¹¹⁹

¹⁰⁸ Source: 2022 Consolidated Non-Financial Statement, pages 122-123.

¹⁰⁹ Source: 2022 Consolidated Non-Financial Statement, pages 124-129.

¹¹⁰ In this context, the potential credit that can be granted by BPS in direct relation to the NRRP over the timeline provided for by the plan itself amounts to EUR 2 billion. For details, please refer to the section on the NRRP as an accelerator for the development of BPS's core customers in selected areas that can be found in the presentation disseminated by the Bank. Source: Next Step, 2022-2025 Business Plan, Milan, 29 June 2022, p. 42.

¹¹¹ More specifically, it envisages an "Evolution of the physical and "universal" branch model – central to customer relations – based on a "phygital" and multi-channel structure; robotisation and process automation to improve the customer experience, freeing up commercial capacity." Source: 2022 Consolidated Non-Financial Statement, p. 13. See also the 'Science and Technology' section of this Report.

¹¹² Specifically: a) certification in accordance with Standard ISO 9001:2015 on the Management of Trade Finance services - Documentary Credits, Documentary Remittances, Bank Guarantees; b) certification in accordance with Standard ISO 9001: 2015 on OTC (Over the Counter) Derivative Transactions (foreign exchange forwards, foreign exchange options, interest rate swaps and options, commodity forwards and options, synthetic products) for retail and professional customers directly managed by *Centro Cambi* (Exchange Centre); c) certification in accordance with Standard ISO 9001:2015 on the provision of services relating to the payment of pensions from abroad to Italy, from Italy to abroad and from abroad to abroad; d) certification in accordance with Standard ISO 9001:2015 to manage financial settlement of defence-related transactions; and e) certification in accordance with Standard ISO 9001:2015 to manage the settlement of transactions with Iranian entities.

¹¹³ This is the Complaints Management Policy, in its version of 30 January 2024. 2022 Consolidated Non-Financial Statement, pages 228-229.

¹¹⁴ Source: Next Step, 2022-2025 Business Plan, Milan, 29 June 2022, pages 46-49. See also the 'Consumer and Quality' section of this Report.

¹¹⁵ The topic is receiving increasing attention by the international community and, as far as the European Union is concerned, is an integral part of the European Digital Single Market. At international level, the OECD Guidelines for Artificial Intelligence are of fundamental importance, but the topic is also being discussed in other fora, such as the Council of Europe. Already in June 2018, in the EU the need to address ethical and legal issues regarding the use of artificial intelligence prompted the European Commission to adopt the Communication 'Artificial Intelligence for Europe' [COM (2018) 237]. In June 2019, the EU set up the High-Level Expert Group on Artificial Intelligence (AI HLEG) to provide further recommendations. These measures, to which further provisions have been added over time, are the basis of the proposal for a binding act aimed at ensuring cost-effective, sustainable and human-rights-compliant use throughout the European Union. This is the proposal for a regulation called the 'Artificial Intelligence Act', which is currently being discussed in the European institutions. The proposal adopts an approach based on a clear definition of risk, prohibiting the use of A.I. when this risk is unacceptable (for the fundamental values and democratic principles common to the Member States of the Union) and establishing, for the rest, numerous mandatory substantive and procedural guarantees. In this Report, only the requirement of "human oversight", which must be guaranteed throughout the life cycle of the A.I. System, is highlighted. In view of the sensitivity of the subject, the proposal also encourages the adoption of voluntary "codes of conduct" in all cases where the A.I. system does not present high risks. Source: COM(2021) 206 final, 21 April 2021.

¹¹⁶ Source: Corporate website.

¹¹⁷ This is the Corporate Regulations for the Governance and Management of Artificial Intelligence-based Business Solutions. With such Regulation, BPS intends to formalise the general principles and internal procedures that Banca Popolare di Sondrio has defined and applies in order to guarantee a management of A.I. systems consistent with other corporate regulations, international best practices and regulations currently being defined. Referring directly to the ongoing regulatory process in the European Union, the Regulation adopts an approach based on clear definitions and different levels of risk. It identifies internal roles and responsibilities and deals with coordination with other internal Bank instruments. Sources: Corporate Regulation the Governance and Management of Artificial Intelligence-Based Business Solutions, pages 6 and subsequent. 2022 Consolidated Non-Financial Statement, pages 256 and 257.

¹¹⁸ Source: 2022 Consolidated Non-Financial Statement, p. 77.

In addition to charitable donations, the relationship between BPS and the local community is traditionally operational¹²⁰ also in the context of initiatives to foster the internationalisation of companies.¹²¹

18. BUSINESS PARTNERS

Relations between the Bank and its supply chain must be conducted in compliance with the canons of transparency and fairness, in accordance with the Code of Ethics.¹²²

The Bank's approach includes the integration of the **ESG performance** of suppliers into the selection processes, in line with the targets set by the Business Plan.¹²³

All suppliers must comply with the Code of Ethics and the OMM. And there are contractual clauses in this respect.¹²⁴

19. HUMAN RIGHTS

The Bank addresses the issue of human rights protection both internally and externally, in its **sphere of influence**. The main documents in this respect are the Code of Ethics and the Sustainability Policy.

Internally, this issue is addressed, first of all, in the context of labour relations and the prohibition of discrimination, according to the principles enshrined in the Code of Ethics, which places the **dignity of the person** at the centre.¹²⁵

BPS is also committed to the respect of human rights by its **suppliers**,¹²⁶ as well as in its **investment activities**.¹²⁷ On this last point, more specific rules are dictated by the aforementioned ESG Investment Policy.¹²⁸

20. EUROPEAN AND INTERNATIONAL STRATEGIES

The updated Sustainability Policy illustrates the Bank's commitment to align its actions with the United Nations Sustainable Development Goals (SDGs).¹²⁹ Moreover, the Policy itself is explicitly inspired by prominent international

¹¹⁹ The Code requires that sponsored initiatives offer "*guarantees of quality and seriousness and must be adequately documented.*" It should also be noted that, according to the Code of Ethics, "*the Bank, in principle and subject to compliance with the rules in force, does not finance or make contributions to political parties in connection with the performance of its institutional activities, either in Italy or abroad, or to their representatives or candidates.*" Source: Code of Ethics, pages 13 and 14. Please refer to the NFS for details of the Bank's activities in this context. Source: 2022 Consolidated Non-Financial Statement, pages 173-179.

¹²⁰ In this context, it should be noted that in 2022, 26.72% of BPS's access points are located in sparsely populated areas (this percentage is slightly down from 2020, when it stood at 27.89%). In addition to measures to support households and businesses, with particular emphasis on the agricultural sector, mention should also be made of the 'Agora' space, already described in the previous Report, as well as the activities under the "*Trade Facilitation Programme promoted by Multilateral Development Banks (MDBs) (...) supranational institutions set up by sovereign states, which are their shareholders, is to reduce poverty and promote economic development. Multilateral Development Banks with which BPS cooperates to hedge risk on specific countries are the International Finance Corporation (IFC), the European Bank for Reconstruction and Development (EBRD), the Asian Development Bank (ADB) and the IADB (Inter-American Development Bank).*" Source: 2022 Consolidated Non-Financial Statement, pages 166-170.

¹²¹ During 2022, "*36 initiatives were carried out during the year involving 3,375 participants, reaching the historical record of recent years, thanks to the increase in dedicated personnel and the adoption of online processes, which has provided for greater organisational speed. In this regard, the "Russian-Ukrainian conflict, sanctions and current scenario" webinar deserves special mention, followed by over 250 participants, interested in protecting their business in the countries affected by the crisis.*" In addition, the "*Coopération Bancaire pour l'Europe (CBE-GEIE), an entity based in Brussels in which the Bank holds a 52% stake, has provided its members and their customers with information, consultancy and assistance services for the participation in European tenders and funding.*" Source: 2022 Consolidated Non-Financial Statement, p. 171.

¹²² Source: Code of Ethics, p.15.

¹²³ Source: 2022 Consolidated Non-Financial Statement, pages 14-15.

¹²⁴ Source: 2022 Consolidated Non-Financial Statement, p. 181.

¹²⁵ Source: Code of Ethics, p. 9.

¹²⁶ Safeguards in this are "*specific contractual clauses.*". Source: Sustainability Policy p. 13.

¹²⁷ In particular, through BPS's adherence (since 2004) to the principles of the UN Global Compact. Every year, the Bank submits its 'Communication on Progress' that includes the sustainable initiatives it has implemented.

¹²⁸ In fact, in order to assess the impact of its activity on sustainability factors, the Bank analyses its exposure to the PAIs of companies benefiting from its investments by identifying, measuring and monitoring climate and environmental indicators, as well as indicators relating to social issues and the protection of human rights. The Bank uses data provided by a leading external provider, specialised, inter alia, in collecting and assessing ESG factors of issuers. Source: ESG Investment Policy, p. 17 (only available in Italian).

¹²⁹ Specifically, Goal 1, Goal 3, Goal 4, Goal 5, Goal 7, Goal 8, Target 9, Goal 10, Goal 11, Goal 12, Goal 13, Goal 16. In its Non-Financial Statement, the Bank reports its material issues by linking them to the relevant SDGs. Source: Sustainability Policy, pages 3 and 4.

sources.¹³⁰

In January 2024, BPS joined the United Nations Environment Programme's Financial Partnerships, the **Principles for Responsible Banking** and the **Net-Zero Banking Alliance**.¹³¹

Updated in 2023, the **Code of Ethics** explicitly links the Bank's actions and strategies to the principles of the **Global Compact** which BPS has joined in 2004.¹³²

21. CONCLUSIONS (SUMMARY)

Banca Popolare di Sondrio (a joint-stock company since 2022) is the head of the banking group of the same name. During 2023, the Bank continued to implement the targets set out in the Business Plan. The Plan harmonises and integrates ESG (Environmental, Social and Governance) elements within the Bank's activities.

Consistent with the implementation processes, ESG Risk Management checks were strengthened, and the main governance tools - such as the Code of Ethics and the new Sustainability Policy - were renewed, adding explicit references to UN, OECD and EU guidelines. The same approach characterises more recent internal documents, e.g., in the area of investments and Artificial Intelligence.

The integration of ESG factors, especially the environmental ones, is also visible in the risk management systems within customer relationships and the supply chain. Finally, progress was made in the area of Diversity and Inclusion.

* * *

¹³⁰ Such as, the United Nations Global Compact (2000); the United Nations Sustainable Development Goals (2015); the Paris Agreement on climate change (2015); the Task Force on Climate-related Financial Disclosures (TCFD) Recommendations (2017); the UNEP FI Principle for Responsible Banking (PRB) (2019); the Good practices for climate-related and environmental risk management (2022) of the European Central Bank. Source: Sustainability Policy, p. 7.

¹³¹ In line with the objectives of the Business Plan up to 2025. Source: Press Release, 29 January 2024.

¹³² Source: Code of Ethics, p. 2.

SOURCES

(Where there are no dates, the most recent versions prevail)

The documents that have been consulted were approved and communicated at least twenty days before the publication of this document.

Main sources (but not exclusively): Code of Ethics; Report on Corporate Governance and Ownership Structures; Financial Report; ESG and non-financial reporting (in all its forms); Procedures; Internal Regulations; Policies; Press Releases.

Data and information given during conversations and through correspondence with internal functions were also used. In this case, the source is 'the Company'.

OTHER SOURCES

Documents supplied by national and international regulatory bodies, the Italian stock exchange and independent websites were also considered.

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