

# Second-Party Opinion

## Banca Popolare di Sondrio Green Bond Framework



### Evaluation Summary

Sustainalytics is of the opinion that the Banca Popolare di Sondrio Green Bond Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2021. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds – Green Buildings, Renewable Energy, Clean Transportation, Energy Efficiency, Environmentally Sustainable Management of Living Natural Resources and Land Use, Pollution Prevention and Control, Sustainable Water and Wastewater Management – are aligned with those recognized by the Green Bond Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDGs 2, 6, 7, 9, 11, 12 and 15.



**PROJECT EVALUATION AND SELECTION** Banca Popolare di Sondrio’s internal process of evaluating and selecting projects will be managed by its Sustainability Committee. Banca Popolare di Sondrio’s ESG Credit Policy and Risk Management Framework will be applicable to all the allocation decisions made under the Framework. Sustainalytics considers the risk management systems to be adequate and the project evaluation and selection process to be in line with market practice.



**MANAGEMENT OF PROCEEDS** Banca Popolare di Sondrio’s CFO Area (Funding and Collateral Operations) will be responsible for the allocation of proceeds and tracking the process using an internal system. Banca Popolare di Sondrio intends to reach full allocation within 36 months of issuance. Pending allocation, unallocated proceeds will be invested in cash or cash equivalents or other liquid marketable instruments, in line with the Bank’s liquidity management policies, and to the extent possible in Green, Social and Sustainability Bonds. Sustainalytics considers this to be in line with market practice.



**REPORTING** Banca Popolare di Sondrio intends to report on the allocation of proceeds on its website on an annual basis until it is fully allocated. Allocation reporting will include the total amount of proceeds allocated to eligible projects, share of financing versus refinancing, the amount of unallocated proceeds, the distribution of total eligible projects per category and the geographical distribution of eligible projects. In addition, Banca Popolare di Sondrio is committed to reporting on relevant impact metrics. Sustainalytics views Banca Popolare di Sondrio’s allocation and impact reporting as aligned with market practice.

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|------------------------|------------------|
| <b>Evaluation Date</b> | October 13, 2023 |
| <b>Issuer Location</b> | Sondrio, Italy   |

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## Introduction

Banca Popolare di Sondrio SpA (“BPS” or the “Bank”) is a co-operative bank headquartered in Sondrio, Italy. Founded in 1871, the Bank offers banking, financial and insurance services to approximately 900,000 customers, including retail customers, corporates and government institutions.<sup>1</sup> BPS operates through a network of 485 branches and 3,456 employees in Italy and is the parent company of the Banca Popolare di Sondrio Banking Group (the “Group”).<sup>2</sup>

BPS has developed the Banca Popolare di Sondrio Green Bond Framework (the “Framework”) under which it intends to issue green financial instruments, including green bonds in public or private placements,<sup>3</sup> senior preferred, senior non-preferred<sup>4</sup> and Tier 2 or covered bonds<sup>5</sup> or to retail investors and use the proceeds to finance or refinance, in whole or in part, existing and future eligible green assets<sup>6</sup> that are expected to contribute to the decarbonization of the Bank’s investment portfolio and deliver a positive environmental impact in Italy.

The Framework defines eligibility criteria in seven green areas:

1. Green Buildings
2. Renewable Energy
3. Clean Transportation
4. Energy Efficiency
5. Environmentally Sustainable Management of Living Natural Resources and Land Use
6. Pollution Prevention and Control
7. Sustainable Water and Wastewater Management

BPS engaged Sustainalytics to review the Banca Popolare di Sondrio Green Bond Framework, dated September 2023 and provide a second-party opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2021 (GBP).<sup>7</sup> The Framework has been published in a separate document.<sup>8</sup> The Framework builds on a previous framework for which Sustainalytics provided a second-party opinion dated July 2021.

### Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>9</sup> opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2021, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.14, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of BPS’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as the management of proceeds and reporting aspects of the Framework. BPS representatives have confirmed (1) they understand it is the sole responsibility of BPS to ensure that the

<sup>1</sup> BPS, “About Us”, at: <https://istituzionale.popso.it/en/profile/about-us>

<sup>2</sup> BPS, “Non-Financial Statement”, (2022), at: [https://istituzionale.popso.it/sites/default/files/documents/BPS\\_NonFinancialStatement\\_2022.pdf](https://istituzionale.popso.it/sites/default/files/documents/BPS_NonFinancialStatement_2022.pdf)

<sup>3</sup> BPS has confirmed to Sustainalytics that such private placements do not involve the sale of stock shares to investors.

<sup>4</sup> BPS has confirmed to Sustainalytics that the maturity of the underlying assets (loans) will be in line with the maturity of the instruments issued.

<sup>5</sup> BPS has confirmed to Sustainalytics that the covered bonds will be secured standard covered bonds and/or secured collateral covered bonds per the voluntary process guidelines published in the June 2022 Appendix 1 of the GBP 2021. The Issuer has additionally committed to ensuring that: i) the collateral underlying the securitization of the secured green collateral bond is aligned with the criteria in the Framework; and ii) there will be no double-counting of any outstanding green financing.

<sup>6</sup> Eligible green assets to include loans (mortgages, term loans and revolving credit facilities), investments, or other financial assets, financing businesses or projects that meet the eligibility criteria of the Banca Popolare di Sondrio Green Bond Framework.

<sup>7</sup> The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

<sup>8</sup> The Banca Popolare di Sondrio Green Bond Framework is available on BPS’s website at: <https://istituzionale.popso.it/en/sustainability/green-bond> and <https://istituzionale.popso.it/en/investor-relations/financial-operations>

<sup>9</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

information provided is complete, accurate and up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any material information provided has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and BPS.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. Upon twenty-four (24) months following the evaluation date stated herein, BPS is encouraged to update the Framework, if necessary, and seek an update to the Second-Party Opinion to ensure ongoing alignment of the Framework with market standards and expectations.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realized allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that BPS has made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the Banca Popolare di Sondrio Green Bond Framework

Sustainalytics is of the opinion that the Banca Popolare di Sondrio Green Bond Framework is credible, impactful and aligns with the four core components of the GBP. Sustainalytics highlights the following elements of the Bank's Green Bond Framework:

- Use of Proceeds:
  - The eligible categories – Green Buildings, Renewable Energy, Clean Transportation, Energy Efficiency, Environmentally Sustainable Management of Living Natural Resources and Land Use, Pollution Prevention and Control, Sustainable Water and Wastewater Management – are aligned with those recognized by the GBP. Sustainalytics considers that the eligible projects are expected to contribute to the decarbonization of Banca Popolare di Sondrio's investment portfolio and deliver positive environmental impacts in Italy.
  - While the Bank has confirmed that the majority of the refinancing will be comprised of capex, Sustainalytics considers good practice to define a look-back period of up to three years for refinancing opex.
  - Under the Framework, the Bank intends to use the proceeds for project-based lending and general-purpose financing for pure play companies that derive at least 90% of their revenue from activities in the eligible categories identified in the Framework. Sustainalytics recognizes that the GBP favour project-based lending and financing, and there is less transparency in general with non-project-based lending. Nevertheless, Sustainalytics also recognizes that the financing of pure play companies through green bonds is commonly accepted as an approach that can generate a positive impact.
  - Sustainalytics notes that BPS has committed to ensuring that no double accounting of financed projects and assets across all allocation and impact reporting commitments made under the Framework.
  - Under the Green Buildings category, BPS intends to finance or refinance the acquisition, construction and renovation of residential and commercial buildings according to the following criteria:
    - Buildings that rate in the top 15% of the most energy-efficient buildings in Italy, as indicated by an energy performance certificate (EPC) of level A and B.

- Buildings that have achieved, or are expected to achieve, one of the following minimum certification levels: i) LEED (“Gold” or above)<sup>10</sup>; ii) BREEAM (“Excellent” or above)<sup>11</sup> or iii) Minergie.<sup>12</sup> Sustainalytics views these certification schemes as credible and impactful.
  - Renovation of buildings that results in at least 30% reduction in primary energy demand (PED) compared to pre-renovation levels.
  - Individual renovation measures including the installation, maintenance or repair of energy equipment and technologies in buildings, such as: i) insulation to the building envelope; ii) new energy-efficient windows; iii) energy-efficient heating, ventilation and air conditioning; iv) water heaters driven by electric heat pumps, absorption heat pumps<sup>13</sup> and district heating;<sup>14</sup> v) charging stations for electric vehicles;<sup>15</sup> vi) devices for measuring and regulating the energy performance of the buildings; and vii) renewable energy technologies, such as photovoltaic, thermal solar<sup>16</sup> or small wind turbine.
    - Sustainalytics notes that heat pumps offer an energy-efficient heat transfer alternative to conventional systems. Nevertheless, Sustainalytics recommends that the Bank exclude financing of heat pumps with high-GWP refrigerants, and promote robust refrigerant leak control, detection and monitoring, while ensuring recovery, reclamation, recycling or destruction of refrigerants at their end of life.
  - Sustainalytics notes that the Framework excludes the financing of: i) fossil fuel-powered equipment and energy efficiency improvements in carbon-intensive and heavy industries; and ii) buildings that are used for the storage, extraction or manufacturing of fossil fuels.
  - Sustainalytics considers investments under this category to be aligned with market practice.
- Under the Renewable Energy category, BPS may finance or refinance the acquisition, development and operation of renewable energy generation projects involving offshore and onshore wind, concentrated solar power (CSP), solar photovoltaic, hydropower, geothermal facilities and waste biomass with the following criteria:
- BPS has confirmed to Sustainalytics that CSP projects will be limited to those that generate at least 85% of the electricity from solar energy sources.
  - Hydropower projects with a capacity of less than 25 MW financed under the Framework will be run-of-river without an artificial reservoir or with low storage capacity. Additionally, BPS has confirmed that an environmental impact assessment will be carried out by a credible third-party to identify and address environmental risks associated with new hydropower projects. Sustainalytics notes, that the Bank limits the financing to small run-of-river hydropower projects which are not subject to social environmental impact assessment. However, Sustainalytics considers it as a good practice to have an environmental and social impact assessment for newly built hydropower plants, and further encourages the Bank to undertake a social impact assessment for each project, and report relevant social risk mitigation measures.
  - Geothermal facilities are limited to those with direct emissions amounting to less than 100 gCO<sub>2</sub>/kWh.
  - Biogas or biomethane plants using waste feedstock including: i) forestry and agricultural residues, such as wood chips, sawdust straw, cane trash, sugarcane bagasse, corn cobs; ii) non-food crops, such as miscanthus and short-rotation coppice<sup>17</sup>; and iii) animal processing by-products, including animal fats, oil,

<sup>10</sup> LEED: <https://www.usgbc.org/leed>

<sup>11</sup> BREEAM: <https://bregroup.com/products/breeam/>

<sup>12</sup> Minergie: <https://www.minergie.com/>

<sup>13</sup> Absorption heat pumps driven by solar-heated water or geothermal-heated water. The Bank has confirmed the exclusion of absorption heat pumps driven by fossil fuels, such as natural gas or propane.

<sup>14</sup> BPS has confirmed to Sustainalytics that district heating is fully powered by renewable energy. Additionally, the Bank also confirmed to exclude financing of district heating projects with waste heat from fossil fuel production and operations.

<sup>15</sup> The Bank has confirmed that parking facilities will not be financed as a part of financing EV charging stations.

<sup>16</sup> The Bank has confirmed to Sustainalytics that the financing of solar thermal plant projects will be limited to those where at least 85% of the electricity is generated from solar energy sources.

<sup>17</sup> BPS has communicated to Sustainalytics that the financed biogas plants using non-food crops as a feedstock will meet the following criteria: i) Lifecycle GHG emissions intensity below 100 gCO<sub>2</sub>e/kWh or 80% lifecycle emissions reduction compared to the fossil fuel baseline (183 gCO<sub>2</sub>e/MJ for electricity production) for electricity production, and ii) installations with lifecycle emissions that are at least 65% lower than the fossil fuel baseline for biofuels production.

including beef tallow, animal manure, animal effluents. BPS has confirmed to Sustainalytics that by-products and waste from industrial-scale livestock production are excluded from the financing. BPS has confirmed to Sustainalytics that the biofuel feedstock production does not take place on land with high biodiversity within the last 10-15 years, which are in competition with food production, nor that deplete carbon pools. While the use of livestock residue for biomass energy may improve the environmental performance of some agricultural operations, large-and mid-scale livestock farming has a significant carbon and water footprint which is not addressed by the use of livestock byproducts in energy generation; further, such farming techniques may contribute to land degradation, biodiversity loss, and deforestation. Nevertheless, Sustainalytics considers the use of residues from day-to-day operations of existing facilities for energy generation as providing positive impacts in the short term.

- Sustainalytics considers investments under this category to be aligned with market practice.
- Under the Clean Transportation category, BPS may finance or refinance public and private electric and low carbon transport vehicles, and related infrastructure in accordance with the following criteria:
  - Electric or hybrid passenger vehicles that meet the threshold criterion of up to 50 gCO<sub>2</sub>/km. The emissions intensity will be calculated based on the World Harmonized Light-duty Vehicle Test Procedure (WLTP), which uses real driving data to replicate actual driving conditions.
  - Urban and suburban road passenger transport, such as motor bus, tramway, streetcar, trolley bus, underground and elevated railways, which have zero tailpipe CO<sub>2</sub> emissions.
  - Passenger rail transport with zero direct emissions from trains and passenger coaches. Freight transportation with zero direct emissions, excluding transportation of fossil fuel.
  - Construction and operation of areas dedicated to aid personal mobility, such as pavements, bike lanes, pedestrian zones and electric charging stations. BPS confirmed the exclusion of parking facilities.
  - Sustainalytics considers investments under this category to be aligned with market practice.
- Under the Energy Efficiency category, BPS may finance or refinance systems and technologies with an aim to improve energy efficiency and reduce energy consumption. Project examples may include energy storage systems, LED lighting, smart meters, smart grids and district heating or cooling.
  - Energy storage projects financed under the Framework: i) will be connected to renewables; ii) if power to gas is financed, this will be through water electrolysis powered by renewables; iii) for pumped hydro, an environmental and social impact assessment should be conducted by a credible body with no significant risk or expected negative impact identified.
  - District heating or cooling projects will rely entirely on renewable energy. District heating and cooling distribution systems will be primarily (<50%) powered by renewable energy, and heat and cooling generation utility and transmission infrastructure are directly connected to a power plant that 100% powered by renewables or industrial waste heat. BPS has confirmed that it will exclude financing projects with waste heat from fossil fuel production and operations.
  - The Framework allows for allocation to “smart grid” investments<sup>18</sup>. Despite the variety of definitions and applications of “smart grid” technology, Sustainalytics views investments that are designed to improve grid efficiency positively and encourages BPS to select projects that are clearly anticipated to deliver tangible efficiency improvements. BPS has confirmed with Sustainalytics that these smart grid projects will not be applied to transmission lines connected or dedicated to fossil fuel power.
  - BPS has confirmed the exclusion of projects related to fossil fuel production or carbon-intensive industries, or that are powered by fossil fuels under this category.
  - Sustainalytics considers investments under this category to be aligned with market practice.

<sup>18</sup> Sustainalytics notes that the Bank excludes financing of smart meters for gas.

- Under the Environmentally Sustainable Management of Living Natural Resources and Land Use category, BPS may finance or refinance the following projects:
  - Sustainable agriculture activities which are limited to crop production certified by EU Organic<sup>19</sup>, Demeter<sup>20,21</sup> or Bio Suisse<sup>22</sup> or where the Borrower derives at least 90% of their revenue from products certified to the aforementioned schemes.
  - Reforestation, conservation or restoration of protected areas, such as regional natural parks. The Bank has confirmed that the reforestation projects will use tree species that are native or well adapted to local conditions and would have a sustainable forest management plan certified to the Forest Stewardship Council (FSC)<sup>23</sup> or Programme for the Endorsement of Forest Certification (PEFC)<sup>24</sup>. Sustainalytics views these certification schemes as robust and credible.
  - Sustainalytics considers investments under this category to be aligned with market practice.
- Under the Pollution Prevention and Control category, the Bank may finance or refinance waste prevention, collection, reduction and recycling projects, including the development, operation and upgrade of recycling plants for metals, plastic and paper. The Bank will also finance facilities, systems and equipment that are used to divert waste from landfills. Sustainalytics notes that: i) chemical recycling of plastics will not be financed under the Framework; ii) recycled plastic procured will contain at least 90% recycled, renewable or bio-based input; iii) biogenic input (biomass) will be sustainably sourced<sup>25</sup>; iv) the recycling of electronic waste will be accompanied by a robust waste management plan to mitigate associated risks; v) segregation of waste will be carried out at source before waste collection; and vi) waste collection vehicles that are electric or meet the emissions threshold defined under the Clean Transportation category. Sustainalytics considers investments under this category to be aligned with market practice.
- Within the Sustainable Water and Wastewater Management category, BPS may finance or refinance the following sustainable water and wastewater management systems and facilities:
  - Water treatment infrastructure, such as wastewater treatment systems and sewer systems. Desalination plants financed under the Framework: i) will be powered by low-carbon sources, such as renewables or sources with an average carbon intensity at or below 100g CO<sub>2</sub>e/kWh; and ii) will have in place an appropriate waste management programme for the disposal of brine. The Bank has confirmed that the treatment of wastewater from fossil fuel operations (such as produced water from fracking) will not be financed.
  - Water distribution systems with improved efficiency, such as pivot irrigation systems.
  - Water capture and storage infrastructure and facilities, such as storm water management systems, water distribution systems and aquifer storage. The Bank has confirmed that: i) the application of these technologies in hard to abate sectors will be excluded; ii) these technologies are not dependent on fossil fuels, nor used to provide water for fossil fuel operations, fracking, nuclear and mining.
  - Sustainalytics considers investment under this category to be aligned with market practice.
- Sustainalytics notes that BPS excludes the financing of activities within certain sectors, such as fossil fuel, weapons, tobacco, gambling and palm oil, without recognized certifications such as the Roundtable on Sustainable Palm Oil<sup>26</sup>, adult entertainment, predatory lending, nuclear and energy production from oil, black coal, lignite and oil sands. Sustainalytics is of the opinion that the addition of exclusionary criteria strengthens the Framework.
- Project Evaluation and Selection:
  - Banca Popolare di Sondrio's Sustainability Committee will be responsible for the project evaluation and selection process. The Bank has established a multi-step assessment

<sup>19</sup> EU Organic: [https://agriculture.ec.europa.eu/farming/organic-farming/organic-logo\\_en](https://agriculture.ec.europa.eu/farming/organic-farming/organic-logo_en)

<sup>20</sup> Demeter: <https://demeter.net/>

<sup>21</sup> BPS has confirmed to Sustainalytics that it will exclude Demeter-certified consumer products from financing.

<sup>22</sup> Bio Suisse: <https://www.bio-suisse.ch/en.html>

<sup>23</sup> FSC: <https://ca.fsc.org/ca-en/what-is-fsc/fsc-certified-forests>

<sup>24</sup> PEFC: <https://www.pefc.org/standards-implementation>

<sup>25</sup> BPS has confirmed to Sustainalytics that it will ensure that the waste biomass will be certified by a credible third-party certification, ensuring that it is well managed and coming from sustainable sources.

<sup>26</sup> Roundtable on Sustainable palm oil: <https://rspo.org/>

process. Various departments within the Group will first identify and shortlist potential assets. The Sustainability Committee will then review and approve potential projects for alignment with the eligibility criteria in the Framework.

- The Bank has an ESG Credit Policy in place and ESG Risk Management Framework to identify and manage social and environmental risks associated with the projects that may be financed under the Framework. Sustainalytics considers these environmental and social risk management systems to be adequate and aligned with market expectations. For additional detail, see Section 2.
- Based on this established process for project evaluation and selection, and the presence of risk management systems, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
  - Banca Popolare di Sondrio's CFO Area (Funding and Collateral Operations) will monitor the allocation of proceeds to eligible projects using an internal information system.
  - The Bank intends to allocate the proceeds within three years of issuance. Pending full allocation, unallocated proceeds will be invested in cash, cash equivalents or other liquid instruments in alignment with the Bank's liquidity management activities and, to the extent possible, in Green, Social and Sustainability Bonds. The Bank has confirmed that it will exclude temporary allocations towards carbon-intensive activities.
  - Based on the use of an internal tracking system and its disclosure of a temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
  - Banca Popolare di Sondrio intends to report on the allocation and impact of proceeds on its website on an annual basis until full allocation.
  - The allocation reporting will include the total amount of proceeds allocated to eligible projects, the share of financing versus refinancing, the amount of unallocated proceeds, the distribution of total eligible projects per category and the geographical distribution of eligible projects.
  - In addition, the Bank is committed to reporting on relevant impact metrics where feasible. BPS impact reporting will include CO<sub>2</sub> emissions avoided, renewable energy capacity installed (MW), energy savings (MWh/year), new clean transportation infrastructure built (km), floor space of green real estate (m<sup>2</sup>), number of agriculture businesses financed, volume of farming input avoided (t/year), waste diverted from landfill (tonnes), volume of water saved/reduced/treated (m<sup>3</sup>) and total population served by the system.
  - Based on the commitment to both impact and allocation reporting, Sustainalytics considers this process to be in line with market practice.

### Alignment with Green Bond Principles 2021

Sustainalytics has determined that the Banca Popolare di Sondrio Green Bond Framework aligns with the four core components of the GBP. For detailed information please refer to Appendix 1: Green Bond/Green Bond Programme External Review Form.

## Section 2: Sustainability Strategy of BPS

### Contribution to BPS's sustainability strategy

Sustainalytics is of the opinion that BPS demonstrates a commitment to sustainability by integrating ESG considerations into its own business and lending portfolio. Under its 2022-2025 Business Plan<sup>27</sup> the Bank intends to focus on the following three environmental areas that include: i) carbon neutrality path and credit portfolio alignment; ii) sustainable finance and responsible credit lines; and iii) participation in global and local sustainability initiatives.<sup>28</sup>

BPS started calculating the GHG footprint of its lending portfolio in 2021. As of 2022, the Bank has assessed more than 90% of its credit portfolio to identify physical risks in its lending activities.<sup>29</sup> In FY 2022, BPS's corporate loan portfolio totalled 11 million tCO<sub>2</sub>e, of which 63.2% stemmed from high energy intensity manufacturing. In this context, the Bank has established sectoral decarbonization targets aligned with Net Zero Banking Alliance decarbonization pathways. The Bank aims to reduce the emission intensity of its financed activities in the power sector by 63% and by 45% in automotive manufacturing by 2030, compared to 2021. In addition, it plans to achieve a 25% absolute reduction of GHG emissions in

<sup>27</sup> BPS, "Next Step Business Plan 2022-2025", (2022), at:

[https://istituzionale.popso.it/sites/default/files/documents/20220629\\_BPS\\_Piano%20Industriale\\_vFin\\_EN\\_0.pdf](https://istituzionale.popso.it/sites/default/files/documents/20220629_BPS_Piano%20Industriale_vFin_EN_0.pdf)

<sup>28</sup> Ibid.

<sup>29</sup> BPS, "Environment", (2022), at: <https://istituzionale.popso.it/en/sustainability/non-financial-report>

the oil and gas sector and 45% in agriculture by 2030, compared to 2021.<sup>30</sup> In line with these targets, the Bank aims to join the Net Zero Banking Alliance and Principles of Responsible Banking by the end of 2023.<sup>31</sup> As a part of its business plan, BPS intends to implement a methodology to assess the sustainability performance of its suppliers by the end of 2023, starting with the main suppliers.<sup>32</sup>

BPS has implemented a sustainable credit line called “next” for retail and corporate customers.<sup>33</sup> For retail customers, the Bank offers credit in favourable terms, for energy efficiency retrofits, solar panels, small-scale wind farms, renewable energy storage units and energy-efficient appliances. In return, the clients report on applicable insurance, cost estimates and energy efficiency gains.<sup>34</sup> Similarly, BPS offers loans for purchasing low-carbon mobility, including electric or hybrid vehicles, bicycles and the installation of charging stations, in return for cost estimates.<sup>35</sup> For corporate customers the Bank offers loans in favourable terms to invest in bioenergy, wind, solar and hydropower as well as energy efficiency improvements, in return for cost estimates, environmental impact assessments and estimated CO<sub>2</sub> emissions savings.<sup>36</sup>

BPS joined the UN Global Compact in 2004 and became a founding member of Global Compact Network Italia in 2018.<sup>37</sup> Since joining, the Bank has been reporting on its progress towards the 10 principles annually.<sup>38</sup> BPS has also been a member of the Forum for Sustainable Finance<sup>39</sup> since 2022, an Italian network of financial institutions that aims to promote sustainable finance.<sup>40</sup>

Sustainalytics is of the opinion that the Banca Popolare di Sondrio Green Bond Framework is aligned with the Bank’s overall sustainability strategy and initiatives and will further the Bank’s action on its key environmental priorities.

### Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the use of proceeds from the Framework will be directed towards eligible projects that are expected to have a positive environmental impact. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks associated with the eligible projects could include issues related to emissions, effluents and waste generated during construction, land use and biodiversity loss from infrastructure development, occupational health and safety, business ethics and community relations. While the Bank plays a limited role in the development of the specific projects that it finances, by offering lending and financial services, it is exposed to risks associated with the companies and projects that it may finance.

Sustainalytics is of the opinion that BPS is able to manage and mitigate potential risks by implementing the following:

- The Bank’s loan origination and monitoring process follows its ESG Credit Policy, which establishes guidelines for integrating ESG factors into the credit process, identifies sensitive sectors and activities and the development of ESG credit products.<sup>41</sup> BPS has established an ESG risk assessment tool, an ESG Heat Map, to classify the risks associated with potential investments and the client’s profile using sectoral and counterparty ESG scores. Based on the sectoral exposure to ESG risks and company-specific information from external information providers and questionnaires, the scores identify and quantify the investment’s exposure and the organization’s ability to manage the respective ESG risks. The Bank also conducts due diligence assessments for activities or organizations with high exposure to ESG risks on an ongoing basis.<sup>42,43,44</sup>
- Regarding environmental risks related to emissions, effluents and waste generated during construction, land use and biodiversity protection, the Bank’s Environmental Policy outlines the Bank’s processes to reduce its direct and indirect effects on the environment, including the consumption of natural resources and waste.<sup>45</sup> As per the Policy, the Bank encourages its customers to manage their activities in a sustainable manner by incorporating ESG risk factors

<sup>30</sup> BPS, “Non-Financial Statement”, (2022), at: [https://istituzionale.popso.it/sites/default/files/documents/BPS\\_NonFinancialStatement\\_2022.pdf](https://istituzionale.popso.it/sites/default/files/documents/BPS_NonFinancialStatement_2022.pdf)

<sup>31</sup> Ibid.

<sup>32</sup> BPS has shared this information with Sustainalytics confidentially.

<sup>33</sup> Ibid.

<sup>34</sup> BPS, “Next per l’ambiente - energia green”, at: <https://www.popso.it/next/ambiente/privati/energia-green>

<sup>35</sup> BPS, “Next per l’ambiente - mobilità sostenibile”, at: <https://www.popso.it/next/ambiente/privati/mobilita>

<sup>36</sup> BPS, “Next per l’ambiente”, at: <https://www.popso.it/next/ambiente/aziende>

<sup>37</sup> BPS, “Sustainable Initiatives”, at: <https://istituzionale.popso.it/en/sustainability/sustainable-initiatives>

<sup>38</sup> Ibid.

<sup>39</sup> Forum per la Finanza Sostenibile: <https://finanzasostenibile.it/>

<sup>40</sup> Ibid.

<sup>41</sup> Ibid.

<sup>42</sup> BPS, “ESG Credit”, at: <https://istituzionale.popso.it/en/sustainability/esg-credit>

<sup>43</sup> BPS has shared its General Regulation of Climate and Environmental Risks with Sustainalytics confidentially.

<sup>44</sup> BPS has shared its ESG Credit Risk policy with Sustainalytics confidentially.

<sup>45</sup> BPS, “Environmental Policy”, (2021), at: [https://istituzionale.popso.it/sites/default/files/files/EnvironmentalPolicy-dec2021-ENG\\_0.pdf](https://istituzionale.popso.it/sites/default/files/files/EnvironmentalPolicy-dec2021-ENG_0.pdf)



into the Bank's credit processes. Moreover, projects in the EU must comply with the Environmental Impact Assessment Directive 2011/92/EU,<sup>46</sup> which provides a framework to ensure that land-intensive projects are adequately assessed before they are approved to take appropriate measures to prevent, reduce and offset significant adverse effects on the environment, particularly on soil, species and habitats.<sup>47</sup> In addition, projects in the EU must adhere to the EU Habitats Directive<sup>48</sup> and Birds Directive,<sup>49</sup> which are part of the EU's Biodiversity Strategy for 2030 and require EU Member States to conserve the diversity of their wild flora and fauna, with a special focus on threatened and endemic species. They also require member states to report on the conservation status of habitats and species, and to impose compensation measures concerning projects that have a negative impact on protected areas.

- With regard to risks related to occupational health and safety, as per Article 2087 of the Italian Civil Code<sup>50</sup> and Consolidated Law on Health and Safety in the Workplace (Legislative Decree 81/2008),<sup>51</sup> BPS provides a physically and psychologically safe work environment. In this context, the Bank requires all its employees and third-party service providers to use adequate protective equipment, report on any deficiencies and undergo any health checks required for health and safety.<sup>52</sup>
- Regarding business ethics, the Bank's Code of Ethics and Policy on the prevention of money laundering and the financing of international terrorism outlines the Bank's processes to prevent, detect and manage unethical business behaviour, including conflict of interest, receiving gifts, money laundering and terrorism financing.<sup>53,54</sup> Similarly, the Bank requires its suppliers to comply with the Bank's Code of Ethics for managing risk in the supply chain.
- Regarding community relations, the Bank is committed to minimizing negative impacts and promoting dialogue with the communities in areas affected by the Bank's activities.<sup>55</sup>
- All projects financed under the Framework will be located in Italy, which is recognized as a Designated Country under the Equator Principles. This indicates the presence of strong environmental and social governance systems, legislation and institutional capacity to mitigate environmental and social risks associated with projects intended to be financed and refinanced under the Framework.<sup>56</sup>

Based on these policies, standards and assessments, Sustainalytics is of the opinion that the Bank has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

### Section 3: Impact of Use of Proceeds

All five use of proceeds categories are aligned with those recognized by the GBP. Sustainalytics has focused on two categories below where the impact is specifically relevant.

#### Importance of financing green buildings in the EU and Italy

The buildings sector is the largest consumer of energy in the EU,<sup>57</sup> accounting for approximately 40% of total energy consumption in the region. In 2021, the buildings sector was responsible for 36% of energy-related GHG emissions, with heating, cooling and domestic hot water usage representing 80% of total energy usage.<sup>58</sup> Approximately 85% of buildings in the EU were built before 2001 and 75% of the building

<sup>46</sup> European Parliament, "Directive 2011/92/EU of the European Parliament and of the Council", (2011), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32011L0092>

<sup>47</sup> European Union, "Assessment of the effects of certain public and private projects on the environment", (2014), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32011L0092>

<sup>48</sup> European Commission, "Biodiversity strategy for 2030", at: [https://environment.ec.europa.eu/strategy/biodiversity-strategy-2030\\_en](https://environment.ec.europa.eu/strategy/biodiversity-strategy-2030_en)

<sup>49</sup> European Parliament, "Directive 2009/147/EC of the European Parliament and of the Council", (2009), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32009L0147>

<sup>50</sup> ILO, "National Labour Law Profile: Italy", at: [https://www.ilo.org/ifpdial/information-resources/national-labour-law-profiles/WCMS\\_158903/lang-en/index.htm](https://www.ilo.org/ifpdial/information-resources/national-labour-law-profiles/WCMS_158903/lang-en/index.htm)

<sup>51</sup> Gazzetta Ufficiale della Repubblica Italiana, "Decreto Legislativo 81/2008, (2008)", at: <https://www.gazzettaufficiale.it/eli/id/2008/04/30/008G0104/sg>

<sup>52</sup> Banca Popolare di Sondrio, "Code of Ethics", (2023), at: [https://istituzionale.popso.it/sites/default/files/files/BPS\\_Code%20of%20Ethics\\_0.pdf](https://istituzionale.popso.it/sites/default/files/files/BPS_Code%20of%20Ethics_0.pdf)

<sup>53</sup> Ibid.

<sup>54</sup> BPS, "Policy on the prevention of money laundering and terrorist financing of Banca Popolare di Sondrio and the Banking Group Banca Popolare di Sondrio", (2023), at: [https://istituzionale.popso.it/sites/default/files/files/BPS%20Group\\_AML%20Policy\\_2023\\_EN.pdf](https://istituzionale.popso.it/sites/default/files/files/BPS%20Group_AML%20Policy_2023_EN.pdf)

<sup>55</sup> BPS, "Sustainability Policy", (2023), at: [https://istituzionale.popso.it/sites/default/files/files/BPS\\_SustainabilityPolicy\\_2023.pdf](https://istituzionale.popso.it/sites/default/files/files/BPS_SustainabilityPolicy_2023.pdf)

<sup>56</sup> Equator Principles, "About the Equator Principles", at: <https://equator-principles.com/about-the-equator-principles/>

<sup>57</sup> European Parliament, "Report on maximizing the energy efficiency potential of the EU building stock", (2020), at: [https://www.europarl.europa.eu/doceo/document/A-9-2020-0134\\_EN.html](https://www.europarl.europa.eu/doceo/document/A-9-2020-0134_EN.html)

<sup>58</sup> European Commission, "Factsheet - Energy Performance of Buildings", (2021), at: [https://ec.europa.eu/commission/presscorner/detail/en/fs\\_21\\_6691](https://ec.europa.eu/commission/presscorner/detail/en/fs_21_6691)

stock was energy inefficient as of 2022.<sup>59</sup> The EU has set a target to reduce its emissions by 55% by 2030, compared to 1990 levels.<sup>60</sup> To achieve this target, the EU would need to reduce GHG emissions from buildings by 60%, final energy consumption by 14% and energy consumption from heating and cooling by 18% by 2030 compared to 2015.<sup>61,62</sup> Energy efficiency retrofits are expected to play a major role in decarbonizing the sector, as the renovation of existing buildings could reduce the EU's total energy consumption by an estimated 5-6% and lower its total emissions by 5%.<sup>63</sup> The European Commission's Renovation Wave strategy aims to double annual energy renovation rates in 10 years.<sup>64</sup> In line with these commitments, the Energy Performance of Buildings Directive requires public buildings developed since 2019 and all new buildings built in or after 2021 to be nearly zero-energy buildings (NZEB).<sup>65</sup> These initiatives aim to promote to the EU's goal of achieving a fully decarbonized building stock by 2050.<sup>66</sup>

In Italy, the more than 60% of the building stock is older than 45 years<sup>67</sup> and 58% of the buildings belong in the two lowest EPC categories.<sup>68</sup> In 2021, the sector accounted for nearly 40% of Italy's final energy consumption.<sup>69</sup> In this context, Italy has set a target to improve energy efficiency of its residential sector by 0.33 Mtoe and non-residential sector by 0.24 Mtoe per year until 2030 and fully decarbonize the building sector by 2050.<sup>70</sup> To achieve its targets, Italy needs to annually retrofit 2.8% of its building stock between 2020 and 2030, and 2.6% between 2030 and 2050.<sup>71</sup> To incentivize energy efficiency improvements, Italy implemented a "Super Bonus 110%" scheme in 2020, which offered a declining rate of tax deductions for expenses related to energy efficiency improvements completed by the end of 2025.<sup>72</sup> The scheme helped to increase the number of renovations from 2,900 in 2018 to 360,000 between 2021 and 2022.<sup>73</sup> Italy's national building association ANCE estimates that retrofitting the residential sector would require EUR 400 billion and upgrading business properties an additional EUR 190 billion over the next 10 years.<sup>74</sup>

In this context, Sustainalytics is of the opinion that BPS's investments under the green buildings category are expected to contribute to Italy's efforts at reducing emissions from the country's housing stock.

#### Importance of financing renewable energy in the EU and Italy

The energy sector is the most significant contributor of GHG emissions in the EU, accounting for approximately 75% of the bloc's GHG emissions in 2021.<sup>75</sup> In this context, the EU electricity mix relies on as much as 39% on electricity generated from coal, gas or other fossil fuel sources.<sup>76</sup> As part of its goal to achieve climate neutrality by 2050, the European Commission committed to reducing GHG emissions by 55% by 2030 relative to 1990 levels.<sup>77</sup> In May 2022, the European Commission released its REPowerEU Plan,<sup>78</sup> which proposes to increase the share of renewable energy in the EU's final energy consumption from 40% to 45% by 2030 and aims to increase solar production capacity by more than 320 GW by 2025 and almost 600 GW by 2030.<sup>79</sup> The plan also includes targets for the EU to have an installed capacity of

<sup>59</sup> European Climate Pact, "Every building can be green – here is how", (2022), at: [https://climate-pact.europa.eu/news/every-building-can-be-green-heres-how-2022-03-11\\_en](https://climate-pact.europa.eu/news/every-building-can-be-green-heres-how-2022-03-11_en)

<sup>60</sup> European Commission, "Stepping Up Europe's 2030 climate ambition", (2020), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020DC0562>

<sup>61</sup> European Environment Agency, "Greenhouse gas emissions from energy use in buildings in Europe", at: <https://www.eea.europa.eu/data-and-maps/indicators/greenhouse-gas-emissions-from-energy/assessment>

<sup>62</sup> European Commission, "A Renovation Wave for Europe - greening our buildings, creating jobs, improving lives", at: [https://ec.europa.eu/energy/sites/ener/files/eu\\_renovation\\_wave\\_strategy.pdf](https://ec.europa.eu/energy/sites/ener/files/eu_renovation_wave_strategy.pdf)

<sup>63</sup> European Commission, "Comprehensive study of building energy renovation activities and the uptake of nearly zero-energy buildings in the EU", (2019), at: [https://ec.europa.eu/energy/sites/ener/files/documents/1.final\\_report.pdf](https://ec.europa.eu/energy/sites/ener/files/documents/1.final_report.pdf)

<sup>64</sup> European Commission, "Renovation Wave", at: [https://ec.europa.eu/energy/topics/energy-efficiency/energy-efficient-buildings/renovation-wave\\_en](https://ec.europa.eu/energy/topics/energy-efficiency/energy-efficient-buildings/renovation-wave_en)

<sup>65</sup> European Commission, "Energy performance of buildings directive", at: [https://energy.ec.europa.eu/topics/energy-efficiency/energy-efficient-buildings/energy-performance-buildings-directive\\_en](https://energy.ec.europa.eu/topics/energy-efficiency/energy-efficient-buildings/energy-performance-buildings-directive_en)

<sup>66</sup> Ibid.

<sup>67</sup> Ministry of the Environment and Energy Security, "Integrated National Plan for Energy and Climate", (2023), at: [https://commission.europa.eu/system/files/2023-07/ITALY%20-%20DRAFT%20UPDATED%20NECP%202021%202030%20%281%29\\_0.pdf](https://commission.europa.eu/system/files/2023-07/ITALY%20-%20DRAFT%20UPDATED%20NECP%202021%202030%20%281%29_0.pdf)

<sup>68</sup> Agenzia nazionale per le nuove tecnologie, l'energia e lo sviluppo economico sostenibile, "Statistiche Nazionali", (2021), at: <https://pnpe2.enea.it/statistiche>

<sup>69</sup> IEA, "Italy 2023", at: [https://iea.blob.core.windows.net/assets/71b328b3-3e5b-4c04-8a22-3ead575b3a9a/Italy\\_2023\\_EnergyPolicyReview.pdf](https://iea.blob.core.windows.net/assets/71b328b3-3e5b-4c04-8a22-3ead575b3a9a/Italy_2023_EnergyPolicyReview.pdf)

<sup>70</sup> Ministry of Ecological Transition, "Strategy for Energy Retrofitting of National Building Stock", (2023), at: [https://energy.ec.europa.eu/system/files/2021-12/2020\\_ltrs\\_italy\\_-\\_en.pdf](https://energy.ec.europa.eu/system/files/2021-12/2020_ltrs_italy_-_en.pdf)

<sup>71</sup> Ibid.

<sup>72</sup> IEA, "Italy 2023", at: [https://iea.blob.core.windows.net/assets/71b328b3-3e5b-4c04-8a22-3ead575b3a9a/Italy\\_2023\\_EnergyPolicyReview.pdf](https://iea.blob.core.windows.net/assets/71b328b3-3e5b-4c04-8a22-3ead575b3a9a/Italy_2023_EnergyPolicyReview.pdf)

<sup>73</sup> Symons, A. (2023), "The EU green buildings plan aims to slash emissions - but this European country isn't happy", Euronews, at: <https://www.euronews.com/green/2023/02/06/the-eu-green-buildings-plan-aims-to-slash-emissions-but-this-european-country-isnt-happy>

<sup>74</sup> Symons, A. (2023), "The EU green buildings plan aims to slash emissions - but this European country isn't happy", Euronews, at: <https://www.euronews.com/green/2023/02/06/the-eu-green-buildings-plan-aims-to-slash-emissions-but-this-european-country-isnt-happy>

<sup>75</sup> European Commission, "Questions and Answers – Making our energy system fit for our climate targets", (2021), at: [https://ec.europa.eu/commission/presscorner/detail/en/qanda\\_21\\_3544](https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_3544)

<sup>76</sup> Jones, D. (2023), "European Electricity Review 2023", EMBER, at: <https://ember-climate.org/insights/research/european-electricity-review-2023/>

<sup>77</sup> European Commission, "2030 Climate & Energy Framework", at: [https://ec.europa.eu/clima/policies/strategies/2030\\_en](https://ec.europa.eu/clima/policies/strategies/2030_en)

<sup>78</sup> European Commission, "REPowerEU: affordable, secure and sustainable energy for Europe", at: [https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/repowereu-affordable-secure-and-sustainable-energy-europe\\_en](https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/repowereu-affordable-secure-and-sustainable-energy-europe_en)

<sup>79</sup> Ibid.

more than 60 GW of offshore wind energy generation by 2030 and 300 GW by 2050,<sup>80</sup> which would reduce emissions by 58-60% compared to the 1990 levels.<sup>81</sup>

The use of renewables in Italy doubled between 2005 and 2020, reaching 19.03% of total final energy consumption and 36% of electricity generation in 2021.<sup>82</sup> The country's Long-term National Strategy for Reducing Greenhouse Gas Emissions estimates that the rate of low-carbon energy sources should reach 85-90% of gross final energy consumption by 2050 to achieve Italy's net zero goals.<sup>83</sup> In this sense, Italy has set the following targets: i) eliminate coal by 2025; ii) achieve a 40% share of renewables in final energy consumption by 2030; and iii) reach a 65% share of renewables in electricity production by 2030.<sup>84</sup> To achieve these targets, the government aims to add 58 GW of additional renewable energy capacity by 2030, of which three-quarters would be solar PV, having earmarked EUR 59 billion to incentivize the expansion of renewables between 2021 and 2026.<sup>85</sup>

In this context, Sustainalytics is of the opinion that BPS's financing of renewable energy projects is expected to contribute to Italy's efforts towards an energy transition and contribute to the country's climate goals.

#### Alignment with/contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The instruments issued under the Banca Popolare di Sondrio Green Bond Framework are expected to advance the following SDGs and targets:

| Use of Proceeds Category  | SDG  | SDG target  |
|---|--|---|
| Green Buildings   | 9. Industry, Innovation and Infrastructure | 9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities |
| Renewable Energy  | 7. Affordable and Clean Energy             | 7.2 By 2030, increase substantially the share of renewable energy in the global energy mix  |
| Clean Transportation  | 11. Sustainable Cities and Communities     | 11.2 By 2030, provide access to safe, affordable, accessible, and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons    |
| Energy Efficiency   | 7. Affordable and Clean Energy             | 7.3 By 2030, double the global rate of improvement in energy efficiency   |
|   | 9. Industry, Innovation and Infrastructure | 9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities |
| Environmentally Sustainable Management of Living Natural Resources and Land Use | 2. Zero Hunger                             | 2.4 By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems,  |

<sup>80</sup> European Commission, "Offshore renewable energy", at: [https://energy.ec.europa.eu/topics/renewable-energy/offshore-renewable-energy\\_en](https://energy.ec.europa.eu/topics/renewable-energy/offshore-renewable-energy_en)

<sup>81</sup> Climate Action Tracker, "EU", (2022), at: <https://climateactiontracker.org/countries/eu/>

<sup>82</sup> IEA, "Italy 2023", at: [https://iea.blob.core.windows.net/assets/71b328b3-3e5b-4c04-8a22-3ead575b3a9a/Italy\\_2023\\_EnergyPolicyReview.pdf](https://iea.blob.core.windows.net/assets/71b328b3-3e5b-4c04-8a22-3ead575b3a9a/Italy_2023_EnergyPolicyReview.pdf)

<sup>83</sup> Italy, "Executive Summary", (2021), at: [https://ec.europa.eu/clima/sites/lts/lts\\_it\\_sum\\_en.pdf](https://ec.europa.eu/clima/sites/lts/lts_it_sum_en.pdf)

<sup>84</sup> Ministry of the Environment and Energy Security, "Integrated National Plan for Energy and Climate", (2023), at:

[https://commission.europa.eu/system/files/2023-07/ITALY%20-%20DRAFT%20UPDATED%20NECP%202021%202030%20%281%29\\_0.pdf](https://commission.europa.eu/system/files/2023-07/ITALY%20-%20DRAFT%20UPDATED%20NECP%202021%202030%20%281%29_0.pdf)

<sup>85</sup> International Trade Administration, "Italy - Country Commercial Guide, (2022), at: <https://www.trade.gov/country-commercial-guides/italy-natural-gas-renewable-energy#:~:text=Total%20installed%20power%20from%20renewables,annual%20electricity%20demand%20from%20renewables>

|   |  |  |
|---|--|--|
|   |  | that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding, and other disasters and that progressively improve land and soil quality  |
|   | 15. Life on Land                           | 15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally.  |
| Pollution Prevention and Control            | 12. Responsible consumption and production | 12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse   |
| Sustainable Water and Wastewater Management | 6. Clean Water and Sanitation              | 6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally |

## Conclusion

BPS has developed the Banca Popolare di Sondrio Green Bond Framework under which it may issue green financial instruments and use the proceeds to finance projects that are expected to contribute to the decarbonization of the Bank's investment portfolio and deliver a positive environmental impact in Italy. Sustainalytics considers that the projects funded with proceeds from instruments issued under the Framework are expected to provide positive environmental impact.

The Banca Popolare di Sondrio Green Bond Framework outlines a process for tracking, allocating and managing proceeds, and makes commitments for the Bank to report on their allocation and impact. Sustainalytics believes that the Banca Popolare di Sondrio Green Bond Framework is aligned with the overall sustainability strategy of the Bank and that use of proceeds will contribute to the advancement of the UN Sustainable Development Goals 2, 6, 7, 9, 11, 12 and 15. Additionally, Sustainalytics considers that the Bank has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects.

Based on the above, Sustainalytics is confident that BPS is well positioned to issue green bonds and that the Banca Popolare di Sondrio Green Bond Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles 2021.

## Appendices

### Appendix 1: Green Bond / Green Bond Programme - External Review Form

#### Section 1. Basic Information

|   |  |
|---|--|
| Issuer name:  | Banca Popolare di Sondrio                      |
| Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:   | Banca Popolare di Sondrio Green Bond Framework |
| Review provider's name:   | Sustainalytics                                 |
| Completion date of this form:   | October 13, 2023                               |
| Publication date of review publication:<br>Original publication date <i>[please fill this out for updates]:</i> |  |

#### Section 2. Review overview

##### SCOPE OF REVIEW

The review:

- assessed the 4 core components of the Principles (**complete review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*).
- assessed only some of them (**partial review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*); please indicate which ones:
  - Use of Proceeds
  - Process for Project Evaluation and Selection
  - Management of Proceeds
  - Reporting
- assessed the alignment with other regulations or standards (CBI, EU GBS, ASEAN Green Bond Standard, ISO 14030, etc.); please indicate which ones:

##### ROLE(S) OF INDEPENDENT REVIEW PROVIDER

- Second Party Opinion
- Certification
- Verification
- Scoring/Rating
- Other (please specify):

##### Does the review include a sustainability quality score?

- Of the issuer
- Of the project
- Of the Framework
- Other (please specify):
- No scoring

##### ASSESSMENT OF THE PROJECT(S)

**Does the review include:**

- The environmental and/or social features of the type of project(s) intended for the Use of Proceeds?
- The environmental and/or social benefits and impact targeted by the eligible Green and/or Social Project(s) financed by the Green, Social or Sustainability Bond?
- The potentially material environmental and/or social risks associated with the project(s) (where relevant)?

**ISSUER'S OVERARCHING OBJECTIVES**

**Does the review include:**

- An assessment of the issuer's overarching sustainability objectives and strategy, and the policies and/or processes towards their delivery?
- An identification and assessment of environmental, social and governance related risks of adverse impact through the Issuer's [actions] and explanations on how they are managed and mitigated by the issuer?
- A reference to the issuer's relevant regulations, standards, or frameworks for sustainability-related disclosure and reporting?

**CLIMATE TRANSITION STRATEGY**

**Does the review assess:**

- The issuer's climate transition strategy & governance?
- The alignment of both the long-term and short/medium-term targets with the relevant regional, sector, or international climate scenario?
- The credibility of the issuer's climate transition strategy to reach its targets?
- The level/type of independent governance and oversight of the issuer's climate transition strategy (e.g. by independent members of the board, dedicated board sub-committees with relevant expertise, or via the submission of an issuer's climate transition strategy to shareholders' approval).
- If appropriate, the materiality of the planned transition trajectory in the context of the issuers overall business (including the relevant historical datapoints)?
- The alignment of the issuer's proposed strategy and targets with appropriate science-based targets and transition pathways that are deemed necessary to limit climate change to targeted levels?
- The comprehensiveness of the issuer's disclosure to help investors assess its performance holistically?

**Overall comment on this section:**

The eligible categories for the use of proceeds – Green Buildings, Renewable Energy, Clean Transportation, Energy Efficiency, Environmentally Sustainable Management of Living Natural Resources and Land Use, Pollution Prevention and Control, Sustainable Water and Wastewater Management – are aligned with those recognized by the Green Bond Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDGs 2, 3, 6, 7, 9, 11, 12 and 15.

**Section 3. Detailed review**

**1. USE OF PROCEEDS**

**Does the review assess:**

- the environmental/social benefits of the project(s)?
- whether those benefits are quantifiable and meaningful?
- for social projects, whether the target population is properly identified?

**Does the review assess if the issuer provides clear information on:**

- the estimated proceeds allocation per project category (in case of multiple projects)?

- the estimated share of financing vs. re-financing (and the related lookback period)?

**Overall comment on this section:**

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

**Does the review assess:**

- whether the eligibility of the project(s) is aligned with official or market-based taxonomies or recognised international standards? Please specify which ones.

Sustainalytics has a proprietary taxonomy which is influenced by the EU taxonomy, Climate Bonds Initiative taxonomy as well as international standards.

- whether the eligible projects are aligned with the overall sustainability strategy of the issuer and/or if the eligible projects are aligned with material ESG-related objectives in the issuer's industry?
- the process and governance to set the eligibility criteria including, if applicable, exclusion criteria?
- the processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s)?
- any process in place to identify mitigants to known material risks of negative social and/or environmental impacts from the relevant project(s)?

**Overall comment on this section:**

Banca Popolare di Sondrio's internal process of evaluating and selecting projects will be managed by its Sustainability Committee. Banca Popolare di Sondrio's ESG Credit Policy and Risk Management Framework will be applicable to all the allocation decisions made under the Framework. Sustainalytics considers the risk management systems to be adequate and the project evaluation and selection process to be in line with market practice.

## 3. MANAGEMENT OF PROCEEDS

**Does the review assess:**

- the issuer's policy for segregating or tracking the proceeds in an appropriate manner?
- the intended types of temporary investment instruments for unallocated proceeds?
- Whether an external auditor will verify the internal tracking of the proceeds and the allocation of the funds?

**Overall comment on this section:** Banca Popolare di Sondrio's CFO Area (Funding and Collateral Operations) will be responsible for the allocation of proceeds and tracking the process using an internal system. Banca Popolare di Sondrio intends to reach full allocation within 36 months of issuance. Pending allocation, unallocated proceeds will be invested in cash or cash equivalents or other liquid marketable instruments, in line with the Bank's liquidity management policies, and to the extent possible in Green, Social and Sustainability Bonds. Sustainalytics considers this to be in line with market practice.

## 4. REPORTING

**Does the review assess:**

- the expected type of allocation and impact reporting (bond-by-bond or on a portfolio basis)?
- the frequency and the means of disclosure?
- the disclosure of the methodology of the expected or achieved impact of the financed project(s)?

**Overall comment on this section:**

Banca Popolare di Sondrio intends to report on the allocation of proceeds on its website on an annual basis until it is fully allocated. Allocation reporting will include the total amount of proceeds allocated to eligible projects, share of financing versus refinancing, the amount of unallocated proceeds, the distribution of total eligible projects per category and the geographical distribution of eligible projects. In

In addition, Banca Popolare di Sondrio is committed to reporting on relevant impact metrics. Sustainalytics views Banca Popolare di Sondrio's allocation and impact reporting as aligned with market practice.

#### Section 4. Additional Information

**Useful links** (e.g. to the external review provider's methodology or credentials, to the full review, to issuer's documentation, etc.)

**Analysis of the contribution of the project(s) to the UN Sustainable Development Goals:**

**Additional assessment in relation to the issuer/bond framework/eligible project(s):** N/A

#### ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP

- i. **Second-Party Opinion:** An institution with environmental expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.



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