

Second-Party Opinion



Reviewed by:



SUSTAINALYTICS

Second-Party Opinion

Banca Popolare di Sondrio Green, Social and Sustainability Bond Framework

Evaluation Summary

Sustainalytics is of the opinion that the Banca Popolare di Sondrio Green, Social and Sustainability Bond Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2023. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds¹ are aligned with those recognized by the Green Bond Principles and Social Bond Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDGs 3, 4, 5, 6, 7, 8, 9, 11, 12, and 15.



PROJECT EVALUATION AND SELECTION BPS's Sustainability Management Committee will be responsible for the project evaluation and selection process. The Bank has an ESG Credit Policy in place and an ESG Risk Management Framework to identify and manage environmental and social risks associated with the projects financed under the Framework. Sustainalytics considers the project selection process to be in line with market practice.



MANAGEMENT OF PROCEEDS BPS's CFO Area will monitor the allocation of proceeds to eligible projects using an internal information system. The proceeds will be managed on a portfolio level and the amount of eligible assets will continually exceed outstanding liabilities. The Bank intends to allocate the proceeds within 36 months of each issuance. Pending full allocation, unallocated proceeds will be invested in cash, cash equivalents or other marketable liquid instruments in alignment with the Bank's liquidity management activities. This is in line with market practice.



REPORTING BPS will report on the allocation of proceeds and the corresponding impact in a report, which will be published on its website on an annual basis until full allocation. The allocation reporting will include the total project allocations eligible, the share of financing versus refinancing, the amount of unallocated income at the end of the reporting period if any, the breakdown of total eligible projects per category, and the geographical breakdown of eligible projects. Sustainalytics views BPS's allocation and impact reporting commitments as aligned with market practice.

Evaluation date	December 18, 2024 ²
Issuer Location	Sondrio, Italy

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¹ Green Buildings, Renewable Energy, Clean Transportation, Energy Efficiency, Environmentally Sustainable Management of Natural Living Resources and Land Use, Pollution Prevention and Control, Sustainable Water and Wastewater Management, Circular Economy, Access to Essential Services and Social Cohesion, Support in Disadvantaged Areas, Female and Youth Entrepreneurship, Basic Infrastructure, Affordable Housing.

² This Second-Party Opinion updates the Second-Party Opinion provided by Sustainalytics on 13 October 2023.

Introduction

Banca Popolare di Sondrio S.p.A (“BPS” or the “Bank”), headquartered in Sondrio, Italy, and founded in 1871, offers banking, financial and insurance services to approximately 900,000 customers, including retail customers, corporates and government institutions.³ The Bank operates through a network of 506 branches and 3,580 employees across Italy and Switzerland, and it is the parent company of the Banca Popolare di Sondrio Banking Group (the “Group”).⁴

BPS has developed the Banca Popolare di Sondrio Green, Social and Sustainability Bond Framework dated December 2024 (the “Framework”) under which it intends to issue green, social and sustainability (GSS) bonds, including public or private placements,⁵ senior preferred, senior non-preferred,⁶ Tier 2, and covered bonds⁷ or bonds to retail investors and use the proceeds to finance or refinance, in whole or in part, existing and future assets⁸ that are expected to contribute to the decarbonization of the Bank’s investment portfolio and deliver a positive environmental or social impacts in Italy and Switzerland.

The Framework defines eligibility criteria in 13 areas:

1. Green Buildings
2. Renewable Energy
3. Clean Transportation
4. Energy Efficiency
5. Environmentally Sustainable Management of Natural Living Resources and Land Use
6. Pollution Prevention and Control
7. Sustainable Water and Wastewater Management
8. Circular Economy
9. Access to Essential Services and Social Cohesion and Wellness
10. Support in Disadvantaged Areas
11. Female and Youth Entrepreneurship
12. Basic Infrastructure
13. Affordable Housing

BPS engaged Sustainalytics to review the Banca Popolare di Sondrio Green, Social and Sustainability Bond Framework dated December 2024, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP) and Social Bond Principles 2023 (SBP).⁹ The Framework has been published in a separate document.¹⁰

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

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent¹¹ opinion on the alignment of the reviewed Framework with 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:

³ BPS, “About Us”, at: <https://istituzionale.popso.it/en/profile/about-us>

⁴ BPS, “Non-Financial Statement”, (2023), at: <https://istituzionale.popso.it/en/sustainability/non-financial-statement>

⁵ BPS has confirmed to Sustainalytics that private placements do not involve the sale of stock shares to investors.

⁶ BPS has confirmed to Sustainalytics that the maturity of the underlying assets (loans) will be in line with the maturity of the instruments issued.

⁷ BPS has confirmed to Sustainalytics that: i) covered bonds may include covered standard bonds and covered collateral bonds as defined in the June 2022 Appendix of the Green Bond Principles 2021; ii) the net proceeds from covered bonds will be directed to eligible assets under the Framework; iii) in the case of covered collateral bonds, the underlying collateral will meet the Framework criteria; and iv) there will be no double counting of eligible projects under covered bonds or any other outstanding sustainable financing instrument.

⁸ Eligible green assets will include loans (mortgages, term loans and revolving credit facilities), investments or other financial assets, and businesses or projects that meet the eligibility criteria outlined in the Framework.

⁹ The Sustainability Bond Guidelines, Green Bond Principles, and Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/>

¹⁰ The Banca Popolare di Sondrio Green, Social and Sustainability Bond Framework is available on the Bank’s website at: <https://istituzionale.popso.it/en/sustainability/esg-bond>

¹¹ 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.

- The Framework's alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2023, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds;
- 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 1.17, which is informed by market practice and Sustainalytics' expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with representatives of BPS to understand the sustainability impact of its 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 information provided is complete, accurate and up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information 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 but does not measure the actual impacts. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realized allocation of 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, Social and Sustainability Bond Framework

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

- Use of Proceeds:
 - The eligible categories - Green Buildings, Renewable Energy, Clean Transportation, Energy Efficiency, Environmentally Sustainable Management of Natural Living Resources and Land Use, Pollution Prevention and Control, Sustainable Water and Wastewater Management, Circular Economy, Access to Essential Services and Social Cohesion, Support in Disadvantaged Areas, Female and Youth Entrepreneurship, Basic Infrastructure, Affordable Housing - are aligned with those recognized by the GBP and SBP.
 - While the Bank has confirmed that the majority of the refinancing will be comprised of capex, Sustainalytics considers it good practice to define a look-back period of up to three years for refinancing opex.
 - The Bank has communicated to Sustainalytics that the majority of the proceeds will be invested in Italy, with up to 10% allocated to Switzerland.
 - BPS may finance general-purpose loans to entities that derive 90% or more of their revenue from activities that meet the eligibility criteria in the Framework. Sustainalytics considers that project- and activity-based lending generally result in more direct environmental benefits and enhance

- compliance with the criteria in the Framework, but financing pure play companies through GSS bond proceeds is a commonly accepted approach that is likely to generate positive impacts.
- BPS has confirmed to Sustainalytics that it will ensure no double counting of financed projects and assets across all allocation and impact reporting commitments under the Framework.
 - Under the Green Buildings category, BPS intends to finance or refinance loans or activities related to the acquisition, construction and renovation of residential and commercial buildings according to the following criteria:
 - Buildings that are in the top 15% of the most energy-efficient buildings, as indicated by an energy performance certificate of level A and B in Italy and by a GEAK energy certificate of class A or B in Switzerland.¹²
 - Buildings that have achieved or are expected to achieve one of the following minimum certification levels: i) LEED (Gold)¹³; ii) BREEAM (Excellent)¹⁴; iii) Minergie¹⁵; iv) Minergie-A¹⁶; v) Minergie-P¹⁷, or vi) Minergie-ECO.¹⁸ Sustainalytics considers LEED Gold, BREEAM Excellent and the Minergie certification schemes to be credible and impactful.
 - Renovation of buildings that results in at least 30% reduction in primary energy demand compared to pre-renovation levels. BPS has confirmed to Sustainalytics that such investments will be limited to renovation expenditures.
 - Individual renovation measures including the installation, maintenance or repair of energy equipment and technologies in buildings, such as: i) insulation of 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 and district heating; v) charging stations for electric vehicles; vi) devices for measuring and regulating the energy performance of the buildings; and vii) renewable energy technologies, such as photovoltaic, thermal solar or small wind turbine.
 - BPS has confirmed that absorption heat pumps will be driven by solar-heated water or geothermal-heated water and those driven by fossil fuels, such as natural gas or propane, will be excluded from financing under the Framework.
 - Sustainalytics notes that heat pumps offer an energy-efficient heat transfer alternative to conventional systems. Nevertheless, Sustainalytics recommends that BPS excludes financing of heat pumps with high-GWP refrigerants, and promotes robust refrigerant leak control, detection and monitoring, while ensuring the recovery, reclamation, recycling or destruction of refrigerants at end of life.
 - BPS has communicated to Sustainalytics that: i) district heating is fully powered by renewable energy; and ii) district heating projects with waste heat from fossil fuel production and operations will be excluded from financing under the Framework.
 - The Bank has confirmed that it will not finance parking facilities as a part of financing for EV charging stations.
 - The Bank has confirmed to Sustainalytics that it will exclude financing of energy-efficient equipment designed or intended for processes that are inherently carbon intensive or primarily driven or powered by fossil fuels, as well as buildings 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 loans related to the acquisition, development and operation of renewable energy generation projects involving offshore and onshore wind, concentrated solar power (CSP), solar photovoltaic, small-scale hydropower, geothermal facilities and waste biomass in accordance with the following criteria:

¹² GEAK: <https://www.geak.ch/>

¹³ LEED: <https://www.usgbc.org/leed>

¹⁴ BREEAM: <https://bregroup.com/products/breeam/>

¹⁵ Minergie: <https://www.minergie.com/>

¹⁶ Minergie-A: <https://www.minergie.ch/de/zertifizieren/minergie-a/>

¹⁷ Minergie-P: <https://www.minergie.ch/de/zertifizieren/minergie-p/>

¹⁸ Minergie-ECO: <https://www.minergie.ch/de/zertifizieren/eco/>

- 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 will be run-of-river without an artificial reservoir or with a low storage capacity and will not present significant controversies related to environmental and social risks or impacts, such as loss of habitats or biodiversity and displacement of people.
 - BPS has confirmed the following to Sustainalytics: i) hydropower plants that became operational after 2019 will have a life cycle emissions intensity at or below 50 gCO₂e/kWh and a power density greater than 10 W/m²; and ii) plants that became operational before the end of 2019 will have a life cycle emissions intensity at or below 100 gCO₂e/kWh and a power density greater than 5 W/m².¹⁹
 - BPS has communicated that a credible third-party will carry out an environmental impact assessment to identify and address environmental risks associated with new hydropower projects. Sustainalytics notes that the Bank will finance small run-of-river hydropower projects which are not subject to a social impact assessment. However, Sustainalytics considers it good practice to have both an environmental and social impact assessment for newly built hydropower plants, and encourages the Bank to undertake a social impact assessment for each project and report on relevant social risk mitigation measures.
- Geothermal with direct emissions amounting to less than 100 gCO₂/kWh.
- Biogas or biomethane plants will use waste feedstock including: i) forestry and agricultural residue, such as wood chips, sawdust straw, cane trash, sugarcane bagasse and corn cobs; and ii) non-food crops, such as miscanthus and short-rotation coppice.
 - BPS has confirmed to Sustainalytics that the financed biogas plants using non-food crops as feedstock will meet the following criteria: i) for electricity production, have a life cycle GHG emissions intensity below 100 gCO₂e/kWh or reduce lifecycle emissions by 80% compared to the fossil fuel baseline (183 gCO₂e/MJ for electricity production); and ii) for biofuels production, installations will have lifecycle emissions that are at least 65% lower than the fossil fuel baseline.²⁰
 - BPS has confirmed to Sustainalytics that production of biofuel feedstock will not take place on land with high biodiversity (at least within the last 10 to 15 years) and land with a high amount of carbon has not been converted for biofuel feedstock production.
 - BPS has confirmed that the following will not be financed under the Framework: i) waste from non-RSPO certified palm oil operations; ii) animal fats, oils and other animal processing by-products; and iii) animal manure from industrial-scale livestock operations.
- Sustainalytics considers investments under this category to be aligned with market practice.
- Under the Clean Transportation category, BPS may finance or refinance loans related to 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 emissions threshold criterion of up to 50 gCO₂/km.²¹
 - Urban, suburban and road passenger transport, such as buses, streetcars, trolley buses, and underground and elevated railways, that have zero direct CO₂ tailpipe emissions.
 - Passenger rail transport with zero direct emissions from trains and passenger coaches. Freight transportation with zero direct emissions, excluding for the transportation of fossil fuel.

¹⁹ BPS has confirmed to Sustainalytics that plants will adhere to the thresholds based on monitoring.

²⁰ BPS has confirmed to Sustainalytics that feedstocks will adhere to lifecycle GHG emissions intensity threshold through monitoring.

²¹ BPS has confirmed to Sustainalytics that the carbon intensity is measured based on the Worldwide Harmonised Light Vehicles Test Procedure (WLTP).

- Freight transport services by road, including the following: i) category N1 vehicles with zero direct tailpipe CO₂ emissions; and ii) category N2 and N3 vehicles with technically permissible maximum laden mass not exceeding 7.5 tonnes that are zero-emission heavy duty vehicles or vehicles with a CO₂ emissions threshold below 25 gCO₂/tkm.
 - Construction and operation of areas dedicated to aiding personal mobility, such as sidewalks, bike lanes, pedestrian zones and electric charging stations. BPS has confirmed that parking facilities will not be financed under the Framework.
 - Sustainalytics considers investments under this category to be aligned with market practice.
- Under the Energy Efficiency category, BPS may finance or refinance loans related to the development of systems and technologies aimed at improving energy efficiency and reducing energy consumption, including energy storage systems, LED lighting, district heating and cooling smart meters and smart grids.
 - All energy storage projects, including pumped hydro, financed under the Framework will be connected to renewables.
 - Power-to-gas will be through water electrolysis powered by renewables.
 - For pumped hydro, a credible body will conduct an environmental and social impact assessment, with no significant risk or expected negative impacts identified.
 - District heating or cooling projects will rely on renewable energy entirely. District heating and cooling distribution systems will be primarily (>50%) powered by renewable energy, and heat and cooling generation utility and transmission infrastructure will be directly connected to a power plant that is 100% powered by renewables or industrial waste heat. BPS has confirmed that it will exclude the financing of projects with waste heat from fossil fuel production and operations.
 - The Framework allows for allocation to smart grid investments. 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 to Sustainalytics that smart grid projects will not be applied to transmission lines connected or dedicated to fossil fuel power and that gas smart meters will be excluded from financing under the Framework.
 - The Bank has communicated to Sustainalytics that expenditures under this category may include microgrids for the transmission and distribution of electricity. The Bank has further confirmed that the electrical grid supports or integrates at least 90% renewable electricity.
 - BPS has confirmed the exclusion of projects related to fossil fuel production or carbon-intensive industries, and technologies that are powered by fossil fuels.
 - Sustainalytics considers investments under this category to be aligned with market practice.
- Under Environmentally Sustainable Management of Natural Resources Living and Land Use, BPS may finance or refinance loans related to the following projects:
 - Sustainable agricultural activities limited to crop production certified by EU Organic,²² Demeter^{23,24} or Bio Suisse²⁵ or where the borrower derives at least 90% of its revenue from products certified to the aforementioned schemes.
 - Reforestation, conservation or restoration of protected areas, such as regional natural parks. Sustainalytics notes that reforestation projects will use tree species that are native or well adapted to local conditions and will have a sustainable forest management plan certified to the Forest Stewardship Council²⁶ or Programme for the Endorsement of Forest Certification.²⁷ Sustainalytics views these certification schemes as robust and credible.

²² EU Organic: https://agriculture.ec.europa.eu/farming/organic-farming/organic-logo_en

²³ Demeter: <https://demeter.net/>

²⁴ BPS has confirmed to Sustainalytics that it will exclude Demeter-certified consumer products from financing.

²⁵ Bio Suisse: <https://www.bio-suisse.ch/en.html>

²⁶ FSC: <https://ca.fsc.org/ca-en/what-is-fsc/fsc-certified-forests>

²⁷ PEFC: <https://www.pefc.org/standards-implementation>

- Sustainalytics considers investments under this category to be aligned with market practice.
 - Under Pollution Prevention and Control, the Bank may finance or refinance loans related to the following projects:
 - Waste prevention, collection, reduction and recycling projects, including: i) development, operation and upgrade of recycling facilities for metals, plastic and paper; ii) facilities, systems and equipment that are used to divert waste from landfills, including recycling facilities, materials recovery facilities, composting facilities, anaerobic digesters, and waste-to-energy plants; and iii) remediation of contaminated sites and areas.
 - Regarding the development, operation and upgrade of recycling facilities, BPS has confirmed the following: i) chemical recycling of plastics will not be financed; ii) recycled plastic procured will contain at least 90% recycled, renewable or bio-based input; iii) biogenic input (biomass) will be sustainably sourced and certified by a credible third-party certification such as Roundtable on Sustainable Biomaterials (RSB),²⁸ Roundtable on Responsible Soy (RTRS) standard²⁹ and ISCC Plus;³⁰ iv) 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; and vi) waste collection vehicles financed will either be electric or will meet the emissions threshold defined under the Clean Transportation category.
 - Sustainalytics notes that it is market expectation to specify all eligible schemes and certifications and encourages the Bank to report on any specific schemes and certifications it intends to use.
 - Regarding activities related to diverting waste from landfills, BPS has confirmed the following: i) sewage sludge from fossil fuels will be excluded from financing; ii) for waste-to-energy plants, recyclables, including plastics and metals from the feedstock, will be segregated;³¹ iii) waste collection facilities will support source segregation of waste; and iv) recycling activities related to e-waste or waste from electrical and electronic equipment will be accompanied by robust waste management processes to mitigate associated risks. Sustainalytics further notes that collection vehicles will have an emissions threshold of 50 gCO₂/km or lower.³²
 - For activities related to remediation, BPS has confirmed to Sustainalytics that soil remediation will not be related to the contamination or negative environmental externality from borrowers' own activities.
 - Sustainalytics considers investments under this category to be aligned with market practice.
 - Under the Sustainable Water and Wastewater Management category, BPS may finance or refinance loans related to sustainable water and wastewater management systems and facilities:
 - Water treatment infrastructure, such as wastewater treatment and sewer systems.
 - BPS has confirmed that desalination plants financed under the Framework will be powered by low-carbon sources, such as renewables or sources with an average carbon intensity at or below 100g CO₂e/kWh, and will have in place an appropriate waste management programme for the disposal of brine.
 - The Bank has confirmed that the following will not be financed: i) treatment of wastewater from fossil fuel operations, such as produced water from

²⁸ Roundtable on Sustainable Biomaterials: <https://rsb.org/>

²⁹ RTRS: <https://responsiblesoy.org/?lang=en>

³⁰ ISCC PLUS: <https://www.iscc-system.org/certification/iscc-certification-schemes/iscc-plus/>

³¹ Sustainalytics recognizes that energy from waste could take out of circulation potentially recyclable materials and undermine two of the main objectives of a zero-waste circular economy, i.e. waste prevention and recycling. Additionally, for such projects to have low emissions intensities, the composition of residual waste, particularly fossil carbon content, is a crucial consideration. However, Sustainalytics also notes that due to constraints on recycling in many parts of the world, energy from waste can offer a better residual waste management option than landfills in many cases. Sustainalytics recommends BPS to promote the removal of increasing amounts of recyclables, especially plastics and metals, and the monitoring of thermal efficiency of the financed facilities.

³² BPS has confirmed to Sustainalytics that it uses the World Harmonised Light Vehicle Test Procedure (WLTP) to determine compliance with the threshold.

- fracking; ii) systems and treatment facilities dedicated to controversial activities with harmful social or environmental impacts such as industrial-scale livestock; and iii) integrated water and power plants with fossil fuel power.
- Water distribution systems with improved efficiency, such as pivot irrigation systems.
 - Water capture and storage infrastructure, such as storm water management systems, water distribution systems and groundwater storage.
 - The Bank has confirmed that the application of these technologies in hard to abate sectors will be excluded from financing under the Framework. Additionally, the projects will not be dependent on fossil fuels, nor used to provide water for fossil fuel operations, fracking, nuclear and mining.
 - Water storage facilities.
 - Sustainalytics considers investments under this category to be aligned with market practice.
- Under the Circular Economy category, BPS may finance or refinance loans related to projects involving restoring, reusing, repairing, reconditioning and recycling existing materials and products, including:
- Late-stage R&D³³ expenditures for: i) development of business models that prevent waste creation from the design stage of products and services, including secondary markets for raw materials, C2C business; and ii) creation of production processes that increase the degree of ease of repair and extend the lifespan of products.
 - Regarding the creation of production processes, BPS has communicated to Sustainalytics that this will be limited to product reuse.
 - BPS has confirmed to Sustainalytics that processes that are inherently carbon intensive, primarily driven or powered by fossil fuels and the refurbishment, reconditioning and repair of products specifically for use in the extraction of fossil fuels will be excluded from financing. Additionally, the processes will not be applied in heavy industries, such as steel, cement or aluminium.
 - Development of fully recyclable or compostable products, as well as the adoption of products and services that improve resource use efficiency, including: i) packaging and construction components using recycled aluminium; ii) recyclable electronic components; iii) compostable circuit boards made from natural fibres and resins; iv) recyclable steel machinery; v) modular equipment composed of recycled, waste and bio-based materials designed for disassembly, allowing parts to be replaced or recycled individually; vi) compostable office supplies made from biodegradable materials; vii) recyclable hand tools made from recycled and scrap metals or plastics that can be recycled at the end of their life cycle; and viii) compostable cleaning or maintenance supplies and products, with packaging made from compostable plant-based materials.
 - The Bank has communicated that the production of all new resource-efficient and low carbon products, including packaging, will use recycled, waste and bio-based materials. BPS has confirmed that: i) for aluminium products, 90% or more of the input will be scrap aluminium or 75-90% of the input will be scrap aluminium and the remaining primary aluminium has carbon intensity of less than 2.5 tCO₂e/tonne; ii) plastic products will be made with at least 90% of recycled, renewable or bio-based input, where bio-based materials are RSB-certified,³⁴ and at least 90% is not intended for single-use consumer products; iii) recycled plastics are limited to mechanical recycling; and iv) for natural fibres, resins, biodegradable materials and plant-based materials under this category, the Bank will require third-party certification to ensure that the materials are sustainably sourced, such as RSB.
 - Regarding natural fibres, resins, biodegradable material and plant-based material, Sustainalytics notes that it is market expectation to specify all eligible schemes and certifications and encourages the

³³ Late-stage R&D projects are those with a definable future asset, product, or process linked to climate benefits.

³⁴ Roundtable on Sustainable Biomaterials: <https://rsb.org/>

Bank to report on any specific schemes and certifications it intends to use to ensure sustainable sourcing.

- Sustainalytics considers investments under this category to be aligned with market practice.
- Under the Access to Essential Services and Social Cohesion category, BPS may finance or refinance loans related to the following projects:
 - Funding to public and private hospital health facilities, including expenses for the purchase of medical equipment and innovative technologies.
 - BPS has communicated to Sustainalytics that projects under this category will be in Italy, which has a universal healthcare system in place, ensuring that all health facilities and services are accessible to all, regardless of the ability to pay.³⁵
 - Sustainalytics notes that financing to private facilities will be limited to those affiliated with the Italian national health services.³⁶ BPS has confirmed to Sustainalytics that these facilities offer subsidized services to ensure universal accessibility, regardless of the ability to pay.
 - Sustainalytics considers the expenditures under this category to be socially impactful.
 - Social health care, including the construction, operation and maintenance of retirement homes, specialized facilities for the elderly, and clinics dedicated to disabilities and rehabilitation services for both permanent and temporary disabilities.
 - Regarding social healthcare for the elderly, BPS has communicated to Sustainalytics that the services will be available to the elderly without families or in disadvantaged social conditions. Sustainalytics notes that in Italy, elderly individuals, aged 75 and over, face lack of social support, unfavourable housing conditions, and difficult economic circumstances.³⁷
 - Concerning services provided to individuals with disabilities, BPS has communicated to Sustainalytics that in Italy, individuals with disabilities can deduct from their total taxable income general medical expenses, such as the purchase of medications, and specific assistance expenses, such as nursing and rehabilitative care, incurred in cases of severe and permanent disability or impairment.³⁸
 - Sustainalytics notes that funding would be limited to the following private facilities: i) Strutture Convenzionate,³⁹ or ii) ONLUS,⁴⁰ and third-sector entities (Enti del Terzo Settore or ETS),⁴¹ which are non-profit organizations with social utilities.

³⁵ Presidenza del Consiglio dei Ministri, "Legge 23 dicembre 1978, n. 833 - Istituzione del servizio sanitario nazionale", (1978), at: <https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:legge:1978-12-23:833>

³⁶ BPS has communicated that under Strutture Convenzionate, national health services, the patient pays only the price of the ticket, which is a small percentage of the cost of the service, as defined by Italian law. The state pays the rest of the fees. Presidenza del Consiglio dei Ministri, "Decreto Legislativo 30 dicembre 1992, n. 502", (1992) at: <https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:decreto.legislativo:1992:502>

³⁷ Sustainalytics further notes that 1.2 million elderly people report being unable to rely on adequate help for their needs, about 1 million of whom live alone or with other family members, all aged over 65, without support or with insufficient levels of assistance. Istituto Nazionale di Statistica, "Anziani e domanda socio-sanitaria", (2021), at: <https://www.istat.it/comunicato-stampa/gli-anziani-e-la-loro-domanda-sociale-e-sanitaria-rapporto-commissione-per-la-riforma-dellassistenza-sanitaria-e-sociosanitaria-per-la-popolazione-anziana-istat/>

³⁸ Italian Ministry of Economy and Finance, "Spese mediche e di assistenza specifica delle persone con disabilità", at: <https://www.agenziaentrate.gov.it/portale/spese-mediche-e-di-assistenza-specifica-delle-persone-con-disabilita%25c3%25a0>

³⁹ BPS has communicated that under Strutture Convenzionate, national health services, the patient pays only the price of the ticket, which is a small percentage of the cost of the service, as defined by Italian law. The state pays the rest of the fees. Presidenza del Consiglio dei Ministri, "Decreto Legislativo 30 dicembre 1992, n. 502", at: <https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:decreto.legislativo:1992:502>

⁴⁰ The Italian government defines ONLUS as associations, cooperative societies, and other private entities operating in sectors such as social assistance, health care, education, charity, amateur sports, cultural and artistic promotion, and civil rights protection. ONLUS must focus on supporting disadvantaged individuals, such as those affected by physical, psychological, economic, social, or family conditions or members of foreign communities in need of humanitarian aid, with the sole purpose of promoting social solidarity. Presidenza del Consiglio dei Ministri, "Decreto Legislativo 4 dicembre 1997, n. 460", (1997), at: <https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:decreto.legislativo:1997:460>

⁴¹ The Italian government defines ETS as organizations such as voluntary associations, social enterprises and other private entities registered in the National Single Registry of Third Sector Entities, engaged in socially driven activities, including healthcare services, initiatives aimed at protecting environmental conditions, education, amateur sports, preservation of cultural heritage and the management of cultural and artistic activities. Furthermore, their assets must be used exclusively to pursue civic, solidarity-based and socially beneficial objectives. Presidenza del Consiglio dei Ministri, "Decreto Legislativo 3 luglio 2017, n. 117", (2017) at: <https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:decreto.legislativo:2017:117>

- For Strutture Convenzionate, the Bank has confirmed that these facilities are covered under the Italian national health services and therefore these facilities offer subsidized services to ensure universal accessibility, regardless of the ability to pay. Sustainalytics considers the expenditures to be socially impactful.
- For ONLUS and third-sector entities, Sustainalytics notes their non-profit nature may suggest more affordable care due to their social purpose, however affordability is not fully guaranteed. Therefore, Sustainalytics considers investments in such entities without guaranteed affordability to have limited social impacts.
- Funding to universities, public schools and for vocational training.
 - BPS has communicated to Sustainalytics that financing under this category will be limited to public schools, and education will therefore be accessible to all regardless of the ability to pay.
 - Sustainalytics considers the expenditures under this category to be socially impactful
- Loans to students pursuing a degree.
 - BPS has communicated to Sustainalytics that the loans will be provided to all prospective students, regardless of their financial or social condition. BPS has further communicated that students must meet the following criteria: i) are enrolled in a public or state-accredited university; ii) have domestic and primary residency in Italy; and iii) are enrolled in eligible study programmes, which are first undergraduate degree, second degree, master's (postgraduate studies) and doctorate studies. BPS has further confirmed that the loans provided will be limited to education-related expenses of the students and will be repaid over a long term, with no interest rate.
 - Sustainalytics notes that the Bank intends to finance student loans to enhance access to tertiary education for the general population in Italy and that the Framework does not limit financing of such loans for a specific target group such as socio-economically disadvantaged students. However, Sustainalytics notes that Italy has one of the lowest rates of tertiary education in the EU and OECD.^{42,43} In addition, the share of public spending on education as a percentage of GDP in Italy is lower compared to the EU and OECD countries.^{44,45}
 - In this context, Sustainalytics considers financing of student loans to be socially impactful and encourages the Bank to further target socio-economically disadvantaged students who are most in need of financial support.
- Loans for the development, refurbishment, and maintenance of recreational facilities, community centres, and cultural sites, and for the construction of facilities for sports and para-sports.
 - Sustainalytics notes that financing will be provided to private structures limited to ONLUS⁴⁶ and ETS.⁴⁷ Sustainalytics further notes their non-profit nature may suggest more affordable care due to their social purpose however, affordability is not fully guaranteed. Therefore, Sustainalytics considers investments in such entities without guaranteed affordability to have a limited social impact.

⁴² Istituto Nazionale di Statistica, "Istruzione e lavoro", (2024), at: <https://noi-italia.istat.it/pagina.php?id=3&categoria=5&action=show&L=0>

⁴³ Alleanza Italiana per lo Sviluppo Sostenibile, "Il livello di istruzione italiano cresce più lentamente della media Ocse", (2022), at: <https://asvis.it/notizie/2-13706/il-livello-di-istruzione-italiano-cresce-piu-lentamente-della-media-ocse>

⁴⁴ Ibid.

⁴⁵ Istituto Nazionale di Statistica (ISTAT), "Istruzione e lavoro", (2024), at: <https://noi-italia.istat.it/pagina.php?id=3&categoria=5&action=show&L=0>

⁴⁶ Presidenza del Consiglio dei Ministri, "Decreto Legislativo 4 dicembre 1997, n. 460", at: <https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:decreto.legislativo:1997:460>

⁴⁷ Presidenza del Consiglio dei Ministri, "Decreto Legislativo 3 luglio 2017, n. 117", (2017), at: <https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:decreto.legislativo:2017:117>

- Soft loans for households and small and medium-size enterprises (SMEs)⁴⁸ affected by natural disasters, such as floods and earthquakes.
 - BPS has communicated that the households and SMEs are located in Italy and that it defines households and SMEs affected by natural disasters as those located in regions where the government has called for extraordinary aid due to natural disasters.⁴⁹
 - BPS has confirmed that it will offer soft loans to the target populations. Furthermore, the Bank has confirmed that it will offer pre-amortization loans that provide the potential to defer premium payments for an unspecified amount of time at the beginning of the loan term. Sustainalytics considers it a strength to provide any type of financial advantage in loans provided to targeted SMEs. Sustainalytics also considers the provision of clear financial advantages to be a critical requirement in socially impactful retail loans. Sustainalytics notes that there is a lack of clarity regarding the degree of flexibility to be offered and therefore the degree of financial advantage provided to the end-user. Therefore, the financing offered to individual borrowers is expected to provide limited social impact.
 - Based on the above, Sustainalytics views investments to be socially impactful for SMEs, but with limited expected social benefits for individual borrowers.
- Under the Support in Disadvantaged Areas category, BPS may finance or refinance loans in support of MSMEs,⁵⁰ located in rural areas with development issues⁵¹ and with a GDP per capita lower than the national average.⁵²
 - BPS has communicated to Sustainalytics that the Bank will employ a tailored approach to identify the most suitable loan solutions for the client, considering factors such as amount, duration, flexibility, and pricing. Additionally, the Bank has numerous branches across the territory to facilitate communication with clients.
 - The Bank has confirmed that it will not finance enterprises that employ child labour and maintain poor working conditions.
 - Sustainalytics considers the expenditures under this category to be socially impactful.
- Under the Female and Youth Entrepreneurship category, BPS may finance or refinance loans to promote female and youth entrepreneurship and enterprises. Sustainalytics notes the following:
 - Promoting female entrepreneurship includes loans to SMEs⁵³ that are majority-owned or majority-managed or led by women, with majority defined as more than 50%.
 - Promoting youth entrepreneurship includes loans to SMEs,⁵⁴ whose owner is under 35 years old and with an income below the national average.⁵⁵
 - BPS has also communicated to Sustainalytics that the Bank will employ a tailored approach to identify the most suitable loan solutions for the client, considering factors such as amount, duration, flexibility, and pricing. Additionally, the Bank has numerous branches across the territory to facilitate communication with clients.
 - Sustainalytics considers the expenditures under this category to be socially impactful.

⁴⁸ BPS uses the EU Commission's definition of SMEs. Micro enterprises must have: i) fewer than 10 employees, and ii) a balance sheet equal to or below EUR 2 million or iii) a turnover equal to or below EUR 2 million. Small enterprises must have: (i) fewer than 50 employees, and (ii) a balance sheet equal to or below EUR 10 million or (iii) a turnover equal to or below EUR 10 million. Medium enterprises must have: (i) fewer than 250 employees, and (ii) a balance sheet equal to or below EUR 43 million or (c) a turnover equal to or below EUR 50 million. European Commission, "SME definition", at: https://single-market-economy.ec.europa.eu/smes/sme-fundamentals/sme-definition_en

⁴⁹ BPS has communicated that it uses Italy's Flood Decree (DL 61/2023). The Flood Decree outlines the urgent interventions used to address emergencies that arise from flooding events occurring starting May 2023. Parlamento Italiano, "D.L. 61/2023 - Decreto Alluvioni", (2023), at: <https://temi.camera.it/leg19/provvedimento/d-l-61-2023-decreto-alluvioni.html>

⁵⁰ BPS uses the EU Commission's definition of SMEs. European Commission, "SME definition", at: https://single-market-economy.ec.europa.eu/smes/sme-fundamentals/sme-definition_en

⁵¹ Italian Ministry of Agriculture, Food Sovereignty and Forestry, "Aree Rurali 2014-2020", at: <https://www.reterurale.it/areerurali>

⁵² Italian Department of Finance, "Statistiche sulle dichiarazioni dei redditi persone fisiche (Irpéf) e dichiarazioni IVA - a.i. 2022", (2024), at: <https://www.finanze.gov.it/inevidenza/Statistiche-sulle-dichiarazioni-dei-redditi-persone-fisiche-Irpef-e-dichiarazioni-IVA-a.i.-2022/>

⁵³ BPS uses the EU Commission's definition of SMEs. European Commission, "SME definition", at: https://single-market-economy.ec.europa.eu/smes/sme-fundamentals/sme-definition_en

⁵⁴ BPS uses the EU Commission's definition of SMEs. European Commission, "SME definition", at: https://single-market-economy.ec.europa.eu/smes/sme-fundamentals/sme-definition_en

⁵⁵ BPS has communicated to Sustainalytics that that loans are aimed at young entrepreneurs who are not able to find the liquidity necessary to grow their business with their own income. Italian Department of Finance, "Statistiche sulle dichiarazioni dei redditi persone fisiche (Irpéf) e dichiarazioni IVA - a.i. 2022", (2024), at: <https://www.finanze.gov.it/inevidenza/Statistiche-sulle-dichiarazioni-dei-redditi-persone-fisiche-Irpef-e-dichiarazioni-IVA-a.i.-2022/>

- Under the Basic Infrastructure category, BPS may finance or refinance loans to increase accessibility to:⁵⁶
 - Potable water, through waterworks, sewerage systems, and purification plants.
 - BPS intends to finance desalination facilities, which are highly energy-intensive. The Bank confirmed to Sustainalytics that such facilities will be powered by renewables and there will be reasonable assurance of an appropriate waste management in place for brine disposal. Sustainalytics notes positively that the facilities to be financed will be powered primarily by renewable electricity.⁵⁷
 - The Bank has confirmed to Sustainalytics that projects financed will exclude integrated water and power plants with fossil fuel power and desalination plants with dedicated on-site fossil fuel power.
 - Mobility infrastructure and transportation modes in underserved areas.
 - BPS has confirmed to Sustainalytics that: i) vehicles under this category will be aligned with the criteria outlined in the Clean Transportation category; and ii) major roads and highways will be excluded from financing under the Framework.
 - Food safety, including:
 - Investment in infrastructure and facilities, such as warehouses to provide adequate storage, improve food conservation or improve connectivity in the food chain to avoid food losses.
 - Financing the purchase of vehicles dedicated to food trucking to facilitate the delivery of food to remote areas where there is an explicit need to improve food security or reduce food loss. BPS has confirmed to Sustainalytics that the eligible projects for transport under this category will be aligned with the criteria in the Clean Transportation category.
 - Sustainalytics considers the expenditures under this category to be socially impactful.
- Under the Affordable Housing category, BPS may finance or refinance:
 - Subsidized mortgages for individuals under 35 years old who purchase, construct, or renovate their first home and have a gross income below EUR 32,000.
 - Sustainalytics notes that a gross income of EUR 32,000⁵⁸, would approximately translate to a net salary below the Italian net median value of EUR 26,979.⁵⁹ BPS has communicated to Sustainalytics that the loans will offer subsidized rates for up to EUR 250,000. Sustainalytics considers this expenditure to be socially impactful.
 - Loans to companies managing social housing, to support their development and maintenance.
 - The Bank has communicated that financing will be limited to regional entities managing public housing in Italy (Enti Regionali per l'Edilizia Residenziale Pubblica or ERP). BPS has confirmed that ERPs operate in accordance with their respective regional laws, which are approved by the government. Specifically, the regions are responsible for defining the criteria for residential housing allocation and determining the corresponding rents.⁶⁰ Sustainalytics notes that the specific affordability criteria are determined at the regional level and are therefore not clearly defined in the Framework, but Sustainalytics recognizes that these

⁵⁶ BPS has confirmed to Sustainalytics that there will be no double-counting of eligible projects under this category with those financed under the Clean Transportation and Sustainable Water and Wastewater Management categories. Furthermore, BPS has communicated examples of expenditures for potable water and mobility infrastructure and transportation modes to Sustainalytics.

⁵⁷ Desalination plants produce tremendous amounts of brine. Due to the use of pre-treatment and anti-fouling additives in the process, this hypersaline by-product liquid stream may contain heavy metals and chemicals that can accumulate and/or affect the ecosystem.

⁵⁸ A gross salary of EUR 32,000 would roughly translate into net income EUR 22,000–24,500, depending on personal deductions, dependent children, and the applicable tax rates in the region and municipality of residence.

⁵⁹ Istituto Nazionale di Statistica, "Living conditions and household income – years 2021-2022 – Stable the risk of poverty or social exclusion", (2023), at: <https://www.istat.it/wp-content/uploads/2023/06/living-conditions-Stat-Report-2021-2022-EN.pdf>

⁶⁰ Presidenza del Consiglio dei Ministri, "Decreto Legislativo 31 Marzo 1998, n. 112", (1998), at:

https://www.normattiva.it/eli/stato/DECRETO_LEGISLATIVO/1998/03/31/112/CONSOLIDATED#:~:text=Il%20presente%20decreto%20legislativo%20disciplina%2C%20ai%20sensi%20del,e%2C%20nei%20casi%20espressamente%20previsti%2C%20alle%20autonomie%20funzionali

programmes intend to provide affordable housing by fixing rental costs based on income and/or socio-economic status.⁶¹ Sustainalytics considers the expenditures under this category to be socially impactful.

- For all lending activities, BPS has confirmed that it has internal processes to enforce responsible lending practices to assess a potential borrower's financial situation, such as the borrower's total income, indebtedness ratio, risk profile, level of financial literacy and personal preferences. For additional information on predatory lending, see section 2.2.
- Sustainalytics notes that BPS excludes the financing of activities in certain sectors, such as fossil fuel, weapons, tobacco, gambling, palm oil without recognized certifications such as the Roundtable on Sustainable Palm Oil,⁶² adult entertainment, predatory lending, nuclear and energy production from oil, black coal, lignite and oil sands. Sustainalytics considers that this exclusion list strengthens the Framework.
- **Project Evaluation and Selection:**
 - BPS's Sustainability Management Committee⁶³ will be responsible for the project evaluation and selection process. The Bank has established a multi-step assessment process under which various departments in the Group will first identify and shortlist potential assets and the Sustainability Management Committee will then review and approve potential projects for alignment with the eligibility criteria in the Framework.
 - The Bank has implemented an ESG Credit Policy and has an ESG Risk Management Framework in place 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 the requirements of the GBP and SBP. For additional details, see Section 2.2.
 - Based on the 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:**
 - BPS's CFO Area will monitor the allocation of proceeds to eligible projects using an internal information system. The proceeds will be managed on a portfolio level and the amount of eligible assets will continually exceed outstanding liabilities.
 - The Bank intends to allocate the proceeds within 36 months of each issuance. Pending full allocation, unallocated proceeds will be invested in cash, cash equivalents or other marketable 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 presence of a tracking system and the disclosure of the temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- **Reporting:**
 - BPS will report on the allocation of proceeds and the corresponding impact in a report, which will be published on its website on an annual basis until full allocation.
 - The allocation reporting will include the: i) total project allocations eligible; ii) share of financing versus refinancing; iii) amount of unallocated income at the end of the reporting period, if any; iv) breakdown of total eligible projects per category; and v) geographical breakdown of eligible projects.
 - BPS impact reporting, where feasible, may include: i) CO₂ emissions avoided; ii) renewable energy total installed capacity (in MW); iii) expected energy savings (in MWh/year); iv) new clean transportation infrastructure built (in km); v) floor space of green real estate (in m²); vi) number of agriculture businesses financed; vii) volume of farming input avoided (in tonnes/year); viii) waste diverted from landfill (in tonnes); ix) volume of water saved, reduced or treated (in m³); and x) total population served by the system.

⁶¹ Government of Italy, "Decreto 22 Aprile 2008", (2008), at: <https://www.gazzettaufficiale.it/eli/id/2008/06/24/08A04473/sg>

⁶² Roundtable on Sustainable Palm Oil: <https://rspo.org/>

⁶³ The Sustainability Management Committee is composed of the following members: the Chief Financial Officer (CFO), the Chief Commercial Officer (CCO), the Chief Lending Officer (CLO), the Chief Risk Officer (CRO), the Chief Information and Operations Officer (CIOO), the Head of the Logistics and Operational Support Service, the Head of the Personnel and Organizational Models Service, the Head of Planning, Investor Relations and Management Controls Service, and the Head of the Sustainability Office. The Committee is chaired by the CFO, with the Managing Director and all ESG representatives, including those from subsidiaries, invited to attend meetings on a permanent basis.

- Based on the commitments to allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the Framework aligns with the SBG and the four core components of the GBP and SBP.

Section 2: Sustainability Strategy of Banca Popolare di Sondrio

Contribution to BPS's sustainability strategy

Sustainalytics is of the opinion that BPS incorporates sustainability considerations into its business and lending portfolio at the group level. Under its 2022-2025 Business Plan,⁶⁴ the Bank intends to focus on the following areas: i) path to carbon neutrality and credit portfolio alignment; ii) sustainable finance and responsible credit lines, with a focus on SMEs and local communities; and iii) participation in global and local sustainability initiatives.⁶⁵

BPS calculates and reports its environmental impact, including its GHG footprint, generated waste, corporate loan portfolio emissions, and emissions from its asset management portfolio.⁶⁶ In FY 2023, BPS's corporate loan portfolio generated 7.7 million tCO_{2e}.⁶⁷ BPS has begun the process of defining decarbonization targets for its corporate credit portfolio, in line with the Net-Zero Banking Alliance (NZBA) methodology. It has set preliminary targets to reduce the emissions intensity of its financed activities by 2030 compared to a 2022 baseline. These targets include reducing the emissions intensity by: i) 31% in the agricultural sector; ii) 29% and 14% in oil and gas respectively; iii) 50% in the power sector; and iv) 25% in the transport sector.⁶⁸ In 2023, BPS also implemented ESG ratings to assess the sustainability performance of its suppliers.⁶⁹

BPS has established a sustainable credit line, "next," for retail and corporate customers. For retail customers, the Bank offers credit for energy efficient technologies, renewable energy and low-carbon mobility.^{70,71} In its 2022-2025 Business Plan, BPS states its aim to strengthen its position in local communities by providing services in low-populated areas and improving social inclusion for women and socially disadvantaged groups in relation to buildings.^{72,73} As of 2023, 30% of BPS's access points were located in low-population density areas, where the municipalities have fewer than 5,000 inhabitants.⁷⁴ The Bank also focuses on supporting female entrepreneurs in accessing Italy's Women's Enterprise Fund⁷⁵ through unsecured financing.⁷⁶ BPS has confirmed that as of November 2024, the Bank had more than EUR 100 million in loans outstanding to women-owned companies. BPS also supports communities through sponsorship and donation programmes, supporting causes such as charities, education and sport facilities, cultural, recreational and trade associations, and humanitarian organizations.⁷⁷

BPS joined the UN Global Compact in 2004 and became a founding member of Global Compact Network Italia in 2018.⁷⁸ Since joining, the Bank has annually reported on its progress on the 10 principles.⁷⁹ BPS is also a member of the Forum for Sustainable Finance, an Italian network of financial institutions that aims to promote sustainable finance.⁸⁰ In 2023, BPS joined the UN Environment Programme Finance Initiative, and the affiliated Principles for Responsible Banking and the NZBA.⁸¹ Under the NZBA, affiliated banks commit to define

⁶⁴ 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

⁶⁵ Ibid.

⁶⁶ BPS, "NFS 2023", (2023), at: <https://istituzionale.popso.it/sites/default/files/documents/ENG-BPSondrio-DNF2023-05.pdf>

⁶⁷ Ibid.

⁶⁸ Ibid.

⁶⁹ Ibid.

⁷⁰ BPS, "Next per l'ambiente - energia green", at: <https://www.popso.it/next/ambiente/privati/energia-green>

⁷¹ BPS, "Next per l'ambiente - mobilità sostenibile", at: <https://www.popso.it/next/ambiente/privati/mobilita>

⁷² 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

⁷³ BPS, "Sustainability Policy", (2023), at: https://istituzionale.popso.it/sites/default/files/files/BPS_SustainabilityPolicy_ottobre23_FINAL_0.pdf

⁷⁴ BPS, "NFS 2023", (2023), at: <https://istituzionale.popso.it/en/archive/reports>

⁷⁵ Italy's Women's Enterprise Fund supports women-led businesses through subsidized loans. Ministry of Business, "Women's Enterprise Fund", at: <https://www.mimit.gov.it/it/incentivi/fondo-impresa-femminile>

⁷⁶ 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

⁷⁷ Ibid.

⁷⁸ BPS, "Sustainable Initiatives", at: <https://istituzionale.popso.it/en/sustainability/sustainable-initiatives>

⁷⁹ Ibid.

⁸⁰ Forum per la Finanza Sostenibile, "About Us", at: <https://finanzasostenibile.it/en/about-us/>

⁸¹ Ibid.

decarbonization strategies and targets in line with the Paris Agreement, and align their activities with a pathway to net zero GHG emissions by 2050.⁸² Regarding social responsibility initiatives, BPS joined Valore D⁸³ in 2023, an initiative that aims to promote diversity and inclusion in the workplace.⁸⁴ The Bank also signed the Italian Banking Association's Women in Banking Charter as of 2023, thus committing to enhance its corporate policies in line with diversity and gender inclusive principles.^{85,86}

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

Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the proceeds from the instruments issued under the Framework will be directed towards eligible projects that are expected to have positive environmental or social impacts. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Sustainalytics notes that BPS plays a limited role in the development of projects and the assets being financed, but it remains exposed to risks associated with projects it may finance by offering lending and financial services. Some key environmental and social risks possibly associated with the eligible projects may include issues involving: i) emissions, effluents and waste generated during construction; ii) land use and biodiversity loss from infrastructure development; iii) occupational health and safety; iv) business ethics; v) predatory lending; vi) community relations; and vii) data privacy and security.

Sustainalytics is of the opinion that BPS is able to manage or mitigate potential risks through implementation of the following:

- BPS integrates ESG considerations into its credit assessment process and has developed a risk management framework to assess the ESG risk factors of counterparties.⁸⁷ BPS evaluates counterparties on their transition plans, GHG emission reduction targets, sustainability reporting, investments aligned with the EU Taxonomy, and sustainability KPIs aligned with the EU Taxonomy, among other proprietary ESG scoring criteria.⁸⁸ The Bank also applies sector-specific sustainability criteria to counterparties with operations in high-impact sectors.⁸⁹ As a result of the assessment, the Bank can apply intensified controls and escalation of the decision-making process in order to assess exposures to such counterparties, adjust credit pricing decisions, and support customers' transition towards more sustainable business where possible.⁹⁰ The Bank does not lend to companies that are exposed to controversies related to significant violations of human rights; cyber-attacks; terrorism; weapons; labour rights abuses; and activities conducted at the expense of protected sites, companies involved in controversial weapons, in violation of international principles or guidelines from its investments.^{91,92,93}
- BPS has developed its General Regulation of Climate and Environmental Risks document, which categorises the climate and environmental risks applicable to the Bank and defines how those risks should be considered within the existing risk management model.⁹⁴ BPS conducts due diligence on its exposure to physical and transition risk factors derived from its banking and trading businesses on an ongoing basis.⁹⁵ On the investment side, BPS implements ESG considerations into its asset management, advisory, and property portfolio management areas.⁹⁶
- Regarding risks related to emissions, effluents and waste generated during construction and land use and biodiversity protection, the Bank's Environmental Policy outlines its processes to reduce its direct and indirect effects on the environment, including the consumption of natural resources and

⁸² UNEPFI, "Net-Zero Banking Alliance", at: <https://www.unepfi.org/net-zero-banking/>

⁸³ Valore D, at: <https://www.valored.it/>

⁸⁴ BPS, "Social Sustainability", at: <https://istituzionale.popso.it/en/sustainability/social>

⁸⁵ Ibid.

⁸⁶ Associazione Bancaria Italiana, "The 'Women in the Banking' charter to enhance gender diversity", at: <https://www.abi.it/la-carta-donne-in-banca-per-valorizzare-la-diversita-di-genere/>

⁸⁷ BPS, "ESG Credit", at: <https://istituzionale.popso.it/en/sustainability/esg-credit>

⁸⁸ Ibid.

⁸⁹ BPS defines high-impact sectors as coal; oil and gas; electric energy; manufacture and trade of weapons; gambling; tobacco; mining of non-fossil fuels; agriculture; real estate iron and steel; aluminium; cement; transportation.

⁹⁰ BPS, "ESG Credit", at: <https://istituzionale.popso.it/en/sustainability/esg-credit>

⁹¹ BPS defines protected sites as UNESCO World Heritage Sites, wetlands covered by the Ramsar Convention, and biodiversity-sensitive areas including High Conservation Value Areas, Alliance for Zero Extinction sites or IUCN Category I-VI areas.

⁹² BPS, "ESG Credit Policy", (2024), at: <https://istituzionale.popso.it/en/sustainability/esg-credit>

⁹³ Ibid.

⁹⁴ BPS has shared its General Regulation of Climate and Environmental Risks with Sustainalytics confidentially.

⁹⁵ Ibid.

⁹⁶ BPS, "ESG Finance", at: <https://istituzionale.popso.it/en/sustainability/esg-finance>

waste.⁹⁷ As per the policy, the Bank encourages its customers to manage their activities in a sustainable manner by incorporating ESG risk factors into credit processes. The Bank has communicated to Sustainability that when applying for green loans, customers are required to submit environmental and emissions data for the project that they are seeking to finance, including providing responses to a questionnaire on the protection of ecosystems, water and land.⁹⁸ The Bank has further communicated that it currently includes questions on biodiversity protection for counterparties identified as high risk,⁹⁹ or those in carbon-intensive sectors,¹⁰⁰ and plans to include biodiversity variables into the counterparty ESG score in 2025.¹⁰¹ Moreover, projects in the EU must comply with Directive 2011/92/EU,¹⁰² which provides a framework to ensure that land-intensive projects are adequately assessed before they are approved and take appropriate measures to prevent, reduce and offset significant adverse effects on the environment, particularly on soil, species and habitats.¹⁰³ The directive has been transposed into Italian law under legislative decree 104/2017.¹⁰⁴ Similarly, in Switzerland, the Federal Act on the Protection of the Environment stipulates that an authority must assess the impact of construction projects on the environment at the earliest stage.¹⁰⁵ Similar to the EU, an environmental impact assessment is required for projects that could cause substantial pollution to environmental areas.¹⁰⁶

- Regarding risks related to occupational health and safety, financing will take place in Italy and Switzerland, where legislation protecting occupational health and safety rights is in place. As per Article 2087 of the Italian Civil Code^{107,108} and the Consolidated Law on Health and Safety in the Workplace (Legislative Decree 81/2008),¹⁰⁹ companies in Italy are required to provide a physically and psychologically safe work environment. In Switzerland, the Employment Act requires employers to take necessary measures to protect the health and integrity of workers and implement measures to protect workers from health hazards and overwork.¹¹⁰
- Regarding business ethics, the Bank's Code of Ethics and Policy on the prevention of money laundering and the financing of international terrorism outline its processes to prevent, detect and manage unethical business behaviour, including conflicts of interest, receiving gifts, money laundering and terrorism financing.^{111,112} Additionally, the Bank assesses customers on a variety of risk factors, including assessing their links with high-risk entities, geographical location, and the distribution channels used.¹¹³
- With regard to risks related to client protection and predatory lending, BPS's Code of Ethics requires all staff to act with fairness, transparency and diligence when dealing with customers, including relaying information provided on products and services.¹¹⁴ The code states that staff must endeavour to protect the interests of customers and reduce information asymmetries related to the products and services offered to or requested by customers.¹¹⁵ Sustainability notes that BPS's consumer credit is regulated by the Italian consumer credit law under Legislative Decree no.141 of

⁹⁷ BPS, "Environmental Policy", (2021), at: https://istituzionale.popso.it/sites/default/files/files/EnvironmentalPolicy-dec2021-ENG_0.pdf

⁹⁸ BPS, "next per l'ambiente – idroelettrico", at: <https://www.popso.it/next/ambiente/aziende/idroelettrico>

⁹⁹ BPS has communicated that high-risk counterparties are those that have an ESG score of 4 or 5 according to its internal rating system. Counterparties are rated on a scale of 1 to 5, with a higher score indicating higher risk.

¹⁰⁰ As defined by the Net Zero Banking Alliance: agriculture; aluminium; cement; coal; commercial and residential real estate; iron and steel; oil and gas; power generation; and transport. Source: <https://www.unepfi.org/wordpress/wp-content/uploads/2024/03/Guidelines-for-Climate-Target-Setting-for-Banks-Version-2.pdf>

¹⁰¹ As part of the Bank's ESG Credit Policy detailed above, the Bank calculates ESG scores for counterparties based on an internal methodology.

¹⁰² 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>

¹⁰³ Ibid.

¹⁰⁴ Government of Italy, "Normattiva, "Decreto Legislativo 16 giugno 2017, n. 104", (2017), at: <https://www.normattiva.it/atto/caricaDettaglioAtto?atto.dataPubblicazioneGazzetta=2017-07-06&atto.codiceRedazionale=17G00117&atto.articolo.numero=0&atto.articolo.sottoArticolo=1&atto.articolo.sottoArticolo1=0&qld=5b5a9d66-a90f-44d8-903b-192ad425295d&tabID=0.8319124055744151&title=lbl.dettaglioAtto>

¹⁰⁵ Government of Switzerland, "Federal Act on the Protection of the Environment", (1983), at: https://www.fedlex.admin.ch/eli/cc/1984/1122_1122_1122/en

¹⁰⁶ Ibid.

¹⁰⁷ ILO, "National Labour Law Profile: Italy", at: https://www.ilo.org/ifpdial/information-resources/national-labour-law-profiles/WCMS_158903/lang-en/index.htm

¹⁰⁸ Government of Italy, "Approvazione del testo del Codice civile", (1942), at: <https://www.gazzettaufficiale.it/dettaglio/codici/codiceCivile>

¹⁰⁹ Government of Italy, "Decreto Legislativo 81/2008", (2008), at: <https://www.gazzettaufficiale.it/eli/id/2008/04/30/008G0104/sq>

¹¹⁰ Government of Switzerland, "Loi fédérale sur le travail dans l'industrie, l'artisanat et le commerce", (1964), at: https://www.fedlex.admin.ch/eli/cc/1966/57_57_57/fr

¹¹¹ BPS, "Code of Ethics", (2019), at: https://istituzionale.popso.it/sites/default/files/files/Codice%20EticoBPSen_0.pdf

¹¹² 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

¹¹³ Ibid.

¹¹⁴ BPS, "Code of Ethics", (2023), at: <https://istituzionale.popso.it/sites/default/files/files/Code%20of%20Ethics.pdf>

¹¹⁵ Ibid.

14 August 2010.¹¹⁶ In addition, operations in Switzerland are subject to local federal laws on consumer credit, which protect consumers right to comprehensive information and obliges lenders to verify the credit standing of their customers and their ability to repay loans.¹¹⁷

- As part of its stakeholder engagement process, BPS has identified the community as a key stakeholder. The Bank engages with communities, including those affected by its lending activities, to understand their concerns through online questionnaires.¹¹⁸ Sustainalytics further notes that projects financed under the Framework are based in Italy and Switzerland, which are recognized under the Equator Principles as Designated Countries.¹¹⁹ This indicates the presence of robust environmental and social governance systems, legislation and institutional capacity for protecting the environment and communities including continuous stakeholder engagement. The principles require clients to demonstrate effective and ongoing stakeholder management in a structured and culturally appropriate manner with affected communities, workers and other relevant stakeholders for new projects. Furthermore, for affected communities, the principles require clients to conduct an informed consultation and participation process and tailor the process to consider project risks and prioritize understanding the needs of disadvantaged and vulnerable groups.¹²⁰
- BPS's Code of Ethics stipulates that the Bank must take precautions to safeguard customer data confidentiality.¹²¹ The Bank has implemented safeguards to protect privacy and personal data and has committed to complying with the EU General Data Protection Regulation and the Italian Data Protection Authority's "Guidelines for the processing of personal data of customers in the banking sector" through the safeguards.^{122,123,124} The Bank has also appointed a designated Data Protection Officer, and outlines its data processing policy publicly on its website.^{125,126}

Based on these policies, standards and assessments, Sustainalytics is of the opinion that BPS 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 13 use of proceeds categories are aligned with those recognized by the GBP or SBP. Sustainalytics has focused below on where the impact is specifically relevant in the local context.

Impact of green buildings in Italy and Switzerland

Buildings accounted for around 20% of Italy's GHG emissions in 2021, most of which stemmed from heating.¹²⁷ The country's buildings are relatively energy-intensive when compared to other countries in similar climactic zones, with Spain's buildings emitting approximately 1 tCO₂ less per dwelling in space heating emissions.¹²⁸ Between 2005 and 2022, GHG emissions from energy use in buildings declined by more than 20%.¹²⁹ Since 2021, all new buildings and buildings undergoing major renovations are required to be net zero buildings.^{130,131} However, more than 60% of Italy's residential buildings were constructed prior to the country's first law on energy performance standards (introduced in 1976), and as a result, the number of buildings that

¹¹⁶ Government of Italy, "Legislative Decree no.141 of 13 August 2010", (2010), at: <https://www.gazzettaufficiale.it/gunewsletter/dettaglio.jsp?service=1&dataqu=2010-09-04&task=dettaglio&numgu=207&redaz=010G0170&tmstp=1283935372531>

¹¹⁷ Federal Office of Justice, "Federal Law on Consumer Credit", at: <https://www.bj.admin.ch/bj/en/home/wirtschaft/gesetzgebung/archiv/konsumkredit.html>

¹¹⁸ BPS, "NFS 2023", (2023), at: <https://istituzionale.popso.it/sites/default/files/documents/ENG-BPSondrio-DNF2023-05.pdf>

¹¹⁹ Equator Principles, "About the Equator Principles", at: <https://equator-principles.com/about-the-equator-principles/>

¹²⁰ Equator Principles, "Equator Principles EP4 – July 2020", at: https://equator-principles.com/app/uploads/The-Equator-Principles_EP4_July2020.pdf

¹²¹ Ibid.

¹²² European Parliament, "Regulation (EU) 2016/679", at: <https://eur-lex.europa.eu/eli/reg/2016/679/oj>

¹²³ BPS, "Code of Ethics", (2023), at: https://istituzionale.popso.it/sites/default/files/files/Codice%20EticoBPSen_0.pdf

¹²⁴ Italian Data Protection Authority, "Guidelines for the processing of personal data of customers in the banking sector – 25 October 2007", (2007), at: <https://www.garantepriacy.it/home/docweb/-/docweb-display/docweb/1457247>

¹²⁵ BPS, "Privacy", at: <https://istituzionale.popso.it/it/privacy>

¹²⁶ BPS (Suisse), "Privacy", at: <https://www.bps-suisse.ch/en/privacy.php>

¹²⁷ OECD, OECD Economic Surveys: Italy 2024, (2024), at: https://www.oecd-ilibrary.org/achieving-the-energy-and-climate-transition_7f044cef-en.pdf?itemId=%2Fcontent%2Fcomponent%2F7f044cef-en&mimeType=pdf

¹²⁸ Ibid.

¹²⁹ European Environment Agency, "Greenhouse gas emissions from energy use in buildings in Europe", (2023), at:

<https://www.eea.europa.eu/en/analysis/indicators/greenhouse-gas-emissions-from-energy?activeAccordion=>

¹³⁰ Government of Italy, "Decree-Law no. 63 of 4 June 2013", at: <https://www.gazzettaufficiale.it/eli/id/2013/06/05/13G00107/sq>

¹³¹ International Energy Agency, "Italy 2023: Energy Policy Review", (2023), at: https://iea.blob.core.windows.net/assets/71b328b3-3e5b-4c04-8a22-3ead575b3a9a/Italy_2023_EnergyPolicyReview.pdf

have an energy performance certificate is limited.¹³² It is estimated that approximately 74% of Italy's residential buildings fall into the lowest energy classes (E, F, and G), with only 11% achieving the top certification (A1-A4) as of 2023.¹³³ In order to achieve its national NECP targets, Italy will need to retrofit 2.5% of its building stock annually between 2020 and 2050.¹³⁴ 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 (between 2023 and 2033).^{135,136} Under the *Conto Termico* subsidy, launched in 2016, the government provides incentives to increase the energy efficiency of buildings, covering 40-65% of the cost for interventions including the reconstruction of nearly zero-energy buildings and ¹³⁷ Italy's government has earmarked EUR 15.57 billion for energy efficiency and renovation financing in buildings, as part of its 2021-2026 National Recovery and Resilience Plan.^{138,139,140}

In Switzerland, buildings accounted for 25% of the country's total GHG emissions in 2021 and were the largest consumer of fuel, accounting for approximately 47% of the total fuel consumption.^{141,142} Between 1990 and 2020, Switzerland reduced GHG emissions from buildings by approximately 38%.¹⁴³ The government aims to achieve an 82%¹⁴⁴ reduction in GHG emissions from buildings by 2040 compared to 1990, with net zero emissions by 2050.¹⁴⁵ Building regulations are implemented at the canton-level, so there is no unified federal building standard. However, the cantons have developed *Modèle de Prescriptions Énergétiques des Cantons* (model energy regulations) to encourage the harmonization of energy regulations for buildings.¹⁴⁶ Under the federal and cantonal buildings programme, the government has been promoting energy-efficient renovation and renewable energy.¹⁴⁷ The government has also placed a levy on thermal fossil fuels,¹⁴⁸ funnelling part of the proceeds to the buildings programme.¹⁴⁹ Between 2010 and 2023, more than CHF 3.6 billion (EUR 3.9 billion) in subsidies have been paid out under the buildings programme.¹⁵⁰

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

Impact of renewable energy in Italy and Switzerland

Italy remains heavily dependent on fossil fuels, with natural gas (38%) and oil (37%) representing the largest shares in its energy supply in 2023.¹⁵¹ New renewable energy capacity in Italy increased by only 8.6 GW

¹³² National Agency for New Technologies, Energy, and Sustainable Economic Development, "The Size of the National Building Stock", (2024), at: <https://www.pubblicazioni.enea.it/download.html?task=download.send&id=698:la-consistenza-del-parco-immobiliare-nazionale&catid=3>

¹³³ Ibid.

¹³⁴ OECD, "OECD Economic Surveys: Italy 2024", (2024), at: https://www.oecd-ilibrary.org/achieving-the-energy-and-climate-transition_7f044cef-en.pdf?itemId=%2Fcontent%2Fcomponent%2F7f044cef-en&mimeType=pdf

¹³⁵ 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>

¹³⁶ Associazione Nazionale Costruttori Edili, "Audizione Ance su diritto Ue: positiva la direttiva sulle case green ma definire piano di azione per trasformare obiettivi in interventi", (2023), at: <https://ance.it/2023/02/audizione-ance-su-diritto-ue-positiva-la-direttiva-sulle-case-green-ma-definire-piano-di-azione-per-trasformare-obiettivi-in-interventi/>

¹³⁷ Gestore Servizi Energetici, "Conto Termico," at: <https://www.gse.it/servizi-per-te/efficienza-energetica/conto-termico/quote-incentivate>

¹³⁸ Italian Ministry of the Environment and Energy Security, "Final updated NECP 2021-2030", (2024), at:

https://commission.europa.eu/document/download/5ef1819e-1c42-446f-91d0-abb9cf7719e8_en?filename=IT_FINAL%20UPDATED%20NECP%202021-2030%20%28English%29_0.pdf

¹³⁹ Italian Ministry of Economy and Finance, "Recovery and Resilience Plan", (2021), at:

https://www.mef.gov.it/export/sites/MEF/en/focus/documents/PNRR-NEXT-GENERATION-ITALIA_ENG_09022021.pdf

¹⁴⁰ Italian Ministry of Economy and Finance, "The National Recovery and Resilience Plan (NRRP)", (2021), at: <https://www.mef.gov.it/en/focus/The-National-Recovery-and-Resilience-Plan-NRRP/>

¹⁴¹ International Energy Agency, "Switzerland 2023 Energy Policy Review", (2023), at: <https://iea.blob.core.windows.net/assets/b6451900-e6ef-45a8-922d-117520e09a82/Switzerland2023.pdf>

¹⁴² International Monetary Fund, "Climate Change Mitigation in Switzerland", (2023) at:

<https://www.elibrary.imf.org/view/journals/002/2023/197/article-A004-en.xml>

¹⁴³ Ibid.

¹⁴⁴ Ibid.

¹⁴⁵ Swiss Federal Council, "Switzerland's Long-Term Climate Strategy", (2021) at: https://climate-laws.org/documents/long-term-climate-strategy-2021_9b7f?l=switzerland&q=building&id=long-term-climate-strategy-2021_830f

¹⁴⁶ Confédération des directeurs cantonaux de l'énergie, MoPEC, at: https://www.endk.ch/fr/politique-energetique/mopec?set_language=fr

¹⁴⁷ Swiss Federal Office of Energy, "Buildings programme", at: <https://www.bfe.admin.ch/bfe/en/home/promotion/energy-efficiency/buildings-programme.html#:~:text=With%20the%20Buildings%20programme%20the,measures%20in%20the%20buildings%20sector.>

¹⁴⁸ Swiss Federal Office for the Environment, "Imposition of the CO2 levy on thermal fuels", at:

<https://www.bafu.admin.ch/bafu/en/home/topics/climate/info-specialists/reduction-measures/co2-levy/imposition.html>

¹⁴⁹ Swiss Federal Office for the Environment, "The federal and cantonal buildings programme", at:

<https://www.bafu.admin.ch/bafu/en/home/topics/climate/info-specialists/reduction-measures/buildings/buildings-programme.html>

¹⁵⁰ Das Gebäudeprogramm, "Das Gebäudeprogramm in Zahlen", at: <https://www.dasgebaeudeprogramm.ch/de/das-gebaeudeprogramm/das-gebaeudeprogramm-in-zahlen/>

¹⁵¹ International Energy Agency, "Italy", at: <https://www.iea.org/countries/italy/energy-mix>

between 2014 and 2022.¹⁵² The share of total energy consumption from renewables in Italy stands at approximately 20%, as of 2023.¹⁵³ In 2023, the Italian government revised the National Energy and Climate Plan, setting a target for renewable sources to account for 40.5% of the country's final energy consumption by 2030.¹⁵⁴ In order to align with the EU's energy and climate policy framework, Italy needs to add at least 5 GW of new renewable generation capacity annually between 2020 and 2030.¹⁵⁵ Under its National Recovery and Resilience Plan, which aims to promote clean energy and a low-carbon transition between 2021 and 2026, the government has allocated EUR 11.18 billion to support energy efficiency measures in line with the REPowerEU.¹⁵⁶ REPowerEU aims to accelerate the EU's transition to a green economy and reduce fossil fuel dependency¹⁵⁷.

In Switzerland, energy-related GHG emissions peaked in 2005 and the country's renewable energy targets are focused on electricity generation.^{158,159} Under the Swiss Energy Act, the government aims to add 5,400 GWh of renewable electricity generation by 2030 compared to 2000.¹⁶⁰ Fossil fuels accounted for just 2% of Switzerland's power generation in 2022, with the majority of energy derived from hydropower (61.5%), followed by nuclear (29%) and other renewables (7.5%). In order to further secure its low-carbon energy supply, the government approved the *Federal Act on a Secure Electricity Supply from Renewable Energy Sources* in 2023, which will come into force in 2025.^{161,162} The legislation will introduce funding instruments and allows for new agreements to expedite the expansion of renewable energy rollouts.¹⁶³ The government previously implemented various support schemes to promote the development of renewable energy, including remuneration of investment costs for operators of small and large PV schemes,¹⁶⁴ and funding for innovative research that contributes towards the energy transition.¹⁶⁵

Given this context, Sustainalytics considers that BPS's investments in renewable energy projects in Italy and Switzerland are expected to support the countries' efforts toward the green energy transition and contribute to the decarbonization of the economies.

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, Social and Sustainability Bond Framework are expected to help 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

¹⁵² International Energy Agency, "Italy 2023 Energy Policy Review", at: https://iea.blob.core.windows.net/assets/71b328b3-3e5b-4c04-8a22-3ead575b3a9a/Italy_2023_EnergyPolicyReview.pdf

¹⁵³ Italian Ministry of the Environment and Energy Security, "La Situazione Energetica Nazionale nel 2023", (2024), at: https://www.mase.gov.it/sites/default/files/Relazione%20Situazione%20Energetica%20Nazionale_%202023.pdf

¹⁵⁴ Italian Ministry of the Environment and Energy Security, "National Plan Integrated for Energy and Climate", (2023), at: <https://commission.europa.eu/system/files/2023-07/ITALY%20-%20DRAFT%20UPDATED%20NECP%202021%202030%20%281%29.pdf>

¹⁵⁵ Ibid.

¹⁵⁶ Italiadomani, "RePowerEU", at: <https://www.italiadomani.gov.it/content/sogei-ng/it/en/il-piano/missioni-pnrr/repowereu.html>

¹⁵⁷ Ibid.

¹⁵⁸ International Energy Agency, "Switzerland 2023 Energy Policy Review", (2023), at: <https://iea.blob.core.windows.net/assets/b6451900-e6ef-45a8-922d-117520e09a82/Switzerland2023.pdf>

¹⁵⁹ Ibid.

¹⁶⁰ Renewables Now, "Renewables 2022 Global Status Report Switzerland Factsheet", at: https://www.ren21.net/wp-content/uploads/2019/05/GSR2022_Fact_Sheet_Switzerland.pdf

¹⁶¹ International Monetary Fund, "Climate Change Mitigation in Switzerland", (2023) at: <https://www.elibrary.imf.org/view/journals/002/2023/197/article-A004-en.xml>

¹⁶² Swiss Federal Office of Energy, "Federal act on a secure electricity supply", at: <https://www.bfe.admin.ch/bfe/en/home/supply/electricity-supply/federal-act-renewable-electricity-supply.html/>

¹⁶³ Swiss Federal Council, "Federal Act on a Secure Electricity Supply from Renewable Energy Sources", (2024), at: <https://www.admin.ch/gov/en/start/documentation/votes/20240609/federal-act-on-a-secure-electricity-supply-from-renewable-energy-sources.html>

¹⁶⁴ Swiss Federal Office of Energy, "Measures for the development of renewable energies", at: <https://www.bfe.admin.ch/bfe/en/home/policy/energy-strategy-2050/initial-package-of-measures/measures-for-the-development-of-renewable-energies.html>

¹⁶⁵ Swiss Federal Office of Energy, "SWEET overview", at: <https://www.bfe.admin.ch/bfe/en/home/research-and-cleantech/funding-program-sweet/sweet-overview.html/>

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
Environmentally Sustainable Management of Natural Living Resources and Land Use	15. Life on Land	15.a Mobilize and significantly increase financial resources from all sources to conserve and sustainably use biodiversity and ecosystems
Pollution Prevention and Control	11. Sustainable Cities and Communities	11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management
	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	6.1 By 2030, achieve universal and equitable access to safe and affordable drinking water for all
Circular Economy	12. Responsible Consumption and Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
Access to Essential Services and Social Cohesion	3. Good Health and Well-being	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential healthcare services and access to safe, effective, quality and affordable essential medicines and vaccines for all
	4. Quality Education	4.4 By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship
	8. Decent Work and Economic Growth	8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all
Support in Disadvantaged Areas	8. Decent Work and Economic Growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services
		8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all
Female and Youth Entrepreneurship	5. Gender Equality	5.a Undertake reforms to give women equal rights to economic resources, as well as access to ownership and control over land and

		other forms of property, financial services, inheritance and natural resources, in accordance with national laws
	8. Decent Work and Economic Growth	8.6 By 2030, substantially reduce the proportion of youth not in employment, education or training
		8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services
Basic Infrastructure	6. Clean Water and Sanitation	6.1 By 2030, achieve universal and equitable access to safe and affordable drinking water for all
	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
Affordable Housing	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums

Conclusion

Banca Popolare di Sondrio has developed the Banca Popolare di Sondrio Green, Social and Sustainability Bond Framework, under which it may issue GSS bonds, including public or private placements, senior preferred, senior non-preferred, Tier 2, and covered bonds or bonds to retail investors. BPS intends to use the proceeds to finance projects in the following categories: Green Buildings, Renewable Energy, Clean Transportation, Energy Efficiency, Environmentally Sustainable Management of Natural Living Resources and Land Use, Pollution Prevention and Control, Sustainable Water and Wastewater Management, Circular Economy, Access to Essential Services and Social Cohesion, Support in Disadvantaged Areas, Female and Youth Entrepreneurship, Basic Infrastructure and Affordable Housing. Sustainalytics considers that the eligible projects are expected to decarbonize the Bank's investment portfolio and deliver positive environmental and social impacts in Italy and Switzerland.

The Banca Popolare di Sondrio Green, Social and Sustainability Bond Framework outlines a process for the tracking, allocation and management of proceeds and makes commitments for reporting on the allocation and impacts. Sustainalytics considers that the Framework is aligned with the overall sustainability strategy of the Bank and that the use of proceeds will contribute to the advancement of UN Sustainable Development Goals 3, 4, 5, 6, 7, 8, 9, 11, 12, and 15. Additionally, Sustainalytics is of the opinion 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 Banca Popolare di Sondrio is well positioned to issue GSS bonds and that the Banca Popolare di Sondrio Green, Social and Sustainability Bond Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles 2021 and Social Bond Principles 2023.

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