

Responsible asset management and customer protection

COMPANY POLICIES

Asset management and the insurance coverage of customers are central to the activities of the Intesa Sanpaolo Group, and are ensured through organisational structures in business areas specialising in asset management, private banking and protection requirements with financial and insurance products and services. Based on the response to the customers' portfolio diversification requests on the basis of their needs (expenses, reserves, investments, pensions and protection) and specific goals in terms of the effective allocation of resources, the product and service range offered was gradually expanded from financial management and consultancy to the area of protection, which concerns all customers, from small to large assets, and from SMEs to large companies, with the due adjustment of the guarantees. The activity is therefore aimed at the development of financial and insurance products and advisory services to meet the welfare and protection needs of households and businesses, including in the long term.

Guidelines and Rules for the marketing of financial and insurance products clearly explain the obligation of operators to act in a transparent, fair and diligent way in the provision of investment services, as required by applicable legislation as well.

In the Group's Code of Ethics, as regards the principles of conduct towards customers, asset management's focus is to increasingly highlight social, environmental and good corporate governance criteria in investment assessments in order to promote balanced and sustainable development. With this in mind, the portfolio offered includes funds that apply selection criteria in compliance with the Principles for Responsible Investment, also with the aim of introducing sustainability dynamics in businesses and in customer choices. Eurizon Capital has also signed up to the Italian Stewardship Principles, which define the procedures for exercising administrative and voting rights in listed companies, in order to stimulate discussion and cooperation about social and environmental sustainability issues with listed issuers that the company invests in. In 2018, Eurizon adopted its own Engagement Policy in which it reiterates its commitment to carrying out in-depth research and to instilling a fruitful dialogue with the management and/or control bodies of the relevant issuers.

Describing itself in the 2018-2021 Business Plan as the leading Wealth Management and Protection company in Italy and Europe, and in its role as bank and insurance company, the Intesa Sanpaolo Group seeks to be a partner that is able to manage all of the assets and risks of households and businesses through a structured array of family welfare solutions and targeted insurance policies, also including protection products as pension saving, business continuity and corporate welfare choices.

SUSTAINABLE INVESTMENTS

EURIZON

Eurizon is the leading Italian asset management company in the sustainable and responsible funds category¹ that for years has been committed to formulating and promoting new rules and conduct that focus on sustainable investment issues.

As well as adopting the UN Principles for Responsible Investment (PRI), Eurizon Capital is particularly conscious of the policies implemented by the issuers that it invests in, in the belief that healthy corporate governance policies and practices, which incorporate environmental, social and correct governance issues, are able to create value for shareholders in the long term.

To strengthen its control over the sustainability of its investments, Eurizon is assisted by its internal Sustainable and Responsible Investments (SRI) Committee (chaired by the CEO) and the Sustainability Committee (an autonomous and independent body that helps with the management of Ethical Funds).

The SRI Committee, set up in 2017, supports the Chief Executive Officer in setting out ESG-related (Environment Social and Governance) proposals to present to the Board of Directors by monitoring the exposure of assets in relation to the relative assessment indicators identified, and overseeing the escalation

¹ According to market data from Assogestioni's Quarterly Map of Assets under Management of the 4th Quarter of 2018 (table 7) at the end of the year, its market share was 30.4%, with a range comprising 24 dedicated products (21 ESG funds and 3 ethical funds), assets of 5.6 billion euro and inflows of 2 billion euro since the beginning of the year. The Intesa Sanpaolo Group is first in the ranking, with an overall market share of 31%, 26 sustainable and responsible open-ended funds, assets of 5.7 billion euro and deposits of over 2.1 billion euro from the start of the year.

process relating to the securities of “critical issuers”. As well as the Chief Executive Officer, the Heads of the Investments Department, the Heads of the Control Functions, and the Corporate Governance, Corporate Affairs and Sustainability Heads also sit on the Committee.

The Sustainability Committee was set up in compliance with the provisions of the Regulation on managing open-ended mutual investment funds belonging to the Ethics System, and is composed of external persons of recognised probity and morality. It is responsible for periodically monitoring the investment choices of the ethical funds and the management strategy adopted by these funds during the reference period. If it comes to light that fund managers have diverged from the guidelines of the Committee, the Committee can make a request Eurizon to provide a detailed justification for the investment decisions taken. It then establishes guidelines for the methods of donating the proceeds from the Ethical System funds to social projects. In December, the Eurizon Board of Directors approved the donation of 120,000 euro to 13 deserving social associations/bodies/organisations that received a particularly positive assessment.

Eurizon Capital SGR has adopted a method for the selection of financial instruments that takes into account environmental, social and governance factors as an integral part of the investment process, aimed at curbing risks, including those of a reputational nature. The ESG and SRI principles are applied to all actively managed funds, whether they are benchmark or flexible ones (ESG criteria are not applied to passive/indexed products or investment solutions such as, for example, funds of funds and retail portfolio and unit-linked management).

In terms of actively managed funds, specialised ESG products were made which use an appropriate and specific internal rating system, and ethical products with specific benchmarks.

The selection made by the asset management company is structured on the basis of three phases:

- creation, by the Long-Term Sustainable Strategies office of the Investments Department, of a list of issuers with high exposure to ESG risks (critical issuers) and a list of issuers operating in sectors regarded as not socially responsible;
- sharing and verification of these lists with the Investments Department and the SRI Committee;
- monitoring of the observance (ex ante during the order preparation phase and ex post during the portfolio optimisation phase) of specific operating limits on investments in issuers operating in non-socially responsible sectors by the Compliance Department.

Operating limits are set in various ways with the following specifications:

- for products whose investment policy is characterised by the presence of a benchmark, the maximum direct investment allowed is equal to the weight of the issuer in the benchmark;
- for products whose investment policy does not provide for the presence of a benchmark, direct investment in securities of issuing bodies belonging to the list is ruled out.

With particular reference to the list of critical issuers, the SRI Committee of the asset management company coordinates and implements an engagement process, i.e. an active share ownership procedure formulated and enacted at various levels, from dialogue with the companies subject to scrutiny through to the activation of voting rights at shareholders’ meetings. It is implemented differently for:

- securities already in the portfolio. An 18-month observation period begins upon the activation of the engagement process to assess whether the issuer should be removed from the critical issuer list, after which time - in the event of a negative outcome - the process of the divestment of assets under management begins, according to timeframes that fit with the interests of the customer and, in any case, within three months of the decision;
- securities invested in for the first time (new securities). Purchases are conditional on the drafting of an Investment Case subject to the prior analysis of the SRI Committee, the results of which are presented to the Board of Directors for approval.

In 2018, Eurizon carried out 600 engagement initiatives with 450 issuers, with almost 22% (130 initiatives with 120 companies) primarily related to ESG issues.

At the end of the engagement activity (18 months of monitoring from June 2017), the process of divesting all securities (50 issuers) which did not provide proof of convincing actions that may have a short-term effect on the sustainability profile began at the start of 2019. The only exceptions were two issuers for whom the engagement process was extended.

With regard to active share ownership activities, the asset management company adheres to the Italian Stewardship Principles for the responsible exercising of the administrative and voting rights of listed companies, with the commitment to promote high standards of corporate governance. These rights are exercised transparently in the interest of the portfolio subscribers and market integrity, while maintaining a strong focus on limiting potential conflicts of interest.

In 2018, Eurizon Capital SGR took part in 102 shareholders’ meetings of select companies with listed shares on Borsa Italiana (62%) and the international markets (38%), voting on around 1,000 resolutions on the agenda.

In terms of actively managed funds, specialised ESG products which use a proprietary internal rating system were developed and offered to the public. The overall number of funds focused on this type of investment came to 21 products related to six families, with issue windows for different deadlines: the ten funds of the four families already active in 2017 (seven products from the Flexible Equity family, one ESG Target 40, one Sustainable Discipline and one Sustainable Global Equity) were joined by 11 new products, consisting of Absolute Green Bonds, Bond Corporate Smart ESG, the Eurizon Sustainable Discipline family with four products, and the Flexible Equity family of five products.

Consolidating its commitment to sustainable investments, in 2018 Eurizon Capital SGR began, on the appointment of Eurizon Capital SA (a wholly-owned subsidiary), to manage the Eurizon Fund Absolute Green Bonds. This Fund is an investment opportunity on the international bond markets that makes it possible to finance products related to the environment, with diversification by issuer and by geographical area. The managers select the bonds, mainly investment grade, using the criteria defined by the Green Bond Principles in order to support the growth of environmental investments.

EURIZON FUND ABSOLUTE GREEN BONDS - GLOBAL IMPACT REPORT

In November 2018, the asset management company drafted the first Global Impact Report regarding Eurizon Fund Absolute Green Bonds, which details the results of the quantitative impact analysis and the contribution to the UN's Sustainable Development Goals (SDGs).

The investments made in the first nine months (10 January - 30 September 2018) helped achieve key environmental and social impact results, such as:

- a generating capacity of 18 megawatts, thanks to the financing of plants that produce renewable energy; these plants produced around 28,000 megawatt/hours of energy;
- energy savings of around 480,000 kilowatt/hours thanks to investments in sustainable infrastructure (real estate and transport);
- a reduction in annual emissions of harmful gases of over 19,000 tonnes of CO₂;
- the saving and purification of over 74,000 litres of water through investments in plants and production processes;
- the recycling of 13 tonnes of waste;
- 20 jobs created by the entire portfolio.

For every million euro invested, the following results are obtained: 241 megawatt/hours produced, 640 litres of water saved or purified, 166 tonnes of CO₂ saved.

The Fund also contributes to meeting various Sustainable Development Goals (SDGs) - every bond in the portfolio can contribute to one or more goals - including: 9. Industry, innovation and infrastructure (76% of the portfolio), 7. Affordable and clean energy (71% of the portfolio), 3. Good health and well-being (65% of the portfolio), 13. Climate action (64% of the portfolio), 11. Sustainable cities and communities (64% of the portfolio), 8. Decent work and economic growth (42% of the portfolio), 12. Responsible production and consumption (28% of the portfolio), 6. Clean water and sanitation (25% of the portfolio).

At the end of 2018, the fund's assets amounted to 152 million euro.

The assets of the funds of the asset management company that meet sustainability criteria (ESG) amounted to almost 4.5 billion euro (just under 1.5% of the total and around 6.6% of the assets of Italian funds).

The range of products and services is completed with the management of three ethical funds, characterised by the a priori exclusion from the investable universe of all companies involved in activities considered unethical, such as nuclear energy, arms and tobacco). All the products belonging to the "Ethics System" envisage the donation of proceeds. The amount of assets under management in the area of Ethical Funds amounted to over 1.1 billion euro in 2018 (1.7% of the total amount managed in Italian funds).

All in all, the assets under management in funds meeting sustainable and ethical criteria (24 products at the end of 2018) amounted to over 5.6 billion euro (over 1.8% of the total and around 8.2% of Italian funds). In general, the performances of both ethical funds and funds managed with ESG criteria were negative due to the market's own performance, with the results largely in line with the market or the reference benchmark.

In addition, Eurizon manages 13 mandates relating to 11 customers characterised by sustainability criteria, making for almost 2.6 billion euro. In particular, the services provided for these mandates concern the choice of ad hoc benchmarks, supporting engagement and corporate governance activities, and the creation of exclusion lists when selecting investments.

Eurizon is involved in spreading awareness of issues, approaches and best practices relating to sustainability through public information events and also at an academic level. In 2018, Eurizon contributed as joint head of the ESG business simulation as part of the Executive Master's in Finance at SDA Bocconi, and held a course day at Politecnico di Milano (RIDEF 2.0 Reinventing Energy Master's).

In 2018, Eurizon regularly participated in working groups on sustainable finance (European Fund and Asset Management Association, European Banking Federation, Italian Banking Association and the Italian Observatory on Sustainable Finance of the Italian Ministry of the Environment).

FIDEURAM INTESA SANPAOLO PRIVATE BANKING

Fideuram Intesa Sanpaolo Private Banking specialises in offering advisory services to meet the financial, pension and insurance needs of Private customers and High Net Worth Individuals.

As well as listening to and entering into a dialogue with customers for the continuous improvement of its service quality, it is also committed to spreading an appropriate financial culture in order to improve people's knowledge and awareness with regard to investment choices, including in relation to issues of social and environmental interest.

In the area of sustainable investments, Fideuram Intesa Sanpaolo Private Banking offers its customers two different products: Fonditalia Ethical Investment and Fonditalia Millennials Equity.

Initially proposed as a flexible bond, Fonditalia Ethical Investment expanded its mandate to include the equity segment and the use of third-party funds. The investment decision-making process combines principles of environmental and social responsibility (ESG) at an overall portfolio level with the goal of producing clear and measurable positive impacts for people and the environment at an individual investment level. The task of ensuring consistency between the actual composition of the portfolio and the ethical principles it is based on is entrusted to an Ethics Committee consisting of managers and experts from different academic and professional areas. In 2018, the fund was particularly active in the subscription of themed bonds. Performance results were negative due to the downturn in both the stock and bond markets.

Since June 2018, Fonditalia Millennials Equity has also been available: it invests in equity instruments, mainly issued by companies with a clearly defined business model, to fully capture the consumer habits of the Millennials (people born between 1980 and 2000, who are particularly conscious of ESG topics). The investment decision-making process combines financial and sustainability analysis in accordance with the following criteria:

- companies that do not respect the principles of the UN Global Compact and whose revenues partially derive from activities deemed harmful to people and the environment (e.g. fossil fuels, arms, pornography) are excluded;
- ESG assessment of securities in the portfolio, in order to assign a sustainability rating based on the quantitative analysis of data from external sources and a qualitative audit by expert analysts. The rating ranges from 0 to 5, with 3 being the minimum threshold for the initial inclusion of the security in the portfolio;
- creation of a system to measure the maximum weighting in the growing portfolio, according to the sustainability rating of the companies in which the investment is made;
- continuous controls of risk situations (disputes or relevant issues in the area of ESG) in order to enable the management team to carry out constant monitoring which, in particularly significant cases, can result in a red flag and a subsequent assessment of the merits of disposing of the investment in the company involved;
- establishment of a minimum sustainability rating goal for the portfolio (for the portion covered by the rating).

Around 12% of the portfolio is currently managed with a sustainability rating which has fallen below 3 over time, and there are no red flags in this area.

Also regarding the lines of portfolio management, Fideuram has developed new individual investment solutions, listening to expert advice on the selection of underlying instruments that fulfil the ethics and sustainability criteria. Indeed, the Fideuram Omnia Portfolio Management range was expanded during the first half of 2018, with the introduction of the Ego Sustainable line that invests in assets relating to a respect for social and environmental issues. Through the investments it makes, the line seeks to achieve the following Sustainable Development Goals: 7. Affordable and clean energy, 13. Climate action, 8. Decent work and economic growth, 12. Responsible production and consumption, 5. Gender equality, 10. Reduced inequalities.

Intesa Sanpaolo Private Banking offers its customers GP Mix Sustainable, a portfolio management line available since 2017 which involves an investment process aimed at identifying financial instruments using not only financial and economic criteria, but also specific sustainability assessments.

The assessment of countries and sectors is subject to criteria that recognises their contribution to the positive development of society and the protection of the planet.

In particular, the assessment of bonds and funds that invest in bonds issued by governments, companies and

supranational bodies is based on a combination of:

- negative criteria, to exclude direct investments that are harmful to people and/or the environment, such as fossil fuels, tobacco, arms, alcohol, gambling;
- positive criteria, to assess the capacity of each issuer and/or single issue to generate a positive impact on society and/or the environment (ESG);
- best in class, to select investments based on their ability to stand out in their segment or geographical area for their sustainability criteria.

The equity investment assessment follows the above criteria and also includes an analysis of the ability of companies to create positive impacts and/or proactively pursue social and environmental goals, as well as financial objectives, with regard to areas such as financial inclusion, climate change, health and quality of life, knowledge and technology, food and sustainable farming, water, sustainable transport and homes, to just name a few.

In the direct and indirect choice of financial instruments, the portfolio management prioritises, non-exclusively, governments, companies and supranational bodies aligned with the UN Sustainable Development Goals.

PHILANTHROPIC FUNDS

In the context of supporting the HNWI (High Net Worth Individual Unit) Department, Intesa Sanpaolo Private Banking has introduced philanthropic funds into its range of products and services, giving them impetus.

Philanthropic funding constitutes a legal instrument that stands midway between establishing one's own foundation and making a simple donation to non-profit organisations: this provides the donor with the option of retaining control and determining allocated funds, without being encumbered by management and administrative issues, because the community foundation identified acts as a philanthropic intermediary.

This funding can be done via community foundations promoted by banking foundations (such as Fondazione Cariplo, Compagnia di Sanpaolo and Fondazione con il Sud), representing a new and additional solution tailored to HNWI customers' requirements.

PENSION FUND WITH DEFINED CONTRIBUTION OF THE INTESA SANPAOLO GROUP

The defined contribution Pension Fund of the Intesa Sanpaolo Group has adopted selection criteria consistent with the Principles for Responsible Investment. It is regulated by a Code of Ethics that defines the principles of conduct to adopt in the area of sustainability and responsibility. During the year, guidelines for socially responsible investments were issued.

In 2018 the Fund decided to participate in two new engagement initiatives on the following issues:

- Governance, to examine the transparency of tax policies in major businesses. The top 20 businesses on the MSCI World index were asked to provide information on their tax risk policies and the consistency of these with their sustainability goals. Being multinationals, they were also asked for information on tax reporting in the various countries in which they operate;
- Environmental, to assess transparency on climate change risks, as established by the Task Force on Climate-related financial Disclosures, TCFD. The top 20 businesses on the MSCI Europe index were asked to state what measures they have taken in relation to transparency obligations concerning the disclosure of information on climate impact, particularly concerning the financial implications of climate change.

DIGITAL ECOSYSTEM FOR INVESTMENTS AND PENSIONS

In 2018, the concept for the new digital ecosystem for investments and pensions was developed, promoting a fully digital customer experience via an app. The basis was set out for the creation of new features that will allow Intesa Sanpaolo to continue its digital innovation process in the world of financial consultancy as well, thanks to the creation of new services conceived and designed to be 'mobile-first'. The priority development area in 2019 will be mutual investment funds, with the implementation of an app function that helps people, including young customers, to make their first investments in a simple and intuitive way. Subsequently the areas of Portfolio Management, Pensions and Life Insurance Policies will be developed. The process of dematerialising complementary pension plan products will also begin in 2019. The new ecosystem, which forms part of the Group's process of digitalising its products and services, allows greater interaction with investor customers with innovative and simple methods, also appealing to occasional savers.

INSURANCE SECTOR WITH SOCIAL IMPACT

Aware of the important role it plays as a driver of the social economy and supporter of people's well-being, the Intesa Sanpaolo Group is able to manage all of the assets and risks of households and businesses through a structured array of family welfare and risk coverage insurance policies. At an operational level, the Group's mission to develop a range of insurance products to meet the growing protection requirements of its customers is enacted through a strong partnership between the Intesa Sanpaolo Insurance Division, highly skilled in the insurance sector and strongly focused on broadening the series of products for households and SMEs, and the distribution network of branches which maintain an ongoing dialogue with the customer.

Indeed, the branch manager is the key figure in this consultancy model: with their skills always up to date, they are able to assess the future financial situation of customers, "take care" of them, and help them to embark on their personal and family projects with peace of mind, also thanks to the help and collaboration of around 220 insurance specialists that support the branches.

The Intesa Sanpaolo Insurance Division, made up of Intesa Sanpaolo Vita S.p.A., Intesa Sanpaolo Assicura S.p.A., Fideuram Vita S.p.A. and Intesa Sanpaolo Life D.A.C. (Designated Activity Company), plays an important role in developing the Intesa Sanpaolo insurance bank service model, seeking to establish it as an Asset & Risk manager for its customers, and in achieving the goals of the 2018-2021 Business Plan, which outlines the Bank's intention to become Europe's leading Wealth Management and Protection Company, focusing close attention on the development of the non-life business.

XME Protezione is the Intesa Sanpaolo Group's new modular and customisable insurance solution and satisfies, in a simple way, the numerous protection needs of customers in the Family, Health and Assets areas during all the stages of their life.

Thanks to XME Protezione, customers are able to combine guarantees belonging to different protection areas in a single contract and also to insure their loved ones, choosing diversified forms of coverage and benefiting from discounts that increase on the basis of the number of guarantees purchased.

XME Protezione enables policy holders to vary their guarantees and/or limits of liability in the life cycle, to meet the changing needs and circumstances of life while maintaining the same policy.

More specifically, with regard to the home, XME Protezione gives customers the opportunity to take out insurance for their property and its contents against fire, theft and other accidents such as the leaking of broken water pipes. In addition, in response to the growing demand for protection against the natural disasters that impact Italy on an increasingly frequent basis, the XME Protezione insurance solution was recently expanded to include coverage of damage caused to homes and their content by earthquakes, floods and cloudbursts.

With regard to health, the insurance offering ranges from the prevention of serious illnesses, providing specific solutions to the wide-ranging needs of customers. It also provides the option of integrating the cover and healthcare services included in the insurance package, with an additional service that will be launched shortly – XME Salute - which will allow access to a network of healthcare facilities (e.g. specialist consultations, physiotherapy services, laboratory tests) at discounted prices.

With regard to XME Protection, since it was made available in July 2018 across the Network, around 150,000 contracts have been entered into, with premiums of almost 33 million euro.