

Green economy

COMPANY POLICIES

In accordance with the principles of the Code of Ethics and the Rules for environmental and energy policy, the Intesa Sanpaolo Group has always paid particular attention to the portfolio of green products and services it offers to its customers, also with the goal of contributing to combating climate change. International studies and research show that climate change may also be a business opportunity and a lever for economic growth, considering the fact that, in order to achieve the European Union's climate and energy targets for 2030, the European Commission's Action Plan on sustainable finance estimates supplementary investments of 180 billion euro per year.

To this end, Intesa Sanpaolo is active in promoting renewable energy, energy efficiency and the circular business model by supporting their development and assisting the various customer segments, committed to reducing their environmental impact, with the promotion of green products and services offered by the sales network in Italy and abroad.

In addition, particular importance is given to training and research initiatives, as well as to events on environmental issues organised by Intesa Sanpaolo and/or its partners.

LOANS AND SERVICES FOR THE GREEN ECONOMY

In 2018, the Group disbursed 1,922 million euro to the green economy (over 18 billion between 2010 and 2018), equal to 3.2% of all Group loans. The offer involves all customer segments: retail customers (3.5%), businesses and Third sector (20.1%), leasing (0.2%), corporate & public finance (25.4%) and project finance (50.8%).

RETAIL CUSTOMERS

The Bank continued to provide loans and mortgages for environmental purposes in 2018. These loans regarded the replacement of fixtures and high-performance boilers, the renovation of buildings from an energy efficiency perspective, the purchase of environmentally-friendly vehicles and the installation of solar and photovoltaic panels. Moreover, certain features of the Mutuo Domus Case prefabbricate in legno – prefabricated wooden houses – mortgage loan have been improved (increase in the maximum duration of the loan and increase of the LTV - value of the loan that may be obtained in proportion to the value of the property), in order to satisfy the needs of customers most conscious about environmental issues.

The Valorizzazione Immobiliare, an additional loan service, seeks to support customers who intend to invest in their homes through energy redevelopment and restructuring works, providing free information on tax benefits and savings on energy bills, as well as to support the best loan and home protection solutions. Customers can also take advantage of discounts on the services offered by partners of the initiative which operate in the energy savings and redevelopment sectors.

The content of the insurance policy 'XME Protezione', seeks to cover the needs of customers in the areas of Family, Health and Property, has been improved, with new coverage providing protection from natural disasters: earthquakes and flooding.

Lastly, the Intesa Sanpaolo Group continued its tangible and concrete commitment to supporting households and businesses affected by earthquakes, environmental disasters or extraordinary atmospheric events, with the provision of new subsidised loans for restoring damaged structures (homes, shops, offices, artisanal workshops and businesses), suspensions of payments on outstanding loans, actions in the area of protection and preferential, simplified and expedited procedures for new instruments. Among these initiatives, it is worth noting that, in November 2018, Intesa Sanpaolo set up a plafond for households and businesses of one billion euro to tackle the emergency caused by extraordinary atmospheric events which have affected the whole of Italy (see page 86).

BUSINESSES CUSTOMERS

In 2018 Intesa Sanpaolo Group continued to disburse short, medium and long-term loans in support of projects for renewable energy and energy efficiency works for professionals and businesses.

Businesses can continue to use the Finanziamento Energia Imprese ("businesses energy loan"), which is designed to support investment plans focused on the development of efficient energy production plants and diversifying energy sources and/or streamlining consumption, as well as the Finanziamento Energie Rinnovabili ("renewable energy loan"), created for the construction of new plants for the production of renewable energies other than photovoltaic energy, such as biomass and small-scale wind energy.

Banca IMI has continued to play a leading role in the structuring of loans for the renewable energy sector (especially photovoltaic and wind power), by supporting and assisting the main operators in their strategic consolidation process and in the implementation of new investments.

Mediocredito Italiano's contribution was once again noteworthy this year: in particular, it continued to support businesses that invest in renewable energy production plants and in the energy efficiency of their production processes, providing dedicated financial solutions and specialist advisory services. During the year loans were granted to support projects mainly in the photovoltaic, wind and hydroelectric sectors.

At the end of 2018, Mediocredito Italiano's portfolio in the green sector came to approximately 1.5 billion euro, equal to around 10% of all medium and long-term credit. All of the financed projects were carried out in Italy and concerned: photovoltaic plants (80.4%), wind energy plants (6.5%), hydroelectric plants (5.9%), biomass or biogas plants (5.2%) and energy efficiency measures (2.0%). The financed projects also included energy efficiency measures carried out by energy intensive manufacturing companies through the installation of cogeneration plants. In order to regulate energy efficiency investments made directly by businesses, or rather indirectly through the intervention of an ESCo (Energy Service Company), credit guidelines have been developed for this type of project. All loans, overseen step by step by the specialist Energy Desk, are always preceded by an examination in support of the Bank's credit assessment. Customers can count on a comprehensive service that ranges from risk assessment to the structuring of the most appropriate financial solutions, and from consultancy on new technology trends to new market opportunities.

In the lease area, four new Leasenergy product contracts of a value of approximately 4.6 million euro were signed in 2018. The new lease contracts will result in annual emission savings of around 22,485 tonnes of CO₂. There are around 1,540 existing lease contracts, which have contributed to the construction of plants for the production of over 1.8 Gigawatts of energy from renewable sources.

In addition, the Intesa Sanpaolo Group confirmed its commitment to the Circular Economy by promoting the spread of the model, drawing on the support of the Ellen MacArthur Foundation, the main promoter of the global transition towards the Circular Economy. The 2019-2021 three-year cooperation agreement has been renewed, confirming Intesa Sanpaolo's role as Global Partner of the Foundation. Intesa Sanpaolo will continue to redefine business strategies in an innovative way, ensuring financial support for investments to facilitate the redesign of the industrial system.

The transition to a Circular Economy continued, also with the contribution of the Intesa Sanpaolo Innovation Center, a Group company which oversees all the Circular Economy activities.

Some of the most noteworthy activities in 2018 include the Circular Economy Lab and the Plafond Circular.

The Circular Economy Lab was launched in September 2018 in Milan, thanks to a Framework Agreement between Intesa Sanpaolo and Fondazione Cariplo, and followed by a strategic partnership between Intesa Sanpaolo Innovation Center and Cariplo Factory, with the goal of supporting and assisting the transformation of the Italian economic system and disseminating new models of value creation in the collective interest, by accelerating the transition to the Circular Economy.

The activities of the Circular Economy Lab are based on three pillars:

- positioning the laboratory as the primary systemic actor of the Circular Economy, by disseminating and promoting the principles of the new economic model;
- contributing to the creation of business opportunities;
- creating value and growth through Open Innovation initiatives organised between start-ups and companies, as well as with universities and institutions.

In order to provide concrete support to companies involved in the transition process, the Intesa Sanpaolo Group, within the time-frame of the 2018-2021 Business Plan, has decided to provide a plafond of up to 5 billion euro, aimed at companies which adopt the circular model with innovative procedures, granting the best conditions for accessing credit. In particular, as part of the credit process, Intesa Sanpaolo Innovation Center, based on criteria connected with investments in the Circular Economy defined together with the Ellen MacArthur Foundation, is responsible for providing a technical assessment on the level of circularity of the initiatives proposed.

During the year, the 'circular' assessment of businesses along their value chain continued (around 15 businesses were interviewed) through the use of the Circular Economy Standard, an instrument used to measure the level of circularity.

In 2018, with regards to start-ups (see page 94), the Start-Up Initiative continued, which selects the most promising innovative start-ups, prepares them to face the market with coaching initiatives, and introduces them to the players of the innovation ecosystem.

The selection process was integrated together with the circularity criteria in the overall assessment. Two Italian start-ups in the food and fashion sectors were awarded as Circular Economy success stories.

In November 2018, the Position Paper of the Alleanza Italiana per l'Economia Circolare (Italian Alliance for the Circular Economy) was submitted, promoted by Intesa Sanpaolo in conjunction with Enel. The Alliance comprises eight large 'Made in Italy' companies and, since 2017, has sought to reinforce existing collaborations and propose new projects between companies, in order to promote the transition to the Circular Economy in the various production chains, while also involving Italian and European institutions.

In order to support the wood sector in north-eastern Italy, which was severely affected by the extreme weather events at the end of October, an agreement was signed with FederlegnoArredo aimed at supporting the development of companies in the sector with specific products and benefits which also include support to forest holdings and individuals involved in reforestation projects.

Finally, the Insurance Division proposes supplementary insurance coverage for the loans provided for the purchase and installation of a photovoltaic plant. 'Polizza Business Fotovoltaico' protects the photovoltaic plant from material and unforeseen damage accidentally caused to third parties, protecting the plant from damage caused, for example, by fire, weather events, vandalism, theft, malfunctions or electrical problems, and covering losses in profits due to the disruption or fall in the production of clean electricity as a result of the insured events.

THIRD SECTOR

Banca Prossima has continued to support Third sector businesses that wish to invest in energy efficiency projects with solutions that make it possible to save on energy costs and increase the overall sustainability of the social activity. At the end of 2018, total loans relative to the agreement with Federesco (National Federation of ECSO's) came to 1.9 million euro. These initiatives generated savings of around 593 tonnes of oil equivalent (toe) in 2018, corresponding to around 1,270 tonnes of CO₂ avoided.

GREEN BOND

In 2017, Intesa Sanpaolo was the first Italian bank to issue a 500-million-euro Green Bond connected with environmental sustainability projects.

First issued in 2007 by the European Investment Bank, Green Bonds are traditional bonds – in terms of their structure and contractual terms – that must respect specific requirements in terms of the use of funds (to be allocated to green projects), transparency, reporting and the use of proceeds.

The commitments undertaken by Intesa Sanpaolo are defined in a set of guidelines (Green Bond Framework) based on the Green Bond Principles, a voluntary protocol that promotes transparency and involves the close monitoring of the environmental projects that receive the funds. The compliance of the framework with these principles was verified by an external ESG research and analysis company.

In particular, the projects financed by the Bond must belong to the following three categories:

- infrastructures for the generation and transmission of energy from renewable sources (solar, photovoltaic, wind, biomass and hydroelectric);
- investments in infrastructure or processes for reducing the use of energy and fostering greater energy efficiency;
- construction of new buildings or the redevelopment of existing buildings according to the best environmental standards.

In June 2018, following its annual reporting commitment, Intesa Sanpaolo published its first Green Bond Report [\[i\]](#) on the use of Green Bond proceeds and its associated environmental benefits.

The report also includes the certification of the auditing company, the Second Party Opinion on the bond issue (Robust ESG performance) and the Moody's assessment, which obtained the highest score (GB1 Excellent).

The Bond proceeds, fully allocated during the first year of the issue, was used as follows: 79.4% to refinance specific loans included in the Energy Portfolio of Mediocredito Italiano, and 20.6% for the financing of new projects, selected by a dedicated working group. In total, 77 projects were financed with over 213,000 tonnes of CO₂ emissions avoided annually. 68.5% of the proceeds were allocated to photovoltaic power, 14.0% to wind power, 8.5% to hydroelectric power, 7.4% to biomass and 1.6% to energy efficiency.

During 2018, the Corporate and Investment Banking Division participated, as a bookrunner, in five Green Bond issues onto the Euro market, including the only three in Italy, thus confirming its leading role on the Italian market.

GREEN CULTURE AND INITIATIVES

One of the goals of the Intesa Sanpaolo Rules for environmental and energy policy is the spread of the culture of sustainability among employees and customers. The following section outlines the main initiatives in 2018.

TRAINING

The Ambientiamo multimedia platform is available for all employees in Italy, it provides in-depth training on climate change, renewable energies and correct waste management. In addition, for those that work in operating units covered by the Environmental and Energy Management System (EEMS) certification or in central offices involved in the activities of EEMS, a specific course on the issue was also provided, as established also by the international reference standards: in 2018, around 140 employees were able to access the online course, joining the 2,000 employees previously trained. In the same way, subsidiary CIB Bank (Hungary) trained around 1,780 employees on the obligations relating to the ISO 50001 standard via the online platform.

As for customers, Intesa Sanpaolo Formazione continued to provide the Think Green course to agricultural entrepreneurs who, focusing particularly on the protection of biodiversity, plan to innovate and develop their businesses. Two new training courses were introduced: Think Green Bio, to enable agri-food companies to seize the opportunity offered by organic farming, by developing new skills, studying the main marketing and operating aspects of the sector, and Think Green Wine, dedicated to companies in the wine industry who wish to consolidate their skills and acquire new expertise, with a particular focus on sustainable vine-growing and wine-making processes. In total, the Think Green courses involved around 90 entrepreneurs.

To spread the culture of innovation in the area of Circular Economy, the promotion of the BioCircE Master (the first Italian Master's qualification in this area) continued, four meetings were held with secondary schools as part of the Italian "Alternanza Scuola-Lavoro" school-work project and online courses were provided to over 100 employees.

In the International Subsidiary Banks, during September, a two-day training course was held on the main innovations and trends in the agribusiness sector. Some of the themes of the course included sustainable agriculture and organic farming techniques. The course was attended by 21 employees from the Group's subsidiaries in Albania, Croatia, Serbia, Slovenia, Slovakia and Hungary. In Egypt, Bank of Alexandria launched two training initiatives, aimed at employees that concerned sustainable finance and green finance.

PARTICIPATION IN ASSOCIATIONS AND DEBATES ON ENVIRONMENTAL SUSTAINABILITY ISSUES

The Group made an important contribution to the international debate on the topic of environmental sustainability in 2018.

In terms of sustainable finance, the Group's collaboration with the Associazione Bancaria Italiana (Italian Banking Association - ABI) continued, within specific working groups, particularly in relation to issues linked to taxonomy and the European Action Plan on financing sustainable growth.

As part of the European Commission initiatives, Intesa Sanpaolo has continued the activity initiated during the second half of 2017, by participating regularly in the work of groups of experts for the financing of the Circular Economy, which will also continue in 2019, until the publication of the final recommendations.

The Group also continued its collaboration with the main European associations, contributing to the work of the Sustainable Finance Working Group of the European Banking Federation (EBF) and the Association for Financial Markets in Europe (AFME).

In particular, Intesa Sanpaolo has contributed to the drafting of the main (legislative and non-legislative) position papers of the financial sector published during 2018, such as, for example, the proposal for a regulation concerning the introduction of a framework to promote sustainable investments and the proposal on reporting sustainable investments and sustainability risks, as well as the document of the European Banking Federation - Financing the Europe of tomorrow. Intesa Sanpaolo also participated in the discussion at the European level on Green Lending Principles and the green supporting factor.

Moreover, the Group participated in the consultation of the Italian Ministry of the Environment and the Protection of Land and Sea (MATTM) on indicators for the measurement of the Circular Economy, and in the work of the National Observatory on Sustainable Finance promoted by the MATTM. It also contributed to the activities of the Circular Economy working group promoted by the Fondazione COTEC (Fondazione per l'innovazione - Foundation for Innovation).

In addition, the Group took part in the work of 'FinanCE', a working group formed within the Ellen MacArthur Foundation network, with the aim of rethinking the finance sector to accelerate the transition to the Circular Economy, by identifying concrete measures which the public and private sectors should undertake, coordinating the sub-working group of Financial Services.

Studi e Ricerche per il Mezzogiorno (SRM), the Group's research centre aimed at disseminating economic

knowledge and culture, with a particular focus on the development of southern Italy, held a series of seminars in cooperation with the Federico II University of Naples on Circular Economy issues, port activities, water resources and energy, with the aim of drawing attention to how policies connected with the Circular Economy constitute an important step which must go hand in hand with technological innovation, infrastructure upgrading and efficient management for the development and competitiveness of these sectors. SRM is also part of SOS LOG, the association for the development of sustainable logistics, whose mission is the dissemination of information, research and initiatives aimed at spreading the culture of sustainable transport and logistics. In July 2018, Intesa Sanpaolo is also part of the RES4Med&Africa non-profit organisation, which promotes the development of renewable energy in Sub-Saharan Africa and the southern Mediterranean. Mediocredito Italiano is a partner of Milan Polytechnic in the market trends observatory regarding the renewable energy and energy efficiency.

STUDIES

The Group's commitment to the development of study and research projects in the environmental field continued in 2018. Listed are some of the most important publications:

- The fourth Report on the Bio-economy - "La Bioeconomia in Europa" (The bio-economy in Europe), produced by the Intesa Sanpaolo Research Head Office Department, which, in addition to providing new estimates of the value of the bio-economy, includes an analysis of innovative start-ups operating in associated sectors, along with two in-depth analyses, one on the use and recovery of sewage sludge and the other on marine resources;
- Two reports on transport drafted by the Research Department, which take into consideration the growing demand in the field of mobility and the resulting problems of congestion and pollution, which are raising awareness of the fact that only reinforcing, reclassifying and improving the efficiency of local public transport (tram, metro, bus, regional rail network) can promote the sustainable development of Italy. In detail:
 - "Le aziende di Trasporto Pubblico Locale (TPL): Ieri, oggi, domani" (Local public transport companies: yesterday, today, tomorrow), in cooperation with ASSTRA and IFEL, offers a general overview of the issue, with in-depth consideration of regulatory, management and financial aspects;
 - "Trasporto ferroviario regionale" (Regional rail transport), provides an analysis of this passenger service, with details of the regulations, pricing, management structure, liberalisation, status of infrastructure and resources, and investments;
- "Un Sud che innova e produce. Il valore delle filiere produttive nel nuovo contesto competitivo e innovativo, tra Industria 4.0 e Circular Economy" (The Innovative, Productive South. The value of the production chains in the new competitive and innovative context, from Industry 4.0 to the Circular Economy), produced by Studi e Ricerche per il Mezzogiorno with the contribution of the Intesa Sanpaolo Innovation Center. The study addresses the theme of interdependence in the production chain and the role of technology in promoting an innovative, interconnected and sustainable production model, which sees the Circular Economy as the reference model;
- The Rapporto Annuale sull'Economia del Mare 2018 (The 2018 Annual Report on the Maritime Economy), produced by Studi e Ricerche sul Mezzogiorno and presented on the national and international stage, having now become a reference point on this matter for institutions, sector professionals, trade associations, infrastructure and the academic world. The Report is part of the 'Osservatorio sull'Economia del Mare e sulla Logistica' research project, managed by Studi e Ricerche per il Mezzogiorno: some of the key topics include the sustainability of port investments, reducing emissions produced by ships, the use of environmentally friendly fuels, and reducing road transport in favour of shipping. Two in-depth analyses were conducted in 2018: one on Liquefied Natural Gas (LNG) and the development of shipping corridors, and the other on alternative fuels for large vessels;
- In 2018, Studi e Ricerche per il Mezzogiorno launched two other major research projects; firstly, the creation of a new Mediterranean Energy Observatory in partnership with the Energy Department of the Turin Polytechnic, and secondly, a monographic research into issues connected with the environment and sustainability with an overview on companies and southern Italy.

ENVIRONMENTAL SUSTAINABILITY EVENTS

In order to raise the awareness of environmental issues among customers and employees, the Intesa Sanpaolo Group participates in various initiatives aimed at increasingly spreading the culture of sustainability and good practices as widely as possible. The main international events in which the Group participated in 2018 were the World Environment Day promoted by UNEP (the United Nations Environment Programme) - whose theme was the reduction of plastic pollution - and the European Week for Waste Reduction promoted by the European Commission, with the 2018 edition focusing on the prevention and management of hazardous waste. In Italy, Intesa Sanpaolo also took part in the Energy Saving Day (part of the "M'illumino di meno" campaign) while some International Subsidiary Banks have signed up to the WWF's Earth Hour.