INTESA SANPAOLO

RULES FOR LENDING OPERATIONS IN THE COAL SECTOR

- HIGHLIGHTS -

Effective date: May 2020

INTRODUCTION

This document defines limitations and exclusion criteria with reference to credit operations in the coal sector for the Intesa Sanpaolo Group. It relates and implements the "Guidelines for the Governance of environmental social and governance risks regarding lending operations" which define the general limitations and exclusion criteria for loans[1].

CONTEXT

The transition to a low-carbon economy is expected to accelerate over the next decade and generate significant changes in the energy sector. The main changes expected are the growing role of renewable energies, the implementation of new green technologies and an increasingly marginal role of coal fired power plants in OECD countries.

The Group intends to support its customers in the process of gradually reducing the use of coal for energy production (phase-out). In addition, the Group intends to encourage the transition to low carbon alternatives (e.g. renewables and gas). The Group expects these alternatives to progressively replace the use of thermal coal over a period of time that varies according to the economic, political and regulatory context of the country concerned.

In high-income OECD countries, where this transition process seems to be underway, it is expected that investments in coal mining and coal fired power plants (CFPPs) will be mostly associated with existing structures and projects will be strongly focused on reducing carbon intensity and greenhouse gas emissions.

Emerging and middle/low income countries with rapidly growing energy needs may currently have limited alternatives to the development of large-scale Coal Fired Power Plants in order to ensure economic development within a reasonable period of time. In these countries less carbon-intensive alternatives able to compete with coal will become available in longer times.

SCOPE OF APPLICATION OF THE RULES

This document will be applied by the Intesa Sanpaolo Group in all countries where the Group operates.

These Rules will apply to all financing provided by the Group.

DESCRIPTION OF THE SECTOR

This document will be applied to financial products with Customers/Projects which operate:

- in thermal coal mining[2];
- in Coal Fired Power Plants (CFPPs).

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[1] The Bank, in the evaluation of lending transactions, undertakes not to finance companies and projects that are characterised by their negative impact on:

- UNESCO World Heritage Sites;
- wetlands under the Ramsar Convention;
- IUCN protected areas I to VI.

In addition, the Bank undertakes not to finance companies and projects if, during the evaluation of the transaction, they are located in areas of active armed conflict, or if evidence emerges, such as legal proceedings brought by the competent authorities, relating to
- human rights violations;
- forced or child labour practices.

[2] Reference is made to thermal coal to distinguish it from coal used in the metallurgical sector not covered by this document.

Coal mining

The sector includes activities directly dedicated to:

- coal mine exploration and development;
- activities related to the development of coal mines and existing coal mines.

Coal Fired Power Plants

The sector includes activities directly dedicated to the production of energy from coal. When dealing with projects, the scope of application also refers to Engineering, Procurement and Construction (EPC) Contractor (i.e. contractors for integrated Engineering, Procurement and Construction activities) and/or Operation and Maintenance (i.e. contractors for integrated Conduction and Maintenance activities) with direct involvement in the above-mentioned activities.

RISK ASSESSMENT

a) Exclusions and limitations to operations

From the date of issue of these Rules, the Group will not provide any new general purpose[3] finance to companies with at least one of the following characteristics:

- engaged in the construction of new coal mines (i.e. "Greenfield Projects");
- involved in coal mining operations using "Mountain Top Removal" techniques;
- with more than 50% or 30% of installed capacity for the production of energy from coal - respectively for companies based in non-OECD and OECD countries - unless the company demonstrates a documented medium/long-term[4] plan/strategy for the progressive reduction of the use of coal and its threshold and/or requests financing directly related to the coal transition objectives, for example in the form of a "green loan", "sustainable loan" or "transition loan"[5].

From the date these Rules are issued, the Group will not provide new loans for any project that contributes to one or more of the following objectives:

- the construction of new coal mines (i.e. "Greenfield Project");
- the construction of new coal fired power plants;
- the acquisition of companies already operating in the mining sector if this leads to mix of extracted raw materials where coal accounts for more than 50%;
- the acquisition of coal fired power plants already in operation if this results in a coal related installed capacity of more than 30% on the total installed capacity for companies based in OECD countries and 50% for companies based in non-OECD countries.

There is also the possibility to grant loans to companies producing energy from renewable sources (even when they belong to a group producing energy from fossil fuels).

b) Customer / Project requirements

For all loans in the coal sector, both the Customer and the Project are required to meet the criteria and requirements as defined in the applicable national and international standards and regulations.

[3] Renewals of continuous credit lines and extensions of fixed-term credit lines are therefore excluded from the operating ban.
[4] Long-term means a period of ten years.
[5] These are loans and/or related instruments (e.g. guarantee lines or letters of credit) that correlate the conditions of the loan to the achievement, by the borrower, of contractually defined sustainability/transition objectives towards a low-carbon economy. The achievement of these objectives can be measured through specific key performance indicators.

In particular, regarding GHG emissions, the Customer/Project must comply with the applicable Emissions Trading Scheme (ETS) relating to greenhouse gas emissions.
Where the project falls within the Equator Principles (EP) scope, the internal rules governing the implementation of EP shall apply in addition to the provisions set out in this document.