



GROUP GUIDELINES FOR THE GOVERNANCE OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) RISKS

- ABSTRACT -

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INTRODUCTION

These Guidelines, consistent with the sustainable economic development approach, in accordance with the principles outlined in the Code of Ethics and the Consolidated Non-Financial Statement, establish the framework for governing ESG risks in accordance with the Group's "Principles on Human Rights", with what is set out in the "Organisation, Management and Control Model pursuant to Legislative Decree No. 231 of 8 June 2001" and in accordance with the Principles of Conduct in Tax Matters.

The document is periodically reviewed to incorporate any regulatory, methodological and procedural developments relating to ESG risk management.

These Guidelines are addressed to the Intesa Sanpaolo Group (including the Group's Banks and subsidiaries).

Definitions

ESG Sectoral Assessment

Qualitative assessment carried out through aggregate materiality analysis at sector level (at sector and sub-sector levels) of ESG risk factors using a top-down approach for the following areas:

- Environmental (the Climate transition component is of particular importance);
- Social;
- Governance.

ESG Sectoral strategy

Definition of sector strategies and sectoral assessment taking into account sectoral characteristics of risk (as defined by the ESG Sectoral Assessment) and opportunity (in particular SDGs and the European Taxonomy). These strategies are represented in clusters (so-called "colour coding").

ESG Factors

ESG factors can be classified into:

- **Environmental factors:** considering climate change and environmental aspects such as the transition to a low-carbon economy, reduction of CO2 emissions, energy efficiency and responsible use of natural resources (e.g. water), adoption of policies to combat pollution, waste of natural resources and deforestation;
- **Social factors:** including policies to improve the working environment, labour relations, focus on non-discrimination and the promotion of diversity (e.g. gender, ability and age), labour standards, occupational health and safety conditions and respect for human rights;
- **Governance factors:** considering the ethics and transparency of corporate governance, the presence of independent or non-executive directors, diversity policies in the composition of corporate bodies, the presence of sustainability plans and objectives linked to the remuneration of the board and senior managers, control procedures, policies and, more generally, the conduct of senior management and the company in terms of ethics and compliance.

ESG Risk

Risk of suffering any adverse financial impact on the Group resulting from the current or future direct or indirect effects of environmental, social and governance factors on the Group, its counterparties or invested assets.

ESG risk includes climate and environmental risks, social risks and governance risks, which, through specific transmission channels, can potentially be reflected in the Group's traditional risks (market risk, credit risk, liquidity risk, operational risk and reputational risk).

Reputational Risk

The current or prospective risk of a decline in profits or enterprise value (capitalisation) resulting from a negative perception of the Group's image by customers, counterparties, Group shareholders, investors or regulatory authorities.

Risk Appetite Framework – “RAF”

The Risk-taking strategies are summarised in the Group’s Risk Appetite Framework (RAF), approved by the Board of Directors. The RAF is established to ensure that risk-taking activities remain in line with shareholders’ expectations, taking into account the Group’s risk position and the economic situation. The framework defines both the general risk appetite principles and the control of the overall risk profile and the main specific risks.

Sectors sensitive to ESG and/or Reputational risks

Starting from the risk assessment of the sectors carried out as part of the ESG Sectoral Assessment and considering the potential relevant reputational risk profiles that characterize, the sectors that are subject to the ESG & Reputational Risk Clearing process are identified as follows:

- Chemicals, Rubber and Plastics;
- Defence;
- Mining (other than coal);
- Coal mining;
- Pharmaceuticals and Biotechnology - Manufacturing;
- Gambling;
- Oil & gas;
- Electricity production;
- Logging and other forestry activities;
- Tobacco.

GENERAL PRINCIPLES AND STRATEGIC DIRECTION

Aware of its role in fostering greater environmental and social sustainability at an economic system level and in line with the rapidly evolving European regulatory framework on sustainability, the Intesa Sanpaolo Group adopts a medium-long term strategy and a transversal and holistic approach to ESG issues, based on:

- the definition of a **Group ESG strategy**, which also includes mitigation initiatives to support the transition to a low-carbon economy, according to the guidelines provided by the Corporate Bodies of the Parent Company supported by the internal governance structures, in particular by the ESG Control Room;
- the integration of ESG factors in the **general risk management framework** and in particular in the Risk Appetite Framework, which includes a specific section dedicated to ESG and climate change risks;
- the integration of ESG factors within the **credit framework**, with particular reference to the definition of sector strategies and to the specific safeguards foreseen within the underwriting process;
- the inclusion of ESG factors in **asset management activities**;
- careful consideration of ESG factors in the **development of policies, products and services**, including in the client advisory process;
- the cross-sectional integration of ESG risk factors into **non-compliance risk management**;
- the promotion of a strong **ESG risk culture** throughout the company organisation.

The Group considers the following sustainability issues to be worthy of specific attention, across all business areas:

- exposure to **environmental issues**: the Group promotes the reduction of CO2 emissions and the transition to a more sustainable economy both in relation to its own operations and those of its customers; in this context, the adoption of sectoral portfolio limits towards the sectors most exposed to climate and environmental risks, as well as the controls defined within the credit process aimed at assessing and limiting the exposure to companies/issuers characterised by a clear direct involvement in activities exposed to these risks, are part of the process;
- involvement in particularly **socially** critical sectors: In this regard, the Group promotes respect for human rights, the prohibition of any financing/investment in activities related to the manufacture

of unconventional weapons, and carefully assesses exposure to companies/issuers active in the production or marketing of tobacco and gambling;

- exposure to high **corporate governance risks**: to this end, the Group promotes the adoption of good governance practices and, as part of the ESG & Reputational Risk Clearing process, carefully assesses transactions involving companies with a clear exposure to such risks.

With regard to the investment policies and services provided to customers, the Group is committed to:

- integrating ESG factors into investment analysis and decision-making, issuer selection criteria and investment management, including in relation to specific benchmarks;
- progressively expanding the monitoring of financial assets in terms of ESG performance as well as the extension of its proposal of sustainable financial products;
- promoting thematic and impact investments, through which the Group can play an active role in helping to mitigate environmental or social problems such as the challenges of climate change, resource depletion, economic and social inequalities;
- making customer information clear and understandable by informing customers about financial products with sustainable characteristics or investment objectives;
- offering clients an advisory service with a high level of protection and, as part of the client profiling process, collecting information on any investment preferences regarding sustainability.

ESG RISK MONITORING

ESG risk management model

ESG risk management is based on the materiality assessment of ESG risk factors with respect to different risk families. To this end, the ESG Sectoral Assessment is of particular importance, which consists of an aggregate analysis of the materiality at sector level (at the level of sectors and sub-sectors of the Group's sectoral taxonomy) of ESG risk factors according to a top-down approach.

The ESG Sectoral Assessment forms the basis for:

- the definition of the relevant sectoral strategies ("ESG Sectoral Strategy");
- the definition of specific safeguards within the Risk Appetite Framework;
- the definition of a reinforced risk control for the sectors most exposed to ESG risks, based on the different risk families, with particular regard to climate and environmental risks.

The ESG Sectoral strategy, which considers not only ESG risk factors, but also opportunities related to the different business sectors, aims to:

- encourage lending to companies operating in sectors with a clear positive ESG impact in line with the regulatory taxonomy for sustainable investments (i.e. White and Blue sectors);
- encourage lending to companies operating in sectors where a transition towards sustainability can be supported (i.e. Yellow Sectors);
- discourage lending to companies operating in ESG controversial sectors (i.e. Orange Sectors);
- identify high-risk ESG sectors/areas of activity (i.e. Red Sectors), towards which lending should be prohibited/limited.

The RAF integrates and translates into specific controls what has been defined in terms of strategic guidelines, ESG Sectoral Assessment and ESG Sectoral Strategy, identifying year by year, limits, Key Risk Indicators and specific actions aimed at containing ESG risks, in particular with reference to the sectors most exposed to such risks. In this context, there are also specific actions related, for example, to the Group's adherence to the "Net-Zero" objectives. The development of RAF controls in the ESG area also takes into account the main evidence from the most relevant risk assessment processes including Stress Test, Scenario Analysis and ESG & Reputational Risk Clearing.

Within the RAF, particular importance is given to the Credit Risk Appetite Framework, which includes specific climate and environmental risk/resilience factors related to the energy class and environmental certifications of the financed customers and further factors related to the ESG profile of the counterparties (in particular ESG counterparty score). Credit risk appetite factors related to

exposure to climate risks may consequently have potential repercussions on the pricing for customer financing transactions through credit strategies.

Within the overall ESG risk management framework, there is a particular focus on climate and environmental risks.

Integration of ESG risk factors into different risk families

The Group takes into account the environmental, social and governance risks associated with the activities of client companies and the economic activities in which they invest, also in relation to the context in which they operate. In particular, these factors are considered according to the principle of double materiality in the:

- financial area, in terms of the impact of ESG risk factors on the "performance, development and position" of the economic activity considered;
- social and environmental area, in terms of the impact that economic and financial activities have on the environmental and social context in which they take place.

Managing ESG risk factors in credit risk

The Group considers climate and environmental risk factors in assessing the creditworthiness of counterparties and in the credit granting process, ensuring their monitoring within its own portfolios.

Managing ESG risk factors in market risk and financial assessments

In managing market risk, Intesa Sanpaolo also assesses the effects of climatic and environmental factors on its current positions exposed to market risk.

Managing ESG risk factors in liquidity risk

In managing liquidity risk, Intesa Sanpaolo intends to assess the direct or indirect effects of climate and environmental risks on the Group's current and prospective liquidity position. This includes an impact assessment of relevant climate and environmental risks in terms of potential net cash outflows and potential erosion of cash reserves.

Managing ESG risk factors in non-financial risk - operational

In managing operational risks, Intesa Sanpaolo also considers the possible adverse impact of climatic and environmental events on its real estate properties, on its business continuity as well as on its litigation risk.

Managing ESG risk factors in reputational risk

With particular reference to the scope of these Guidelines, the Group:

- through the ESG & Reputational Risk Clearing process, assesses ex-ante the potential ESG and reputational risks associated with business operations, major capital budget projects and the selection of the Group's suppliers/partners;
- monitors its online reputation by integrating specific assessments of events related to environmental risks/climate change (e.g. events resulting from protests or adverse campaigns arising from the bank's lending activities);
- considers specific scenarios related to ESG and climate issues in the list of scenarios assessed by senior management as part of the Reputational Risk Assessment process.

Monitoring ESG risks in the credit process

General principles of exclusion of financing activities

The Group takes into account the ESG risks associated with the activities of its corporate clients and pays particular attention to investigating sustainability issues related to the lending process.

To this end, the Group establishes general exclusion criteria in order not to allow the financing of activities and/or projects with particularly significant environmental and social impacts.

The Group undertakes not to finance companies and projects that are characterised by their negative impact on:

- **UNESCO World Heritage Sites** or their buffer zones. Where a buffer zone is not determined and the project is close to a World Heritage Site (i.e. less than 1 km from its border), the Group will decide on a case-by-case basis whether to apply the exclusion criterion;
- **Wetlands** under the **Ramsar Convention** - wetlands included in the Ramsar Convention list;
- **IUCN protected areas I to VI** - areas designed for the long-term conservation of nature, i.e. those areas classified by the IUCN ("International Union for Conservation of Nature") as protected areas in categories I to VI.

In addition, the Group undertakes not to finance companies and projects if, during the evaluation of the transaction, they are located in areas of **active armed conflict**, or evidence emerges, such as sanctions, legal proceedings and judgements, relating to:

- human rights violations;
- forced or child labour practices.

Specific exclusion and limitation criteria for financing activities

In addition to the general exclusion criteria mentioned above, for some economic activities, also identified on the basis of the evidence emerging from the ESG Sectoral Assessment (e.g. the so-called "Red sectors" of the ESG/Climate Strategy), the definition of specific Rules for the implementation of these Guidelines (policies) is envisaged, which establish criteria for the limitation or exclusion of financing activities, taking into account the specific nature of the sector and the purpose of the financing granted.

In particular, these regulations are developed with the aim of limiting or excluding the financing of activities with higher ESG risk profiles, identifying eligibility criteria for counterparties in line with the Group's strategic objectives and with a view to engaging clients towards more sustainable business models.

ESG RISK GOVERNANCE MACRO-PROCESSES

The Intesa Sanpaolo Group's risk governance process is broken down into the following phases:

- **Identification:** identification and description of ESG risk factors and related risks, including in terms of transmission channels, with particular reference to climate and environmental risks;
- **Assessment and measurement:** determination of exposure to ESG risks;
- **Monitoring and control:** monitoring the evolution of exposure to ESG risks on an ongoing basis;
- **Mitigation:** containment of ESG risks through appropriate actions and strategies aimed at reducing the severity of the impact of such risks;
- **Communication:** provision of appropriate information flows to allow adequate transparency and knowledge of exposure to ESG risks.