



RULES FOR LENDING OPERATIONS IN THE UNCONVENTIONAL OIL&GAS SECTOR

SUMMARY

Effective date: July 2021

INTRODUCTION

With a view to the fair and responsible provision of financial services, the Group, in implementation of the "Guidelines for the governance of environmental, social and governance risks regarding lending operations" and in line with the indications contained therein, has decided, through this document, to introduce specific exclusions and limitations to operations linked to the main unconventional resources and fragile ecosystems as specified below.

CONTEXT

The entire economic system - and the energy sector in particular - are facing important challenges in order to meet the demanding goals posed by the 2015 Paris Agreement, along with subsequent updates and international commitments on the subject. In order to significantly reduce the risks and consequences of climate change the main goal of the agreements is to strengthen the global response by keeping a global temperature rise this century well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C. The energy sector currently produces two thirds of greenhouse gas emissions and the energy demand is expected to increase by 1.3% per year until 2040.

Within the energy sector, oil & gas resources play a crucial role, since it is expected that by 2040 they will meet approximately 53% of global energy demand.

Since easily accessible oil & gas resources are progressively running out, the industry is looking for new ones through the use of sophisticated unconventional techniques, i.e. techniques that are different from those traditionally applied, in order to extract resources that would otherwise not be accessible and/or cost-effective. The best known, in a nutshell, are:

- hydraulic fracturing, which consists of injecting a pressurised fluid into the rocks to stimulate the formation of fractures and therefore the release and extraction of resources;
- open-pit mines in which portions of soil are collected to then proceed with the separation of oil;
- "in-situ" production. The most widespread methodology involves the use of two horizontal drills and the injection of steam into the upper drill to allow the oil to flow towards the lower drill to then be extracted to the surface.

Unconventional resources, such as shale oil & gas, tar sands, tight oil & gas, obtained through the techniques described above, generate higher greenhouse gas emissions than conventional resources extracted using traditional techniques, pose greater environmental risks due to the possible contamination of the soil and aquifers due to the use of chemicals and cause harm to biodiversity resulting from the removal of large portions of land.

The sector's industry is also launching exploration and production in new geographical areas, often characterised by fragile ecosystems that represent an important heritage in terms of biodiversity, have a decisive role in regulating the planet's climate and that can be irretrievably damaged in emergency situations such as, for example, in the event of an oil spill.

SCOPE OF APPLICATION OF THE RULES

This document is developed at Group level and applies globally to the Group Banks and Companies, including international branches, which provide the financial products and services as defined below.

Description of the sector

In consideration of the greater environmental risks arising from unconventional resources, the Group subjects the following resources to specific restrictions/limitations:

- tar sands (oil sands);
- shale/tight oil&gas.

Furthermore, taking into account the fragility of the ecosystems that characterises some geographical areas, the following resources are also considered as unconventional and hence subject to specific limitations/restrictions:

- onshore/offshore oil and offshore gas in the Arctic Region¹;
- oil in the area known as “Amazon Sacred Headwaters”.

The exclusion and limitation criteria of this policy therefore apply to projects and companies in the oil & gas sector that operate, in relation to the unconventional resources as described above, in upstream activities, such as exploration and mining, and midstream activities, such as transport through pipelines solely linked to exploration and mining of unconventional resources.

Financial products and services

These Rules will apply to the financial products and services provided by the Group, including the related advisory services.

The Rules apply to all forms of financing, both to general purpose loans, i.e. with unknown use proceeds, and to defined use of proceeds loans (such as project finance, project related corporate finance, acquisition finance).

The Group commits to guide companies including by promoting the granting of loans and other financial services aimed at the production of energy from renewable sources, in the transition to a low-carbon economy, in line with the targets set by the Paris Agreement and subsequent updates and international commitments on the subject (for example in the form of "green loans", "sustainable loans", "transition loans", "acquisition/project transition financing").

RISK ASSESSMENT

Exclusions and limitations to operations

From the date of issue of these Rules, the Group will not provide financial products and services² to projects aimed at the development, construction and expansion of exploration and extraction activities relating to unconventional resources, as well as activities relating to transport infrastructures solely linked to exploration and extraction of unconventional resources.

Furthermore, the Group will not increase its exposure relating to general purpose financial products and services towards companies with significant revenues from unconventional resources and will manage the current exposures in line with the phase-out as indicated below.

¹ Area within the Arctic Circle (66.5° north of the Equator).

² The foregoing is without prejudice to the contractual commitments already underway until their natural expiry

The general exclusion criteria defined for all sectors by the "Guidelines for the governance of environmental, social and governance risks regarding lending operations" shall in any case continue to apply to the whole oil&gas sector.

PHASE OUT

By 2030 the Group undertakes to terminate its exposure linked to unconventional resources prohibited by this policy³.

CUSTOMER PROJECT REQUIREMENTS

All the companies operating in the oil & gas sector are required to meet criteria and requirements as laid down by national and international regulations and standards applicable from time to time. More specifically, in the case of projects falling within the scope of application of the Equator Principles (EP), the internal rules governing the implementation of the EPs apply in addition to the provisions set forth in this document.

³ The foregoing is without prejudice to the contractual commitments already underway until their natural expiry