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, and in the TCFD – Task Force on Climate-related Financial Disclosure Report, establish the framework for governing ESG risks in accordance with the Group's "Principles on Human Rights", with what is set out in the "Organization, 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. In this regard this document outlines:

- the general principles underlying the ESG risk steering and management process;
- the ESG risk management model;
- ESG risk governance macro-processes;
- the procedures to steer and coordinate Banks and Group Companies.

As a whole this set of rules aims to promote a risk culture focused on encouraging sustainable behavior and integrating environmental, social and governance aspects into the risk management processes, in the awareness that they contribute to the sustainability of the Group's initiatives, to a solid and stable creation of value over time in favor of all internal and external stakeholders.
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

Equator Principles (EP)
Voluntarily applied international guidelines that define an environmental and social risk management framework to support financial institutions involved in the financing of large infrastructure projects and industrial plants, for example energy plants, petrochemical plants, mines, infrastructures in the field of transport and telecommunications.

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.

The goal of the ESG Sectoral Assessment is to identify[1]sectors and subsectors most affected by climate change and ESG risks, with the aim to address the risk management processes and support strategic decisions on the matter (for example through the ESG Sectoral Color Coding). The ESG Sectoral Assessment is one of the main tools for the ESG and climate materiality assessment, so called "Climate /ESG Materiality Assessment".

ESG Sectoral Color Coding
- ESG Sectoral Color Coding represents a classification of sectors and subsectors on the basis of sectoral characteristics of risk (as defined by the ESG Sectoral Assessment) and opportunity (in particular SDGs[2] and the European Taxonomy). The sectors and subsectors are divided into

[1] Developed through a financial materiality analysis also aligned with the approach defined by the TCFD (Task Force on Climate-related Financial Disclosure
[2] Sustainable Development Goals (SDGs) of the United Nations

clusters (so-called "color coding"), based on which the following ESG strategies have been identified: “Blue” Strategy: sectors characterized by a prevalence of opportunities;
- “White” Strategy: sectors characterized by a neutrality in terms of ESG risks and opportunities;
- “Yellow” Strategy: sectors exposed to ESG risks but suitable for a possible transition path in terms of ESG sustainability;
- “Orange” Strategy: sectors exposed to ESG risks without sustainable transition path perspective;
- “Red” Strategy: sectors with prohibited or restricted financing activities based on specific Rules of these Guidelines (so-called “policies”).

The ESG Sectoral Color Coding thus contributes to the definition of credit strategies.

ESG Factors

Consistent with the sustainable economic development approach, environmental, social or governance factors of an economic activity can have a positive (opportunities) or negative (risk factors) impact on the economic/financial performance or solvency of a counterparty, the environment, and the community in relation to specific transmission channels.

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, labor relations, focus on non-discrimination and the promotion of diversity (e.g., gender, ability, and age), labor 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.

Most Significant Transactions (MST)

These are relevant proprietary or customers transactions potentially capable of having a significant impact on the overall risk profile and/or on the specific risks of the Group as defined in the Risk Appetite Framework (such as, for example, concentration on individual counterparties and concentration on sovereign and public sector risk) governed by the dedicated regulations ("Guidelines for the Governance of the Group’s Most Significant Transactions” and “Rules on the Management of the Most Significant Transactions")..

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).

By way of example, transmission channels include fluctuation in the value of assets or specific asset classes as a result of changing investor, client or regulatory preferences and expectations, or penalties, legal and compliance costs.

Reputational Risk

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

Risk Appetite Framework – “RAF”
The framework that sets out – in line with the maximum risk that can be assumed, the business model and the strategic plan – the risk appetite, tolerance thresholds, risk limits, risk governance policies, and the necessary processes for calculating and implementing them. The RAF represents the overall framework within which the management of company risks unfolds and consists of (i) general risk appetite principles; (iii) Monitoring of Overall Risk Profile of the Insurance Group, (iii) monitoring the Group's Main Specific Risks.

Sectors sensitive to ESG and/or Reputational risks
The ESG Sectoral Assessment and scenario analysis outcomes, the strategic guidelines on ESG matters and the findings of the Reputational Risk Management processes enables identification of sectors most exposed to ESG and reputational risks for which dedicated risk controls can be predicted, also considering the materiality of the exposures. The main safeguards that can be activated include:

• the introduction of limits/Key Risk Indicators within the Risk Appetite Framework;
• the exclusion/limitation of funding for certain sectors/activities, through the adoption of self-regulation policies (implementing rules of these Guidelines);
• enhanced assessment procedures, within the framework of ESG & Reputational Risk Clearing and Most Significant Transactions.

The controls mentioned are defined in line with the strategic objectives of the Group with particular reference to the objectives of reducing financed emissions by 2030 and the ESG Sectoral Color Coding which takes into consideration not only the ESG risks associated with a sector, but also the opportunities associated with the transition to a more sustainable and low-carbon economy.

On the basis of the analyses carried out, the following "sensitive" sectors and/or sub-sectors have been identified:

- Agriculture, fishery, livestock
- Automotive – Manufacturing
- Chemicals, Rubber and Plastic
- Coal mining
- Construction Materials - Concrete, lime and plaster
- Defence
- Forestry
- Gambling
- Metals - Non-ferrous metals
- Metals - Steel industry
- Mining
- Oil and Gas
- Power generation
- Tobacco

Furthermore, the aforementioned risk controls can be introduced across both sectors and specific portfolio segments particularly exposed to climate risk (e.g., residential mortgage portfolio).

Credit Strategy

The Credit Strategy directs credit activity at the portfolio level, within the risk framework defined by the CRA ("Credit Risk Appetite"), to optimize the risk-return profile of the credit portfolio ensuring sustainability and consistency with the propensity to risk and the creation of value for the Group in the medium/long term.

Climate/ESG Materiality Assessment

The analysis of climate-related and ESG materiality is a managerial assessment, based on qualitative and quantitative elements, which aims to identify the Bank's assets most exposed to climate-related and ESG risks, and inform decisions on the risk controls to be implemented, prioritizing its management. The materiality assessment presupposes the understanding and identification of the relevant climate and environmental risk drivers, the related transmission channels, and their relationship with the various types of risk families.

GENERAL PRINCIPLES AND STRATEGIC DIRECTION

The Intesa Sanpaolo Group (hereinafter the Group), aware of the importance of allocating resources according to criteria of environmental and social sustainability and good governance, promotes balanced and harmonious development in order to redirect capital flows towards sustainable activities for the conservation of the natural environment and biodiversity[3], the fight against climate change, health, employment, the well-being of the entire community and the safeguarding of the system of social relations.

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 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 ESG Sectoral Color Coding that contributes to the general credit strategy steering and the specific safeguards foreseen within the underwriting process (of credit and proprietary investments with Hold to Collect [HTC] treatment);
- 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 organization.

The Group is committed to observing the principles of sustainable development and has signed up to important international initiatives (e.g. UN Global Compact, UNEP FI, Principles for Responsible Banking, Principles for Responsible Investment, Principles for Sustainable Insurance, Equator Principles) aimed at promoting dialogue between companies, supranational bodies and civil society

[3] The UN Convention on Biological Diversity defines biodiversity as the variety and variability of living organisms and the ecological systems in which they live. It includes diversity at genetic, species and ecosystem levels:
- Genetic diversity defines the difference of genes within a given species; it therefore corresponds to the totality of the genetic pool to which all organisms living on Earth contribute;
- Species diversity includes species richness, which can be measured in terms of the number of the same species present in a given area, or species frequency, i.e. their rarity or abundance in a territory or habitat;
- Ecosystem diversity defines the number and abundance of habitats, living communities and ecosystems within which different organisms live and evolve.

and pursuing respect for the environment and human rights, and supports associations that promote the dissemination of a culture of sustainability and transparency (e.g. TCFD, Global Reporting Initiative).
It also joined the Net-Zero Banking Alliance (NZBA) and the Net Zero Asset Managers Initiative (NZAMI) through Eurizon Capital SGR, Fideuram Asset Management SGR and Fideuram Asset Management Ireland, the Net Zero Asset Owner Alliance (NZAOA) and the Net Zero Insurance Alliance (NZIA) through the Intesa Sanpaolo Vita insurance group, committing to align emissions with the target of net zero emissions by 2050 (own emissions, loan and investment portfolios and for asset management and insurance business).
In order to direct capital and steer corporate strategy in the short, medium, and long term in favor of sustainable finance, the Group conducts periodic assessments of the materiality of ESG factors in its business context, including the list of material issues[4], which is updated annually and is responsible for identifying the most potentially relevant factors in the area of sustainability for the Group and its stakeholders.
For risk management purposes, the financial materiality analysis of ESG risk factors is assessed in terms of their impact on individual business sectors as part of the ESG Sectoral Assessment.

Consistent with these assessments, 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 characterized 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[5], 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.

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[4]Intesa Sanpaolo identifies priority issues for the company and its stakeholders through a document analysis and stakeholder engagement activities, updated periodically, whose results are presented in the list of material issues (see the Consolidated Non-Financial Statement).
[5] In accordance with the values and principles expressed in the Code of Ethics, Intesa Sanpaolo expressly prohibits any type of banking and/or financing activity connected with the production and/or marketing of weapons that are controversial and/or banned by international treaties, such as: Anti-personnel mines; Cluster bombs; Nuclear weapons; Depleted uranium; Biological weapons; Chemical weapons; Invisible fragmentation weapons; Blinding lasers; Incendiary weapons; White phosphorus.

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 Color Coding");
- 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 Color Coding, 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., blue sectors) or the absence of contraindications from an ESG point of view to the incentive based on other considerations (i.e., White 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 Color Coding, 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 considers 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 which is taken into account for the quantification of the incentive mechanism - Credit Strategies Adjustment - associated with the Credit Strategies guidelines). 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 considers 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[6] 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;
- integrates ESG factors into product governance processes relating to the investment services provided, in terms of analysis and selection of issuers and products placed;
- integrates ESG factors into the offer of advisory services, identifying the clients’ investment objectives related to sustainability and proposing suitable tools to meet these needs.

Monitoring ESG risks in the credit process

General principles of exclusion of financing activities

The Group considers 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.

[6] The ESG & Reputational Risk Clearing process is part of specific authorisation processes concerning the following issues:
- The Most Significant Transactions, as defined in the relevant Guidelines;
- Financing transactions subject to the Equator Principles regulations;
- Credit transactions of the Corporate and Investment Banking and International Subsidiary Banks Divisions, falling within the decision-making autonomy of the Chief Lending Officer Governance Area Head Office Departments or higher;
- Partnerships with third parties for specific financial and non-financial initiatives (e.g. New Trades);
- Supply contracts with third parties as part of Intesa Sanpaolo's normal process of selecting and assessing suppliers.

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

- **UNESCO World Heritage Sites** [7]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**[8] under the **Ramsar Convention** - wetlands included in the Ramsar Convention list;
- **IUCN protected areas I to VI**[9] - 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 labor practices[10].

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/Color Coding), the definition of specific Rules for the implementation of these Guidelines (policies) is envisaged, which establish criteria for the limitation or exclusion[11] 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.

Criteria for identifying sustainable credit products and credit transactions

In order to develop a complete framework for monitoring ESG factors, the Group defines specific criteria for identifying sustainable credit products and credit transactions, starting from existing internal ISP regulations (e.g., Green, Social and Sustainability bond Framework, these Guidelines and the Rules on sustainable product and transactions) and considering the requirements of the regulator and a benchmarking analysis carried out on the main European peers on the subject.

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[7]This is a list of sites officially recognised by the United Nations Educational, Scientific and Cultural Organization (UNESCO). The sites are selected on the basis of cultural, historical, scientific or some other form of relevance, and are legally protected by international treaties (http://whc.unesco.org/en/list).
[8] This is a Convention of international importance that provides the framework for the conservation and prudent use of wetlands and their resources. Nearly 90% of the member states of the United Nations, from all geographical regions of the world, have acceded to the Convention by becoming "contracting parties". A key commitment of the Contracting Parties is to identify and place suitable wetlands on the list of wetlands of international importance, also known as the Ramsar list (http://www.ramsar.org/sites-countries/the-ramsar-sites).
[9]This is a list of protected areas (i.e. "a clearly defined, recognised, dedicated and managed geographical area, through legal instruments or other effective means, to achieve long-term nature protection with associated eco-systemic services and cultural values"), which have been identified and classified (Class I to VI) by the International Union for Conservation of Nature (IUCN), a union of members consisting solely of governmental and civil society organisations.
The categories are defined as follows (https://www.protectedplanet.net/):
- I Strict protection [Ia) Strict nature reserve and Ib) Wilderness]
- II Conservation and protection of ecosystems (e.g. National Park)
- III Conservation of natural features (i.e. natural monument)
- IV Conservation through active management (e.g. Habitat/species management area)
- V Landscape/seascape conservation and restoration (e.g. protected landscape/seascape)
- VI Sustainable use of natural resources (e.g. protected area of managed resources)

[10] See the Group's General Principles of Governance "Human Rights Principles".
[11] These criteria may be related to "phase-out" targets for exposures to remain compliant with potential Risk Appetite Framework limits

The ESG & Reputational Risk Clearing process of credit transactions

Credit transactions subject to the ESG & Reputational Clearing process are evaluated in order to preemptively identify potential ESG and reputational risks associated with them. The ESG & Reputational Risk Clearing process is based, in general terms, on several key factors:

- sector-level indications from the ESG Sectoral Assessment and the ESG Sectoral Color Coding;
- the ESG and reputational profile of the counterparty;
- the ESG score of the counterparty;
- the characteristics of the transaction in question (e.g., based on RWA, tenor, etc.);
- the type of product/operation (e.g., "sustainable products").

These transactions qualify as the Most Significant Transactions.

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 (preventive) 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.