



**GUIDELINES ON THE INTEGRATION OF
SUSTAINABILITY RISKS IN THE PROVISION OF
INVESTMENT SERVICES TO CLIENTS
(EXTRACT)**

Latest update: 21 October 2024

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1 Introduction

1.1 Purpose

The Guidelines regulate principles, roles and responsibilities regarding the integration of environmental, social and governance (hereafter ESG or sustainability) risks in the provision of investment services.

1.2 Scope of application and implementation procedures

The Guidelines apply to Banco BPM and Banca Aletti, which carry out or participate in the provision of investment services to customers including individual portfolio management and investment advisory.

The document and its subsequent updates are applied by the individual companies, which ensure that their own internal regulations are consistent with the Group Guidelines.

The Guidelines and its subsequent amendments are approved by the Parent Company's Chief Executive Officer, with the exception of subsequent updates to the annexes 'Quantification of Minimum Share Levels' and 'PAI Indicators', which are approved by the Parent Company Risk Committee.

1.3 Summary of updates

ID number	Date of update	Summary content update
Initial approval	08/03/2021	
1st update	22/07/2022	Update to the changes of the Group's organisational structure
2nd update	28/10/2022	Evolution of the operating model through the gradual application of a methodology developed internally in product governance areas, collection of the customer's ESG preferences and financial advisory services in line with the latter.
3rd update	12/04/2023	Update of Annex 1 'Quantification of Minimum Share Levels', approved by the Risk Committee on 12/04/2023
4th update	08/05/2024	Formal adjustments to keep the Guidelines consistent with the Group's organisational structure.
5th update	21/10/2024	Integration of PAIs on sustainability factors into investment decisions.

2 General Principles

The Guidelines are part of the Banco BPM Group's (hereinafter also the "Group") commitment to sustainability in accordance with the 17 UN *Sustainable Development Goals* (SDGs), the Paris Agreement on Climate Change of 22 April 2016, ratified by the European Union on 5 October 2016, and the relevant external legislation.

The Group embraces the principle that sustainable development able to promote economic and social growth and in observance of the conservation and protection of the natural resources is the route to ensuring long-lasting development over time, which respects the needs of future generations and capable of preventing significant risks from occurring, also with economic and financial impacts.

The 17 UN Goals and the Paris Agreement represent the reference framework for the transition of the current development model to a sustainable economy, as they define their concrete objectives and precise time-frames for achieving them. The UN Goals, in particular, highlight the importance of integrating the various development aspects (environmental, social and economic) and the relations between them.

The 'Action Plan for Sustainable Finance' drawn up by the European Commission, which recognises the banking sector's fundamental role in the transition of the real economy, represents a reference framework for fostering sustainable growth, managing the risks deriving from environmental, social and governance factors and promoting a long-term vision of economic-financial activities.

In particular, the Group, as a financial intermediary and fully aware of the importance of the correct and responsible allocation of resources, undertakes to carrying out training and information activities both for staff, in order to acquire ESG skills, and for customers to allow them to make fully-informed investment choices.

In order to align the sustainability objectives with global challenges, in 2021 the Group signed up to the United Nations Global Compact (UNGC) and became a supporter of the Task Force on Climate-related Disclosure (TCFD), whose guidelines concern transparent and exhaustive reporting on financial risks and opportunities related to climate change. In March 2023, the Group joined the Net Zero Banking Alliance, which aims to accelerate the sustainable transition through the involvement of the banking sector by identifying intermediate emission intensity targets on sectors identified and reported to it.

Based on this fully-informed position and in observance of the relevant external legislation, the Group integrates ESG factors into the provision of investment services to clients and, in particular, into the processes of providing the financial advisory service and the portfolio management service, also providing information on sustainability-related risks, understood as environmental, social or governance events or conditions that, should they materialise, could have a significant negative impact on the value of the investment.

This integrated analysis makes it possible to identify investment opportunities also connected with a sustainable development model and to continue to offer high-quality products and services, in step with the evolution of the market and in observance of customers' ESG preferences.

Consistent with these principles, the Guidelines are part of the framework with which the Banco BPM Group manages sustainability issues in the areas of its operations.

3 Integrating sustainability risks into investment services

The integration of sustainability risks in the provision of investment services by the Banco BPM Group takes into account market *best practices*, ensures consistency over time with relevant regulations and benefits from the interaction between corporate bodies and functions.

In particular, the organisational model adopted by the Group in the ESG sphere assigns specific roles and responsibilities to the corporate functions directly and indirectly involved in assessing the sustainability of the business, with the aim of spreading its culture.

In this context, the *product governance* process is important, aimed at protecting customers from cases of *mis-selling* through the construction by intermediaries of controls throughout the life cycle of financial products. In this sense, the Banco BPM Group has adopted methodological criteria so that the overall catalogue of offerings (e.g. OICRs, management lines, issuance of assets under administration) remains consistent over time with the profiles collected through the special questionnaire and with customers' needs. *Product governance* choices are subject to periodic review on the basis of financial profiles and customer needs, also with reference to sustainability aspects, and may determine the creation of a new product or the elimination or modification of an existing one.

The methodological criteria determine the requirements that a product must meet in order to enter or remain in the Group's catalogue of offerings, and make it possible to identify a sub-set of products in the overall catalogue, broken down by type (UCITS, management lines, etc.), which, in time, constitutes the guidelines for the commercial networks of the Group Banks to support the advisory service (so-called *buy list*).

3.1 Assessing the sustainability profile of customers

In the provision of investment services, client sustainability preferences are captured through a special section of the MiFID profiling questionnaire, through which the client expresses:

1. their possible preference for sustainability issues;
2. where this preference exists, the level of specific interest in environmental, social and good governance factors and three types of investment products: a) environmentally sustainable products¹, b) sustainable products² and c) products that adopt strategies to manage

¹ Eco-sustainable products are those that invest in one or more economic activities considered eco-sustainable; an economic activity is defined as eco-sustainable if it makes a substantial contribution to the achievement of one or more environmental objectives, does no significant harm to any of the objectives, is carried out in observance of the minimum safeguards and is compliant with the technical screening criteria established by the European Commission. Reference: Delegated Regulation EU 2017/565, art. 2.7

² Sustainable products are those that invest in one or more economic activities considered sustainable; an economic activity is sustainable if it contributes to an environmental objective measured using resource efficiency indicators (e.g., use of energy and raw materials, waste production), or an investment in an economic activity that contributes to a social objective (e.g., contribution to tackling inequality, promotion of social cohesion, social integration and industrial relations), provided that said investments do no significant harm to any of said objectives and that the companies benefitting from said investments observe good governance practices (for example: relations with personnel, respect for tax obligations). Reference: Delegated Regulation EU 2017/565, art. 2.7.

negative impacts (so-called PAI, *Principal Adverse Impacts*) that an investment choice may entail with respect to one or more of the ESG factors ;³

3. the minimum percentage share of the portfolio to be allocated in total to these three types of investment products.

3.2 Assessing the sustainability content of products

In the provision of investment services, the sustainability content of products offered to clients is assessed through the application of a qualitative-quantitative methodology that also analyses the sustainability profiles of the issuers/manufacturers of financial instruments underlying the products.

In particular, the methodology considers any negative sustainability impacts (so-called PAI - *Principal Adverse Impact*) arising from products offered to customers, consistent with the Group's sustainability principles and policies.

The methodology considers the PAIs foreseen by Delegated Regulation (EU) No. 2022/1288 of 6 April 2022: in particular, the 18 mandatory PAIs and at least 2 of the 46 optional environmental and social PAIs, identified in line with internal sustainability guidelines and data availability, are considered.

From the 20 selected PAIs, the Group, applying an internal methodology, then prioritised the following:⁴

- with reference to environmental issues and in particular the fight against climate change, those related to the containment of greenhouse gas emissions;
- with reference to social issues, those related to good governance (UNGC, OECD Guidelines), the protection of human rights and involvement in the production and trade of controversial weapons.

The methodology for assessing the sustainability content of products offered to customers consists of the following elements, considered in progression.

3.2.1 Negative Screening

Negative screening establishes exclusion criteria aimed at prohibiting trading in financial instruments that invest in controversial assets as depicted below.

This approach is applied to issuers and producers of financial products, whether they are distributed as part of investment advisory services or considered in the portfolio management process, by applying tolerance thresholds defined by internal methodologies.

The exclusion criteria concern:

³ Reference: Delegated Regulation EU 2017/565, Art. 2.7.

⁴ Please refer to Annex 2 for the list of selected mandatory, optional and prioritised PAIs.

- a. the corporate issuers involved in controversial activities, or which violate principles established by international treaties or guidelines, or by international initiatives the Group has signed up to. In particular, this refers to:
 - violations of one or more principles of the UN Global Compact⁵ or the OECD Guidelines intended for Multinational companies;⁶
 - to the involvement in activities relating to controversial weapons (such as anti-personnel mines, cluster bombs, chemical and biological weapons, depleted uranium and white phosphorous weapons);
- b. the sovereign issuers involved in the violations of human rights, consistent with the provisions of the Group Guidelines on operations with foreign counterparties and countries subject to restrictions and with the limitations defined by internal operating rules;
- c. third-party management companies (and gradually also other producers), whose controls for the integration of sustainability risks are insufficient, based on an assessment conducted during the initial phase or during a regular check.

The methodology for applying the exclusion criteria uses information (i) provided by a primary data provider to which tolerance thresholds defined by internal methodologies are applied, (ii) from financial market participants, or (iii) collected through the internally developed sustainability *due diligence* questionnaire.

3.2.2 ESG classification of products

Products not excluded from the *Negative screening* above are subject to further *Negative screening*, reinforced according to an internal methodology, aimed at their classification in the following ESG categories:

1. products that invest in eco-sustainable activities (type a products), sustainable activities (type b products) and that adopt PAI management strategies (type c products). The minimum threshold for investment in these activities, reported in Annex 1, is expressed in a qualitative scale determined according to an internal methodology and updated periodically based on available market data;
2. products that invest in instruments that consider environmental (environmental 'E'), social (social 'S') or good governance (governance 'G') sustainability factors, taking into consideration, in particular, the data supplied by producers, the types of PAIs managed and the measurement of the SDGs - Sustainable Development Goals of the data provider.

With regard to point 1 above, the identification of type (a) products is carried out considering the following factors:

- substantial contribution to the achievement of an environmental objective, through a minimum threshold of investment in an economic activity, established through an internal methodology and determined on the basis of data made available by producers and data providers;

⁵ On human rights, employment rights, environment protection, anti-corruption.

⁶ For example: contribute to economic, social and environmental progress to achieve sustainable development, support and ensure observance of good corporate governance and develop and apply good corporate governance practices, including in entrepreneurial groups.

- the do no significant harm to the environment principle, through the application of investment exclusion criteria according to an internal methodology and determined on the basis of data made available by data providers;
- respect for the minimum safeguards, by excluding corporate issuers who have violated the OECD Guidelines for Responsible Conduct or Global Compact (UNGC) principles, through the data supplied by data providers and the producer;
- respect for the technical screening criteria established by the European Commission, through the data supplied by data providers.

The identification of type (b) products is carried out considering the following factors:

- contribution to the achievement of an environmental or social objective, through data provided by producers regarding sustainable investments and by data providers. They are therefore excluded:
 - financial instruments not classified as sustainable by the producer or with a share of sustainable investments considered insignificant with respect to the internal methodology, as well as issuers with revenue percentages below a threshold calculated internally based on the data supplied by data providers;
 - products under Art. 6 of the SFDR Regulation and those that present a material risk connected with CO₂ emissions, measured using a specific metric provided by data providers;
- verification of the do not significant environmental or social harm, by applying the exclusion criteria defined in the internal methodology;
- verification of respect for the principles of good governance, by applying exclusion approaches due to the violation of human rights by sovereign countries, the OECD Guidelines intended for Multinational Companies for Responsible Conduct and the Global Compact (UNGC) principles⁷.

Based on the reference regulatory context, products that fall under the perimeter of SFDR Regulation and that pass the criteria defined by the Group are considered type c) products.

The methodology applied takes into consideration the data provided by producers regarding the classification of the product according to the SFDR Regulation (pursuant to articles 8 and 9), the management of the adverse impacts on sustainability factors and the number of those managed. Products pursuant to article 8 and 9 of the SFDR Regulation and, with respect to which, the issuer declares that it manages a minimum number of PAIs quantified according to an internal methodology are therefore considered products that manage PAIs.

The criteria for identifying the minimum percentages of eco-sustainable and sustainable activities and of management of PAIs that type (a), (b) and (c) products must have to be classified as such are defined internally. The minimum percentages are proportional to the degree of customer preference and calibrated on the basis of the internal methodology which also takes into consideration whether or not the product falls under the perimeter of the SFDR Regulation.

⁷ Sovereign issuers do not fall under the classification, except for instruments issued by the latter whose proceeds are earmarked for financing sustainable projects, i.e. Green, Social and Sustainable Bonds

With regard to point 2 above, one or more attributes of environmental sustainability (E), social sustainability (S) and good governance (G) are associated with each product, in order to verify the consistency with the customer's preferences.

In particular, the following are taken into consideration for the assignment of environmental and social sustainability attributes:

- for asset management products (UCITS, policies and portfolio management), the data provided by the producers relating to taxonomy alignment, any focus on E-S sustainability factors, the types of PAIs managed and the measurement of the SDGs of the data provider, also by evaluating the contribution of the environmental factor with reference to the impact on sustainability risk, through the re-processing of the indicators provided by the data provider;
- for individual issuers, the taxonomy alignment and the revenues from sustainable activities.

For the assignment of the of good governance (G) attribute, any violations of the UN Global Compact, the OECD Guidelines (Negative screening) and the exposure to significant disputes are taken into consideration.

3.3 Investment advisory

As part of the provision of the investment advisory service, in order to ensure the consistency of the products proposed with the client's sustainability preferences, a specific check is carried out during the recommendation phase, in addition to the suitability check, aimed at achieving (or approaching in an improved manner) the minimum percentage share of the portfolio to be allocated to products with sustainability characteristics requested by the client in the MiFID profiling questionnaire.

With regard to distributed products (insurance products and portfolio management) with several management lines/internal/external funds, consistency is verified with respect to each individual underlying instrument: the sum of the countervalues of the underlyings that meet the client's ESG preferences contributes to the verification of the portfolio ESG threshold.

In terms of transparency, customers are provided with:

- all information on the outcome of the completion of the ESG section of the MiFID questionnaire;
- minimum percentages reflecting the client's degree of preference for products that invest in eco-sustainable, and sustainable activities and manage PAIs (see Annex 1);
- sustainability disclosures in consultancy and business reports.

3.4 Portfolio management

As part of the provision of the portfolio management services, the Group adopts, as producer, a series of control to integrate sustainability risks in investment decisions. In particular:

- management lines make provision for the integration of sustainability risks in investment decisions, pursuant to Article 6 of the SFDR Regulation; financial instruments are selected through the gradual application of an internal methodology which

aims to conduct a 'negative screening' as a first step and, where possible, assess the sustainability risk using metrics provided by a leading data provider;

- the range of management lines is being progressively expanding with products that promote investments with environmental or social characteristics, pursuant to Article 8 of the SFDR Regulation and which reflect the classification of type a), b) or c) products. In particular, with respect to the criteria envisaged for the management lines classified pursuant Article 6 of the SFDR Regulation, the presence of a minimum percentage of the portfolio invested in financial instruments with environmental and social characteristics is required, by applying internal methodologies that consider, inter alia, the following criteria:
 1. exposure to sectors with environmentally (mining of thermal coal, Arctic oil and oil sands) and socially (tobacco, gambling) criticalities;
 2. exposures to disputes by corporate issuers;
 3. high ESG score level;
 4. relevant risk related to CO₂;
 5. exclusion of products of third-party management companies that receive a negative assessment of the sustainability safeguards revealed by the specific *due diligence* questionnaire;
- the monitoring of the identified and prioritised PAI indicators, necessary for the containment of the negative effects of investment choices, is carried out on an ongoing basis. Corrective action is taken if the measures to contain the negative effects described above do not show improvement over time.

4 Annexes

Annex 1 - Quantification of minimum share levels

Annex 2 - PAI indicators