GUIDELINES ON THE INTEGRATION OF SUSTAINABILITY RISKS IN THE PROVISION OF INVESTMENT SERVICES

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1 Introduction

1.1 Purpose

The Guidelines regulate the principles, roles and responsibilities regarding the integration of risks relating to environmental, social and governance impact matters (better known as Environmental, Social and Governance, hereinafter abbreviated as "ESG" or of sustainability) in the provision of investment services and, in particular, in investment advisory services and portfolio management.

1.2 Scope of application and implementation procedures

The Guidelines apply to Banco BPM and all Group Companies that carry out or participate in the provision of investment and/or additional services, also as creators of individual portfolio assets or distributors of investment products.

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. The first version of the annex "Quantification of the minimum share levels is approved by the Parent Company's Chief Executive Officer; subsequent updates are approved by the 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.

2 General Principles

The guidelines are incorporated in the commitment to sustainability that the Banco BPM Group (hereinafter also "Group") has undertaken in compliance with the United Nations 17 *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 the 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 "sustainable finance action plan" 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 carry out training and information activities for both 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.

Based on this fully-informed position and in observance of the relevant external legislation, a development process has been launched which gradually aims to integrate the ESG aspects in the provision of investment services and, in particular, in the product governance processes, the processes of provision of the financial advisory service and in investment decisions as part of the portfolio management service, by also providing information regarding risks connected with sustainability, understood as environmental, social or governance events or conditions that, should they materialise, could have a significant negative impact, actual or potential effect 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.

Consistently with these principles,the Guidelines define a Group framework aimed at integrating ESG risks in the provision of investment services and, in particular, in the processes of product governance, of provision of financial advisory services and in the investment decisions as part of the portfolio management service.

2.1 ESG Organisation Model

An ESG action plan has been defined, which takes into account the best practices and which is developed gradually over time in line with the relevant regulatory developments, in order to integrate its relational model with ESG factors.

As part of said process, a governance model has been adopted that provides for interaction between the different company bodies and structures in the processes of supervising and managing environmental, social and governance impact matters.

In addition, the organisational model is evolving with a view to assigning specific responsibilities for the management of ESG risks to the different corporate functions directly and indirectly involved in the sustainability of the business, with the objective of:

- disseminating a culture of sustainability;
- improving the process of identifying and managing ESG risks, by defining the management methods and specific objectives.

In order to achieve these objectives, the Group promotes:

- the continuous updating of the skills of its employees through ESG training courses also targeted at obtaining specific certifications (e.g. EFPA ESG);
- the offering of solely ESG products, identified as such as a result of the application of exclusion and classification criteria.

Additional Group Guidelines have also been defined such as those for managing environmental and energy issues and combatting climate change, and those governing operations with foreign counterparties and countries subject to restrictions.

The latter, in particular, provide the basis for the activities and controls implemented to respect the limitations and prevent operations (possession or handling) in financial instruments (such as shares, bonds, ETFs, funds, derivatives, options, also through portfolio management), which are directly or indirectly subject to restrictions.

2.2 Integration of sustainability in investment services

A work plan is in the process of being implemented which aims to gradually develop the organisational model in order to integrate the investment services provided and, in particular, the processes of product governance and the advisory and investment services processes (portfolio management) with the analyses of environmental, social and governance variables.

The appropriate methodological manual details the typical aspects and the elements developed internally.

2.2.1 Product governance

As regards product governance, a qualitative and quantitative evaluation methodology has been defined, in the process of being implemented, which regards both issuers or producers, and products.

The methodology, defined as “Negative screening”, establishes the exclusion criteria, applied gradually, aimed at preventing operations related to contentious activities, as they could expose the Group to sustainability-related risks.

This approach is applied to issuers and creators of financial products, whether they are distributed as part of advisory services or considered in the portfolio management process. The exclusion criteria concern:

- the corporate issuers involved in contentious activities, or which violate given 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 United Nations Global Compact [1] or the OECD Guidelines intended for multinational companies[2];
  - 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 weaponry);
- the sovereign issuers involved in the violation 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;
- third party management companies (and gradually also other producers) whose controls for the integration of sustainability risk are insufficient, based on an assessment conducted during the initial phase or during a regular check.

  Said check is conducted through a due diligence questionnaire developed internally, aimed at verifying the solidity of internal processes and the consistency of the approach reflected in the catalogue of actively managed products in the sustainability domain, both in terms of corporate structure and the product range.

In order to apply the exclusion criteria, the methodology makes provision for the use of the data supplied by a leading ESG data provider to whom tolerance thresholds are applied, defined using internal methodologies, disclosures from participants in financial markets and the responses provided to the sustainability due diligence questionnaire.

<u>Classification of products for ESG purposes</u>

The methodology adopted to classify financial products to be distributed is in preparation for the verification of the consistency of said products with the customer preferences indicated during the phase of filling in the profiling questionnaire.

The classification criteria used make provision, as a first step, for the identification of ESG products through the execution of an additional “Negative screening”, reinforced according to an internal methodology.

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[1] On human rights, employment rights, environmental protection, anti-corruption.

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

The ESG products include those that:

- invest in eco-sustainable activities ((type a) products[3]), sustainable activities ((type b) products[4]) and that adopt strategies for the management of the main negative effects on PAI sustainability factors[5] ((type c) products[6]).

  The minimum threshold for investment in said 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;

- considering the environmental (environmental, "E") and social (social, "S") sustainability factors and company management based on good governance practices (governance, "G"), taking into consideration, in particular, the data supplied by producers, the types of PAIs managed and the measurement of the SDGs of the data provider.

Type a) products are classified on the basis of compliance with the taxonomy, type b) products based on the classification of the SFDR[7]Regulation and type c) products based on the adoption of strategies to manage the principal adverse impacts on sustainability factors in investment choices.

Respect for the eco-sustainable requirements of an economic activity, in order to identify type a) products, is verified by considering the following factors relevant:

- substantial contribution to the achievement of an environmental objective, through a minimum threshold of economic activity of investments, established through an internal methodology and determined on the basis of the data made available by producers and data providers;
- 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 the data made available by producers and data providers;
- respect for the minimum safeguards, by excluding corporate issuers who have violated the OECD guidelines for responsible conduct or the Global Compact (UNGC) principles, through the data supplied by data providers and by the producer;

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[3] 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.

[4] 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.

[5] Principle adverse impact.

[6] Reference: Delegated Regulation EU 2017/565, art. 2.7.

[7] Regulation (EU) 2019/2088 of 27 November 2019 relating to the disclosure on sustainability in the financial services sector (so-called "Sustainable Finance Disclosure Regulation").

- respect for the technical screening criteria established by the European Commission, through the data supplied by data providers.

Respect for the eco-sustainable requirements of an economic activity, in order to identify type b) products, is verified by considering the following factors relevant:

- contribution to the achievement of an environmental or social objective, through the data provided by producers regarding sustainable investments and by data providers, 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 article 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 no significant environmental or social harm principle, 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, of the OECD Guidelines intended for multinational companies for responsible conduct and the Global Compact principles (UNGC)[8].

Based on the reference regulatory context, products that fall under the perimeter of the 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 articles 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.

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

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

- for asset management products (UCITS, policies and portfolio assets), the data provided by 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

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

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

2.2.2 Investment advisory

The customer's sustainability preferences in the provision of investment advisory services are recorded in the appropriate section of the MiFID profiling questionnaire, through which the customer expresses:

- the presence of sustainability preferences;
- where said preference is present, the level of interest with respect to environmental, social and good governance factors in relation to the three types of investment products: eco-sustainable products, sustainable products and products that adopt strategies to manage the adverse impacts that an investment choice may have on one or more ESG factors;
- the minimum portfolio percentage to be allocated on the whole to the product types that satisfy the above characteristics.

In order to guarantee the consistency of each product with respect to the customer's preferences, the implementation of an additional control has been planned, carried out during the recommendation phase, in addition to the adequacy control; said control consists of verifying the achievement (or convergence with a view to improvement) of the minimum portfolio percentage to be allocated to products with the sustainability characteristics requested by the customer in the questionnaire.

With reference to the products distributed (policies and portfolio assets) with multiple management lines/internal or external funds, the consistency is verified with respect to each individual underlying: the sum of the values of the underlying that satisfy the ESG preferences of the customer contributes to the verification of the portfolio ESG threshold.

The customer is provided with all information on the outcome of the compilation of the ESG section of the MiFID questionnaire on sustainability; the minimum percentages which reflect the customer's level of preference for products that invest in eco-sustainable and sustainable activities and that manage the PAIs (see Annex 1) are periodically published; in addition, the advisory reports are enriched with sustainability-related disclosures.

2.2.3 Portfolio management

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

- the 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, based on the availability of data, to assign a sustainability rating calculated according to an internal methodology
- the range of management lines is gradually 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 to 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:
  - exposure to sectors with particular environmental (mining of thermal coal, Arctic oil and oil sands) and social (tobacco, gambling) criticalities;
  - exposures to disputes by corporate issuers;
  - ESG score level;
  - CO_2 emissions measured using a specific metric supplied by data providers;
  - evaluation of the due diligence questionnaire for UCITs.

3 Roles and responsibilities

3.1 Parent Company

The Parent Company BPM exercises, for the entire Group, the responsibilities for management and control of the integration of risks relating to environmental, social and governance impact matters in the investment decisions, and in the provision of the advisory service in accordance with the "Guidelines regarding the management of environmental and energy issues and the fight against climate change".

The Parent Company adopts initiatives aimed at developing the operating methods that integrate risks relating to ESG factors in investment decisions and in the provision of the advisory service for the purpose of continuously improving the focus of internal processes on sustainability-related issues.

In particular, the ESG Committee, chaired by the Chief Executive Officer, in accordance with the guidelines established by the Board of Directors, promotes the dissemination of the culture and practices of social responsibility within and outside the Group. The Committee fulfils an advisory role for the corporate bodies in defining the Group's social responsibility model and supervises the implementation of the company strategies and initiatives regarding environmental, social and governance matters.

3.2 Other Group Companies

Companies in scope must acknowledge the directives and the regulations governing the integration of risks relating to environmental, social and governance impact issues in the investment decisions and in the provision of the advisory service approved by the Parent Company, by adopting their principles, rules, roles and responsibilities as well as promptly reporting any impacts and criticalities.

3.3 Corporate functions

Communication Function

The Function, through the Sustainability structure, oversees initiatives in the social and environmental domain and, in the broader sense, the other initiatives connected to sustainability of the business.

Marketing and Omni-channel Function

The function promotes the creation and distribution of investment products and services in line with the needs of its customers and in observance of the Group's strategic sustainability choices. In particular, it undertakes to consider as ESG products only those identified as such following the application of the exclusion and classification criteria described in this document.

Sales and Corporate Functions

The functions help to enhance distribution at the reference customer and, through its sales network, the investment solutions, products and services developed in line with the sustainability preferences of customers on said matters.

Risk Function

The function integrates, in the risk governance and management frameworks, the factors relating to aspects connected with sustainability matters as part of the provision of investment services, in particular with reference to the definition of:

- classification criteria for sustainability products for MiFID II purposes;
- criteria for the issuing of Group management lines that promote environmental or social characteristics or with sustainable investment objectives;
- a monitoring and reporting framework regarding the integration of sustainability risks;

The function presents the periodic updates for approval to the Risk Committee shown in the annex "Quantification of the minimum share levels" to the Guidelines.

Human Resources Function

The function, through the Development and Training function, prepares and implements, for all Group staff, specific training relating to sustainability issues.

Banca Aletti Investments and Wealth Management

The function considers, in respect of the strategic guidelines defined by the Parent Company, sustainability matters in the provision of investment services, in particular for:

- strengthening the analysis processes over time in relation to ESG components through qualitative and quantitative evaluations of products, financial instruments and services and through a summary assessment of the sustainability risk integration policies of Product Companies;
- monitoring market developments regarding ESG issues, in order to support the Group with integrating sustainability aspects in the MiFID 2 domain;
- supporting the ESG product classification for MiFID 2 purposes in the product range;
- as manager of portfolios, integrating sustainability factors in the investment process.

Annexes

Annex 1 - Quantification of minimum share levels

https://gruppo.bancobpm.it/download/annex-1-quantification-of-minimum-share-levels/