Eu Taxonomy and financial sector, implications for the Corporate

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Intesa Sanpaolo is the engine of sustainable and inclusive growth, always at the forefront of ESG issues

ISP Commitment

- After being the first Italian bank to issue a **Green Bond in 2017**, Intesa Sanpaolo's commitment to sustainability was further confirmed by the **2018-2021 Business Plan**
- In 2018, from the background of the Group on **sustainability issues** and the strong **drive towards innovation**, the commitment to the **Circular Economy** was strengthened through a **specific Plafond** with the **aim of actively supporting the transition towards the circularity of the economy**
- In the period **2018-2021**, **€ 5 Billion** was allocated for business projects inspired by the **Circular Economy**[2]
- Intesa Sanpaolo has also joined **numerous initiatives related to sustainability** and it is recognized by the market as **leader within the main sustainability indices and rankings**[3]

Sustainability initiatives, indices and rankings

- The Intesa Sanpaolo Group has chosen to join various national and **international initiatives, partnerships** and **strategies for the United Nations Sustainable Development Goals**[1]

WE SUPPORT UN GLOBAL COMPACT

PRI Principles for Responsible Investment

ELLEN MACARTHUR FOUNDATION Strategic Partner

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

In support of WOMEN'S EMPOWERMENT PRINCIPLES

GRI COMMUNITY MEMBER 2021

EQUATOR PRINCIPLES

UN environment programme finance initiative

CDP DISCLOSURE INSIGHT ACTION

BUSINESS FOR SOCIETAL IMPACT CORPORATE CITIZENSHIP

Forum per la Finanza Sostenibile

- Intesa Sanpaolo is in various **sustainability indexes and rankings**, drawn up by specialized companies that evaluate companies also on **ESG criteria**[3]

Bloomberg

CDP

MSCI

SAM

SUSTAINALYTICS a Morningstar company

- ***The only Italian bank*** *included in the Dow Jones Sustainability Index and in 2021 "Global 100 most Sustainable Corporations in the World Index" by Corporate Knights; ranked first among competitors by Bloomberg (ESG Disclosure Score), MSCI and Sustainalytics*[3]
- In the 2020 *Institutional Investor ranking*, ISP was the best European bank for **Investor Relations** and **ESG aspects** (the only Italian bank among the "*Most honored companies*")[3]

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1. Source: Intesa Sanpaolo, Consolidated Non-Financial Statement 2020
2. Source: Intesa Sanpaolo, presentation of results as at al 31.12.2020; 5 Mld € before UBI acquisition
3. Source: Intesa Sanpaolo, presentation of results as at 31.12.2020

The financial system plays a central role in promoting sustainable economic development

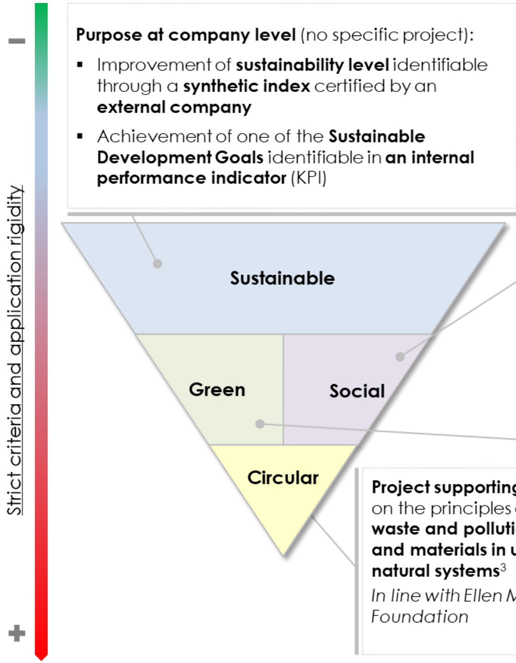
Objectives

Sustainable Finance supports two types of situations:

- **Companies** that anchor their operations to **indicators / KPIs** (environmental, social or governance) or **sustainability indices**
- **Projects** that contribute to environmental or social sustainability

Circular projects aim to support the **transition towards the circularity of the economy**

Sustainable Finance



Purpose at company level (no specific project):

- Improvement of **sustainability level** identifiable through a **synthetic index** certified by an **external company**
- Achievement of one of the **Sustainable Development Goals** identifiable in **an internal performance indicator** (KPI)

For a target population[1], **purpose of the project:**

- Provide **basic infrastructures** and **affordable housing**
- Promote access to **essential services** and **food safety and hygiene**
- Create **new jobs** and promote socio-economic progress and strengthening

In line with ICMA[2]

Macro-areas of the project:

- Renewable **energy**
- **Energy** efficiency
- **Pollution** prevention and control
- Environmentally sustainable **management** of living natural **resources** and land use
- Conservation of terrestrial and aquatic **biodiversity**
- Clean **transport**
- Sustainable **water** and wastewater management
- **Adaptation** to climate change
- **Eco-efficient** products, production technologies and processes
- **Green buildings**

In line with ICMA[2]

Project supporting an economy based on the principles of **designing out waste and pollution, keeping products and materials in use**, and **regenerating natural systems**[3]

In line with Ellen MacArthur Foundation

Financial advice in the Sustainable Finance area is particularly profitable in a broader context of support for transformation

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1. Some examples: communities living below the poverty line, population and / or expelled / marginalized communities, vulnerable categories, disabled people, migrants and / or displaced persons, illiterate, less well-off communities, unemployed
2. International Capital Market Association
3. Eligibility Criteria & Applications of Intesa's Circular Economy Financing Plafond: Renewable resources, Resource efficiency and effectiveness, Recyclable products / Product life extension and Enabling technologies

Europe has started several sustainability initiatives

Dec.15	**Paris Agreement**	Signed by 195 countries, the **Paris Agreement** aims **at increasing climate change resilience** and **off-putting global warming** to below 2° Celsius compared to pre-industrial levels
Dec.16	**Expert Group**	Establishment of **High-Level Expert Group (HLEG)**
Mar.18	**Action Plan on financing sustainable growth**	Publication by European Commission of the **Action Plan** on financing **sustainable growth** which is characterized by **3 main objectives** (and 10 related actions to be implemented): (1) **Redirect capital flows towards sustainable investments**, to achieve sustainable and inclusive growth (2) **Manage the financial risks** arising from climate change, environmental deterioration and social issues (3) **Promote transparency** and long termism in financial and economic activity
June18	**Technical Expert Group on Sustainable Finance**	Establishment of the **Technical Expert Group on Sustainable Finance** (TEG) – a group of 35 experts in sustainable finance field - to assist the European Commission with the Action Plan through the development of **4 key areas**: (1) a unified **classification system for sustainable economic activities** or **EU Taxonomy** (2) a European standard for **Green Bonds** (3) benchmark parameters for low carbon investment strategies (4) guidelines to improve corporate disclosure on climate-related information
Dec.19	**Green New Deal**	Presentation by the European Commission of the European Green Deal to promote the **efficient use of resources** by moving towards a **clean and circular economy** and to restore **biodiversity and reduce pollution**
Mar.20	**EU Taxonomy & GBS**	Publication of the **Final Report on Taxonomy** and the **Guide to the use of the EU Green Bond Standard**
June.20	**EU Taxonomy**	Publication of EU Regulation 2020/852 which uniformly establishes the criteria for determining whether an **economic activity** can be considered **environmentally sustainable** at European level
2021 & 2022	**Next steps**	▪ Obligation for those proposing sustainable and responsible investments to indicate the **percentage of their investment portfolio in line with the Taxonomy** and updating the legislation on the **disclosure of non-financial information** (2021) ▪ Completion of the **EU Taxonomy** implementation and regulation related to the **EU Ecolabel** (2022)

Regulators initiatives, especially the EU Taxonomy, directly will impact the corporates

- The EU Taxonomy applies to **all market players**, especially to companies and businesses that are subject to publish the non-financial reporting (Directive 2014/95 / EU)
- These companies will have to prepare **an analysis of alignment of their activities with the EU Taxonomy** and subsequently align communications / statements / reports; this reporting will have to include a description of how and to what extent their activities are in line with the EU Taxonomy: especially they will have to declare the **percentage of turnover, capital investments and operating expenses**

The EU Taxonomy as a common language for the sustainable economic activities classification

Sustainable Activities

Economic activities that can make a substantial contribution to at least one **environmental objective without causing significant harm** to the other environmental objectives (DO NOT SIGNIFICANT HARM principle or DNSH[1])

Environmental Objectives

1) Climate change mitigation
2) Climate change adaptation
3) Sustainable use and protection of water and marine resources
4) Transition to a circular economy
5) Pollution prevention and control
6) Protection and restoration of biodiversity and ecosystems.[2]

The process of applying the EU Taxonomy

Phase 1	Phase 2	Phase 3	Phase 4	Phase 5
Identify the **activities conducted by the company or the issuer** or those covered by the financial product (e.g. projects, use of proceeds) for which alignment is assessed and to which objective it would contribute	For each potentially aligned business, **verify whether the company or issuer meets the relevant screening criteria** (e.g.: electricity generation <100 g CO2e / kWh)	Verify that the **DNSH[1] criteria are being met by the issuer** (probable **due diligence process** to assess the performance of the underlying assets, based on **publicly available information[3]**)	Conduct **due diligence** to avoid any violation of the minimum social safeguards stipulated in article 13 in the EU Taxonomy Regulation	**Calculate the alignment of investments with the EU Taxonomy** and prepare disclosures at the investment product level

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1. Do Not Significant Harm principle
2. Publication by 2020 and application by 2021
3. i.e. sustainability reports, website, public sources including third parties

In Intesa Sanpaolo, a team of specialists are available to support companies on the path towards sustainability

Mission

- In a constantly evolving economic and financial context, in which the concept of sustainability is becoming increasingly important, Intesa Sanpaolo is a **primary referent** which companies can interact with and collaborate thanks to a team of specialists who combine **in-depth knowledge related to ESG issues with expertise in different sectors and products**
- In line with the specific needs of companies, Intesa Sanpaolo, based on a **solid experience gained in numerous sustainable transactions** - in Italy and abroad - can provide support in the **structuring of financial transactions** that promote a **more sustainable business model**

Activities

- Intesa Sanpaolo specialists support companies throughout the **entire process of development and implementation of sustainable deals**, that includes:
  - the definition of the **best financial structure** (in terms of products mix, duration, amortization, guarantees and covenants)
  - the preparation of the **legal documentation**
  - the possible involvement of other banks or institutional investors during the **syndication phase**
- With the aim of improving their **sustainability profile**, Intesa Sanpaolo supports companies in identifying **ESG performance objectives** that are more in line with **the corporate features and the strategy to pursue**, paying attention to **market trends and comparison with other players** in the sector
- Considering the importance that ESG factors are acquiring also in the assessment of the creditworthiness of companies, ISP offers support in terms of **ESG rating**, by different activities:
  - the comparison of **the assessments related to the ESG profile** of a company that the most well-known **rating agencies** assign[1]
  - the analysis of **the ESG profile** of a company compared to a peer group, paying attention to the **main ESG drivers** that rating agencies identify as relevant for the **reference sector**
  - the evaluation of **the impact of the green transition** on the company, considering the context and especially the **sector to which it belongs**

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[1] ESG rating methodologies still not homogeneous

Sustainable Finance tools represent an opportunity for companies

Reputational benefits

Distinctive factor on the market

- The companies adherence to the **principles of sustainability**, although more common comparing to the past, is still **in developing phase**
- The **most sensitive companies stand out** from their competitors and **attract the attention of Millennials**[1] who manifest new expectations in terms of **consumption, investments and employers**
- The **underwriting of sustainable financial products** (in support of corporate initiatives) and **subsequent communication to the market** indicates the company's awareness towards a **more sustainable business model** to the stakeholders

Economic benefits

Business performance improvement and reliability

- The **integration of ESG factors into the business strategy** increases the **value creation** (in terms of revenue growth and / or cost reduction) and contributes to **risk mitigation**

  Some examples of value creation and risk mitigation:
  - ➢ *the launch of a new "ESG-friendly" business line implies the revenues' improvement*
  - ➢ *the implementation of energy efficiency initiatives involves energy consumption and costs reduction*
  - ➢ *the production waste reuse reduces the impact of any increases in raw material costs*
- Companies most careful to ESG issues are therefore able to **better exploit market opportunitie**s and **respond faster to unexpected changes**

Financial benefits

Lower costs and higher demand

- The goal of Sustainable Finance products is to support business initiatives that promote **sustainable actions and projects** by encouraging **the improvement of ESG performance**
- In the case of **Sustainability-linked financing products**, compared to traditional financial solutions, the company enjoys **advantageous interest rates** once **specific sustainability targets are achieved**
- A **greater awareness of investors** towards **more sustainable investment solutions** leads to **greater ease of Green and Social Bonds placement**

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[1] People born between the beginning of 1980s and the mid-1990s and who represent 30% of today's workforce

The Non-Financial Disclosure is the basis for dialogues between companies and the financial system on ESG topics

Main factors		Status and developments
Regulatory reference	▪ A **2014 European Directive**, transposed into the **Italian national law in 2016**, has obliged many companies ,starting from 2017, to formally disclose certain information not related to their financial data, together with the traditional financial statement: **Non Financial Statement (NFS)**	▪ Some companies, in the Non-Financial Statement or Social Report, disclose in great detail: **the company targets**, all **company actions** and also the **precise indicators for their measurement** ▪ Currently, the NFS is **also published by those not required by law**; however, there is a **high degree of variability in the preparation of the statement** between sectors and players ▪ The **attention towards the disclosure of non-financial information** of companies is **constantly increasing**
Companies subject to the law	▪ **Listed companies, banks and large insurance companies** are required to disclose the Non Financial Report (i.e. large companies are defined as companies with an average number of employees more than 500 and at the balance sheet date, at least one of the following parameters: € 20 million balance sheet total or € 40 million of revenues)	
Extents	▪ The Non Financial Statement, in order **to ensure the understanding** of the business activity, its performance, its results and the impact it produces, covers topics related to **environment, people, human rights and fighting active and passive corruption**, which are relevant to be taken into account according business activities and features	
Purpose	▪ The objective of the Non Financial Statement is to **harmonize**, albeit with significant margins of **flexibility**, the publication of **non-financial information** in order to make them **easily accessible** to investors and consumers	

In the transition path towards sustainability, companies are at different stages and need support to progress

Illustrative

Context

The **integration of ESG principles in the business strategy** is increasingly a **goal** of different sectors companies, as the factors related to sustainability:

- impact on **economic growth** and **macroeconomic issues** (e.g. resource scarcity)
- influence **consumer preferences**
- inspire **regulatory changes** (including European Taxonomy)
- impact **company performance** (in terms of profit growth, operating efficiency and cash flows)

Companies are at different transition stages

ESG-related transition path

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ESG-related transition path

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Macro step	Company features (some indicators)	Type of support / advice
Early-stage *Company that has never approached the issue*	▪ No internal CSR team[1] ▪ No disclosure on Non Financial information ▪ No ESG-related initiatives ▪ …	▪ Training on ESG topics ▪ Corporate ESG assessment ▪ Advisory on some ESG projects ▪ Advisory on Sustainable Finance[2]
Intermediate *Company aware of the issue but not very structured*	▪ Rules about "Diversity & Inclusion" to be applied to the Board ▪ Simplified Non Financial Report ▪ Some ESG-related initiatives (es. replacement of the traditional lighting with LED lighting)	▪ Internal spread of the ESG culture ▪ Corporate ESG assessment ▪ Definition of an ESG strategy ▪ Monitoring of ESG initiatives ▪ Definition of ESG communication ▪ Advisory on Sustainable Finance[2]
Advanced *Company aware of the issue, internally structured and already active in the market*	▪ Internal CSR team[1] ▪ Detailed Non Financial Report ▪ Many ESG-related initiatives ▪ …	▪ ESG strategy fine-tunning ▪ Advisory on ESG special projects ▪ ESG monitoring and communication improvement ▪ Advisory on Sustainable Finance[2] ▪ Development of a partners ecosystem

The financial system plays a central role in promoting more sustainable economic development and thus supporting companies in the transition

Source: internal analysis (Strategies and Marketing)

[1] Corporate Social Responsibility team

[2] From advisory on available products to deals structuring

ESG-related services, suitable for each transition path step, can support companies

In charge of network and Product Desks ☐

ESG-related transition path

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ESG-related services	Details
ESG Training	**Training courses** with different professional figures with the aim of spreading and / or investigating sustainability-related Issues (e.g. context, regulation, ESG financial products, etc.) and spreading the ESG culture within the company
Financial advisory	In the Sustainable Finance context , support for identification of the most appropriate **financing solutions for ESG transition** (e.g. sustainable-loans, green bonds, etc.), also taking into account the potential subsidies deriving from **development policies and / or support to the economy** (national and European) and assessments based on **ESG Rating**
Regulatory diagnosis	**Evaluation of the business model** in relation to ESG risk integration policies and verify of the presence of **appropriate governance** for the implementation of the business model and the risk management
ESG Assessment	**Evaluation of company ESG performance** through the analysis of **sustainability reports, analysts' opinions and specialist questionnaires**, with the aim of positioning the company in a transition path also taking into consideration **best practices** of the sector to which it belongs
Industrial Advisory	**Due diligence** of the company aimed at identifying the **industrial transition path** from a sustainable perspective and the **necessary investments** and development of the **transformation plan** (actions to be taken, establishment of relevant KPIs and related targets) to be implemented also involving **external partners**
Non Financial Disclosure	Support in identification of the **most effective ways to communicate** the company's ESG vision, strategy and performance through different channels, starting from an **assessment of alignment with the European Taxonomy** and definition of the **communication strategy**

"Starting point" of the transformation process

Financial advice is profitable only if the issue has already been approached by the company

Financial advisory represents a broader value proposition factor, together with other non-financial services

Source: internal analysis (Strategies and Marketing)