ESG-linked Loan Origination Policy

Modena, 15/12/2022

Version for public disclosure

Contents

1. General aspects

The Loan Origination Policy defines the methods to incorporate environmental, social and governance considerations into the BPER Group's business, in line with the sustainability commitments included in the "ESG Policy" of the BPER Group.

The Group's sustainability policy, which is aligned with the Internal Governance Code of the BPER Group, promotes and implements values of ethics, integrity and responsibility towards people, the environment and society.

In this context, lending falls entirely within the scope of application of these principles and translates, firstly, into the creditworthiness assessment of customers according to the general principles adopted by the BPER Group as a safeguard against credit risk, thus including ESG-related risks, such as sustainability risk, physical risk and transition risk.

The Group develops and adopts an approach aimed at identifying and assessing potential ESG risks (climate-related and environmental, reputational, operational, etc.) arising from loans granted to companies operating in controversial sectors, involved in serious events that have resulted, or may result, in negative impacts on the borrowers assessment, with special attention to impacts on their credit scoring; at the same time, the Group intends to seize the opportunity of steering and supporting the path of transition, with the objective of improving the profile of its loan portfolio, including in terms of environmentally sustainable exposures in accordance with the EU Taxonomy, that are measured by the Green Asset Ratio (GAR) and Banking Book Taxonomy Alignment Ratio (BTAR).

This version is an abstract intended for disclosure outside the Banking Group and is consistent with the Banking Group's internal version, its operational implementations excepted.

Objectives

This Policy aims at steering the governance of climate-related, environmental and other ESG-related risks as part of the Banking Group's lending framework, providing general principles and guidance for the assessment of specific risk factors in the BPER Group's loan origination and monitoring processes, with a special focus on:

- raising awareness and encouraging the application of responsible lending and investment principles and processes across the Group;
- reducing risks and indirect impacts associated with core business operations managed by the Group;

- preventing engagement in activities that are inconsistent with the ethics and integrity at the core of the Group's business;
- mitigating the impact that climate and environmental risks may have on the Parent Company's soundness and solvency;
- providing a framework for the analysis of the exposures to climate-related and environmental risks.

To this end, this document defines:

- general limitation and exclusion criteria for counterparty and/or project financeability, consistently with the "ESG Policy" of the BPER Group and its voluntary commitments[1];
- detailed criteria applying to "risk-sensitive" businesses;
- strategies to support transition and the increasing "alignment" of counterparties with the principles of the EU Taxonomy, including via dedicated products or services.

Recipients of the document:

Italian and foreign banks and financial credit companies belonging to the banking Group.

2. Definitions

2030 Agenda for Sustainable Development: a plan of action for people, the planet and prosperity signed by the governments of 193 UN member countries in September 2015. It comprises 17 goals (Sustainable Development Goals – SDGs) and 169 specific targets that member States are committed to achieving before 2030.

Alliance for Zero Extinction (AZE): established in 2000 and launched globally in 2005, the Alliance for Zero Extinction includes 100 non-governmental biodiversity conservation organisations working to designate, conserve and protect the most important sites in the aim to prevent species extinctions around the world.

Amazon Sacred Headwaters: region spanning Ecuador and Peru that is home to a terrestrial ecosystem rich in biodiversity

Annual Efficiency Ratio (AER): measure to assess the level of a vessel's carbon emissions as a function of its total annual travelled distance.

[1] The BPER Group joined the Net Zero Banking Alliance on 09/03/2022 and the Principles for Responsible Banking on 28/06/2021.

Cold Ironing/ Onshore Power Supply/ Shore-side electricity/ Alternative Maritime Power: solutions for the power supply of ships at berth in a port with their engines switched off.

International Labour Organization (ILO) Conventions: the 8 fundamental ILO conventions cover the elimination of all forms of forced or compulsory labour, the effective abolition of child labour, the elimination of discrimination in respect of employment and occupation, freedom of association and the effective recognition of the right to collective bargaining.

Financed Emissions: emissions generated indirectly by financial products, investments and loans granted by Banks or Financial Institutions. Accounting for these emissions is part of Scope 3 of the GHG Protocol.

Green House Gas (GHG) emissions: emissions of greenhouse gases.

Equator Principles (EP): international guidelines intended to serve as a common framework for financial institutions to identify, assess and manage environmental and social risks when financing large infrastructure and industrial projects (e.g. mines, transportation infrastructure, etc.).

EU Ship Recycling Regulation (EU SRR): regulation aimed at reducing the adverse effects caused by the dismantling of ships, ensuring that specific safe and environmentally sound methods of dismantling are used.

Fit for 55 package: set of proposals by the EU to achieve the goal of reducing emissions by at least 55% by 2030.

FuelEU Maritime Regulation: EU regulation that obliges vessels of 5000 tonnes and above to reduce their GHG emissions (by defining a yearly emission target level) and, from 2030, to connect to onshore power supply, while at berth, unless they use zero-emission technologies.

Green Deal: EU objective of reaching climate neutrality by 2050.

High Conservation Value Areas (HCVAs): natural ecosystems, whose biological, ecological, social or cultural value is considered to be of outstanding importance at a national, regional, or global level and that, therefore, need to be managed in a way that maintains or enhances their value.

Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships: the goal of the Hong Kong International Convention is to ensure a safe and environmentally sound process of ship recycling.

IFC Environmental and Social Performance Standards: defined by the International Finance Corporation, they are a set of standards that define the clients' responsibilities for managing their environmental and social risks.

International Cyanide Management Code: voluntary industry programme developed to support and help improve the management practices of global gold and silver mining industries and companies producing and transporting cyanide used in gold and silver mining.

International Finance Corporation (IFC): Global development Institution focused on the private sector in developing countries.

International Union for Conservation of Nature and Natural Resources ("IUCN"): Classification of protected areas. This method is globally recognised and is divided into: Category Ia – Strict nature reserve, Category Ib – Wilderness area, Category II – National Park, Category III – Natural monument or feature, Category IV – Habitat/Species Management Area, Category V – Protected Landscape/Seascape, and Category VI – Protected area with sustainable use of natural resources (https://www.iucn.org/).

International Labour Organization (ILO): international organisation whose mandate is to advance social justice, human and labour rights. (https://www.ilo.org/global/lang--en/index.htm).

International Maritime Organization (IMO): Specialised agency of the United Nations aimed at improving maritime safety and preventing pollution by ships.

IUCN Environmental and Social Management System (ESMS): Framework defined by the International Union for Conservation of Nature (IUCN) to prevent or minimise the potential adverse environmental and social impacts deriving from projects.

Kimberley Process Certification Scheme (KPCS): process established by the UN in 2003 with the goal of preventing the flow of "conflict diamonds" (rough diamonds used to finance wars around the world).

Marpol: 1973 international convention for the prevention of pollution from ships, as modified by the Marpol protocol of 1978

Onshore Power Supply (OPS): process that allows berthed ships to plug into the port's electricity grid to supply on-board services, systems, and equipment. This process allows the engines of vessels to be shut down, with subsequent reduction of noise pollution and emissions.

United Nations (UN) Global organisation made up of 193 Member States that sets the fundamental principles of international relations with the goal of maintaining peace and security.

Organisation for Economic Cooperation and Development (OECD): Organisation that brings together 38 Member Countries from around the world that collaborate on key global issues.

Paris Memorandum of Understanding on Port State Control - Annual Report: report on the results of inspections carried out by port authorities on the compliance of cargo ships.

UNESCO world heritage list: list of sites officially recognised by the United Nations Educational, Scientific and Cultural Organisation. Sites are selected on the basis of cultural, historical, scientific value or other forms of relevance, and are legally protected by international treaties (https://whc.unesco.org/en/list/).

Principles for Responsible Banking (PRB): programme developed through a partnership between banks from all over the world and the United Nations to foster the development of a banking sector that is sustainable and aligned with the goals of the United Nations 2030 Agenda and the Paris Agreement on climate change.

Ramsar Convention: provides the framework for the conservation and use of wetlands and their resources (https://www.ramsar.org/)

Transition risk: as defined by the ECB, transition risk refers to “an institution’s financial loss that can result, directly or indirectly, from the process of adjustment towards a lower-carbon and more environmentally sustainable economy.

Physical risk: as defined by the ECB, physical risk refers to “the financial impact of a changing climate, including: i) more frequent extreme weather events and gradual changes in climate, ii) environmental degradation, such as air, water and land pollution, water stress, biodiversity loss and deforestation.

Tar Sands or Oil Sands: dense mixture of water, sand, clay and bitumen, whose extraction is more dangerous than common extraction methods.

The EU Action Plan for Sustainable Growth: The European Commission Action Plan for financing sustainable growth, published in 2018, includes recommendations by the High-Level Expert Group on Sustainable Finance for strategies and measures to be adopted in order to create an economically, socially, and environmentally sustainable financial system.

Treaty on the Functioning of the European Union (TFEU): The treaty on the Functioning of the European Union (TFEU), resulting from the Treaty of Lisbon, was developed starting from the treaty establishing the European Community (ECT or EC Treaty), as implemented by the Maastricht treaty). The TFEU is one of the two main treaties of the European Union, the other being the Treaty on European Union (TEU). It forms the basis of EU law, by setting out the principles and objectives of the EU's purpose and scope of action within its areas of intervention. It also sets the governance and organisational rules of the institutions of the European Union.

3. Content of regulatory sources

3.1. Regulatory framework and reference standards

The European System of Central Banks (ESCB), of which the Bank of Italy is a member, supports the general economic policies in the EU with a view to contributing to the achievement of the objectives of the Union, without prejudice to the objective of price stability[2]. The EU objectives include: preserving, protecting and improving the quality of the environment, protecting human health, prudent and rational utilisation of natural resources, promoting measures at international level to deal with regional or worldwide environmental problems, and in particular combating climate change[3].

In incorporating sustainable development into its lending strategy, the BPER Group is inspired in particular by the regulatory sources, agreements and principles set out in the following paragraphs.

3.1.1. Main international regulatory sources, agreements and initiatives

United Nations Global Compact (UNGC)

The BPER Group is a signatory of the United Nations Global Compact (UNGC), a United Nations initiative that aims to promote the culture of corporate social responsibility by sharing, implementing and promoting common principles and values. The initiative has formulated 10 universal principles divided into 4 macro areas:

- Human Rights
- Labour
- Environment
- Fight against corruption

The BPER Group confirms its support for the principles of the UNGC and its intent to promote them in the company and publicly report them through the “Communication On Progress” (COP).

The Paris Agreement on climate change

The Paris Agreement sets the long-term goal of preventing dangerous climate change by limiting global warming to well below 2º C and continuing efforts to limit it to 1.5º C. The Agreement also aims to strengthen the capacity of signatory countries (195) in addressing the impacts of climate

[2] Article 127 of the Treaty on the Functioning of the European Union (TFUE).

[3] Article 191 of the Treaty on the Functioning of the European Union (TFUE).

change and to support them in their efforts. The Paris Agreement is the first universal, legally binding treaty on climate change. It was adopted at the UN Climate Change Conference (COP 21) in Paris.

UNEP FI - Principles for Responsible Banking (PRB)

Developed through an innovative partnership between banks from all over the world and the United Nations Environment Programme - Finance Initiative, the principles are designed to promote actions to foster the development of sustainable banking by aligning it with the goals of the UN 2030 Agenda and the Paris Climate Agreement. BPER Banca became an official signatory of the PRB on 14 July 2021.

Recommendations by the Task Force on Climate-Related Financial Disclosures (TCFD)

11 recommendations published in June 2017 by the TCFD to help the private sector disclose consistent information to investors, lenders and insurers about the risks and opportunities presented by climate change. BPER joined the TCFD in December 2021, in the aim to make an initial alignment of its strategies with the recommendations on climate risks and opportunities and to improve its reporting on climate-related issues.

Net Zero Banking Alliance (NZBA)

Initiative promoted by the United Nations with the goal of accelerating the sustainable transition of the banking sector through the commitment of the member banks to align their portfolios of loans and investments with the achievement of the net-zero emissions target by 2050. BPER Banca joined the Net Zero Banking Alliance (NZBA) in March 2022, thereby steering its strategy to combat climate change.

Guide on climate-related and environmental risks

The Guide describes how the European Central Bank expects institutions to ensure the safe and prudent management of climate-related and environmental risks and their transparent disclosure to the public. In compliance with the current prudential framework, banks are required to identify, manage and publicly disclose all material risks they are exposed to. The ECB requires banks to take into account climate-related and environmental risks, as they are determining factors for categories of existing prudential risks, with a potential significant impact on the real economy and banks. Moreover, the Guide describes how, according to the ECB, banks should take into account climate-related and environmental risks in preparing and implementing their business strategy, as well as in governance and risk management. It also shows how the ECB expects banks to increase their transparency and improve their disclosure on climate-related and environmental risks.

Network for Greening the Financial System (NGFS)

The NGFS brings together central banks and supervisors, willing, on a voluntary basis, to share best practices for managing climate-related and environmental risks and support the transition of the financial system toward a sustainable economy.

EU Taxonomy

The EU Taxonomy is a framework for the classification of economic activities that can be considered environmentally sustainable in the European Union. The Taxonomy helps investors understand whether an economic activity can be considered “environmentally sustainable”, as it provides a list of "environmentally sustainable" economic activities.

3.2. ESG Credit Framework

In line with the business strategy and the values that inspire the BPER Group, this Policy incorporates the guidelines already described in the “ESG Policy” of the BPER Group, in that it commits to promoting their application in every phase of the loan origination and monitoring process.

Therefore, the Group is committed to assessing its counterparties in order to verify their compliance with the key principles of:

1. integrity and transparency,
2. development of society,
3. fair business practices and customer protection,
4. protection of workers, diversity and equal opportunities,
5. incorporation of sustainability into the value chain and environmental protection.

In line with the objectives set by the Paris Agreement and by the European Commission’s Action Plan on sustainable finance, the BPER Group aims at favouring the ecological transition by orienting capital to sustainable investments, as proven by the Group's membership of the Net Zero Banking Alliance.

In this context, and in compliance with the Group’s Risk Appetite Framework both in general terms and with specific reference to ESG factors, the incorporation of ESG considerations into its loan origination and monitoring process is based on:

- the definition of a Group ESG strategy that includes mitigation initiatives applied to its credit-granting activities, supporting the transition to an economy with low consumption of fossil fuels;
- the incorporation of ESG factors, with special reference to the analysis of physical and transition risk, and to the definition – if applicable – of ESG metrics and KPIs, including through specific lending criteria and sectoral strategies;
- the development and promotion of a culture that supports the protection and prevention of ESG risks across the entire BPER Group.

In line with the complexity of the borrowers and the degree of disclosure they are required to provide (see para. “Scope of application”), the following information sources are considered for an assessment on the matter:

  - publicly available information (e.g. communications to the market, documents available on line, financial and non-financial reporting);

- information acquired by the Banking Group from external providers[4];
- other specific reports, including reports from the borrowers, as long as reliable/provided by third sources, for the assessment of specific areas of scrutiny (see para. “Sector-specific policies”).

In particular, ESG ratings issued by leading agencies and ESG scores or ratings that the BPER Group may use for the specific assessment of its counterparties are also taken into account.

In line with the TCFD recommendations, the BPER Group adopts parameters associated with GHG emissions as primary evidence of the impact of the clients’ activities on the environment, and therefore of the clients’ exposure to the risk of transition to a low-carbon economy, thereby undertaking to reduce financed emissions.

In this regard, specific metrics or KPIs (Financed Emissions, etc.) can steer the allocation of assets towards a gradual remix of the loan book (with the strategies to achieve negative emissions being lending to low-emission sectors, the most sustainable counterparties in a high energy consuming sector, carbon capture and removal companies).

3.2.1. Counterparty exclusion criteria

In particular, in application of the principles of compliance with minimum safeguards on human rights, financing will exclude counterparties -and all businesses within their same scope of consolidation- that, either during the initial assessment or periodic review, are proven to be subject to legal proceedings initiated by competent Authorities, in any jurisdiction, concerning:

- violation of human rights and of health and safety regulations, both in reference to workers and to local communities;
- violation of fundamental rights at work and regulations concerning child and forced labour;
- fraud in financial and non-financial reporting, money laundering, corruption and terrorist financing.

Moreover, the BPER Group does not provide financial products or services to counterparties/activities whose operations are carried out at the expense of:

- UNESCO world heritage sites;
- wetlands protected by the Ramsar Convention;
- biodiversity-sensitive areas (High Conservation Value Areas, Alliance for Zero Extinction sites or IUCN Category I-VI areas).

[4] Including though specific questionnaires.

Specific sectors of economic activities that, to some extent, are exposed to high environmental, social or governance sustainability risks may also be subject to exclusion policies. Details concerning these policies are described in paragraph “Sector-specific Policies”.

3.2.2. General criteria for loan origination

The BPER Group adopts the definition of sustainable development as a model that meets the needs of present generations without compromising the ability of future generations to meet their own needs. The BPER Group aims at supporting this concept in its broadest sense, which includes environmental, social and governance considerations together with economic aspects. In its lending activities, the Group takes ESG factors into careful consideration and, in view of forward-looking financial sustainability, it assesses elements including:

a. responsible use of natural resources and responsible impact on the ecosystems;
b. adequate conditions of health, safety, fairness, equality and inclusion; and
c. income and employment generation in line with ethical principles and good corporate governance practices.

In consideration of its footprint area and business model, the BPER Group has developed an ESG approach differentiated by type of counterparty.

In particular, the BPER Group takes into account the need to set a path for gradually increasing SMEs and Microenterprises’ awareness [5] of environmental and social risks, support their transition to a low-carbon economy, and help them become more capable and willing to provide adequate disclosure on the matter.

The segment of SMEs and Microenterprises accounts for a large part of the players in the economic system. The European Union recognises that 99% of EU businesses fall within the SME segment, which is also considered as the largest employer in the private sector. The correct creditworthiness assessment of Microenterprises and SMEs, as a way to also protect social stability, is an essential role of financial operators.

SMEs are currently not required to publish a non-financial report, as it is only produced on a voluntary basis. However, the expected expansion of the scope of the reporting requirements to additional categories of undertakings[6] on the one hand, and the inclusion of SMEs (and Microenterprises) in

[5] *“The category of micro, small and medium enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million”* Article 2, Commission Recommendation 2003/361/EC of 6 May 2003.

[6] Corporate Sustainability Reporting Directive, introducing an expansion of the scope to listed SMEs as of 01/01/2026.

the value chain of businesses subject to mandatory reporting on the other, will foster an ever-increasing awareness and availability of data on environmental and social issues. The SMEs falling into the value chain of businesses that are subject to non-financial reporting requirements are in fact required to provide evidence of their emissions given that this information, according to the guidelines of the GHG Protocol Standard, is included in the data for Scope 3 emissions of the businesses that are already subject to disclosure. Thanks to this mechanism, “Champions” in the value chains support and motivate their suppliers to implement ESG improvement measures, with a view to producing reports of more sustainable results.

However, data on emission intensity is usually only available at a sectoral level, and not for each business. Therefore, a counterparty assessment exclusively based on GHG level metrics, could generate distorting and misleading effects.

For this reason, the BPER Groups deems it appropriate to take into consideration specific aspects of SMES and Microenterprises as part of their creditworthiness assessment, such as the percentage of renewable energy used, investments made in efficiency-increasing measures for the production cycle, general social and governance practices , while at the same time charting a roadmap for energy transition that makes it possible to finance individual customers that are financially and economically creditworthy.
In this regard, if the financeability requirements are met, the BPER Group adopts a strategy aimed at supporting and facilitating SMEs and Microenterprises down the path to environmental transition, including through the proposition of dedicated products and services.

3.2.3. Strategies to support counterparties' transition and gradual “alignment” with the principles of the EU Taxonomy

For all counterparties, regardless of their legal status and sector of operation and without prejudice to the financeability assessment based on forward-looking financial solvency parameters, the BPER Group adopts positive screening criteria, if at least one of the following adequately documented requirements is met:

- Official transition plans or commitments of the Company to reduce its GHG emissions in line with the European goals (Fit for 55, Green Deal) for emission reduction and, more generally, for the improvement of the Company's emission profile as compared to its sector of operation or to the activities carried out as part of its scope of business;
- Disclosure, including on a voluntary basis, of a Non-Financial Statement (sustainability report or social report), prepared according to the key applicable standards based on the size of the

company, attesting to lower GHG emissions than the sector it operates in or than the activities carried out by the business;

- Specific investment projects that show a certain degree of alignment with the EU Taxonomy, in compliance with all the requirements for a substantial contribution to the environmental objectives, fulfilment of technical scrutiny criteria, compliance with minimum safeguard clauses and no material detriment to other environmental objectives[7].

3.3. Scope of application

This policy applies to all corporate counterparties, except for:

- counterparties with an exposure[8] below EUR 1 mln;
- Microenterprises[9] [10].

The application of ESG considerations is differentiated[11] into:

- counterparties subject to non-financial reporting requirements[12];
- counterparties that are not subject to non-financial reporting requirements.

The assessment of counterparties subject to non-financial reporting requirements includes the application of exclusion criteria and sector-specific assessment criteria.

With regard to businesses that are not subject to non-financial reporting requirements, the approach used will be intended to enhance and support the counterparties that have embarked on a path of ecological transition, subject to prior assessment of the financeability requirements.

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[7] Compliance with alignment requirements shall obtain third-party verification in the event of transactions for amounts higher than EUR 10 mln; for lower amounts, commitments and certifications produced by the corporate customer are acquired, as long as they comply with the qualitative standard and/or practices adopted by the BPER Group over time.

[8] For the purposes of this document, "exposure" refers to the higher of the amount granted and the amount drawn by the individual Legal Entity.

[9] "*Within the SME category, a microenterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million*" Article 2, Commission Recommendation 2003/361/EC of 6 May 2003.

[10] Without prejudice to the principles of sector/project exclusion.

[11] This differentiation is especially made necessary by the awareness that, while for businesses subject to reporting requirements timely information is available, in particular with reference to GHG emissions and other non-financial reporting metrics, for business that are not subject to mandatory reporting the observations are sector-based and, therefore, the assessment of individual counterparties based on these metrics would not allow to conduct – even in the same sector – a proper assessment of the individual counterparties' level of awareness and advancement in their transition path (Lucia Alessi, Stefano Battiston, Two sides of the same coin: Green Taxonomy alignment versus transition risk in financial portfolios, International Review of Financial Analysis, 2022, 102319, ISSN 1057-5219)

[12] To date, pursuant to the Non-Financial Regulation Disclosure, implemented in Italy with Legislative Decree no. 254/2016.

3.4. Sector-specific Policies

The BPER Group promotes and intends to act in alignment with the global need to efficiently reduce greenhouse gas emissions with a view to achieving climate neutrality. To allow for the transition to a sustainable finance, the reduction of energy consumption and a shift towards renewable sources are crucial elements and a major source of interest and concern.

To promote the integration and consideration of environmental, social and governance (ESG) factors within its banking business and management standards, the BPER Group has defined some exclusion criteria and specific assessment processes for counterparties deemed higher risk as they operate in sectors with potentially adverse environmental, social and governance impacts.

For each sector, assessment rules/ criteria are defined to promote the safeguard of natural resources, energy consumption, the environment, health and safety of workers and respect for human rights.

Sectors defined as ESG-sensitive were identified on the basis of general considerations and following analyses of the BPER portfolio. These portfolio analyses are monitored and updated over time. If, following the portfolio monitoring activities, additional sensitive sectors or changes compared to the current situation are identified, the Parent Company undertakes to update this Policy.

This Policy also covers sectors in which the Group does not have major exposures; however, in consideration of the high risk of transition and the impacts of their emission profile, the Group considers it appropriate to specifically define which criteria must be adopted during the counterparties' creditworthiness assessment.

In this context, the BPER Group identifies sectors with a relevant socio-environmental profile as "ESG-sensitive". "ESG-sensitive" industries include:

- Coal
- Power generation
- Mining (excluding coal extraction)
- Unconventional Oil & Gas
- Defence
- (maritime and land) transportation
- Gambling

For these sensitive sectors, some exclusion/financeability criteria are expected to be applied as part of the assessment. The Group's objective is to contribute to sustainable growth and strengthen its financial stability and the quality of its lending.

The Group is committed to supporting businesses that have a documented plan/strategy for a gradual transition to a low-carbon economy, in compliance with the targets set out by the Paris Agreement, by promoting a greater use of renewable energy sources.

To identify the exclusion and financeability criteria for activities/operations in ESG-sensitive sectors, the BPER Group has taken into account the requirements and best practices set out in the European regulatory framework (e.g. EU Taxonomy, Fit for 55 Package, etc.).

The following paragraphs define a set of assessment rules and criteria concerning banking products and services provided by the BPER Group with a view to establishing the guidelines for responsibly carrying out banking operations.

This document was prepared and applies comprehensively to all of the Group's Banks and Companies.

3.4.1. Coal

To achieve the objectives set by the Paris Agreement and the Fit for 55 Package targets for an increased use of alternative energy sources by 2030, OECD Countries and Europe are expected to gradually reduce the use of carbon in their production capacity.

In this context, the BPER Group encourages the conversion to a green economy with a reduced level of emissions by supporting its customers in their transition to the use of lower emission-intensive energy sources (renewable energy, gas), while promoting the phase-out of coal.

In the Coal sector, the most sensitive activities are:

- coal extraction;
- transformation of hard coal into usable products (coke oven products);
- other activities associated with coal marketing/trading.

In line with its broader, groupwide objectives[13], the BPER Group will [14] phase out its exposure in general purpose financial products and services to companies operating in the “Coal” sector (as defined above).

Moreover, the Group will not provide financial products and services to projects for the construction or expansion of new coal mines (a.k.a “Greenfield Projects”) or the purchase of businesses operating in the sectors of coal extraction, transformation of hard coal into coke oven products and activities associated with coal marketing/trading.

Potential financing aimed at or associated with the conversion/remediation of mining sites, including by purchasing businesses operating in the “coal” sector to remediate, reclaim and redevelop these sites, will therefore be analysed by applying the following considerations, in addition to standard economic-financial assessments:

- quality of the assessments of the environmental and social impacts of the redevelopment projects;
- pollutant emissions and related management plan;
- management of water sources;

[13] e.g. NZBA

[14] Any exceptions to these criteria as may be caused by specific needs associated with adverse macroeconomic events will be assessed by the BPER Group via an escalation process with resolution adopted as a minimum by the relevant Body, according to the authorisation powers in force at the Banking Group at any given time.

- quality of the mine closure and restoration plan;
- labour rights and working conditions in compliance with the main International Labour Organization (ILO) conventions;
- impacts on local communities (migration of population and economic impact)
- impacts on the cultural heritage.

These projects must be assisted by specific due diligence processes, to enable the assessment of the effectiveness of financed initiatives.

For the use of coal for power generation, please refer to the section “Power generation”.

3.4.2. Power generation

Power generation from fossil fuels exponentially contributes to climate change, as it releases high CO2 emissions. The potential negative impacts and main risks associated with the generation of power from fossil fuels include the emission of greenhouse gases, the extensive use of natural resources (water in particular), the contamination of ecosystems and environmental pollution.

The activities that are considered part of “power generation” include:

- production of electricity;
- projects associated with Coal-Fired Power Plants (CFPP): construction, expansion/maintenance of coal-fired power plants;
- distribution and trade of electricity;
- supply of electricity, including by multi-utilities, for the above-mentioned activities.

The rules defined by this Policy shall be applied to businesses operating in the sectors of power generation, distribution and trade, or businesses that own or manage coal-fired power plants, having the following characteristics:

- >35% of turnover deriving from coal-fired power;
- lack of an alignment/transition plan requiring the reduction of the share of turnover deriving from fossil fuel power to below 35% by 2030.

In view of these features, the BPER Group will adopt a phase out[15] strategy in accordance with the Group's broader targets[16] and will act differently depending on the type of counterparty involved:

- for companies subject to non-financial reporting requirements, the BPER Group will not increase its exposure in general purpose facilities to such counterparties;
- for companies not subject to non-financial reporting requirements, the BPER Group will focus on granting special-purpose credit facilities for transition supporting projects.

Given the above criteria, loans may only be granted to counterparties or other applicants (e.g. special-purpose vehicles, provided they are supported by adequate project appraisals), on condition that such lines are intended for projects aimed at increasing the use of lower-emission sources or raising the share of renewable energy to 40% by 2030.

Furthermore, the BPER Group will not finance any counterparty, including special purpose vehicles, financial companies and/or investment firms, for projects relating to the construction and expansion of Coal Fired Power Plants (CFPP) [17].

The BPER Group promotes the directive on renewable energy contained in the EU “Fit for 55 package”, which seeks to increase the current EU-level target of at least 32% of energy from renewable sources in the overall energy mix to at least 40% by 2030.

To this end, the BPER Group adopts positive screening criteria for counterparties who, in the presence of a transition plan or official statement, point to higher than 40% shares of renewable energy sources in power generation by 2030.

[15] Any exceptions to these criteria as may be caused by specific needs associated with adverse macroeconomic events will be assessed by the BPER Group via an escalation process with resolution adopted as a minimum by the relevant Body.

[16] e.g. NZBA

[17]Any exceptions to these criteria as may be caused by specific needs associated with adverse macroeconomic events will be assessed by the BPER Group via an escalation process with resolution adopted as a minimum by the relevant Body.

3.4.3. Mining

The mining industry plays a key role, as it provides minerals and metals which are essential for production in most economic sectors.

However, the mining industry is also exposed to a number of environmental, social and governance risks. Mining can generate severe adverse impacts on the environment and communities concerned, including the management of waste products, greenhouse gas emissions, impacts on biodiversity, and impacts on human rights (e.g. working conditions, population migration, safety of indigenous peoples, etc.).

In the context of the mining sector, the BPER Group applies specific criteria primarily with reference to the following activities:

- Mining projects: new mining projects or expansion of existing projects concerning the development and construction of facilities for the extraction and primary processing of solid mineral raw materials and related infrastructure (bridges, roads, railway lines, ports, navigation channels, pipelines, power generation, power lines), the use of resources for the excavation, extraction and processing of solid mineral raw materials, including the management of waste rock and tailings, and all closure and rehabilitation works carried out in relation to decommissioned extractive activities;
- Mining industries: companies, groups or joint ventures carrying out mining activities (for more than 90% of their total turnover) and involved in the exploration, development or management of such activities.

The BPER Group does not provide financial products or services to projects or mining industries that:

- extract asbestos;
- extract and trade rough diamonds from war zones or that have not been certified under the Kimberley Process certification scheme.

The BPER Group expects projects and companies operating in the mining industry to comply with applicable local laws as well as international and national conventions ratified by the countries in which they operate.

Financing transactions for the construction or expansion of mines are subject to Due Diligence reviews by the BPER Group, with the following considerations being applied:

- Quality of the environmental and social impact assessments and related management plans;
- Pollutants and related management plan;

- Water sources management;
- Labour rights and working conditions in compliance with the key International Labour Organization (ILO) conventions;
- Impacts on local communities (population migration and economic impacts);
- Impact on cultural heritage

The BPER Group promotes and shares the standards set out in the Equator Principles and in compliance with the Environmental and Social Management System (ESMS) as defined by the International Union for Conservation of Nature (IUCN) and the Environmental and Performance Standards defined by the International Finance Corporation (IFC), in order to manage and mitigate potential adverse environmental and social risks arising from project activities.

Positive screening elements also include fulfilling the requirements covered by international best practices in the industry, namely:

- the International Cyanide Management Code for Gold;
- ISTCI for tin minerals;
- Sustaining Global Best Practices in Uranium Mining and Processing.

3.4.4. Unconventional Oil & Gas

The extraction of unconventional oil and gas poses a series of risks mainly from the environmental and social standpoint, resulting in the emission of greenhouse gases, toxic gases and pollutants into the atmosphere, contamination of water sources, pollution of the environment and negative impacts on natural habitats and protected areas.

Oil and gas reserves are defined as unconventional when they are obtained by means of extraction methods other than conventional ones and, due to their distinctive properties (e.g. hydraulic fracturing or fracking, etc.), are more dangerous for the environment as they generate more emissions and pollution.

Therefore, the BPER Group will not provide financial products and services to projects aimed at the development, construction and expansion of the following unconventional oil and gas extraction and exploration activities:

- Tar Sands or Oil Sands;
- Onshore/Offshore Oil and Offshore Gas in the Arctic Region and the Area known as the “Amazon Sacred Headwaters”.

Financing transactions for the oil and gas extraction are subject to Due Diligence reviews by the BPER Group, with the following considerations being applied:

- Quality of environmental and social impact assessments and related management plans;
- Pollutants and related management plan;
- Water sources management;
- Labour rights and working conditions in compliance with the key International Labour Organization (ILO) conventions;
- Impacts on local communities (population migration and economic impacts);
- Impact on cultural heritage

3.4.5. Defense

The Group has a "Group Policy for the Regulation of Relationships of the BPER Group Companies with defence operators, weapons manufacturers and dealers" aimed at regulating relations between BPER Group Companies with defence operators and companies involved in the production of and trade in armament materials and military supplies, to which full reference is made.

3.4.6. Transport

3.4.6.1. Maritime transport

Maritime transport of goods is an essential vector for the development of international trade. It plays a key role in linking the EU's islands and peripheral areas with the mainland and contributes to the creation and development of economic activities in the coastal areas of major European countries.

Yet at the same time, despite progress over the years, maritime transport remains an important source of GHG emissions and other pollutant emissions to air and water[18]. Continued action to reduce its environmental footprint is therefore needed for the sector to contribute to environmental sustainability and play its part in turning Europe into a climate-neutral continent by 2050, under the umbrella of the European Green Deal.

[18] European Maritime Transport Environmental Report 2021 (European Maritime Safety Agency, European Environment Agency)

The main risks connected to maritime transport are associated with high GHG emissions, incidents and explosions causing oil spills, marine pollution from discharge of waste (e.g. solid waste, batteries, sewage, etc.), occupational safety risks from accidents, exploitation and piracy, management of ship decommissioning and dismantling activities.

The maritime transport activities covered by this Policy include:

- merchant vessel construction, repair and dismantling by customers of the BPER Group;
- acquisition and management of merchant vessels by customers of the BPER Group.

Loans to counterparties operating in the maritime transport sector are analysed considering the international criteria/standards issued by the following organisations, conferences and initiatives:

- The United Nations (UN)
- The Paris MoU on Port State Control;
- The International Labour Organization (ILO);
- The International Maritime Organization (IMO);
- The Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships;
- The EU Ship Recycling Regulation (EU SRR).

When financing transactions involving the acquisition and management of a merchant vessel, the BPER Group considers it essential to comply with international regulations on:

- The safety of marine flora and fauna and environmental regulations for maritime transport;
- Working conditions, training and minimum qualifications and marine equipment,
- Security measures on ships and in port facilities;
- Mandatory reporting and monitoring of GHG emissions and energy efficiency of the ship (by means of a monitoring plan or Annual Efficiency Ratio);
- Overall level of pollution;
- Other factors deemed of relevance (e.g. possible accidents at sea, violation of notification and reporting obligations and/or applicable rules in ships' routing systems and VTS, proof or presumptive evidence of deliberate discharges of oil or other infringements of the MARPOL Convention.

In this regard, the BPER Group obtains documentation or certification of compliance with legal provisions.

When assessing counterparties operating in the maritime sector, the BPER Group also takes into account the considerations of the Paris Memorandum of Understanding on Port State Control and does not grant loans for vessels flying the flag of countries on the Black List[19] of the Paris MoU on Port State Control.

The BPER Group supports and carries out transactions aimed at financing ship dismantling, if carried out in compliance with the Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships and the European legislation on ship dismantling.

The BPER Group promotes and shares the standards and criteria set out in the EU Taxonomy, the Equator Principles, the Environmental and Social Management System (ESMS) as defined by the International Union for Conservation of Nature (IUCN) and the Environmental and Performance Standards defined by the International Finance Corporation (IFC), in order to manage and mitigate potential adverse environmental and social risks arising from project activities.

The BPER Group promotes the Renewable Energy Directive as part of the “Fit for 55 package” of the European Union. More specifically, in maritime transport, the BPER Group supports and shares the objectives of the FuelEU Maritime Regulation, which defines the yearly GHG intensity reduction levels for ships above a gross tonnage of 5,000 calling at European ports.

To this end, the BPER Group adopts positive screening criteria for counterparties working on projects in the following areas:

- batteries and electrification of ferries;
- hydrogen or other fuel powered vessels significantly reducing air pollution in port and at sea, with emission quotas in line with Fit for 55 targets;
- construction of power supply devices for ships at the quayside in ports, including manufacturing of watertight hydraulic hatches on the hull; the installation of electrical control panels and transformers, modifications to the MV (Medium Voltage) and LV (Low Voltage) electrical control panel, modifications to the vessel's operating software to govern shore connection and disconnection operations.

Infrastructure projects to increase the use of alternative fuels are also supported (cold ironing, onshore power supply, shore-side electricity or Alternative Maritime Power). Port infrastructure upgrading and quay electrification enables the supply of the electricity required by docked ships through the power line, typically connected to the national grid.

Therefore, when docked, ships connected to this infrastructure can switch off their engines, continuing to provide services on board but significantly reducing the pollutant emissions produced, as emissions from the electric fleet are significantly lower than emissions from marine fuels.

[19] Egypt, Algeria, the Comoros, Albania, Moldova, Togo and Cameroon.

3.4.6.2. Land transport

Land transport accounts for about 15% of total greenhouse gas emissions in Europe[20]. The main risks associated with land transport are high CO2 emissions and the risk of incidents and explosions, causing major environmental and social impacts.

In this regard, the European Union, as part of the “Fit for 55” proposal defines the approaches to reduce environmental and sectoral impact and defines 2035 as the deadline for marketing non-zero-emission vehicles.

In the assessment of the purpose and allocation of credit lines by the BPER Group to counterparties operating in the land transport sector, the following elements will be evaluated:

- Level of GHG emissions and energy efficiency (where available);
- Information on the composition of the company’s vehicle fleet, by type of fuel, age of the vehicle fleet, regular fulfilment of legal obligations with regard to the vehicle technical inspection certificate;
- respect for labour rights and working conditions, according to the standards set out by the International Labour Organisation (ILO).

The BPER group expects its customers to comply with applicable local laws as well as international and national conventions ratified by the countries in which they operate.

The BPER Group promotes and shares the standards and criteria set out in the Equator Principles, the Environmental and Social Management System (ESMS) defined by the International Union for Conservation of Nature (IUCN) and the Environmental and Performance Standards defined by the International Finance Corporation (IFC), in order to manage and mitigate potential adverse environmental and social risks arising from project activities.

The Group adopts positive screening principles for both professional counterparties operating in the sector and private entities that, in line with the Fit for 55 objectives, apply for credit facilities respectively aimed at:

- supporting the increase in car fleets with GHG emissions below the thresholds in force at any given time as technical screening criteria for the substantive contribution made to the objectives of the EU Taxonomy (provided they are not intended for coal transport);

[20] Source: “Fit for 55: why the EU is toughening CO2 emission standards for cars and vans”, Council of the European Union

- purchasing cars, motorbikes or vehicles with GHG emissions below the emission thresholds in force at any given time as technical screening criteria for the substantive contribution made to the objectives of the EU Taxonomy.

3.4.7. Gambling

Although gambling is lawful, it is considered as morally controversial because of the negative implications it may have if it is run by unscrupulous operators or if, for some players, it degenerates into a pathological addiction.

In order to take into account the economic and social impacts that gambling can cause, the BPER Group takes a careful and vigilant stance as:

- the sector lends itself easily to being contaminated by organised crime and money laundering;
- in times of great economic crisis, the economically and culturally weaker strata of society may become vulnerable to pathological addiction;
- although gambling is banned for minors, the spread of online gambling hampers our ability to vigilantly monitor these issues;
- operators of public establishments or recreational clubs have an incentive in operating slot machines on their premises, as these gambling devices are a most significant source of revenue;
- persons suffering from pathological gambling engage in behaviour that is risky for themselves, their family and those around them; some of them may go as far as committing fraudulent acts to obtain money.

In this respect, the BPER Group does not finance projects intended for the:

- purchase, construction, development and expansion of gambling halls;
- purchase and production of machines that promote gambling (e.g. slot machines, etc.);
- development, dissemination, printed or digital publication and marketing for the promotion of gambling.

In addition, credit cards issued by the BPER Group inhibit the processing of payment transactions at facilities or internet websites that have been classified as "gambling" by the merchant acquirer. Conversely, prepaid top-up cards and “black” credit cards, reserved for a specific target group of customers, are enabled.

3.5. Monitoring

As part of its periodic management reporting framework, the BPER Group has defined a number of monitoring and control activities to verify and assess the trend of its exposure to ESG risks and to the sectors described in this Policy, in order to prevent the occurrence of situations that may have a critical impact on the BPER Group's operations or reputation.

To ensure the sustainability of the Group's portfolio, the following factors are periodically monitored:

- specific KRIs and ESG limits set in the RAF, where present;
- performance of ESG indicators considered as criteria when granting and managing credit, in order to assess their applicability and possible areas of intervention;
- performance of Group portfolio exposures to sectors defined as ESG sensitive.