Policy
ESG Investment (corporate finance)

Contents

1 PURPOSE AND SCOPE OF APPLICATION

The aim of this ESG Investment Policy on own corporate finance (the "Policy") is to establish, from time to time and in accordance with the features of the illimity Group's business model, the strategic guidelines for integrating environmental, social and governance (ESG) aspects into investment analysis and responsible investment decision-making processes, with the objective of reducing the exposure towards issuers whose conduct is not aligned with the Bank's principles and investment strategy.
It is the intention of illimity Bank (also the "Bank" or "illimity" or "Company") to direct its investment decisions towards compliance with ESG issues with the aim of generating sustainable value over time and achieving responsible growth consistent with the Company's requirements.

Sustainability is embedded into all aspects of illimity's activities, it is an essential component of the Group's identity. The Group is strategically engaged in sustainability objectives in order to create long-term value for its stakeholders, fostering the full integration of sustainability into its organisation, business activities and investment selection.
In accordance with the Group's nature and mission, ESG risks are mapped, identified and taken into account as part of the assessment of investment opportunities, these being events or phenomena relating to environmental, social and/or governance issues which, should they occur, could have a negative material effect on the value of an investment and the quality of the portfolio.
In carrying out this activity, illimity is also committed to increasingly taking information into consideration that provides evidence of the issuers' environmental sustainability performance, social responsibility and good governance structure in addition to traditional economic and financial data and indicators.

More specifically, in its investment processes illimity takes sustainability risks into account as well as any negative effect on sustainability resulting from the investments, establishing criteria for taking into account climate and environmental risks and identifying investment selection strategies that are the most suitable in respect of the strategic and risk appetite objectives (RAF) established by the Board of Directors.

Furthermore, illimity is inspired by and takes into account the matters set forth in the Principles for Responsible Investment (PRI) promoted by the United Nations with the aim of developing a more sustainable global financial system and in the Principles for Responsible Banking (PRB) whose intention is to align the strategies of the banking system with the UN Sustainable Development Goals (SDGs) and the Paris Agreement on climate change.

The matters established in this Policy in terms of process and controls are applicable to investments in financial instruments (for example, and not limited to, public and private debt and equity securities) regarding the Investment Banking Division and the ALM & Treasury structure, as established annually in the Investment Policy & Limits document approved by the Board of Directors. More specifically, the scope of application of this Policy regards investments in:

- financial instruments issued by Governmental Issuers;
- financial instruments issued by non-Governmental Issuers ("Corporate Issuers").

As this present Policy does not apply to Alternative Debt financial instruments[1], reference in this case should be made to the specific provisions of the Investment Banking Policy, which are updated from time to time on the basis of regulatory developments.

[1] Alternative forms of debt (such as Single Notes or secured or unsecured tranches, Basket Bonds, Basket Loans, etc.), either originated internally by the Investment Banking Division or acquired externally.

2 GLOSSARY

Definitions	
Bank or Parent Company	illimity Bank S.p.A. with registered office at Via Soperga 9, 20127 Milan, Italy
Group	The Bank and the Bank's subsidiaries within the meaning and for the purposes of article 2359 of the Italian Civil Code.

Abbreviations	
ESG	*Environmental, Social, Governance*
PRI	*Principles for Responsible Investment*
PRB	*Principles for Responsible Banking*

3 ROLES AND RESPONSIBILITIES

This Policy and relative revisions are approved – subject to the opinion of the Finance Committee, the Risks Committee and the Sustainability Committee, to the extent of their competence – by the Bank's Board of Directors, which also has the responsibility of ensuring their proper implementation.

The Investment Banking Division and the CFO competence line are responsible for drawing up this Policy and the Corporate Solutions and ALM & Treasury structures (hereinafter also the "In-Charge Structures") are responsible for its application to the portfolios for which they have competence.

The Policy is revised when necessary, and in any case at least every 2 years, by the IR & Sustainability structure and the ESG Governance operating area in conjunction with the Investment Banking Division and the ALM & Treasury and Risk Strategy & Group Controls structures.

The active involvement of the above structures requires knowledge of sustainability principles and the effect that sustainability factors may have on the business. Aware of this need, illimity arranges specific training on ESG issues in the areas of investment and the management of the related risks.

4 DEFINITION OF SUSTAINABLE AND RESPONSIBLE INVESTMENT

The aim of a sustainable and responsible investment (also abbreviated by SRI – Sustainable and Responsible Investment) is to create value for the investors and for the other stakeholders as a whole by way of an investment strategy directed at the medium to long term which, in assessing businesses and institutions, integrates the financial analysis with an environmental, social and governance analysis.
These investments result in the Bank's taking a medium to long term approach that incorporates and includes ESG factors in the search for, and analysis and final selection of, a financial instrument to include in its portfolio. This approach combines the basic financial analysis with an analysis of the issuer's sustainability profile in order to generate desirable positive environmental and social effects. In this situation, the collection, analysis and interpretation of the data relating to the three pillars "Environment", "Social" and "Governance" are important components in assessing the issuer.
Within this framework, the following are necessary and of key importance:

- the ESG scores assigned to the issuer, determined by external data providers (and/or ESG ratings agencies);
- an analysis of the proceeds underlying labelled bonds (as further defined in paragraph 5), namely bonds whose proceeds are employed to finance or refinance, wholly or in part, new and/or pre-existing

environmental or social projects or instruments whose proceeds are associated with sustainability objectives.

5 SUSTAINABLE AND RESPONSIBLE INVESTMENT STRATEGY

The principles of a business responsibility culture, which have accompanied illimity from the very beginning, are functional to achieving the aim of creating value by way of the sustainable growth of the entities in which an investment is made.
Starting from the universe of financial instruments, the following two main exclusion criteria are applied:

- the **norm-based exclusion principle,** based on compliance with international legislation and standards;
- the **absolute exclusion principle,** based on the Group's ethical and values-based criteria.

Regarding the norm-based exclusion principle, the Bank acts in full accordance with the legality principle, and accordingly, to the best of its knowledge and belief, does not finance, or make investments in, entities directly or indirectly involved in activities that do not comply with the laws of the Italian state or those of the European Union.
In this respect, in accordance with Italian Law no. 220/2021 as amended, the Bank does not provide financial support (including, by way of example and not limited to, the acquisition of equity investments or the purchase of or subscription to financial instruments) to companies working in the construction, production, development, assembly, repair, preservation, deployment, use, storage, warehousing, detention, promotion, sale, distribution, importation, exportation, transfer or transportation of anti-personnel mines or cluster munitions and sub-munitions of any nature or composition, or parts of such. With regard to the absolute exclusion principle, taking into account the United Nations Guiding principles on Business and Human Rights and in accordance with the Group' strategic guidelines and with the exclusion strategies established in the Consolidated Credit Procedure, the Bank excludes investment opportunities in Corporate Issuers that operate in the "excluded sectors" established in the Consolidated Credit Procedure in force (**negative screening by exclusion of certain specific sectors**).
As regards investment opportunities in Governmental Issuers, the Bank excludes those countries outside the OECD or subject to social abuse, under embargo or involved in embargo violations (UN, EU, USA, etc.).
In addition, illimity is committed to identifying, compiling and updating on a constant basis a list of sectors which – although not excluded *a priori* – are less sustainable and in which the Bank decides to limit and/or gradually reduce its exposure (i.e. phasing out), while always taking into account the risks of narrower diversification that the exclusion strategies bring with them.
The Bank further aims to support and foster sustainability through the selection of issuers that stand out in their sector for the positive value generated in an environmental, social and governance sphere (the **best-in-class principle).**
In addition to the various investment strategies already mentioned is the **positive selection** approach, namely a preference for the following types of bond issued by Governmental or Corporate Issuers, also known as labelled bonds:

- green bonds;
- social bonds;
- sustainability bonds;
- sustainability-linked bonds.

In case of investment in these bonds, the Issuer's sustainability profile is assessed on an overall basis, together with any relative second party opinions if available, to counter the risk of greenwashing.
Lastly, the In-charge Structures ensure the Bank's commitment to holding dialogue with the issuer (**engagement**) in order to discuss the ESG framework and, during the issuing process on the primary market, to carry out a careful assessment of the stated use of the proceeds of the operations with ESG labels, continuing to monitor these also in the stages following issue.

For investment grade Issuers, usually also frequent Issuers, engagement consists of regular updates on the credit, directly with the issuer or through forms of indirect engagement, with particular emphasis given to ESG issues.
On the other hand in case of investment in the financial instruments of Governmental Issuers or High-Yield Issuers, engagement is carried out by means of participation in roadshows or ad-hoc events at which environmental, social and governance aspects presented by the issuer are considered.
More specifically, for Governmental Issuers, in addition to an analysis of the evolution of the debt and of fiscal and monetary policies, considerable attention is also given, for example, to the climate-change policies introduced by the various countries, the exploitation of natural resources, welfare and the level of corruption.

6 ESG ASSESSMENT IN THE INVESTMENT SELECTION PROCESSES

The selection of investment opportunities takes into consideration both the issuers' sustainability profiles, assessed on the basis of ESG ratings and scores drawn up by primary external data providers (and/or ESG ratings agencies), and information of a public nature, useful for informing investment decisions, acquired by the proposing function.
A qualitative assessment of the environmental, social and governance factors relating to the Issuer (by way of example and not limited to: the issuer's exposure to climate-environmental risks such as physical and transition risks) is coupled with the investment selection. These assessments may be supplemented by quantitative assessments depending on the availability of ESG information and the gradual development of models and methodologies.
In detail, particular emphasis is given to "ESG risk", defined as the negative financial impact resulting from the current or future effects of ESG factors, which is considered to the end of:

- identifying and managing investment risk, taking into account the possible impact of the risk on the pricing of the securities, in order to minimise risk;
- generating sustainable value over time;
- enabling responsible growth to be achieved consistent with the business principles and values contained in the "illimity Way" code of conduct.

Particular attention is given to "climate-related risks" during the due diligence phase, carried out by the Corporate Solutions and ALM & Treasury In-charge Structures, which are divided into transition risk and physical risk. For each issuer, an analysis is carried out – on the basis of the best available information, summary scores and ESG data obtained from primary market data providers – of the risks relating to the specific sector and context, distinguishing between:

- transition risk, refers to therisk resulting from the adoption of legislation and regulations designed to reduce carbon emissions and foster sustainable growth; legal risk, technological evolution risk, market positioning risk and the issuer's reputational risk. These legislative and regulatory changes designed to accelerate the transition process towards a circular economy could, in fact, lead to a decrease in value and/or increase in the volatility of the pricing of the securities issued by "brown" entities and held by the Bank as readily marketable assets, with the consequent reduction in liquidity reserves;
- acute and/or chronic physical risk, paying particular attention to the structure and localisation of the issuer in question or the frequency of catastrophic events occurring in particular countries, since adverse climatic events might cause economic losses to the entities concerned.

Where applicable, the Bank conducts an assessment of the alignment of the investments with the EU Taxonomy of environmentally -sustainable activities, on the basis of the information published by the issuers. If this is not available, the Bank uses sector estimates obtained from statistical bases and information obtained from data providers.
For the purpose of analysing and quantifying the issuers' risk factors, the In-charge Structures base their work on the above-mentioned ESG ratings, scores and data they have obtained, to which are added analyses of the core business and the market of reference for Corporate Issuers and the relevant factors relating to a specific country for Governmental Issuers, carried out by performing qualitative assessments of the sector or

country wherethe investment is intended to be made, also supported by any structured reports issued by brokers and external analysts.

7 MONITORING ESG INVESTMENT FACTORS

Investments are monitored both on a continuous basis, through a careful screening of the news flows relating to the issuers in which investments are made, with specific emphasis given to news potentially affecting ESG risks, and on a periodic basis (at least once a year), with a revision then made if necessary to the ESG scores assigned.

In case of important news, an assessment is made whether the issuer's response is appropriate and whether the event should be seen as a risk or an opportunity. Secondly, an assessment is made as to whether the business model is consistent with sector sustainability trends and best market practice.

The monitoring carried out by the above-mentioned Structures continues by controlling the ESG scores and subdividing the issuers on the basis of ESG score/rating classes within the portfolio, with a consequent concentration check.

If an ESG rating is downgraded, or if there is news having a particular impact on ESG risk, an assessment is made of the issuer with respect to the portfolio as a whole and the reference class and all further purchases on the name are halted.

ESG data on the portfolio as a whole is collected on at least an annual basis (using data from providers or from news-monitoring procedures regarding the impact of physical risk and transition risk). As part of this activity an annual assessment is made of the extent to which the activities relating to the investment are in line with the European Union's Taxonomy.

8 ASSESSING AND MONITORING ESG RISKS

The CRO (Risk Competence Line) assesses exposure to sustainability risks by monitoring the ESG scores and other ESG indices of the issuers and/or securities in the HTC (Held To Collect) and HTCS (Held To Collect and Sell) portfolios, on the basis of data collected by the business functions and arriving from specialist data providers.

In this respect, the CRO identifies the physical and transition climate and environmental risks which may have an impact on the Bank's own investments, within the scope of this Policy, and assesses their materiality, understood as the capacity to affect the sustainability of the returns of current and future investments, with specific reference to the impact that ESG risks may have on the market and liquidity risks relating to the investments in question.

In addition to the level observed from time to time, ESG risk monitoring also takes into account the percentage cover of the portfolio for which the above information is available, as well as the relative concentration by score classes and performance.

Sustainability risk monitoring also includes a qualitative assessment of other factors, such as whether issuers belong to certain specific sectors of activity that are considered more risky from an environmental standpoint or are controversial concerning issues relevant for ESG/sustainability purposes.

The above-mentioned sustainability risk monitoring leads to the classification of issuers in increasing order of sustainability risk, taking the position that a higher risk is associated with a greater negative potential impact with the resulting need to assess risk impacts for the purpose of compliance with RAF limits and introduce further controls to mitigate such.

On the basis of the monitored scores/indicators and the classifying and clustering criteria adopted for the portfolio, targets and limits are established consistent with the overall objectives of the Group's Strategic Plan on sustainability matters and its Sustainability Plan, which the CRO updates, checks on a continuous basis and reports on quarterly.

9 REPORTING

Among the responsibilities of the Finance Committee, particular attention is given to the reporting analysis proposed by the In-charge Structures and the schedule summarising the ESG risk profiles of the securities portfolio.

Reporting to the Board of Directors is carried out through the use of a quarterly risk dashboard.

10 RELATED REGULATIONS

Single Credit Procedure
illimity Way

RELATED EXTERNAL LEGISLATION AND GUIDELINES

Principles for Responsible Investments – PRI
Principles for Responsible Banking – PRB
Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 ("Taxonomy"), as revised
Supervisory expectations on climate and environmental risks issued by the Bank of Italy