

Statement on principal adverse impacts in investment advisory services

Principal Adverse Impacts (hereinafter “PAIs”) are the negative effects of investment decisions and investment advice on sustainability factors. The PAIs are listed under European regulation and are categorised into environmental PAIs (which monitor adverse impacts on the environment and ecosystems) and social PAIs (which monitor practices and behaviours harmful to society, understood as the network of social relations underpinning human organisations). Furthermore, PAIs are divided into those that intermediaries are required to consider and those that may be considered at the intermediary’s discretion.

To assess the adverse impacts on sustainability and measure their intensity, the Bank relies on data and information made available by each Product Manufacturer through dedicated data feeds or reporting flows, as well as information obtained via external data providers.

The Bank has established a set of rules, processes, and preliminary activities designed to verify and analyze the accuracy of the “ESG” designation associated with each product, in order to manage and mitigate the phenomenon known as “greenwashing,” meaning false or misleading claims made by Product Manufacturers regarding the Environmental, Social, or Governance characteristics or attributes of their products.

The sustainability information collected is used for the purposes of cataloguing and classifying the financial products offered by the Bank, in order to monitor and, where necessary, update or evolve the range of products that can be recommended within the investment advisory service.

In particular, each product is assessed with regard to the PAI categories considered, and the indicators adopted are aimed at identifying the potential adverse impacts that the investments may have on the environment or society..

Accordingly, an investment is classified as monitoring environmental factors if the Product Manufacturer declares that it monitors adverse impacts on such factors through the calculation of:

- greenhouse gas emission indicators;
- impacts on biodiversity;
- emissions into water;
- waste emissions.

An investment is classified as monitoring social factors if the Product Manufacturer declares that it monitors adverse impacts on such factors, considering the following elements:

- adverse impacts related to corporate practices (understood as negative social impacts arising from a company's activities, such as inadequate working conditions, discrimination, violations of human rights, failure to ensure health and safety for workers, or negative impacts on local communities)
- issues concerning workers;
- respect for human rights;
- the fight against corruption;
- the prohibition of bribery.

The Bank's methodology considers and evaluates all eighteen mandatory PAIs and at least two of the forty-six optional PAIs in the environmental and social domains, selected in line with internal sustainability guidelines and data availability. With respect to the mandatory PAIs, the Bank has identified certain indicators as priorities, which are therefore examined with greater depth and intensity compared to others. For instance, in the case of UCITS and IBIPs with sustainability characteristics, the PAIs are assessed in terms of their number and percentage weighting, based on the information contained in the data flows exchanged with the Product Manufacturers.

As part of its internal sustainability guidelines, and in line with the global commitment to accelerate the decarbonisation of European energy and economic systems, the Bank has outlined its decarbonisation and transition support strategy by identifying sectors with high environmental and social impact and defining consistent objectives and strategic actions.

The Bank's decarbonisation and transition support strategy primarily concerns economic sectors with a high environmental impact. In this context, the Bank has classified sectors as follows:

- High-emitting sectors: coal mining, oil and gas extraction, electricity generation and distribution, iron and steel, aluminium, cement, real estate and construction, and agriculture;
- Other climate- and environment-relevant sectors: sectors which, although not included among the above, make a significant contribution to greenhouse gas emissions and are affected by the ongoing structural transformations in the high-emitting sectors. The identification of these sectors is reviewed annually.

Specifically, the Bank's decarbonisation and transition strategy and policies are reinforced in the sectors identified as highly emission-intensive, such as coal extraction, electricity generation, marketing and distribution, and oil and gas, given their particularly harmful impacts in terms of emissions and consequences for ecosystem balance.

The Bank has also established a dedicated due diligence process for sectors with high social impact. To this end, three sectors with significant influence on social well-being have been identified, where the Bank strengthens its policies, analyses, and assessment activities: production and marketing of armaments, tobacco industry and cultivation, activities related to the development and dissemination of gambling.

The following table illustrates the mandatory and optional PAIs and those that the Bank undertakes to monitor and evaluate over time as priorities:

PAI	Mandatory	Priority
1	GHG emissions	
2	Carbon footprint	☑
3	GHG intensity of investee companies	☑
4	Exposure to companies active in the fossil fuel sector	
5	Share of non-renewable energy consumption and production	☑
6	Energy consumption intensity per high-impact climate sector	
7	Activities negatively affecting biodiversity-sensitive areas	
8	Emissions to water	
9	Hazardous waste and radioactive waste ratio	
10	Violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises	☑
11	Lack of processes and compliance mechanisms to monitor compliance with UNGC principles and OECD Guidelines for Multinational Enterprises	
12	Unadjusted gender pay gap	
13	Board gender diversity	
14	Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	
15	GHG intensity	☑
16	Investee countries subject to social violations	
17	Exposure to fossil fuels through real estate assets	
18	Exposure to energy-inefficient real estate assets	
PAI	Optional	Priority
Environmental	Measures to combat climate change related to the reduction of greenhouse gas emissions	☑
Social	Good governance (UNGC, OECD Guidelines), protection of human rights, and involvement in the production and trade of controversial weapons	☑

Financial products classified under Article 8 or Article 9 of the SFDR Regulation are also grouped according to the following five PAI macro-categories:

Macro-Category	Description
1 Greenhouse Gas Emissions	Linked to the environmental pillar, this category comprises various PAIs (from 1 to 6), including indicators applicable to investments in sovereign

		issuers and supranational organisations (PAI 15), and to investments in real estate assets (PAIs 17 and 18)
2	Biodiversity	Linked to the environmental pillar, this category comprises PAI 7
3	Water	Linked to the environmental pillar, this category comprises PAI 8
4	Waste	Linked to the environmental pillar, this category comprises PAI 9
5	Social	Linked to the social pillar, this category comprises various PAIs (from 10 to 14), including indicators applicable to investments in sovereign issuers and supranational organisations (PAI 16)

In order to ensure the quality of the data and information available and considered for the mapping of its product catalogue, the Bank carries out periodic monitoring of recommended portfolios and offered products to determine the number of products that take into account the PAIs identified as priorities, as well as their percentage weighting. The results of this monitoring are analysed to assess their alignment with customer needs and, where appropriate, to guide measures for the evolution and enhancement of the product catalogue.

For the purpose of incorporating Principal Adverse Impacts (PAIs) into the investment advisory service, the Bank has included a specific question in the MiFID Questionnaire to ascertain the customer's preferences regarding the option to select sustainable products that take PAIs into account. Consequently, the advisory model has been enhanced with a new ESG suitability check, which covers not only the assessment of sustainability risk but also the verification of the level of concentration of sustainable products within customer portfolios. This check is deemed satisfied when the minimum ESG allocation indicated by the customer in the MiFID Questionnaire is achieved. Furthermore, during the investment-advisory process, the ESG ratings assigned to the products are disclosed, along with an assessment of the consistency between the preferences expressed during the customer-profiling phase and the type of product recommended, with reference to the relevant categories (environmentally sustainable, sustainable, or PAI-related).

If the customer has indicated in the MiFID Questionnaire an interest in products that take into account PAI indicators—i.e., environmental and/or social factors associated with financial instruments—this information becomes a material consideration.

This preference, along with all other information collected through the questionnaire (e.g., investment objectives, risk tolerance, investment horizon), is taken into consideration:

- in the suitability assessment, to ensure that the recommendations are consistent with the customer's profile
- in the construction of the personalised recommendation, in order to propose instruments that meet both the customer's financial needs and their ESG (environmental/social) preferences.

The recommendation is therefore designed to incorporate, among other relevant data, all useful information relating to individual ESG factors, including the granular preferences expressed by the customer regarding PAIs. In particular, the recommendation details the contribution of each sustainability indicator – including those relating to PAIs – to the overall sustainability concentration of the portfolio, indicating the proportion allocated to sustainable financial instruments before and after the proposal. The objective is to address any shortfall in the allocation to sustainable products within the customer's portfolio, ensuring that its composition is complete and in line with the preferences expressed during customer profiling.

The suitability check summary report provided to the customer after the advisory proposal is prepared contains the customer's sustainability preferences as stated in the MiFID Questionnaire, including the ESG preference level ("no," "low," "medium," or "high" interest) and the responses given regarding granular sustainability preferences.

For all financial instruments included in the advisory proposal, the indicators classifying their sustainability are shown, together with confirmation of whether the product meets the customer's stated sustainability preferences. The report also specifies the contribution of each sustainability indicator—ESG rating, environmental sustainability, sustainability, and PAI—to the portfolio's sustainability concentration, indicating the allocation to sustainable financial instruments before and after the proposal.

GLOSSARY

ESG: The acronym ESG—Environmental, Social, and Governance—refers to the assessment of sustainability factors alongside the financial evaluation of an issuer or financial instrument. For example, “Environmental” (E) considerations include environmental topics such as resource efficiency; Social (S) considerations include social issues such as the use of child labour in production processes; Governance (G) considerations cover topics such as the remuneration of top management.

Sustainability risk: an environmental, social or governance (ESG) event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of an investment.

Sustainability factors: environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters (SFDR).

Sustainable investment/investing: an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment with a social objective, such as an investment that contributes to tackling inequality or that fosters social cohesion, social integration, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance (SFDR).

Sustainable investment: an investment in one or more economic activities considered sustainable because (i) they substantially contribute to one or more of the following environmental objectives: climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems, (ii) they are carried out in compliance with minimum safeguards and technical screening criteria; (iii) they do not significantly harm any of the environmental objects listed above (Taxonomy Regulation).

Principal adverse impacts - PAI: These represent the so-called “negative externalities” of economic activities, i.e., the impacts of investment decisions and advice that result in negative effects on sustainability factors. PAIs are listed in the Regulatory Technical Standards (RTS) of the SFDR Regulation and are categorised into environmental and social sectors, divided into mandatory and optional indicators.

Financial products: Financial instruments and any other form of investment of a financial nature; bank or postal deposits that are not represented by financial instruments are not considered financial products.

Financial product under Article 8 of Regulation (EU) 2019/2088: A financial product that promotes environmental or social characteristics, or a combination of both, provided that the companies in which investments are made follow good governance practices.

Financial product under Article 9 of Regulation 2088/2019: A financial product that has sustainable investment as its objective.

Financial products that consider Principal Adverse Impacts (PAIs): Financial products that adopt strategies and measures aimed at mitigating the effects of Principal Adverse Impacts (PAIs), as listed in Commission Delegated Regulation (EU) 2022/1288. These impacts are categorised into environmental PAIs (e.g. the greenhouse gas emissions intensity of investee companies) and social PAIs (e.g. the gender pay gap within investee companies).

Sustainability preference: The option granted to a customer, whether actual or prospective, to incorporate into their investment one or more financial instruments that qualify as sustainable investments and/or environmentally sustainable investments (with the possibility of specifying the desired proportion), and/or financial instruments that consider Principal Adverse Impacts (PAIs) on sustainability factors.

Product manufacturers: Intermediaries who create, develop, issue, and/or design financial instruments, or who provide advice to corporate issuers in carrying out these activities; Asset Management Companies and Insurance Undertakings that, as participants in financial markets, produce and issue financial products that are placed/distributed or included in the managed portfolios of the Group's companies.

Recommended portfolios: Portfolios used by the Bank to formulate investment recommendations for its customers, consistent with the customer's declared investment objectives and aligned with the identified model portfolio.

Insurance-Based Investment Products (IBIPs): As defined in Article 4(1)(2) of Regulation (EU) No. 1286/2014 (PRIIPs Regulation), an insurance product which offers a maturity or surrender value and where that maturity or surrender value is wholly or partially exposed, directly or indirectly, to market fluctuations.

UCITS (Undertakings for Collective Investment in Transferable Securities): Includes open-ended mutual funds (Italian and foreign), SICAVs (investment companies with variable capital), and SICAFs (investment companies with fixed capital) that comply with the rules and requirements of UCITS Directive 2009/65/EC.

Due Diligence: The process of investigating and acquiring information about a company to assess its strengths and weaknesses. In the context of sustainability, Directive (EU) 2024/1760 (CSDD) requires large companies to identify and address adverse impacts on human rights and the environment in their operations and activities.