GUIDELINES FOR NON-LIFE BUSINESS UNDERWRITING ACTIVITY WITH REFERENCE TO ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS (*"ESG NON-LIFE UNDERWRITING POLICY"*)

May 2021

Unipol GRUPPO

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1. Introduction

The Unipol Group (the "Group") undertakes to contribute to sustainable development, as defined by the United Nations 2030 Goals (SDGs, Sustainable Development Goals), by integrating this commitment into its business model. In the insurance sector and in the financial sector in general, there is growing interest in understanding the implications of risks connected to environmental, social and governance factors ("ESG factors") on individuals and on the performances of businesses of all sizes.

This document defines the guidelines for the Non-Life business underwriting activity with reference to risks connected with ESG factors, in order to identify and manage specific risks that are significant in terms of both the technical and reputational risk for the Insurance Companies in the perimeter.

Paying attention to ESG risks during the underwriting process guarantees respect of the values of the Group, demonstrating responsibility in the decision-making process and dialogue with the stakeholders.

2. Scope of application

These Guidelines are adopted by the Group's Insurance Companies having their registered office in Italy, operating in the Non-Life business (the "Insurance Companies" or "Companies").

On the basis of risk-based assessments, compatible with the specific regulations of the industry, the Parent Company may identify which other companies may be included in the scope of application of these Guidelines.

The Guidelines for Non-Life Business underwriting activity apply in cases of contracts underwritten with **legal entities, other than natural persons ("legal entities")**; therefore, commercial relationships with individual natural persons are excluded from the perimeter of application of this document.

3. Objectives

The guidelines direct the underwriting activity in all branches of the Non-Life business, promoting:

1. the integration of ESG factors into the processes and strategies of the insurance core business;
2. the adoption of a system of identification and monitoring of ESG risks in the different economic sectors and in relation to the different segments, products and guarantees, which includes both the technical and the reputational risk;
3. the implementation of a management approach that allows for the correct and prompt assessment of the exposure to risks, defining the responsibilities and consequent actions;
4. the adoption of ESG principles by the insurance industry to increase the awareness of the potential benefits of integrating ESG into the insurance business model.

4. Definitions and Terminology

ESG (Environmental, Social, Governance) Factors	Environmental, social and governance impact issues considered "material" for the Group and for the relevant stakeholders, according to the definition in the Materiality Matrix[1].
United Nations Sustainable Development Goals (or "SDGs")	Sustainable Development Goals (SDGs) - defined within the scope of the "2030 Agenda for Sustainable Development" plan of action for people, the planet and prosperity, signed in September 2015 by the governments of 193 UN Member States. There are 17 goals, in turn structured into 169 specific targets.
ESG (Environmental, Social, Governance) Risks	Risks originating from Environmental, Social and Governance factors and relating to specific sectors and countries that show greater exposure.
Reputational Risk	The risk of an internal or external event determining a misalignment between the Group's promises and actions with respect to the expectations and perceptions of its main stakeholders and that, therefore, negatively impacts the perception held by them of the Group and as a consequence of the expected economic results.
Principles for Sustainable Insurance (PSI)	Insurance sector initiative in collaboration with the *United Nations Environment Programme – Finance Initiative* (UNEP FI) and *United Nations Global Compact* (UNGC), which defined four principles for incorporating into the decision-making process environmental, social and governance issues relevant to insurance activity.
United Nations Global Compact (UNGC)	UN initiative which aims to promote the culture of corporate social responsibility through the sharing, implementation and dissemination of common principles and values. It involves compliance with ten Principles in four areas: Human Rights, Labour, Environment and Anti-Corruption.

5. Integration of ESG factors in the risk underwriting and management criteria

The Group has defined a transparent and systematic approach to the integration of ESG factors in the underwriting process.

[1] The materiality matrix, as defined in the Group Sustainability Policy, uses quantitative models to identify the sustainability issues that are relevant to the stakeholders and the Group, therefore representing:

- the "material" issues, namely those that are most relevant to the success of the Group's strategies and of greatest interest to stakeholders, by defining "critical thresholds" for the two dimensions;
- the degree of alignment or misalignment between the stakeholders' perspective and the Group's perspective on each issue.

Identifying, assessing and managing ESG risks is relevant to the underwriting process for two main reasons:

- to identify an ESG risk connected to the areas of activity for which insurance cover is planned, which may contribute to a better definition of the overall risk to be underwritten, and therefore to a more informed assessment of the opportunity of underwriting it;
- to identify an ESG risk connected to the business sector in which the potential insured company or subject operates, or an ESG risk connected to the methods of managing the activities by the same, which may contribute to a more informed assessment of the correctness, solidity and transparency of the potential client.

The importance of identifying ESG risks in the underwriting process is established, inter alia, in two key documents for the strategy and management of the Group, namely the **Sustainability Policy** and the **Risk Management Policy**.

The Sustainability Policy outlines the management strategies and objectives of environmental, social and governance risks relevant for the Group, defining commitments, roles, responsibilities, management methods and goals in that regard, with the aim of improving the ESG risk management process of the Insurance Companies.

The Sustainability Policy refers to the specific risk management policies for their operational application and, primarily, to the Risk Management Policy, which establishes the guidelines for the identification, assessment, monitoring and mitigation of the risks, including environmental, social and governance risks, as well as the definition of the operational limits within which to operate, in coherence with the general risk appetite defined by the Group (known as *Risk Appetite*) also by reference to the specific risk management policies.

The Risk Management Policy explicitly states that, as part of the overall risk management system of the Group (known as ERM – *Enterprise Risk Management* – Framework), the environmental, social and governance risks are identified and controlled in relation to their impact on the underwriting risks; the impacts that the risks connected to environmental, social and governance factors may have on the Group's reputation are also identified and controlled.

The Risk Management Policy specifies the main ESG risk areas identified for the Group, which are: climate change, increase in social polarization, socio-demographic change, technological evolution of society, violation of human and workers' rights, environmental damage and negative impacts on the environment, and conduct in violation of business integrity.

The ESG risks relevant to the Group are identified through a process having several stages, with a successive level of detail:

1. the Emerging and Reputational Risks Observatory identifies and classifies the potential risk areas into four macro areas (social, technological, environmental and political), highlighting which risk scenarios have a direct connection with ESG factors;
2. an inter-functional working group, consisting of the Chief Risk Officer, Audit, Compliance and Anti-Money Laundering and Sustainability, has the task of identifying in detail the potential ESG risks throughout the value creation process, mapping the controls adopted in that regard, periodically assessing the risk management approach and suggesting any improvement actions;

3. for the underwriting process, the ESG risks connected to the different sectors of operations of the policyholder legal entities have been profiled based upon a proprietary methodology that has produced a map of excluded and so-called sensitive sectors in relation to different types of social, environmental and governance risks, on the basis of the probability and the impact of the occurrence of those risks (for further information, see chapter 6 "Classification of ESG risks").

6. Classification of ESG risks

The classification of ESG risks is the process that allows to identify the potential exposure to ESG risks for the different economic sectors in which clients operate. The methodological system adopted is based upon the analysis and application of a large variety of sources[2].

Based upon those analyses, a **classification of risks in the different economic sectors** has been adopted, useful for giving general indications on the exposure of each economic sector to the different ESG risk categories. This classification highlights the economic sectors in which there may be an ESG risk and for which it is appropriate to investigate the potential negative impacts on the Non-Life business, based upon the probability of occurrence and the potential impact on the Insurance Company. The ESG risks, and the respective severity level in terms of probability and impact, may vary based upon the business sector in which the potential client operates, the type of cover requested, the economic sectors served, the geographical area, or the countries (in the case of multinational entities or those performing international trade) of operations, the characteristics of the client and other factors.

This approach identifies if the potential ESG risks connected to the economic activity performed by the potential client may generate negative impacts on the reputation of the Unipol Group and its subsidiaries among the stakeholders (investors, clients, commercial partners, regulatory authorities, staff, ...).

7. Identification, assessment and management of ESG risks

In general, the Group undertakes, through its competences and the services it has developed, to **support its counterparties in the underwriting processes in order to improve the ability to manage environmental, social and governance issues**, with the development of risk assessment activities, consultancy on prevention approaches and the application of telematics solutions, thus reducing ESG risks and increasing the possibilities for accessing insurance services.

The Unipol Group also pays attention to not creating or taking forward commercial relationships with entities that operate in the condition of:

- violations of human and workers' rights;
- exploitation of natural resources that does not take due account of environmental impacts;
- systematic reliance on corruption and illegal practices in business management.

[2] These include, by way of example, authoritative international sources such as the United Nations Global Compact (UN GC), United Nations Environment Programme Finance Initiative (UNEP FI), United Nations Principles for Sustainable Insurance (UN PSI); methodologies and reports of rating agencies specialising in ESG performances; internal sources such as the Emerging and Reputational Risk framework of the Unipol Group, industry analyses, media reports, and collaboration with non-government organisations on specific issues.

To this end, the Unipol Group has established **processes and instruments aimed at supporting the assessment of ESG risks in the underwriting process**, by a gradual method that takes account of the progressive spread of awareness at all levels and the implementation of the tools that support it, with methods and timescales proportional to the dimensions of the entities involved and the contractual operations.

In particular, the Group and the Companies in the perimeter adopt appropriate measures to integrate considerations on ESG risks into the processes and strategies of the Non-Life insurance core business. The main measures in that regard are:

- the structuring[3] of a **data-driven approach**, able to integrate into the underwriting process a summary assessment of the ESG performances of each stakeholder, based upon which to define the compatibility or otherwise of the ESG risks connected to the commercial relationship with the approach to sustainability and risk management objectives of the Unipol Group, thus excluding the creation or continuation of the relationship in the event of non-compatibility;
- the integration of ESG risks into the manuals produced both for the Non-Life Business Functions of the Insurance Companies and for the intermediaries, in order to support the understanding and awareness of the overall ESG risk, and to raise the awareness of the client of responsible methods of managing its activities;
- the implementation of training and awareness-raising activities aimed both at the internal structures and at intermediaries, to support them in the application of these Guidelines and to strengthen awareness on the role of ESG risks in the underwriting process.

The exclusions on the basis of ESG performances do not apply when underwriting products that **protect the employees of the policyholder legal entities in the case of illness and accident**, based upon the social role that this cover performs with respect to individuals. With reference to those products, no *a priori* exclusions are therefore envisaged in relation to the sector of operations of the policyholder company.

This is without prejudice to the underwriting of Non-Life insurance products that present an obligation to contract established by law for insurance companies.

Based upon the classification of ESG risks adopted according to the methods indicated in the previous paragraph, the Group has identified a series of sectors to be considered automatically excluded from the underwriting activity of the Non-Life Branches, as well as a series of sensitive activities that, in the process of assessing the ESG performances, are subject to particular attention as they present a potential high exposure to ESG risks.

7.1. Sectorial exclusions

The following sectors are to be considered excluded from the Non-Life underwriting activity:

- companies that operate mainly in coal mining activity;
- companies that adopt unconventional extraction practices (such as removal of mountain tops, hydraulic fracturing – fracking, tar sands, deep water drilling);
- companies that develop and produce weapons that are controversial and/or banned by international treaties;

[3] In the process of finalization at the approval date of these Guidelines.

- companies that distribute weapons in conflict or civil war areas, or to countries that systematically infringe human rights;
- companies that transport weapons that are controversial and/or banned by international treaties into conflict or civil war areas, or to countries that perpetrate systematic human rights violations;
- companies that perform car dismantling;
- commercial activities intended solely or mainly for the conduct of gambling (such as VLT rooms and similar).

7.2. Sensitive sectors

The following are considered sensitive sectors in relation to ESG risks, subject to particular attention in the process of assessing ESG performances:

- **WASTE MANAGEMENT AND REMEDIATION ACTIVITIES**
  The waste management sector represents a very sensitive area, particularly in the Italian context, for exposure to ESG risks. The Unipol Group supports companies operating in this sector in compliance with the rules and with a view to mitigating climatic and environmental impacts.
- **CONSTRUCTION**
  The construction industry, very significant for the development of the economic system as it is a driver of direct and indirect investments, presents sensitive aspects in all ESG risk areas (environmental, social and corporate governance), in relation to large, small and very small enterprises.
- **TRANSPORTATION AND STORAGE**
  The transportation industry, with its central role in guaranteeing the mobility of goods and people, has high exposure to ESG risks with particular reference to environmental risks, due to the significant impact of the sector on overall emissions, and social risks, with reference to working conditions.
- **AGRICULTURE, BREEDING, FORESTRY AND FISHING**
  The agricultural sector is fundamentally important for society and Unipol Group is committed to supporting and accompanying it in the challenges that it faces also in social and environmental terms, starting with those connected to climate change.
- **TEXTILE AND LEATHER GOODS**
  The textile and leather industry presents exposure to environmental risks, to risks connected to animal welfare, to risks related to the protection of the rights and safety of workers.

8. Assessment process of complex cases

If, during significant contractual operations, for the Non-Life business or for the Group as a whole, an enterprise is found to be uninsurable according to the criteria envisaged by these Guidelines, but the Non-Life Business Functions of the Insurance Companies (individually or jointly with other business Functions) assess the opportunity of proceeding with the underwriting, or further investigations are necessary, the same involve the Sustainability Function of UnipolSai.

The latter, with the help of the Chief Risk Officer, supports the Non-Life Business Functions in carrying out the necessary investigations with the aim of proposing a solution coherent with the broader joint approach to mapping and assessment of processes, risks and controls on ESG factors adopted within the Group.

If the Functions involved consider it necessary, those circumstances may be submitted for the attention of the Group Risks Committee, which, in that context, has the task of understanding and assessing the concrete implications of ESG factors in the underwriting activity and defining choices coherent with the Group vision with respect to the cases presented.

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