



RULES GOVERNING TRANSACTIONS WITH SUBJECTS ACTIVE IN THE ARMAMENTS SECTOR

- Abstract -

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REGULATORY FRAMEWORK AND AIMS OF THE DOCUMENT

The main regulatory reference in Italy regarding the armament sector is Law no. 185 of 9 July 1990 (“New regulations on control of the export, import and transit of armaments”) as amended, the implementing regulation (Ministerial Decree no. 19 of 7 January 2013) and the circular of the Ministry of Economy and Finance, Prot. DT 58988 of 22 July 2015. Transactions in foreign branches are also subject to local laws.

This document defines the rules that describe the macro-processes relating to transactions with companies that operate in the armament sector. The rules and processes refer to Intesa Sanpaolo, including the foreign branches, and the Italian Companies of the Group who carry out banking or financing activities. The rules and processes relating to the foreign companies in the Group are set out in a specific document.

This is a sensitive matter, and breach of the regulations may involve the application of criminal and administrative sanctions, and all operators are advised to apply maximum diligence in complying with the provisions herein, always taking a prudential approach in cases of doubt.

DEFINITIONS

In order to ensure the correct application of these rules, the definitions of the most important terms used are provided below.

Banking activities (Transactions)

They refer to any transfer of funds (money, securities or credit) through a bank, with registered office or operating headquarters in Italy, for transactions governed by Law no. 185/90 and subject to authorisations, clearances or other measures issued by the Armament Authorisation Unit of the Ministry of Foreign Affairs and International Cooperation (UAMA) or the Ministry of Defence. More specifically, the transactions include incoming and outgoing bank transfers and other types of collection or payment related to the purchase or sale of armaments on both the domestic market and abroad; this definition also includes transactions relating to payments for intermediation activities relating to the sale of armaments.

Financing Activities (Lending)

These include all forms of short term and medium/long term lending, including but not limited to special purpose or non special purpose credit lines, trade finance (advances on contracts, advances on invoices, factoring, portfolio disinvestments), guarantees and commitments, letters of credit, stand-by letters of credit, lease contracts, participation in syndicated loans or acquisition of shares. In accordance with article 27-bis of Law no. 185/90, foreign to foreign lending activities are also included, whereby a party obtains funds from a bank or other financial intermediary, with registered office or operating headquarters in Italy, for transactions governed by Law no. 185/90, but not subject to authorisations, clearances or other measures issued by UAMA or the Ministry of Defence (i.e. without them).

Sales

In general, domestic trading, imports, exports, transfer within the European Union, transiting.

Exports

The movement of armaments from a supplier in the national territory to one or more recipients outside the national territory; if entities operate in European Union countries (EU), the national territory refers to the EU customs territory.

Imports

The movement of armaments from suppliers outside the national territory to recipients in the national territory; in the case of entities operating in EU countries, the national territory refers to the EU customs territory.

Armaments

Everything that can be considered to have been built for primarily military use or use by the armed corps or the police in terms of requirements or technical-construction properties.

More specifically the following are examples of armaments:

- nuclear, biological, chemical and electrical weapons;
- automatic firearms and relative munitions;
- medium and large calibre arms, armaments and relative ammunitions;
- bombs, torpedoes, mines, rockets and missiles;
- tanks and vehicles built especially for military use;
- ships and relative equipment built especially for military use;
- aeroplanes and helicopters and relative equipment built especially for military use;
- gunpowder, explosives and propellants for military weapons;
- electronic systems or equipment, electro-optical and photographic equipment built especially for military use;
- special armoured materials built especially for military use;
- special materials for military training;
- machinery, apparatus and equipment built for the manufacture, testing and control of arms and munitions;
- equipment built especially for military use.

The following fall within the scope of application of these rules:

- in the event of transfer within the EU or exporting: the spare parts and specific components of armaments indicated above;
- in the event of transfer within the EU or exporting, with a destination towards government entities or the armed forces or police: sports and hunting weapons and relative munitions, cartridges for industrial use and luminous and smoke-producing devices, common shooting arms and munitions and short shooting weapons unless automatic, antique weapon reproductions or explosives other than those used by the military.

Transit

The circulation of EU-origin armaments in the EU customs territory¹ that cross the territory of a country that does not belong to the EU², without changing its customs status (known as “internal” transit) or the circulation of armaments from outside the EU into the EU customs territory to go to a different member state to the one it entered, or to be exported to third party countries (known as “external” transit).

Transfer within the EU

Any transmission or transfer of armaments from a supplier to a recipient in a different country both but both members of the EU.

¹ There are detailed descriptions of armaments in the Ministerial Decrees (see the most recent Ministerial Decree of 17 March 2015).

² The countries and territories that form part of the EU customs territory are listed under article 4 of the customs code of the European Union, established by EU Regulation no. 952/13.

GENERAL PRINCIPLES

In accordance with the values and principles expressed in the Code of Ethics and mindful of the need to support national and European defence, along with NATO allies, the Intesa Sanpaolo Group does not support transactions that relate to the production and/or sale of armaments, even if permitted by prevailing law, in countries that do not belong to the European Union and/or NATO. It also confirms the prohibition on implementing any type of banking activity or financing related to the production and/or sale of weapons that are controversial and/or banned by international treaties, and more especially:

- nuclear, biological or chemical weapons;
- cluster bombs and munitions;
- weapons containing depleted uranium;
- landmines.

More specifically, apart from transactions involving weapons that are controversial and/or banned, transactions and financing are permitted for the production, domestic trading, import, export, transfer within the EU or transit of armaments used on a definitive basis by the armed forces and applicable relative organisations or local police forces:

- in and between countries belonging to the European Union and/or NATO;
- without regard to the country of production and/or origin of the armament if the end-user is an Italian ministry or governmental entity, the armed forces or Italian police.

Except for transactions involving controversial and/or banned weapons, transactions involving non-EU and/or non-NATO countries are also allowed but subject to an extraordinary approval process, provided there are intergovernmental programmes with the Italian Republic. These transactions, for which an enhanced valuation process is provided, are subject to prior authorisation by the Steering Committee.

Other Group Banks and Companies are not authorised to carry out transactions involving the manufacture and/or marketing of armaments. Only the Group's Foreign Banks may request specific prior authorisation from the Parent Company when such transactions concern armaments intended for exclusive use by the armed forces and related defence bodies, and by the police forces of the country in which the Bank is based; such transactions are subject to the enhanced valuation process, qualify as Significant Transactions and are subject to prior approval by the Steering Committee.

Any exceptions must be authorised on an exceptional basis by the Managing Director and CEO of Intesa Sanpaolo, subject to the opinion of the Chief Compliance Officer

OPERATIONAL PROCESSES

Loans

The decision-making powers on lending to companies who operate in the armament sector are reserved to the applicable Entities of the Chief Lending Officer's Governance Area. When companies who operate in the armament sector apply for/renew loans subject to Law no. 185/90, they must submit a statement to the relationship manager ("company statement" pursuant to article 27-bis of Law no. 185/90) and related accompanying documentation, containing the data needed for the communication that the Bank has to provide the Ministry for Economy and Finance within 30 days from the accounting registration date of the transaction to use the loan.

With reference to granting companies who work in the armament sector loans without checking their

purpose (known as credit lines without a special purpose), the relationship manager must:

- notify the customer that the loan must not be used for activities related to the production and/or sale of armaments that are not permitted under these rules, sending an excerpt of the rules for this purpose;
- make the customer confirm its commitment not to use the loan for activities that are not permitted under these rules in the loan application, and give prior communication of permitted uses under these rules for the purposes of the communication to the Ministry for Economy and Finance;
- start up the decision-making procedure.

Transactions

When companies who operate in the armament sector ask for a transaction to be performed subject to Law no. 185/90, they must submit a statement to the relationship manager (“company statement” pursuant to article 27-bis of Law no. 185/90) and related accompanying documentation, containing the data needed for the communication that the Bank has to provide the Ministry for Economy and Finance within 30 days from the date the transaction was registered on the accounts.

If the communication is made after the deadline of 30 days from the accounting registration date of the transaction due to the delayed availability of the statement with the customer at fault, this situation, adequately documented, will be pointed out in the communication to the Ministry for Economy and Finance.

TRAINING

The Parent Bank will promote training sessions for the Business Units and relative support structures involved; the aim of the training will be to raise awareness of the main contents of these Rules, and provide the elements needed for a full and mindful assessment of the characteristics of the transactions put in place with customers that could involve operational or reputational risk.

MANAGEMENT OF THE INFORMATION AND REPORTING AT GROUP LEVEL

The Corporate Social Responsibility Service of the Corporate Board Secretariat and General Affairs Department will report on the transactions carried out in the Sustainability Report and the relative Internet pages on the basis of the information sent by the Operations Department.