



# TCFD Report 2021-2022

September 2022



MEDIOBANCA



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# Introduction



MEDIOBANCA

# 1. Introduction

## 1.1 Our Identity

The Mediobanca group is a premier specialized financial group offering Corporate & Investment Banking, Consumer Finance and Wealth Management services. Its impeccable reputation in Italy is the result of nearly eight decades of success driven by a responsible approach to business and services that meet the highest standards of excellence.

Thanks to a distinctive business model, based on synergic, high profit margin and low capital intensity business sectors and in which the group boasts a solid competitive position, Mediobanca ranks among the top European groups in terms of revenue growth, profitability, shareholder return and market performance, despite the increasingly challenging market.

With the stronger than ever aim of creating value over the long term for all stakeholders, for the first time the 2019-23 business plan integrated an ESG strategy, along with top management's long-term remuneration, thus definitively establishing Mediobanca as a distinctive player in the European financial panorama in terms of growth, quality and sustainability.

Our innovation and client-oriented historical attitude grew over time to a more holistic, in ESG terms, set of values, oriented to value creation for all our stakeholders: among them, partners, clients, employees, communities and **environment**. This unique combination has driven our recent, sound growth.

Tradition and innovation combine in business segmentation with three separate divisions contributing equally to the company's economic and ESG performances:

- ◆ **Wealth Management** is addressed primarily to individuals, offering savings, investment and asset management products diversified according to client bracket: from mass affluent to high net worth individuals and family office. The division also offers mortgage services and fund management activities for institutional clients.
- ◆ **Consumer Finance** is addressed to households, supporting them in their spending and consumption needs, in a variety of forms which include personal loans, credit cards and salary- or pension-backed finance.

### OUR SUSTAINABILITY STRATEGY IS FOCUSED ON



Sustainable growth over time



Valorizing our human capital



Sensitivity to social issues



Reducing our direct and indirect impact on the environment

- ◆ **Corporate & Investment Banking** activity is focused on services to medium-sized and large companies, with a full product offering which ranges from lending to advisory, capital markets, credit management and factoring.

Mediobanca is the leading Private & Investment bank in Italy and a leader in Southern Europe. The Group is leader in Consumer Finance in Italy and is a strong Wealth Management operator in Italian savings market.

On top of these three areas, the **Insurance & Principal Investing** division manages the Group's main investments, which consists almost exclusively of Mediobanca's holding in Assicurazioni Generali.

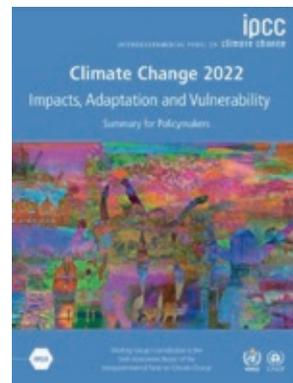
The Group also operates through the **Holding Functions** division which comprises, inter alia, the central organizational units.

For additional details on the Group please refer to the Consolidated non Financial Statement.<sup>1</sup>

## 1.2 The Climate Challenge

In February 2022 the IPCC (Intergovernmental Panel on Climate Change) published the second part of its sixth assessment report (AR6), where it presented the latest evidence on the impacts of climate change.<sup>2</sup>

While stating that *"the threat that climate change poses to human well-being and the health of the planet is unequivocal"*, IPCC warns that any further delay in global action to slow climate change and adapt to its impacts *"will miss a brief and rapidly closing window of opportunity to secure a liveable and sustainable future for all"* since the *"rise in weather and climate extremes has led to some irreversible impacts as natural and human systems are pushed beyond their ability to adapt"*.



Among the findings, the report concludes that:

- ◆ Climate change has already caused *"substantial damages and increasingly irreversible losses, in terrestrial, freshwater and coastal and open ocean marine ecosystems"*.
- ◆ Approximately 3.3 to 3.6 billion people *"live in contexts that are highly vulnerable to climate change"*.
- ◆ Where climate change impacts intersect with areas of high vulnerability, it is *"contributing to humanitarian crises"* and *"increasingly driving displacement in all regions, with small island states disproportionately affected"*.
- ◆ Increasing weather and climate extreme events *"have exposed millions of people to acute food insecurity and reduced water security"*, with the most significant impacts seen in parts of Africa, Asia, Central and South America, small islands and the Arctic.
- ◆ Approximately 50-75% of the global population could be exposed to periods of *"life-threatening climatic conditions"* due to extreme heat and humidity by 2100.

The report highlights that if global warming passes 1.5°C – even temporarily before falling back again – *"human and natural systems will face additional severe risks"*, including some that are *"irreversible"*.

In light of these and previous scientific findings, Mediobanca is aware that climate change impacts and risks are becoming increasingly complex and more difficult to manage. Multiple climate hazards will occur simultaneously and multiple climatic and non-climatic risks will interact, resulting in compounding overall risk and risks cascading across sectors and regions.

1. For further details see Section 3.1 "Mediobanca Group" of the Consolidated Non- Financial Statement 2021-2022 available at the following link [https://www.mediobanca.com/static/upload\\_new/non/non-financial\\_statement\\_2022.pdf](https://www.mediobanca.com/static/upload_new/non/non-financial_statement_2022.pdf)  
 2. The first part, published in August 2021, focused on the «physical science basis» of the Earth's changing climate.

### 1.3 The role of finance

In order to avoid the disastrous consequences of an untapped or poorly controlled climatic change, 192 Countries have joined the Paris Agreement, which aims to substantially reduce global greenhouse gas emissions to limit the global temperature increase in this century to 2° Celsius, while pursuing efforts to limit the increase even further to 1.5°C<sup>3</sup>. The subsequent climate international cooperation and climate science development, including the previously cited IPCC report and COP26 at Glasgow, have highlighted the pivotal importance of aiming primarily at the most ambitious Paris agreement goal: 1.5°C mitigation.

2018 IPCC Special Report “Global Warming of 1.5 °C” underlines the profoundness of the actions and urgency needed to achieve this ambitious goal, specifying that: *“Limiting warming to 1.5°C implies reaching net zero CO<sub>2</sub> emissions globally around 2050 and concurrent deep reductions in emissions of non-CO<sub>2</sub> forcers, particularly methane”*.

As highlighted by the most recent WGIII IPCC report, finance has a pivotal role in enabling the net zero transition: *“Average annual modelled investment requirements for 2020 to 2030 in scenarios that limit warming to 2°C or 1.5°C are a factor of three to six greater than current levels, and total mitigation investments (public, private, domestic and international) would need to increase across all sectors and regions.”* (IPCC AR6 WG III).

The global capital and liquidity are deemed *“sufficient to close global investment gaps”*, however affected by the presence of multiple barriers comprising the *“inadequate assessment of climate-related risks and investment opportunities”*. Action and disclosure in line with TCFD recommendations is central in overcoming this barrier and therefore making climate transition finally effective.

Mediobanca recognizes its responsibility as an operator of the financial system in contributing to the fight against climate change, which represent one of the pillars of CSR objectives embedded in the 2019-2023 Strategic Plan.

### 1.4 Mediobanca Commitment against Climate Change and support to the Task force on Climate-related Financial Disclosures (TCFD)

The awareness of the vital role of finance, alongside business and government, in the transition to a net-zero emissions economy, led Mediobanca to launch a series of initiatives aimed at sensitizing the entire organization at all levels - from the Board of Directors and its Executive Committee to the operational entities of its various business lines – on risk and opportunities linked to and arising from climate change.

In light of its ambition of aligning its business activities with the goals of the Paris Agreement, in November 2021 Mediobanca joined the **Net-Zero Banking Alliance (NZBA)**, launched by the UN Environment Programme Finance Initiative (UNEP-FI), committing to align greenhouse gas emissions arising from its credit and investment for own account activities with the path required to achieve a net-zero economy by 2050.

The commitment also requires setting 2030 interim targets as well as providing transparent reporting and accounting in line with the Race to Zero criteria; the bank has therefore decided to improve its climate-related assessments capabilities and develop methodological tools to evaluate the strategic implications of climate change for its clients.

In April 2022, the Bank formalized its support to the TCFD to stress the willingness to improve the Climate related Financial Disclosures of the Group.

The decision to adhere to these global protocols is consistent with the path taken by the Group aimed at reducing its direct CO<sub>2</sub> emissions (Scope 1 and 2) which have been neutralized for the second consecutive year.

## CALL FOR ACTION

Mediobanca is conscious that businesses and financial institutions are critically dependent on the healthily functioning of social and environmental systems for their value creation. Working collaboratively, we must structure climate action in a deliberate way, ensuring plans are socially just and properly consider the systemic interconnections with related issues such as nature loss, geopolitical instability and growing levels of inequality.

Having made bold commitments, society must now focus on taking action to implement transition plans.

Banks' Net-Zero commitments require financial institutions to adapt their operating models shifting the way financial institutions analyze risk and generate revenue. More broadly business strategies shall incorporate this new vision, with client-facing staff to understand what this means for the way they and their clients do business.

## 1.5 Mediobanca first TFCF Report

The Bank is publishing its first report on climate related issues which is based on TCFD recommendations and its four pillars - Governance, Strategy, Risk Management, Metrics and Targets - to provide a comprehensive overview of the Group approach to climate risk and opportunities.

On the risk side, information is - inter alia - given in relation to the implementation of new metrics in the Group's Risk Appetite Framework, focusing on environmental and climate related risks (both transition risk and physical) - (see Section 3.5.1):

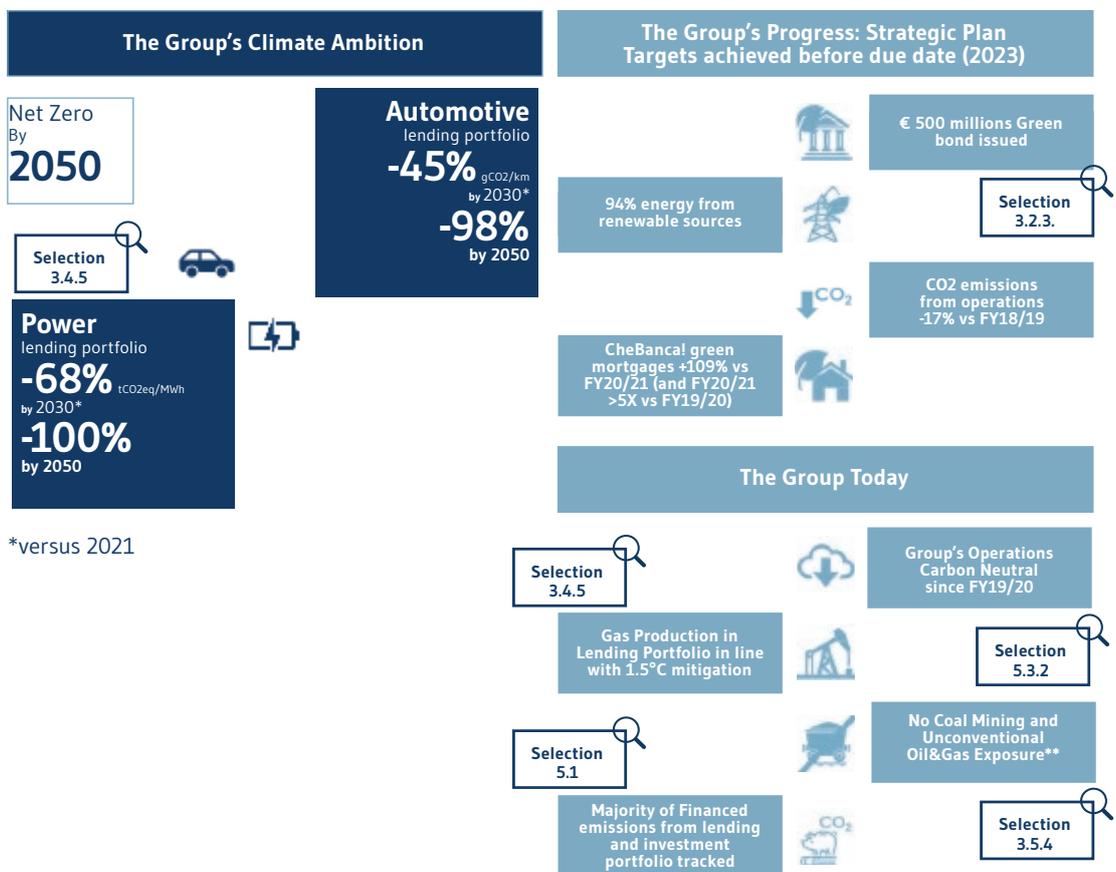
- ◆ to identify the potential ESG Transition risk of the bank's portfolio, Mediobanca has developed an ESG Heatmap at sectoral level. This analysis, conducted on the proprietary lending & investment CIB division book, is extensively reported in section 4.2.1. A maximum acceptable level of exposure to counterparties with high environmental risk has been identified and constitutes a Risk Appetite trigger;
- ◆ Physical risk assessment relates to damages potentially caused by floods, landslides and seismic to buildings, reducing the value of properties used as collateral for loans. In this context, CheBanca! developed a methodology (see section 4.2.2 for more details) to classify Italian municipalities according to Very high, High, Medium, and Low Physical risk. A metric has been included in the RAF to monitor the value of mortgage loans, granted by CheBanca! during the quarter, secured by real estate located in municipalities classified as Very High and High physical risk.

The Report also contains the results of following analyses and exercises which have been carried out during the financial year 2021-2022 to align the Group with a bold climate ambition, best practise climate disclosure and to comply with the commitment underwritten upon adherence to the NZBA:

- ◆ reporting of **portfolio emissions** (Section 5.1): a pilot exercise has been conducted to quantify the emissions of the lending and investing portfolio held by Mediobanca S.p.A. and Mediobanca International (Luxembourg) S.A. using the methodology developed by the Partnership for Carbon Accounting Financials ("PCAF");
- ◆ **portfolio alignment** (Section 3.4.5): Mediobanca assessed the impact of climate transition risk on its lending portfolio by measuring its level of alignment (current and prospective) to reach Net Zero CO2 emissions by 2050. The analysis has been conducted using the Paris Agreement Capital Transition

Assessment (PACTA) tool, complemented with Asset Resolution’s (an external data provider) dataset. The analyses have been conducted on Mediobanca S.p.A. and Mediobanca International (Luxembourg) S.A. lending portfolio;

- definition of the first **NZBA interim sector targets**: (Sections 3.2.1 and 3.4.5): NZBA requires to set, within three years from the commitment, portfolio targets on: agriculture, aluminum, cement, coal, commercial and residential real estate, iron and steel, oil and gas, power generation and transport. For this first year, 2030 reduction targets have been identified in relation to Mediobanca S.p.A. and Mediobanca International (Luxembourg) S.A. lending portfolio exposure in the Power and Automotive sectors. Next year the decarbonization plan in relation to the first two sectors will be provided and additional sectoral targets will be set.



\*versus 2021

\*\*considering companies that derive more than 20% of their revenues from these activities

## REPORT OVERVIEW

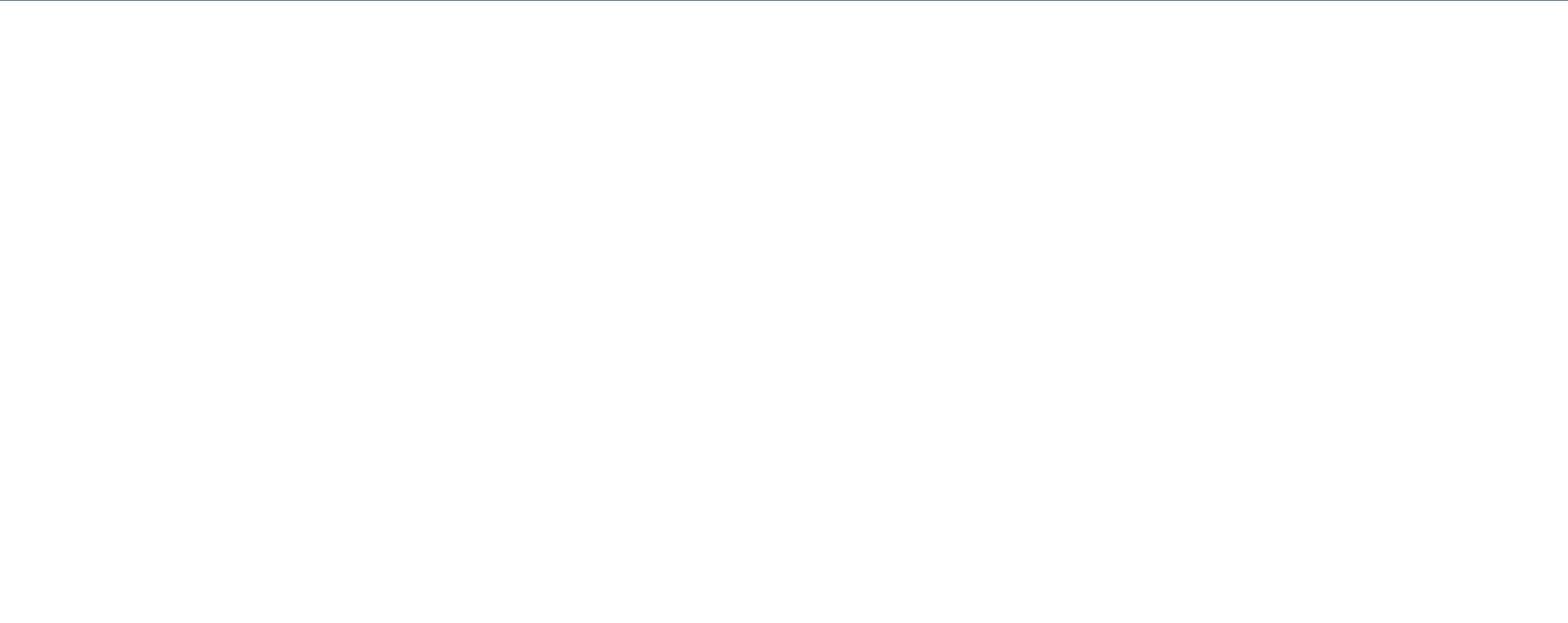
TCFD RECOMMENDATIONS: CROSS REFERENCES		
TOPICS	TCFD RECOMMENDATIONS	REFERENCES <sup>4</sup>
<b>GOVERNANCE</b>	<p>Disclose the organization's governance around climate-related risks and opportunities, describing:</p> <ul style="list-style-type: none"> <li>• The Board's oversight of climate-related risks and opportunities</li> <li>• Management's role in assessing and managing climate-related risks and opportunities</li> </ul>	<p>TCFD</p> <ul style="list-style-type: none"> <li>◇ 2. Governance of the Organization in relation to Climate-related Risks and Opportunities</li> <li>◇ 2.2 Board oversight</li> <li>◇ 2.3 Management's role</li> </ul> <p>CNFS</p> <ul style="list-style-type: none"> <li>◇ 3.2 Governance Model</li> <li>◇ 3.4 Sustainability Governance</li> <li>◇ 5.7 Staff incentives, benefit and remuneration</li> <li>◇ 9 Objectives and future commitments</li> </ul>
<b>STRATEGY</b>	<p>Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning, describing:</p> <ul style="list-style-type: none"> <li>• The climate-related risks and opportunities the organization has identified over the short, medium and long term</li> <li>• The impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning</li> <li>• The resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario</li> </ul>	<p>TCFD</p> <ul style="list-style-type: none"> <li>◇ 3 Strategy</li> <li>◇ 3.3 Climate Risk &amp; Opportunities</li> <li>◇ 3.4 Strategy Resilience: Scenario analysis for Stress Testing and Portfolio Alignment</li> <li>◇ 3.5 Strategy Resilience: Incorporating Climate-related issues into strategy</li> </ul> <p>CNFS</p> <ul style="list-style-type: none"> <li>◇ 3.3 Compliance, internal control and risk management</li> <li>◇ 6.1.6 Responsible business</li> <li>◇ 6.1.7 Sustainable products</li> </ul>

4. TCFD means this report and CNFS means the Consolidated Non-Financial Statement 2021-2022 available at the following link [https://www.mediobanca.com/static/upload\\_new/non/non-financial\\_statement\\_2022.pdf](https://www.mediobanca.com/static/upload_new/non/non-financial_statement_2022.pdf)

TCFD RECOMMENDATIONS: CROSS REFERENCES		
TOPICS	TCFD RECOMMENDATIONS	REFERENCES <sup>4</sup>
<b>RISK MANAGEMENT</b>	<p>Disclose how the organization identifies, assesses, and manages climate-related risks, describing:</p> <ul style="list-style-type: none"> <li>• The organization's processes for identifying and assessing climate-related risks</li> <li>• The organization's processes for managing climate-related risks</li> <li>• How processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management</li> </ul>	<p>TCFD</p> <ul style="list-style-type: none"> <li>◆ 4 Risk Management</li> <li>◆ 4.1 Climate Risk Management Process</li> <li>◆ 3.5.1 Climate risk in the Group's Risk Appetite Framework</li> </ul> <p>CNFS</p> <ul style="list-style-type: none"> <li>◆ 3 Compliance, internal control and risk management</li> <li>◆ 3.3 Compliance, internal control and risk management DCNF: 8.1 Politiche e rischi rilevanti</li> <li>◆ Group ESG Policy</li> </ul>
<b>METRICS &amp; TARGETS</b>	<p>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material, in particular:</p> <ul style="list-style-type: none"> <li>• Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process</li> <li>• Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks</li> <li>• Describe the targets used by the organization to manage climate-related risks and opportunities and performances against targets.</li> </ul>	<p>TCFD</p> <ul style="list-style-type: none"> <li>◆ 5 Metrics and Targets</li> <li>◆ 5.1 Financed emissions</li> <li>◆ 5.3 Targets &amp; Metrics relative to direct impacts (own operations)</li> <li>◆ 3.4.5 Portfolio Alignment and Portfolio targets</li> </ul> <p>CNFS</p> <ul style="list-style-type: none"> <li>◆ 8.3 Energy consumption and and CO<sub>2</sub> emissions</li> <li>◆ 7.3.1 Environment and territory</li> <li>◆ 3.7 Sustainable Development Goals</li> <li>◆ 9 Objectives and future commitments</li> </ul> <p>Definition of a Green and Sustainable Bond Framework; and issuance of the first Green Bond<sup>5</sup></p>

5. [https://www.mediobanca.com/static/upload\\_new/med/0000/mediobanca\\_green-social-and-sustainability-bond-framework\\_final\\_2022.pdf](https://www.mediobanca.com/static/upload_new/med/0000/mediobanca_green-social-and-sustainability-bond-framework_final_2022.pdf)  
[https://www.mediobanca.com/static/upload\\_new/iss/iss-esg-second-party-opinion.pdf](https://www.mediobanca.com/static/upload_new/iss/iss-esg-second-party-opinion.pdf)





# Governance of the Organization in relation to Climate- related Risks and Opportunities

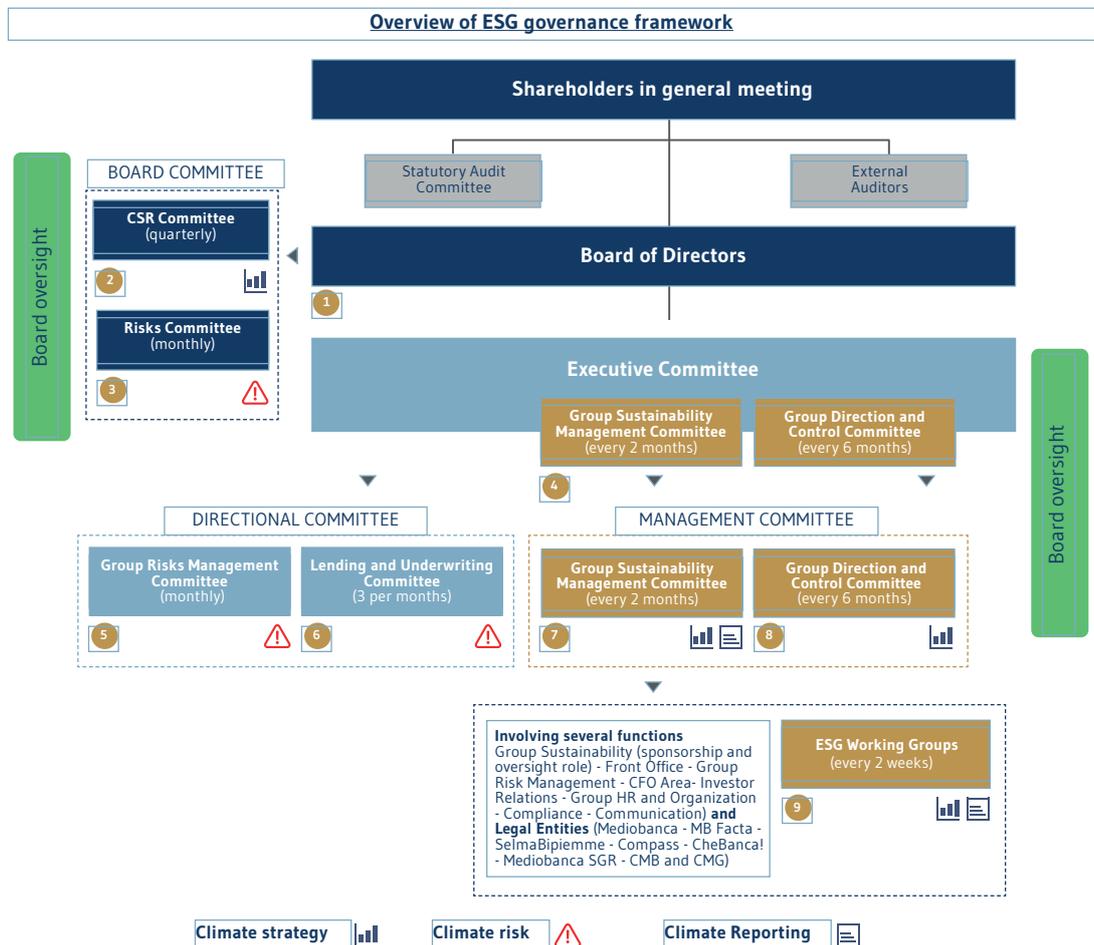


MEDIOBANCA

# 2. Governance of the Organization in relation to Climate-related Risks and Opportunities

## 2.1 Sustainability Governance overview

Mediobanca has been a pioneer among Italian Banks in designing ESG governance: on 14 June 2017, the Board of Directors assigned to the **Chief Executive Officer** the responsibility for governance of sustainability activities, for the implementation of action to be taken in this area and for monitoring it, ensuring that the Group is positioned correctly on these issues in the relevant areas.



In the following years **Board, Directional and Management Committees** have been set up to cover specific sustainability topics; the increasing awareness of risk and opportunities related to environmental topics (and in particular on climate change), together with regulator and stakeholder expectations on this regards, have in particular translated into a growing attention paid by Mediobanca to ensure that the board and senior management have an adequate understanding of climate-related risks and opportunities and that business units have adequate resources and skills to identify and manage risks and to seize opportunities arising from environmental and climate topics.

In the following paragraphs further details are given on Board and management oversight over climate topics, as well as on management and staff incentives linked to climate initiatives and on the ongoing organizational changes implemented to increase the knowledge of climate related issues within the Group organization.

## 2.2 Board oversight

Mediobanca has adopted a traditional system of governance based on the appointment of a Board of Directors and Statutory Audit Committee (the latter vested with duties of control) by shareholders gathered in annual general meeting.<sup>6</sup>

1 The **Board of Directors** is responsible for strategic supervision, approving the strategic direction of the Bank, including sustainability and ESG/climate related topics, and monitoring to ensure it is implemented in practice. In this context, the Board of Directors is responsible for, inter alia, defining and approving the **business model** and the **strategic guidelines** of the Group, being in full knowledge of the risks to which such a model exposes the Group and the Bank since it also approves the Risk Appetite Statement («RAS») and the Risk Appetite Framework («RAF»). In this regard, in order to monitor and mitigate the Group exposure to climate risk, the Board held on June 22nd 2022 has approved to include in the RAF two metrics, one focused on Transition Risk and one on Physical risk (as further detailed in section 3.5.1). The Board is informed by the Chief Risk Officer once a quarter on the risk trends observed, including climate-related risks, and on the performance of the RAF in the relevant period.

The Board also approves the main Internal **Regulations, Policies and Codes**, including its Code of Ethics, Code of Conduct, as well as Group Sustainability Policy and Group ESG Policy which also cover relevant climate related topics. It is also responsible for compiling the staff **remuneration and incentivization policy** (including the sustainability ESG related performance indicators contained therein), submitting it to the approval of shareholders in Annual General Meeting, and revising it on at least an annual basis, and is responsible for ensuring it is implemented correctly in practice.

Mediobanca Directors are banking experts, corporate and legal compliance specialists and professionals who bring their international experience and in-depth understanding of global dynamics. The table below provides an overview of their skills and expertise (including sustainability knowledge).<sup>7</sup>

6. Mediobanca provides detailed information on its corporate governance and the composition of its governing bodies in its «Annual Statement on Corporate Governance and Ownership Structure» which is published on its website at [www.mediobanca.com](http://www.mediobanca.com) under Governance Reports and Documents.

7. For details of the individual Directors' professional qualifications and areas of competence, please refer to the dedicated section of the Mediobanca website at <https://www.mediobanca.com/en/corporate-governance/board-of-directors/composition-and-role.html> - <https://www.mediobanca.com/en/corporate-governance/board-of-directors/board-of-directors.html>

NAME	GENDER	AGE	BUSINESS IN WHICH MB GROUP OPERATES	BANKING ACCOUNTING AND REPORTING	MACRO/ INTERNATIONAL ECONOMICS	RISK MANAGEMENT, COMPLIANCE AND INTERNAL AUDIT	INFORMATION TECHNOLOGY, SECURITY	LEGAL AND REGULATORY FRAME WORKS	MANAG. CAPAB AND ENTREPR.EXP.	BANKING GOVERNANCE	PLANNING OF REGULATORY AND ECONOMICCAPITAL	SUSTAINABILITY
Renato Pagliaro	M	64	X	X	X	X	X	X	X	X	X	X
Maurizia Angelo Cameno	F	73	X			X		X	X	X		X
Alberto Nagel	M	56	X	X	X	X		X	X	X	X	X
Francesco Saverio Vinci	M	58	X	X	X	X	X	X	X	X	X	X
Virginie Banet	F	55	X	X	X	X	X	X	X	X	X	X
Maurizio Carfagna	M	73	X	X	X	X	X	X	X	X	X	
Laura Cioli	F	58	X		X	X	X		X	X	X	X
Maurizio Costa	M	72	X		X	X	X		X	X		X
Angela Gamga	F	51	X			X	X		X	X		X
Valérie Hortefeux	F	53	X		X	X	X		X	X	X	X
Maximo Ibarra	M	52	X		X		X		X	X		X
Alberto Lupoi	F	51	X			X	X	X		X	X	X
Elisabetta Magistretti	F	74	X	X		X	X	X	X	X	X	X
Vittorio Pignatti Morano	M	64	X	X	X	X	X		X	X	X	
Gabriele Villa	M	57	X	X		X	X	X		X		

Mediobanca provides Board Members with regular **training sessions** also leveraging on external consultants.

In February 2021 an ad-hoc session focused on Sustainability topics took place aiming at updating the Board Members in relation to ongoing initiatives and positioning of the Group in the CSR domain and providing them with a training session on the development of the European Sustainability regulation (including the European Green Deal, the ECB guide on Climate and Environmental Risk, the SFDR and Taxonomy regulation).

In February 2022 a specific training initiative on the Impact of ESG topics on European Banks took place. The **main focus** of the session was to provide an overview of the **Climate Change** and the related **risk and opportunities** for Financial Institutions.

## 2.2.1 Board Committees supporting the Board on climate-related matters

As provided by Articles of Association, the Board of Directors has established an **Executive Committee** (responsible for the ordinary management of the company) and other **Board Committees**<sup>8</sup> tasked with researching, preparing the documentation for and giving their opinion on items to be submitted to the approval of the Board itself<sup>9</sup> in relation to some areas of competence.

In light of the regulator requirement<sup>10</sup> for management body “to consider climate-related and environmental risk when developing the institution’s overall business strategy, business objectives and risk

8. Board Committees are: the Corporate Social Responsibility Committee, the Risks Committee, the Related Parties Committee, the Remunerations Committee, the Appointments Committee and the Committee instituted pursuant to Article 18 of the Articles of Association.

9. Except for the Committee instituted pursuant to Article 18 of the Articles of Association, which is vested with powers of approval for matters which fall within its remit.

10. Expectation 3 – «Management Body» of the «ECB Guide on climate related and environmental risk».

management framework and to exercise effective oversight to climate related and environmental risks”, Mediobanca has recently clarified the respective responsibilities of Board of Directors and Board Committees with regards to environmental and climate governance. On 24 March 2022 the Board of Directors clearly stated that **the governance of climate strategy and risk are respectively under the responsibility of CSR Committee (following CEO proposal) and Risks Committee**, the latter providing support to the Board of Directors in its supervision of ESG risks, with reference in particular to the implications of climate and environmental risks on business model and strategy.

Focusing on Board Committees supporting the Board on climate related matters:

- 2 the Board of Directors set up in September 2019 the **Corporate Social Responsibility (CSR) Committee**, with powers for matters pertaining to corporate social responsibility to ensure that the Group is correctly positioned relative to its **strategy for sustainable growth (including from an environmental and climate-related point of view)** over time, valorising its staff, sensitivity to social issues, and reduction of direct and indirect impact on the environment. The Committee has responsibility for processing proposals to be submitted to the Board’s approval including Group Sustainability/ESG Policies and Consolidated Non-Financial Statement<sup>11</sup>; it sets up and monitors short and medium-term sustainability objectives; assesses the degree of achievement of CSR objectives set by the Remuneration Policy or scorecards and monitors of initiatives promoted by the Managerial Sustainability Committee (as described below).

The CSR Committee meets respectively at least on a quarterly basis and currently consists of the Chief Executive Officer (who chairs it) and 4 non-executive Directors.

- 3 the **Risks Committee** advises and supports the Board of Directors with respect to internal control, risk management and the accounting/reporting model. Focusing on risk management, which also covers environmental and climate related risk, it: a) supports the Board of Directors in the supervision of risk management policies; b) regularly checks the functioning and efficiency of the risk control and management system and procedures; and c) reviews plans for calculating the adequacy of the Bank’s current and estimated aggregate capital at consolidated level with respect to large risks that the bank and group are exposed to (ICAAP), reporting the results to the Board of Directors.

Currently the Risks Committee meets at least on a monthly basis and consists of 5 non-executive Directors, also the Statutory Audit Committee attends the meetings.

The Board of Directors is briefed regularly on the matters discussed and the decisions taken during the CSR Committee and Risks Committee meetings.

## 2.3 Management’s role

- 4 As previously stated, the **Chief Executive Officer** has been assigned the oversight of activities relating to sustainability and the actions to be implemented and monitored. Some Directional and Management Committees (which include representatives of both business and staff units) have also been set up (or, to the extent pre-existing, have been increasingly focused) to increase ESG risk and opportunities awareness at Group level.

### 2.3.1 Directional Committees<sup>12</sup>

- 5 The **Group Risks Management Committee** examines in advance, and expresses its opinion on, resolutions on risk-related issues for which the Risks Committee, the Executive Committee

11. The Board of Directors approves the Consolidated Non-Financial Statement, subject to prior review by the CSR Committee. The Statutory Audit Committee performs monitoring to ensure that the provisions of the regulations on non-financial reporting are complied with, and reports on it in the annual report to shareholders on the occasion of the annual general meeting.

12. The Directional Committees have been attributed with specific tasks within the risk assumption, management, measurement and control processes. Other Directional Committees are: Group ALM Committee, New Operations Committee, Group Non-Financial Risks Committee, Investments Committee.

and the Board of Directors have responsibility, with reference in particular to the ICAAP, ILAAP, RAF and the risk assessment policies. The Committee defines and monitors the strategies for taking on credit, issuer, market, and non-financial risk at Group level. In this scenario, the Committee monitors the development and operation of commercial, lending and financial policies in accordance with the RAF. It may set limits as guidelines by sector, country, rating class and any other risk classification it feels is necessary as guidance for the Group companies as well. The Committee defines and updates the framework for managing the impacts deriving from ESG risk factors (including environmental and climate related risk), evaluates their subdivision in terms of regulatory risk, assesses the set of methodologies employed on a regular basis, and monitors the overall effectiveness of the measures adopted. It meets at least once a month.

- 6 The **Lending and Underwriting Committee** («LUC») has been attributed risk-taking powers within the limits set forth in the 26 October 2021 Executive Committee Resolution in respect of operating powers.<sup>13</sup> Such resolution has also explicitly delegated the LUC to examine the **ESG risk profile** of the counterparties named in the proposed lending resolution. The Lending and Underwriting Committee meets regularly (indicatively three times per month).

### 2.3.2 Management Committees

- 7 The **Group Sustainability Management Committee** has the task to propose, promote and monitor initiatives aiming to have a positive contribution on the society both in terms of direct and indirect impacts as well as to make sure that such actions are in line with the stakeholders expectations and are adequately represented and reported both inside and outside the Group.

It also supports the CEO and the CSR committee in the definition of the overall **ESG strategy including the approach to climate topics** both in terms of direct and indirect impacts. In the last years, for instance, it evaluated and, if needed, submitted to the CSR Committee several initiatives including internal Policies updates and the accession to relevant voluntary ESG frameworks (including Sustainable Development Goals, Principles for Responsible Banking and the Net-Zero Banking Alliance).

The Committee meets at least once every two months and includes representatives of both business and staff units.

- 8 The **Group Direction and Control Committee** meets at least once every six months and, with reference to the principal Group Companies, shares the strategic plan and budget, discusses earnings and commercial plan, strategic projects and commercial initiatives checking they are consistent with the risk and strategic frameworks, including in relation to **ESG topics**.

### 2.3.3 ESG Working Group

- 9 Directors, CEO and Top Management support the establishment of sustainability culture and practice in which all employees understand their role in delivering alignment to the UNEPFI Principles of Responsible Banking (including with regards to climate topics) and translate this conviction into their approach to making business and daily behavior.

In this context an ESG Working Group («ESG WG») has been established to:

<sup>13</sup>. And, without prejudice to the limits set by the Articles of Association and the supervisory limits in force, in particular those relating to risk concentration.

- ◇ promote understanding and awareness of sustainability issues within the Group;
- ◇ facilitate the adoption of a business strategy aimed not only at factoring risks, but also at identifying and seizing opportunities related to ESG issues;
- ◇ map the initial positioning and define the Group's objectives regarding ESG issues both in terms of impacts on society and the offer of sustainable products and services to customers.

The ESG WG is structured in two thematic subgroups «**Business**» (which will have the primary objective of declining in the business strategy the risks and opportunities related to ESG issues) and «**Reporting**» (focused on the quantification and monitoring of the economic and financial KPIs of the ESG-labeled product portfolio). Each subgroup meets indicatively on a monthly basis.

The **ESG WG reports to the Group Sustainability Management Committee**. The analyses and strategic proposals developed by the working group will be further declined and discussed in the Group Direction and Control Committee in order to ensure an effective translation of ESG risks and opportunities into the business.

## 2.4 ESG Programme

A multi-year plan was launched in January 2021 to gradually adapt the Group's operations to the new regulations in the ESG area. The initiative, denominated «ESG Program», under the sponsorship of **Group Sustainability** with the support of – inter alia - **Group Risk Management, Compliance Unit and CFO Unit**, has involved several organizational units being articulated into **three main strands** based on the business areas affected by the regulations.

### ESG PROGRAMME

#### PROPRIETARY

- ◇ **Integration of climate-related environmental risks into the governance, risk management and business strategy of the Group**
- ◇ Alignment to the expectations contained in the **ECB Guide on Climate Related and Environmental Risk**

#### CLIENTS AND MARKETS

- ◇ **EU Sustainable Finance Reporting Directive (<<SFRD>>)**

#### DISCLOSURE

- ◇ **EU taxonomy of sustainable economic activities (<<Taxonomy>>)**
- ◇ **TCFD**

Several actions implemented during the year in the context of the Proprietary strand, are contained in this TCFD report which represents itself one of the initiatives accomplished by the Bank to align climate related and environmental risks disclosure to the expectations of the Regulator (Exp. n° 13 of the ECB guide on Climate and Environmental Risk) and other stakeholders.

Relevant Managerial, Directorial and Board Committees are periodically informed on key milestones and achievements of the ESG Programme.

For additional details on the ESG Program please refer to the Consolidated non Financial Statement.<sup>14</sup>

## 2.5 Staff and Business Units responsibilities

Several units are involved in the assessment and management of climate risks and opportunities and in particular:

◆ **Group Sustainability** is responsible for managing activities in the area of climate change, sustainability and of corporate social responsibility, ensuring that the Group is positioned correctly in the different areas.

In particular this Unit, among other activities, defines the **Group's policies** in the area of sustainability and of corporate social responsibility (which provide relevant guidelines also in the context of environmental and climate related topics) and co-ordinates the activity of the Board Corporate Social

### 1<sup>ST</sup> LINE OF DEFENCE

#### Business Units

Business Areas have the task to **identify new opportunities** arising from the support given to clients as they invest in climate mitigation and climate adaptation plans (including decarbonization) and to **incorporate** them in **the commercial strategy**.

As owners of the Bank's risks, at the same time they are responsible to align business activities to the RAF.

Since the **1<sup>st</sup> line of defence** towards climate-related risk is undertaken during client onboarding, frontline staff has the task to understand and identify potential climate-related risks.

### 2<sup>ND</sup> LINE OF DEFENCE

#### Group Risk Management and Compliance

Group Risk Management defines **methodologies** aimed at measuring the impacts of **environmental/climate related risk** (both physical and transition) on the different risk categories (credit, market, liquidity and operational risk).

It also supports regular **reporting internally and to supervisory authorities** on issues related to climate and environmental risk.

Being, together with Compliance (within the scope below) the **2<sup>nd</sup> line of defence** in the context of internal control framework, the risk function is responsible for undertaking independent climate-related risk assessment and monitoring, including challenging the initial assessment conducted by the front.

A **dedicated ESG credit risk team** has been set up with a mission to analyse ESG credit risk for all counterparties in Mediobanca credit portfolio. Credit risk reporting will be integrated with the outcome of ESG deep-dives.

### 3<sup>RD</sup> LINE OF DEFENCE

#### Group Audit

The Group Audit function carries out regular reviews of framework and systems related to climate risk in light of changes in methodology, business and risk profile, as well as in the quality of underlying data, thus acting as a **3<sup>rd</sup> line of defence** in the context of the internal climate-risk control framework.

<sup>14</sup>. For further details see Section 3.3 "Compliance, internal control and risk management" of the of the Consolidated Non-Financial Statement 2021-2022 available at the following link [https://www.mediobanca.com/static/upload\\_new/non/non-financial\\_statement\\_2022.pdf](https://www.mediobanca.com/static/upload_new/non/non-financial_statement_2022.pdf)

Responsibility (CSR) Committee and the Group Sustainability Management Committee.

It also promotes **identification of possible opportunities** in the area of sustainable financial products.

- ◆ The following Units are involved in the **internal environmental risk control framework**
- ◆ **Compliance and Group Anti-Money-Laundering** unit presides over the regulatory and reputational risks facing the Group. Compliance function is involved in the definition of a climate-related and environmental risks management framework, that includes co-operation between the compliance unit and a specialized unit within Mediobanca tasked with the management of these risks (Group Sustainability). This framework is based on reporting flows from the specialized unit towards compliance unit, interactions and the setting of harmonized methodologies to assess non-compliance risks.
- ◆ The Group **Chief Financial Officer Unit** is involved in the origination and structuring of Group bonds related to Mediobanca's **Green and Sustainable Bond** Framework. As far as the ESG disclosures are

During the fiscal year, several **training initiatives** have been **launched to increase the Group employees' awareness on ESG and in particular climate related topics**. The entire population of Mediobanca, and its main subsidiaries has been involved in introductory training modules on ESG topics covering also Climate Change and Green Products.

Ad hoc-sessions have been organized for benefit of, inter alia, CIB staff (Debt Division and Corporate Finance) and Mediobanca Private Bankers, for further details please refer to the Consolidated non Financial Statement<sup>15</sup>.

concerned the Group Chief Financial Officer Unit has seen an increasing involvement, particularly in the context of the **Pillar 3** and for climate risk related topics. The Group CFO is focused on supervision of ESG data collection, consolidation and analysis of process regarding ESG reporting. It's also supporting the abovementioned Committees in monitoring the strategic ESG guidelines for the Group.

## 2.6 Remuneration

The Staff Remuneration and Incentivization Policies, which are approved by shareholders at the Annual General Meeting held each year, seek to generate sustainable value over the long term: responsible, fair and transparent remuneration mechanisms increase and protect reputation, credibility and consensus over time, forming the basis for developing business with the objective of creating and protecting value for all stakeholders.

As part of the performance evaluation process in connection with the remuneration and incentivization policy, the Mediobanca Group devotes special and increasing attention to the achievement of environmental, social and governance (ESG) objectives, including those that are climate-related. These are structured according to individual scope of responsibility and taking account the incentivization systems applied to the individuals and/or divisions concerned.

### 2.6.1 Long Term Incentive Plan

Given pre-established CSR objectives are included in the individual 2019-2023 Long Term Incentive Plan which are linked to six out of seventeen Sustainable Development Goals (SDGs) set out in the United Nations' 2030 Agenda.

15. For further details see Section 5.5 "Professional training and development" of the of the Consolidated Non-Financial Statement 2021-2022 available at the following link [https://www.mediobanca.com/static/upload\\_new/non/non-financial\\_statement\\_2022.pdf](https://www.mediobanca.com/static/upload_new/non/non-financial_statement_2022.pdf)

The following CSR objectives - public, measurable and quantified - are reflected into the 2019-2023 Long Term Incentive Plan for the **Mediobanca CEO** and **Group General Manager** and for the **CEO of CheBanca!/Compass**:

- ◇ Average hours' training +25%
- ◇ AM: 100% of new investments selected using ESG as well as financial criteria
- ◇ €700m to be invested in outstanding Italian SMEs
- ◇ 30% more ESG products in clients' portfolios
- ◇ €4m per annum in projects with positive social/ environmental impact
- ◇ Customer satisfaction:
  - ◇ CheBanca! CSI in core segments @73, NPS @25
  - ◇ Compass: CSI @85, NPS @
- ◇ Energy:
  - ◇ 92% from renewable resources
  - ◇ CO<sub>2</sub> emissions reduced by 15%
  - ◇ hybrid vehicles @90% of MB fleet
  - ◇ CheBanca! green mortgages up 50%

Their impact on the financial component of the LTI plan ranges from a 5% decrease to a 7.5% increase, based on the Board of Directors' assessment of whether or not they have been reached.

## 2.6.2 Short Term Incentive Plan

The **Chief Executive Officer's** and **Group General Managers'** annual scorecards (Short Term Incentives) include **both financial and non-financial ESG and CSR objectives** to be assessed over the one-year time horizon for the performance: the weighting of the financial ones is up to 10% of the quantitative component, and they refer to the annual ESG targets contained in the Strategic Plan for the Group's principal businesses, with financial KPIs related.

The impact of non-financial objectives on the financial component ranges from a 5% decrease to a 7.5% increase for each objective identified. Qualitative objectives are considered of equal weight, to be evaluated individually. In the case of including only one non-financial KPI of ESG matrix it still weighs for a corrective two-thirds of the total.

With reference to the **Financial Year 2021-2022**:

- ◇ The quantitative objectives below have been largely overreached (even with reference to the max KPI).

QUANTITATIVE OBJECTIVE FY 21/22 (both Mediobanca Chief Executive Officer and Group General Manager)	KPI TARGET	KPI MAX	FY 2022
a) Client loan stock vs corporate clients with ESG/green characteristics	€ 1,900 mln	€ 2,300 mln	€ 2,581 mln
b) ESG new loans vs retail clients (Consumer Finance – WM Premier)	€ 180 mln	€ 210 mln	€ 295 mln
c) ESG products in WM Premier customer portfolios	37%	40%	61%

QUALITATIVE OBJECTIVE FY2021-22		
<b>Mediobanca Chief Executive Officer and Group General Manager</b>	«People Strategy and Human Capital»: initiatives related to valorising diversity and inclusion, involving staff in the Group's social initiatives, focus on talent, increasing staff engagement, and promoting work-life balance.	
<b>Mediobanca Chief Executive Officer</b>	«Planet and Environment»: initiatives related to environmental sustainability (drivers: carbon neutrality; alignment to green regulations and international principles and standards; governance of commercial and product initiatives in this area).	
<b>Group General Manager</b>	«Digital Strategy & Innovation»: development of digital proposition, development of solutions to support interactions with clients, technology and security updates.	

Focusing on «Planet and Environment» main achievements are represented by: the Group being carbon neutral again, achieved by offsetting its non-reducible emissions for FY 2020-21 (3,437 CO2eq); appointment of a Mobility Manager, with implementation of the Home-to-Work Mobility Plan; becoming a signatory to the Net-Zero Banking Alliance (NZBA) and adhering to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), with the preparation of the first TCFD Report which contains a preliminary quantification of the portfolio's Scope 3 emissions, plus the first interim targets for indirect emissions, with the objective of reaching net zero by 2050.

The short-term incentive scheme for **other senior figures** (strategic management and Material RiskTakers heading up the main business lines) also includes, both individually and as part of the scorecards used to define the divisional bonus pools, and where appropriate to the scope under consideration, the presence of quantitative, measurable ESG indicators with weightings of up to 10%. These include, without limitation: higher volumes of green products and deeper penetration of ESG funds in clients' portfolios; green bond issues; monitoring and accounting for assets in portfolios from an ESG standpoint; integrating ESG evaluations into the fund investment process. Other targets include: increasing green-/ESG-linked bond issues and lending activities; assessment of suppliers according to ESG criteria, target levels for electricity from renewable resources, cutting CO2 emissions, and increasing the number of hybrid cars in the Mediobanca fleet.

The **rest of the Group staff** are assigned a Group objective (with a weighting of between 5% and 10% of the total) to evaluate the performance delivered in terms of the adoption of socially responsible behaviour on a management basis, with reference in particular to protection of the environment, corporate diversity, and defence of human and social rights.

Below a summary of **Financial Year 2022-2023** objectives that have been assigned by the Board of Directors:

**QUANTITATIVE OBJECTIVE FY2022-23**

(both Mediobanca Chief Executive Officer and Group General Manager)

a) Client loan stock vs corporate clients with ESG/green characteristics

b) ESG new loans vs retail clients (Consumer Finance – WM Premier)

c) ESG products in WM Premier customer portfolios

d) ESG products in MB Private Banking customer portfolio

**QUALITATIVE OBJECTIVE FY2022-23****Mediobanca Chief Executive Officer and Group General Manager**

Diversity, Equity, Inclusion &amp; Engagement". Objective related to the "toDEI" project, for which quantitative objectives have been defined and publicly disclosed, to monitor the balance of female representation among senior management and new recruits and in career advancement.

**Mediobanca Chief Executive Officer**

"Planet and Environment": initiatives related to environmental sustainability (drivers: -11% Scope 1 + Scope 2 emissions vs 2019; planting 2,000 trees; increasing the number of electric/hybrid vehicles in the company car fleet to 72%; continuing with the various strands of the long-term ESG projects to bring the Bank into line with the different regulations, with delivery of the project objectives).

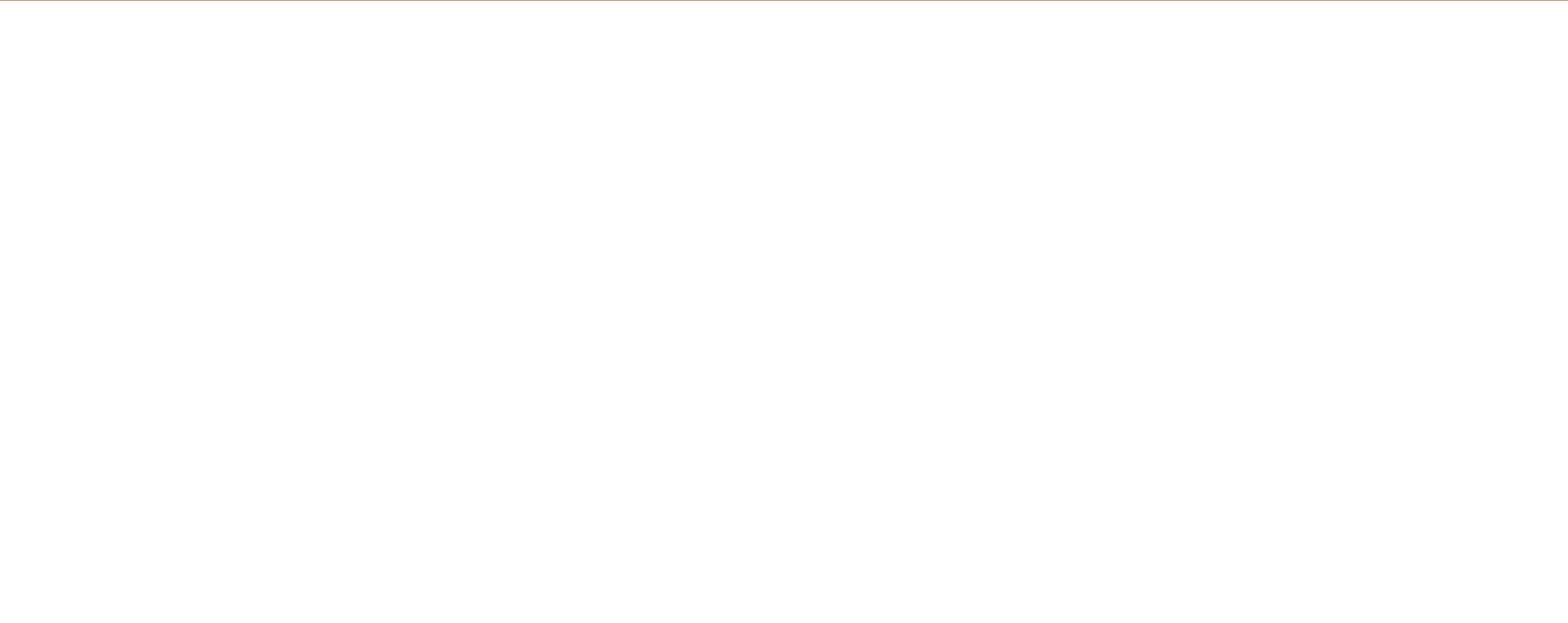
**Group General Manager**

"Mediobanca Digitalization Journey", focusing on the technology and digital transformation in progress within the Group, for the work planned with reference to the following project drivers: digitalization of the Private Banking division, launch of innovation initiatives, and definition and launch of the "Go to cloud" model.

For additional details on long-term and short-term incentives please refer to the Group Remuneration Policy and Report.<sup>16</sup>

16. [https://www.mediobanca.com/static/upload\\_new/b--/b--remuneration-policy-and-report-2022-final-26-settembre.pdf](https://www.mediobanca.com/static/upload_new/b--/b--remuneration-policy-and-report-2022-final-26-settembre.pdf)





# Strategy



MEDIOBANCA

# 3. Strategy

## 3.1 The framework

*Growth and sustainability are two of Mediobanca distinctive traits. Our development strategy is based on the conviction that ethics and profits can and indeed must go hand in hand, as in the long term there cannot be economic growth without social and environmental progress as well. Responsible, proper and transparent conduct enhances and protects reputation, credibility and consensus over time, laying the foundation to develop further sustainable business practices and create value for all stakeholders.*

*The Inspiring Principles and the Climate Initiatives as well as the Group Policies set out below are the cornerstones of Mediobanca' s behaviour with respects to climate and environmental topics.*

### 3.1.1 Inspiring Principles



Since 25 April 2018 the Group has officially been a participant in the United Nations' Global Compact, an initiative based on voluntary adherence to a set of principles to promote sustainability values such as human rights.



The Mediobanca Group intends to contribute to promote the Sustainable Development Goals (SDGs) set out in the United Nations' 2030 Agenda, by supporting and encouraging growth and development projects based on these universal principles. CSR objectives linked to six (including SDG 13 – Climate Action) out of seventeen SDGs were included in the 2019-23 Strategic Plan to demonstrate the Group's strong commitment to sustainability.



In July 2021 the Group adhered to the Principles for Responsible Banking (PRB), launched in 2019 by the United Nations with the aim of incentivizing the banking system objectives for sustainable growth and to measure the impact of their own activities on individuals and the planet.



Mediobanca SGR, RAM Active Investment SA (hereon RAM AI) and Cairn Capital are also all signatories to the Principles for Responsible Investment (PRI), launched by the United Nations in 2006 to promote a sustainable and responsible approach to investment by institutional investors.



Mediobanca SGR has also adhered to the Italian Stewardship Principles operated by Assogestioni, in the conviction that sound corporate governance policies and practices are able to create value over the long term.

### 3.1.2 Climate Initiatives



Mediobanca and RAM AI are both supporters of the Task Force on Climate-related Financial Disclosures (TCFD), which promotes the voluntary disclosure of financial data in relation to climate change.



In November 2021 Mediobanca adhered to the Net-Zero Banking Alliance (NZBA), confirming its intention to play an active role in the green transition. By joining this initiative promoted by the United Nation, Mediobanca committed to aligning its lending and investment portfolios with net-zero emissions by 2050 or sooner, in line with the targets set by the Paris Climate Agreement.



In July 2021 RAM AI joined the Net Zero Asset Managers Initiative which aims to galvanize the asset management industry to commit to a goal of net zero greenhouse gas emissions by 2050 or sooner, for all assets under management (AUM), in line with global efforts to limit warming to 1.5 degrees Celsius.



In February 2022 Mediobanca was the first major Italian bank to join the Partnership for Carbon Accounting Financials (PCAF), so reiterating its commitment to tackling climate change with the objective of achieving net zero by 2050. PCAF is a global partnership of financial institutions that work together to develop and implement an harmonized approach to assess and disclose the GHG emissions associated with their loans and investments.



Both Mediobanca SGR and RAM AI have adhered to the Non-Disclosure Campaign promoted by the Carbon Disclosure Programme (CDP), thereby committing to the achievement of a global economic system which is able to prevent the damaging effects of climate change.

### 3.1.3 The Group Policies

#### 3.1.3.1 Code of Ethics and Code of Conduct

The attention to environmental protection and the approach adopted in the contest of the fight against climate change are inspired by the **Group Code of Ethics**<sup>17</sup> and by the **Group Code of Conduct**<sup>18</sup> that define the fundamental principles underlying the reputation of the Group and the values that inspire its daily operations, also describing the standard of conduct required of all employees and collaborators of Mediobanca.

In particular, the following statement is included among the General Principles of the Code of Ethics: *“The Group is sensitive to the issue of protecting the environment as an asset of primary*

17. <https://www.mediobanca.com/static/upload/mb-/mb-code-of-ethics.pdf>

18. [https://www.mediobanca.com/static/upload\\_new/cod/codice\\_condotta\\_eng.pdf](https://www.mediobanca.com/static/upload_new/cod/codice_condotta_eng.pdf)

*importance. To this end, it directs its choices in such a way as to ensure compatibility between economic initiative and environmental requirements, in accordance with the legislation in force.”*

On the other hand, in the Code of Conduct, the Group requires the recipients to consider at all times the economic, social and **environmental impacts** that their business decisions may have and the consequences of their activities, even personal ones, on the Bank’s brand and reputation.

### 3.1.3.2 Group Sustainability Policy

The **Group Sustainability Policy**<sup>19</sup> was approved by the Board in March 2020 and applies to the entities of the Group; suppliers are also encouraged to adopt the principles and provisions thereof. The Policy is sub-divided into four areas held to be priorities: measures to tackle **climate change** and the environment, bribery and corruption, human rights, diversity and inclusion.

On the basis of the primary declarations and regulations issued with respect to the above areas, the Group has structured its commitment into measurable qualitative and quantitative targets focusing on: **Responsible Investing**, Equal Opportunities, Support in **energy transition**, Reduction of direct **environmental impact**, Contribution to economic growth and Support for local community.

### 3.1.3.3 Group ESG Policy

The Code of Ethics, Code of Conduct and Group Sustainability also provide the framework on which is based the **Group ESG Policy**<sup>20</sup> approved by the Board in July 2021.

The new Policy - which develops and builds on the Group Policy on Responsible Lending and Investing adopted in 2019 - defines the guidelines for integration of ESG criteria (Environmental, Social and Governance), and outlines the reference principles involved, plus the negative and positive screening criteria applicable to the **activities of lending, investing own funds, and providing investment advice to clients**. Further details in this regard are provided in section 3.5.4.

## 3.2 Net Zero and Other Ambition

The principles, initiatives and policies outlined above have been the source and inspiration for the Group Portfolio and Own Operations Climate targets, the former referring to the Climate objectives concerning Mediobanca’s financial activities, the latter to the Group’s own processes.

### 3.2.1 Portfolio targets

As a member of the Net-Zero Banking Alliance and following its strategic priorities, the Group has set climate targets **on the Power and Automotive sectors proprietary lending exposure**, as far as Mediobanca S.p.A. and Mediobanca International (Luxembourg) SA<sup>21</sup> are concerned.

19. [https://www.mediobanca.com/static/upload/csr/csr-001-17\\_group-sustainability-policy.pdf](https://www.mediobanca.com/static/upload/csr/csr-001-17_group-sustainability-policy.pdf)

20. [https://www.mediobanca.com/static/upload\\_new/pol/politica-esg\\_eng.pdf](https://www.mediobanca.com/static/upload_new/pol/politica-esg_eng.pdf)

21. The target perimeter has been limited to these two Group’s legal entities given the pilot nature of the exercises, existing data gaps and the preponderant concentration of the Group’s proprietary Corporate lending exposure in the two entities.

The targets, aligned with a 1.5° climate ambition, are summarised in the table below. More details about the target setting methodology can be found in paragraph 3.4.5.

SECTOR	TARGET METRIC	BASELINE (2021)	INTERMEDIATE TARGET (2030)	NET ZERO TARGET	NET ZERO TARGET YEAR
Power	tCO <sub>2</sub> eq/MWh	0.24	0.08	0	2040
Automotive	gCO <sub>2</sub> /km	208	115	4	2050

Moreover, the 2019-23 strategic plan states some targets regarding the reduction of indirect environmental impact, environmental criteria to be integrated into the assessment processes for new investments/loans as well as the increase of ESG product offerings (please refer to the table in Section 3.2.3).

### 3.2.2 Own operations targets

Regarding its own operations, Mediobanca has identified – also in light of the principles stated into the Group Sustainability Policy<sup>22</sup> - the following priorities and set the following specific targets in its 2019-23 strategic plan:

- ◆ **reduction of direct environmental impact:** energy savings, increase in electricity sourced from renewable sources, CO<sub>2</sub> emissions to be cut, and promotion of sustainable mobility through increasing the presence of hybrid vehicles as part of the company fleet;
- ◆ **supporting energy transition:** increase in “green” mortgages and issue of new environmentally friendly products;
- ◆ **reduction of indirect environmental impact:** environmental criteria to be integrated into the assessment processes for reappraisal of purchase processes, and selection of suppliers based on ESG criteria;
- ◆ **responsible management of natural resource consumption:** reduced consumption, use of recycled and/or FSC certified paper, and gradual elimination of all plastic.

### 3.2.3 Strategic Plan Targets and SDGs

The table below provides additional details on how such objectives have been translated in measurable objectives reflected into the 2019-23 strategic plan, as well as the targets achieved as of end-June 2022.

22. Please refer to section 5 – Climate change and the environment of the Group Sustainability Policy [https://www.mediobanca.com/static/upload/csr/csr-001-17\\_group-sustainability-policy.pdf](https://www.mediobanca.com/static/upload/csr/csr-001-17_group-sustainability-policy.pdf).

## CLIMATE AND ENVIRONMENTAL OBJECTIVES IN 2019-23 STRATEGIC PLAN

SDG	AREA	OBJECTIVES TO 2023	RISK  / OPPORTUNITY 	30/06/2022
	Responsible investing	AM: 100% of new investments screened using ESG as well as financial criteria		<b>99.3%</b>
		40% of total affluent <sup>23</sup> clients' portfolios now invested in qualified ESG funds (SFDR Article 8/9) <sup>24</sup>		<b>61%</b>
	Support to local community	€4 millions per year in projects with positive social/environmental impact	 	Approx. <b>€7.3millions</b> in FY 2021-22
		MB Social Impact Fund: AUM increase ≥ 20%		AUM <b>up 33%</b> versus 30/6/19
	Sustainable procurement	40% of procurement expenses screened using ESG criteria	 	<b>58%</b> of procurement expenses screened using ESG criteria <sup>25</sup>
	Reducing direct impact on environment	94% <sup>26</sup> energy from renewable sources		<b>94%</b> energy from renewable sources
		11% <sup>27</sup> reduction in CO <sub>2</sub> emissions vs FY18/19		CO <sub>2</sub> emissions <b>-17%</b> vs FY18/19
		Hybrid cars at 72% of the Mediobanca Group's float in Italy <sup>28</sup>		<b>41%</b> of hybrid cars
	Supporting transition to clean energy	Green bond issued: €500 millions		<b>€500 millions</b> Green bond issued
		RAM: carbon neutral fund to be issued		<b>RAM Stable Climate Global Equities carbon neutral fund</b> issued
		CheBanca! green mortgages up 50%		CheBanca! green mortgages <b>+109%</b> on 30/06/22 vs. 30/06/21 (and 30/06/21 data <b>more than five times</b> 30/06/20 data)

### 3.3 Climate Risk & Opportunities

#### 3.3.1 Climate Risks

Climate Risks are commonly classified into Physical and Transition Risk.

**“Physical risk** refers to the financial impact of a changing climate”<sup>29</sup>, in the form of both Acute and Chronic drivers.

**Acute Physical risk** arises from changes in climate extremes as more frequent and/or intense extreme weather events (cyclones, storms, floods, droughts, etc.).

**Chronic Physical risk** refers instead to changes in average climate variables or consequential changes in average environmental variables: this sub-category comprises, amongst others,

23. Affluent segment: deposits between €50,000 and €500,000.

24. Target revised upwards from the original (30% of client portfolios to consist of ESG products) which was comfortably achieved, even following the introduction of the SFDR obligations.

25. Suppliers that have completed the CSR section of the form contained in the Group's List of Suppliers. This involves merely recording information which does not affect the choice of supplier when decisions are made regarding them.

26. Target adjusted from the original (92%).

27. For Scope 1 + Scope 2 Market-based, named users. Target adjusted from the original (15%) due to delays in the delivery of hybrid cars and the extension of fuel cards to the entire commercial and pool segments.

28. Target adjusted from original 90% because of delays in delivery of electric/hybrid cars due to pandemic and war.

29. Guide on climate-related and environmental risks, ECB, November 2020.

increasing mean temperatures, change in precipitation patterns, sea level rise, ecosystem degradation, biodiversity loss, water stress and resource scarcity.

These hazards can manifest themselves as both direct damages to property and/or business interruption, and indirect damages through supply chain disruption or macro-economic perturbations.

“**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”<sup>30</sup>. In other words, it is the risk arising from the socio-economic response to changing climate.

The European Commission<sup>31</sup> classifies Climate Transition Risk in five sub-categories:

- ◆ **Policy risks**, stemming from regulatory initiatives regarding e.g. carbon-pricing mechanisms, emission limits, reporting obligations;
- ◆ **Legal risks**, risk of litigation arising as a consequence of failure to comply with the current and emerging regulations, both regarding mitigation and adaptation;
- ◆ **Technology risks**, for example related to the competition in implementing low-carbon technologies or to the rapid obsolescence of high-emitting technologies;
- ◆ **Market risks**, referring to shifts in consumers’ preferences towards more sustainable alternatives;
- ◆ **Reputational risks**, related to, for instance, difficulties in attracting investors, employees, costumers, business partners, etc. when the entity has associated a negative climate-related reputation.

As Physical risks, also Transition risks can produce both direct, through for example lower profitability or asset stranding, or indirect impacts, through macro-financial changes.

Mediobanca believes Physical and Transition risks are key drivers of several banking risk categories and sub-categories. Hereafter climate risk impacts as per the traditional banking risks and the timeframes over which the Group expects their impact to materialise are represented.

### 3.3.2 Short, medium & long term

Climate-related time horizons have been defined through a strategy-driven joining of climate-related activities requirements, encompassing diverse streams, from risk management to portfolio alignment strategy.

	PERIOD [YEARS]	REASONS BEHIND THE DEFINITION
<b>Short term (ST)</b>	0-1	Short term horizons and targets are up to one year. The timeframe allignes with budget planning exercise.
<b>Medium term (MT)</b>	1-5	The medium term timeframe, from one to five years, allignes with the Strategic and Financial planning timeframe.
<b>Long term (LT)</b>	5-30	Long-term horizons stem from the timeframes required in the context of scenario analysis, both from a stress testing and from a portfolio alignment perspective. In particular, the choice of 30 years follows the timeframe specified by the Net-Zero Banking Alliance for the long term alignment targets: 2050.

30. Guide on climate-related and environmental risks, ECB, November 2020.

31. Guidelines on reporting climate-related information, European Commission, 2019

### 3.3.3 Climate risks for Mediobanca and risk impacts

BANKING RISK	IMPACT FROM PHYSICAL RISK	TIME HORIZON	IMPACT FROM TRANSITION RISK	TIME HORIZON
<b>Credit risk</b>	<p>Credit risk Natural disasters such as droughts, floods or storms increase in frequency under different climate scenarios, causing significant economic damage. Counterparties ability to pay would be affected, particularly of those operating in sectors highly dependent on natural resources or operating in particularly vulnerable locations.</p> <p>Potential depreciations of asset values and counterparties' real estate collaterals could be experienced.</p>	ST-MT-LT	<p>Counterparties ability to pay and asset values could be affected by changes in regulation and by the implementation of policies aimed at reducing GHG emissions. For example, stricter norms on carbon emissions or higher carbon pricing could potentially decrease profits for operators in the Oil and Gas industry.</p> <p>The development of market preferences towards more sustainable sectors could generate an impact on the profitability of counterparties not belonging to these sectors.</p>	MT-LT
<b>Market risk</b>	<p>Extreme events and long term climate trends as desertification and sea rising levels, could trigger instabilities, affecting supply chains and commodities prices, inducing volatility of market variables.</p> <p>For exemple, the occurrence of an adverse weather event could affect the stock price of the damaged firms.</p>	ST-MT-LT	<p>Expectations on new regulatory frameworks, stronger carbon policies or green technology breakthroughs could affect the volatility of market variables such interest rates, commodity prices or credit spreads.</p> <p>Regarding sectors highly at risk of assets stranding, abrupt repricing of securities and derivatives may occur.</p>	MT-LT
<b>Liquidity risk</b>	<p>Potential damages caused by extreme events could result in a reduction in the value of the Bank's assets and increased demand for funds by customers for damage repair. The bank could therefore experience adverse effects on cash flows, with an impact on the bank's ability to meet its financial obligations.</p>	ST-MT-LT	<p>The evolution of consumer preferences generates a negative impact on deposits determining a higher cost of funding for the Group.</p> <p>The enforcement of new regulatory frameworks and stringent carbon policies could affect the value of securities, resulting in additional collateral requirements and increased costs for carbon-intensive companies causing an increase in drawdowns on committed credit/ liquidity facilities.</p>	MT
<b>Operational risk</b>	<p>Severe weather events could impact business continuity capabilities of the bank and of its outsourcers. Employees wellbeing and their capability of working and accessing premises could be affected.</p>	ST-MT-LT	<p>The Group does not expect a material impact</p>	
<b>Compliance and legal risk</b>	<p>The Group does not expect a material impact</p>		<p>New climate regulations and measures as the EU Taxonomy or the SFDR, could increase the risks of litigation and non compliance, affecting the Group reputation or profitability through financial penalty.</p>	MT-LT
<b>Model risk</b>	<p>Wrong assumptions, insufficient data or erroneous interpretation of uncertainties correlated with results on natural hazards risk maps, provided by models, could affect decisioning processes.</p>	ST-MT-LT	<p>Wrong estimations on transition risks could lead to profitability losses.</p>	MT-LT

BANKING RISK	IMPACT FROM PHYSICAL RISK	TIME HORIZON	IMPACT FROM TRANSITION RISK	TIME HORIZON
<b>Reputational risk</b>	The Group does not expect a material impact		<p>KPIs such as the EBA's Green Asset Ratio could be impacted negatively by perduring or increasing financing for high-emitter borrowers. NGO, media and investors could react adversely would not be taken actions to reduce climate risks and align with decarbonization pathways. Inadequate transition management could lead to worse ESG rating or exclusion from sustainability indexes.</p> <p>The financing of counterparties for projects that do not respect environmental sustainability requirements may cause damages to the Group reputation.</p> <p>The Group could also suffer the media amplifying effect of conduct issues arising in delivering investment services and managing investment products.</p>	MT-LT
<b>Conduct risk</b>	The Group does not expect a material impact		An inappropriate supply of financial services could result in liability claims or fines imposed by the competent Authorities for "greenwashing" events. This could include the non-compliance with sustainability standards deriving, for example, from the selling / managing of financial products and services to customers.	MT-LT

### 3.3.4 Climate opportunities

Along with risks and challenges, nonetheless decarbonisation brings forward significant opportunities, offering a competitive advantage to those which readily undertake the transition path, standing out as leaders. Mediobanca is determined to pursue those opportunities, as demonstrated by the bank's bold commitments towards decarbonisation: amongst others, the signing of the Net-Zero Banking Alliance.

SECTOR ASSET	OPPORTUNITIES	SOURCE
<b>Mortgages</b>	Thermal inefficiencies in the building sector cause high expenses in heating and cooling. The EU Commission through its Green Deal aims at doubling annual energy renovation rate in the next decade, to 2% a year. Advisory service could thus be offered to explore retrofiting opportunities, and green mortgages enhanced.	IEA 2021, IPCC 2021, EU Commission 2021
<b>Energy</b>	Over the next 10 years alternative energy market's size is expected to increase at least tenfold (OECD). LCOEs <sup>32</sup> of Renewables show steady decreases and are now equal or lower to those of traditional carbon sources. EVs <sup>33</sup> charge infrastructures and hydrogen technologies are scaling up rapidly. Hence there exists many new opportunities for financing and advisory in the sector.	OECD 2021, IEA 2021, IPCC 2021

32. Levelized Costs of Electricity.  
33. Electric Vehicles.

SECTOR ASSET	OPPORTUNITIES	SOURCE
<b>Automotive</b>	As of 2021, 13 countries already announced plans to phase out sales of ICE <sup>34</sup> vehicles and about 500 different EV models are available globally. The automotive sector is thus already transitioning to low-carbon business models and major automakers have seen in the last two years their stocks increasing since announcing plans for EV production. Opportunities for financing and advisory are thus great, due also to the substantial lack of stranded assets for the sector and switching costs that appears manageable.	OECD 2021
<b>Voluntary Carbon Markets</b>	Carbon pricing is expected to rise in the next years/decades along with the size and political acceptance of carbon trading schemes. Advisory services could be provided on how to access carbon markets, offering green products and enhancing the adoption of offsetting solutions.	
<b>Cross sector</b>	Since the EIB 2007 Climate Awareness Bond, a market for green bonds has emerged and grown by an average of 50% per year in the period 2015-2020. The green bond market annual issuance is forecasted to reach US\$1 trillion by 2023. In relative terms, however, today it represents still only 3% to 3.5% of overall bond issuance: growth opportunities and improvements in the quality of the bonds exists and are needed to achieve the targets in the Paris Agreement.	EU Parliament 2022, The World Bank, 2016

### 3.4 Strategy Resilience: Scenario analysis for Stress Testing and Portfolio Alignment

In order to incorporate climate risks and opportunities outlined above into the Group's strategic positioning and to delineate the bank approach to the decarbonisation paradigm, scenario analysis exercises have been and are being implemented. Since scenarios describe plausible future projections under different assumptions, they allow to analyse bank's approach with a forward-looking perspective.

As per the TCFD Guidance, "scenario analysis helps in making strategic and risk management decisions under complex and uncertain future conditions such as climate change".

It "contributes to greater strategy resilience and flexibility by:

- ◇ testing a strategy and strategy options against a set of scenarios;
- ◇ identifying possible future threats or opportunities;
- ◇ identifying trigger points to set contingency plans in motion; and
- ◇ serving as a basis for continuous monitoring and strategy adjustment."<sup>35</sup>

Climate scenarios can be classified into exploratory and normative pathways:

- ◇ exploratory scenarios allow to perform a what-if risk analysis: they outline possible future developments, given a series of assumptions come true. They answer to questions as: "what could happen if the required mitigation actions are not implemented?" This is the scenario analysis approach undertaken in the managerial climate stress testing exercise described below.
- ◇ normative scenarios, instead, specify the necessary sectorial pathways to reach a certain goal. For instance, they answer to the question: "what actions should be undertaken over time, in order to reach Net Zero CO<sub>2</sub> emissions by 2050?" These scenarios are used as a basis for the bank's portfolio alignment and portfolio target setting exercise, as presented below.

34. Internal Combustion Engines.

35. "Task Force on Climate-related Financial Disclosures, Guidance on Scenario Analysis for Non-Financial Companies", October 2020.

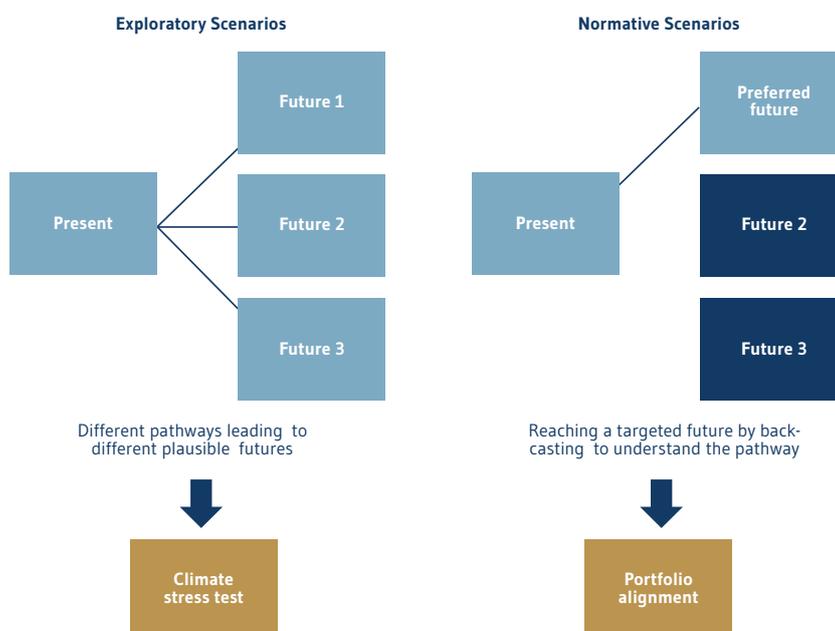


Figure 1. Adapted from "Task Force on Climate-related Financial Disclosures, Guidance on Scenario Analysis for Non-Financial Companies", October 2020

### 3.4.1 Managerial stress testing

Mediobanca has begun an extensive activity devoted to the analysis of prospective climate risks, according to the short, medium and long term timeframes definition, by the integration of ad hoc scenario analyses within its wider Internal Capital Adequacy Assessment Process. The aims of the analysis are the ones indicated by the European Central Bank<sup>36</sup>: i.e. understand

- ◇ "how the institution might be affected by physical risk and transition risk;
- ◇ how climate-related and environmental risks might evolve under various scenarios, taking into account that these risks may not be fully reflected in historical data;
- ◇ how climate-related and environmental risks might materialise in the short, medium and long term depending on the scenarios considered."

In general, Mediobanca managerial stress tests consider all relevant types of risks (and risk factors) to which the Group is and/or may be exposed. Specifically, the scope of managerial stress tests varies from several typologies (scenario/ sensitivity analysis, reverse stress test) and covers both the portfolio/ individual risks level (e.g., market risk, operational risks) as well as the comprehensive institution-wide stress tests (e.g., ICAAP, ILAAP, Recovery Plan).

Among others, the scenario analyses performed for ICAAP aim at assessing the impacts on the capital profile resulting from variations of a set of economic-financial variables under assumptions of adverse scenarios. They are used to support key risk governance and strategic planning processes.

In order to assess the Group capital adequacy also considering climate-related risks, Mediobanca has decided to integrate the ICAAP bottom-up stress test performed at the Group level with a climate-related scenario analysis. In particular, the inclusion of a climate-environmental scenario allows the Group to assess the impact generated through the relevant transmission channels (i.e., credit risk, market risk, operational risk) of climate transition and physical (acute and chronic) risks on the Group's capital indicators.

36. "ECB Guide on climate-related and environmental risks", 2020.

The climate-related severe but plausible adverse scenario<sup>37</sup> considers potential vulnerabilities related to extreme weather events (physical risk) and other sources of “disorderly” transition risk (e.g., particularly severe climate regulatory enactments, technological innovation, market volatility) that could materialize over the forecast time horizon.

The exercise is designed to include both transition and physical risks into the following transmission channels: Credit & Counterparty risks (focused on Corporate, Retail Household and Retail SME counterparties), Operational and Conduct risks and Market risk (focused on Corporate bonds and equity).

The details of the methodologies expected for each transmission channel are represented in the following paragraphs.

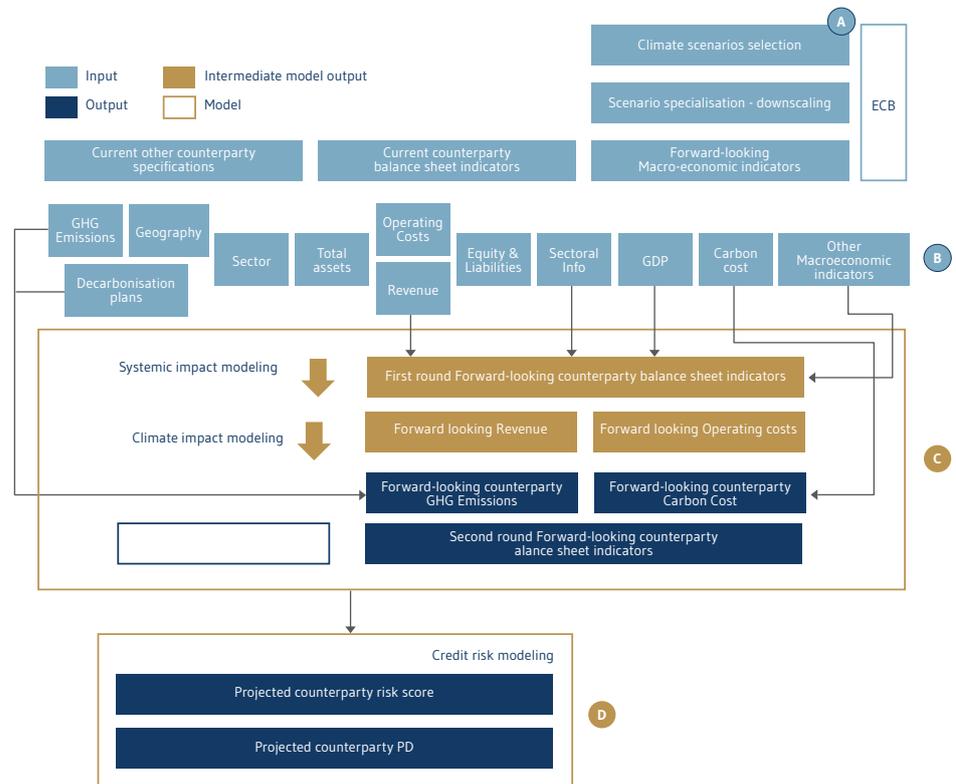
### 3.4.2 Stress testing methodologies: Credit Risk

Here we represent an overview of the Credit risk methodology, which is currently being defined in detail and which will be included in the forthcoming stress testing exercise. The exercise will be conducted during the first part of the 2022-23 financial year.

The methodology follows the indications of the European Central Bank, as outlined in “ECB economy-wide climate stress test - Methodology and results” (September 2021, Occasional Paper ECB), in “Macro-financial scenarios for the 2022 SSM Climate Risk Stress Test” (2022) and “The low-carbon transition, climate commitments and firm credit risk (Working Paper Series, No 2631, December 2021)”.

#### 3.4.2.1 Transition Risk

The following figure summarizes the methodology for **Climate Transition Credit risk**:



37. Set of macroeconomic and market risk factors that are influenced by various exogenous events including regulatory changes in specific areas and/or adverse climate events and new investor/consumer preferences toward specific markets/sectors less exposed to climate-environmental risk factors, respectively.

### A) Climate scenarios selection

The first step of the stress test methodology is **Climate scenarios selection**. The Transition Risk scenarios will take as a reference the ECB Macro-financial scenarios, developed for the 2022 SSM Climate Risk Stress Test, and the NGFS (Network for Greening the Financial System) Phase II scenarios, summarised in the figure below.

The Group is evaluating whether to internally produce rather than outsource ad-hoc scenarios.

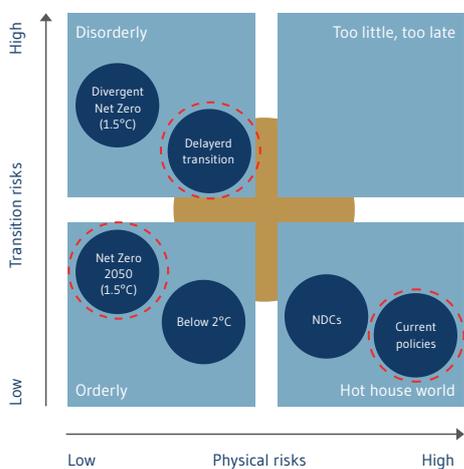


Figure 2 Overview of the NGFS scenarios. Scenarios are indicated with bubbles and positioned according to their transition and physical risks. Source: NGFS, June 2021

The ECB scenarios themselves are based on three out of the six NGFS scenarios displayed in the figure (i.e. the dotted scenarios). Here, for simplicity, is provided an overview of the three ECB scenarios:

- ◆ The **orderly scenario** is based on the NGFS Net Zero 2050 scenario. This scenario assumes that climate policies are introduced early and become gradually more stringent. Net CO<sub>2</sub> emissions reach zero around 2050, giving at least a 50 % chance of limiting global warming to below 1.5 °C by the end of the century, with no or low overshoot.

In this scenario, both physical and transition risks are the lowest in the ECB scenarios set: the smoothness of the energy transition reduces its cost; the limitation of global warming to 1.5°C mitigates physical risk.<sup>38</sup>



- ◆ The **disorderly scenario** is based on the NGFS' Delayed Transition scenario. It assumes that new climate policies are not introduced until 2030. Therefore, global annual emissions exceed the carbon budget temporarily, declining more rapidly after 2030 to ensure a 67% chance of limiting global warming to below 2 °C. After 2030, strong policies are needed to limit warming to below 2 °C and, in order to compensate for the lost time, carbon prices must be set typically higher to achieve a Paris-aligned outcome. The availability of carbon removal technologies (CDR) is assumed to be low, pushing carbon prices even higher.

As a consequence of delayed policy implementation, the scenario explores higher transition

risk compared to the orderly transition one. The same holds for physical risks because of the resulting higher global average temperature increase.



- ◇ The **hot house world** scenario is based on the NGFS' Current Policies scenario. It assumes that no new climate policies are implemented: European emissions gradually decline, but global emissions grow until 2080 leading to about 3 °C of warming.

The untapped global warming leads to severe physical risks and consequent extreme costs. In the hot house world scenario, transition risks are negligible since the green transition is assumed to never take place. However, the absence of transition costs is more than offset by the adverse economic impact of extreme physical risk.<sup>39</sup>



## B) Inputs

Key inputs to the analysis are:

- ◇ according to the chosen scenario, the **macro-economic climate modelling results** provided by ECB, as for example GDP, Carbon cost, unemployment rate,
- ◇ **counterparties' financials** (e.g. total assets, costs, revenue, turnover, etc.),
- ◇ **counterparties' general attributes** (e.g. location and sector),
- ◇ and **counterparties' climate information** (GHG emissions and decarbonisation plans also in the form of alignment metrics).

## C) Systemic and Climate impact modelling

The computational model is based on two consecutive streams:

- ◇ **First projection:** a first projection of balance sheet indicators is obtained integrating the systemic macro-economic projections from ECB scenarios;
- ◇ **Second projection:** starting from the previous projection, a more climate-specific impact is included in new projections of balance sheet indicators.

In a nutshell, the exercise incorporates a new cost item, a "**Carbon cost**", making use of:

- ◇ projected counterparties' GHG emissions

◇ and projected CO<sub>2</sub> cost from ECB scenarios.

Indeed, ECB provides CO<sub>2</sub> cost projections declined by year, geographic region and reference scenario. Counterparties' GHG emissions projections are instead obtained taking into account both ECB predictions and the company's current emissions and plans to reduce them (i.e., net zero targets). Each counterparty's Carbon cost is factored into projected counterparty's balance sheet indicators (as schematised in the following figure).



#### D) Credit risk modelling

Prospective company financial statements, computed as in the previous paragraph, are used to calculate a prospective new score and rating class, obtained by leveraging the internal rating model used for AIRB purposes. The new score and rating class consider both the macro-economic shocks and the Carbon cost component, according to the chosen scenario.

#### 3.4.2.2 Physical Risk

Regarding instead **Climate physical Credit risk**, the methodology is differentiated for real estate or corporate counterparties:

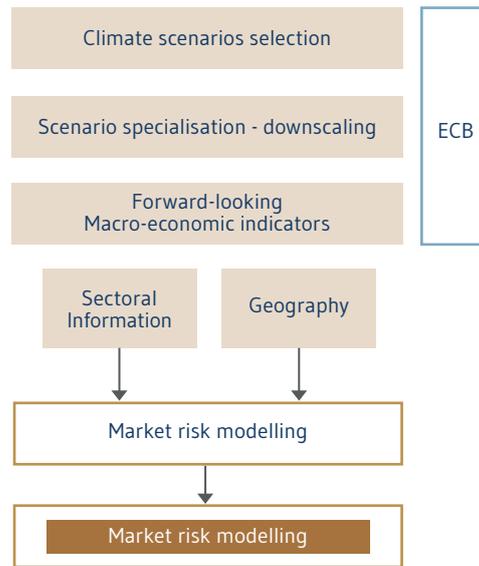
- ◇ Regarding **real estate**, commercial and residential real estate price shocks will be assessed for the Group portfolio in a severe flood scenario, as outlined in ECB macro-financial 2022 scenarios ("Macro-financial scenarios for the 2022 SSM Climate Risk Stress Test", 2022). The assessment will be based on assets location and location-based flood risk maps derived from ECB or governmental agencies analyses (e.g. ISPRA for Italy). The impact evaluation procedure will also consider Energy Performance Certificates, modulating the assets vulnerability according to this parameter. Real estate price shocks will impact on Loss Given Default evaluation of secured positions.
- ◇ Regarding **corporate counterparties**, the physical risk forward-looking assessment will take-off from the ECB analyses of labour productivity shocks and consequent GDP shocks in a severe heatwave and drought scenario. Labour productivity impacts will be connected to counterparties' balance sheet indicators, then to Probability of Default evaluation, as displayed also in the above transition risk section.

#### 3.4.3 Stress testing methodologies: Market Risk

Market risk modelling starts from similar inputs compared to Credit risk modelling; however, it is based on a narrower set of factors. It comprises only short-term transition risk and it also only includes the assumption of a static balance sheet as to avoid portfolio-rebalancing towards activities less impacted by climate risk.

Currently, Mediobanca includes in the analysis all equity and bond instruments, accounted for at Fair Value Through Profit and Loss, Held for Trading and derivatives positions on these instruments, provided the instruments are directly held in the bank's portfolio. Some exceptions might apply in line with regulatory exemptions and/or the bank's own requirements.

In light of the scenarios mentioned before, Market Risk climate stress testing leverages the disorderly scenario to shock positions subject to market risk climate stress. The scenario plays out in a relatively limited timeframe, equal to one year, and requires the front-loading of all the shocks.



Climate shocks are articulated primarily along the following risk categories:

- ◇ Equity Risk
- ◇ Credit spread Risk
- ◇ Inflation Risk
- ◇ Interest Rate Risk
  - ◇ Short-term interest Rate
  - ◇ Long-term interest Rate
- ◇ Commodity Risk
  - ◇ Oil
  - ◇ Gas
  - ◇ Coal
- ◇ Foreign Exchange Risk

For the first two risk categories, equity and credit spread, shocks vary in magnitude based on the primary economic activity of the issuer. The economic activity is expressed by the NACE sector code of the issuer. Of the total number of NACE sectors, 22 of them are considered to be meaningfully affected by climate stress, other sectors instead do not have any shocks associated.

For the remaining risk categories, shocks are instead based on either:

- ◇ Geography (Interest Rate, Inflation): here the shocks are allocated depending on the country of incorporation of the issuers, with some countries being more affected than other due to different climate stress impacts.

- ◇ Currency exchange (Exchange Rate): here the shock varies depending on the exchange rate between two selected currencies.

The Fair Value is then fully revaluated in order to measure the impact of the climate stressed scenario as usually done for non-climate stress testing exercises.

#### 3.4.4 Stress testing methodologies: Operational Risk

The Operational Risk Management Function (also, ORM Function) of Mediobanca S.p.A. already contributes to the execution of the Group's stress testing program aimed at identifying the operational risk impact on its capital adequacy position and profile.

In order to capture the climate-related operational risk exposure, the ORM Function is going to apply the current risk analysis and assessment approaches provided by the overall operational risk management framework (Scenario Analysis) for identifying and quantifying physical and transition risks considered as applicable at Group level, according to a managerial perspective. More specifically, the abovementioned approach consists of an "expert opinion" modelling framework for the analysis of emerging risks where future losses could strongly deviate from historical evidence.

The perimeter of risks to analyze should cover both physical and transition risks.

**Analysis of physical risks (acute):** losses due to extreme weather events (es. flood, landslide, wildfire, storms, heatwaves) that might:

- ◇ damage physical assets owned by the Bank leading to losses related, among the others, to restoration costs and disputes promoted by customers for business interruptions;
- ◇ damage crucial IT infrastructure or systems owned by the Bank or its third parties leading to losses for the impossibility to provide services to customers.

**Analysis of transition risks (conduct):** liability claims, or fines imposed by the competent Authorities for "greenwashing" events, such as the non-compliance with sustainability standards resulting, for example, from the selling / managing of financial products to customers.

The approach for the analysis of climate-related operational risks relies on the following steps:

- definition of a storyline in terms of "chain of events", aimed at identifying events arising as a result of the materialization of physical or transition risk;
- identification of Group's functions (so-called "Risk Owner") involved in the previously defined storyline;
- assessment with competent Risk Owners aimed at quantifying the potential risk exposure, supported by the use of external datasets produced by highly specialized external institutions (e.g. Thinkg Hazard, ISPRA), when appropriate, as well as internal information already treated and managed at Group level (es. business continuity data).

The quantified potential risk exposure will contribute to measure the operational risk impact on the "Profit and Loss" account under the adverse scenario foreseen by the internal capital adequacy assessment process.

### 3.4.5 Portfolio Alignment and Portfolio targets

Scenario analysis was also performed with the objective of evaluating the Group's financing activities performance with respect to global climate mitigation goals.

This exercise was also intended to set climate portfolio targets consistent with the 1.5°C climate ambition, as requested by the Net-Zero Banking Alliance and in line with the Group's strategies and policies.

#### 3.4.5.1 Product Scoping

The analyses were conducted on the lending **portfolio of Mediobanca S.p.A. and Mediobanca International (Luxembourg) SA as of 31st of December 2021**<sup>40</sup> (comprehensive of both Corporate and FIG counterparties), which presents an outstanding exposure amount of approximately 18 € billions. The two legal entities have been selected since together they make up more than 90% of the total Group's Corporate and FIG lending exposure.

Portfolio Alignment and Target Setting activities were performed considering **outstanding lending exposure**, in order to enhance comparability with similar-purpose exercises as Financed Emissions computation. Indeed, the emission computation standard requires the use of outstanding exposure, see paragraph 5.1.2.

The ESG Heatmap exercise has instead been conducted on committed exposure, which the Group believes to provide a more accurate reflection of the maximum ESG-risk it is exposed to. Please note that figures provided below are therefore not comparable with ESG Heatmap (see paragraph 4.2.1) analyses.

#### 3.4.5.2 Sectoral Scoping

Subsequently, the scope of analysis was reduced in terms of volume as it was adjusted to consider only certain economic sectors, following the **NZBA requirement** to set, within three years from the commitment, portfolio targets on: agriculture, aluminum, cement, coal, commercial and residential real estate, iron and steel, oil and gas, power generation and transport.

To perform the analyses, Mediobanca selected the Paris Agreement Capital Transition Assessment (PACTA) tool developed by the 2 Degrees Investing Initiative ('2DII'), complemented with Asset Resolution's – an external data provider which cooperates with 2DII – data.

PACTA is an internationally recognized methodology which allows financial institutions to measure the alignment of their portfolio against a set of climate scenarios, which imply several levels of ambition measured in relation to the increase in global average temperature. PACTA's main objective is to promote the alignment of financial markets and the real economy with a Paris Agreement compatible world.

PACTA methodology itself only focuses on specific sectors, those considered to be the most CO<sub>2</sub>-intensive. In particular, as of today: oil and gas, coal, power, automotive, cement, aviation and steel, a subset of the sectors requested by the NZBA.

Among all the sectors listed before, defined as "carbon-intensive" by the NZBA, **Mediobanca presents no lending exposure in coal, air transport and agriculture and very low one in steel, shipping and cement.**

40. The reference date has been chosen in line with NZBA requirements, so as to allow a sound completion of the pilot exercise.

According to the outlined Mediobanca's portfolio characteristics and to the availability of methodologies, **the pilot portfolio alignment exercise was conducted on power, automotive and oil&gas sectors. Targets were set on power and automotive sectors.**<sup>41</sup>

In each sector, PACTA tool, Asset Resolution's data and our analyses focus on counterparties belonging to specific segments of the value chain, segments deemed as responsible for the greatest impact on the climate system, and on which the decarbonization effort must be concentrated to push the entire sector into alignment.

The analyses have been performed on counterparties operating in the value chain segments highlighted below.

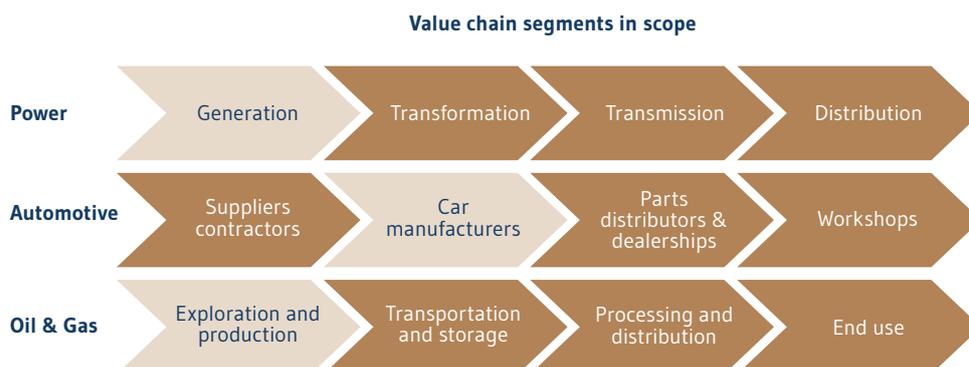


Figure 3. Value chain segments examined by PACTA (in light-brown)

### 3.4.5.3 Metrics & Methods

#### ◆ Portfolio Alignment

In line with PACTA methodology and as far as Portfolio Alignment is concerned, the analyses focused on technology and production-based metrics, providing a straightforward way of monitoring counterparties' progress against climate targets. Indeed, these metrics facilitate dialogue with costumers and assist as internal levers in improving emission intensity target metrics (see below).

For the automotive and power sector, Mediobanca calculated the Technology Mix (current and prospective) of the counterparties in its portfolio. Such metric represents the weight (in percentage terms) of the different types of output/generation technologies (e.g. ICE, BEV or renewables, nuclear, gas) used by the counterparties.

For the oil&gas sector, the analysis efforts focused on the estimation of the prospective production trend (in terms of growth or decrease in production volumes) within this sector and for a given production technology.

The analyses were performed using PACTA tool and methodologies, which require a corporate lending portfolio to align at the same rate of change as prescribed by the climate scenario<sup>42</sup>.

The difference between the portfolio projected performance and the aligned pathway set under PACTA methodology can be used as approximation of the portfolio current degree of alignment with the climate scenario.

41. The sectors are defined according to a managerial internal codes classification.

In order to better represent the economic activity carried out by each counterparty, Mediobanca has adopted an internal classification aligned with the one used for managerial purposes. It should be noted, indeed, that NACE codes used for regulatory purposes ensure lower adherence to the effective counterparties' nature of activity and to exercise's objective than the internal classification; moreover, they lead to a misalignment with respect to the Group's managerial framework.

42. "PACTA for Banks Methodology Document, Climate scenario analysis for corporate lending portfolios", 2DII, September 2020.

◇ **Net Zero Targets**

In order to enhance comparability between disclosures, the NZBA requires setting portfolio targets in terms of absolute GHG emissions or sector-specific emission intensity, although it allows to support the targets with technology-based approaches, as per Asset Resolution’s data.

Therefore, the targets metrics are:

- ◇ Power sector: tonnes of CO<sub>2</sub> eq. per 1 MWh produced by the counterparty. The considered GHG emissions correspond to counterparties’ Scope 1 emissions related to power generation activities.
- ◇ Automotive sector: average grams of CO<sub>2</sub><sup>43</sup> per kilometer traveled by the produced vehicle, according to WLTP standard test procedure. For the counterparties in scope, the considered emissions are part of GHG Protocol Scope 3 Category 11, Use of Sold Products.

The portfolio average baseline and target metric is computed starting from physical activity information with an asset-level granularity, provided by Asset Resolution.

Regarding oil & gas, given the standing and centrality of the sector in the context of decarbonization, the Group has already started monitoring portfolio alignment. However, a target has not been set yet, in line with NZBA timing requirements. In light of the multifaceted nature of the sector climate impact and of NZBA requirement to set the target on both direct and indirect (Scope 3) sector emissions, we will further investigate computation methods, with the aim of including a comprehensive scope of impact.

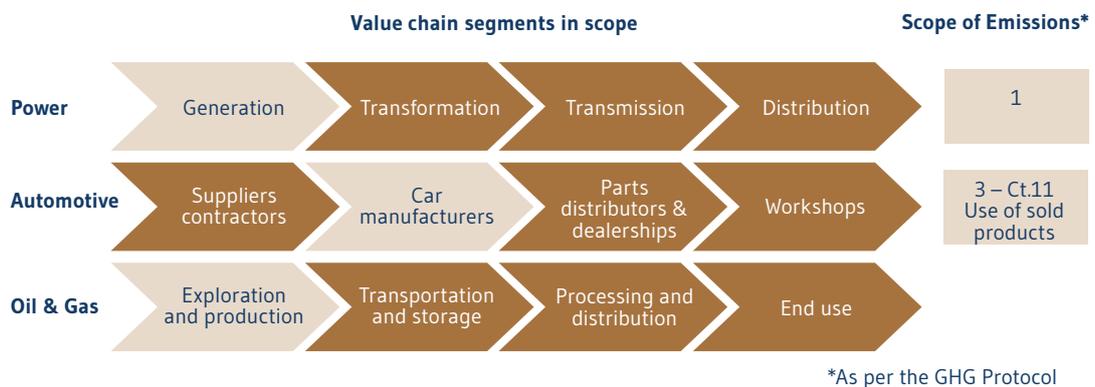


Figure 4. Value chain segments examined by PACTA (in light brown) and correspondent GHG Scope of counterparties operating in that value chain segment considered in targets

Targets were computed through PACTA tool, which implements – with limited adaptation to its modelling – the Sectoral Decarbonisation Approach (SDA).<sup>44</sup>

The SDA was developed by the Science Based Targets Initiative. It is used to set carbon-intensity reduction targets based on sectoral carbon budgets, implementing target converge to scenario sectorial intensity at the end date prescribed by the scenario.

**3.4.5.4 Scenario Selection**

For both Portfolio Alignment and Target Setting exercises, portfolio baseline and prospective performances have been compared with those required to be aligned to the **International Energy Agency’s Net Zero by 2050 scenario**.<sup>45</sup>

43. As of today, other GHGs are not covered in standard test procedures such as the Worldwide Harmonized Light Vehicles Test Procedure (WLTP) and, as such, emission data is not readily available. Their level of emissions and impacts are also far lower than carbon dioxide in the automotive sector. Source: Asset Resolution.  
 44. “PACTA for Banks Methodology Document, Climate scenario analysis for corporate lending portfolios”, 2DII, September 2020.  
 45. IEA WEO data from International Energy Agency (2021), Net Zero by 2050, IEA, Paris.

This scenario follows the NZBA criteria and responds to the increasing number of countries and companies that have committed to achieving net zero emissions by 2050. It is **aligned with limiting the rise in global temperatures to 1.5°C by the end of the century, with a 50% probability.**

As of now, only a global pathway is available in the Net Zero scenario: for this reason, the metrics represented refer to a global scope.

This scenario was chosen among other 1.5°C-aligned scenarios to enhance comparability of targets and disclosures, as **it is one of the most widely used scenarios in the banking sector.**<sup>46</sup>

### 3.4.5.5 Data Quality

**Asset Resolution derives company baseline** and prospective technology, production and emission metrics starting **from financial, production and technology data at an asset-level granularity.** In doing so, it depicts a figure of the actual orientation of counterparties' financial plans, providing a representation of counterparties' alignment with respect also to their own decarbonization objectives.

The Group recognizes that baseline and targets may vary in time as a consequence of NZBA requirements updates, scenario updates, widening of the scope of analysis or other drivers. Any of these happening, will be given disclosure of such changes and of the reasons behind, triggering, if needed, a baseline or target recalculation.

### 3.4.5.6 Power Sector

The Portfolio Alignment results and Net Zero targets presented are representative of around 50% of the total exposure volumes in this sector. It was not possible to conduct the analyses on the remaining portion of volumes due to lack of production and emission data of the related counterparties. It is worth to note that the majority of these counterparties do not belong to the value chain segment in scope (e.g. companies operating not in generation but in power network infrastructures, see also paragraph 4.2.1), justifying their exclusion and lack of data.

The portion of the power sector which has been analyzed corresponds to the 5% of the total outstanding exposure in the lending portfolio.

#### ◆ Portfolio Alignment

As it can be seen from Figure 5, Mediobanca portfolio overall performs better than the benchmark<sup>47</sup> both in year 2021 and 2026. The share of "green" production technologies is, in fact, higher in both cases.

Mediobanca portfolio appears not to be totally aligned with the requirements of the Net Zero scenario in the year 2026.

The production capacity in "hydro", "nuclear", "oil" and "coal" technologies is roughly in line with the share needed to meet the Paris Agreement targets, meaning that the main mismatch comes from the "renewables" and "gas" technologies. Therefore, **the Bank's counterparties should shift part of their productive capacity from "gas" to "renewables" technology to be considered fully in line with the scenario requirements.**

46. "Supervisory assessment of institutions' climate-related and environmental risks disclosures, ECB report on banks' progress towards transparent disclosure of their climate-related and environmental risk profiles", ECB, March 2022

47. Defined as comprising all the values for the sector contained in Asset Resolution dataset.

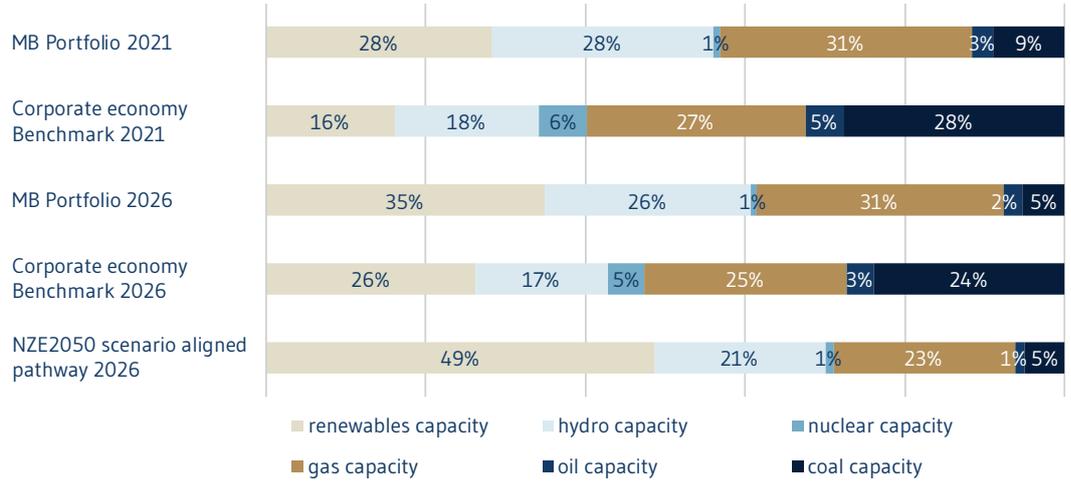


Figure 5. Technology Mix for the power sector, results presented at a global level

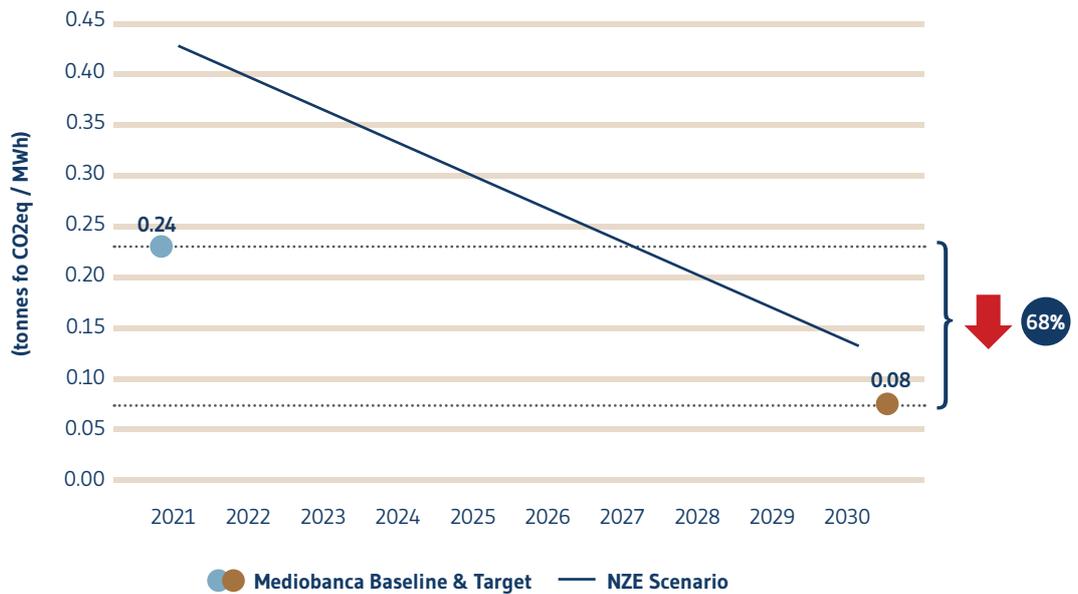
### Net Zero Targets

The graphs and table below depict the Net Zero Emission scenario, portfolio baseline and portfolio targets for 2030 and 2040, when the scenario expects power sector to completely decarbonize.

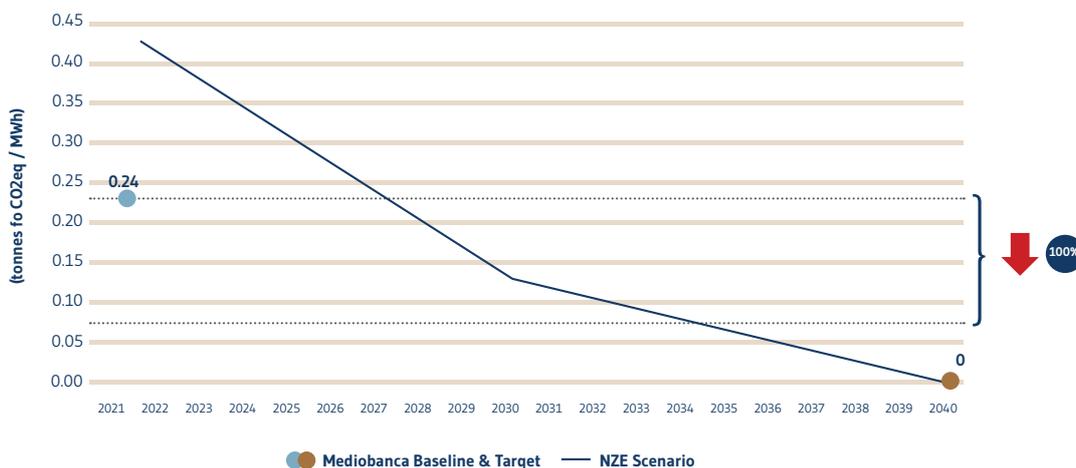
The represented scenario data are derived through a linear interpolation in time between the data points provided by the International Energy Agency.<sup>48</sup>

2030 portfolio target implies a 68% reduction in emission intensity with respect to the 2021 baseline; 2040 target a 100% reduction.

TARGET METRIC	BASELINE (2021)	INTERMEDIATE TARGET (2030)	% REDUCTION 2021-2030	NET ZERO TARGET (2040)	% REDUCTION 2021-2040
tCO <sub>2</sub> eq/MWh	0.24	0.08	68%	0	100%



48. World Energy Outlook 2021, IEA, December 2021, table 1.2



### 3.4.5.7 Automotive Sector

The Portfolio Alignment results and Net Zero targets presented are representative of 57% of the total exposure volumes in this sector. It was not possible to conduct the analyses on the remaining portion of volumes due to lack of production and emission data of the related counterparties. The majority of them belong to the suppliers of components value chain segment, thus justifying the exclusion and lack of data.

The portion of the automotive sector which has been analyzed corresponds to the 3% of the total outstanding exposure in the lending portfolio.

#### Portfolio Alignment

As it can be seen from Figure 6, Mediobanca portfolio performs better than the benchmark both in year 2021 and 2026 (the share of “green” production technologies is, in fact, higher in both cases), even though the results are still not perfectly aligned with the technology mix required by Net Zero scenario in the year 2026.

The production capacity in the “electric” technology is roughly in line with the share needed to meet the Paris Agreement targets, meaning that the mismatch comes mainly from the shares of “ICE” and “hybrid” technologies. Therefore, **the Bank’s counterparties should shift part of their productive capacity from “internal combustion engine” technology to “hybrid” technology** to be considered fully in line with the scenario requirements.

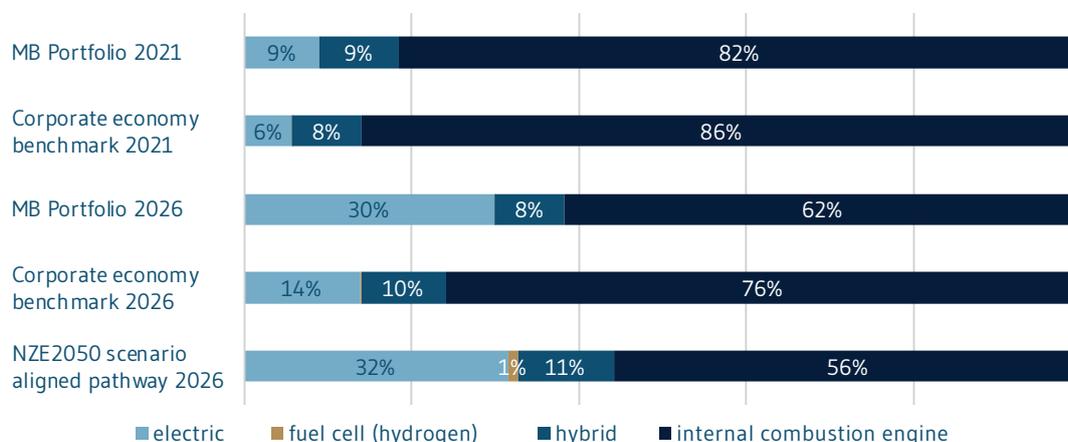


Figure 6. Technology Mix for the automotive sector, results presented at a global level

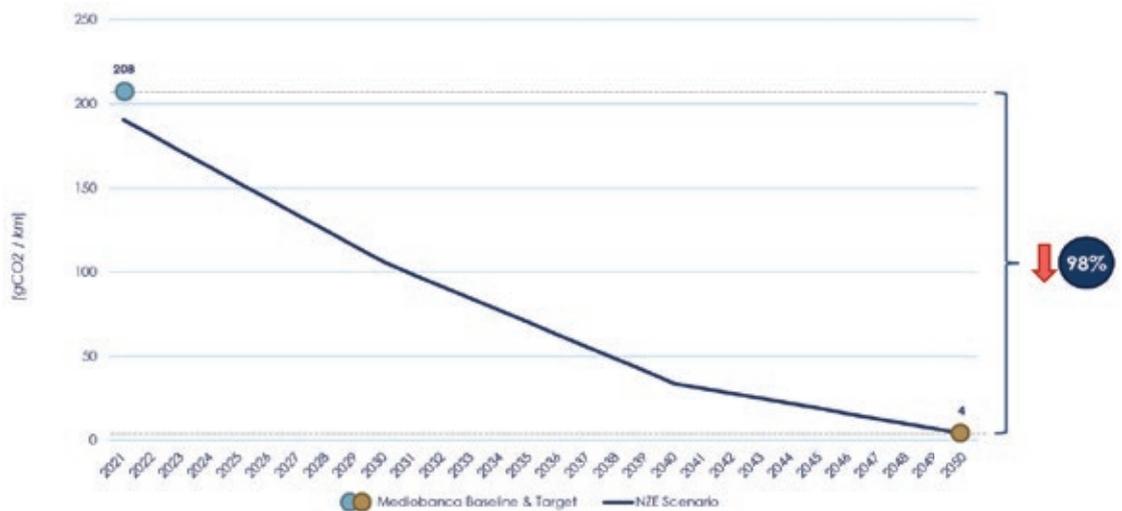
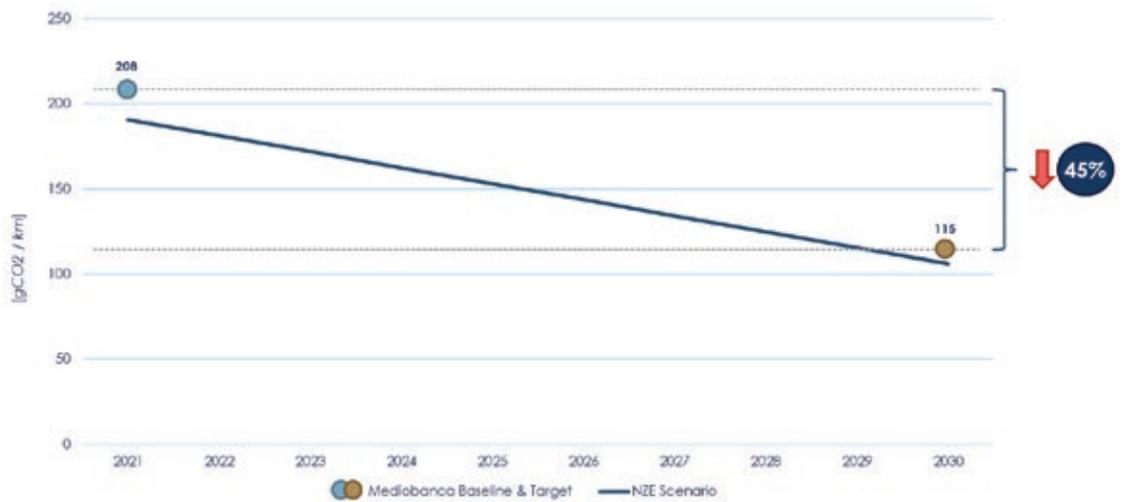
◇ **Net Zero Targets**

The graphs and table below show the Net Zero Emission scenario, portfolio baseline and portfolio targets for 2030 and 2050.

Represented scenario data are again derived through a linear interpolation in time between the data points provided by the International Energy Agency.<sup>49</sup>

2030 portfolio target implies a 45% reduction in emission intensity with respect to the 2021 baseline; 2050 target a 98% reduction.

TARGET METRIC	BASELINE (2021)	INTERMEDIATE TARGET (2030)	% REDUCTION 2021-2030	NET ZERO TARGET (2040)	% REDUCTION 2021-2040
gCO2/km	208	115	45%	4	98%



49. World Energy Outlook 2021, IEA, December 2021, table 1.2

### 3.4.5.8 Oil % Gas

The analyses were carried out on a fraction equal to 75% of the total exposure volumes in this sector. It was not possible to conduct PACTA analyses on the remaining portion of volumes due to lack of production data of the related counterparties.

The analysed portion of the oil&gas sector corresponds to the 2% of the total outstanding exposure in the lending portfolio.

Analyses were conducted separately for the two different Oil and Gas technologies.

The results show that Mediobanca's counterparties have a prospective production trend closer to the scenario targets than the one estimated for the counterparties used as benchmark.

The results for gas technology, in particular, are largely in line with the Net Zero scenario requirements.

### 3.4.5.9 How we will achieve Targets

The results obtained in the Portfolio Alignment exercise will be updated in the future and used to better direct the Bank's business decisions towards the achievement of the emission intensity targets.

As also requested by the Net-Zero Banking Alliance, a detailed transition plan towards meeting the targets will be developed and disclosed.

The plan will be the result of:

- ◇ the mapping of counterparties' decarbonisation plans, investment intentions and targets;
- ◇ the computation of counterparties' emission intensity inertial trajectories basing on Asset Resolution's data and on abovementioned information;
- ◇ the identification of existing gaps between counterparties' emission intensity trajectories and Mediobanca's portfolio targets;
- ◇ the analysis of available portfolio-steering levers in terms of climate impact, risks, opportunities and costs;
- ◇ the final selection and prioritization of actions, based on previous analyses.

#### **RAM ACTIVE INVESTMENTS SA CLIMATE PORTFOLIO TARGETS UNDER THE NET ZERO ASSET MANAGERS INITIATIVE (NZAM)**

Joining NZAM in 2021, RAM AI committed to meeting Net Zero emissions by 2050.

RAM AI is in the process of publishing its first interim goals: reducing the carbon emission intensity by 33% as of 2025 and by 50% as of 2030. 68% of RAM AI's AUM would be managed under this commitment.

To meet these targets, RAM AI will apply three approaches: allocation, engagement and divestment.

- ◇ **Allocation:** RAM AI is relentlessly working on developing innovative solutions and integrating

them into its investment processes. RAM AI wishes to increase the share of companies in its portfolio that are committed to green transition and favours companies that have good environmental, social and governance practices.

- ◇ **Engagement:** RAM AI believes that engagement is an important and effective way of nudging corporates into the Net Zero direction. RAM AI participates in collective engagements such as the CDP non-disclosure and SBTi campaign. RAM AI is also part of Climate Action 100+ and Global Investors' statement to the Governments, among other initiatives.
- ◇ **Divestment:** RAM AI would divest when a company is in breach of RAM AI's exclusion policy. It prescribes restrictions on companies that generate significant revenues from coal (thermal and metallurgical), thermal coal power generation and unconventional fossil fuel. RAM AI would also divest from companies that derive majority of their revenue from conventional fossil fuels without any commitment to Science Based Targets (SBTi).

### 3.5 Strategy Resilience: Incorporating Climate-related issues into strategy

The Group identifies the risk profile it intends to adopt in accordance with its own strategic objectives, which are geared towards the creation of value in the long term. The objective is therefore not to eliminate risks but to identify and manage them in such a way as to guarantee the sustainability and profitability of the business over the long term as well as prudent asset valuation. In this respect, the Group embraces the challenges that climate change poses to society and financial institutions and the opportunities related to decarbonisation, embedding these subjects into its strategy, financial planning and activities.

Mediobanca is proceeding to this end, with the objective of an ever-growing integration, encompassing, as of today:

- ◇ the implementation of **new metrics in the Group's Risk Appetite Framework**,
- ◇ **client engagement**,
- ◇ the proposition of **ESG products** and
- ◇ the adoption of ESG policies, among which **exclusion policies**.

The Group is engaged in the **design of a decarbonisation plan** able to steer Mediobanca's portfolio to the fulfilment of the outlined portfolio targets (detailed in section 3.4.5), making possibly use of these instruments already in place (detailed below) or of other levers.

#### 3.5.1 Climate risk in the Group's Risk Appetite Framework

As one of the qualifying elements underlying its Risk Appetite Framework, the Group has identified, among others, environmental-related factors, in order to promote responsible business activities, maintaining a low profile in terms of exposure to climate risk.

Climate credit risk is the risk that a weather event (acute and/or chronic), other climate-related factors (e.g. hydrogeologic factors) – physical risk – or the transition to a more sustainable economy (e.g. low carbon economy) – transition risk – may impact on the creditworthiness of a counterparty or on the value of the collaterals in the short, medium and/or long term.

The level of desired risk profile is guaranteed by limiting risk-taking through the definition of thresholds representing the level of riskiness considered to be acceptable and consistent with the Group's profitability targets.

In order to monitor and mitigate the Group exposure, the Risk Appetite Framework will include two metrics, one focused on Transition risk and one on Physical risk.

### 3.5.1.1 Transition Risk

To identify the potential ESG risk of the bank's portfolio, Mediobanca has developed an **ESG Heatmap at sectoral level** and has recalibrated the sectoral Heatmap incorporating the peculiarities of the bank's portfolio and the characteristics of the individual counterparties composing it. This analysis is extensively reported in **section 4.2.1**.

With the aim of promoting responsible business activities based on Environmental criteria, the Group's **Risk Appetite Framework includes a metric focused on the corporate loan exposure to high risk sectors related to Environmental pillar**. In this regard, the Group identified a maximum acceptable level of environmental high-risk exposure which constitutes the Risk Appetite trigger.

### 3.5.1.2 Physical Risk

As per physical risk, following last ECB Single Supervisory Mechanism Climate Stress Test, the Group recognize floods, landslides and seismic can cause severe damage to buildings, reducing the value of properties used as collateral for loans. With the aim of monitoring this risk, as the main transmission channel works through changes in the **value of the underlying collateral**, the analysis focused on **CheBanca! mortgages exposures** to households and corporates secured by real estate. In this context, considering the collateral location and starting from ISPRA data for flood and landslide risks and "Protezione Civile" data for seismic risk (see **section 4.2.2** for more details), CheBanca! developed a methodology to assign to its mortgages portfolio exposures three risk indicators which respectively consider the probability of occurrence of the three extreme events.

Starting from the three risk indicators, the Bank developed a modelling solution in order to define a synthetic physical risk metric. The methodology provides for the definition of four physical risk classes for the classification of Italian municipalities: Very high, High, Medium, and Low.

This **synthetic metric represents a monitoring indicator integrated into the Group's Risk Appetite Framework**.

The inclusion of this metric in the RAF aims to monitor the value of loans, granted during the quarter, secured by real estate located in municipalities classified as Very High and High physical risk.

## 3.5.2 Client engagement

The Group is committed to engage with and support clients and portfolio companies in their

net-zero journey, enabling its own transition targets to be put into practice. For this reason, whenever possible, Mediobanca encourages existing and potential borrowers and the companies it has invested in (or intends to invest in) to adopt an open dialogue on the responsibility of their approach, and on how ESG factors affect their activities.

Mediobanca Group is also committed to “active ownership” practices, insofar as these are applicable to the different types of Group’s activities, taking an active part in the annual general meetings of our investee companies in accordance with their specific voting policies and directives.

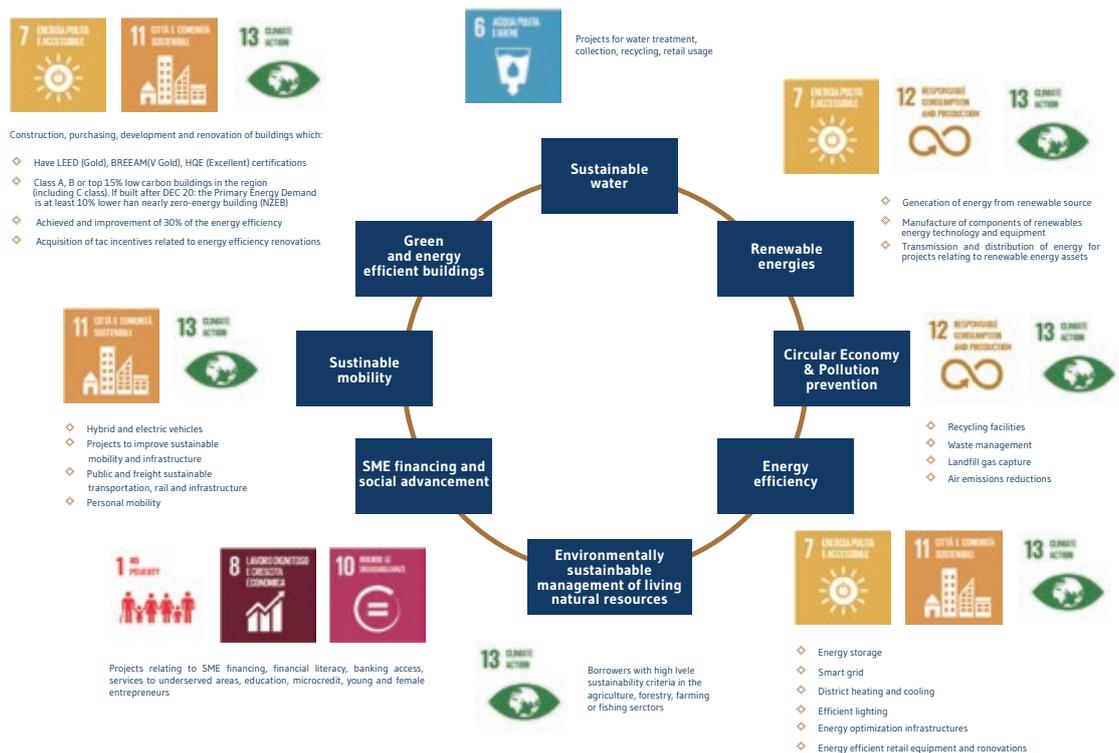
Mediobanca SGR and RAM AI have both adhered to the Non-Disclosure Campaign promoted by the Carbon Disclosure Programme (CDP), which offers investors the opportunity to actively engage companies that have received the CDP disclosure request on behalf of investors but have not provided a response, hence driving further transparency around climate change.

### 3.5.3 Financing decarbonisation: Mediobanca ESG Products

The Group is aware of the impact deriving from the company’s activities, and of the role which it can play in the promotion of responsible behaviour. In line with market standards and consistent with its strategic direction towards decarbonisation, the Group has therefore continued its path to support the spread of sustainable products. The Group’s sustainable products are synthetically outlined below. For a comprehensive description of the Group offer of sustainable products, please refer to the Group ESG Catalogue.<sup>50</sup>

#### 3.5.3.1 Mediobanca Green, Social and Sustainability Bond Framework<sup>51</sup>

Mediobanca’s Green and Sustainable Bond Framework sets out rules and procedures to identify eligible projects and initiatives. An amount equivalent to the net proceeds from the Green, Social and Sustainability Bonds issued under the Framework serves to finance and/or refinance **Green, Social and Sustainable Assets** belonging to the following Eligible Categories:



50. [https://www.mediobanca.com/static/upload\\_new/esg/esg-catalogue-post-comitato-sost-engl-pdf](https://www.mediobanca.com/static/upload_new/esg/esg-catalogue-post-comitato-sost-engl-pdf).

51. [https://www.mediobanca.com/static/upload\\_new/med/0000/mediobanca\\_green-social-and-sustainability-bond-framework\\_final\\_2022.pdf](https://www.mediobanca.com/static/upload_new/med/0000/mediobanca_green-social-and-sustainability-bond-framework_final_2022.pdf).

### 3.5.3.2 Lending Products

With regard to lending activities:

LEGAL ENTITY	PRODUCT DESCRIPTION
<b>Mediobanca</b>	<p><b>Green financing:</b> corporate financing made available exclusively to finance or re-finance, new and/or existing green activities/projects;</p> <p><b>ESG/sustainability-linked financing:</b> lending products that incorporate bonus/malus pricing mechanisms linked to the trends of certain ESG KPIs;</p> <p><b>Social financing:</b> corporate lending products whose proceeds are used to address emergency situations.</p>
<b>MBFacta</b>	<p><b>Factoring solutions on tax receivables</b> related to investments in energy efficiency renovations and improvements introduced by Italian or other EU governments.</p>
<b>SelmaBipiemme Leasing</b>	<p><b>Sustainable mobility solutions:</b> leases, related inter alia to: hybrid and electric vehicles, personal mobility devices (zero emissions or combination of zero emissions and physical activity);</p> <p><b>Instrumental leasing</b> transactions concluded with small and medium-sized enterprises (SMEs) which benefit from state contributions to support green/digital investments (Sabatini Green, Sabatini 4.0);</p> <p><b>Leasing transactions involving green investments</b> made by corporate customers with the support of SACE guarantees (SACE Green).</p>
<b>CheBanca!</b>	<p><b>Green and energy efficient buildings loans:</b> financing – including retail mortgages – or refinancing for construction, purchasing, development and renovation of buildings which comply with stringent criteria based on best practices;<sup>52</sup></p> <p><b>Social financing:</b> financing granted to small and medium-sized enterprises (SMEs) affected by the Covid-19 pandemic backed by government guarantee (“Fondo di Garanzia” per PMI) under the umbrella of the “Cura Italia” and the “Liquidità” Decree Laws.</p>
<b>Compass</b>	<p><b>Green and energy efficient buildings loans:</b> consumer credit solutions to help households fund green energy renovation work;</p> <p><b>Sustainable mobility solutions:</b> consumer financing related inter alia to: hybrid and electric vehicles, personal mobility devices (zero emissions or combination of zero emissions and physical activity);</p> <p><b>Social financing:</b> loans whose proceeds are used to address social issues and/or seek to achieve positive outcomes especially for a target population (e.g. the poor, vulnerable, unbanked, unemployed, uneducated, etc.).</p>

### 3.5.3.3 Corporate & Investment Banking Products

These products, belonging to corporate and investment banking activities, are provided by Mediobanca S.p.A. only.

52. Such criteria include, without limitation:

- Having environmental standard certifications, such as LEED (Gold or above), BREEAM (Very Good or above), HQE (Excellent or above) or equivalent comparable international certifications; or
- Complying with energy efficiency class A or B; or new or existing residential buildings belonging to the top 15% low carbon buildings in the region (including building with energy efficiency class C); or
- Being part of renovation projects with an improvement in terms of energy efficiency of at least 30% or at least two steps of improvement in energy efficiency class label.

DIVISION	PRODUCT DESCRIPTION
<b>Debt Capital Markets</b>	<p><b>Green Bonds:</b> debt instruments whose proceeds are used to finance and re-finance green projects/activities;</p> <p><b>Social Bonds:</b> debt instruments whose proceeds are used to finance and re-finance projects that address social issues and/or seek to achieve positive outcomes especially for a target population (e.g. the poor, vulnerable, unemployed, uneducated, etc.)</p> <p><b>Sustainability Bonds:</b> debt instruments whose proceeds are used to finance and re-finance projects achieving positive environmental and/or socio-economic outcomes</p> <p><b>Sustainability-Linked Bonds:</b> debt instruments which incorporate step-up pricing mechanisms if certain ESG KPIs are not met</p>
<b>Markets–Sales &amp; Trading</b>	<p><b>ESG Products offered to investors</b> including notes with an ESG label, as well as investments linked to equity and credit underlying assets selected with ESG filters.</p> <p><b>ESG swaps.</b></p> <p>Participation to the <b>carbon trading market.</b></p> <p>Warehouse financing of <b>ESG securitizations.</b></p>
<b>Mediobanca Securities</b>	<p>Production of commentary, company-specific, sector and thematic reports increasingly covering ESG-related risks as well as business opportunities.<sup>53</sup></p>

### 3.5.4.3 Asset & Wealth Management Products

With regard to Asset and Wealth Management activities:

- ◇ **Mediobanca Private Banking, CheBanca!** and **CMB Monaco**, in their investment advisory activities, offer different types of ESG-compliant financial instruments in the selection and management of their portfolios. The selection criteria, depending on the legal entity, may concern the adaptation to ex art.8/9 SFDR, the use of negative and/or positive screenings, as well as qualitative and quantitative analysis of the results of the investment process. With regard to the discretionary asset management service, Mediobanca Private Banking offers a **discretionary asset management** mandate compliant with ex art.8 SFDR, with investment management activities delegated to Mediobanca SGR. CMB Monaco, being subject to the legal framework of the Principality of Monaco that goes beyond the EU SFDR regulation, offers a discretionary asset management contract based on a “best-in-class” ESG positive screening methodology, with investment management activities delegated to CMG Monaco.
- ◇ **Mediobanca SGR** manages 5 ex art.8 SFDR compliant funds (Mediobanca Social Impact, Mediobanca ESG European Equity, Mediobanca ESG US Equity, Mediobanca Global Thematic Multimanager 100 ESG and Mediobanca Nordea World Climate Engagement). **CMG Monaco** manages 2 environmental thematic funds (CMG Monaco Eco+ Eur and CMG Monaco Eco+ Usd) and 1 fund delegated to RAM AI on the basis of a master feeder agreement of its Fund Emerging Markets Equity compliant with ex art.8 SFDR (Monaction Emerging Markets). **Mediobanca Management Company** manages 2 ex art.8 SFDR compliant funds (CMB Global Lux Dette Emergente Eur and CMB Global Lux Dette Emergente Usd), with investment management activities delegated to Neuberger Berman. **RAM AI** manages 9 ex art.8 SFDR compliant funds (RAM European Equities, RAM US Sustainable Equities, RAM Global Sustainable Income Equities, RAM Emerging Markets Equities, RAM Long/Short European Equities, RAM Global

53. Recent examples are represented by the following reports: “SE Utilities & Infrastructures – A change in the Paradigm – 10 February 2022”, “EU ETS: A Key Tool to Fight Climate Change – 26 May 2021”, “The Energy Super Cycle – 1 February 2021” and “Hydrogen: The New (green) Energy Frontier – 8 September 2020”.

Equities Sustainable Alpha, RAM Long/Short Global Equities, RAM Global Bond Total Return and RAM Sustainable Flexible Fund) and 1 ex art.9 SFDR compliant fund (RAM Stable Climate Global Equities).

### 3.5.4 Responsible Business: ESG Policies, Exclusion Policies

In July 2021, the Board of Directors of Mediobanca approved the Group ESG Policy<sup>54</sup>, which develops and builds on the Group Policy on Responsible Lending and Investing adopted in 2019.

The new Policy defines the guidelines for integration of ESG criteria (Environmental, Social and Governance), and outlines the reference principles involved, plus the negative and positive screening criteria applicable to the **activities of lending, investing own funds, and providing investment advice to clients**.

The changes made chiefly involve the addition of more structured selection criteria, enlarged scope of application, and the introduction of sector-based guidelines.

The Policy is based on a combination of:

- ◇ Negative screening, through use of exclusion criteria, to identify parties involved in specific activities and/or in the production and/or sale of goods with particular technical characteristics;
- ◇ Positive screening based on criteria to identify parties that are valued positively and/or assets with positive characteristics from an ESG standpoint.

In addition to the general principles applicable to all types of business, the Group has also established and is increasing implementing different positive and negative screening criteria for the various areas of activity.

#### Additional specific criteria

- ◇ **In lending** (at Group level) **and** in the direct **proprietary investments** activity performed by the Insurance & Principal Investing Division of Mediobanca, specific policies have been developed on sectors considered to be sensitive in ESG terms, namely: **forestry and use of forested areas, production of agricultural goods, mining, the production, sale and consumption of energy, and infrastructure and transport**.

According to these policies financing and the above-mentioned investment activities are **excluded with counterparties impacting adversely on the climate**, there being evidence, inter alia, for all sector mentioned, of serious breaches of regulations on the environment, health, safety, corruption and human rights.

Also, regarding the sectors **forestry and use of forested areas, mining, production, sale and consumption of energy, and infrastructure and transport**, the Group does not finance and does not invest in projects whose activities are performed in, or otherwise impact negatively on a) world heritage sites designated by UNESCO, b) sensitive areas in terms of biodiversity such as the High Conservation Value Areas, Alliance for Zero Extinction sites, Ramsar wetlands sites, areas included in IUCN Categories I-IV.

Further exclusion criteria have been stated, among which we outline the ones related to climate and environmental issues:

54. [https://www.mediobanca.com/static/upload\\_new/pol/politica-esg\\_eng.pdf](https://www.mediobanca.com/static/upload_new/pol/politica-esg_eng.pdf).

SECTOR	BOUNDARY: THE GROUP DOES NOT FINANCE/ INVEST IN	CRITERIA
Forestry and use of forested areas	Initiatives:	<p>performed in rainforests or primary tropical moist forests with high conservation value or natural habitats at risk;</p> <p>which exploit tropical timbers without the necessary certification, FSC (Forestry Stewardship Council Certification) or PEFC (Programme for the Endorsement of Forest Certification) which guarantee compliance with correct forestry management principles.</p>
	Counterparties for which it has evidence of:	<p>legal deforestation activity;</p> <p>behaviors which are seriously harmful of biodiversity sources.</p>
Production of agricultural goods, livestock farming and fishing	Counterparties for which it has evidence of:	<p>illegal deforestation activity;</p> <p>behaviors which are seriously harmful of biodiversity sources;</p> <p>lack of adoption of a water management plan in order to reduce the use of water and lack of a policy to minimize the use of pesticides and fertilizers that pollute the atmosphere;</p> <p>production, refinery or sale of sell palm oil not certified by the "Roundtable on Sustainable Palm Oil" (or for which the procedure for obtaining such certification is not in progress);</p> <p>trade of any species or vegetable or animal product governed by the "Convention on International Trade in Endangered Species of Wild Fauna and Flora" (or CITES), not authorized by a CITES permit;</p> <p>fishing using drift nets longer than 2.5km; deep-sea trawling.</p>
Mining industry	Initiatives:	<p>that involve asbestos mining;</p> <p>to realize new thermal coal mining sites or expand existing ones;</p> <p>Mountain Top Removal (MTR) in the Appalachian mountains;</p> <p>that do not have a plan for mine reclamation;</p> <p>for which waste produce is thrown into rivers or low tide waters.</p>
	Counterparties for which it has evidence of:	<p>mine, process or sell of asbestos;</p> <p>produce coal mined from the Appalachian mountains using MTR techniques;</p> <p>derive more than 20% of their revenues from coal mining.</p>

SECTOR	BOUNDARY: THE GROUP DOES NOT FINANCE/ INVEST IN	CRITERIA
Production, sale and consumption of energy	Initiatives:	<p>to implement coal-fired power stations;</p> <p>to implement or expand unconventional oil and gas resource exploration and production sites; pipelines which transport a significant volume of unconventional oil and gas; liquefied natural gas exportation terminals supplied with significant volumes of unconventional gas;</p> <p>that do not have a plan for developing long-term solutions for managing high and intermediate level nuclear waste and for decommissioning nuclear power plants;</p> <p>to implement or expand dams which do not comply with the World Bank's policies on dam safety.</p>
	Counterparties for which it has evidence of:	<p>do not adopt a water management plan in order to reduce the use of water and monitor their impact on the availability of water for other users, in particular in areas subject to water scarcity, and measures to manage the waste produced by them in order to keep water pollution to a minimum;</p> <p>derive more than 20% of their revenues from coal mining or sales activities;</p> <p>derive more than 20% of their revenues from the exploration, production, transport or sale of oil and gas from unconventional sources, or management of pipelines or pipeline terminals that transport a significant volume of unconventional oil and gas. Exceptions to this are "green" loans and investments specifically aimed at "green" initiatives.</p>
Infrastructure and transport sectors	Initiatives:	To implement or expand dams which do not comply with the World Bank's policies on dam safety.
	Counterparties for which it has evidence of:	<p>not adopting a water management plan in order to reduce the use of water and monitor their impact on the availability of water for other users, in particular in areas subject to water scarcity, and measures to manage the waste produced by them in order to keep water pollution to a minimum;</p> <p>which, in desalinization plants, fail to adopt adequate measures to mitigate the removal of the brine and/or the extraction of the sea salt.</p>

As shown, Mediobanca is keen to protect the forests as a source of biodiversity and an instrument for mitigating climate change, and has therefore also developed an ad hoc Biodiversity Policy<sup>55</sup>.

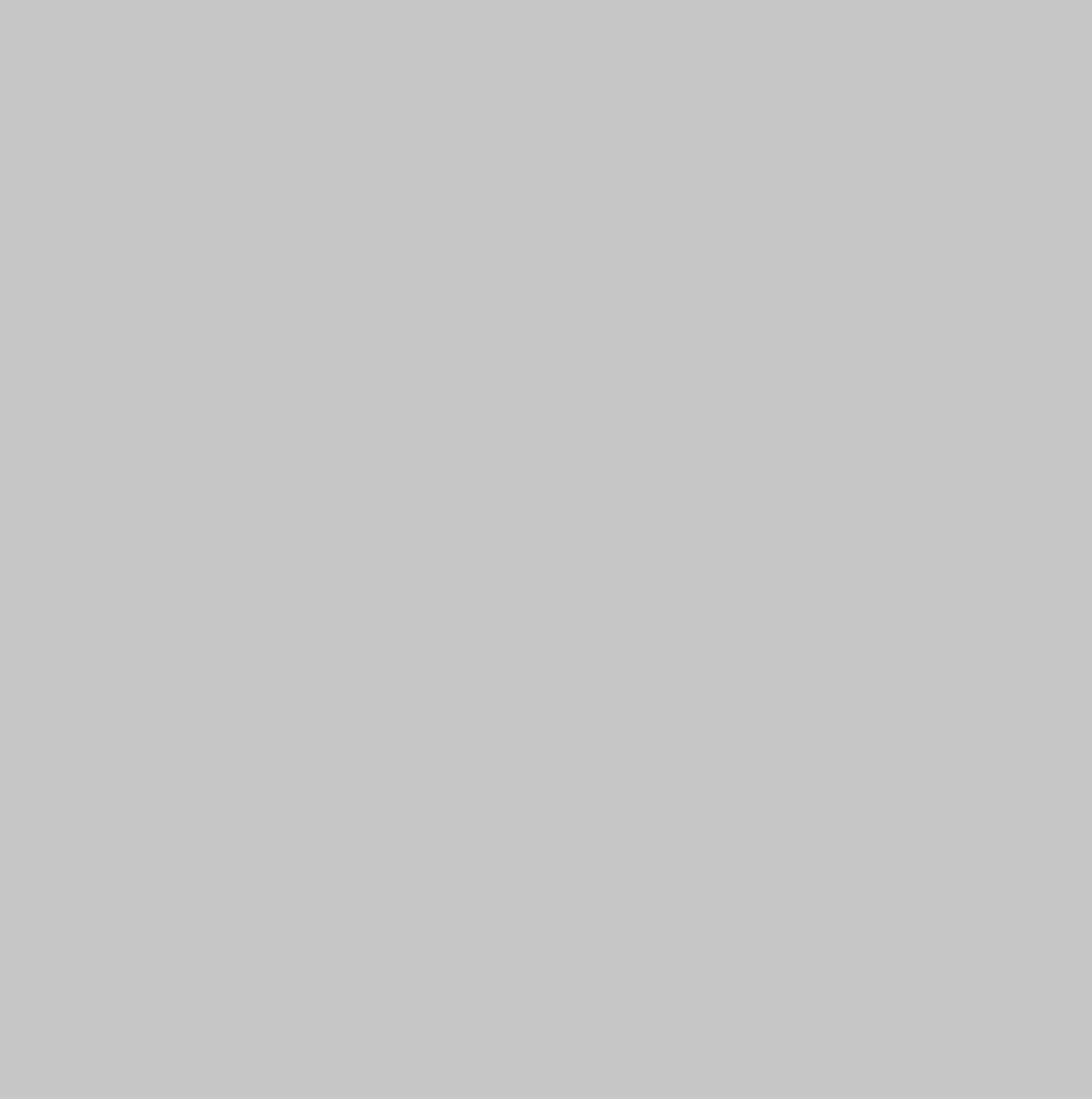
◆ In **ECM and DCM, M&A and debt advisory activities** the following exclusion criteria have been set:

55. See pp 58-59 of the Group ESG Policy ([https://www.mediobanca.com/static/upload\\_new/pol/politica-esg\\_eng.pdf](https://www.mediobanca.com/static/upload_new/pol/politica-esg_eng.pdf))

SECTOR	NOT PERMITTED	CRITERIA
Energy production	in relation to projects	to build, expand or enhance coal-fired power stations or to explore or produce oil and gas from unconventional resources
	for clients	operating in the energy generation sector or which own or manage coal-fired power stations and for which the energy generated from coal contributes more than 20% of their total sales (consolidated where applicable) unless they have formalized a diversification strategy to reduce the percentage of coal in their energy generation mix, including clearly identified objectives and deadlines for achieving these targets

**Wealth and Asset Management:** the criteria laid down in the Group ESG Policy are complemented by those in the SFDR, which requires, among other things, clients have to be properly informed about the methodologies by which sustainability risk is integrated into the provision of portfolio management or investment advisory services. The Group asset managers (Mediobanca SGR, Cairn Capital, CMG and RAM AI) have all adopted the Group ESG Policy articulating it into their own Policies on Sustainable Investing, through the adoption of positive and/or negative screenings. ESG Committees have been set up and guidelines have been established for incorporating environmental, social and governance factors into investment processes and strategies.





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# Risk Management



MEDIOBANCA

# 4. Risk Management

Aware of the challenges posed by Climate Change to the development of its business and its ability to generate value, as outlined in chapter 3, Mediobanca has integrated Climate risks in its risk management processes.

This chapter outlines Mediobanca's **risk management process** and how it has been adapted to include Climate risks, together with the results of **Climate risk assessment**. The latter consisted of three exercises:

- ◇ The ESG Heatmap computed on proprietary lending & investment portfolio within the Corporate and Investment Banking Division;
- ◇ Physical risk indicators evaluated on CheBanca! collaterals;
- ◇ Climate risk assessment on Mediobanca's own assets and operations.

## 4.1 Climate Risk Management Process

The process of identification of relevant risks for Mediobanca consists of 4 distinct phases, summarized and illustrated in the following scheme:



In particular, Mediobanca identifies the potential risks to whom it could be exposed starting from the analysis of the relevant regulations<sup>56</sup>, intended as minimal base for its risk identification process, and periodically integrates the preliminary risks list taking into consideration its specific business and the analysis of the external context.

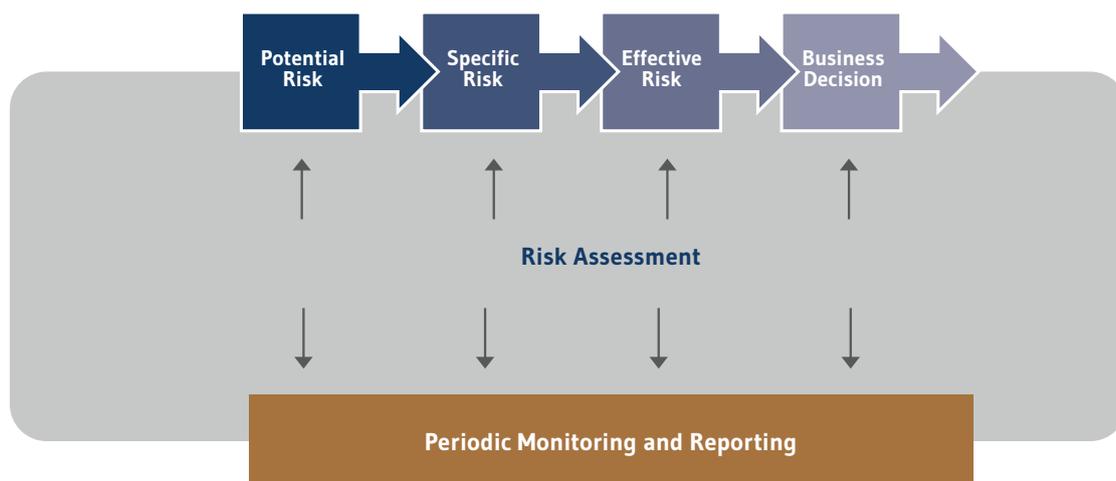
After the identification of Material Legal Entities on the basis of quali-quantitative criteria, Mediobanca asks them to fill-in a qualitative and quantitative template in which they identify the relevant risks.

Taking into account the results obtained in the previous phase, Mediobanca identifies its own risk map and defines criteria for the identification of relevant risks, based on both their historical evolution and incidence in terms of regulatory/economic capital or total assets.

56. Circ. n. 285/2013 Bank of Italy and "Supervisory expectations on ICAAP and ILAAP and harmonized information collection on ICAAP and ILAAP" and related annex "SSM Risk Map"

To further improve the integration of sustainability aspects within the Risk Identification phase, new risks related with ESG have been included as sub-categories of the main risk categories (credit risk, market risk, operational risk, funding risk).

The assessment of ESG risk, in accordance with the Group's process of identification of relevant risks and with international standards and industry best practices, consists of the following steps:



Below is a description of each of the steps carried out for the assessment of ESG risk:

- ◇ **Potential Risk:** Sector-specific ESG risk analysis through the assessment of risk factors at E,S,G pillar level according to market best practices and international standards. In this way, a sector-specific ESG risk heatmap is developed, associated to the exposures of Mediobanca's lending and investment portfolio. This analysis is carried out according to the following steps:
  - ◇ Identification of ESG risk factors by sector from international standards;
  - ◇ Development of the ESG heatmap which represents the potential risk by sector;
  - ◇ Mapping of exposures in the Mediobanca portfolio by sector.
- ◇ **Specific Risk:** Analysis of ESG risk conducted at individual counterparty level through a qualitative questionnaire and/or information sourced from an external infoprovider. For counterparties in the lending portfolio, an ESG analysis is also conducted at transaction level.
- ◇ **Effective Risk:** Considering the ESG risk analyses at the individual counterparty level (specific risk) and at sector level (potential risk), the effective ESG risk is determined through the use of ESG ratings/scoring obtained in the previous phase.
- ◇ **Periodic monitoring and reporting:** ESG risk analysis and management activities are part of a process of periodic monitoring which consists in the definition of KPIs useful for monitoring ESG risks. ESG risk analyses are updated quarterly and discussed in all relevant internal Committees. The report provides an evaluation of Environmental, Social, Governance (ESG) risks to the lending and investments portfolio exposures, with a specific deep dive on high risk sectors from the environmental point of view.

- ◇ **Business Decision:** Definition of proper ESG-based limits in Risk Appetite Framework and integration of the results from the ESG Heatmap within the bank's credit/investment internal regulations and credit guidelines.

Moreover, the **Credit Risk Management** function prepares a memo ("**ESG Risk Report**") for each lending counterparty, containing a summary of the ESG evaluations obtained during the origination process (such as the level of adherence to the Group ESG Policy or the synthetic ESG Internal Score) and an assessment of the counterparty's ESG risks. While it is not always possible to obtain all information in advance for every counterparty, this memo is **part of the documents to be submitted to the approval committee**. In addition, due to the recent launch of this process some of the lending counterparty will be covered in the coming year.

## 4.2 Risk Assessment Results

### 4.2.1 Investment and loans portfolio: Heatmap

#### 4.2.1.1 Heatmap Definition

Mediobanca has created the ESG Heatmap, an instrument developed at sectorial level, that has the aim of identifying the potential risk regarding the ESG factors of the proprietary lending & investment portfolio within the Corporate and Investment Banking Division. The lending amount considered for the analyses, as of 30th June 2022, covers almost the whole Group's Corporate and FIG committed lending exposure. The equity, bond and derivatives exposure, analyzed for the same period, covers the majority of the whole Group's proprietary investment exposure.

The Heatmap takes into consideration ESG factors, including both Climate Transition risk and Climate Physical risk, separately.

The application of this tool results in a methodology based on a sectoral mapping according to different levels of ESG riskiness. Such a sectoral mapping has been made using external information, collected by external international standards (United Nations Environment Programme Finance Initiative - UNEP FI, Principles for Sustainable Insurance - PSI).

- ◇ UNEP FI is a partnership between the United Nations and the global financial system in support of sustainable finance. The UNEP FI network helps financial institutions keep abreast of the tools, policies and practices used in the sector to address the challenges and opportunities for sustainable growth.
- ◇ PSIs are a voluntary, UN-backed initiative to address risks and opportunities related to environmental, social and governance (ESG) issues in the insurance sector. Launched in 2012, the PSIs are aligned with and complement the principles of the UN Global Compact.

From these external sources has been possible to select ESG factors that impact on each economic sector concerned and gather information about the related level of impact.

Specifically, it has been adopted the "Impact Map" reported into the "Portfolio Impact Analysis Tool" of UNEP FI which identifies how companies from different economic sectors impact, positively or negatively, different ESG areas.

To increase the robustness of the analyses, and of the Heatmap itself, the ESG factors identified by UNEP FI have been integrated with some of the themes proposed by PSI in the "Managing environmental, social and governance risks in non-life insurance business" document.

The process led to the outline of a set of ESG factors that impact on each economic sector.

Such ESG factors are distinguished according to the three macro-pillars (Environmental, Social and Governance) and by reference source (UNEP FI, PSI).

PILLAR ESG	SOURCE: UNEPFI	SOURCE: PSI
<b>Environmental</b>	<ul style="list-style-type: none"> <li>Quality - Water</li> <li>Air</li> <li>Soil</li> <li>Biodiversity &amp; ecosystems</li> <li>Resources efficiency / security</li> <li>Climate</li> <li>Waste</li> </ul>	<ul style="list-style-type: none"> <li>Transition Risk</li> <li>Physical Risk</li> <li>Impacts on World Heritage Sites or other protected areas</li> <li>Impacts on species on IUCN Red List of Threatened Species</li> <li>Controversial living conditions or use of chemicals/ medicines (e.g. overuse of antibiotics)</li> </ul>
<b>Social</b>	<ul style="list-style-type: none"> <li>Availability - Water</li> <li>Food</li> <li>Housing</li> <li>Health &amp; sanitation</li> <li>Education</li> <li>Employment</li> <li>Energy</li> <li>Mobility</li> <li>Information</li> <li>Culture &amp; heritage</li> <li>Integrity &amp; security of person</li> <li>Justice</li> <li>Strong institutions, peace &amp; stability</li> </ul>	<ul style="list-style-type: none"> <li>Child labour</li> <li>Human trafficking</li> <li>Forced resettlement (including land/water rights for native people, land grabbing)</li> <li>Violation of worker rights (e.g. discrimination, collective bargaining)</li> <li>Controversial weapons exposure (e.g. UN conventions)</li> </ul>
<b>Governance &amp; Economic</b>	<ul style="list-style-type: none"> <li>Inclusive, healthy economies</li> <li>Economic convergence</li> </ul>	<ul style="list-style-type: none"> <li>Illegal and unethical payments</li> <li>Anti-competitive practices, violations of antitrust laws, unethical conduct, unethical tax approach</li> <li>Unethical conduct or negative health impact on customers</li> </ul>

Based on the resulting level of impact of the ESG factors, derived through a specially developed methodology, a scale of riskiness was created according to 4 different levels identified by colours (red, yellow, green, white) which indicate the «potential risk» of each macro/sub economic sector.

SCALE OF ESG RISKINESS	COLOUR ATTRIBUTED	DESCRIPTION
«High» impact	 Red	Impact of ESG factors within the analyzed sector at a significant level
«Medium» impact	 Yellow	Impact of ESG factors within the analyzed sector at a medium level
«Low» impact	 Green	Low impact of ESG factors within the analyzed sector
«Negligible» impact	 White	Negligible impact of ESG factors within the analyzed sector

From the assessment of the impact of the ESG factors, each sector has been assigned a risk level. Particular focus has been made during the analyses on the «high risk» sectors (red category), specifically for the Environmental Pillar.

In addition, as second step, the Heatmap has been integrated with the characteristics of the individual counterparties composing the portfolio («single name analysis») to reflect its actual ESG risk level.

Starting from the «potential» sectoral view, the methodology used to calculate the sectoral ESG score has been re-calibrated by the inclusion of the results from an individual assessment of the counterparties in portfolio which has been conducted by:

- ◇ Completion of Qualitative Questionnaires to collect information useful for the analysis of Group ESG policy requirements and define an internal ESG score specific for the single counterparty.

The Questionnaires are provided to individual counterparties. Questions vary, both in number and type, depending on the riskiness level of the sector of the analyzed counterparty.

A score is calculated for each section of the questionnaire relating to the counterparty risk level exposure. The scores from the different sections are then aggregated to define a synthetic counterparty ESG score (through a numeric methodology). The scores obtained are then translated into qualitative ESG ratings.

- ◇ Collection of specific information on the individual counterparty from an external infoprovider, if the questionnaire has not yet been submitted.
- ◇ If no information is available from the previous two cases, the counterparties' evaluation has been based on the sectoral results of the "potential" Heatmap.

#### 4.2.1.2 Heatmap Results

The Figure 7 below shows the portfolio breakdown, for the Environmental Pillar, in terms of the 4 riskiness levels assigned to each economic sub-sector. This breakdown shows that the portfolio is more exposed to low risks (39% of total exposure) in the Environmental dimension. As of June 2022, the exposure in high risk sectors for the pillar E amounted to 22%.

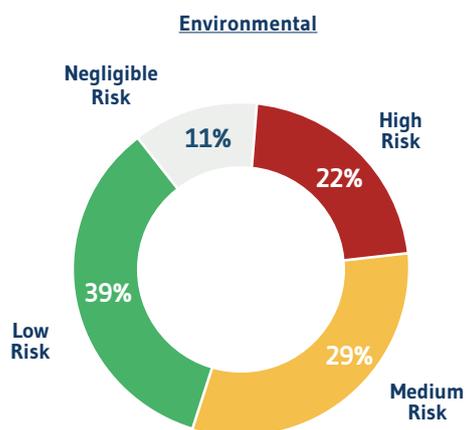


Figure 7. Investment and loans portfolio: Heatmap before re-calibration

The results provided by the ESG Heatmap has been re-calibrated by the integration of information from single counterparties assessment. Whether the information to conduct such an assessment was not available, the counterparties' evaluation has been based on the sectoral results of the "potential" Heatmap. As result of such recalibration process, the exposure in high risk sectors for the pillar E amounted to 1%, as can be seen in the figure below. In general, Figure 8 shows the portfolio breakdown, for the Environmental Pillar, in the 4 riskiness levels after the re-calibration process. Mediobanca's counterparties therefore show, on average, a lower riskiness level than the mean level of the corresponding sectors.

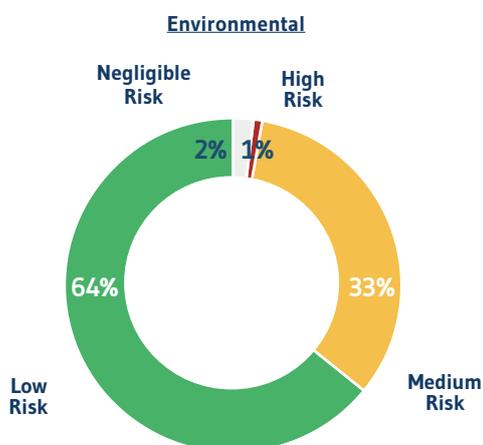


Figure 8. Investment and loans portfolio: Heatmap after re-calibration

The following sections provide a more detailed overview of the ESG risk assessment results for the lending and investment portfolios.

### **Lending portfolio**

#### **Sectoral risk level definition**

As reported in the graph below, the breakdown by riskiness of the Environmental Pillar shows that the lending portfolio as of June 2022 is quite exposed to potential high risk sectors (29% of total exposure).

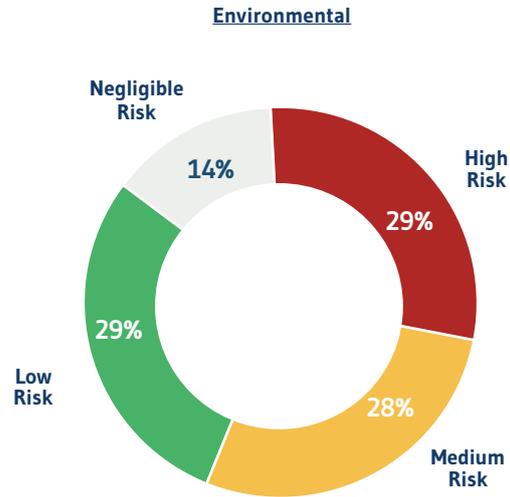
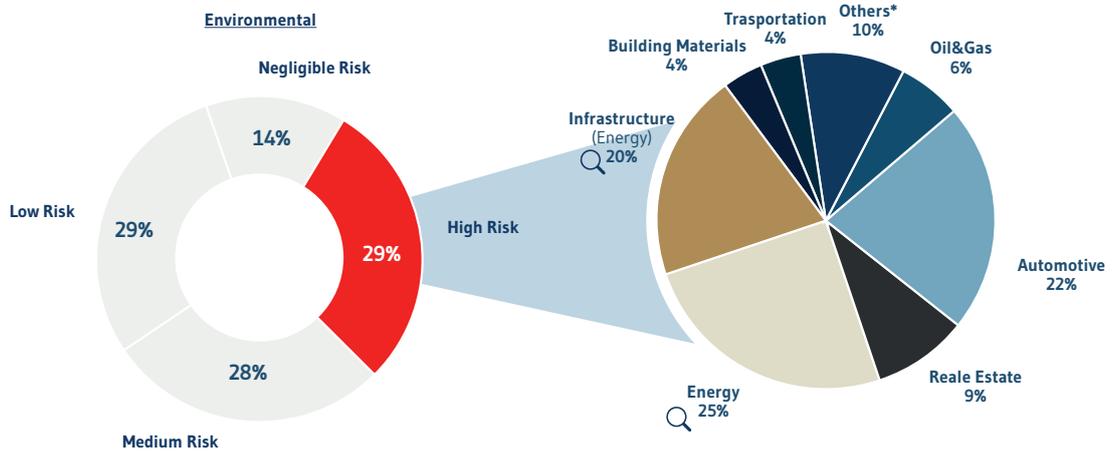


Figure 9. Loans portfolio: Heatmap before re-calibration

The following figure breaks down the potential high risk sectors in the Environmental dimension with a higher level of detail.



\*Note: «Others» segment includes part of Consumer Goods, Manufacturing, Metals, Paper, Services and Chemicals

As reported in the graph above, the high environmental risk portfolio is highly concentrated in Energy (25%) and Infraestructure (Energy) (20%), which jointly represent represent about the 45% of the total exposure.

The two tables below show, with a greater level of detail, the breakdown of volumes within these two sectoral categories.

Focus on Energy sector	Energy	Current % on Energy sector	Current % on total portfolio
	Power Generation (Conventional)	7.2%	0.5%
	Power Generation (Renewable)	25.0%	1.8%
	Midstream Energy	3.3%	0.2%
	Integrated Utilities	64.4%	4.7%
	<b>Total Energy sector</b>	<b>100.0%</b>	<b>7.2%</b>
	<b>Total High Environmental Risk portfolio</b>		<b>28.5%</b>
	<b>Total portfolio</b>		<b>100.0%</b>

Focus Infrastructure (energy) sector	Infrastructure (Energy)	Current % on Inf. Energy sector	Current % on total portfolio
	Regulated Gas Networks	61.3%	3.5%
	Regulated Electric Networks	38.7%	2.2%
	<b>Total Infrastructure (Energy) sector</b>	<b>100.0%</b>	<b>5.8%</b>
	<b>Total High Environmental Risk portfolio</b>		<b>28.5%</b>
	<b>Total portfolio</b>		<b>100.0%</b>

### Single name re-calibration

The re-calibration process aims to take into account, where available, the peculiarities of the bank's portfolio and the characteristics of the individual counterparties composing it.

The starting point are the results of the "potential" ESG Heatmap (in terms of ESG riskiness level), which are then refined through the integration of "single name" information, where available.

So far, the re-calibration process has involved the "single name analysis" just for the Corporate counterparties

Specifically, as of 30<sup>th</sup> June 2022, 78% of the total exposure (91% considering only the exposure towards Corporates) is evaluated through the Qualitative Questionnaire, 4% is evaluated using the information from an external infoprovder while the remaining is evaluated using the Heatmap average score of the sector of each counterparty.

As a result (as it can be seen in "Loans portfolio: Heatmap after re-calibration"), after the integration of "single name" analysis (ref. par. 4.2.1.1), the composition of the Environmental risks which Mediobanca is exposed to in terms of lending portfolio is modified showing a decrease of exposure in high risk sectors from 29% to 0.4%.

The incidence of exposure in medium risk sectors, with reference to the Environmental pillar, has decreased towards 21% of total portfolio.

The exposure towards low Environmental risk sectors has instead improved towards 78% of total portfolio.

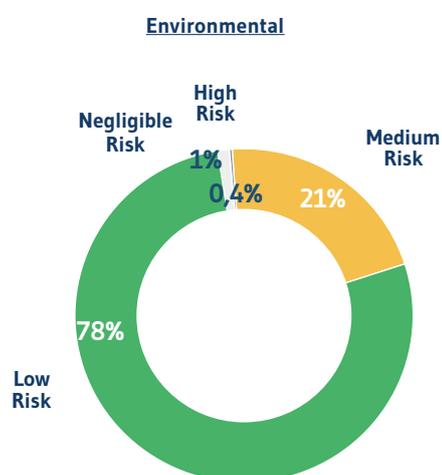


Figure 10. Loans portfolio: Heatmap after re-calibration

Due to the integration of information resulting from the “single name” analysis (ref. par. 4.2.1.1), the riskiness for the Environmental Pillar of some macro-economic (ISIC) sectors has changed:

- ◇ Sectors E<sup>57</sup> (Water supply; sewerage, waste management, remediation) and L (Real estate) have decreased from High Risk to Medium Risk.
- ◇ Sector D (Electricity, gas, steam and air conditioning supply) has decreased from High Risk to Low Risk
- ◇ Sector J (Information and communication) has increased from Negligible Risk to Low Risk
- ◇ Sectors C (Manufacturing), H (Transportation and storage) and K (Financial and insurance activities) have decreased from Medium Risk to Low Risk
- ◇ Sector Q (Human health and social work activities) has increased from Low Risk to Medium Risk.

Following the re-calibration process, the ISIC codes (2 digits) of the high-risk sectors on Pillar E are: Manufacture basic metals and Waste collection.

### **Investment portfolio**

This paragraph presents the results of the analysis on the investment portfolio of Mediobanca as of 30/06/2022 to provide an evaluation of Environmental, Social and Governance (ESG) risks of the investment portfolio exposures, performed by using the ESG Heatmap.

The analysis includes the following positions (both in Trading and Banking Book):

- ◇ Equities (excluding funds and ETF)
- ◇ Bonds (excluding structured securities, e.g. ABS, securitisations, etc.)
- ◇ Derivatives (excluding positions with underlyings related to indices, rates, currencies, basket).

Moreover, all intra-group positions were excluded from the analysis. Regarding the derivatives portfolio, two different views have been adopted for the determination of the exposures: the first related to the counterparty, the second on underlying issuers. For the overall representation of the investment portfolio, it has been decided to aggregate the derivatives portfolio to the equities and bond portfolio using the “underlying issuers” view. The following paragraphs illustrate the results of the analysis by reporting the exposures associated with the economic sectors identified through the NACE/ISIC code with the associated degree of risk at single ESG pillar level.

### **Sectoral risk level definition**

As reported below, the breakdown by riskiness of the Environmental Pillar shows that the investment portfolio as of June 2022 has a low concentration of exposure in sectors identified as high risk 7% (red category) and the majority of portfolio is concentrated in sectors with medium and low risk (yellow and green category).

57. The ISIC classification presented in this section refers to a managerial internal classification. Indeed, in order to better represent the economic activity carried out by each counterparty, the Group has adopted an internal classification aligned with the one used for managerial purposes. It should be noted that NACE/ISIC codes used for regulatory purposes ensure lower adherence to the effective counterparties' nature of activity and to exercise's objective than the internal classification; moreover, they lead to a misalignment with respect to the Group's managerial framework.

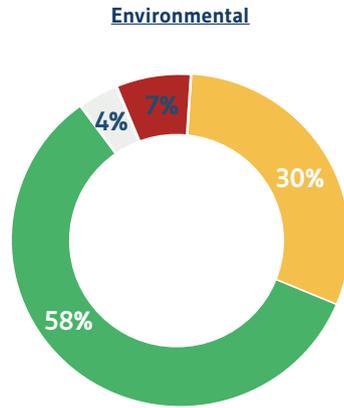
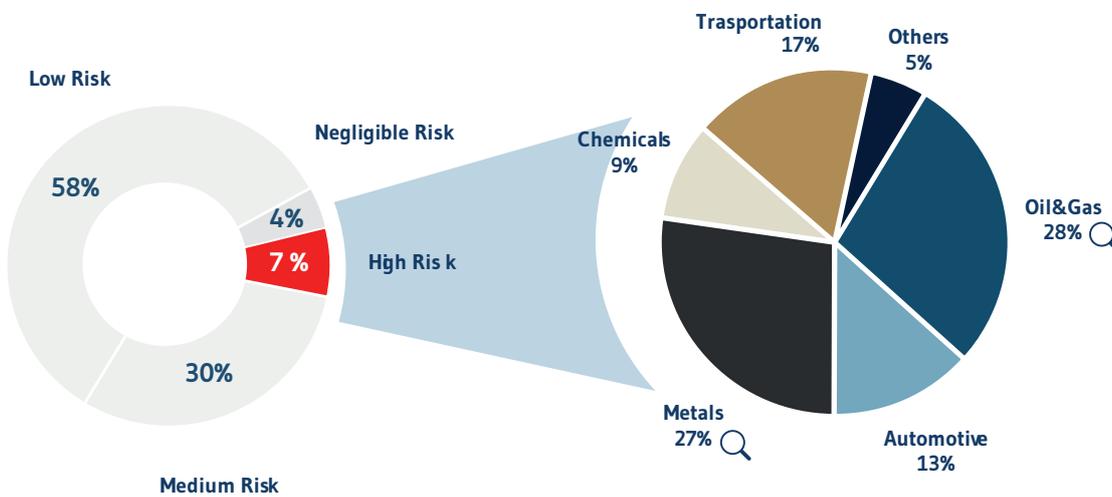


Figure 11: Investment portfolio: Heatmap before re-calibration

The following figure breaks down the high risk sectors in the Environmental dimension with a higher level of detail.



As reported in the graph above, the high environmental risk portfolio is mostly concentrated in Oil&Gas (28%) and Metals (27%) sectors that represent about 55% of the total exposure to high risk sectors for the pillar E.

The two tables below show, with a greater level of detail, the breakdown of these two sectors.

Focus on Oil&Gas sector	Oil&Gas	Current % on Oil&Gas sector	Current % on total portfolio
	Oil and gas integrated exploration and production	100.0%	1.9%
	Power Generation (Renewable)	0.0%	0.0%
	<b>Total Oil&amp;Gas sector</b>	<b>100.0%</b>	<b>1.9%</b>
	<b>Total High Environmental Risk portfolio*</b>		<b>6.9%</b>
	<b>Total Portfolio</b>		<b>100.0%</b>

Focus on Metals sector	Metals	Current % on Metals sector	Current % on total portfolio
	Metals	0.3%	0.0%
	Extraction of metalliferous minerals	95.1%	1.8%
	Steel	4.6%	0.1%
	<b>Total Metals sector</b>	<b>100.0%</b>	<b>1.9%</b>
	<b>Total High Environmental Risk portfolio*</b>		<b>6.9%</b>
	<b>Total Portfolio</b>		<b>100.0%</b>

### **Single name calibration**

As a result, after the integration of “single name” analysis<sup>58</sup> (ref. par. 4.2.1.1), the composition of the Environmental risks which Mediobanca is exposed to in terms of lending portfolio is modified showing a decrease of exposure in high risk sectors from 7% to 2%.

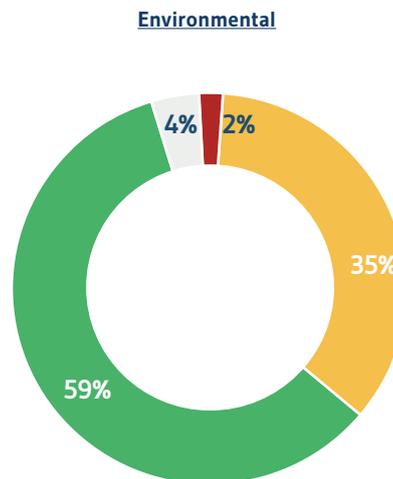


Figure 12: Investment portfolio: Heatmap after re-calibration

Due to the integration of information resulting from the “single name” analysis (ref. par. 4.2.1.1), the riskiness for the Environmental Pillar of some macro-economic (ISIC) sectors has changed:

- ◇ Sector D (Electricity, gas, steam and air conditioning supply) decreased from High Risk to Medium Risk
- ◇ Sector K (Financial and insurance activities) decreased from Medium risk to Low Risk
- ◇ Sector I (Accommodation and food services activities) decreased from Low risk to Negligible Risk
- ◇ Sector Q (Human health and social work activities) increased from Low risk to Medium risk.

Following the re-calibration process, the ISIC codes (2 digits) of the high-risk sectors on Pillar E are: Manufacture of chemicals and chemical products, Manufacture of basic metals, Manufacture of other non-metallic mineral products, Water transport, Air transport, Real estate activities and Residential care activities.

<sup>58</sup> As of 30th June 2022, 7% of the total exposure is evaluated through the Qualitative Questionnaire, 52% is evaluated using the information from an external infoprovder while the remaining is evaluated using the Heatmap average score of the sector of each counterparty.

## 4.2.2. Real Estate, Physical risk

### 4.2.2.1. Context: objectives, rationale and data source

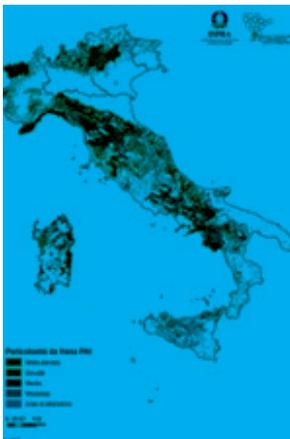
The importance of **physical risk** has been carefully analysed by **CheBanca!** (CB!), especially as **Italy** is considered to be one of the **European countries** most exposed to the effects of **climate change** and **environmental degradation**.

Therefore, in order to quantify its **exposure** to **physical climate** and **environmental risk**, CB! conducted an **assessment** on its **collateral portfolio**. This assessment aimed to show the **number** and the **economic value** of **real estate collateral** in the **CB! portfolio** located in **Italian municipalities** potentially exposed to **adverse climatic** and **environmental phenomena**.

CB! internally developed a **methodology** for the definition of **risk maps** aimed at classifying Italian municipalities by **risk level**. Given the morphological configuration of the Italian territory, **three adverse climatic** and **environmental phenomena** were taken into account for the assessment: **landslides**, **floods** and **earthquakes**. More specifically, CB! conducted assessments on **hydrogeological hazard** (landslide hazard and flood hazard), defined as **climate physical risk**, and **seismic hazard**, defined as **environmental physical risk**.

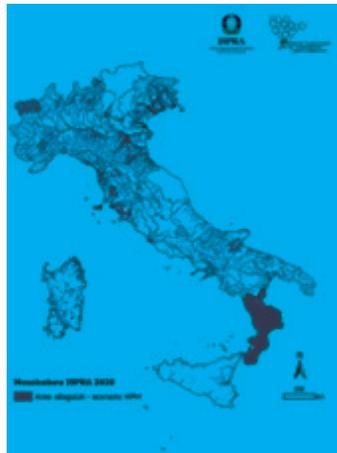
The methodology is based on publicly available data and research papers provided by the **Italian Institute for Environmental Protection and Research** (ISPRA) and "**Protezione Civile Italiana**".

#### Landslide Hazard



According to ISPRA, the total landslide hazard area in Italy is 60,481 km<sup>2</sup> (20% of the national territory)

#### Flood Hazard



Regarding floods hazard, according to ISPRA 5.4% of the national territory falls in high hazard areas, making up a potentially floodable area of 16.224 km<sup>2</sup>

#### Seismic hazard



According to the Protezione Civile's seismic classification, 44% of the national territory (133.000 Km<sup>2</sup>) is in a high-risk area, which corresponds to 36% of Italian municipalities (equivalent to 2.097)

4.2.2.2. Methodologies: landslide, flood, and seismic hazard

**Landslide hazard**

In order to define the **landslide risk level** at municipal level, the data provided by ISPRA on landslide hazard in Italy were used.

ISPRA defines hazard areas AA, P1, P2, P3, P4, taking into consideration the **frequency of occurrence** of the phenomenon – starting from historical data – and the **relevance of the event in terms of impact**.

Hazard related to the magnitude of landslide phenomena		Probable frequency			
		High	Medium	Low	Ancient landslides
Magnitude classes	6 - 9	P4	P4	P3	P1
	3 - 4	P4	P4	P3	
	1 - 2	P2	P1	P1	

According to ISPRA classification, **six landslide risk classes** were identified: **High risk, Medium High Risk, Medium Risk, Medium Low Risk, Low Risk and No Risk**.

**Flood hazard**

In order to define the **flood risk level** at municipal level, the data provided by ISPRA on **flood hazard** in Italy were used.

The flood hazard mosaic provided by ISPRA was carried out according to the **three scenarios: high probability** with return time between 20 and 50 years, **medium probability** with return time between between 100 and 200 years and **low probability**.

Probable frequency		
High (20 - 50 years)	Medium (100-200)	Low
P3	P2	P1

Through the definition of a **quantitative model, three flood risk classes** were identified: **High risk, Medium High Risk, Low Risk**.

**Seismic hazard**

In order to define the seismic risk level at municipal level, the data provided by “Protezione Civile” on seismic hazard in Italy were used.

According to the classification provided by “Protezione Civile”, four seismic risk classes were identified: **High risk, Medium High Risk, Medium Risk, Low Risk**.

Classification	
4	Low probability
3	Medium probability
2	Medium high probability
1	High probability

Starting from this three risk indicators, a synthetic physical risk metric was defined. This metric represents a monitoring indicator integrated into the Group’s Risk Appetite Framework, as detailed in paragraph 3.5.1.

## 4.2.3. Climate risks in Mediobanca assets

### 4.2.3.1. Methodology

The analysis of Group assets Climate risk is conducted consistently with Business continuity management model, with a yearly minimum frequency.

Business continuity risk is the risk of experiencing an interruption in business operations due to events that may impact the critical assets supporting critical business processes.

The Business continuity Framework implemented in Mediobanca Group, and in particular, the Risk Analysis process included in it, considers, among others, the effects of the physical risk (and, in particular, of the acute events) on those critical assets.

The analysis takes into consideration the probability and impacts of specific threats on three critical types of assets:

- ◇ human resources,
- ◇ the locations in which the critical Group processes take place,
- ◇ the ICT components, essential to maintain data and services supporting critical processes.

Many dimensions are evaluated, comprising, between others, the geographical concentration profiles and the constraints deriving from interdependencies, including between and with suppliers, customers and other operators.

The Risk Analysis maps and evaluates hazards according to different scenarios. In the table below, Climate-related hazards and corresponding scenarios comprised in the model:

Scenario	Hazard
<b>Destruction or inaccessibility of facilities in which business units or critical equipment are housed</b>	Flood
	Mediterranean Tropical-Like Cyclone
	Landslide
	Hailstorm
	Wildfire
	Environmental hazard following an adverse meteo-climatic event
	Snowstorms/heavy frost
	Strong wind/tornado
<b>Unavailability of personnel essential to the operation of business processes</b>	Drought
	Heatwaves

The resulting risk evaluation stems from an analysis of both direct and indirect impacts, as, for example, the costs of recovery or the reputational damage generated by the adverse event.

Regarding instead the adverse event probability, it is estimated starting from highly specialised external institutions datasets, among others, the Regional Agencies for Environmental Protection.

Risk is therefore evaluated according to impact, probability and mitigation measures in place, in the final form of a residual risk.

Following the Risk Analysis phase, mitigation measures are implemented so as to reduce the risk level below the acceptability threshold.

#### **4.2.3.2. Results**

The abovementioned methodology was **applied to the Group structures**. All the locations show a **low or even negligible risk** level with reference to the scenarios and hazards outlined in the table above. This is due to the relatively safe geographical location of the buildings and to the effective mitigation measures in place.

#### **4.2.3.3. Business continuity Governance**

Mediobanca Group has appointed a specialized Crises Management Committee and a Crises Office, that manage emergency situations, included adverse meteo-climatic events, coordinating the action of the involved structures.

The Business Continuity Management Office oversees the Operational Continuity within the Group Entities, operationally managing the abovementioned emergency situations, monitoring the risk levels and the adequacy of Business Continuity Management plans.





# Metrics and Targets



MEDIOBANCA

# 5. Metrics and Targets

## 5.1. Financed emissions

The Net-Zero Banking Alliance requires its signatories to measure and monitor over time Financed Emissions, defined as per the Scope 3 Category 15 of the GHG Protocol<sup>59</sup>.

Following our commitment to the Net-Zero Banking Alliance and in line with the Group's effort to integrate climate-related issues in its activities, a **first pilot exercise of Financed Emissions computation** has been conducted on **Mediobanca S.p.A. and Mediobanca International (Luxembourg) S.A.**, with a view to extending the boundary of the exercise over the next years.

In any case, the two legal entities **detain a major part of the total Group's exposure with respect to** the calculation boundary defined in section 5.1.1 (**on-balance Banking Book equities, loans and bonds**).

As suggested by TCFD guidance and indicated by the ECB<sup>60</sup>, the **computation has been performed according to the Partnership for Carbon Accounting Financials' (PCAF)** Global GHG Accounting and Reporting Standard for the Financial Industry (November 2020): a detailed guidance for financial institutions, developed in conformance with GHG Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard.

### 5.1.1. Product scoping

PCAF Standard does not currently provide explicit guidance on calculating GHG emissions for certain financial products including e.g. green bonds, sovereign bonds, loans for securitization, exchange traded funds and derivatives.

It details computation and attribution methodologies for six asset classes: Listed equity and corporate bonds, Business loans and unlisted equity, Project finance, Commercial real estate, Mortgages and Motor vehicle loans.

Mediobanca S.p.A. and Mediobanca International (Luxembourg) S.A.'s project finance, motor vehicle loans and mortgages (with regard to both commercial and residential real estate) exposure can be considered negligible (< 0,1% of the figure outlined below) with respect to other financial products exposure. Hence, computation has been performed according to Listed equity and corporate bonds, Business loans and unlisted equity PCAF methods.

59. Guidelines for Climate Target Setting for Banks, UNEP Finance Initiative, April 2021.

60. Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures, TCFD, October 2021; Guide on climate-related and environmental risks Supervisory expectations relating to risk management and disclosure, ECB, November 2020.

Given the pilot nature of this exercise, the scope of methodologies and the peculiarities of portfolio, **the computation has been executed on equities, bonds and loans, excluding derivatives and other assets.**

PCAF Standard only covers financial products that are on the balance sheet of the financial institution at the fiscal year-end, excluding also assets held for short duration or designated as held for sale. Financed Emissions computation has therefore been performed on **on-balance Banking Book**, excluding off-balance portfolio and Trading Book.

As far as the mentioned Group's entities are concerned, equities, loans and bonds total Banking Book proprietary exposure amounts to ~30 billion<sup>61</sup>. PCAF methodology is currently not available for 17% of this exposure (mainly sovereign bonds); the remaining 83% was all subject of Financed Emissions calculation except for a 1%, for which sufficient information was not available due to existing data gaps.

**Financed Scope 3 Emissions were therefore computed on 82% of the total equities, loans and bonds Banking Book proprietary exposure.**

### 5.1.2. GHG Scopes of counterparties

**The computation comprises Scope 1 and 2 emissions of counterparties.**

**Counterparty Scope 3 emissions**, which often constitute a major part of company emissions, **were also computed on** a subset of the 82% represented above: specifically, on **63% of the total 30-billion exposure.**

As of today, the financial sector is not mature in computing financed Scope 3 emissions, even though they represent the substantial majority of the sector emissions: disclosed figures, when present, often represent only limited parts of portfolios.

Since the sector constitutes a non-negligible part of the analysed 30-billion Mediobanca's portfolio (approximately one third, as detailed in section 5.2), in order not to provide a partial and highly subject to change figure, financial sector was excluded from counterparty Scope 3 computation.

Specifically, in line with PCAF Standard, which does not currently require to disclose counterparty Scope 3 emissions for all counterparty sectors, the industries excluded from Scope 3 analysis are the ones comprised in NACE Rev. 2 sections K (financial and insurance activities) and L (real estate activities).

Nevertheless, since some counterparties belonging to the financial sector to which Mediobanca is highly exposed to already disclose financed emissions (and compute them on a substantial majority of their portfolio), such counterparties were included in the calculation. This allowed to extend the counterparty Scope 3 computation to 63% of the total analysed portfolio.

61. As of 31/12/2021. The reference date has been chosen according the PCAF requirements, so as to allow a sound completion of the pilot exercise.

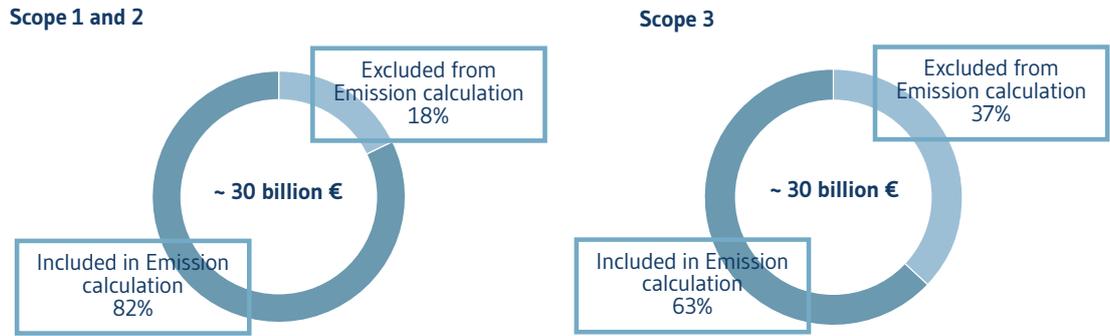


Figure 13: Percentage of exposure included in Financed Emissions computation, Scope 1 and 2 of counterparties on the left, Scope 3 on the right

### 5.1.3. Data quality

Counterparties emission data were provided by Sustainalytics<sup>62</sup>: they are publicly reported by counterparties themselves or computed by Sustainalytics with proprietary methodology.

In some cases, emission data were directly sourced from public reports of counterparties.

For those counterparties that do not disclose emission and whose emissions were not supplied by Sustainalytics<sup>63</sup>, emissions were computed according to the estimation methodology suggested by PCAF Standard. In particular, emission factors per unit of revenue or of asset were provided by the Partnership for Carbon Accounting Financials itself (PCAF Emission Factor Database), which Mediobanca S.p.A. has joined in February 2022.

**PCAF Standard defines a data quality score** which classifies emission data<sup>64</sup> according to a 1 to 5 scale, with **1 representing the maximum data quality** (verified emissions disclosed by the company are available) and **5 the minimum**.

In our analysis, data provided by Sustainalytics as reported by company or data derived directly from public reports belong to category 2. Counterparty emissions computed using PCAF Emission Factors per unit of revenue to category 4, using PCAF Emission Factors per unit of asset to category 5. Counterparty emissions estimated by Sustainalytics were conservatively assigned to category 4.

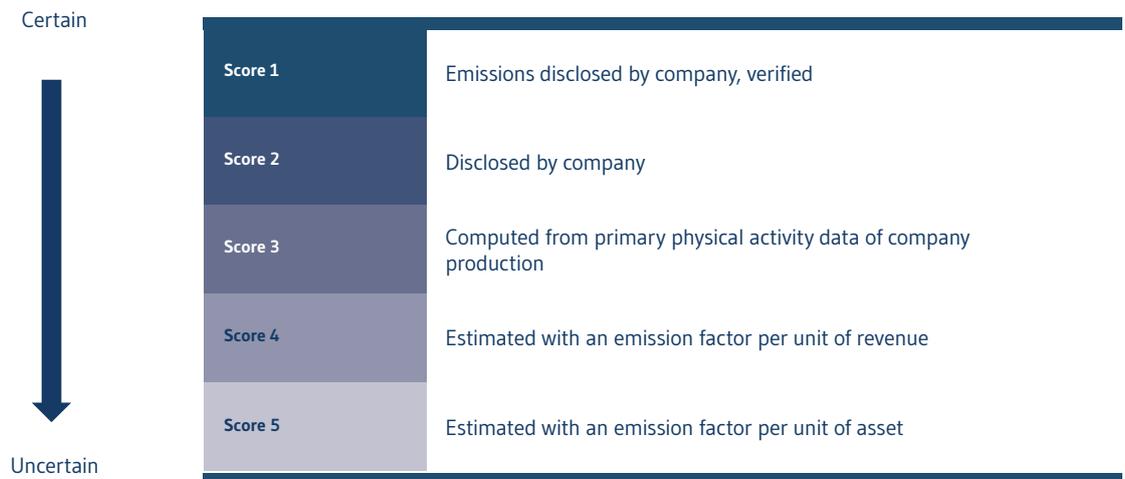


Figure 14: Adapted from the Partnership for Carbon Accounting Financials’ Global GHG Accounting and Reporting Standard for the Financial Industry

62. Morningstar Sustainalytics is the primary info-provider we relied on.

63. Or for which some necessary financial data were not available.

64. This is a simplification of data quality categories defined by PCAF on financed emissions, which do take into consideration also the availability of financial data (e.g. Enterprise Value Including Cash). However, the emission data usage as a consequence of financial data availability makes it possible to reconstitute financed emissions data quality to counterparty emissions data quality, as here represented.

This categorization results in the following overall data quality, computed as a weighted average over the single counterparty exposure, as prescribed by the Standard:

AVERAGE DATA QUALITY		
SCOPE 1	SCOPE 2	SCOPE 3
3.41	3.40	3.44

Quality 2 data were available for approximately half of the exposure subject of computation, both for Scope 1 & 2 and for Scope 3:

DATA SOURCE	SCOPE 1	SCOPE 2	SCOPE 3
Company report or Sustainalytics reported from company	53%	53%	48%
Sustainalytics - estimation	1%	1%	12%
PCAF Emission Factor	46%	46%	40%
Total exposure subject of computation	100%	100%	100%

With the objective of a continuous improvement, the Group will continue to monitor data quality. The Group recognises the progressive nature of the emissions data and methods represented below, which may be subject to further refinement as a consequence of Standard updates, data quality improvements, perimeter change, or other factors.

#### 5.1.4. Methods

Mediobanca approach to emission calculation is aligned with PCAF methods for *Listed equity and corporate bonds* and *Business loans and unlisted equity* asset classes.

Basing on data availability, the computation has followed three main different approaches. These three were applied for all counterparty emissions Scopes.

- ◆ Reported company emissions data or estimation by Sustainalytics is available, as well as the Enterprise Value Including Cash (EVIC, for listed companies) and the Outstanding amount of financing/investment:

$$\text{Financed emissions} = \sum_c \frac{\text{Outstanding amount}_c}{\text{EVIC}_c} \times \text{Reported or estimated company emissions}_c$$

where  $c$  indicates each borrower or investee company.

- ◆ Counterparty emissions are not available, but EVIC and counterparty revenue are:

$$\text{Financed emissions} = \sum_c \frac{\text{Outstanding amount}_c}{\text{EVIC}_c} \times \text{PCAF factor per unit of revenue}_{\text{sector, country}} \times \text{Revenue}_c$$

where *sector* and *country* refer to the sector and country to which the considered counterparty belongs to.

- ◇ EVIC is not available or counterparty emissions are not and revenue is not:

$$\text{Financed emissions} = \sum_c \text{Outstanding amount}_c \times \text{PCAF factor per unit of asset}_{\text{sector, country}}$$

EVIC was sourced from Sustainalytics, company revenue partly from Sustainalytics and partly from other databases/providers.

For what concerns the loan portfolio, in line with PCAF Standard, the exposure amount corresponds to the outstanding exposure; for the equity portfolio instead to the market value; lastly, the bond exposures are expressed using the book value. **These figures refer to the 31st of December 2021 Mediobanca S.p.A. and Mediobanca International (Luxembourg) S.A. portfolios.**

### 5.1.5. Results

The table below represents:

- ◇ the total absolute emissions separated according to counterparty Scope of emission and
- ◇ the economic emission intensity, given by the ratio between total absolute emissions and total exposure subject of emission computation.

TOTAL EMISSIONS [Million tCO <sub>2</sub> eq]	SCOPE 1	SCOPE 2	SCOPE 3
8.5	2.3	0.2	6.0
EMISSION INTENSITY [tCO <sub>2</sub> eq/ Million € invested/borrowed]	SCOPE 1	SCOPE 2	SCOPE 3
	94.8	10.1	318.9

#### Scope 1 and 2 absolute emissions are mostly concentrated in:

Sector	% of sector Scope 1 plus Scope 2 emissions relative to Scope 1 plus Scope 2 total emissions
Oil & gas (NACE <sup>65</sup> Rev. 2 division 6)	28%
Manufacture of other non-metallic mineral products (mainly cement manufacture, NACE division 23)	24%
Electricity, gas, steam and air conditioning supply (NACE division 35)	21%
Water transport (NACE division 50)	5%
Manufacture of chemicals (NACE division 20)	3%

65. The NACE Rev. 2 classification presented in this paragraph refers to a managerial internal classification.

Indeed, the Group has adopted an internal classification aligned with the one used for managerial purposes, in order to better represent the economic activity carried out by each counterparty.

It should be noted that NACE codes used for regulatory purposes ensure lower adherence to the effective counterparties' nature of activity and to exercise's objective than the internal classification; moreover, they lead to a misalignment with respect to the Group's managerial framework.

The **most emission intensive sectors**, with regard to Scope 1 and 2 total intensity, are:

- ◇ Oil & gas (NACE Rev. 2 division 6),
- ◇ Manufacture of other non-metallic mineral products (NACE division 23),
- ◇ Water transport (NACE division 50),
- ◇ Air transport (NACE division 51),
- ◇ Manufacture of coke and refined petroleum products (NACE division 19).

Regarding instead **Scope 3, absolute emissions are concentrated in:**

Sector	% of sector Scope 3 emissions relative to total Scope 3 emissions
Insurance, reinsurance and pension funding (NACE Rev. 2 division 65)	24%
Manufacture of motor vehicles, trailers and semi-trailers (NACE division 29)	15%
Oil & gas (NACE division 6)	13%
Manufacture of food products (NACE division 10)	12%
Electricity, gas, steam and air conditioning supply (NACE division 35)	5%

The sectors which show the **largest Scope 3 emission intensity** are:

- ◇ Oil & gas (NACE Rev. 2 division 6),
- ◇ Manufacture of motor vehicles, trailers and semi-trailers (NACE division 29),
- ◇ Manufacture of food products (NACE division 10),
- ◇ Manufacture of coke and refined petroleum products (NACE division 19),
- ◇ Manufacture of chemicals (NACE 20 division).

## 5.2. Carbon-related sectors

Sector (Managerial NACE)	Description	Volume [Mld €]
<b>B</b>	<b>Mining and Quarrying</b>	<b>0.3</b>
<b>C</b>	<b>Manufacturing</b>	<b>5.9</b>
<b>D</b>	<b>Electricity, gas, steam and air conditioning supply</b>	<b>1.9</b>
E	Water supply; sewerage, waste management and remediation activities	< 0.1
<b>F</b>	<b>Construction</b>	<b>&lt; 0.1</b>
<b>G</b>	<b>Wholesale and retail trade; repair of motor vehicles and motorcycles</b>	<b>0.7</b>
<b>H</b>	<b>Transportation and storage</b>	<b>1.5</b>
I	Accommodation and food service activities	0.4
J	Information and communication	2.2
K	Financial and insurance activities	10.1
<b>L</b>	<b>Real estate activities</b>	<b>0.7</b>
M	Professional, scientific and technical activities	0.2
N	Administrative and support service activities	0.1
O	Public administration and defence; compulsory social security	5.1
Q	Human health and social work activities	0.3
R	Arts, entertainment and recreation	0.3
U	Activities of extraterritorial organisations and bodies	< 0.1
<b>Total</b>		<b>29.8<sup>66</sup></b>

The table above represents Mediobanca exposure breakdown per managerial<sup>67</sup> NACE Rev. 2 section, as per financed emission calculation boundary (see paragraph 5.1.1), that is Mediobanca S.p.A. and Mediobanca International (Luxembourg) S.A., as far as proprietary Banking Book lending & investment portfolios are concerned (equities, bonds, loans). Regarding the lending portfolio, figures are expressed in terms of outstanding exposure.

Highlighted in bold in table are the sections defined as “Carbon-related” according to TCFD “Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures” (October 2021). They amount to approximately 34% of the ~30-billion analysed exposure.

## 5.3. Lending portfolio targets

Climate targets on the **Power and Automotive sectors proprietary lending exposure** of Mediobanca S.p.A. and Mediobanca International (Luxembourg) S.A. have been set. Such targets, aligned with a 1.5° climate ambition, are summarised in the table below. More details about the target setting methodology can be found in paragraph 3.4.5.

SECTOR	TARGET METRIC	BASELINE (2021)	INTERMEDIATE TARGET (2030)	NET ZERO TARGET	NET ZERO TARGET YEAR
<b>Power</b>	tCO <sub>2</sub> eq/MWh	0.24	0.08	0	2040
<b>Automotive</b>	gCO <sub>2</sub> /km	208	115	4	2050

66. 31/12/2021 figure, according to the boundaries defined in paragraph 5.1.1

67. See footnote 65.

## 5.4. Targets & Metrics relative to direct impacts (own operations)

### 5.4.1. Direct GHG Emissions and energy consumption

The Group's energy consumption is linked primarily to its use of heating and air-conditioning systems, the functioning of its data centre and server rooms, to office lighting systems and to business-related travel by staff.

Currently the whole Mediobanca Group in Italy uses energy deriving from renewable sources, under the terms of a framework agreement under which renewable electricity certified by a "Guarantee of Origin" is acquired from CVA Trading. The electricity used for the data centre also comes from 100% renewable sources.

Outside Italy, the Bank's London, Paris and Madrid offices used electricity from renewable sources, as do Group legal entities Cairn Capital, Messier & Associés, Mediobanca International, Mediobanca Management Company, and RAM's Milan office. CMB Monaco too has attained EGEO certification stating that its electricity comes from renewable sources and the e+ label for its sites.

The Group monitors its own direct emissions, deriving from direct consumption of energy, i.e. natural gas and diesel for heating and fuel for its company fleet management (Scope 1), indirect emissions deriving from consumption of electricity acquired from third parties (Scope 2, Market-based and Location-based), and transfers of its staff members and collaborators by train and by air (Scope 3).

In order to reduce energy consumption and direct GHG emissions, the Group has adopted various initiatives during the 2021-2022 fiscal year. For additional details in relation thereof please refer to Section 8.4 Energy consumption and CO2 emission of the Consolidated Non-Financial Statement 2021-2022<sup>68</sup>.

Energy consumption and related emissions are shown in the tables below.

Direct energy consumption				
	Unit	2021-2022	2021-2022	2019-2020
<b>Direct energy consumption<sup>69</sup></b>		<b>52,289.88</b>	<b>49,742.23</b>	<b>58,061.53</b>
<b>From non-renewable sources</b>	Gj <sup>70</sup>	<b>29,415.95</b>	<b>26,606.01</b>	<b>23,602.82</b>
Diesel		60.51	3.60	-
Natural gas <sup>71</sup>		29,355.44	26,602.41	23,602.82
<i>From unnamed users</i>		<i>19,063.75</i>	<i>16,928.16</i>	<i>13,679.90</i>
<i>From named users</i>		<i>10,291.69</i>	<i>9,674.25</i>	<i>9,992.92</i>
<b>From company cars<sup>72</sup></b>		<b>22,863.93</b>	<b>23,136.22</b>	<b>34,458.71</b>
Diesel		15,748.77	17,858.91	28,354.15
Petrol		7,115.16	5,277.30	6,104.56

68. For further details see the Consolidated Non-Financial Statement 2021-2022 available at the following link [https://www.mediobanca.com/static/upload\\_new/non/non-financial\\_statement\\_2022.pdf](https://www.mediobanca.com/static/upload_new/non/non-financial_statement_2022.pdf)

69 For direct energy consumption, where figures are not available estimates have been used: for natural gas in cases involving shared building expenses of which the precise share cannot be calculated, consumption has been estimated on the basis of the floor space in the building actually occupied, or thousandths of the property owned. For bills still to be received, consumption has been estimated based on the previous year's figures. Data on fuel consumption by company cars which is not available has also been estimated using a similar method

70. Gigajoule

71. Consumption by Cairn Capital Group Limited at its former premises were not monitored (no details were available for consumption by the building at which its offices were located). Since October 2020, when the company transferred to its new offices in London, there has been no gas consumed.

72. Data on fuel consumption for CMB is unavailable as fuel consumption is paid directly by the employees with no refund

Indirect energy consumption				
	Unit	2021-2022	2021-2022	2019-2020
<b>Indirect energy consumption<sup>73</sup></b>		<b>88,051.77</b>	<b>86,309.16</b>	<b>88,435.55</b>
<b>Electricity</b>		<b>86,436.12</b>	<b>85,325.40</b>	<b>87,236.38</b>
From non-renewable sources		662.65	757.02	1,917.39
From renewable sources		84,773.47	84,568.38	85,318.98
<b>Thermal energy</b>	GJ <sup>67</sup>	<b>1,615.65</b>	<b>983.76</b>	<b>1,199.17</b>
From non-renewable sources		399.92	250.02	219.88
From renewable sources		1,215.73	733.74	979.28

The Group's commitment to transitioning to electricity generated from renewable sources continues.

Direct and indirect CO2 emissions <sup>74</sup>				
	Unit	2021-2022	2021-2022	2019-2020
<b>Direct emissions (Scope 1)</b>		<b>3,403.18</b>	<b>3,258.38</b>	<b>3,928.80</b>
From non-renewable sources (natural gas, diesel)		1,706.12	1,539.07	1,368.05
From company cars (petrol and diesel)		1,697.06	1,719.31	2,560.76
<b>Indirect emissions (Scope 2) – market based</b>		<b>62.74</b>	<b>65.06</b>	<b>162.89</b>
From electricity and thermal energy		62.74	65.06	162.89
<b>Indirect emissions (Scope 2) – location based</b>		<b>6,503.18</b>	<b>6,818.51</b>	<b>7,527.66</b>
From electricity and thermal energy		6,503.18	6,818.51	7,527.66
<b>Indirect emissions deriving from company mobility (Scope 3)<sup>75</sup></b>	Ton CO <sub>2e</sub>	<b>774.59</b>	<b>112.82</b>	<b>1,527.12</b>
<b>Air travel</b>		<b>703.94</b>	<b>83.24</b>	<b>1,370.37</b>
<i>Domestic flights</i>		154.94	40.22	298.52
<i>International flights</i>		549.00	43.02	1,071.85
<b>Train travel</b>		<b>63.03</b>	<b>27.24</b>	<b>137.37</b>
<i>High speed</i>		55.88	25.26	124.95
<i>Other types of train travel</i>		7.15	1.98	12.42
<b>Third-party car services</b>		<b>7.63</b>	<b>2.34</b>	<b>19.38</b>

73. Where indirect energy consumption figures are not available estimates have been used: for shared building expenses of which the precise share cannot be calculated, consumption has been estimated on the basis of the floor space in the building occupied. For bills still to be received, consumption has been estimated based on the previous year's figures.

74. For direct emissions (Scope 1), indirect emissions (Scope 2) and company cars (Scope 3), we have used the emission factors recommended in the "Guidelines on application of GRI (Global Reporting Initiative) environmental indicators in banks" released by the Italian banking association (ABI) and compiled in the "Italian Greenhouse Gas Inventory 1990 – 2019 – National Inventory Report 2021, Annex 6 National Emission Factors" – by ISPRA (Istituto Superiore per la Protezione e la Ricerca Ambientale). For direct emissions deriving from air and train travel, we have used the emissions for each individual route published by the travel agencies. Where these are unavailable, we have used the emissions factors recommended in the ABI guidelines compiled respectively by the ICAO (International Civil Aviation Organization) and the UIC (Union Internationale des Chemins de Fer) via Ecopassenger.

75. For indirect emissions (Scope 3), estimates have been used in cases where no data was available for recent months, based on the consumption figures recorded in the months prior to that, or using the consumption figures for the same period in the previous year.

The increase in the supply of electricity from renewable sources has generated a reduction in Scope 2 market-based emissions. The Group also reported higher Scope 3 emissions due to the increase of business-related travel due to the end of Covid-19 pandemic lock-down.

A change to the methodology used to calculate the company car fleet has been introduced in FY 2020-21. The new “**manufacturers**”<sup>76</sup> methodology, replacing the **ABI** methodology used in previous fiscal years, enables the increasing efficiency of the car fleets’ emissions to be monitored more accurately.

As a result of the change in this methodology, a reduction in emissions has been recorded, due in part to the gradual replacement of older vehicles with lower-emission ones, and to the reduction in mileage because of the pandemic.

Energy intensity <sup>77</sup>				
	Unit	2021-2022	2021-2022	2019-2020
<b>Direct energy intensity</b>	Kwh/m <sup>2</sup>	87.99	84.10	95.65
<b>Indirect energy intensity</b>	Kwh/m <sup>2</sup>	148.19	145.93	145.68

Emission intensity <sup>78</sup>				
	Unit	2021-2022	2021-2022	2019-2020
<b>Emission intensity (Scope 1)</b>	tCO <sub>2</sub> /m <sup>2</sup>	0.0206	0.0198	0.0235
<b>Emission intensity (Scope 2)</b>	tCO <sub>2</sub> /m <sup>2</sup>	0.0002	0.0003	0.0009

To pursue the strategic objectives outlined in chapter 3.2.2, the Group has set targets also on its own operations. Although already presented in chapter 3.2.3, we report them here for completeness:

OBJECTIVES TO 2023	30/6/22
<ul style="list-style-type: none"> <li>• 94%<sup>79</sup> energy from renewable sources</li> <li>• 11%<sup>80</sup> reduction in CO<sub>2</sub> emissions vs FY18/19</li> <li>• Hybrid cars at 72% of the Mediobanca Group’s float in Italy<sup>81</sup></li> </ul>	<ul style="list-style-type: none"> <li>• 94% energy from renewable sources</li> <li>• CO<sub>2</sub> emissions -17% vs FY18/19</li> <li>• 41% of hybrid cars</li> </ul>

## 5.4.2. Carbon neutrality

Also in FY20/21, as well as in FY19/2020, the Mediobanca Group became carbon neutral (Scope 1, Scope 2 and Scope 3 mobility linked emissions), by offsetting its remaining CO<sub>2</sub> emissions following the domestic mitigation actions undertaken<sup>82</sup>. The offset was made possible by the purchase of carbon credits generated by two international carbon offset projects: a hydroelectric project in India and a REDD+ (Reducing emissions from deforestation and forest degradation) project in Brazil, aimed respectively at generating clean energy and conserving an area of the Amazon rainforest.

76. According to this methodology, for vehicles with no fuel card, the number of kilometres actually travelled each year out and the number of actual months’ use are used, converting g/km emissions into g/l using the parameters supplied by the car hire firms, which take all options for each individual model (diesel, petrol, hybrid) into consideration, and so show the effect of the reduction in consumption deriving from the addition of electric vehicles to the company fleet.

77. Ratio between energy consumption and the total surface area of the Group’s premises (m<sup>2</sup>).

78. Ratio between emissions and the total surface area of the Group’s premises (m<sup>2</sup>).

79. target adjusted from the original (92%).

80. For Scope 1 + Scope 2 Market-based, named users. Target adjusted from the original (15%) due to delays in the delivery of hybrid cars and the extension of fuel cards to the entire commercial and pool segments.

81. Target adjusted from original 90% because of delays in delivery of electric/hybrid cars due to pandemic and war.

82. The ones offset in 2021 related to the 2020-21 Financial Year for a cumulative 3,437 tCO<sub>2</sub>eq amount, sharply reduced from the previous fiscal year.

This certified international project is complemented by local forestry efforts with the donation and maintenance of 1000 trees, which to be planted by Group's employees in the Madonie Park in the province of Palermo, devastated by fires in summer 2021.

### 5.4.3. Responsible supply chain management

The Group seeks to develop relations with its suppliers based on the principles of fairness, transparency and equal treatment.

During the reporting period the Group had a total of 7,113 suppliers with a turnover of €609,651 m.

The acquisition of goods and services is normally centralized at the Group Procurement, which, through competitive and negotiation processes, selects the suppliers based on their knowledge and professional capabilities, their organizational solidity and sustainability and the Group's aim to obtain value for money. In particular, the Group is committed to avoiding situations of conflict of interest and ensuring selection on the basis of transparent and objective criteria.

The Group Directive on purchasing processing management and the Purchasing process management operating procedure require that suppliers involved in the competitive processes or contracts managed by Group Procurement must actually qualify under qualification guidelines set at Group level, furnishing: suitable documentation, earnings/financial data which show they are able to supply the good/service concerned, positive earnings results and no negative issues of any kind.

Relations with suppliers are conducted based on principles of fairness and integrity, and suppliers are reminded of the need to do business according to standards of conduct which are consistent with those set down in the Group's Code of Ethics.

During the second half of the fiscal year, a project for ESG assessment of suppliers, overseen by Group Procurement, was launched with Cerved Rating Agency.

Cerved is the Italian rating agency specializing in assessing the creditworthiness of companies. The agency also assesses the sustainability of economic operators (companies, financial institutions, insurance companies), developing innovative solutions thanks to an ESG methodology in line with international best practices.

In fact, the agency provides its clients with a digital platform for collecting and measuring non-financial data from suppliers, with the aim of providing external certification.

The process of data collection and evaluation of an initial batch of 50 suppliers is currently underway<sup>83</sup>.

83. For further details see Section 6.2 "Responsible supply chain management emission" of the Consolidated Non-Financial Statement 2021-2022 available at the following link [https://www.medioBANCA.com/static/upload\\_new/non/non-financial\\_statement\\_2022.pdf](https://www.medioBANCA.com/static/upload_new/non/non-financial_statement_2022.pdf)





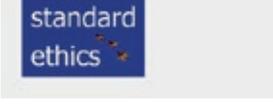
# Mediobanca ESG Ratings and Indexes



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# 6. Mediobanca ESG Ratings and Indexes

For further details on the Group's own operations impact, see Section 6.2 Responsible supply chain management emission of the Consolidated Non-Financial Statement 2021-2022<sup>83</sup>.

	2022 included in the index
	2022 included in the index <i>Fourth year running</i>
	2021- <i>Current rating: C</i> <i>A,A- leadership / B, B- management / C, C- awareness / D, D- disclosure</i>
	2021 not included in the index <i>Score MB: 64/100 (+11 Y-o-Y)</i>
	2022 included in the index (percentile rank: 78) <i>Score MB: Environment: 3.0 – Social: 3.8 – Government: 4.1 (0/5: higher better)</i>
	2022 <i>ESG IDENTITY – IGI COMPANY: recognition for companies that have agreed to take up the Integrated Governance Index 2022 challenge.</i>
	<i>Score MB 2021: Environment: 2 – Social: 1 – Government: 2</i> <i>Lower risk = 1, Higher risk =10</i> <i>ESG Corporate rating: C</i> <i>D-,D, D+: poor / C,C, C+: medium / B-,B, B+: good / A-,A,A+: excellent</i>
	included in the index
	Current Rating <b>A</b> (last updated October, 2021) <i>CCC/B/BB/BBB/A/AA/AAA</i>
	Current Rating <b>EE-</b> (outlook positive) <i>EEE; EEE-; EE+; EE; EE-; E+; E; E-; F</i> from EEE to EE-: <b>compliant</b> ; E or lower: non-compliant; F: negative



Current Rating: **14.2/100** (last updated April 2022)  
**ESG Risk:** 0-10 negligible; **10-20 low**; 20-30 medium; 30-40 high, 40+severe



Score MB 2021 **63/100 – Advanced** (last updated April 2022)  
**Environment: 62** (sector average 44)  
**Social: 59** (sector average 43)  
**Governance: 69** (sector average 49)



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Tutte le foto e le immagini provengono dagli edifici e dalle sedi di Mediobanca