ESG: RISK OR OPPORTUNITY?

14 June 2022

MEDIOBANCA

AGENDA

1. The context: overview
2. ESG products: challenges and opportunities for banks
3. Mediobanca in the ESG: profile and credentials

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THE CONTEXT

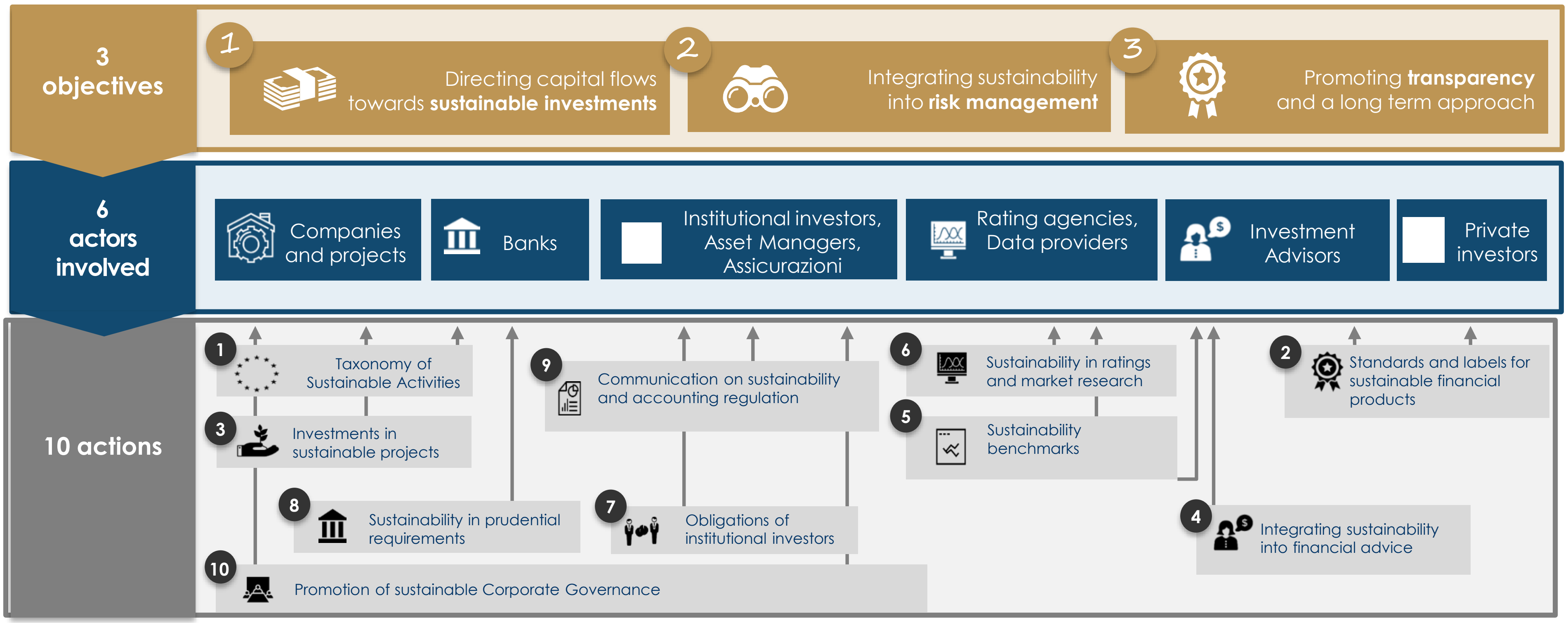
Overview

EU Action Plan

Sustainable finance: a tool for grounding the strategy

The institutional context Section 1

In March 2018, the Commission published the **EU Action Plan Financing Sustainable Growth** aimed at improving the contribution of the financial sector in supporting the European Union's Climate and Sustainable Development Programme:



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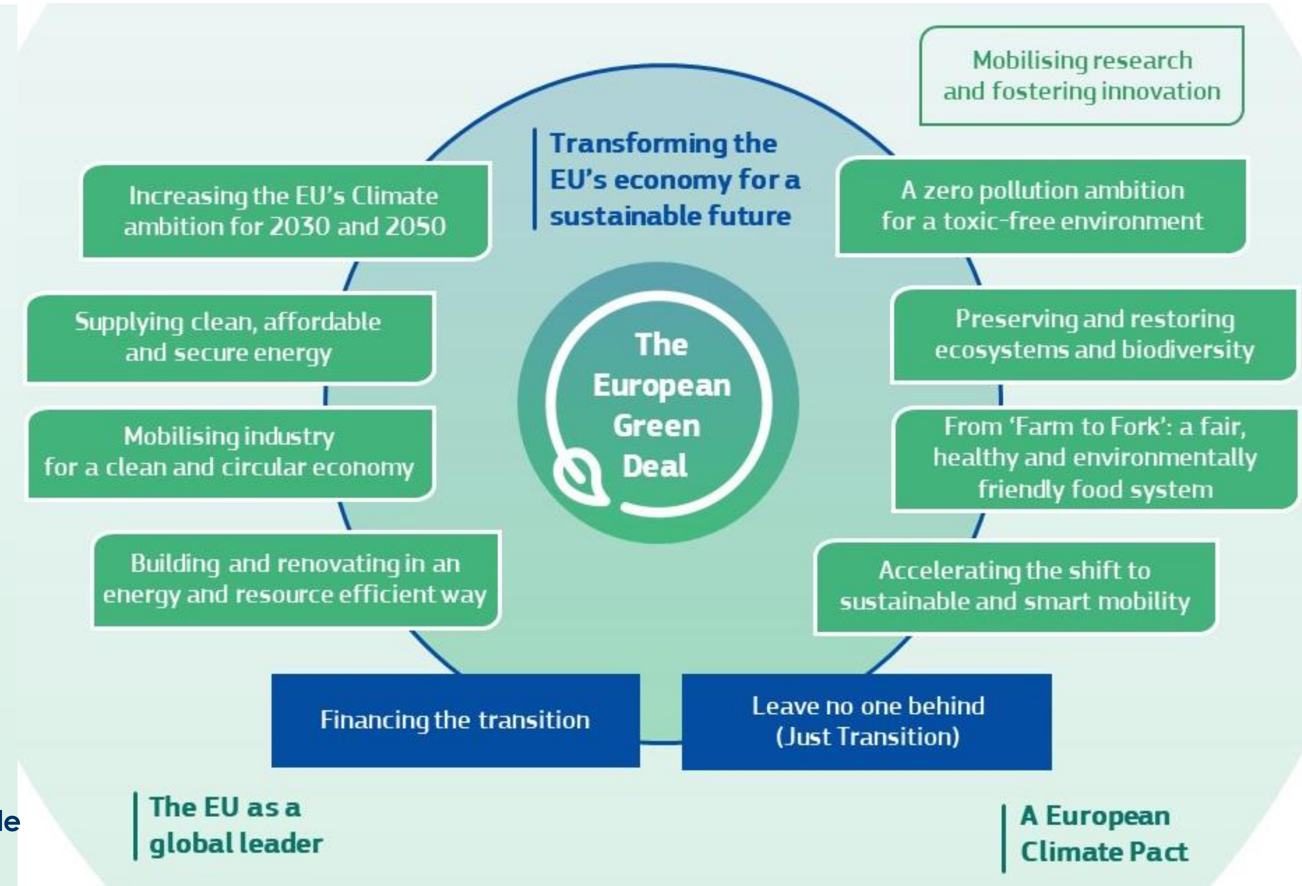
EUROPEAN GREEN DEAL
THE EUROPEAN STRATEGY TO SUPPORT THE TRANSITION

In December 2019, the European Commission unveiled the **European Green Deal**, a roadmap that aims to meet the challenges posed by climate change to ensure the EU's green transition into an equitable society with a modern, resource-efficient economy and no net GHG emissions by 2050.

EU Green Deal
(December 2019)

EU Action Plan Financing Sustainable Growth
(March 2018)



The green transition will be supported by **the Green Deal Investment Plan**, which aims to mobilize at least **1 trillion in investment**, including public and private resources within the next decade

Through the "**Just Transition Mechanism**", the EC has decided to invest around 100 billion euros in countries, sectors and workers most **affected by the transition** to a green economy

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The role of banks in managing climate risk

The institutional context **Section 1**

Banks should extend and integrate the approach with which they manage ESG issues, moving from a mere consideration of these factors in the context of Corporate Social Responsibility to a **broader commitment to sustainability at a strategic and risk management level.**

1 INTERCONNECTION BETWEEN THE ECONOMY AND THE BANKING SYSTEM

Governing climate change will require an **inevitable change in the economic system**. And banks have a key role in allocating funds in the economic system.

Consequently, the idea would be to provide banks with incentives to allocate more resources to "green" initiatives that result in **greater benefits** to institutions in terms of **lower capital requirements.**

*Consequently, there are ideas to give banks an **incentive to allocate more capital to green projects and assets**. […] In other words, c**apital requirements for exposures to green assets should be lower***

2 CHALLENGING SUSTAINABILITY GOALS

The **treatment of bank exposures** to the green economy is **based on the risks inherent** in the same

These sustainability risks must be carefully analysed before political conclusions are reached. Any additional **benefit in terms of capital exemption** for "green" investments **must be based on clear evidence that they are less risky** than assets that can be defined as "brown"

*From my point of view as a supervisor, **it is not as easy as that**. […] Thus, the **treatment of exposures to certain assets should be based on their risks**. These risks must be **carefully analysed** before we jump to policy conclusions. **Any capital relief for green assets must be based on clear evidence that they are less risky than non-green assets***

3 NEW RISK DRIVERS IN ENVIRONMENTAL AND CLIMATE CHANGE TERMS

Climate change certainly has **negative impacts** in terms of **risk** for the banking sector

These risks are divided into **physical risks** related to climate change and **transition risks**: the former will have an impact on bank balance sheets in terms of economic and financial costs, the latter will have an impact on the **composition of the banking book**

*That said, **climate change certainly poses risks to banks**. There are two broad categories of new risk drivers. First, there are the **physical risks**. […] These disasters will **lead to economic and financial costs**, which might very well have an **impact on the balance sheets of banks**. Second, there are **transition risks**. Given that the economy will go **from "brown" to "green"**, **some sectors might suffer** – those which are carbon-intensive, for instance. And to the degree that **banks** are **exposed to these sectors**, they might **suffer as well***

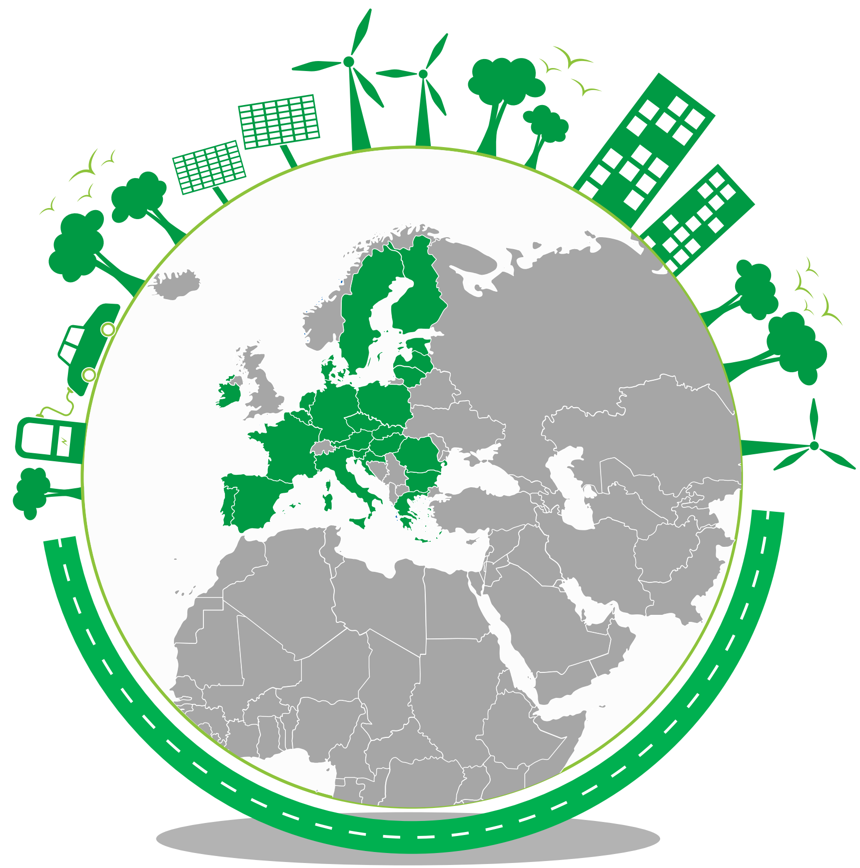
Andrea Enria, Chair of the Supervisory Board of the **ECB**, during the Retail Banking Conference "***Creating sustainable financial structures by putting citizens first"*** of the *European Savings Bank Group – 19 November 2019*

WHY THE EU TAXONOMY AND WHAT IS IT?

To meet the **EU's 2030 climate and energy targets** and realize the goals of the **European Green Deal** (reduction of emissions by at least 55% by 2030 and carbon neutrality by 2050), it is essential to **direct investments towards sustainable projects and activities**.

A common language and a clear definition of what is "sustainable" are required to achieve this.

For this reason, the Action Plan on Financing Sustainable Growth requested the creation of **a common classification system for sustainable economic activities** - **"EU-Taxonomy".**



EU Taxonomy Regulation: Climate objectives

Section 1

The EU Taxonomy is a tool that helps investors understand whether an economic activity can be defined as "sustainable from an environmental point of view", by defining a list of economic activities recognized as "sustainable"

6 Objectives

1. **Climate Change Adaptation**
2. **Climate Change Mitigation**
3. **Protection of Water and Marine**
4. **Circular Economy Transition**
5. **Pollution Prevention & Control**
6. **Biodiversity & Ecosystem Protection**

Economic activities included in the taxonomy

- **Already "low carbon"** activities: Low, zero or negative carbon emissions compatible with a neutral economy in emissions
- Activities "**in transition**" ... towards an emission neutral economy by 2050
- "**Enabling**" activities… which allow emission reductions in other activities Adaptation to climate change

Sectors included in the taxonomy

Regulation 2020/852 establishes **six environmental objectives** through which an economic activity can be classified as sustainable if: (i) it **contributes to** at least one of the objectives, (ii) **without significantly harming** any of the others, (iii) it meets the **criteria of technical screening** established by the Commission and (iv) is carried out in compliance with the **minimum guarantees** for the protection of human rights.

ESG PRODUCTS

Challenges and opportunities for banks

ESG PRODUCTS IN THE FINANCIAL MARKET
GREEN, SOCIAL AND SUSTAINABILITY BONDS

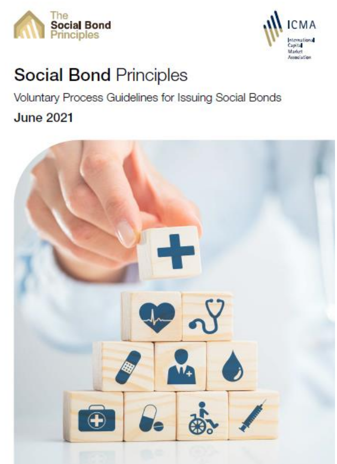
In order to achieve **a successful transition to a sustainable global economy**, it is necessary to encourage the **financing of investments that provide environmental and social benefits**.

The bond market, through **Green, Social and Sustainability bonds**, can play an essential role in attracting private capital to global sustainable development goals and encouraging companies to invest in sustainability.

Green, Social and Sustainability bonds are instruments whose proceeds are used only for projects with social and/or environmental benefits.

The **Green Bond Principles (GBP), the Social Bond Principles (SBP) and the Sustainability Bond Guidelines (SBG)** are the currently most widely used frameworks for issuing green, social and sustainability bonds.

Green bonds are any type of bond instrument whose proceeds are used exclusively to finance or refinance, in whole or in part, new and/or pre-existing environmental projects. For example: climate change mitigation, conservation of natural resources, preservation of biodiversity, and pollution prevention and control



Social bonds are financial instruments aimed at financing or refinancing projects with social implications or for the benefit of certain categories of people (e.g. people in poor, vulnerable, unemployed, etc.)

Sustainability bonds are bonds whose proceeds are used exclusively to finance or refinance a combination of Green and Social Projects

Mediobanca issued the **first green bond in September 2020**, with the aim of consolidating the ESG funding channel by diversifying the sources of financing and aiming at the green transition of the Bank's portfolio, **in line with the 2019-2023 strategic plan**

The **International Capital Market Association (ICMA)**, in addition to what was seen on the previous slide, has developed principles related to **Sustainability-Linked Bonds ("SLBs")** that aim to further develop the key role that debt markets can play in financing and encouraging companies to invest in sustainability.

Sustainability-linked bonds are any type of bond that can vary depending on whether or not the issuer achieves predefined sustainability/ESG targets. In this sense, issuers therefore explicitly commit themselves (also in the bond documentation) to achieving certain future sustainability results within a predefined timeframe. SLBs are therefore a future-oriented instrument based on the sustainability performance of the issuer

Also growing is the focus on sustainability-linked loans (**ESG- or Sustainability-linked loans "SLL"**), which incentivize companies to improve their ESG performance by directly linking the financial terms of a loan to predetermined sustainability goals.

SUSTAINABILITY-LINKED LOANS

ESG-linked loans are all types of loan instruments that incentivize the borrower's achievement of ambitious sustainability performance goals.
The borrower's sustainability performance is measured against **pre-defined sustainability performance targets (SPTs),** as measured by **performance indicators (KPIs)** that may include external assessments and/or equivalent metrics, and that measure improvements in the borrower's sustainability profile.

TAXONOMY ALIGNED DEBT PRODUCTS


COMMISSIONE EUROPEA

Bruxelles, 4.6.2021
C(2021) 2800 final

ANNEX 1

ALLEGATO

del

Regolamento delegato (UE) …/... della Commissione

che integra il regolamento (UE) 2020/852 del Parlamento europeo e del Consiglio fissando i criteri di vaglio tecnico che consentono di determinare a quali condizioni si possa considerare che un'attività economica contribuisce in modo sostanziale alla mitigazione dei cambiamenti climatici o all'adattamento ai cambiamenti climatici e se non arreca un danno significativo a nessun altro obiettivo ambientale

{SEC(2021) 166 final} - {SWD(2021) 152 final} - {SWD(2021) 153 final}

IT IT

The EU Taxonomy Regulation **enhances the opportunities** for banks to further develop ESG products.

In particular, the bank can direct its funds to sustainable economic activities as defined by the EU Taxonomy Regulation and can therefore have a **positive impact** on the Bank's **Green Asset Ratio** trough its lending process.

The "Climate Delegated Acts" to EU Taxonomy Regulation include a list of specific criteria for different economic activities that can be used for the definition of **Taxonomy-aligned products** for the environmental objectives of:

- ✓ **climate change mitigation (Annex I)** and
- ✓ **adaptation to climate change (Annex II)**.

Further delegated acts will be published in the coming months and may determine further business development opportunities:

- ✓ In March 2022 the Platform on Sustainable finance published a report containing final recommendations on technical screening criteria for the **four remaining environmental objectives**. By the end of 2022 the EU Commission is expected to review the Platform suggestion report and publish a second Delegated Act.
- ✓ In February 2022 the Platform on Sustainable Finance published a report with preliminary considerations for the development of a **Social Taxonomy**.

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Sustainable and Responsible Investment products

The EU Taxonomy helps to establish a common language and a clear definition of the activities that can really be identified as 'sustainable', thus playing an important role in increasing sustainable investments (SRI – Sustainable and Responsible Investment) and is proposed as a useful tool to "fight greenwashing".

Transparency of financial products within pre-contractual information and periodic reports:

Products that promote environmental and social characteristics (ex Art. 8 EU Reg. 2019/2088) or that have as their objective sustainable investments (ex Art. 9 EU Reg. 2019/2088) must declare whether the underlying investments refer to economic activities considered environmentally sustainable by the taxonomy.

Where a financial product does not promote environmental and social characteristics or does not target sustainable investments, it shall include: 'The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities'.

***Article** 8 EU Reg. 2019/2088*
Financial product that promotes, among other characteristics, environmental or social characteristics, or a combination of such characteristics, provided that the undertakings in which the investments are made comply with good governance practices

***Article 9** EU Reg. 2019/2088*
Financial product that aims to invest in sustainable investments and has been designated as a benchmark

MEDIOBANCA IN THE ESG

Profile and credentials

INTERNATIONAL PRINCIPLES AND STANDARDS

In recent years the Mediobanca Group has signed up to the most important international principles and standards

SUSTAINABILITY POLICY

ESG POLICY

- UN Global Compact principles
- 17 UN Sustainable Development Goals (SDGs)
- UN Principles for Responsible Investment ("PRI")
- UN Principles for Responsible Banking ("PRB")
- Net Zero Banking Alliance

ESG STRATEGY TAKING MOMENTUM

2016-2017

- Group Sustainability unit
- Group Sustainability management Committee
- Group Sustainability Policy
- First Materiality Matrix
- First Group sustainability reporting

2017-2018

- Directive on responsible investing
- Multi-stakeholder forum to update materiality matrix
- Signed up to UN Global Compact
- First Consolidated Non-Financial Statement

2018-2019

- New Policy on responsible lending and investing
- Responses to leading ESG Index questionnaires
- E-learning course on *Sustainability and Human Rights*
- Second Consolidated Non-Financial Statement

2019-2020

- CSR objectives in the 2019-23 Strategic Plan and in the LTI for top mngt.
- BoD CSR Committee
- Revised Group Sustainability Policy
- Signed up to *Principles for Responsible Investing*
- Third Consolidated Non-Financial Statement

2020-2021

- CSR objectives in the STI for top mngt.
- Revised Group ESG Policy
- Assessment of SASB[1] requests
- Signatory to PRB - Principles for Responsible Banking
- Assessment for aligning to the requests of TCFD[2]
- Implementing a plan to respond to the new EU ESG regulatory context

2021-2022

- Signatory to the **Net-Zero Banking Alliance**
- Launch of "**ToDEI" the new Group diversity and inclusion program** including clear targets and KPIs.
- Governance improvement including the **appointment of a Lead Independent Director**
- To come at the end of FY22:
  - first **TCFD report**
  - first **NZBA targets**

1) Sustainability Accounting Standards Board is a US non-profit organization whose mission is to develop and disseminate sustainability reporting standards that help companies disclose material and useful information to investors in order to make decision
2) Task Force on Climate-related Financial Disclosures

… TO DELIVER BP ESG TARGETS

FY21 non-financial performance
Several targets already met, EU ESG regulation kicking in

4 QUALITY EDUCATION

Employee competences enhanced with **training hours up 71%** (BPTarget23: 25%).

5 GENDER EQUALITY

Procedure adopted to reach targets for equal opportunities, including specification in head-hunter mandates

8 DECENT WORK AND ECONOMIC GROWTH

AM: ESG criteria included in >98% of investment evaluation (BPTarget23: 100% of new investments)

€140m investments in outstanding Italian SMEs (BPtarget23: €700m)

% of ESG qualified funds (under SFDR, Articles 8&9) out of total funds in Premier clients' portfolio: 33%

11 SUSTAINABLE CITIES AND COMMUNITIES

€7.3m in FY21 for social/environmental proj. (BPtarget: €4m per year)

MB Social Impact Fund: AUM up 43% (BPtarget23: up 20%)

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

ESG bond issue: target achieved (BPtarget23: €500m)

Procurement exp. assessed with CSR criteria: **target achieved** (BPtarget23: 40%)

Customer satisfaction: CheBanca! CSI[1] in Premier segment[2] @81, NPS[1] @43 ; Compass CSI[1] @88, NPS[1] @62

13 CLIMATE ACTION

Energy target: achieved with carbon neutrality (Scope 1 & 2)[3]

CheBanca! green mortgages up >5X vs FY20 (BPtarget: up 50%)

RAM: target achieved with the launch of Stable Climate Global Equities Fund

Supporting our clients targeting climate change
9M22/3Q22 - Group results

- **ESG/green credit product** footprint now material with ~ €3bn of stock o/w: 86% corporate 9% mortgages 5% consumer finance
- **Strong ESG funds** growth: Premier target being beaten thanks to % of ESG qualified funds (under SFDR Articles 8&9) out of total funds in Premier clients' portfolio **@53%**
- **DCM top positioning in ESG** space, with 18 transactions for a total issued amount in excess of € 14.6bn in 9M

Remuneration policy: senior management STI scorecards enhanced with **quantitative ESG targets to support ESG/green product development:**

- CIB Client loan stock with ESG/GREEN features
- ESG new production to retail clients (Consumer – WM Affluent)
- Share of ESG funds in WM Affluent clients' portfolio

1) CSI: Customer Satisfaction Index; NPS: Net Promoter Score
2) Premier: clients with wealth between €50k and €5m
3) Underlying 94% from renewables (BPTarget23: lifted to 94%), CO2 down 15% (BPTarget23: revised to down 27%); hybrid cars: 28% (BPTarget23: @90% of MB fleet)

Top notch positioning in the ESG space

- Mediobanca has been **extremely active in the ESG bond market**, pricing or arranging **over € 21bn of new instruments in FY2021** and over **€ 9bn only 2022YTD**
- Mediobanca also developed a **strong expertise** in the segment **acting as ESG Structuring Advisor in several landmark Italian transactions** (e.g. Unipol, BP Sondrio, AdR, Mediobanca, Hera and ASTM)

May 2022 – Gruppo Hera
New Green Bond
€ 500m
2.500% May 2029
Joint Bookrunner & ESG Structuring Advisor

May 2022 – Suez
Inaugural Green triple-tranche
€ 750m 1.875% May-27
€ 850m 2.375% May-30
€ 1,000 2.875% May-34
Bookrunner

SLB – March 2022 – a2a
New Senior SLB
€ 500m
1.500% March 2028
Global Coordinator & Joint Bookrunner

February 2022 – Terna
Inaugural Green Hybrid Bond
€ 1,000m
2.375% PNC6
Joint Bookrunner

January 2022 – Gecina
New Green Bond
€ 500m
0.875% January 2033
Joint Bookrunner

SLB – January 2022 – Snam
Inaugural SLB Dual-Tranche
€ 850m
0.875% June 2029
€ 650m
1.250% June 2034
Joint Bookrunner on the Long 7y tranche

SLB – January 2022 – Enel
New Senior SLB triple-tranche:
€ 1,250m
0.250% November 2025
€ 750m
0.875% January 2031
€ 750m
1.250% January 2035
Joint Bookrunner

SLB – November 2021 – ASTM
Inaugural SLB triple-tranche:
€ 750m
1.000% November 206
€ 1,250m
1.500% January 2030
€ 1,000m
2.375% November 2033
Joint Bookrunner & ESG Structuring Advisor

Sustainability – November 2021 – Telefónica
Sustainability Hybrid Notes
€ 750m
2.880% PNC6.5
Joint Bookrunner

Social – November 2021 – Iccrea Banca
€ 500m
2.125% long 5NC4
Social Senior Preferred due January 2027
Sole Arranger of the EMTN Programme / Joint Bookrunner

October 2021 – a2a
Green Notes
€ 500m
1.000% November 2033
Joint Bookrunner

SLB – October 2021 – Gruppo Hera
Inaugural SLB
€ 500m
1.000% April 2034
Joint Bookrunner & ESG Structuring Advisor

SLB – September 2021 – Enel
Triple-tranche SLB:
€ 1,250m
0.000% May 2026
€ 1,000m
0.375% May 2029
€ 1,250m
0.875% September 2034
Joint Bookrunner

September 2021 – ERG
New Green Bond
€ 500m
0.875% September 2031
Joint Bookrunner

September 2021 – edp
Green Hybrid Dual Tranche
€ 750m
1.600% 60.5NC5.5
€ 500m
1.950% 60.5NC8
Joint Bookrunner

SLB – July 2021 – a2a
Sustainability-Linked Notes
€ 500m
0.625% July 2031
Joint Bookrunner

July 2021 – Banca Popolare di Sondrio
Inaugural Green issue:
€ 500m 6NC5
Senior Preferred Bond
1.250% July 2027
Structuring Advisor & Joint Bookrunner

Sustainability – June 2021 – Generali
Sustainability Tier 2
€ 500m
1,713% June 2032
Joint Lead Manager & Bookrunner

June 2021 – Virgin media O2
Green Dual Tranche
$ 850m
4.750% 10NC5
£ 675m
4.500% 10NC5
Joint Bookrunner

June 2021 – Santander
Green
€ 1,000m
Senior Non-Preferred Bond
0.625% 8NC7
Joint Bookrunner

SLB – June 2021 – Enel
Triple-tranche SLB:
€ 1,000m
0.000% June 2027
€ 1,250m
0.500% June 2030
€ 1,000m
0.875% June 2036
Joint Bookrunner

Mediobanca Structuring Advisor

MEDIOBANCA'S SOLID TRACK RECORD IN GREEN/SDG-LINKED LOANS

- Mediobanca has been active in the European Green/SDG-linked loan market since 2018, having successfully closed more than **54 corporate loans**, both bilaterals and syndicated/club deal, for an amount exceeding **€76bn**

March 2022
RED ELÉCTRICA DE ESPAÑA
€800m
Revolving Credit Facility
SDG-linked
Bookrunner and MLA

February 2022
PIRELLI
€1,600m
Multicurrency
Term Loan and RCF
ESG-Linked
Bookrunner and Lead Arranger

January 2022
Telefónica
€5,500m
Revolving Credit Facility
SDG-linked
Bookrunner and MLA

January 2022
cellnex
€2,500m
Revolving Credit Facility
SDG-linked
Bookrunner and MLA

December 2021
REINTEL Grupo Red Eléctrica
€325m
Syndicated facilities
SDG-linked
Bookrunner and MLA

December 2021
ASCOPIAVE
€20m
bilateral TL
Green
Sole Lender

December 2021
alperia
€125m
bilateral financing package
ESG-linked
Sole Lender

November 2021
Agos
€390m Club Deal
Sole Coordinator & Sustainability Coordinator

October 2021
ZIGNAGO VETRO
€40m TL
ESG-linked
Sole Lender

September 2021
BRACCO IMAGING
€ 450m TL
ESG-linked
Mandated Lead Arranger

September 2021
GVS FILTER TECHNOLOGY
€ 150m
Acquisition Financing
ESG-convertible
Sole Global Coordinator

September 2021
Bauli
€ 10m
Bilateral Loan
ESG-convertible
Sole Lender

September 2021
LEONARDO
€ 2,400m
RCF
SDG-linked
Co-Arranger

July 2021
snam
€ 100m
Bilateral Loan
SDG-linked
Sole Lender

July 2021
LAVAZZA TORINO, ITALIA, 1895
€ 500m
Clu Deal Term Loan/RCF
SDG-linked
Mandated Lead Arranger

July 2021
IGT
€1,000m TL
Global Coordinator & Sustainability Coordinator

June 2021
SEA
€ 50m
Bilateral Loan
SDG-linked
Sole Lender

June 2021
CAREL
€ 20m
Bilateral Loan
SDG-linked
Sole Lender

June 2021
a2a
€ 500m
Revolving Credit Facility
SDG-linked
Facility Agent

June 2021
PORSCHE
€ 2,500m
SSD
Green
Participant

May 2021
TIM
€ 1,450m
Term Loan
SDG-linked
Mandated Lead Arranger

April 2021
Ramsay Santé
€ 1,450m
Term Loan
SDG-linked
Bookrunner and MLA

April 2021
ASTM
€ 100m
Term Loan
SDG-linked
Sole Lender

April 2021
INWIT
€ 500m
Term Loan
SDG-linked
Coordinator, Bookrunner and MLA

March 2021
Peet's
€ 3,500m
Term Loan
SDG-linked
Participant

March 2021
DeLonghi
€ 100m
Term Loan
SDG-linked
Sole Lender

March 2021
enel
€ 10,000m
Revolving Credit Facility
SDG-linked
Bookrunner, MLA and Doc Agent

March 2021
TRATON
€ 400m
SSD
SDG-linked
Bookrunner, MLA and Doc Agent

March 2021[1]
WENDEL
€ 750m
Revolving Credit Facility
SDG-linked
Mandated Lead Arranger

December 20201
Publiacqua
€ 100m
TL/Capex
SDG-linked
Original Lender

December 2020
snam
€ 3,200m
Revolving Credit Facility
SDG-linked
Original Lender

December 2020
eni
€ 150m
Bilateral Loan
SDG-linked
Sole Lender

December 2020
KLEPIERRE
€ 1,385m
Revolving Credit Facility
SDG-linked
Lead Arranger

November 2020
Colonial
€1,000m
Revolving Credit Facility
SDG-linked
Bookrunner and MLA

November 2020
LIDL
€ 50m
Bilateral Loan
SDG-linked
Sole Lender

November 2020
EQT
€ 2,750m-eq
Revolving subscription Facility
SDG-linked
Participant

(1) ESG amendment date (originally signed in July 2019).

SDG-Linked Loan
Green Loan

19