2022

TCFD REPORT

Summary

Main subject area	Expectations	Reference
Governance	a) Description of the board's supervision of climate-related risks and opportunities	2.1 Bank governance 2.2 Board governance
	b) Description of management's role in assessing and managing climate-related risks and opportunities	2.3 Managerial committees 2.5 Climate awareness
Strategy	a) Description of climate-related risks and opportunities identified by the organisation in the short, medium and long term b) Description of current and prospective impacts of climate-related risks and opportunities on the organisation's business, strategy and planning	3.1 Group sustainability 3.2 Climate-related risks and opportunities
	c) Description of the resilience of the organisation's strategy, taking into account different climate scenarios, including those at or below 2°C	3.3 Group strategy
Risk management	a) Description of the processes put in place to identify and assess climate-related risks	4.1 Climate risk mapping
	b) Description of climate risk management processes	4.2 Climate risk management
	c) Description of how climate-related risk identification, assessment and management processes are integrated into comprehensive risk management processes	4.3 Integration of climate risks into the Risk Appetite Framework
Metrics and targets	a) Information on the metrics used by the organisation to assess, in line with the risk management strategy and process, climate-related risks and opportunities	5.1 Climate risk indicators
	b) Information on Greenhouse Gas Scope 1, Scope 2 and, where appropriate, Scope 3 emissions and related risks	5.2 Scope 1, 2 and 3 emissions
	c) Description of the targets identified by the organisation for managing climate-related risks and opportunities and for evaluating performance against these objectives	3.3 Group strategy

The Banca Ifis Group's plan for sustainability

Banca Ifis has embarked on an important journey to increasingly integrate ESG criteria into its business model, with a clear vision: sustainability, in all its forms, represents a tool for creating – not only economic – value for people, the environment and the community and it must be considered in defining the Bank's development strategies.

The new 2022-2024 Business Plan was presented on 10 February 2022, setting precise objectives and commitments also on the three ESG - Environment, Social and Governance - dimensions, with direct connections on the business and which defines lines of action on the Bank's work in the period 2022-2024 to contribute to the achievement of the Sustainable Development Goals (SDGs) set by the UN Agenda 2030. The business plan has been named "D.O.E.S." with reference to the four development levers that Banca Ifis has adopted: digital innovation (Digital), an open approach (Open), efficiency (Efficient) and sustainability (Sustainable).

The most important commitments defined in respect of the environment and climate, after having been the first in Italy to join the Net Zero Banking Alliance (NZBA) - the United Nations initiative that aims to accelerate the sustainable transition of the banking sector by zeroing the net emissions of the lending portfolio by 2050 - include the Group's communication of the reduction targets for the loan portfolio by 2030, which allow us to cover more than 80% of the financed exposures and emissions considered by the NZBA.

The Banca Ifis Group has also launched the "Change PMI" project to support the energy transition of small and medium-sized enterprises, a project that includes the offer of dedicated products and services such as subsidised loans and "scoring" services on customers' ESG performance. Through its Studies Office, the Bank promotes a culture of business sustainability amongst SMEs, with dedicated periodic research and analyses.

The Group's commitment is also outlined through a series of services supporting sustainable mobility designed to encourage environmentally friendly behaviour, improve quality of life and reduce CO_2 emissions (e.g. Ifis Leasing Green and e-bike rental).

Finally, also in the light of the Bank of Italy's Supervisory Expectations regarding climate-related and environmental risks and by impulse of the Presidency, the Group started a project to integrate environmental factors into corporate strategies, governance and control systems, the risk management framework and disclosure. The multi-year plan to align with Supervisory Expectations on climate-related and environmental risks, approved by the Board of Directors and delivered to the Bank of Italy at the beginning of 2023, is divided into project streams that cover all 12 supervisory expectations and involve both business departments and central management.

1. Introduction

1.1 The international context

The global climate emergency of the present times requires the identification of new tools for a better understanding of climate-related risks and opportunities. Due to the growing attention to the topic, the Conference Of Parties (COP) 27, the 27th United Nations Climate Change Conference, was held in November 2022 to promote coordinated international action to implement the Paris Agreement and mitigate the underlying causes of climate change. In particular, during COP 27, Heads of State from around the world discussed the following points:

- Mitigating Green House Gases (GHG) emissions by adopting a work programme to halve them globally by 2030;
- Progress in negotiations on climate change adaptation and resilience support targets;
- Establish financial support for the countries most affected by the climate crisis through the Loss and Damage fund;
- Keep the commitment to allocate 100 billion Dollar to the least developed countries to tackle the climate emergency.

COP27 reiterated the need for governments and businesses around the world to define climate change mitigation and adaptation strategies to ensure an adequate energy transition to a low-carbon economy and to carefully guard against the impacts of natural disasters.

The UN recognises the central role of the banking world, which will hopefully have to be the driving force behind the transition process. This is why the same organisation promoted the Net-Zero Banking Alliance (NZBA), an initiative to accelerate the transition to sustainability in the international banking sector, as one of the priority conditions for achieving carbon neutrality by 2050. The NZBA brings together more than 100 banks committed to aligning their loan and investment portfolios to net-zero emissions in the coming decades; it also strengthens, accelerates, and supports the implementation of decarbonisation strategies by providing an internationally consistent framework and guidelines.

At a continental level, the European Commission has identified a number of initiatives for the gradual reduction of greenhouse gas emissions into the atmosphere that have converged into the European Green Deal for a Climate Neutral Europe by 2050. It is in this context that the Action Plan for Financing Sustainable Growth falls, launched by the Commission with a view to:

1. redirecting capital flows towards green investments to achieve sustainable and inclusive growth;
2. managing financial risks deriving from climate change, resource depletion, environmental degradation and social issues;
3. promoting transparency and long-term vision in economic and financial activities.

Finally, with a specific focus on climate, in July 2022 the European Central Bank (ECB) published a Climate Agenda, defined with the aim of giving new tools to the European banking system to manage and mitigate the financial risk associated with climate change, promoting an orderly transition to a low-carbon economy and the sharing of know-how and best practices at a European level.

1.2 The national context

In the wake of the changing regulatory environment and sustainability actions, in April 2022 the Bank of Italy published a document entitled "Supervisory Expectations for Climate and Environmental Risks". The document sets out 12 supervisory expectations regarding the integration of climate and environmental risks into the strategy, governance systems and risk management and control processes of the banks under its supervision.

Bank of Italy Supervisory Expectations on climate-related and environmental risks[1]

On 8 April 2022, in line with similar ECB and EBA initiatives, the **Bank of Italy** developed and published **12 supervisory expectations on the integration of climate and environmental (C&E) risks**. The document responds in particular to the ECB's recommendation to reflect the expectations defined in its "Guide on climate-related and environmental risks" in the supervision of less significant institutions, in a manner proportionate to the nature, scale and complexity of the activities of each.

The 12 expectations concern **5 areas of application** in particular:

- 1 expectation regarding governance;
- 1 expectation regarding business model and strategy;
- 1 expectation regarding the organisational system and operational processes;
- 8 expectations regarding risk management;
- 1 expectation regarding market disclosure.

Following the publication of the expectations, the Bank of Italy also requested the approval by the Boards of Directors of Less Significant Entities, by 31 January 2023, of a multi-year plan of initiatives aimed at defining a path for full alignment with the expectations by 2025.

In order to achieve full alignment with expectations, the Bank of Italy required intermediaries to draw up a multi-year Action Plan aimed at defining a path to compliance by 2025. The Plan includes:

- conducting a gap analysis between company expectations and practices;
- the assessment of the intermediary's material exposure to climate and environmental risks based on the principle of proportionality and the specific corporate business model;
- the identification of priorities for action, the measures to be taken to fill the gaps identified and their timing over the next three years.

With the aim of supporting intermediaries in defining the Action Plan, the Bank of Italy has identified the integration of environmental, social and governance (hereinafter "ESG") risks into the organisational and corporate governance model as well as into the business model and risk management system as "good business practice".

[1] Bank of Italy Expectations, April 2022.

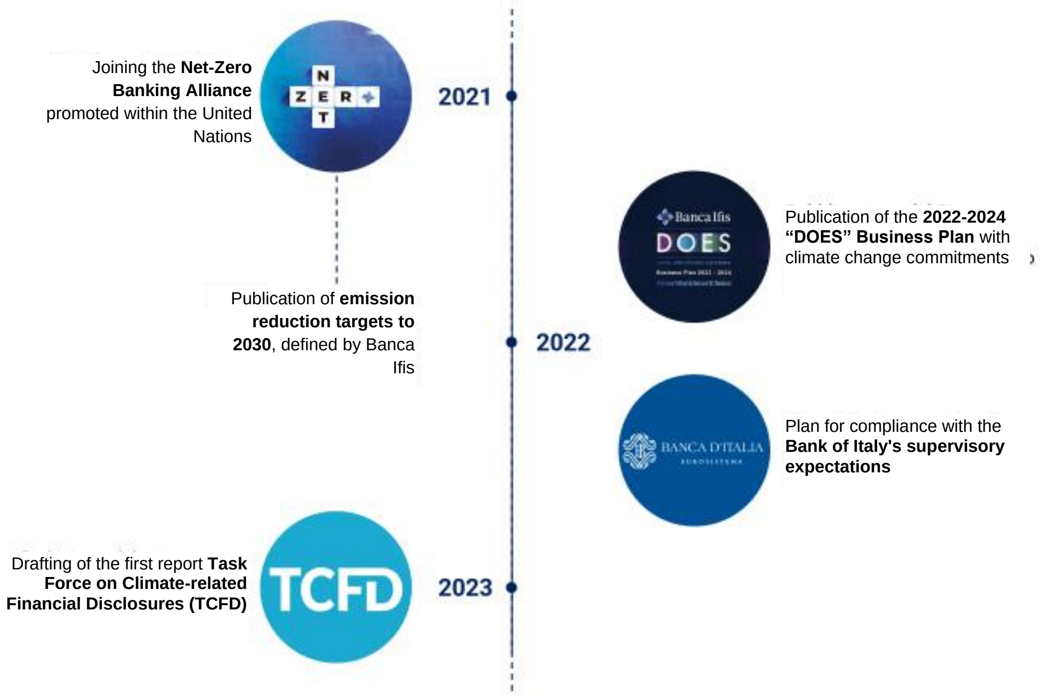
1.3 The Banca Ifis Group

Banca Ifis is a challenger bank made up of people, experience and technology, developing specialised solutions for the world of business and private customers, with the aim of creating lasting, sustainable value which meets the needs of individuals and Small Medium Enterprises (SMEs), thanks to a unique specialised and diversified business model.

A smart, flexible and effective bank, with a strategy that leverages expertise and vision. A continuous work made of innovation, study and observation of market dynamics to be able to generate the best possible impact on the community and the environment.

Banca Ifis holds a unique position on the Italian banking scene. Established in 1983 as a specialised factoring operator and listed on the Milan Stock Exchange (in the Star segment) since 2003, it has successfully evolved, quickly and flexibly making the most of new market opportunities in speciality finance as they have arisen. The Group meets the financial needs of companies offering an increasingly diversified, structured range of commercial and corporate banking services. Supporting SMEs has always been an integral part of the Bank's very DNA, as it operates serving the real economy and assisting businesses with all their financial needs. One of Italy's first companies to enter the Npl (Non-Performing Loans) market, Banca Ifis operates as primary investor and proprietor of one of the best servicers today operating nationwide, uniquely combining a capacity to acquire and manage Npl portfolios, with an ethical collection model.

The Group's climate actions



2. Governance

2.1 The governance model

Banca Ifis is the Parent company of the Banca Ifis Group and adopts the **traditional administration & control model**, considering it to be the most suited for ensuring the efficiency of operations and effectiveness of controls given its specific characteristics.

Under the model adopted by Banca Ifis:

- **strategic supervision** is performed by the Board of Directors (BoD);
- the Chief Executive Officer (CEO) is responsible for the company's **operations**. The CEO implements the resolutions passed by the BoD, with the assistance of the Joint General Managers identified as the Chief Commercial Officer (CCO) and Chief Operating Officer (COO);
- **control** is performed by the Board of Statutory Auditors;
- within the scope of its prerogatives, the Chairman of the BoD promotes the correct and effective functioning of the corporate governance system.

Pursuant to the Articles of Association and the current legislation, the Board of Directors has set up **three board committees** with proposal, analysis, and advisory functions: the **Control and Risk Committee**, the **Appointments Committee**, and the **Remuneration Committee**.

The composition, functioning and responsibilities of the Board Committees are governed in the General Regulations and the Regulations of the Board of Directors, the Board Committees, and the Supervisory Body of the Bank.

2.2 Corporate governance structure

The governance bodies described above are also entrusted with the definition of the Group's ESG strategies in order to promote the efficient management of sustainability topics and their effective integration into the business, as further described below.

The Board of Directors

The BoD, which performs the strategic supervision function, is called upon to **decide on the bank's strategic guidelines** and **monitor their implementation**, ensuring sound and prudent management. In this context, the BoD considers sustainable finance objectives and, in particular, the need to integrate the environmental, social and governance (ESG) factors into business decision-making processes when defining the Group's corporate strategies.

The BoD is also responsible for the approval, on an annual basis, of the Risk Appetite Framework (hereinafter also the "RAF"), the ICAAP Report and the ILAAP Report, drawn up on the basis of the strategic indications provided by the Board itself, as well as the dimensional objectives and further qualitative and quantitative elements of the Strategic Plan.

At the initiative of the Presidency, the Board of Directors has embarked upon a path of increasingly integrating ESG criteria within the Group's business model. To this end, it has approved **the new business plan for the 2022-2024 two-year period**, which sets precise objectives and commitments in the ESG sphere to develop the sustainable development of the core business of the Banca Ifis Group.

The BoD defines the organisational structuring process and oversees its implementation by monitoring quarterly the results set forth in quarterly financial reports and the annual financial statements.

BoD members with sustainability and climate expertise

Ernesto Fürstenberg Fassio has been **Chairman** of Banca Ifis since 2022, of which he has been a Director since 2019. He graduated in Law from the University of Padua in 2008, and then obtained a Masters in Accounting, Auditing and Control from Bocconi University. He carries out the activities that the law and the Articles of Association conferred him as Chairman of the Bank and, in the role of **Chairman of the Sustainability Committee and the Brand Committee**, promotes strategic projects in the ESG area and initiatives aimed at enhancing the Bank's image.

Simona Arduini has been **Vice President** of Banca Ifis since 2023, where she has been sitting as an **Independent Director** since 2019. She is a tenured professor for the disciplinary scientific sector of Business Economics in the homonymus Department at the Roma Tre University, where she was President of the School of Economics and Business Studies in the three-year period 2016-2019. Arduini was designated by the Mibac in 2019 and reconfirmed in 2022 in the Board of Auditors of the Special Superintendence of Archaeology, Fine Arts and Landscape of Rome. She is currently **Chairman of the Control and Risk Committee** of Banca Ifis, where she supports the Group in the development of projects in the field of sustainability in all its forms.

Monica Billio has been an **Independent Director** and member of the Control and Risk Committee of Banca Ifis since 2019. She holds a degree in Economics from Ca' Foscari University in Venice and a PhD in Applied Mathematics from Paris IX Dauphine University (France). Since 2006, she has been Full Professor of Econometrics at Ca' Foscari University. She is the author of numerous publications in leading international journals in econometrics and finance, with applications in **financial risk measurement and management**, **financial system stability analysis and sustainable finance**. She coordinates numerous research projects funded by the European Commission, European Investment Bank, World Bank, Eurostat and the Italian Ministry of Universities and Research also within the framework of the National Recovery and Resilience Plan. Among these, on ESG topics she is currently coordinating: TranspArEEns, the first project for the definition of an ESG rating for small and medium-sized enterprises at European level; Spoke Sustainable Finance of the PNRR - GRINS Growing Resilient INclusive and Sustainable Extended Partnership; project PRIN of relevant national interest Fin4Green - Finance for a Sustainable, Green and Resilient Society; ESG-Credit.eu, project financed by the European Investment Bank Institute and dedicated to ESG Factors and Climate Change for Credit Analysis and Rating; project to support market supervisory authorities for the DG REFORM, ESG risk management framework for the financial sector. In addition, she currently chairs the Italian Society of Econometrics (SIdE), is a member of the Board of Directors of the European Financial Management Association (EFMA), a Fellow of the Institut Louis Bachelier, a Research Fellow of the Leibniz Institute SAFE and a member of the scientific committee of the Italian Association of Financial Industry Risk Managers (AIFIRM).

Paola Paoloni has been an **Independent Director and member of the Control and Risk Committee** of Banca Ifis since 2022. Graduated in Economics and Business from La Sapienza University in Rome in 1992, she holds the position of Full Professor of Business Economics and Economics and Strategy of Small and Medium-sized Enterprises at the same University. She boasts twenty years of experience as a teacher and researcher in the economic-financial field which allowed her to participate in many conferences as well as collaborate for trade magazines and scientific publications. She is also a member of SIDREA (Italian Society of Accounting and Business Economics Teachers) and AIDEA (Italian Academy of Business Economics). Paoloni is the founder and director of the Observatory on gender studies "Ipàzia", as well as a member of the Single Guarantee Committee of La Sapienza University in Rome.

Giovanni Meruzzi has been an **Independent Director and Chairman of the Remuneration Committee** of Banca Ifis since 2022. Graduated in Law from the University of Bologna, where he also obtained a PhD in Civil Law, Meruzzi is a member of the Verona Bar Association and a Professor of Commercial Law and Law of Listed Companies, Banking and Finance at the Department of Legal Sciences of the University of Verona. The current research activity is focused on various areas of scientific interest, such as corporate governance, management of NPLs, the impact of new technologies on the organisation and operations of credit institutions, the role of artificial intelligence in business decision-making processes. From 2017 to 2022 he was a member of the Bologna Board of the Financial Banking Arbitrator (ABF).

Roberto Diacetti has been an **Independent Director** (elected from the minority list) of Banca Ifis since 2019, where he also holds the position of **member of the Control and Risk Committee and of the Appointments Committee**. Graduated in Law at the LUISS-Guido Carli University of Rome, he gained significant managerial experience, in both the public and private sectors. Over the years he was Chief Executive Officer of Risorse per Roma S.p.A. and Atac S.p.A., Chairman of Eur S.p.A. and Roma Convention Group S.p.A.. Diacetti was Vice President of the World Food Program Italy and adjunct professor of Planning and Control at the University of Cassino for over ten years. He is currently a member of the Sustainability Committee of Pirelli S.p.A..

The Board Control and Risk Committee

The Control and Risk Committee has the task of supporting the BoD's assessments and decisions relating to the internal control and risk system, the approval of periodic financial and non-financial reports and supporting the Board in analysing issues relevant to the generation of long-term value with a view to sustainable development.

The Control and Risk Committee is made up, in compliance with current legislation, of five members chosen from among the non-executive members of the BoD, in possession of the requirements of independence. The members of the Control and Risk Committee have knowledge, skills, and experience, primarily in the business sector in which the Bank operates, such that they can fully understand and monitor the Company's strategies and risk orientations. The members of the Control and Risk Committee also have appropriate accounting and financial or risk management experience. Three members of the Control and Risk Committee also have specific competencies in the field of sustainability.

Meetings of the Control and Risk Committee

In 2022, the Committee met 21 times, five of which jointly with the Board of Statutory Auditors, during which **ESG topics** were discussed, such as, for example: the 2021 Consolidated Non-Financial Statement pursuant to Legislative Decree no. 254/2016, the sharing of the multi-year Climate Change Transformation plan, aimed at coordinating the Group's activities to address the Bank of Italy's expectations on climate risks, and the definition and disclosure of the NZBA targets (Climate Change Transformation Project).

Since the beginning of 2023, the Committee has met fifteen times, three of which jointly with the Board of Statutory Auditors and one jointly with the Appointments and Remuneration Committees; during the meetings, an update of **Banca Ifis Multi-Year Plan of Activities to Address Supervisory Expectations on Climate and Environmental Risks** was discussed, the new **materiality analysis process** was shared for the purpose of identifying relevant topics for the preparation of the Group's 2022 Non-Financial Statement, as well as the **2022 Consolidated Non-Financial Statement** pursuant to Legislative Decree no. 254/2016. For 2023, 23 meetings have been scheduled.

2.3 Managerial committees

The Sustainability Committee

In November 2021, the Bank set up the Sustainability Committee, which is managerial in nature, chaired by the Chairman of the BoD and made up of the Chief Executive Officer, the Head of the Communication, Marketing, Public Affairs & Sustainability Department, the General Counsel, the Co-General Manager Chief Commercial Officer, the Head of the Npl Central Department, and the Head of the Human Resources Department. Among the functions of the Committee, there is that of assisting the BoD in defining and promoting strategic directions in the sustainability/ESG/climate field and in promoting relevant initiatives.

The Sustainability Committee is a collegial body that passes resolutions, makes recommendations, and offers consultancy, with a portfolio, established at Parent Company level and that operates for the entire Group. In order to deal with relevant ESG aspects at an appropriate level of depth, the Committee meets in the form of:

- Environmental Subcommittee;
- Social Subcommittee;
- Governance Subcommittee.

The Committee has specific appraisal, propositional and advisory functions within the scope of the assessment and decision-making process of the Bank and the Group concerning ESG topics, in relation to which it works with the corporate bodies and the competent Bank structures. The Committee also has deliberative functions in relation to initiatives of any nature concerning ESG topics, such as partnerships and/or collaboration agreements and Group initiatives to support awareness and training on ESG topics.

In addition, once a year the Committee prepares a planning document of its projects. In this context, by way of example, with reference to financial years 2021 and 2022 and to the climate issue the following activities have been planned:

- promotion of initiatives to support environmental sustainability projects such as, for example, participation in the NZBA;
- offering of subsidised financing also defined in the light of the guidelines of the National Recovery and Resilience Plan (NRRP) as well as of an ESG assessment and rating service for SMEs;
- definition of operating models in compliance with the ESG strategy and guidelines.

In the course of 2023, the Bank also plans to further strengthen its internal reporting to the relevant bodies in line with the Bank of Italy's Supervisory Expectation 1 – Governance.

Meetings of the Sustainability Committee

The Committee normally meets **on a monthly or bi-monthly basis**. **8 meetings** of the Sustainability Committee were held in 2022, during which ESG topics were discussed, such as, for example: the 2022 Consolidated Non-Financial Statement pursuant to Italian Legislative Decree no. 254/2016 and in line with the Bank of Italy's Supervisory Expectation 12 - Market disclosure, the process of updating the materiality analysis for the 2022 Consolidated Non-Financial Statement, the 2023 Task Force on Climate-related Financial Disclosures Report, the materiality of climate-related and environmental (C&E) and credit process risks (Bank of Italy supervisory expectations) and the setting of emission reduction targets for the NZBA.

Since the beginning of 2023, the Sustainability Committee has met three times, dealing, inter alia, with the following topics: an update of **Banca Ifis Multi-Year Plan of Activities to Address Supervisory Expectations on Climate and Environmental Risks,** the new **materiality analysis process** to identify relevant topics for the preparation of the Group's 2022 Non-Financial Statement, the **2022 Consolidated Non-Financial Statement** pursuant to Legislative Decree no. 254/2016, as well as the projects of Kaleidos, the Social Impact Lab created to promote projects with high social impacts.

Sustainability Manager and ESG Ambassador

In 2020, in the Communications, Marketing, Public Affairs and Sustainability Department, the position of Sustainability Manager was set up to assist the Sustainability Committee in defining and implementing the activities of the Sustainability Plan. Furthermore, to support the Sustainability Manager, Sustainability Ambassadors have been identified within the Group's business units who are responsible for overseeing the transformation of business processes from a climate perspective.

The Banca Ifis Group has therefore defined a decentralised management model for ESG-related activities, where each Bank function has identified specific figures to coordinate and direct the applicable activities. In this context, the exact needs for strengthening the various structures will be identified in terms of both work commitment investments and skills development on ESG topics in line with the Bank of Italy's Supervisory Expectation 3 - Organisational system and operational processes.

The 7 working tables of the Climate Change Transformation plan

In 2022, the Banca Ifis Group started a project for the gradual alignment of its organisation to the Bank of Italy's supervisory expectations, called **Climate Change Transformation**.

In this context, with reference to the governance profiles, the Bank provides for the formalisation of

- **five specialised working group:**
  - i) Materiality assessment;
  - ii) Credit;
  - iii) Climate strategy and market disclosure;
  - iv) Reporting mandatory;
  - v) Business product steering;
- **two cross-cutting working group** dedicated to the topics of:
  - vi) Organisation;
  - vii) System and Data (in line with Supervisory Expectation 5 - Database).

The operational coordination of the aforementioned working group is entrusted to the Strategic Planning and Communication, Marketing, Public Affairs & Sustainability Department, which carries out weekly progress checks with the support of a Project Management Office (PMO) consisting of a Project Manager and a Sustainability Manager. The project is supervised by a Steering Committee chaired by the Departments Communication, Marketing, Public Affairs & Sustainability, Strategic Planning, Joint Manager COO, Lending, Risk Management, Finance and Joint Manager CCO, which organises regular dedicated update meetings also with the Chairman, CEO and Sustainability Committee.

The organisational structure set up testifies to the Group's commitment to address the new challenges related to climate change. **Chapter 3 - Strategy** of this report provides more evidence of the activities that the Group has done so far as part of the **Climate Change Transformation** plan with regard to the integration of climate risks and opportunities into business planning.

2.4 Remuneration policies

The Group's remuneration and incentive policies are defined in accordance with the Group's culture and values, long-term strategies, and prudent risk management policies.

The short-term remuneration system for all key resources establishes Group objectives aimed at promoting the Bank's sustainable success, also on the basis of ESG parameters, to be measured by means of specific KPIs such as, for example, maintenance of the A rating issued by MSCI or gender equality commitments. These KPIs are included within each performance scorecard assigned to the recipients of these systems for a weight ranging from 10 to 20%.

Similarly, the 2021-2023 Long-Term Incentive Plan (LTI Plan), which is currently addressed to the CEO of the Bank and some members of the Group's Top Management (mainly Key Managers) for a total of 13 recipients, envisages specific ESG objectives, with a weight that, depending on the recipients, varies from 15% to 30%. These ESG objectives include, for instance, setting targets for the reduction of net emissions from portfolio assets to 2030 from NZBA forecasts, promoting multiculturalism with the inclusion of professionals from other continents, and obtaining at least 2 ESG ratings/scores.

In addition, for FY 2022, sustainable finance objectives, which take into account, among other things, environmental, social and governance (ESG) factors[2], and the "application of the gender neutrality of remuneration policies", to be verified through annual monitoring of the gender pay gap by activating, if necessary, the related corrective actions.

[2] For more information, please refer to Chapter "1.4 Sustainability Governance" and the 2022 Report on Remuneration Policy and Remuneration Paid.

2.5 Training and corporate culture

Climate-specific BoD training

Training is key to the Banca Ifis Group for constantly upgrading employee skills - which is crucial for growing the business sustainably. In 2022, the Group organised some climate-specific training activities, such as:

- a training course addressed to the BoD and the Sustainability Committee, organised with the support of the Research Centre on Technologies, Innovation and Financial Services (CeTIF) of the Catholic University of the Sacred Heart in Milan, which dealt with ESG topics and climate risks;
- as part of the Ifis Talks initiative (i.e. moments of in-depth discussion and interaction on key topics for the Group's business addressed to all staff), during a talk on "Climate change and its social and economic impact", the consequences of climate change and their relative impact on the local, national and global social and economic systems have been analysed.

The Group was also involved in ABI's initiative called "ESG Week" initiative: that is a series of five workshops to explore the ways in which banks can integrate ESG factors into their business models and how best to govern the energy and environmental transition, also focusing on the issue of climate change. The panel of speakers at the meetings consisted of Italian and European supervisory authorities, banking institutions and experts from the sustainability chain.

In addition, in 2022 the Banca Ifis Group launched the Ifis Academy, a management school inspired by the Group's new Leadership Model and aimed at enhancing the technical and behavioural skills of its employees by providing numerous training courses about sustainability and climate change. In this context, the Sustainability Observatory was also created to promote training and information events on the topic.

3. Strategy

3.1 Group sustainability

The Banca Ifis Group identifies itself as a digital, open, efficient and sustainable bank as also defined in the new 2022-2024 Banca Ifis D.O.E.S. (Digital, Open, Efficient, Sustainable) Strategic Plan. The Group bases its activities on the principles of integrity, transparency, competence, and a constant search for excellence and aims to create value for people and communities in the long term, generating a tangible and positive impact to build a more sustainable and inclusive future.

The integration of sustainability into the business model means, for the Bank, acknowledging that sustainability, in all its forms, represents a lever for creating value and a fundamental driver of development, which looks at the tangible impacts on people, the environment and the community. In particular, for environmental protection, the Group aims to ensure compatibility between its business initiatives and environmental requirements.

This chapter details the strategic processes adopted to integrate climate-related risks and opportunities into the Banca Ifis Group's business model.

3.2 Climate-related risks and opportunities

Credit institutions are exposed to climate-related risks and opportunities mainly through lending activities, as well as through other financial intermediation activities and proprietary investment operations. As financial intermediaries, banks may assume significant climate-related risks through their transactions with their customers/counterparties.

In order to enable investors and all market participants to distinguish between the banks' exposures and risk profiles so that they can make informed financial decisions, it is essential that they disclose potential climate-related issues that could have a material financial impact on the organisation, including, where appropriate, a description of how they determine which risks and opportunities associated with the climate could have a significant financial impact on the organisation.

Risks

In determining its sustainability strategy, the Banca Ifis Group has identified the main risk drivers associated with climate and the environment. In particular, as represented recurrently in the literature, climate risk drivers have been grouped into two categories:

- transition risks: risks associated with the transition to a low carbon economy;
- physical risks: risks associated with extreme climatic phenomena (acute) or progressive environmental degradation (chronic).

The table below describes the **main categories and respective risk drivers** associated with physical and transitional climate risks and their time frame.

Risk type	Risk drivers		Time frame[3]
Transition risks	Regulatory	Global policy (e.g. Paris Agreement) can limit activities and segments with a high level of emissions and environmental risk. As an example, the regulation on Energy Performance Certificates may impact the value of portfolio properties	MT
	Technological	The transition to low-impact technologies requires a higher cost for companies to retrofit plants and production facilities, potentially impacting the business model and the ability to generate revenues and profits	MT
	Market	A shift in consumer preferences towards more climate-friendly consumption potentially impacts all mayor sectors associated with high energy consumption and/or high levels of pollution	MT
Physical risks	Acute	Heat waves, fires, floods, droughts, landslides, earthquakes	ST
	Chronic	Extreme temperatures, soil erosion, water stress, sea level rise	MT/LT

Opportunities

The Banca Ifis Group integrates into its strategic and financial planning the prospective opportunities for the future from a climate perspective, in accordance with its business model. The Group mapped climate-related opportunities by grouping them into two areas:

- the **ecological transition**, which includes projects aimed at generating energy from renewable sources and innovative solutions for the energy transition, as well as support for SMEs in obtaining capital (through the NRRP, EIB, etc.) to meet environmental and/or Industry 4.0 objectives (e.g. through Nuova Sabatini on green investments);
- **sustainable mobility**, which includes the development of sustainable mobility products and services, the strengthening of the leasing market for green vehicles and the entry into the leasing sector for alternative mobility (e.g. e-bikes).

Moreover, over the years, the Group has implemented several innovative projects to spread awareness of the **business culture** with the aim of supporting Italian SMEs not only through financial products and services, but also by narrating and highlighting the most virtuous realities, which can act as a guide for those who want to do sustainable business.

Furthermore, the Banca Ifis Group is already collaborating with several leading financial and non-financial partners in the energy transition to take an active part in the international effort to combat climate change. Finally, by joining the NZBA in 2021, the Group has already started a process of gradual decarbonisation of the, albeit small, portion of its high-emission banking portfolio.

The following section gives more evidence of what the Group has done so far in defining a sustainability strategy capable of managing risks and seizing, as far as possible, climate-related opportunities.

3.3 Group strategy

The Banca Ifis Group has long since initiated an internal discussion on climate and the impacts it may generate and/or suffer in this area. For this reason, within the new **2022-2024 Banca Ifis D.O.E.S Strategic Plan**, a sustainability path has been identified that sets precise objectives and commitments on the environmental dimension with direct repercussions on the business, which are outlined below.

[3] Short-term (ST): 1-3 years, Medium-term (MT): 3-5 years, Long-term (LT): >5 years.

Membership of the Net-Zero Banking Alliance

Among the most significant commitments made by the Banca Ifis Group with regard to climate is its **membership**, since October 2021, **of the Net-Zero Banking Alliance** (NZBA), the initiative promoted by the United Nations to accelerate the sustainable transition of the international banking sector towards a green model. The Banca Ifis Group was the first Italian challenger bank to join NZBA, an operation conceived in full consistency with the sustainability roadmap defined in the strategic plan.

By joining the **NZBA**, the Group has set itself the aim of helping speed up the sustainable transition of the sectors in which it operates through lending, committing to achieving zero net emissions from its loan portfolio by 2050, and to set interim targets on priority, emissions-intensive sectors by 2030.

In 2022, therefore, the Bank initiated and concluded specific projects allowing for the **monitoring of the portfolio's financed emissions** and the **definition of emission targets** on the most relevant sectors in terms of materiality and emissions levels: Auto Leasing, Truck Leasing, Automotive Manufacturers and Distributors. These sectors cover more than 80% of the financed emissions and exposures considered by the NZBA and thus enable it to meet the requirements of NZBA membership.

Banca Ifis has developed the following **targets for the reduction of financed emissions** on the NZBA Leasing Automotive, Leasing Trucks and Automotive Manufacturers and Distributors sectors that it aims to achieve **by 2030**:

High-emission sectors[4]	Emission Scope	Metrics	Baseline[5] (year)	2030 Target
Auto Leasing	Scope 1 - Scope 2	gCO_2e/km	130 (2019)	85
Truck Leasing	Scope 1 - Scope 2	gCO_2e/tkm	52[6] (2020)	37
Automotive Manufacturers and Distributors	Scope 3	gCO_2e/km	153 (2019)	85

The emissions reduction targets were announced to the market in September 2022, six months ahead of the NZBA's deadlines and are among the most ambitious currently published by banks of similar size. At the same time, the Bank has already addressed the implementation of the recurring monitoring of financed issues and Net-Zero targets on a half-yearly basis and is in the process of finalising the related Bank Process Rules in line with the Bank of Italy's **Supervisory Expectation 2 - Business Model and Strategy**.

Through this initiative, the Group aims to cultivate its competitive advantage by continuing to periodically monitor the evolution of the emissions financed in its portfolio and taking concrete action to meet its commitments, including by developing dedicated products and services to support our companies in their path of innovation and growth towards a transition to a low-emission economy. This new commitment adds to the many initiatives already undertaken by Banca Ifis to support sustainable mobility and the environmental transition of SMEs.

"Change PMI"

In order to support the energy transition of small and medium-sized enterprises, the Banca Ifis Group has launched the "**Change PMI**" project, which envisages the offer of dedicated products and services, as well as scoring services on the ESG performance of customers, also by launching a process to strengthen the Bank's data governance processes.

With regard to products, the Group has strengthened **financing programmes for Italian SMEs interested in reducing their environmental impact through the implementation of green projects**. In 2021, the Group signed an agreement with the European Investment Bank (EIB) to make available a ceiling of **100 million Euro** in financing to support green projects by SMEs. The agreement, designed to finance projects with a positive impact in terms of ecology and environmental sustainability, is the third the Bank has concluded with the EIB in the last three years. The new ceiling

[4] Sectors outlined by the Net-Zero Banking Alliance with IEA Net-Zero 2050 reference scenario.
[5] Portfolio composition as at 31.03.2022, latest available emission data.
[6] Emission data to 2020 for the application of EU Regulation 2019/1242 on emission targets for heavy duty vehicles.

limit, adding the three loans made in the last three years, will bring the total disbursement to two hundred million Euro, further strengthening, also in perspective terms, this supply channel for Banca Ifis.

As part of this agreement, the Banca Ifis Group made financing and leasing available to SMEs at favourable interest rates in 2022. In detail: a first credit facility worth 50 million Euro will be dedicated to the promotion between SMEs of initiatives and projects aimed at fighting climate change, which mainly concern the leasing of hybrid and "full electric" vehicles. A second credit facility worth 50 million Euro has instead been reserved 60% for leasing finance for investments in innovation or projects promoted by innovative companies under the Business Plan 4.0 and, for the remaining 40%, in continuation of previous operations with the EIB, for commercial lending to SMEs to support new investments or working capital.

Finally, the Banca Ifis Group promotes a culture of business sustainability amongst SMEs, with dedicated periodic research and analyses. To this end, the Group has created an ad hoc index to measure the intensity of SMEs' investment in sustainability through the Kaleidos Impact Watch tool, a half-yearly observatory on trends enabling the sustainable transition of SMEs.

Sustainable mobility

The Banca Ifis Group has long held a strong position in the leasing sector with a market share of around 21,1% in December 2022 (15% in 2021). In this context, the Ifis Leasing Green initiative, a package of services supporting sustainable mobility, is of considerable importance. The initiative, designed in cooperation with exceptional partners who are market experts on sustainable mobility and companies specialised in mobile charging for electric vehicles (e.g. Enel X, E-GAP and e-Station), is designed to combine the flexibility of leasing with the possibility of access to different models of electric and plug-in hybrid cars, tax advantages such as the Ecobonus and a package of advisory services for car charging and insurance.

Ifis Leasing Green is the first in a series of projects designed to encourage environmentally friendly behaviour, improve the quality of life and reduce CO_2 emissions, a unique example in the Italian financial market. In 2022, the Group also started research into the development of new leasing products related to alternative mobility (i.e. E-bike) to be released during 2023.
The new rental and leasing solution dedicated to e-bikes aims to meet the needs of all small and medium-sized enterprises in the tourism and hospitality industry interested in equipping themselves with an e-bike fleet. Thanks to the two methods envisaged (rental and financial leasing), customers have the possibility of deferring the financial commitment through plans of between 12 and 48 months, at the end of which they can choose whether to redeem the product or to activate a new contract. The solution also allows for VAT to be paid in instalments, so that initial costs can be minimised and revenues maximised early on in the project.

Consistent with the products and services offered as part of the Ifis Leasing Green initiative, the Group signed an agreement with Stellantis aimed at renewing the entire corporate fleet with the goal of adopting more than 50% hybrid/electric vehicles by 2025.

Climate Change Transformation Plan

Banca Ifis drew up an initial version of the multi-year climate plan as early as July 2022 under the directives of the "Climate Change Transformation" project and, in the final months of that same year, further refined the activities envisaged for the multi-year plan to 2025 through the definition, at the consolidated parent company level, of a plan of activities for each of the 12 supervisory expectations of the Bank of Italy, published by the Authority in April 2022. Banca Ifis then defined the necessary steps for the approval of the plan, which it shared with the Bank of Italy in January 2023.

To support the activities, the Bank has incorporated the projects already started in 2022 into a broader project, dedicated and structured to address ESG topics in order to achieve full alignment with climate risk expectations by 2025, for a detailed description of the work sites started by the Bank, refer to paragraph *"2.3 Managerial Committees - The 7 Working Tables of the Climate Change Transformation Plan"*.

4. Risk Management

4.1 Climate risk mapping

With regard to climate and environmental risks, Banca Ifis has started a process of convergence towards the supervisory expectations (**Expectation 4 - Risk Management System**), published in April 2022 by the Bank of Italy. Specifically with regard to risk identification, the Bank has mapped climate and environmental (C&E) risks with a view to integrating them into its risk management system. Consistent with the supervisor's suggested approaches, the materiality of C&E risks was studied in terms of the impact these risks have on traditional risks.

In particular, with regard to **physical risks**, chronic or acute adverse weather events were analysed, and among these, those relevant to the context in which Banca Ifis operates were identified. In summary, the relevance of physical risks was studied according to their **potential effects on traditional risks**. These effects, in turn, were analysed on the basis of various elements such as, for example, the georeferencing of the portfolio, the company's operations and, more generally, the main assets relevant to business continuity. Information on the likelihood of occurrence of the different hazards considered was obtained through a public infoprovider and analysed from the bottom-up.

With regard to **transition risks**, the drivers identified can be grouped into three categories:

- technological innovation;
- evolving regulation;
- consumer preferences.

Transition risk relevance information is reconciled at economic sector level via ATECO codes (top-down approach). As far as the reputational analysis is concerned, they were adjusted according to the estimated impact on the stakeholders deemed most significant for the Banca Ifis Group.

Materiality of climate risks

On the basis of the analyses conducted and the specific characteristics of Banca Ifis, the results of the **materiality assessment on the main traditional risks** will be provided in this section. In addition to the preliminary step of mapping climate and environmental risks, this process also includes a detailed examination of the channels of transmission of C&E risks to traditional risks, the time horizons with which C&E risks manifest themselves given Banca Ifis's operations, and an assessment of materiality.

Credit risk

The study of the effects of climate and environmental risks on the **credit risk** of Banca Ifis's portfolio followed two complementary approaches that on one hand capture aspects linked to the peculiarities of the sectors to which the institution is exposed and on the other study the geographical distribution of its loans, highlighting particular concentrations in areas at risk of adverse events. The procedure carried out fosters the development of a narrative about the occurrence of climate-related and environmental risks and is instrumental in the dissemination of an awareness of such risks that Banca Ifis pursues with regard to both its employees and its various stakeholders.

As far as **transition risks** are concerned, there are several transmission channels that have an impact on credit risk; for example, technological changes might make companies that rely on CO_2-intensive technologies less competitive, leading to consequential economic losses, or taxes on greenhouse gas emissions might affect companies' ability to repay their debts to banks.

To capture these aspects, a **risk mapping** exercise was carried out by associating, on the basis of the sector of each counterparty in the portfolio, a level of risk. This mapping exercise allowed a refinement of the criteria for grouping into sectors.

Also, with reference to transition risks, another line of analysis was that of **real estate securing loans granted by Banca Credifarma**. Transition risk transfers its effects to credit risk with respect to exposures secured by real estate with reference to energy class. The collateral value may decrease as a result of policies that impose critical energy efficiency standards on real estate rentals or sales. Market sentiment could also drive demand for energy-efficient dwellings and thus reduce the value of properties located in older buildings. The reduction in the value of real estate collateral therefore constitutes a recovery risk.

As far as physical risks are concerned, the impact was quantified by georeferencing the portfolio. With regard to the impact of physical risks on credit risk, an acute physical risk can lead to disruptions in the value chain and result in a decrease in sales. Similarly, physical damage to plants due to environmental events could affect the future financial solvency of a corporate counterparty. It was then possible to associate physical risk at individual counterparty level, based on its geographical location. A study of the existing literature identified hazards that are relevant to the context in which Banca Ifis operates. In addition, refinements were pursued from the point of view of georeferencing with reference to counterparts belonging to the motor vehicle production sector (a sector that is also covered by Net-Zero), considering the global location of production sites.

The materiality assessment of climate and environmental risks on credit risk took the form of a heatmap showing the significance of the associated transition and physical risk for each sector.

The materiality analysis performed identified the share of exposures to sectors with high or very high climate-related and environmental risk; this value is approximately 19,7%. Overall, the degree of significance of C&E risks on credit risk was defined as moderate.

Market risk

To date, the Group's market risk is not material, amounting to approximately 1% of total RWA and being mainly composed of transactions carried out for economic hedging and/or enhancement purposes with respect to the Group's investment portfolio. In this context, carefully implemented risk monitoring and consequent risk management activities aim at containing portfolio volatility and hedging prominent risks from exogenous sources.

Given the current low materiality of market risk, the Bank will conduct recurring analyses of the materiality of the related climate and environmental risks for the Sovereign portfolio. Should trading intensify and there be a significant increase in assets attributable to the trading book for supervisory purposes, the Bank will consider the adoption of possible safeguards aimed at integrating ESG risk analysis into the relevant investment-divestment choices in line with the Bank of Italy's Supervisory Requirement 9 - Market Risk.

Operational risk

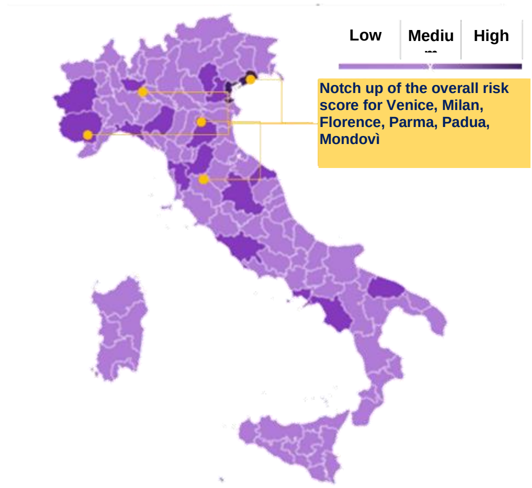
The study of the effects of climate and environmental risks on operational and reputational risks was carried out, in line with the Bank of Italy Supervisory Expectation 10 - Operational and reputational risk with reference to both physical and transitional risks, by analysing on one hand the possible impacts that acute weather events could have in financial and business continuity terms, and on the other hand the adverse effects that could be generated for the image and reputation as perceived by the various stakeholders as a result of conduct or business practices of the Banca Ifis Group that could be qualified as not aligned with ambitions and the reference regulatory framework.

The occurrence of extreme weather events could, in fact, jeopardise the Group's business continuity. They could have serious repercussions on the Group's main operating sites (including subsidiaries), on those of outsourcers critical for stability and on the main data centre sites (owned or outsourced).

In order to estimate the relevance of infrastructure in terms of profitability and business volumes generated, several proxies were calculated based on aspects such as the contribution of the individual branch to net banking income (from factoring and lending), weighted for probability of occurrence of climate events or the number of staff operating at the Group's main offices. From the point of view of operational risks, various scenarios resulting from the occurrence of acute climate events were analysed. To quantify the impact on portfolio collectability, the provincial geo-referencing of the exposure of impacted portfolios was considered. The provinces with the highest concentrations were considered to be most exposed to the effects of climate and environmental risks, and in order to represent this aspect they were distributed across a four-level scale.

The final result of the climate and environmental risk materiality analysis is a graphical representation (heatmap) of risk, constructed based on an approach that considers impact analysis by probability and is linked, on the basis of potential materiality, to the different departments of the Bank and the Subsidiaries[7].

Distribution of branches and main operational sites by physical risk



For the purposes of the analysis, **all** 26 **branches of the Bank** were **considered**.

The most economically significant branches exposed to high climatic risks are in the provinces of Milan, Pisa, Naples and Rome.

The analysis also took into account the presence of data centres, the operational headquarters of the Group's main IT outsourcers (e.g. Venice, Milan, Parma and Padua) and the main offices (e.g., Venice, Milan, Florence and Mondovì), which is why a number of notch-ups were carried out in view of their relevance to the company's ordinary operations.

Reputational risk

With regard to reputational risk, scenarios have been identified, such as non-compliance with C&E regulations or non-alignment with Net-Zero objectives, which may generate risk through stakeholders sensitive to the issues impacted, in line with the Bank of Italy's Supervisory Expectation 10 - Operational and Reputational Risk.

More specifically, with reference to the analyses conducted to study the climate and environmental effects on reputational risk, a framework defined in four distinct steps was constructed:

- identification of the risk, by means of the identification of the various typical reputational risk triggers were identified and adapted to the nature and operations of the Group;
- identification of relevant stakeholders, such as the Supervisor, investors, the general public and suppliers;
- risk assessment, by assigning a score representative of the impact that the event could have on each stakeholder and subsequent weighting by the relative probability of occurrence;
- aggregation, through the application of different weighting factors based on stakeholder relevance.

The materiality analysis made it possible to estimate an overall "medium" degree of significance of the effects of climate and environmental risks on operational and reputational risks.

[7] The data shown was produced as part of the materiality assessment carried out during FY 2022.

Liquidity risk

Following the materiality analyses, scheduled for 2023 on the basis of the Bank of Italy's Supervisory Expectations Adaptation Plan, the Bank will assess the possible need to conduct further sensitivity analyses and the application of any corrective measures to the way liquidity reserves are managed and funds are procured with a view to integrating the climate and environmental risks identified in the internal taxonomy and in ILAAP in line with the Bank of Italy's **Supervisory Expectation 11 - Liquidity Risk**.

4.2 Climate risk management

Mitigants and measures

The analysis of supervisory expectations gave rise to a project to integrate environmental factors into corporate strategies, governance and control systems, the risk management framework and disclosure. The multi-year plan to align with supervisory expectations on climate-related and environmental risks, put into place by Banca Ifis and delivered to the Bank of Italy at the beginning of 2023, is divided into **project streams involving several areas**.

Following the initial findings of the materiality exercise, the Bank proceeded with the **identification of various strategies to monitor and control climate and environmental risks**. Specifically, the Bank has identified the following **mitigants and measures**:

- *Inclusion within the RAF of an* ***indicator to monitor*** *the percentage of exposure to assets classified as high transition risk with respect to the banking group's total exposure;*
- *Update and monitoring of the results of the materiality exercise* ***once a year****;*
- *Annual update of the* ***Bank's risk taxonomy*** *document and* ***transmission channels*** *for climate and environmental risks.*

In addition to the mitigation and monitoring measures already implemented, the Bank is working on (i) the implementation of a **strengthened credit framework from an ESG perspective**, (ii) the **strengthening of ESG analyses** for major credit operations, and (iii) the development of **a sensitivity analysis of the loan portfolio** with respect to climate and environmental risk issues.

The credit framework strengthened from an ESG perspective

Amongst further activities, Banca Ifis also started in 2022 to **strengthen the current credit framework from an ESG perspective**. To this end, the Bank has defined the key boundary (e.g. sector, counterparty and transaction) and process (e.g. credit policies, lending process) elements that will define the new framework.

At the **sector level**, the sectors most exposed to ESG risks were identified in line also with the evidence from the materiality assessment exercise. Instead, at the counterparty level, the Bank first identified a list of data providers for the provision of data on each ESG element preparatory to the definition of an overall ESG score, and then defined the minimum requirements for the selection of the provider (e.g. level of coverage, granularity, number of KPIs, completeness of information, methodology used for proxies, frequency of updates). Following the relevant comparative analyses, the Bank then selected a data provider to address the various ESG score information requirements. Finally, **at transaction level**, the decision was made to assess where necessary how to identify "green" transactions.

Having defined the above scope of application, the process of defining the enhanced credit framework was initiated through:

- a definition of the role of the credit policies in steering and monitoring of ESG risks during the underwriting phase;
- an initial definition of how the ESG score is to be used and the relative origination steering methods based on the sector and counterparty assessments at the level of the Parent company and, where relevant, legal entity;
- an initial identification of the scopes and thresholds for the activation of the reinforced credit underwriting process (e.g. size and type of product/legal entity).

In the course of 2023, the Bank will finalise the design of the new ESG-enhanced credit process and then start the operational declination phase in line with the Bank of Italy's **Supervisory Expectation 8 - Credit Risk.**

Processes for assessing the adequacy of internal capital

In 2022, the Bank defined a series of activities to start integrating climate and environmental risk factors into its internal capital adequacy assessment processes, including a series of qualitative references to ESG topics in its 2023 ICAAP report.

In the course of 2023, the Bank intends to continue with activities aimed at carrying out an initial quantification for internal purposes of the impact of climate risks on the loan portfolio through sensitivity analyses in line with the Bank of Italy's Supervisory Expectation 6 - ICAAP, ILAAP and Internal Stress Test Processes.

The calculation of financed emissions - Net-zero target approach

As already mentioned, in 2021 the Bank adhered to the Net-Zero Banking Alliance (NZBA), thereby committing to bringing its loans and investment portfolios into line with the achievement of the zero net emissions goal by 2050, as per the targets set by the Paris Climate Agreement. After making this commitment, the Bank initiated a structured project to monitor the portfolio's financed emissions and set emission targets on the most relevant sectors in terms of materiality and emissions levels: Auto Leasing, Truck Leasing, Automotive Manufacturers and Distributors. These sectors cover more than 80% of the exposures and financed emissions considered by the NZBA. Moreover, these targets were announced to the market in September 2022, 6 months ahead of the NZBA's deadlines, and are among the most ambitious currently published by banks of similar size.

The overall approach is consistent with the recommendations and guidelines of the NZBA[8] and best market practices.

The definition of the Net-Zero targets for each sector required the completion of the following steps:

1. definition of the scope in question, including the asset classes and segments covered in the value chain;
2. selection of the most appropriate metric to measure the baseline scenario and emission targets in line with NZBA requirements and market practices, selecting the areas and portion of emissions to be achieved;

[8] https://www.unepfi.org/net-zero-banking/.

3. collection of public data, definition of proxies and calculation of the baseline scenario and inertial trajectory at counterparty level;

4. aggregation at portfolio level and definition of inertial emission curves;

5. selection of the Net-Zero reference scenario (i.e. IEA NZE scenario as market standard for Net-Zero trajectories) and definition of the level of ambition for the Bank.

Details follow of the methodological choices made by the Bank to define the Net-Zero targets.

- Relevant exposures: exposures in the target setting exercise include the following types of lending to non-financial corporations both Large and SMEs:
    - Used for cash[9];
    - Hold-to-collect bonds (HTC);
    - Leasing;
    - Factoring (both with and without recourse).
- Value chain coverage: in line with the major market players, only selected segments of the value chain of each sector have been taken into account for the scope of the target setting exercise. In particular, for each sector, a definition of the value chain was carried out in accordance with the main portfolio alignment methodologies. Specifically, coverage has been defined as follows:
    - Car manufacturers and distributors: focus on car manufacturers excluding component manufacturers (e.g. tyres, brakes);
    - Car leasing (light vehicles[10] and trucks): focus on the vehicle purchased by the customer.
- Portfolio coverage: portfolio coverage has been defined in line with major market practices:
    - Car leasing: 99,95% coverage (excluding decommissioned vehicles or obsolete car brands, as well as commercial LDVs without declared gCO_2/km emissions);
    - Car manufacturers and distributors: 97,9% coverage.
- Scope of emissions used: for each sector, the scope of emissions was selected to maximise the share of emissions captured and to ensure alignment with the main market peers:
    - Car manufacturers and distributors: Scope 3;
    - Car leasing: Scope 1, 2 (emissions from the use of vehicles by consumers, corresponding to Scope 3 emissions for manufacturers).
- Target metrics: the Bank has decided to use a sectoral decarbonisation approach (SDA) to measure and reduce emission intensity, defined as the ratio of financed emissions to financed output for each sector. Specifically, the unit measures used for the metrics of each sector were as follows:
    - Automotive (manufacturers, distributors and leasing): gCO_2/km;
    - Truck leasing: gCO_2/tkm.
- Data source: emissions and production data of automotive groups was mainly taken from public databases (e.g. ICCT report[11], TPI[12]) or from publicly available reports of counterparts.

[9] Agreement by signature is excluded to: (i) be in line with market practices and PCAF recommendations; (ii) calculate only the actual financing, and thus the real impact on the economy and emission levels, and not the potential.
[10] Light-duty vehicles (LDV) are all motorised four-wheel vehicles intended for the mobility of persons on all types of roads, up to nine persons per vehicle and 3,5 t gross vehicle weight.
[11] https://theicct.org/wp-content/uploads/2021/12/eu-hdv-co2-standards-baseline-data-sept21.pdf.
[12] https://www.transitionpathwayinitiative.org/sectors/autos.

TPI only considers Scope 3, category 11 emissions, i.e. emissions generated by the "use of the product sold". In this sector, the emissions generated by the use of the products sold correspond to the emissions generated during the entire life cycle of the cars sold by the manufacturers[13].
TPI measures emission intensity in the automotive sector based on average CO_2 Tank-to-Wheel emissions per kilometre[14].

- Weighting approach: the methodology for weighting the emissions intensity of each counterparty in the calculation of the overall portfolio's issuance curves has been defined in line with leading market practices, taking into account the availability of data for each sector.
- Scenario selection: for all sectors covered by emission intensity metrics, Net-Zero alignment scenarios were defined using the IEA[15] Net-Zero economy scenario.

4.3 Integration of climate risks into the Risk Appetite Framework

Banca Ifis's RAF and the integration of climate risks

For risk management purposes, the Group has a Risk Appetite Framework in place that governs the overall framework by which the Group manages and monitors its risks.

The Risk Appetite Framework is to be understood as the reference framework that regulates, in line with the business model and the strategic objectives, the propensity to accept risk, the tolerance thresholds, the risk limits, as well as bringing together in a single "point" the synthesis of the risk management policies and the reference processes necessary to define and implement them.

Following the initial findings of the materiality exercise, the Bank proceeded with the identification of various strategies to monitor and control climate and environmental risks. Specifically within the RAF, an indicator has been introduced to monitor the incidence of exposure to sectors classified as high transition risk, in order to guard against and mitigate climate and environmental risks.

[13] TPI methodology, p.7.
[14] TPI methodology, p.7.
[15] International Energy Agency.

5. Metrics and targets

5.1 Climate risk indicators

The materiality assessment on credit risk has enabled the creation of a sectoral heatmap to identify the C&E risk areas in the credit portfolio, including:

- heatmap of transition and physical risk at sector level;
- bottom-up analysis of physical risk at the customer level using geo-referencing.

Heatmap of transition and physical risk at sector level

In order to identify the sectors of economic activity in the loan portfolio that present the greatest climate and environmental risks, the Bank has conducted an assessment activity, grouping the sectors of economic activity into homogeneous groups based on the sector of economic activity of the counterparties analysed. In particular, physical risks[16] and transition risks were analysed.

In order to construct a sectoral heatmap showing the portions of the portfolio exposed to different types of risk, the Bank has therefore:

- identified transition risks using a 'top down' approach: for each macro sector of economic activity, a risk score on a scale of 1 (Low) to 4 (Very High) was associated with a third-party info provider;
- identified physical risks through a bottom-up approach: each counterparty, associated with a particular sector of economic activity, was analysed punctually by geo-referencing the counterparties' production/legal locations, a process that made it possible to identify precisely the physical risks to which the counterparties are exposed.

The results of the analyses on the loan portfolio as at 31/12/2022, carried out through aggregation and risk weighting, are shown below.

Segments	Transition risk	Physical risk	% exposure	million Euro exposure[1]
Mining minerals	Very High	High		
Automotive - production	Very High	High		
Heavy chemical industry	Very High	High		
Oil & gas - refining	Very High	High		
Logistics and automotive suppliers	High	High (Log) / Very High (Auto)		
Food industry and agriculture	High	High		
Steel and chemical industry	High	High		
Water waste management	High	High (Ref) / Moderate (Acq)		
Power Generation	High	High		
Very High and High C&E Sectors			20%	1245
Moderate C&E Risk Sectors			31%	1952
Low C&E Risk Sectors			49%	3112
Total			100%	6309

1. Performing exposure as at Q2 2022 (million Euro)

[16] For the purposes of the materiality analysis, the results of which are presented later in the chapter, the Bank also considered earthquake risk as a physical risk.

Sectors with **very high climate and environmental risks** are Automotive - Manufacturing, Chemical Industry - Goods, Gas and Oil - Refining and Trading, and Mineral Extraction.

Among the **high-risk** sectors, on the other hand, the Logistics and Automotive Suppliers sector stands out in particular, being the one to which the Bank is most exposed among those with very high and high risk. Finally, the overall share of exposures to very high and high-risk sectors is approximately 19,7%, in line with the largest European players.

With particular reference to the analyses carried out on transition risk, it should be noted that loan assets backed by real estate to Banca Credifarma's retail customers were also included in the perimeter and categorised as exposures with **moderate risk**. The Bank, in fact, has launched a project aimed at enabling the timely collection of the information necessary for risk assessment also on the entire portfolio of loans secured by real estate; in particular, the activities have been started by Banca Credifarma with the aim, in the long run, of extending the collection of information to all Group companies.

Physical climate risk indicators

Physical risk, as already mentioned, can be classified as "acute" if caused by extreme events such as droughts, floods and storms, and "chronic" if caused by progressive changes such as rising temperatures, sea-level rise, water stress, loss of biodiversity, land-use change, habitat destruction and resource scarcity. The Bank, as part of its analysis activities, has **traced the physical risk events to five macro-clusters**: flood risk, fire risk, landslide risk, drought risk, heat wave risk. Added to this is the risk of earthquakes.

As part of the activities undertaken in light of the Bank of Italy's Supervisory Expectations on climate and environmental risks, the Bank carried out a more in-depth analysis of physical risk by **geo-referencing the production/legal locations of counterparties**[17].

The risks that could mainly impact the Bank's corporate loan portfolio include:

- risk of fire;
- risk of heat waves;
- risk of earthquakes.

The Bank also assessed, through geo-referencing of customers in the Npl portfolio, the potential impact on the Group of possible interventions by the legislator to support populations affected by extreme weather events that would lead to the suspension of collection and/or repayment of Npl and salary-backed loan repayment plans.

The **analyses carried out showed** that:

- the most economically significant operations exposed to high climatic risks are located in the provinces of Rome, Latina, Naples, Salerno, and Turin, with an overall medium-high risk on this perimeter;
- on the vast majority of the perimeter distributed throughout the country, the Bank is exposed to medium to low climate risks.

5.2 Scope 1, 2 and 3 emissions

Scope 1 and 2 emissions

The Banca Ifis Group, confirming the close attention it pays to the direct impacts generated on the environment through its business activities, is committed to implementing a series of **projects** designed **to help reduce these impacts**. Some examples of these projects are the renovation **and redevelopment of offices** according to the highest standards of environmental compatibility, the activation of partnerships for the promotion of **planting and protection activities in the Lombardy region** and the **#Ifisgreen** environmental sustainability projects summarised in a series of initiatives in favour of the dissemination of a "plastic free" corporate culture and electric mobility.

In the area of **sustainable mobility**, the Group has initiated a project to install additional **electric car charging devices** at the Group's main sites. In particular, the Group has set itself the aim of installing a further 38 charging points by

[17] The data shown refers to the exposures analysed as part of the materiality assessment carried out during FY 2022.

2023, which will be added to the existing 18 for a total of 56 charging points. The Group has also set itself the aim of **replacing 50% of the company car fleet with hybrid/electric vehicles** by 2025.

Starting 1 January 2021, the Group now only uses green energy obtained **100% from renewable sources** (e.g. wind, photovoltaic, geothermal, hydroelectric, biogas and biomass) in all its offices in Italy. On the basis of consumption, equal to 2,9 million kWh (3,1 in 2020), in 2022 this choice allowed for an estimated reduction of 813 tonnes of CO_2 emissions. Again in 2022, the Group started evaluation of a project for a **new photovoltaic system** to be installed in the roof of the Mondovì office building with the aim of reducing the building's direct impact.

Breakdown of energy consumption by source		2022	2021	2020
Total	GJ	32.547	30.678	29.261
Natural gas consumption for central heating	GJ	2.128	5.106	4.522
Gasoline consumption for the vehicle fleet	GJ	1.927*	385*	191*
Diesel consumption for the vehicle fleet	GJ	17.625	14.716	12.915
Total fuel consumption	GJ	21.680	20.207	17.627
Consumption of purchased electricity (non-renewable)	GJ	-	-	-
Consumption of purchased electricity (renewable)	GJ	10.483	10.101	11.273
Consumption of energy from solar panels (renewable)	GJ	383	370	362
Total electricity consumption	GJ	10.866	10.471	11.635

*The presence of consumption for petrol-driven cars is due to the preferential use of proprietary vehicles with respect to public transport services in the context of the COVID-19 health emergency.

Electrical energy intensity		2022	2021	2020
Electrical intensity of the organisation - per employee	kWh/add.	1553.9	1517.5	1.828,2

In relation to the CO_2 equivalent emissions associated with the Group's business activities, the following elements of the GHG Protocol are monitored:

- Scope 1, i.e. direct emissions from sources owned or controlled by the Group;
- Scope 2, i.e. emissions related to energy sources acquired for self-consumption by the Group.

Greenhouse gas emissions		2022	2021	2020
Scope 1	tCO_2 eq.	1.578	1.419	1.236
Scope 2 (location based)	tCO_2 eq.	761	784	933
Scope 2 (market based) *	tCO_2 eq.	0	0	0

*In order to calculate the emissions according to the "market based" method, reference was made to the certificates of Guarantee of Origin issued by the electricity supplier that, for 2022, consisted entirely of renewable sources.

GHG emissions intensity		2022	2021	2020
Intensity of scope 2 location based emissions - per employee	tCO_2 eq./add	0,4	0,4	0.5

The reporting boundary of CO_2 equivalent emissions is based on the operational control concept defined by the Greenhouse Gas Protocol. For 2022, the sources of the conversion factors used to calculate CO_2 equivalent emissions are the "ABI Lab guidelines on the application of the GRI (Global Reporting Initiative) Environmental Indicators for banks - December 2022 version". The greenhouse gases included in the emissions calculation - and specified in the guidance - are CO_2, CH_4, and N_2O.

For more details, refer to the chapter "4.4 Environmental Impacts" of the Banca Ifis Group's 2022 Non-Financial Statement.

The portfolio Carbon Footprint (Scope 3)

The Bank has also measured its Scope 3 emissions, thereby meaning all indirect emissions from resources not directly controlled or owned by the organisation but occurring within its value chain. This assessment provided, among other things, a starting point for the Bank's definition of its targets for the reduction of financed emissions by 2030 on its loan portfolio, which were defined as part of its membership of the Net Zero Banking Alliance. The results of the measurement, which covered some particular sectors of the Bank's loan portfolio, are reported in section *"3.3 Group Strategy - Adherence to the Net Zero Banking Alliance"*.