

Policy on the Integration of Sustainability Risk in Portfolio Management Services

Article 3 of Regulation (EU) 2019/2088 (hereinafter referred to as the “SFDR”) requires financial market participants and financial advisors to publish on their websites information regarding their policies on the integration of sustainability risks into investment decision-making processes and investment advice.

The MPS Group has adopted a model for classifying and mapping investment products for sustainability purposes, based on the measurement of ESG ratings and the specific characteristics of each financial instrument.

The methodological approach developed defines the sustainability of investment products and services primarily by assessing the exposure of issuers and products to sustainability risks. It further considers the nature and characteristics of each product, as determined by compliance with minimum investment thresholds across various ESG-related areas, which in turn define the ESG intensity.

Sustainability risk is defined as *“an environmental, social, or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.”* Exposure to sustainability risk is assessed using ESG scores, which assign ratings that provide a summary judgment on each product’s exposure to environmental, social, and governance issues.

Based on these ESG scores, MPS has developed an internal methodology to define ESG Ratings, aimed at identifying and understanding financially material ESG risks at the level of individual instruments or portfolios. The rating provides an overall score reflecting the extent to which exposure to a sustainability-related risk is unmanaged or unmitigated.

A higher score indicates poorer ESG risk management, using a scale from 1 to 5:

Rating 1 - Negligible ESG Risk

Rating 2 – Low ESG Risk

Rating 3 – Medium ESG Risk

Rating 4 – High ESG Risk

Rating 5 – Severe ESG Risk

Based on the ESG rating, the Bank’s investment product catalogue is divided into: Products with a positive sustainability assessment (Ratings 1 to 4), indicating good management or mitigation of sustainability risks; Products with a negative sustainability assessment (Rating 5), indicating poor management of ESG risk.

ESG risk scores are sourced from various providers (including data providers available to the Bank or individual financial product manufacturers) depending on the type of investment product being assessed. The sustainability

definition outlined above is further supplemented by disclosures made by financial product manufacturers, which allow for verification of compliance with the definitions and requirements established by applicable regulatory frameworks governing sustainable investments (including the SFDR, the EU Taxonomy Regulation, and the MiFID II and IDD frameworks).

Based on these criteria, the Bank has developed a classification system that maps investment products into the following categories:

- **Environmentally Sustainable Products:** These are economic activities classified by the European Commission as contributing substantially to one or more environmental objectives, while ensuring compliance with minimum social and governance safeguards. Such objectives include: climate change mitigation and adaptation; sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control; and the protection and restoration of biodiversity and ecosystems);
- **Sustainable Products:** These include economic activities identified by the European Commission as pursuing environmental objectives (e.g., efficient use of energy and water resources, use of renewable energy, waste management, reduction of greenhouse gas emissions, and biodiversity preservation) and/or social objectives (e.g., combating inequality, fostering social cohesion and integration, and investing in human capital), while adhering to good governance practices (e.g., employee relations, remuneration policies, and tax compliance);
- **Principal Adverse Impact (PAI) Indicators:** These are indicators used to measure the actual or potential material negative effects of investment decisions on environmental and/or social factors. Environmental PAIs assess negative impacts related to climate and environmental factors (e.g., greenhouse gas emissions, biodiversity loss, water pollution), while social PAIs evaluate adverse effects on society and workforce-related matters (e.g., respect for human rights, anti-corruption efforts, and bribery prevention).

Sustainability risk in portfolio management services

In terms of integrating sustainability risks into portfolio management services, the ESG ratings calculated by the Bank—using the methods previously described—are used to evaluate the overall assets under management. This includes both discretionary portfolios and those managed with prior consent. The analysis assesses the coverage provided by information providers, the distribution of ESG ratings and their evolution over time. The aim is to monitor how investment decisions, made from a risk/return perspective, impact ESG variables. This monitoring is carried out across the full scope of assets under management. If any adverse effects on ESG variables are identified, corrective measures are implemented. In such cases, targeted actions are taken to replace products that have a strongly negative impact on the relevant ESG indicators, while preserving the risk/return profile of the affected portfolios as much as possible.

In order to prevent or mitigate the negative effects on sustainability factors, MPS aims to exclude issuers, UCITs and ETFs that pose a high sustainability risk (i.e. ESG rating of 5) or that lack an ESG rating altogether.

Additionally, Banca MPS has introduced investment lines classified under Article 8 of the SFDR, in order to cater for clients who express a preference for ESG-related themes.

To this end, data provided by external information providers is used to assess the sustainability characteristics of investment instruments (such as UCITS/ETFs and individual equity/bond securities), as well as to measure the Principal Adverse Impacts (PAIs) monitored within each investment line, as described in the pre-contractual disclosure. Where available, data disclosed by product manufacturers through the European ESG Template (EET) for each investment instrument is also utilised.

Specifically, the following criteria are applied:

- Equity and bond benchmarks are primarily used, with filters applied to exclude companies operating in controversial sectors;
- A minimum percentage of UCITS and ETFs classified under Articles 8 or 9 is set, varying according to the specific characteristics of each investment line.
- One or more target PAIs are selected from among the 16 main indicators;
- A minimum or planned percentage of sustainable investments is established.

Collection of sustainability preferences and suitability assessment

The sustainability preferences of customers are collected through specific questions integrated into the MiFID profiling questionnaire. The customer is first asked a specific question aimed at assessing their level of interest in sustainability: they can indicate their interest in the ESG considerations as None, Low, Medium, or High. This expressed level of interest determines the minimum percentage of the portfolio to be allocated to sustainable investments. If the declared interest is anything other than “None”, the customer is then asked three additional questions to gather more detailed information on their client’s preferences regarding environmentally sustainable products, sustainable products, and/or products that monitor PAI (Principal Adverse Impact) indicators.

If the customer expresses interest in environmentally sustainable and/or sustainable products, they are also asked to specify the minimum proportion of the product that should be invested in environmentally sustainable and/or sustainable activities. This minimum proportion is expressed at two levels (modest and substantial), with the respective percentages defined using the Bank’s internal methodology.

If the customer states an interest in products that monitor PAI indicators, they are asked to select the categories of factors they are interested in: environmental and/or social factors.

The information collected from the client is taken into account in the suitability assessment for both investment advisory and/or portfolio management services. The suitability assessment model adopted by the Bank includes an ESG sustainability concentration check, carried out at the portfolio level alongside all other checks within the suitability model. This check compares the proportion of the portfolio invested in products with sustainability characteristics against the minimum threshold determined by the customer’s response to the initial question about their general interest in sustainability (Low, Medium, High). The check requires that the portion of the portfolio invested in products aligned with the sustainability preferences stated by the customer in the MiFID questionnaire meets (or closely approaches, with progressive improvement) the defined minimum threshold. Meeting the minimum threshold ensures consistency with the customer’s sustainability preferences, guaranteeing an appropriate ESG-compliant product allocation.




The summary report of the suitability checks, which is provided to the customer following the preparation of an investment advisory proposal, includes the customer’s stated “sustainability” preferences as indicated during the completion of the MiFID questionnaire. These comprise the ESG preference level of interest – “None,” “Low,” “Medium,” or “High”—as well as the responses given in relation to sustainability preferences under items a), b) e c).




For all financial instruments included in the advisory proposal, the report presents the indicators used to classify their sustainability and specifies whether the product/service meets the sustainability preferences expressed by the customer. Additionally, the report details the contribution of each sustainability indicator—ESG rating, environmental sustainability, sustainability, and PAI—to the portfolios’ overall sustainability concentration, including the value allocated to sustainable financial instruments both before and after the proposal.

The description of the criteria and checks carried out includes the minimum thresholds defined by the Bank for products investing in environmentally sustainable activities, sustainable activities, and those that address PAIs.

Below is an illustrative example of the above, at the level of the investment line subject to the suitability assessment.

Descrizione Prodotto	Tipo Prodotto	Codice	Operaz.	Iniziativa	CTV (euro)	Indicatori ESG ¹
Dossier Titoli -						
SICAV PROVA ND	SICAV	LUTESTTEST	ACQUISTO	BANCA	10.000,00	2 - - -
THREADNEEDLE (LUX) GLOBAL FOCUS AU	SICAV	LU0061474960	VENDITA	BANCA	8.645,30	2   
ALLIANZ STRATEGIC BOND AT H2-EUR	SICAV	LU2066004206	ACQUISTO	BANCA	10.000,00	2   

Indicatori ESG	Contributo ESG	
	Portafoglio Attuale	Portafoglio pianificato
1-4 Rating ESG	90 %	79 %
 Investimenti ecosostenibili	0 %	100 %
 Investimenti sostenibili	80 %	90 %
 Categorie PAI	70 %	75 %

ICONA	SINTESI	DESCRIZIONE
1-4	Rating ESG	Il rischio di sostenibilità è definito come un evento o una condizione di tipo ambientale, sociale o di governance che, qualora si verificasse, potrebbe provocare un impatto negativo sul valore dell'investimento.
	Ecostenibilità - lettera a)	Strumenti finanziari per i quali una quota minima (5% - misura contenuta, 10% - misura sostanziale) è investita in investimenti ecosostenibili, ossia investimenti in attività economiche che contribuiscono in modo sostanziale al raggiungimento di uno o più obiettivi ambientali, quali ad esempio: mitigazione dei cambiamenti climatici, adattamento ai cambiamenti climatici, uso sostenibile e protezione delle acque e delle risorse marine, transizione verso un'economia circolare, prevenzione e riduzione dell'inquinamento, protezione e ripristino della biodiversità e degli ecosistemi. Qualora l'icona non sia presente, il prodotto non soddisfa le preferenze di Sostenibilità da Lei indicate.
	Sostenibilità - lettera b)	Strumenti finanziari ecosostenibili (di cui sopra) oppure investimenti con obiettivi sociali (5% - misura contenuta, 10% - misura sostanziale), quali ad esempio: investimenti che contribuiscono alla lotta contro la disuguaglianza, o che promuovono la coesione sociale, l'integrazione sociale e le relazioni industriali, o investimenti in capitale umano o in comunità economicamente o socialmente svantaggiate. Qualora l'icona non sia presente, il prodotto non soddisfa le preferenze di Sostenibilità da Lei indicate.
	PAI (Principal Adverse Impact) - lettera c)	Strumenti finanziari che considerano i principali impatti negativi sui fattori di sostenibilità di natura ambientale, sociale e di governance. Qualora l'icona non sia presente, il prodotto non soddisfa le preferenze di Sostenibilità da Lei indicate.
-	Non disponibile	Strumenti finanziari per i quali l'emittente non ha fornito le informazioni sulla sostenibilità.

GLOSSARY

ESG: The acronym ESG—Environmental, Social, and Governance—refers to the assessment of sustainability factors alongside the financial evaluation of an issuer or financial instrument. For example, “Environmental” (E) considerations include environmental topics such as resource efficiency; Social (S) considerations include social issues such as the use of child labour in production processes; Governance (G) considerations cover topics such as the remuneration of top management.

Sustainability risk: an environmental, social or governance (ESG) event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of an investment.

Sustainability factors: environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters (SFDR).

Sustainable investment/investing: an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment with a social objective, such as an investment that contributes to tackling inequality or that fosters social cohesion, social integration, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance (SFDR).

Sustainable investment: an investment in one or more economic activities considered sustainable because (i) they substantially contribute to one or more of the following environmental objectives: climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems, (ii) they are carried out in compliance with minimum safeguards and technical screening criteria; (iii) they do not significantly harm any of the environmental objects listed above (Taxonomy Regulation).

Principal adverse impacts - PAI: These represent the so-called “negative externalities” of economic activities, i.e., the impacts of investment decisions and advice that result in negative effects on sustainability factors. PAIs are listed in the Regulatory Technical Standards (RTS) of the SFDR Regulation and are categorised into environmental and social sectors, divided into mandatory and optional indicators.

Financial products: Financial instruments and any other form of investment of a financial nature; bank or postal deposits that are not represented by financial instruments are not considered financial products.

Financial product under Article 8 of Regulation (EU) 2019/2088: A financial product that promotes environmental or social characteristics, or a combination of both, provided that the companies in which investments are made follow good governance practices.

Financial product under Article 9 of Regulation 2088/2019: A financial product that has sustainable investment as its objective.

Financial products that consider Principal Adverse Impacts (PAIs): Financial products that adopt strategies and measures aimed at mitigating the effects of Principal Adverse Impacts (PAIs), as listed in Commission Delegated Regulation (EU) 2022/1288. These impacts are categorised into environmental PAIs (e.g. the greenhouse gas emissions intensity of investee companies) and social PAIs (e.g. the gender pay gap within investee companies).

Sustainability preference: The option granted to a customer, whether actual or prospective, to incorporate into their investment one or more financial instruments that qualify as sustainable investments and/or environmentally sustainable investments (with the possibility of specifying the desired proportion), and/or financial instruments that consider Principal Adverse Impacts (PAIs) on sustainability factors.

Product manufacturers: Intermediaries who create, develop, issue, and/or design financial instruments, or who provide advice to corporate issuers in carrying out these activities; Asset Management Companies and Insurance Undertakings that, as participants in financial markets, produce and issue financial products that are placed/distributed or included in the managed portfolios of the Group’s companies.

UCIs (Undertakings for Collective Investment): An entity established for the collective management of savings, with an autonomous pool of assets raised from multiple investors through units or shares, pursuant to Article 1 of the Consolidated Law on Finance. This category includes, for example, mutual investment funds, SICAVs, and Alternative Investment Funds (AIFs).

ETF (EXCHANGE TRADED FUND): A specific type of investment fund or SICAV (open-ended investment company) with two main characteristics: 1. It is traded on a stock exchange like a regular share; 2. Its sole investment objective is to replicate the performance of a reference index (benchmark) through fully passive management.

SICAV (*Società di Investimento a Capitale Variabile*): An open-ended investment company structured as a joint-stock company with variable capital, whose sole purpose is to invest its assets—raised through the public offering of its own shares. SICAVs fall under the category of UCIs (Undertakings for Collective Investment), alongside mutual investment funds.

European ESG Template (EET): A standardised data format used in information exchanges between financial intermediaries, containing a detailed set of data and disclosures on the sustainability-related characteristics of financial products.

ESG Score (also ESG Rating): A synthetic indicator that measures the degree of sustainability of a financial product by assigning a score on a scale that reflects varying degrees of sustainability performance. For each financial product, individual scores are calculated for each of the sustainability pillars (Environmental, Social, and Governance), along with an overall ESG score combining all three dimensions.