the effectiveness of ESG-related risk management and supervision in financing activities.

Bank Mandiri monitors compliance with ESG aspects in credit disbursement according to bank policies, with the following steps:

1. Regularly monitoring compliance with ESG aspect requirements. Bank Mandiri regularly ensures that customer project progress aligns with the established action plan. To ensure compliance with credit policies and procedures, Bank Mandiri also conducts regular reviews and audits conducted by the Internal Audit Unit. Debtors who have not met the minimum requirements will be subject to regular monitoring, the development of action plans, and the establishment of necessary schedules.
2. Implementing the ALERT system as an early warning mechanism to identify risks that could impact the quality of debtor credit. This will enable the implementation of preventive measures to avert a decline in credit quality, based on financial performance, industry prospects, and compliance with ESG requirements.
3. Conducting an annual review as a form of check and balance for compliance with the latest internal credit policy requirements, including ESG aspect requirements.

Climate Risk

Climate risk is an emerging risk embedded in key financial risks, such as credit risk, market risk, and operational risk. Bank Mandiri has assessed key financial risks as expected and has considered its ESG aspects. Climate risk is also embedded in every other type of risk managed by the Bank, including credit risk, liquidity risk, market risk, and operational risk, so Bank Mandiri conducts comprehensive risk management processes in accordance with existing procedures, including for climate risk.

Bank Mandiri has conducted an Initial Phase Climate Risk Stress Test for credit, market, and operational risks following the guidance from OJK. For credit risk, the Bank has identified credit portfolios with potential exposure to flood and forest fire disasters, as well as sectoral portfolios that are classified as high emission sectors and affected by government policies to control climate risk. For market risk, the Bank has identified movements in the market value of the Bank's securities portfolio that fall into the high emission sector category as a result of changes in government policies on carbon emissions.

Bank Mandiri manages climate-related financial risks, starting from risk identification and the development of a risk management framework, including conducting scenario analysis. The results of climate risk analysis are utilized to enhance the Bank's resilience to climate risk impacts and strengthen various initiatives and the integration of ESG aspects in internal business processes. The impact of climate change on the sustainability of Bank Mandiri is based on the risk period, including:

a. In the short term (1-2 years ahead). Climate change can have risk impacts on Bank Mandiri's financing through potential impacts of government policy changes, inappropriate technological developments, and shifts in consumer and investor preferences, resulting in carbonization transitions affecting borrowers' profitability, cash flow, and asset value.
b. In the medium (5-10 years) and long term. Prolonged and severe climate impacts can threaten the environment, such as floods, landslides, heatwaves, food crises, and other natural disasters.

Climate Risk Mitigation

Bank Mandiri is committed to conducting business and operations with a focus on ESG principles to become "Indonesia's Sustainability Champion for a Better Future." This commitment is the Bank's response to supporting the government's aspirations for a low-carbon economy.

In sectors with high climate risks such as plantations, mining, and energy, Bank Mandiri intensively monitors compliance with the ESG aspects required by the Bank. In the future, Bank Mandiri will strive to conduct more comprehensive climate risk impact assessments, such as climate scenario analysis and testing credit portfolios against climate risks, including transition and physical risks.

Climate-Related Risks	Mitigation
Rising prices of raw materials and/or commodities due to climate change, weather issues, or crop failures.	Conducting stress tests and creating a watchlist for continuous monitoring to analyze customers affected by related issues.
Energy transition risks in countries that still rely heavily on coal as their main energy source, such as in Indonesia.	Bank Mandiri adjusts its credit policy for the energy sector utilizing coal in line with the government's energy transition plan.
Acute physical risks caused by extreme climate change, including floods, landslides, and haze from forest fires.	Implementing a Business Continuity Plan and establishing data centers in various locations to mitigate customer transaction disruptions and protect against the risk of data loss due to hydro-meteorological disasters. Implementing BCM according to international standards based on ISO 22301:2019 to create a resilient organization against potential internal and external threats through readiness of BETH3 components (Building, Equipment, Technology, Human Resource & 3rd Parties). BCM also interacts with climate institutions such as the Meteorology, Climatology, and Geophysics Agency (BMKG) to identify and initiate early action plans and to socialize them to all Mandiri employees.

Climate-Related Opportunities	Response
Investment in technology for renewable energy, currently experiencing growth. According to the Ministry of Energy and Mineral Resources, in 2021, the use of renewable energy reached 11.5% of the total national energy.	Bank Mandiri has developed internal capabilities to support the transition to green energy in that sector. As of December 2022, Bank Mandiri has financed 10 renewable energy projects.

Involvement of the Governance Body in Climate Risks

The coordination of the management of aspects related to Environmental, Social, and Governance (ESG), including climate risks, at Bank Mandiri is carried out by the ESG Group under the authority of the Managing Director in managing the framework, coordinating provisions that are in line with ESG issues and climate change, managing sustainable portfolio management, and the Bank's responsible operational strategy, including communication functions and reporting to external and internal stakeholders. Reports from the ESG Unit are then regularly submitted to the Board of Directors as needed and to the Board of Commissioners with a minimum frequency of 4 times per year.

In the implementation of ESG and climate-related aspects, the Board of Directors plays a role in strategic functions by:

- ✓ integrating ESG aspects bank-wide, establishing the Bank Mandiri Sustainable Finance direction covering the Framework, Commitment, Strategy, Initiatives, Roadmap related to climate targets and SDG achievements;
- ✓ carrying out supervisory functions related to ESG and climate risks and opportunities, implementing Sustainable Finance, ensuring the successful achievement of ESG targets and initiatives;
- ✓ being accountable in ensuring the achievement of sustainable aspirations to stakeholders; and
- ✓ fostering necessary collaborations and partnerships to accelerate the Company's progress in achieving SDGs and climate targets.

The Board of Directors is assisted in this matter by the Risk Management and Policy Committee (RMPC). The Risk Management and Credit Policy Committee (RMPC) is held on a quarterly basis with topics including the performance of the Sustainable Finance Action Plan (SFAP), ESG trends, and discussions on critical issues related to ESG aspects.

The Board of Commissioners plays a crucial role in managing ESG and climate-related aspects, particularly in ensuring the integration of ESG and climate aspects in Bank Mandiri's long-term goals, including promoting efforts beyond compliance and adopting best practices, as well as overseeing the management of sustainability and climate-related risks and opportunities. To carry out this task, the Board of Commissioners is supported by the Risk Monitoring Committee (RMC). The Risk Monitoring Committee (RMC) forum is held on a quarterly basis, including discussions on the effectiveness of ESG-related risk management and oversight in financing activities.

The functions and obligations of the Board of Directors and the implementation of sustainable finance at Bank Mandiri are stipulated in Board Decision No. KEP.DIR/009/2021 dated January 13, 2021 regarding the Risk Management & Credit Policy Committee and Board of Commissioners Decision No. KEP.KOM/007/2022 dated November 18, 2022 regarding the Charter of the Risk Monitoring Committee. The ESG Group, a special body, is established in accordance with Board Decision No. KEP. DIR/32/2022 dated September 12, 2022.

Climate Risk Resilience

During the reporting period, Bank Mandiri has conducted a climate risk resilience assessment based on OJK Letter No. S-16/PB.013/2023, requiring KBMI 3 & 4 banks to assess climate risks in their portfolios. In this assessment, climate-related risks are compared with an initial qualitative assessment related to credit, market, and operational risks, specifically flood risks for residential and commercial property-backed credit portfolios, as well as drought/forest fire risks for corporate and SME portfolios in the forestry and plantation sectors.

The assessment provides an overview of potential losses and their impact on credit, market, operational, and capital risks for the Bank. For transition risks, the assessment is conducted for portfolios in high emission sectors, considering the projected impact of increased carbon emissions and government policy changes on credit, market, operational, and capital risks for the Bank. Transition scenarios use NGFS scenarios as per OJK guidelines, namely Net Zero 2050, Delayed Transition, and Current Policies.

For credit risks, portfolio segments with potential vulnerability to flood and forest fire disasters are identified, as well as sectors classified as high emission sectors and affected by government policies for climate risk control. For market risks, the Bank identifies movements in the market value of its securities portfolio in high emission sectors due to changes in government policies related to carbon emissions.

We analyze the operational and property risks of Bank Mandiri related to drought/forest fires/floods, which, based on the assessment, have the potential to cause damage and losses to the Bank's technological systems and properties, as well as disruptions to employee mobility and health. In this scenario, the Bank has a Disaster Recovery Plan that includes a contingency plan for catastrophic events.

Bank Mandiri will continue to develop climate risk stress testing in accordance with regulatory guidance and the Bank's needs in planning climate risk management for its portfolio. With advancing technology, the development of specific models and analytics will be needed to quantify the impact of climate and environmental factors, as well as more detailed and current data and information, scenarios, and assumptions in line with regulatory guidance.