

# RAIFFEISEN



## **ESG in Corporate Finance** Raiffeisen Switzerland Cooperative

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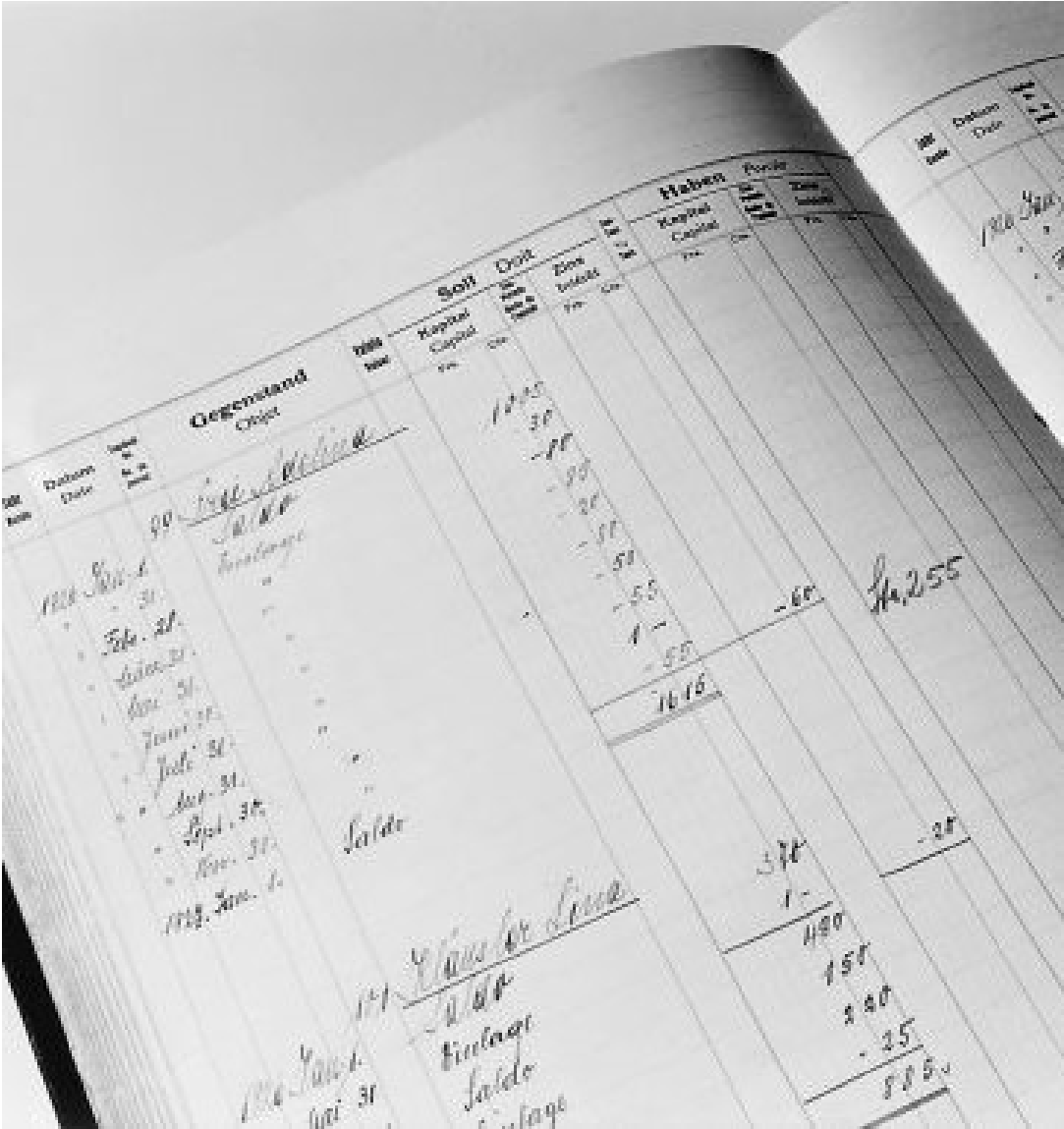
# Introduction

# Context | Sustainability in the historic context of lending and finance still «new».

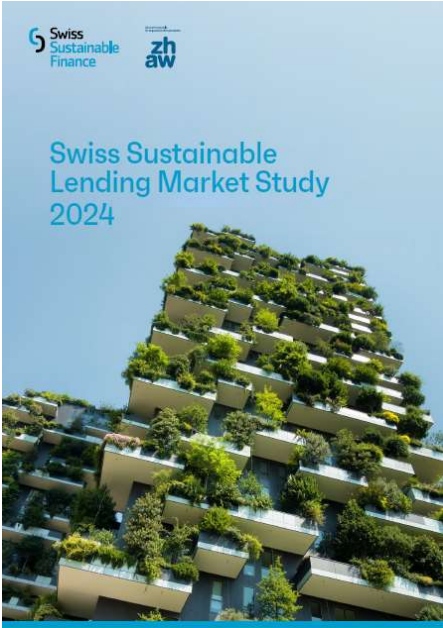
<b>3000 BCE</b>	Valuables are deposited
<b>700-500 BCE</b>	Coins
<b>1531</b>	Exchange in Belgium
<b>1997</b>	Federal Law to Combat Money Laundering and Terrorist Financing
<b>2008</b>	Green Bond (World Bank)
<b>2019</b>	Due Diligence for Corporate Lending and Securities Underwriting (OECD)



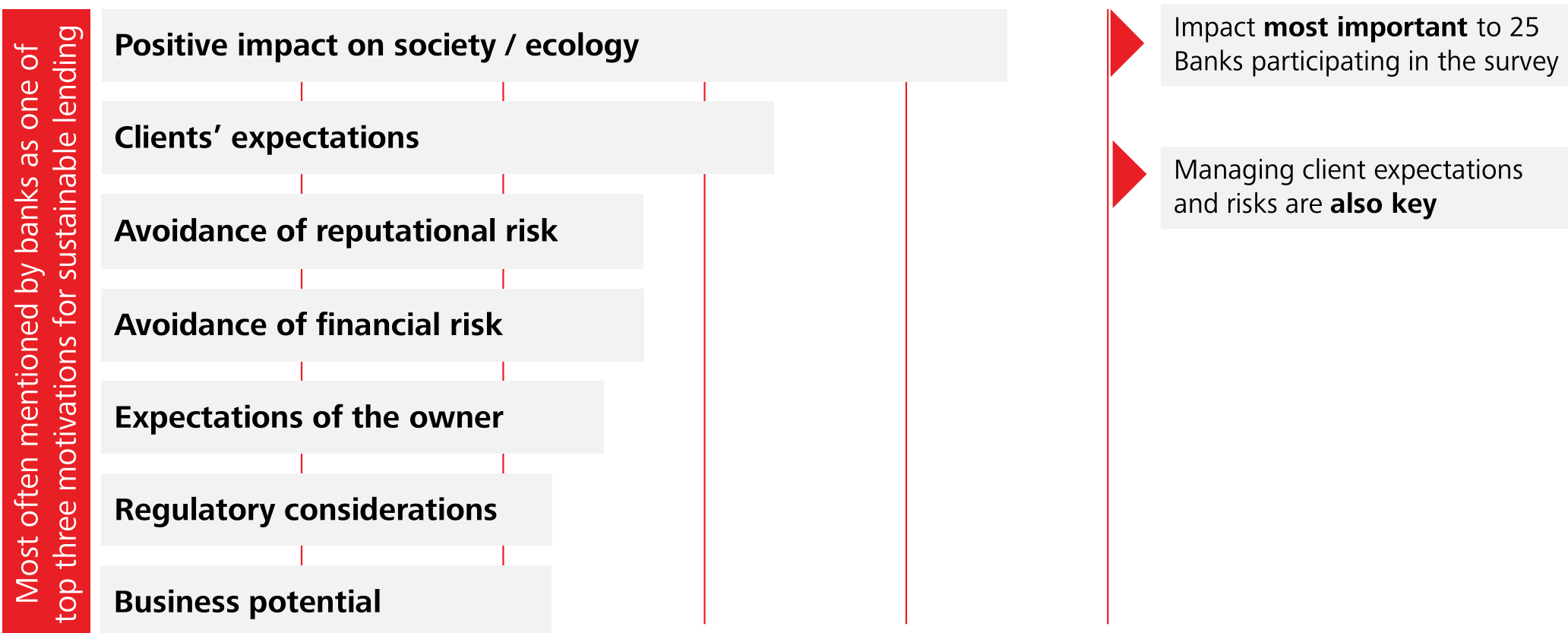
Importance to **clarify and agree on certain concepts** as a basis for discussion and analysis



**What** | SSF Market Study (2024) distinguishes between «Strategy» and «Sustainable Financing Approaches» as the two levels of integrating sustainability into lending.



**Why** | According to SSF Market Study (2024) «positive impact on society /ecology » most often mentioned as one of the top three motivations for sustainable lending activities.



# Implementation Examples Raiffeisen

**Raiffeisen** | 125 years Swiss cooperative banking. Every third Swiss company is a Raiffeisen client. Most of them are SME.



218 **cooperative** banks & Raiffeisen Switzerland cooperative



- 2 Mio. **members**
- 3.7 Mio. **clients**



**Systemically important**  
(at national level)



- 200,000 **business clients**
- 99.2% Swiss-based
- 1.5% medium and large



Focus on **Swiss market**

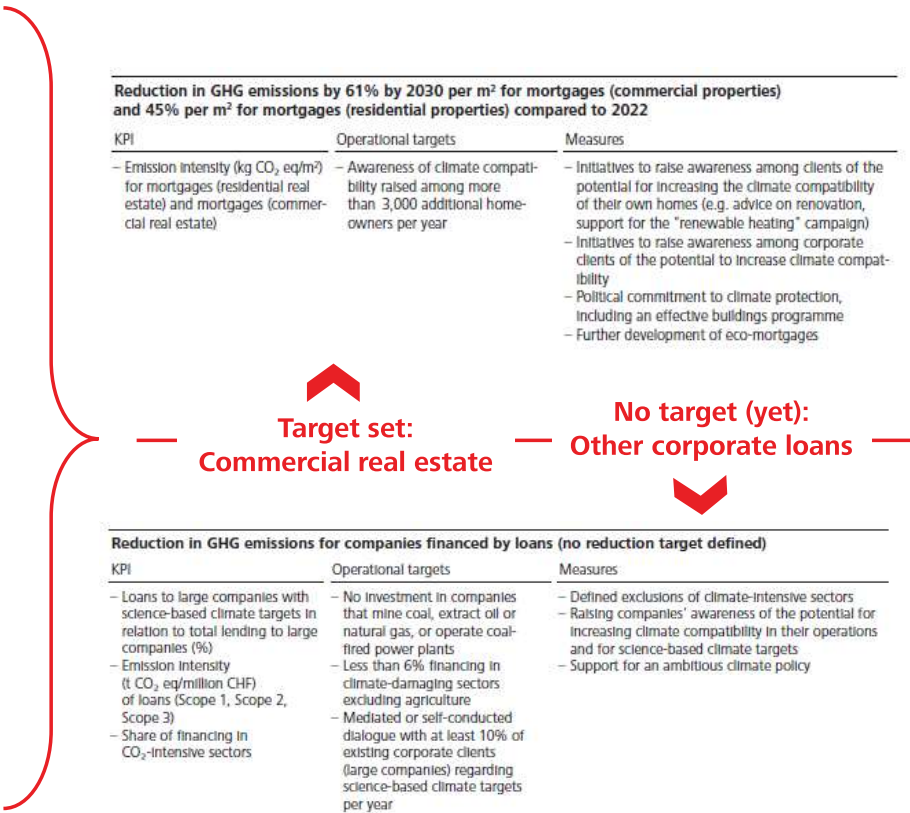


**Solid** credit ratings

# Example «Portfolio Steering» | Raiffeisen climate transition plan includes portfolio steering elements.

## Transition plan Raiffeisen Group: corporate finance implications

<b>Context</b>	<ul style="list-style-type: none"> <li><b>Business focus:</b> <ul style="list-style-type: none"> <li>→ CHF 84 bn mortgages commercial real estate</li> <li>→ CHF 10 bn other corporate loans</li> </ul> </li> <li><b>Credit risk:</b> Low to moderate (value adjustments)</li> <li><b>Impact:</b> <ul style="list-style-type: none"> <li>→ 1.8% Energy sector (electricity)</li> <li>→ 1.3% Other emission-intensive (without agriculture)</li> </ul> </li> </ul>
<b>Priority</b>	<ul style="list-style-type: none"> <li><b>Priority 1:</b> Mortgages commercial real estate</li> <li><b>Priority 2:</b> Other corporate loans</li> </ul>
<b>Plan set-up</b>	<ul style="list-style-type: none"> <li><b>Reduction targets:</b> Strategic targets (2030)</li> <li><b>KPI:</b> Strategic measurement indicators</li> <li><b>Operational targets:</b> Operationalization of reduction targets</li> <li><b>Measures:</b> Actual operational reduction measures</li> </ul>





## Example «Advisory Activities» | Systematic inclusion of sustainability in residential mortgage advisory process. Pilot initiatives to improve SME's awareness and capacities.

### Individuals



- First Swiss bank to systematically integrate energy efficiency evaluation of properties into the mortgage advisory process
- Several measures, partnerships and campaigns during the past 10 years

### Businesses



- Pilot-collaboration with «**PEIK**» (FOE)
- Raising awareness of SME on energy efficiency



- Support **esg2go** SME rating
- Raising awareness of SME on sustainability



- Support **SBTi initiative** (Go For Impact)
- Improve SME's capacity to measure emissions and set climate targets

**Example «Exclusion»** | Inspired by OECD (2019) Raiffeisen adopted principles and risk based due diligence process and exclusion policy. SMEs are duly covered.

**Raiffeisen due diligence process and exclusion policy**

General exclusion	Specific exclusions	
<ul style="list-style-type: none"> <li>• <b>Serious negative impacts</b> on society and the environment</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Extraction fossil fuels</b> (coal, oil, gas)</li> <li>• <b>Coal</b> power plants</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Nuclear power</b> plants (except when phase out decided)</li> <li>• <b>Tobacco</b> processing</li> <li>• <b>Controversial weapons</b></li> </ul>

<b>Implementation</b>	<ul style="list-style-type: none"> <li>• <b>Unit responsible for business relation:</b> Standardized risk analysis</li> <li>• <b>Specialized corporate responsibility and sustainability team:</b> In depth analysis in case of elevated risks</li> <li>• <b>Management board:</b> Decides in case of escalation</li> </ul>
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<b>Control</b>	<ul style="list-style-type: none"> <li>• <b>Portfolio analysis:</b> At least once a year to identify any problematic business relations</li> <li>• <b>If problematic business relations identified</b> <ul style="list-style-type: none"> <li>→ Engagement</li> <li>→ Possibly dissolution of business relation</li> <li>→ Possibly revision of due diligence process</li> </ul> </li> </ul>
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**Example «ESG Integration»** | No evidence that SME's ESG performance generally influences creditworthiness, debt capacity, loan affordability. Pricing not adjusted.



- Based on analysis and exchanges with consultants **no evidence** (yet) that SME's ESG performance systematically influences creditworthiness, debt capacity, loan affordability
- ESG performance generally not taken into account in **pricing**

# Example «Financing Transformation» | Raiffeisen participated in Sustainability Linked Loan structures. Due to complexities and cost not appropriate instrument for SME (yet).

## Sustainability Linked Loan Principles



- Definition of **sustainability KPIs**
- Sustainability **target**
- **Credit attributes** depend on target achievement
- **Reporting**
- **Validation** by external party

## Conclusions SME

→ At the moment **not recommended** for SME due to extra cost related to ESG-data collection, reporting and external validation of target achievement

## Examples of Sustainability KPI

Category	Example <sup>6</sup>
<b>Environmental</b>	
Energy efficiency	Improvements in the energy efficiency rating of buildings and/or machinery owned or leased by the borrower.
Greenhouse gas emissions	Reductions in greenhouse gas emissions in relation to products manufactured or sold by the borrower or to the production or manufacturing cycle.
Waste Disposal	Reductions in liquid and solid waste disposals in relation to products manufactured by the borrower or to the production or manufacturing cycle.
Renewable energy	Increases in the amount of renewable energy generated or used by the borrower.
Water consumption	Water savings made by the borrower.
Sustainable sourcing	Increases in the use of verified sustainable raw materials/supplies.
Circular economy	Increases in recycling rates or use of recycled raw materials/supplies. Achievement of zero waste in production plants.
Sustainable farming and food	Improvements in sourcing/producing sustainable products and/or quality products (using appropriate labels or certifications).
Biodiversity	Improvements in conservation and protection of biodiversity, and contribution to biodiversity.
Global ESG assessment	Improvements in the borrower's ESG rating and/or achievement of a recognised ESG certification.
<b>Social</b>	
Human rights and community relations	Improvements in the borrower's "management of the relationship between businesses and the communities in which they operate, including, but not limited to, management of direct and indirect impacts on core human rights and the treatment of indigenous people. More specifically, such management may cover socio-economic community impacts, community engagement, environmental justice, cultivation of local workforces, impact on local businesses, license to operate, and environmental/social impact assessments." <sup>7</sup>
Affordable housing	Increases in the number of affordable housing units developed by the borrower.

Category	Example
Data security	Reduction in the "risks related to collection, retention, and use of sensitive, confidential, and/or proprietary customer or user data. It includes social issues that may arise from incidents such as data breaches in which personally identifiable information (PII) and other user or customer data may be exposed. It addresses a company's strategy, policies, and practices related to IT infrastructure, staff training, record keeping, cooperation with law enforcement, and other mechanisms used to ensure security of customer or user data." <sup>8</sup>
Employee health and safety	Improvements in the borrower's "ability to create and maintain a safe and healthy workplace environmental that is free of injuries, fatalities and illness (both chronic and acute). It is traditionally accomplished through implementing safety management plans, developing training requirements for employees and contractors, and conducting regular audits of their own practices as well as those of their subcontractors. The category further captures how companies ensure physical and mental health of workforce through technology, training, corporate culture, regulatory compliance, monitoring and testing, and personal protective equipment." <sup>9</sup>
Employee engagement, diversity and inclusion	Improvement in specific long-term goals relating to improvements in diversity and training and further education.
Employee training	Increase training hours for employees.
<b>Governance</b>	
Business ethics	Improvement in borrower's "approach to managing risks and opportunities surrounding ethical conduct of business, including fraud, corruption, bribery and facilitation payments, fiduciary responsibilities, and other behaviour that may have an ethical component. This includes sensitivity to business norms and standards as they shift over time, jurisdiction, and culture. It addresses the company's ability to provide services that satisfy the highest professional and ethical standards of the industry, which means to avoid conflicts of interest, misrepresentation, bias, and negligence through training employees adequately and implementing policies and procedures to ensure employees provide services free from bias and error." <sup>10</sup>
Building strong corporate governance & transparency	Improvements in expertise of individuals sitting on the borrower's governance committees, e.g. audit committee, compensation committee, compliance committee and so forth.

# Thank you

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