Raiffeisen Bank

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Client sustainability leaflet

General information (December 2023)

Climate change is undoubtedly one of the greatest challenges of the 21st century, which will permanently change society and the economy.

The financial sector is assigned a central role to take climate risks into account comprehensively and (co-)finance the transformation towards a climate-neutral economy.

Based on new EU regulation investment firms and banks must explicitly take into account their respective customers' sustainability-related objectives. This requires that, in the context of the overall securities services the investment firms and banks disclose the "sustainability factors" of the financial instruments in a transparent manner to (potential) clients and also being able to gain a sufficiently detailed understanding of customers' individual sustainability preferences.

To support You as (potential) client to take informed decisions and advocate effectively in relation to Your own sustainability preferences, we provide hereby an explanation of the different degrees of sustainability which are possible for financial instruments.

What is Sustainable preference in financial investments?

Entrepreneurial activities have an impact on the environment and the social environment but also need to adhere to standards relating to Good Governance themselves.

Just as consumers are increasingly paying attention to the origin and production method of food in their daily shopping, investors increasingly expect companies to determine and communicate the ecological and social impacts of their activities and reduce negative effects as much as possible.

For private investors, it will become even more transparent in the future what a sustainable investment really entails and how their own investments affect the environment and society.

The ESG criteria – E (Environment) stands for Environment, S (Social) for Social and G (Governance) for good corporate governance – have established themselves as assessment criteria for sustainability in the financial sector and give you more clarity and overview when making investment decisions.

Environmental considerations might include climate change mitigation and adaptation, preservation of biodiversity, pollution prevention and the circular economy etc.

Social considerations might include issues of inequality, inclusiveness, labour relations, human rights issues etc.

Governance considerations might include topics such as diversity of structures of corporate governance, fight against corruption and bribery, increase tax transparency etc.

What investments are sustainable?

The essential question is what defines a sustainable investment in accordance with the underlying regulatory requirements. You can decide to invest your money considering **different** ESG aspects of financial instruments.
It is important to note that on the market You will find **several types of financial products** with various degrees of ambition in terms of sustainability.
Some financial instruments consider ESG aspects, for example, by calculating and disclosing negative impact of investments on the environment or society, while other financial products aim to have an impact on the environment or society.

Under the current regulatory framework, YOUR sustainability preferences are understood as YOUR preferences regarding the following three categories of the various different financial instruments into which you may invest:

CATEGORY A
Sustainable investments in economic activities that qualify as environmentally sustainable under the EU Taxonomy for sustainable activities (Taxonomy Regulation)

The EU Taxonomy for sustainable activities aims to provide a common understanding of what should be considered a sustainable economic activity.

For the moment, the EU Taxonomy only focuses on environmental impacts with 2 climate objectives an investment can contribute to:

- Climate change mitigation
- Adaptation to climate change

What does that mean in practice?

A **pre-defined range of economic activities** (Real Estate, Manufacture, Agriculture and Forestry, Water supply, Transport, Energy, Information and Communication, Professional and Scientific activities) that have been identified by the EU Taxonomy **as contributing the most in terms of climate impact** are evaluated against concrete key figures (i.e., threshold values for emissions, CO2 footprint, etc.) and assessed on whether OECD and United Nations guidelines on business, human rights and labour rights are adhered to in the course of carrying out those activities. After screening all the investment-related activities against the criteria laid out by the EU Taxonomy, the proportion of sustainable activities within the investment which meets those criteria is determined.

Should you decide to define a minimum proportion of EU Taxonomy-aligned investment within the instruments in your portfolio, you aim for the most sophisticated and data intense degree of evaluation criteria for sustainable ESG activity. Due to the current lack of verified and publicly available data from a majority of companies for Taxonomy alignment, the choice of investment products with a higher percentage of Taxonomy-aligned investment is currently unfortunately very limited. This is due to the fact, that requirements are relatively new, and data needed for the calculations have not been required to be disclosed by companies in the past. The availability of data, however, is expected to improve in the near term as companies are becoming more experienced in gathering and disclosing reliable and valid data.

Let’s take a real example of a big construction company.

Step #1 is to check if the current construction activity of that company qualifies for calculations under the EU Taxonomy, meaning whether there have been criteria established for the concrete activity.

Step #2 is to check, whether the construction activity contributes substantially to climate change mitigation. Primary Energy Demand (PED) of the constructed building(s), defining the energy performance of the building, must be at least 10 % lower than the national threshold set for the nearly zero-energy building (NZEB). That information can be found in the Energy Performance Certificate (EPC) of the building(s). The building also undergoes testing for airtightness and thermal integrity to report any deviations from design and the life-cycle Global Warming Potential (GWP) must be calculated.

Step #3 is to check that the economic activity does not significant harm any of the other environmental objectives. Each of those has strict list of defined criteria defined, e.g.. “Transition to a circular economy” is deemed not to be harmed in case that at least 70 % of the non-hazardous construction and demolition waste generated on the construction site is prepared for reuse, recycling and other material recovery). Other objectives also contain exact figures to prove absence of harm. All these requirements are checked by special analysis.

Step #4 requires verification that the company adheres to human and labour rights. Normal practice is to rely on the publicly available Code of Conduct of the company itself and the absence of scandals/news that reveal unethical practice.

Step #5 includes calculation of the share of Taxonomy-aligned activities of the company. It can be defined as percentage of revenue or turnover that company has from aligned activities. In our example it can be that the construction company has 60% of revenue coming from construction of buildings that are in line with all listed criteria. We can say the investment is “60% EU-Taxonomy aligned” or, in other terms, the proportion of sustainable investment when investing in this company is 60%.

CATEGORY B
Financial instruments that pursue a minimum proportion of sustainable investments as defined in the Sustainable Finance Disclosure Regulation (SFDR).

Those financial instruments are investments in an economic activity that contributes to the achievement of an environmental objective (measured e.g. by key indicators of resource efficiency in the use of energy, renewable energy, etc.) or to the achievement of a social objective (e.g., investment that contributes to the fight against inequalities or promotes social cohesion, social integration and industrial relations, etc.) provided that such investments do not significantly affect any of these objectives and that the companies in which investments are made apply good governance practices such as having sound management structures, employee relations, remuneration of staff and tax compliance.

The calculation of proportion of sustainable investments follows the same logic as the example above. It means that a product displaying 60% sustainable investment according to SFDR has invested 60% of the overall money invested in activities meeting the definition of sustainable investments as laid out in the Sustainable Finance Disclosure Regulation.

The current challenge when calculating this proportion of sustainable investments is the fact, that calculations are also highly data intensive. Where a financial product, for example, has a reduction in carbon emissions as its objective, this objective shall include the aim of low carbon emission exposure in view of achieving the long- term global warming objectives of the Paris Agreement. This, in term, relies again on companies that are invested in to disclose the relevant data, which currently only few and rather large companies are able to do.

CATEGORY C
Financial instruments that consider principal adverse impacts (PAI) on sustainability factors, where the client determines the impact most relevant.

Principal adverse impacts (PAIs) on sustainability are impacts of investment decisions that result in negative effects on environmental, social and employee matters, respect for human rights, anti-corruption, and anti-bribery matters.
PAI relating to investment in companies encompass the following five indicators:

- Greenhouse gas emissions,
- Biodiversity,
- Waste,
- Water,
- Social and employee matters.

PAI relating to an investment in Sovereigns, such as Government bonds, encompass the following two specific indicators:

- Environmental, i.e., Greenhouse Gas intensity
- Social, i.e., countries subject to social violations such as violations of the UN Global Compact Principles on Human rights, Labour Rights and Anti-Corruption

PAI relating to an investment in Real Estate, such as Real Estate investment funds, encompass the following two specific indicators:

- Exposure to fossil fuels through real estate assets by, e.g., tenants processing fossil fuel
- Investment in energy-inefficient real estate assets

In general, taking PAI into account can be done via best-in-class (select companies that are leaders in implementing ESG requirements in their sector), exclusion criteria (do not invest in companies dealing with, e.g., coal, tobacco, fossil fuels) and/or strategies for engagement policies.
Therefore, a financial instrument taking into account PAI aims to avoid causing negative impacts of the investment on sustainability.

During the Advisory session, you can articulate preference for avoiding negative impact such as greenhouse gas emission or any other PAI.

Due to the lack of data availability and data reliability regarding both Taxonomy and SFDR calculations, the vast majority of products we can currently offer to you are products taking into account PAI. We are currently working with product manufacturers to increase the range of products across all sustainability definitions but need to point out that progress may take some time, especially time required by companies that receive investments to disclose data required.

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How are YOUR sustainability preferences reflected in our financial advisory process?

During the provision of Financial Advice, Raiffeisenbank Austria d.d. as a credit institution is obliged to determine whether you want us to take the sustainability of products as described above into account in your investments and how important the topic is for you when investing your capital.

Your personal financial advisor will first consider your traditional investment criteria such as risk before assessing your preferences in term of sustainability. Sustainability preferences are considered as an additional layer of suitability criteria, and they will not alter the traditional investment criteria already expressed by you and incorporated by us previously.

To address your potential sustainability preferences, you will be first asked if you have any sustainability preferences.

- When you do not have any sustainability preferences or you prefer not to answer, your Financial Advisor will be able to recommend products both with and without sustainability-related features that meet all your traditional suitability criteria such as risk and explain the products/portfolio's sustainability features, if applicable. You are free to choose the product that most meets your needs, irrespective of sustainability criteria.
- When you are interested in the topic but do not wish to further specify any sustainability preferences (such as percentages, minimum proportions Taxonomy/SFDR, or PAI), you will be given the choice of different products that meet all your traditional suitability criteria such as risk and each product's sustainability characteristics will be displayed. You will be able to choose, the product/portfolio with those sustainability characteristics that most meets your needs. You will, however, also be able to select a product without sustaiability criteria, if you so choose.
- When you do have sustainability preferences and you wish to discuss them further in detail, you will be guided through the complete process and have the option to define all sustainability characteristics on a more granular level. This includes the percentage of products within your overall investment that meet your indicated sustainability preferences ("Portfolio share"), as well as minimum proportions regarding EU Taxonomy and SFDR sustainable investments as well as PAI. Products will subsequently be checked against your specified sustainability characteristics to result in a positive suitability assessment.

Overview of the available product range in Raiffeisenbank Austria d.d.

Raiffeisen Sustainable Solid (Raiffeisen Invest d.o.o.)
Raiffeisen Sustainable Mix (Raiffeisen Invest d.o.o.)
Raiffeisen Sustainable Equities (Raiffeisen Invest d.o.o.)
Raiffeisen Flexi Sustainable Bond (Raiffeisen Invest d.o.o.)
Raiffeisen Sustainable European Equities (Raiffeisen Kapitalanlage GmbH)
Raiffeisen Sustainable US Equities (Raiffeisen Kapitalanlage GmbH)
Raiffeisen Sustainable EmergingMarkets Equities (Raiffeisen Kapitalanlage GmbH)
Raiffeisen-EmergingMarkets-ESG-Transformation-Bond (Raiffeisen Kapitalanlage GmbH)
Raiffeisen ESG Euro Bonds (Raiffeisen Kapitalanlage GmbH)