Sustainability Risk Policy

1. Introduction

The present document is the Sustainability Risk Policy of BANQUE RAIFFEISEN S.C., LUXEMBOURG, a cooperative company (société coopérative) incorporated under the laws of the Grand Duchy of Luxembourg, having its registered office at 4, rue Léon Laval, L-3372 Leudelange, Grand Duchy of Luxembourg and registered with the Luxembourg trade and companies register under the number B20128 (hereinafter referred to as the "**Bank**" or "**Banque Raiffeisen**").

Article 3 (Transparency of sustainability risk policies) of the European Regulation (EU) 2019/2088 on sustainability-related disclosure ("**SFDR**") requires financial market participants[1] and financial advisers to publish information on the website about the policies on the integration of sustainability risks in the investment decision-making process and in the investment and insurance advice.

As Luxembourg's first cooperative financial group, Banque Raiffeisen aims to meet the needs of its customers while having a positive impact on the society and on the planet. In order to create long term and sustainable value for our clients, the integration of sustainability risks is amongst our priorities. As a financial market participant and as an investment adviser, we aim to promote the principles of sustainable finance within our investments and to integrate Environmental, Social and Governance ("ESG") factors in our activities.

This document sets out Banque Raiffeisen's policies in respect of the integration of sustainability risks in our investment decision-making process and in our investment advice, as required by Article 3 of SFDR. The policy applies as standard to all investments and advice in financial products provided by Banque Raiffeisen to its clients.

2. Definitions

The international acronym "**ESG**" is used to designate the Environmental, Social and Governance criteria that generally constitute the three pillars of extra-financial performance. ESG criteria allow to evaluate the responsibility of companies/banks towards the environment and their stakeholders, including employees, partners, subcontractors and customers.

For the purposes of SFDR:

- **sustainability risk** means "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".

  - ✓ **"physical risk**" refers to the financial impact of climate change, including more frequent extreme weather events and gradual changes in climate, as well as environmental degradation, such as air, water and soil pollution, water stress, biodiversity loss and deforestation. Physical risk is categorized as "**acute**" when it results from extreme events, such as droughts, floods and storms, or "**chronic**" when they result from progressive changes, such as increasing temperatures, sea level rise, water stress, loss of biodiversity and resource scarcity. This can lead directly to property damage or reduced productivity, or indirectly to subsequent events, such as disruption of supply chains.

[1] The Bank as a credit institution which portfolio management is a financial market participant according to the SFDR.

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- ✓ "**transition risk**" refers to the potential costs to society of evolving to a low carbon economy to mitigate climate change. It can be triggered, for example, by a relatively abrupt adoption of more stringent climate and environmental policies, technological progress, or changes in market sentiment and preferences.

- o **sustainable investment** means:

  - ✓ 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 in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, 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."

- o **sustainability factors** mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.
  The inclusion of sustainability factors in the investment decision-making and advisory process can bring benefits beyond the financial markets. It can enhance the resilience of the real economy and the stability of the financial system.

- o **pre-contractual disclosure** means the prospectus or offering documents for a fund and the investment management agreement or other terms and conditions for a portfolio management service. In the specific case of Banque Raiffeisen, pre-contractual disclosure means the R-Gestion mandate (for the discretionary management) and the "Investor Guide" (for the investment advice).

- o **Article 6 product** means a financial product that does not promote Environmental/Social (E/S) characteristics, that does not have as its objective sustainable investment and that does not meet the definition of Articles 8 and 9 SFDR.

- o **Article 8 product** means, as per the SFDR, a financial product that promotes E/S characteristics. Those products integrate ESG into their strategy and process and promote environmental and/or social characteristics. If those products invest in companies, they must follow good governance practices. Such promotion may for example include screening out certain investments based on ESG criteria or considering ESG ratings when making investment decisions. While those products do not have a sustainable investment objective, they may have a pocket of sustainable investments.

- o **Article 9 product** means, as per the SFDR, a financial product that has a sustainable investment objective. ESG considerations are a key element of the investment strategy and process. Furthermore, only sustainable investments are made (cf. definition of "sustainable investment"). An example of a sustainable strategy is impact investing, with the aim to have a measurable positive impact on society.

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3. Scope

In the context of Article 3 SFDR, sustainability risks differ from the risk of harm that our investment decisions may do externally to sustainability factors. The external harm of investments is covered by a separate regime under SFDR (Article 4 – Transparency of adverse sustainability impacts at entity level), which considers Principal Adverse Impacts (PAI) of investment decisions on sustainability factors. Banque Raiffeisen has separately published a “Principal Adverse Impacts (PAI) statement” in which we describe if and how the Bank considers PAI of its investment decisions and investment advice on sustainability factors.

In addition, SFDR is not specifically concerned with the risks that sustainability events may cause to the Bank’s own balance sheet or prudential position.

The purpose of the present Sustainability Risk Policy is to describe the sustainability risks that Banque Raiffeisen, through its private banking activities, may face in the course of its business and the way in which these risks are integrated in investment decisions and investment advice. This Policy reflects the Bank's current approach and will evolve over time to reflect changes in this area.

This Policy is part of the Bank's overall risk management framework as defined in its “Risk Appetite Statement”. This framework defines the acceptable level of risk to which the Bank is willing to expose itself to achieve strategic goals and objectives, including promoting sustainable growth while protecting economic and natural resources. The efforts undertaken by the Private Bank to consider sustainability risks are in line with this objective.

To date, the level of business risk associated with financing activities has been assessed and is considered in the overall assessment of Raiffeisen Bank’s acceptable risk level. A specific analysis dedicated to sustainability risks will be conducted in the near future.

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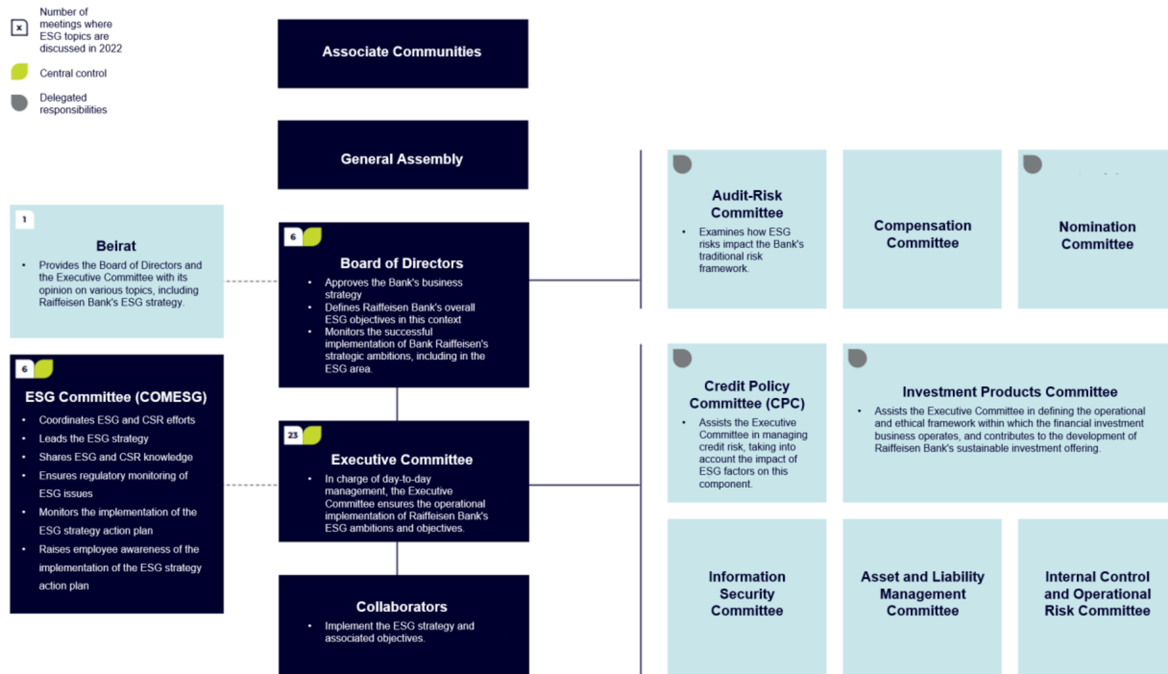
4. Governance and sustainability risks



Description of the Bank's 2022 ESG Governance

(i) Board of Directors

The Board of Directors is responsible for defining the risk management strategy and the resulting roles and responsibilities of the governance bodies of the Bank. The Board of Directors defines core principles and objectives related to the detection, measurement, reporting, management and control of the risks taken by the Bank through dedicated policies to be adopted by the Board of Directors.

As part of its supervisory role and based on the reports to be made by the Executive Committee, the Board of Directors is invited to approve on a regular basis, and at least annually, the way in which the Bank should manage its risks, its own funds and liquidity reserves pursuant to the principles and objectives set by the Board of Directors, as defined in the relevant dedicated policies.

This approval process covers at least the following aspects:

- the institution's risk profile, its future development and the appropriateness of the risk strategy; and
- the risk appetite and sustainability risk strategy.

In order to respect the 3 pillars of extra-financial performance E, S and G, the Board of Directors aims to define a business strategy that meets the following requirements:

- promote sustainable growth by protecting our economic and natural resources, gradually reducing the Bank's carbon footprint and materials consumed;
- ensure diversity and equal opportunities for all within the Bank; and
- provide customers and members with banking solutions to facilitate the energy transition.

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(ii) Executive Committee

The day-to-day management of Banque Raiffeisen's business and the representation of the Bank are delegated by the Board of Directors to the members of the Executive Committee who, under the authority of the Board of Directors and within the scope of their mandates, manage the daily operations of the Bank.

Within the limits of such delegation, the Executive Committee is responsible for identifying, managing and monitoring business areas that may be affected by sustainability risks. Sustainability risks should be taken into account by the Executive Committee when implementing the Bank's strategy and the relevant business plan as decided by the Board of Directors. The Executive Committee is ultimately responsible for the implementation of the policies and procedures in respect of sustainability risks.

With regard to the monitoring of risks, the Executive Committee relies on five operational committees[2], each chaired by a member of the Executive Committee.

The Executive Committee has defined core principles and objectives in relation to the management of sustainability risks. These include, among others, the implementation of the following actions:

- offer products and services that meet ESG criteria as defined in our "Investor Guide" available on our website. This offer is in line with the Bank's cooperative values, its responsible citizenship approach and the Sustainable Development Goals (SDGs);
- ensure that the Bank maintains at all times appropriate controls over all its activities and establish internal rules for central administration, internal governance and risk management to ensure sound management, taking into account the nature, scale and complexity of its activities, in compliance with applicable laws and regulations, and in line with relevant ESG principles;
- integrate sustainability factors into the management of its lending activities, promote investments that have positive impacts on the environment and the society, restrict lending and investment in controversial sectors by applying an exclusion list and, at the same time, reduce negative impacts, while paying attention to the "DNSH - Do No Significant Harm" and "LNOB - Leave No One Behind" principles; and
- address climate and environmental risks within the limits and in accordance with the Bank's risk management framework and mitigate negative impacts through the implementation of appropriate limits and set of indicators.

(iii) Risk Management Function

The Risk Management Function ensures that all material risks which might affect the Bank are duly identified, monitored, managed and reported.

Its tasks are to develop and improve the Bank's risk management methods and principles, to develop and maintain a strong "risk culture" among employees in the various business lines, to monitor the Bank's risk profile and risk-taking strategy, to report on risks and to develop a coordinated approach to risk management.

It also assists the Executive Committee in preparing reports and analyses for the Board of Directors on all matters relating to risk management, e.g. the report ICLAAP (Internal Capital and Liquidity Adequacy Assessment Process).

[2] Asset and Liability Management Committee (« Comité gestion actif-passif » or « ALCO »), CPC (Credit Policy Committee), Investment Products Committee (« Comité des Produits d'Investissement » or « CPI »), Internal Control and Operational Risk Committee (« Comité du contrôle interne et des risques opérationnels » or « CCIRO ») and Information Security Committee (« Comité de la sécurité de l'information » or « CSI »)

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The Risk Management Function is also directly represented on the COMESG and participates actively in the various regulatory monitoring and workshops organized throughout the year.

(iv) ESG Committee (COMESG)

The mission of the COMESG, as approved by the Executive Committee, is to coordinate Banque Raiffeisen's ESG and CSR (Corporate Social Responsibility) efforts, to share knowledge and best practices in the area of sustainability internally, to guide the development and maturity of these topics, and to monitor the initiatives undertaken. Since 2020, COMESG members have been involved in the preparation of Banque Raiffeisen's extra-financial reports, ESG regulatory monitoring, and the implementation and monitoring of ESG performance indicators (KPIs) and targets in accordance with the GRI (Global reporting Initiative) methodology and the international UNEP FI PRB (Principles for Responsible Banking) standards.

Banque Raiffeisen intends to strengthen its Governance by evolving the COMESG into a “Comité de Gestion ESG” (ESG Management Committee).

(v) Private Banking Department

The Private Banking Department is responsible for offering banking and financial investment services as well as products to clients including, but not limited to, an all-inclusive money-management relationship. The department's mission is to develop the Private Banking concept, mainly for the benefit of resident private clients.

The Private Bank activity brings together the specialists of the Private Banking Department and of the Branch Network who assist clients in managing their assets by offering a professional, competent service adapted to each investment profile. The Private Banking activity is also strongly supported by the "Investment Desk" unit within the Private Banking Department, which is dedicated to analysis, support, research and monitoring of investment solutions.

The services are provided primarily and to a very large extent to resident private clients wishing to combine savings accounts with traditional financial instruments. Clients can choose between different advisory services: occasional advice (R-Invest), regular advice (R-Conseil) and discretionary management (R-Gestion).

With regard to investment advice, our advisory services are currently based on a list of investment products selected by the “Investment Desk”.

As regards discretionary management, Banque Raiffeisen classifies financial products into 6 different investment instructions (R-Gestion Sustainable, R-Gestion Defensive, R-Gestion Balanced, R-Gestion Dynamic, R-Gestion Flexible and R-Gestion Aggressive). The Private Banking Department is advised by an external provider (the “external Investment Adviser”).

(vi) Investment Products Committee (IPC)

The purpose of the IPC is to organize and structure financial investment activities offered to the clients.

It is chaired by a member of the Executive Committee and includes the Commercial Banking, Marketing and Sales Support, Financial Markets & Treasury, Finance, Credit, Legal, Compliance and Risk Management functions.

Within its framework, the IPC monitors the different types of management mandates offered, the assets under management (AuM), their performance and the major changes that affect the respective investment policies. In addition, the Committee approves the different selection criteria used to upgrade the products authorized for sale by the Personal and Private Bankers. The results of specific commercial actions are also presented and discussed. The IPC

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approves requests for new investment products and tariff adjustments. Finally, the Committee monitors the cooperation relationship between the Bank and the external Investment Adviser.

(vii) The ESG Unit

The main responsibilities of the ESG Unit is to coordinate the Bank's efforts in the area of CSR and sustainable finance; to lead the COMESG and other working groups in the area of sustainability; to initiate, manage and participate in transversal ESG projects; to contribute to the definition of the ESG and CSR strategy; to monitor the implementation of the ESG strategy and the achievement of the set objectives, to follow up on sustainability news; to carry out regular reporting to the management bodies and to represent Banque Raiffeisen internally and externally; to monitor the implementation of the ESG strategy and the achievement of the set objectives; to keep abreast of sustainability issues; to provide regular reporting to the management bodies and to represent Raiffeisen Bank internally and externally when it comes to ESG and to CSR.

This Unit creates new synergies and includes ESG topics in the Bank's daily management.

5. Relevant sustainability risks and indicators in investment decision making (discretionary management)

(i) Climate and environmental (C&E) sustainability risks

C&E Sustainability risks are split into physical risks and transition risks. Physical risks are risks related to the physical impacts of climate change whereas transition risks are risks related to the transition to a lower-carbon economy.

Environmental sustainability risks for the value of our clients’ portfolio in discretionary management may include but are not limited to:

- Carbon Emissions *[physical risk]*
- Climate Change Vulnerability *[physical risk]*
- Biodiversity & Land Use *[physical risk]*
- Water Stress *[physical risk]*
- Packaging Material & Waste *[physical risk]*
- Toxic Emissions & Waste *[physical risk]*
- Opportunities in Clean Tech *[transition risk]*
- Opportunities in Green Building *[transition risk]*

(ii) Social sustainability risks

Social sustainability risks for the value of our clients’ portfolio in discretionary management may include but are not limited to:

- Health & Safety
- Human Capital Development
- Consumer Financial Protection
- Privacy & Data Security
- Community Relations
- Controversial Sourcing

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(iii) Governance sustainability risks

Governance sustainability risks for the value of our clients' portfolio in discretionary management may include but are not limited to:

- Board of Directors
- Pay
- Ownership & Control
- Accounting
- Business Ethics
- Tax Transparency

The exposure to sustainability risks is assessed using MSCI ESG ratings. MSCI ESG ratings provide insights into ESG risks and opportunities within multi-asset class portfolios. The assessment of risk exposure may comprise three different areas of analysis: business segment risk exposure, geographic segment risk exposure and company-level risk exposure factors. exposure scores ranging from 0 to 10 are calculated for each key issue. The final result is a 0-10 exposure score, where 0 indicates lowest exposure to this key issue, and 10 indicates highest exposure to this key issue.

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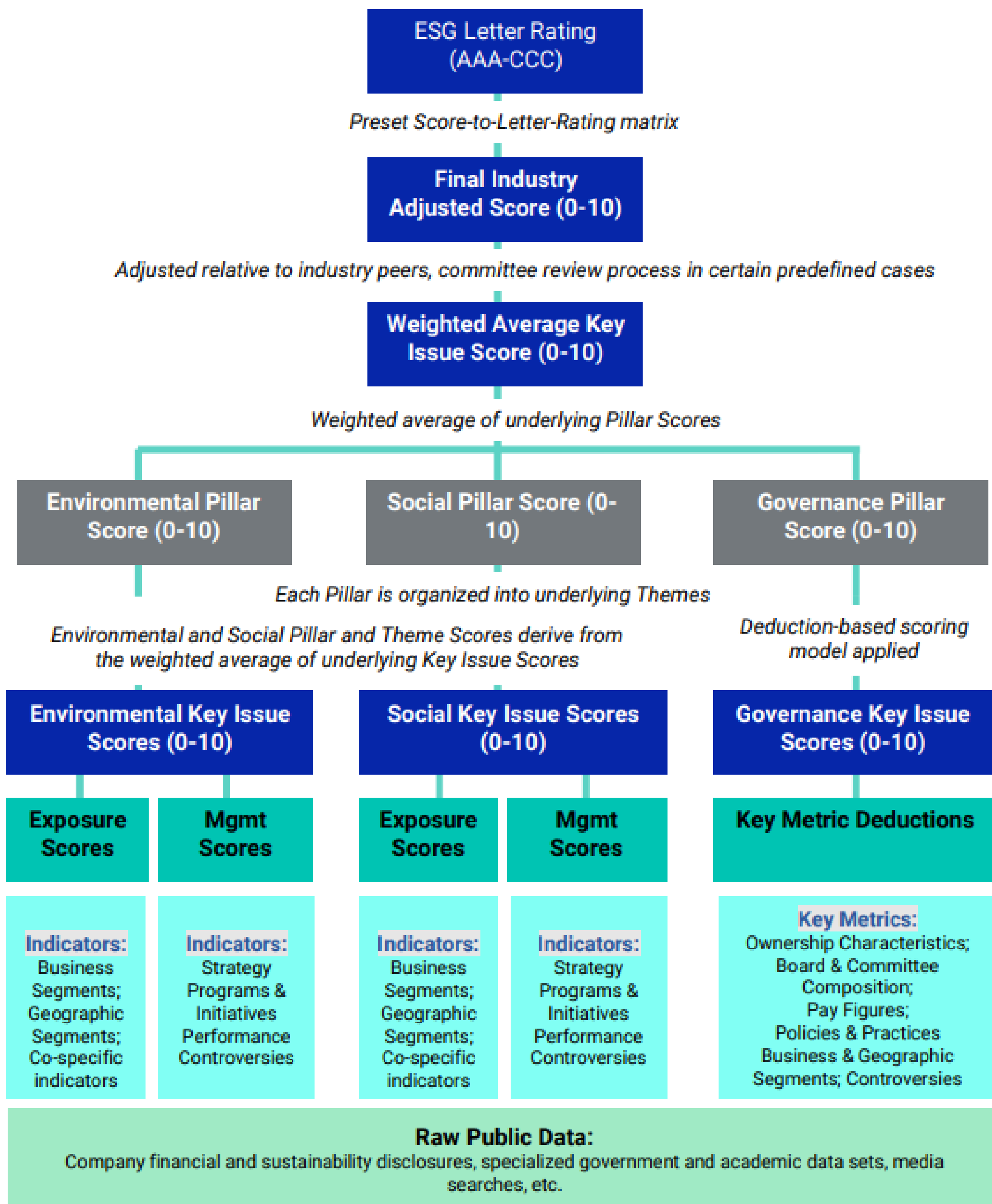

Source: MSCI ESG Ratings Methodology | April 2023

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6. Sustainability risk management in investment decision making (discretionary management)

As regards discretionary management, the Bank is advised by an external Investment Adviser. The selection of products is limited to investment funds and ETFs (Exchange Traded Funds).

Our discretionary management has 6 different investment instructions (R-Gestion Sustainable, R-Gestion Defensive, R-Gestion Balanced, R-Gestion Dynamic, R-Gestion Flexible and R-Gestion Aggressive). The integration of sustainability risks is independent of the ESG ambition of our investment instructions. This means that all investment instructions (classified as Article 6, 8 or 9) integrate sustainability risks.

For all our investment instructions (i.e. the 6 R-Gestion investment instructions), our external Investment Adviser's selection team (i) identifies, (ii) assesses, (iii) manages and (iv) monitors sustainability risks.

(i) Identify

The external Investment Adviser has identified key ESG risks which could, if they occur, cause an actual or a potential material negative impact on the value of the investment. Examples of such risk are summarized in section 5 of this document.

(ii) Assess

The external Investment Adviser requests fund managers to fill out a proprietary Sustainability RfI ("Request for Information") that checks if controversial sectors and sanctioned entities are excluded, and if not, how heavily they are invested in them. It is also checks how controversies are handled. The RfI gets updated for all the funds in the investment instructions on an annual basis.

For our Article 8 and Article 9 instructions specifically, the external Investment Adviser excludes investments which are in breach with the exclusion criteria as stated in the pre-contractual disclosures.

(iii) Management

The external Investment Adviser will often engage with the managers of target funds on ESG related issues and practices. During the engagement, the management of sustainability risks may be discussed.

As mentioned before, for our Article 8 and 9 directives specifically, the external Investment Adviser applies exclusionary screening for particular industries which have been identified as unusually high risk. The exclusion list is specified in the pre-contractual disclosures. Compliance with the exclusions is checked monthly using MSCI ESG.

(iv) Monitoring

The monitoring of ESG risks on single fund and aggregated portfolio level is performed by using third-party data from MSCI ESG, updated monthly. The MSCI ESG Rating for funds is designed to measure the resiliency of portfolios to long-term ESG risks and opportunities. The most highly rated funds consist of issuers with leading management of key ESG risks. The ESG Rating is calculated as a direct mapping of ESG Quality Scores to letter rating categories (e.g., AAA = 8.6-10). The ESG Ratings range from leader (AAA, AA), average (A, BBB, BB) to laggard (B, CCC). Next to this overall ESG rating, the individual environmental-, social- and governance-risk scores are monitored, as are the peer group rankings, the rating trend, and the rating distribution of every fund and on portfolio level. For climate risk, the carbon intensity and implied temperature rise model from MSCI are used.

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The external Investment Adviser assesses whether the identified ESG risk is adequately managed in a qualitative due diligence process. This typically involves meeting the key decision makers of the target funds. The findings are kept in written form. Part of the qualitative assessment of every fund is how a fund manager is organizing its ESG efforts (e.g., responsibilities, resources), how ESG is integrated into the investment process, how the managers are monitoring, documenting, and reporting ESG objectives and risks. Also, the stewardship efforts are evaluated.

7. Sustainability risk management in financial advice

The integration of sustainability risks is independent of the ESG ambition of the advised financial products. No advice is provided on products not mentioned below.

For the funds (UCITS – Undertakings for Collective Investment in Transferable Securities), the Bank's Investment Desk verifies that sustainability risks are integrated based on the information which manufacturers of financial products are required to disclose according to Article 6 SFDR in their prospectus. In case of missing information, the Bank's Investment Desk may engage with manufacturers of financial products to understand how they currently undertake the integration of sustainability risks. If sustainability risks are currently not integrated and not planned to be integrated in a reasonable period of time (12 months), those products cannot be advised.

At the level of ETFs, the Bank considers that sustainability risks are only relevant when the ETF replicates a benchmark that includes ESG characteristics. In this case, the approach adopted for funds is applied.

We deem sustainability risks to be relevant for structured products and bonds as well, but we are currently not considering them. The Bank is looking for a solution to integrate those risks.

8. Disclosure of this policy and frequency of review

Article 3 SFDR requires us to publish this policy on our website. Banque Raiffeisen satisfies this requirement.

Article 6 SFDR also requires that we include, in the pre-contractual disclosures, a description of the manner in which sustainability risks are integrated into our investment decisions (discretionary management) and advice. Banque Raiffeisen satisfies this requirement by disclosing such information as part of our pre-contractual disclosures.

This policy shall be reviewed regularly.

Amendment and Updates

Version	Date	Reason for and Extent of Changes
1.0	12.05.2023	SFDR requirements

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