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Member of RBI Group

Risk ESG – The RBI Example

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Agenda

A. ESG – Motivation. Risk & Opportunities

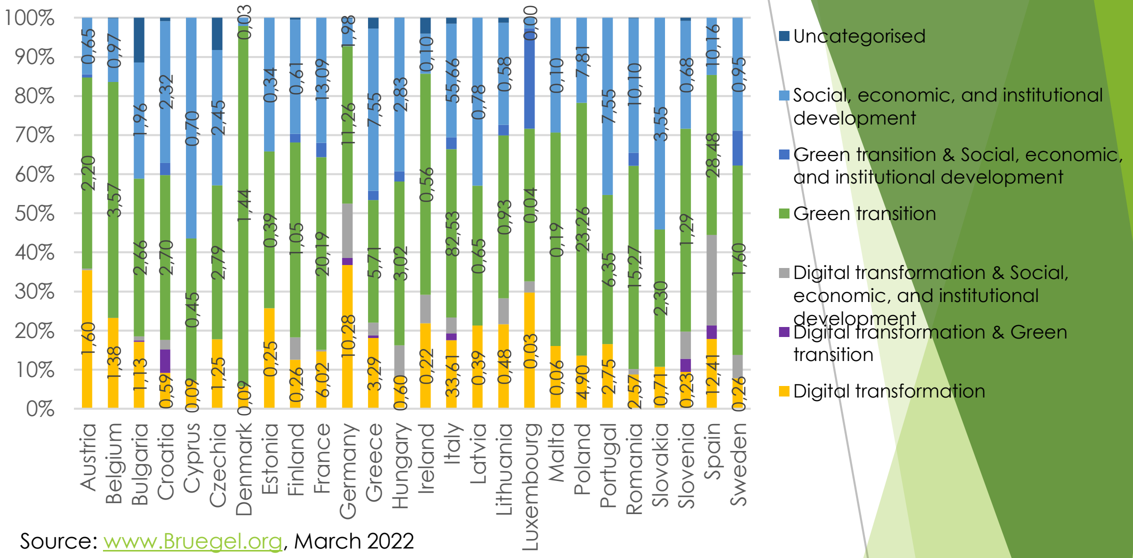
B. RBI Risk Management Approach
- ✓ Sustainability commitments & regulatory expectations
- ✓ RBI Risk Management approach
- ✓ Risk creating business opportunities

C. Challenges ahead. Examples (GHG& GAR)

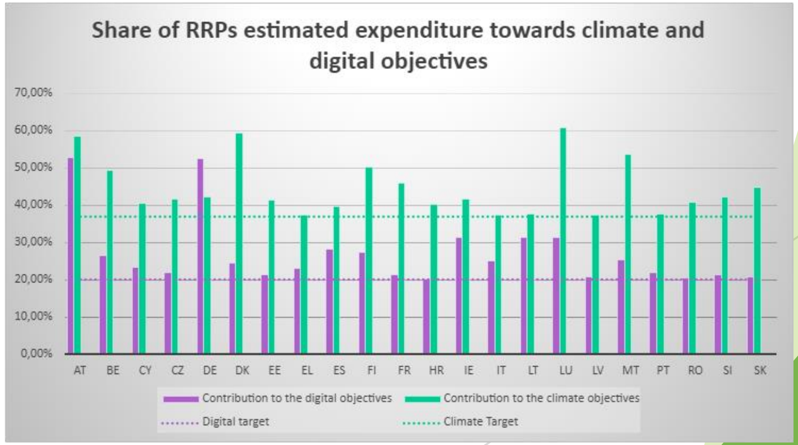
Regulatory, political and economical background

- **New industry regulation** reinforced through **strong political action** (EU "Fit for 55', ECB, PRB, UN etc.), further supported through tax and financial incentives
- **Recovery and Resilience Facility** →37% to be allocated by each member state to climate objectives, approx. EUR 200bn out of EUR 492bn; 35% of the green financing will go to mobility and 28% into energy efficiency
- **ESG risks part** of the **SREP discussion / stress test (ECB)**, further pressure coming from non-financial **disclosure** and new **industry** specific **regulations**
- Changing **customer expectations**
- Intensification of **extreme weather events** (example: major flooding, wildfires) blocking economic activity, forcing displacement of people, damaging agriculture output

European Union countries' recovery and resilience plans



Source: www.Bruegel.org, March 2022



Source: European Commission, Recovery and Resilience Scoreboard

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Sustainability commitments & regulatory expectations (1)

SUSTAINABILITY COMMITMENTS

RBI signed the "Principles for Responsible Banking" in early 2021, thereby committing to implement the six principles. These principles Include the performing of:

- an annual portfolio impact analysis and
- the target setting for the two most relevant impact areas related to our core business.

As a signatory of the Science Based Targets initiative in 2018, RBI has committed itself to set science-based targets 2 years after guidelines were published (mid 2020).

In January 2022, RBI AG committed to the Partnership for Carbon Accounting Financials (PCAF). PCAF as well as CDP enable financial institutions to measure and disclose financed emissions.

RBI is one of the signatory companies of the UN Global Compact (UNGC), meaning we have committed to consistently complying with the ten UNGC principles of responsible business.

SUSTAINABILITY RATINGS

In December 2021, RBI was in CDP's leadership list for the seventh time, among Austria's top seven companies and the best domestic company in the financial sector for the strategic alignment on climate-related issues.

"C+" level and prime status in ESG corporate rating by ISS ESG (September 2021)

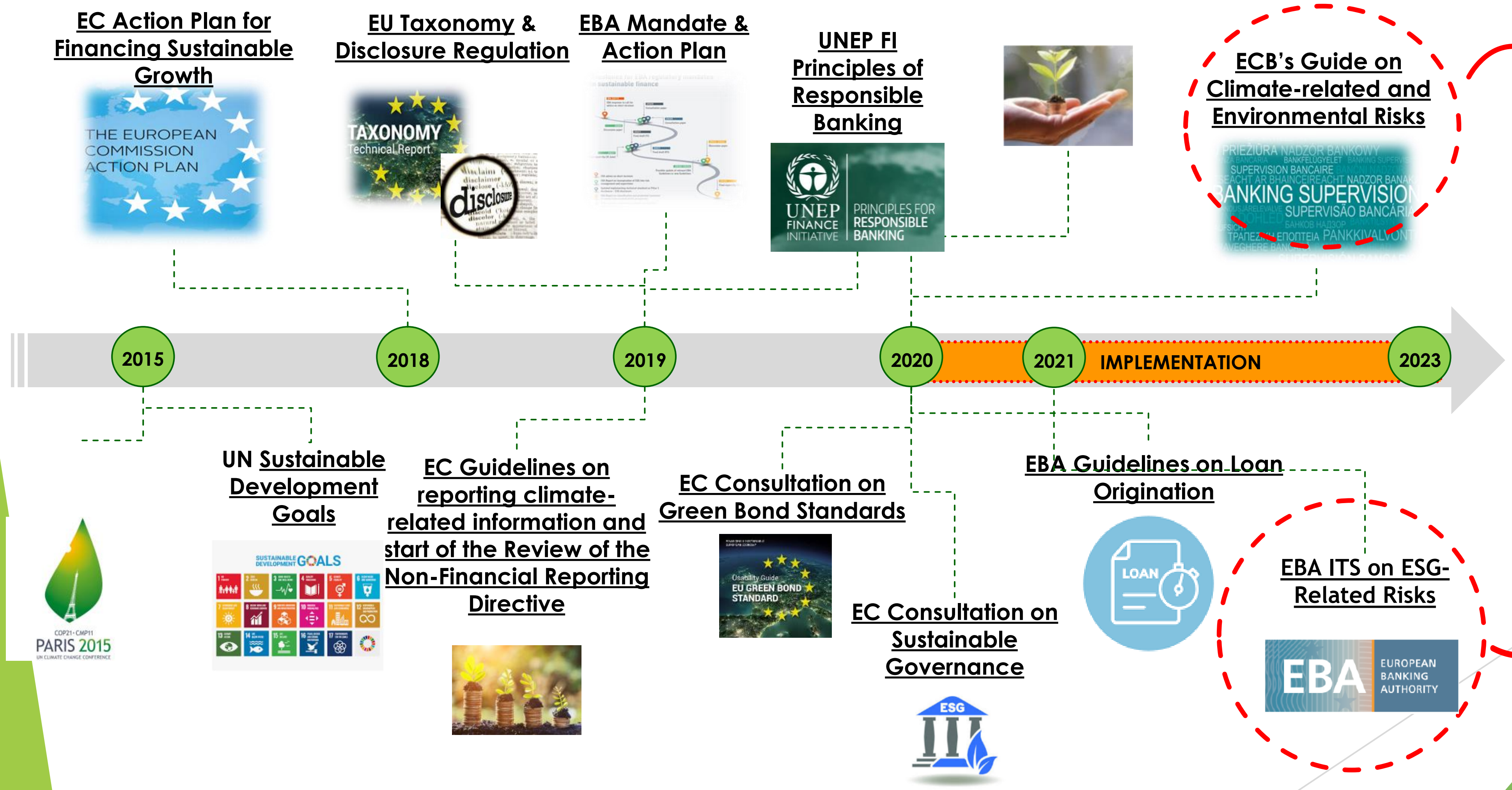
SUSTAINABILITY STANDARDS

The GRI Standards enable any organization to report on their impacts on the economy, environment and people in a comparable and credible way, thereby increasing transparency on their contribution to sustain- able development.

The Financial Stability Board of the G20 created the Task Force on Climate-related Financial Disclosures (TCFD) to improve reporting of climate-related financial information. TCFD has developed a frame- work for public companies to disclose climate-related risks and opportunities through their existing reporting processes.

The Sustainable Development Goals were adopted by the UN as a call to action to ensure that by 2030 all people enjoy peace and prosperity.

Sustainability commitments & regulatory expectations (2)



1. ECB's Guide is the cornerstone for RBI Group's activities on managing Environmental risks
2. Implementation Plan approved by the Board of Management and submitted to the ECB outlines the main deliverables and timetable

1. The EBA has been very important with providing banks with ESG-related definitions and clear disclosure requirements
2. Social and Governance factors have elaborated on in addition to 'E'

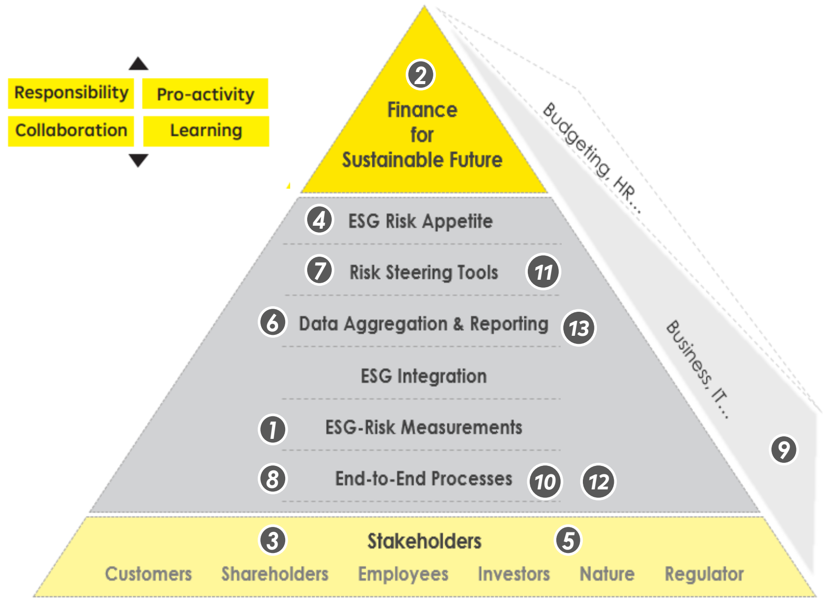
Excursus: Integration of ECB's Expectations into the RBI's Risk Management Pyramid

ECB Guide on Climate-Related and Environmental Risks

1	Impact identification	Strategy
2	Strategy integration	Strategy
3	Management oversight	Governance & Risk Appetite Framework
4	Risk Appetite Framework inclusion	Governance & Risk Appetite Framework
5	Responsibility assignment (3 lines)	Governance & Risk Appetite Framework
6	Reporting & data aggregation	Governance & Risk Appetite Framework
7	Risk processes & capital adequacy	Risk Management Framework
8	Credit-granting process & ratings	Risk Management Framework
9	Business Continuity Planning	Risk Management Framework
10	Market risk and future investments	Risk Management Framework
11	Stress Testing	Risk Management Framework
12	Liquidity & cash flow management	Risk Management Framework
13	Regulatory disclosure	Disclosure

Management Board has set ESG targets

including implementation of ESG customer scores and transaction labeling to support the identification of sustainable transactions



Source: RBI Sustainability Report 2021

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RBI Risk Management Approach (1)

What?

- **Transition risk**: driven by **policy changes** (regulatory environment changes encouraging transition to low-carbon economy; **technological development** and **customer perception:** changes of market demand and supply
- **Physical risk**: higher probability of extreme weather events and long-term weather changes (acute vs. chronic)
- **Social risk**: the financial impact generated by the misuse of human capital such as the rights, well-being and interests of people and communities
- **Governance risk**: governance practices of the institutions' counterparties, may include executive pay, board diversity and structure, shareholder rights, bribery and corruption, compliance, ethical standards

How?

Identification and definition of ESG Risks

Measurement methodologies and analytics

Steering approaches reflecting risks & opportunities

Risk processes and governance

In practice

- **Clear** split of **roles, responsibilities** and allocation of **resources** → **Project setup**
- Define **vision** and **goals.** Impact definition
- **Agile** setup, milestones and deadlines closely and regularly monitored
- Leverage on **internal knowledge** but make use of **externally** available solution / **vendors**

RBI Risk Management Approach (2) – Project set up

Vision

Be the Change! Be Green with RBI

Goals

Create and build a robust ESG Data Source

Build a Risk Framework that consistently use ESG Data to enable RBI fulfilling ESG related external requirements

Establish an ESG driven steering to make RBI ESG frontrunner

Impacts

Customers and internal users benefit from a smooth data collection process, reliable and easily accessible data

External commitments are fulfilled at the highest standard

We identify ESG risks, mitigate and create the basis for a sustainable growth and the greening of our portfolio

ESG Risk Framework, Steering & Process

- *Define the **holistic ESG Risk Framework***
- *Develop **internal steering tools;** GHG Footprint, Science Based targets, Special Policies (e.g. **thermal coal**) and **Sectoral Strategies for the CO2 intensive industries**, enhancement of the lending process*
- *Sensitivity and scenario analysis. **Climate stress test***

Collection

Define data sources (External: vendors / customers or Internal)

Sourcing

Define sourcing strategy, bring the data to the users' systems

Methods

Develop scoring at the counterpart level, models and methodologies for the implementation of the steering concepts

Reporting

Ensure regulatory and internal reporting& monitoring

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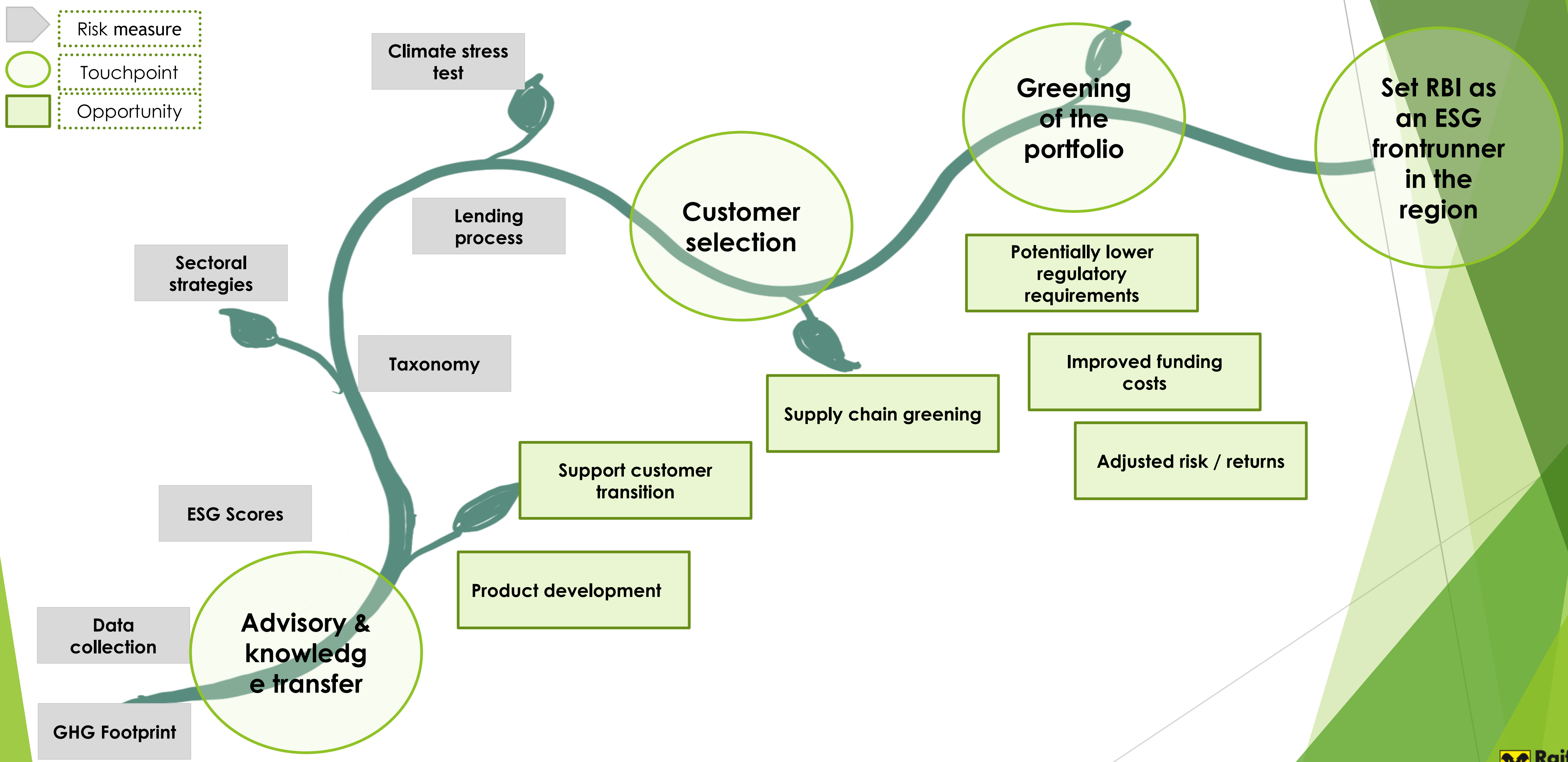
Risk creating business opportunities



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While **C&E risk** continue to be in focus, **S & G** claim their front role as well

Key challenges?

- Data **availability** and **reliability**, especially in certain **jurisdictions**. Moving away from estimates, integrate real data in the **decision making process**
- **Uniform industry standards** and strict **disclosure requirements**, allowing for little room to manoeuvre
- **Be quick** – we need to be quicker in our endeavour to meet stakeholders expectations
- **Knowledge** build up / transfer / inclusion in all internal processes → overwhelming amount of information

*Looking towards 2022, activities focus on **risk identification, materiality assessments, establishing data needs and collection strategies** (Climate-related and environmental risks, KPMG, Oct. 2021)*

*Frank Elderson, ECB Vice-Chair of the Supervisory Board, said that "banks can and must do much better to improve the **quality of their disclosures**, and they need to do **it quickly**" (March 2022)*

*"In 2022, corporate boards and government leaders will face rising pressure to demonstrate that they are **adequately equipped** to understand and oversee ESG issues — from **climate change to human rights to social unrest**" S&P Global, Key trends that will drive the ESG Agenda in 2022*

Disclosure – the GAR example

- **Current eligibility-based disclosures are mostly not comparable**; clarifications from regulator necessary
  - Current mandatory disclosures essentially capture Retail mortgages + CRE portfolio / TA (%)
  - Current disclosures have **limited** value for investors and are a **weak** predictor for Green Asset Ratio

GHG calculation – industry standards

- **Overall weak** level of **comparability** due to:
  - No disclosure on which customer GHG emissions are included (Scope 1, 2 and/or 3)
  - Not everyone uses the same standard
  - Emission factors used are not unified; no disclosure of sources
  - No disclosure of Score level reached for the ones using PCAF

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