



Disclosure of climate-related financial risks

Financial year 2021

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PostFinance 

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"Corporate responsibility is firmly enshrined in our strategy. It's an issue that we consider holistically – which means that we look at the environmental, economic and social aspects. We take our responsibility seriously and view sustainability as an opportunity to become an even more innovative and diversified financial service provider."

Hansruedi König, CEO of PostFinance

Our journey to more sustainability – more opportunities, more purpose

Corporate responsibility at PostFinance

As one of the largest financial institutions in Switzerland, PostFinance strives to fulfil its social, economic and environmental responsibility – by treating its customers, staff and society as a whole fairly. For this reason, the Board of Directors approved a corporate responsibility (CR) strategy for PostFinance in October 2020. A major part of this CR strategy is holistic sustainability management that is firmly embedded in the corporate strategy. PostFinance is pursuing several aims through its sustainability management, including making its greenhouse gas footprint more transparent and reducing it systematically.

PostFinance views sustainability as an opportunity to become a more innovative financial services provider. It contributes to the attainment of the Swiss Confederation's sustainability targets through its role as a stakeholder in the [Exemplary Energy and Climate](#) initiative and is guided by the [Sustainable Development Goals \(SDGs\)](#) set out by the UN. It focuses primarily on SDG 13 Climate Action.

As a financial institution, PostFinance recognizes its joint responsibility for global warming and supports measures for the transformation to a low-carbon, climate-resistant economy. This means that it is vital to bring financial flows in line with the objectives of the Paris Agreement. The Paris Agreement defines the overarching goal of limiting global warming to well below 2 degrees Celsius (ideally to 1.5 degrees Celsius) compared to pre-industrial levels.

PostFinance is on track. The challenges we face are enormous – just as enormous as the opportunities they present. That's why everyone at PostFinance is tackling them together, employees in tandem with customers. Full of courage, commitment and vision. At PostFinance, we are fulfilling our responsibility and taking account of environmental and social needs. After all, this is the only way to make banking truly meaningful and enjoyable.

That's PostFinance's journey to more sustainability. **#moreopportunitiesmorepurpose**

Special situation for PostFinance Ltd

PostFinance cannot currently issue loans and mortgages under the Postal Services Organization Act (Article 3, para. 3). For this reason, it places its customer deposits mainly in well-diversified investments on the capital market.

Disclosure of climate-related financial risks in accordance with TCFD recommendations

In this report, PostFinance aims to outline the impact of climate change on its business activities in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and create transparency regarding major climate-related financial risks. The disclosure recommendations were published for the first time in 2017 and contain four sub-areas: "Governance", "Strategy", "Risk management" and "Metrics and targets".

Governance

Basic principles and connections to Swiss Post

PostFinance is an independent subsidiary of Swiss Post and one of the largest retail financial institutions in Switzerland. The Confederation's strategic goals require Swiss Post and PostFinance, as a federal government-associated financial institution, to adopt a corporate strategy based on sustainable and ethical principles as far as economically viable.

Duties and role of the Board of Directors

Under the organization regulations, the PostFinance Ltd Board of Directors is responsible for defining the CR strategy. It sets targets and monitors the implementation of measures and target attainment. The Board of Directors' Organisation, Nomination & Remuneration Committee is responsible for addressing specific sustainability issues (social, economic and environmental). If aspects of PostFinance's risk policy are explicitly affected by sustainability issues, the following areas of responsibility apply:

The Board of Directors defines the risk policy and principles of risk management and is responsible for the regulation, establishment and monitoring of an effective risk management system. The Risk and Audit & Compliance Committees are responsible for monitoring and controlling. The Risk Committee specializes in financial risks, whereas the Audit & Compliance Committee focuses primarily on non-financial risks. The Board of Directors as a whole deals with strategic and reputational risks. The Board of Directors has delegated the actual implementation of the sustainability and exclusion criteria applied to the management of the investment portfolio to PostFinance's Executive Board.

Duties and role of the Executive Board

The Executive Board and dedicated Executive Board committees create specific regulations based on the directives issued by the Board of Directors on corporate responsibility and on risk management and monitoring of climate-related financial risks and implement these regulations. The Executive Board is supported by the Corporate Responsibility department.

Corporate Responsibility department

The Corporate Responsibility department is responsible for strategic issues, provides impetus, coordinates all activities related to sustainability and is the point of contact for all relevant operational matters. Organizationally, the department is part of the Strategy & Transformation unit.

Strategy

Basic principles

PostFinance has enshrined the issue of sustainability in its corporate strategy through its CR Strategy 2021 to 2024, defined a strategic ambition and set this out in specific terms in 2021. PostFinance believes that investing in corporate responsibility is both essential and worthwhile.

Wherever possible, PostFinance harnesses synergies with Swiss Post.

Strategic ambition

PostFinance recognizes sustainability as an opportunity and is fully conscious of its responsibility towards its stakeholders. In this respect, it aligns itself with the Confederation's sustainability targets, the UN's Sustainable Development Goals and the Paris climate goals.

PostFinance has split the general thrust of its CR strategy into three focus areas:

PostFinance acts responsibly as a company:

And at all levels of sustainability: it implements measures to minimize its CO₂ footprint and, as part of Swiss Post, to become carbon neutral by 2040. PostFinance places particular emphasis on climate neutrality in line with the Paris Agreement climate goals. PostFinance raises awareness, promotes and supports the active commitment of its employees to corporate responsibility, is a fair employer and supports diversity by focusing on gender equality.

PostFinance shapes its core business in step with industry:

PostFinance enshrines and establishes corporate responsibility in the industry-specific context and shapes the financial market through specific standards. PostFinance provides its customers with sustainable and transparent retirement planning and investment solutions whereby customer deposits can be invested not just according to financial principles, but also ethical and sustainable principles.

PostFinance drives innovation forward:

As a pioneer, PostFinance launches innovative, sustainable customer solutions on the market. PostFinance sets itself apart from the competition by offering fresh sustainable finance solutions, opening up more opportunities for itself. It specifically promotes innovation projects that contribute towards achieving the Sustainable Development Goals (SDGs) of the UN Sustainability Agenda, such as SDG 5 (Gender Equality), SDG 12 (Sustainable Consumption and Production) and SDG 13 (Climate Action). Examples of this are its commitment to the Swiss Climate Challenge initiative and proactively seeking sustainable business models (impact banking).

As a subsidiary of Swiss Post Ltd, PostFinance pursues a climate strategy with binding climate goals based on scientific evidence (Science Based Targets Initiative (SBTi)). The declaration of intent to this effect was submitted to the SBTi in the second quarter of 2021, and the climate targets are currently going through the validation process.

As a stakeholder in the Confederation's Exemplary Energy and Climate initiative, PostFinance has issued a clear declaration of intent to reduce greenhouse gas emissions in its operations and to improve energy efficiency by 2030.

Focus on CO₂ reduction

PostFinance's CR strategy focuses on reducing its CO₂ emissions, including through energy efficiency measures in buildings (direct emissions) and in its own investments (indirect emissions).

PostFinance strongly believes that the conservation of natural resources is an economic necessity and contributes to the financial institution's long-term competitiveness and credibility. PostFinance has already defined a set of measures aimed at reducing direct emissions. It will take additional measures over the next few years to further reduce its CO₂ footprint.

To address indirect emissions from its own investments, PostFinance initiated the systematic screening and calculation of financed greenhouse gas emissions in 2021. The aim is to define specific reduction paths (see "Metrics and targets" section).

Identifying opportunities and risks

PostFinance regards climate change as the driver of general changes. It recognizes the relevance from a risk analysis (financial and reputational risks) and an opportunity-oriented perspective (business model focusing more heavily on sustainability aspects). The decisive factor is the context of the analysis: the major risks for PostFinance arise from changing customer requirements, climate-related risks involved in the financial investments, comprehensive regulatory changes and reputational risks. PostFinance is specifically addressing these risk drivers through its CR strategy.

However, PostFinance also believes in the opportunities and seeks to systematically tap into them to launch new and innovative customer solutions. PostFinance continually evaluates its investment portfolio in relation to sustainability criteria and develops it on an ongoing basis. Examples of exploiting such opportunities include its commitment to the Swiss Climate Challenge initiative and the targeted search for sustainable business models in the innovation search field of impact banking and for financing Switzerland's transformation into a more sustainable location for business.

Risk management

Integrating climate risks into the existing risk taxonomy

The Swiss banks expect physical climate risks to have an impact primarily in relation to credit, market and operational risks. Transition risks may arise, mainly through credit and market risks, especially for counterparties whose business models are directly affected by the transition to a low-carbon economy.

At PostFinance, this predominantly concerns capital-market investments, due to the restricted business model.

Managing climate-related finance risks in the proprietary investment portfolio

PostFinance applies the Norwegian sovereign wealth fund exclusion list to take account of the sustainability risks involved in its investments. This is subject to rigorous ethical, social and environmental criteria that go well beyond comparable exclusion recommendations issued by Swiss associations (e.g. SVVK-ASIR). As PostFinance applies these exclusion criteria, this means that its own investments are subject to clear, quantitative exclusion criteria for producers of coal and coal-based energy.

The effectiveness of these exclusion criteria in reducing exposure to potential "stranded assets" has been confirmed by an analysis of future greenhouse gas emissions from coal reserves held by companies included in the portfolio. As at 31 December 2021, the future greenhouse gas emissions from coal in the analysed PostFinance portfolio stand at roughly a quarter of the emissions from a comparable benchmark portfolio without coal-specific exclusion criteria¹.

The returns from the oil and gas sectors are significant in the Norwegian sovereign wealth fund, creating a potential conflict of interests from PostFinance's perspective. For this reason, PostFinance also takes account of the ESG ratings issued by the independent ESG ratings agency ISS ESG when evaluating financial investments in this sector. In this context, the worst ESG ratings (D- and D) are used as exclusion criteria in the aforementioned sector.

¹ As at 31 December 2021, the potential future greenhouse gas emissions from coal reserves in the analysed PostFinance portfolio stood at 3,922,358 tCO₂. The benchmark (Bloomberg Global Agg – Corporate Total Return Index Value Unhedged USD) is 14,878,116 tCO₂.

Analysis and development

PostFinance systematically monitors changes to the regulatory framework in Switzerland and the European Union to identify climate-related financial risks at an early stage. PostFinance is also playing an active role in developing standards to make the financial industry more sustainable. This includes participation in the Partnership for Carbon Accounting Financials (PCAF) working group for the German-language region and membership of Swiss Sustainable Finance (SSF).

In 2020, PostFinance took part in the Federal Office for the Environment's (FOEN) 2020 Climate Alignment Test at the Paris Agreement Capital Transition Assessment (PACTA). This enabled it to compare its own real estate and bond portfolios with those of other participating institutions. A share of 14 percent of PostFinance's corporate bond portfolio, which is invested in climate-relevant sectors in accordance with PACTA criteria, was analysed. The PACTA stress test revealed a loss of 0.5 percent or 170 million francs of the portfolio's value for the corporate bond portfolio.

The stress scenario focuses on losses caused by regulatory interventions to reduce CO₂ emissions. The greatest losses are due to exposure to CO₂-intensive technologies. By contrast, gains are achieved for hybrid, gas and renewable energy in the stress scenario. A detailed report on the PACTA 2020 Climate Alignment Test for the Swiss financial market can be found on the Federal Office for the Environment's website. PostFinance plans to participate in the test again in 2022.

Metrics and goals

Since 2010, PostFinance has been systematically measuring the direct categories (scope 1), indirect energy-related categories (scope 2) and certain categories of indirect greenhouse gas emissions according to the Greenhouse Gas Protocol (scope 3). The results are reported periodically and taken into account when setting targets and structuring the relevant reduction measures. Since 2021, PostFinance has also calculated greenhouse gas emissions from its investment portfolio (scope 3, category 15 as per the Greenhouse Gas Protocol). These emissions represent the greatest share of overall emissions for financial institutions.

Absolute GHG emission values, scope 1–3²

The following table shows the absolute emissions values in tonnes of CO₂ equivalents (tCO₂e) produced by PostFinance for the 2020 and 2021 financial years. The proprietary investment portfolio stands at a nominal total of 71.67 billion francs and comprises corporate bonds, government bonds, borrower's note loans to companies and public bodies and positions at mortgage bond banks. The emissions values stated in scope 3 (category 15) relate exclusively to corporate bonds with CO₂ data recorded in the portfolio, with a nominal value of 30.86 billion francs (previous year: 33.47 billion francs). (The emissions calculations for other asset classes are not yet based on an established method.)

By comparison, the benchmark portfolio "Bloomberg Global Agg Corporate Total Return Index Value Unhedged USD", with 2,408,087 tCO₂e, has around 70 percent higher emission exposure than the PostFinance portfolio with its analysed corporate bonds.

Absolute GHG emission values, scope 1–3

| Greenhouse gas emissions recorded in tCO ₂ e | Greenhouse gas emissions 2020 | Greenhouse gas emissions 2021 |
|--|----------------------------------|----------------------------------|
| Scope 1 | | |
| Direct emissions from fuel combustion and losses from coolants | 987 | 612 |
| Scope 2 (market-based) | | |
| Indirect emissions from energy production | 26 | 23 |
| Scope 3 (excl. category 15) | | |
| Indirect emissions from business trips, commuter traffic, waste, water, paper and rented buildings | 3,471 | 3,376 |
| Scope 3 (category 15) | | |
| Emissions from the investment portfolio | 1,985,871 | 1,393,223 |
| Total (scope 1–3) | 1,990,355 | 1,397,234 |

CO₂ intensity values – PostFinance portfolio versus benchmark

The table shows the CO₂ intensity values calculated by PostFinance for 2021 in terms of the CO₂ emissions produced by the companies measured by their revenue (carbon intensity) and the intensity values measured by the portfolio size (weighted average carbon intensity). Compared with the benchmark portfolio "Bloomberg Global Agg Corporate Total Return Index Value Unhedged USD", PostFinance's corporate bond portfolio has relatively low emission exposure for carbon intensity and for the weighted average carbon intensity.

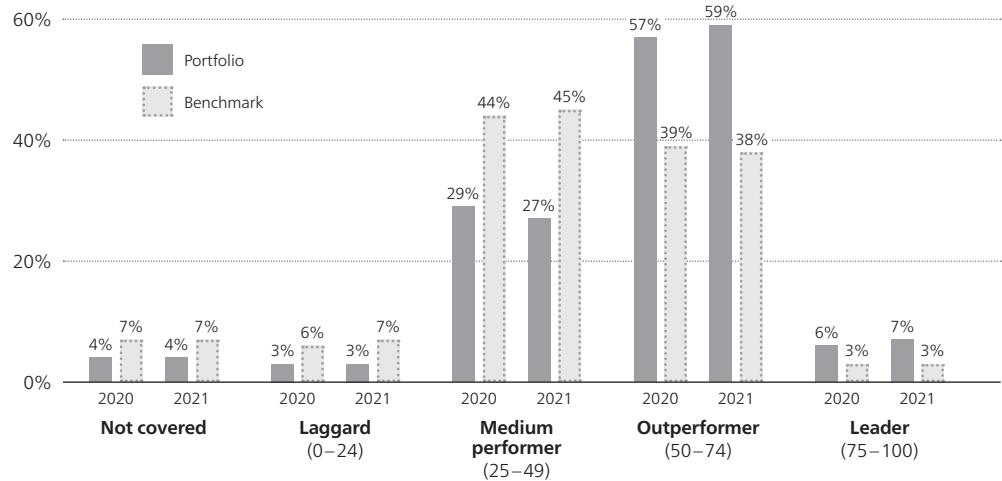
² Disclaimer: the reported values were determined by ISS ESG in accordance with the latest calculation standards. The calculation methods underlying the analyses used for this report are developed on an ongoing basis and expanded with additional data sets. As a result, the values determined at the time of the calculation represent a snapshot that may be subject to a degree of fluctuation over the course of the year. The scope 3, category 15 greenhouse gas emissions stated here refer in each case to the companies' reported emissions from the previous year.

CO₂ intensity values – PostFinance portfolio versus benchmark

| | PF corporate bond portfolio 2021 | 2021 benchmark Bloomberg Barclays Global Aggregate Corporate Index |
|--|----------------------------------|--|
| tCO ₂ e / CHF million of revenue (2021) | | |
| Carbon intensity | 147.69 | 216.09 |
| Weighted average carbon intensity | 96.86 | 249.19 |

Carbon risk rating distribution – portfolio versus benchmark

In 2021, PostFinance evaluated its corporate bond portfolio (nominal: 30.86 billion francs) in relation to climate-related transition risks in collaboration with ISS ESG. The individual companies making up the portfolio are assessed based on their exposure to climate risks. The evaluated performance is intended to enable estimates that indicate the extent to which a company is able to actually control these risks and take advantage of opportunities. The analysis showed that the companies in PostFinance's portfolio were better positioned in relation to transition risks than the benchmark "Bloomberg Global Agg Corporate Total Return Index Value Unhedged USD".

Carbon risk rating distribution – portfolio versus benchmark**Relevant targets and outlook**

For the emissions under scopes 1, 2 and 3 (excluding category 15), PostFinance has already defined clear reduction pathways by 2030, including its role as a stakeholder in the Swiss Confederation's Exemplary Energy and Climate initiative.

As a subsidiary of Swiss Post Ltd, PostFinance supports its parent company's climate targets. In this respect, following the declaration of intent to participate in the Science Based Targets initiative in 2022, the validation process for the specific targets for all categories is under way. PostFinance is making a major contribution in this area by reducing greenhouse gas emissions in operations and in particular in relation to financed emissions. To attain the targets, PostFinance is assessing further control measures for indirect emissions relating to proprietary investments.

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