

Swiss Sustainable Lending Market Study 2024



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Preface by Swiss Sustainable Finance

We are proud to present the first edition of the Swiss Sustainable Lending Market Study, prepared collaboratively by Swiss Sustainable Finance (SSF) and the ZHAW School of Management and Law. This publication offers a comprehensive overview of the integration of sustainability considerations into lending decisions on the Swiss market. While sustainable investing has become mainstream and the focus of countless academic research studies, sustainable lending practices have not yet been explored extensively. Therefore, this publication represents a significant milestone in comprehending the evolving landscape of sustainability on the Swiss lending market. It provides crucial insights into the significance of various sustainability approaches and their perceived importance among market players.

Sustainable lending is crucial in two ways: First, it can be used to integrate ESG factors into the evaluation and pricing of credits, thereby enhancing risk management; and second, it provides incentives for the real economy to adopt sustainability processes, thereby improving sustainability performance. This latter aspect is particularly relevant to industries that face challenges in this transition, such as heavy industry and manufacturing.

As the need for a fast transition to more sustainable practices in all sectors intensifies, a substantive discourse on the role of sustainable lending in facilitating this transformation has become important. Sustainable lending has the potential to become a catalyst accelerating the needed change and while contributing to reach national net-zero commitments. In this context, it is interesting to observe the adoption of such practices among market participants across diverse client segments.

We extend our sincere gratitude to the entire research team at ZHAW for their invaluable collaboration in preparing this study, as well as to all Swiss market participants for generously sharing insights into current market practice. With this collective effort we hope to contribute to a deeper understanding of the role of sustainable lending and its varied forms. We trust that you will find this study to be an enlightening read.



Sabine Döbeli
CEO Swiss Sustainable Finance

Preface by ZHAW School of Management and Law

This publication is the first to systematically analyse the influence of sustainability considerations on the Swiss lending market. While various sustainability-related allocation strategies have been established in the investment market, and their development has been analysed for several years in Swiss Sustainable Finance's Investment Market Study, sustainability is also arriving in the loan market.

Sustainability in Lending, published by the ZHAW School of Management and Law and Swiss Sustainable Finance two years ago, links investors' allocation strategies with possible financing strategies. Four financing approaches were derived from that for the lending business.

In the present study, these approaches were fine-tuned further to reflect developments over the past two years. Banks operating in Switzerland were then surveyed on this basis. The aim of this survey is to create transparency for the Swiss loan market.

In the context of current regulatory developments, it can be expected that the importance of sustainable finance will continue to grow. On the one hand, new minimum requirements for integrating sustainability criteria into investment and mortgage advice have been in force since 2023. On the other hand, more and more companies are also being obliged to transform their businesses and report on their sustainability accordingly.

This study is therefore intended to be the starting point for future surveys, as the ZHAW School of Management and Law and Swiss Sustainable Finance want to help monitor the development of sustainability efforts in the Swiss loan market in the future and publish the findings similar to the Investment Market Study.

I would like to thank the entire Swiss Sustainable Finance team and all Swiss market participants who have contributed to this publication. I am aware that we are active in a young field, which is why the provision of market data by individual banks involves a great deal of effort. By jointly demonstrating the role that sustainability plays in the financing business and how it will continue to develop, lenders will be able to further develop their offerings, and borrowers will have a better understanding of the options available to them for financing transformation projects.



Prof. Dr. Suzanne Ziegler
Director of Department Banking,
Finance, Insurance and Member
of the Executive Committee ZHAW
School of Management and Law

Executive summary

This first edition of the Swiss Sustainable Lending Market Study provides in-depth insights about current practices in taking ESG factors into account in the lending business in Switzerland. While ESG factors and sustainability indicators have been a part of the investment market for decades, they have recently become increasingly relevant for loans and mortgages. Therefore, this first study aims to provide a comprehensive overview of how sustainability is integrated in the lending market by making available self-reported data on current market practices and the application of sustainable lending approaches, thereby providing transparency to both the financial sector and the broader public.

Sustainability strategies in the lending business

The 25 banks that participated in the survey account for a total credit volume of CHF 956 billion, or 71.52% of the total Swiss lending market of CHF 1,337 billion as of the end of 2022 as reported by the Swiss National Bank (SNB).¹

The findings of the study reveal that sustainability already plays an important role in the lending business in Switzerland. Of the 25 respondents to the survey, 72% have a sustainability strategy, policy or guideline for their lending operations. Those 18 with a sustainability strategy account for 96% of the lending volume of the sample. When asked specifically about the motives for sustainable lending, respondents were asked to select their top three motivations (see the figure below). A positive social and ecological impact ranked first, followed by clients' expectations and the avoidance of reputational and financial risks.

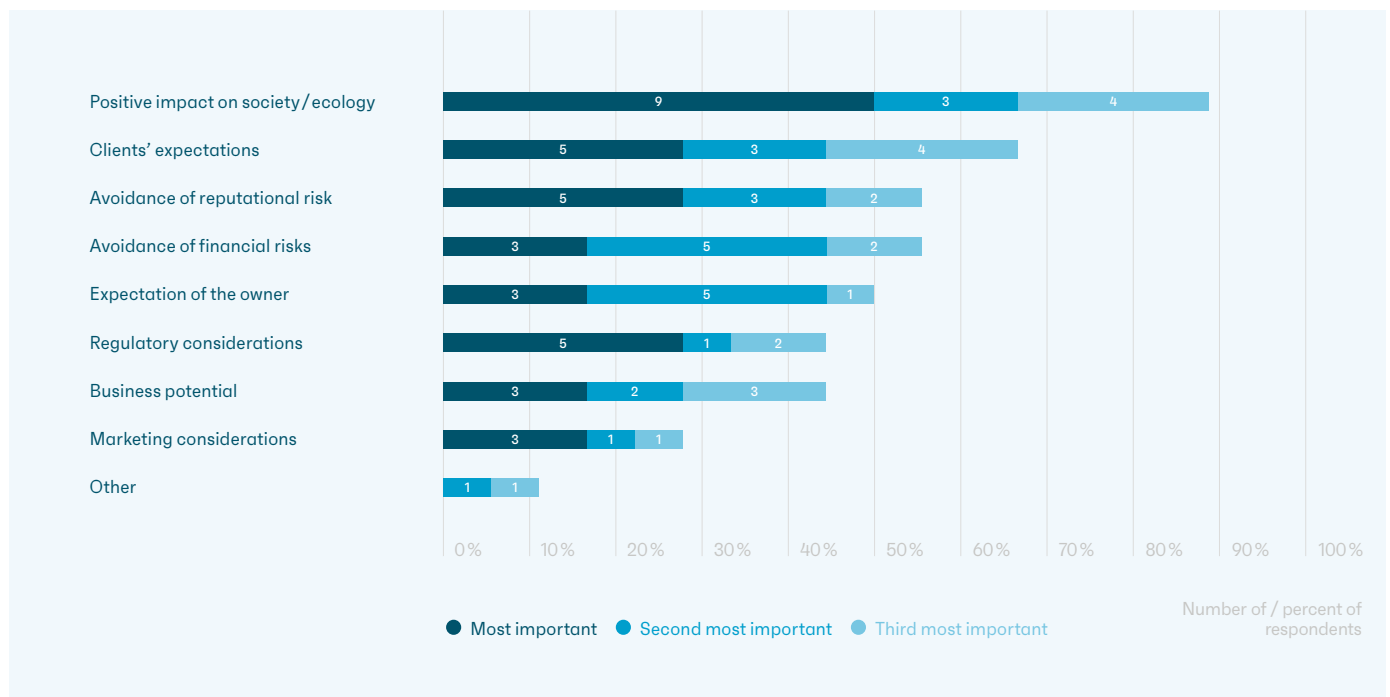


Figure: Motives for sustainable lending activities (n=18)

1 See SNB's website. Available at: [https://data.snb.ch/en/topics/banken/cube/bakredinausbm?fromDate=2018-12&toDate=2022-12&dimSel=D1\(T0\),A\),D2\(T1,H\),D3\(F,B\),D0\(AV1\)](https://data.snb.ch/en/topics/banken/cube/bakredinausbm?fromDate=2018-12&toDate=2022-12&dimSel=D1(T0),A),D2(T1,H),D3(F,B),D0(AV1)).

From exclusions to financing transformations

Most commercial banks have for several decades had credit strategies excluding certain activities or sectors from lending, be it for economic reasons or to avoid reputational risks. Of the 25 banks participating in the survey, a majority of 17 pursue an exclusion strategy. Where such a strategy is applied, the most commonly applied criteria are the production of controversial weapons, the extraction of coal and coal reserves, as well as the extraction of oil and gas.

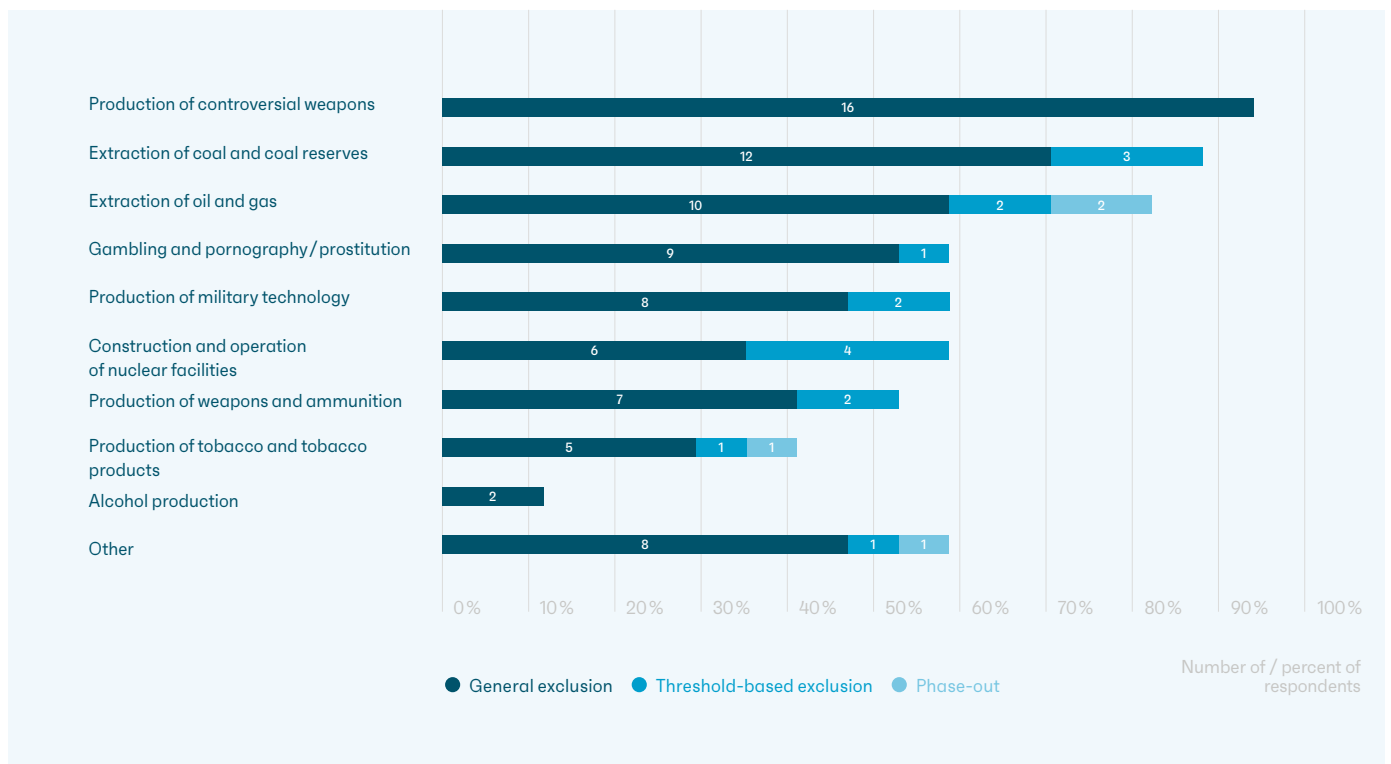


Figure: Criteria applied in exclusion strategies in lending (n=17)

Roughly half of the institutions surveyed currently have a strategy for integrating ESG factors or sustainability indicators into the risk assessment of their lending business. Integration is most widespread in the energy sector, followed by manufacturing industries and transportation, according to the study. While some banks apply this approach to their entire lending business, others make it dependent on the size of the borrower.

The credit market has recently seen the emergence of new financial instruments aimed at financing the transformation of a company's operations into a more sustainable business model. Sustainability-linked loans (SLLs) are loans

whose conditions are linked to a sustainability target agreed between the lender and the borrower and that allow the borrower to use the funds for any activity within the company. If the sustainability target is achieved, the borrower receives a lower interest rate. Nine banks are currently active in the SLL market. As this type of product is offered by some of the major market players, the instrument could play an important role in the transition to a more sustainable economy. Interestingly, however, those banks that do not currently offer SLLs do not report an intention to add SLLs to their product portfolio.

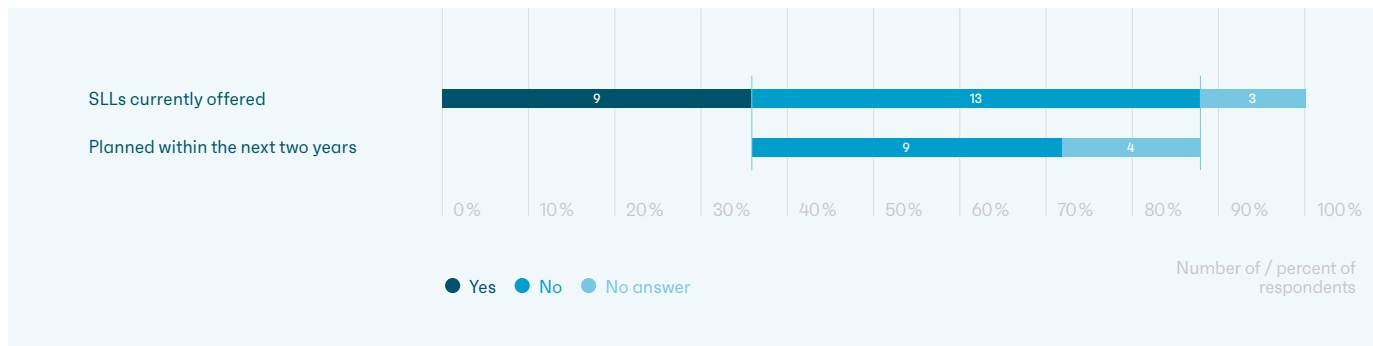


Figure: Current and future offer of sustainability-linked loans (SLLs) (n=25)

Companies with sustainability projects that do not affect the transformation of the entire business model are usually financed with use-of-proceeds loans (e.g., green loans). The study shows that these project-related financing instruments are somewhat less widespread than SLLs in the Swiss loan market. Compared with SLLs, they are more frequently used by medium-sized banks and structured as bilateral loans.

Sustainable mortgage instruments can help transform the real estate sector

Many banks now offer mortgages that apply some sort of sustainability criteria, such as mortgages offered at a discount when financing a building with a green or sustainable building certificate, or mortgages used for energy-efficiency renovations. In this study we refer to them as sustainable mortgage products or instruments.

The study findings broadly confirm existing reports that sustainable mortgage instruments are fairly widespread. 68% of the banks (covering approximately 94% of the mortgage volume covered by the survey) offer such sustainable mortgage instruments. However, the findings also show that 32% of the banks do not have such a product or did not provide a reply. The survey findings also show that of the six banks that reported that they do not currently have a dedicated sustainable mortgage instrument, only one has concrete plans to change this within the next two years. While a significant share of banks offer sustainable mortgage instruments, only a small fraction of the total mortgage volume – less than 1% – can be linked to such instruments. Smaller banks or banks with a lower mortgage volume are more likely to lack sustainable mortgage instruments.

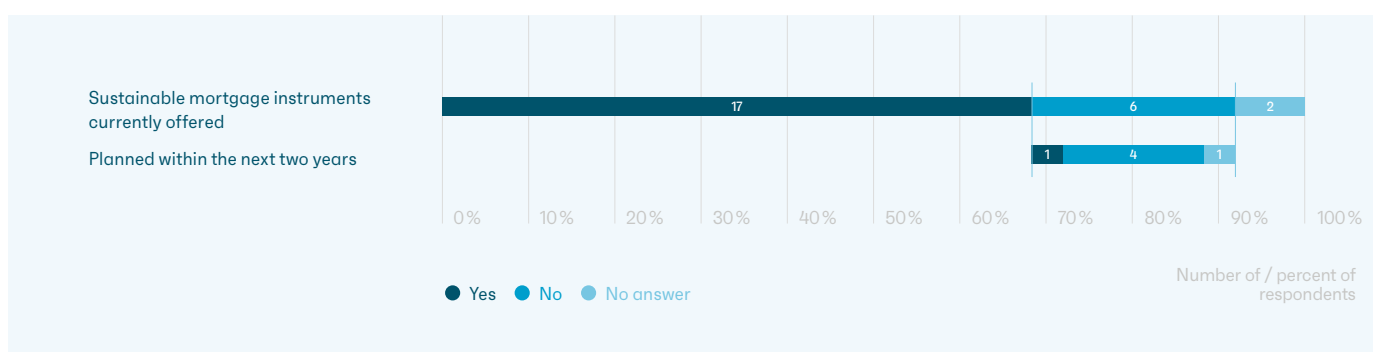


Figure: Current and future offer of sustainable mortgage instruments (n=25)

When it comes to the requirements for granting a sustainable mortgage for new buildings, banks usually rely on building certifications. The study shows that almost all banks rely on Minergie certifications or GEAK (Swiss Cantonal Energy Certificate for Buildings) ratings as basis for a sustainable mortgage. In addition, 35% of banks apply the SNBS (Swiss Sustainable Building Standard). Other certifications, such as LEED (Leadership in Energy and Environmental Design) and

BREEAM (Building Research Establishment Environmental Assessment Method), are used by a minority of the banks. It can be observed that larger mortgage lenders tend to apply certifications more comprehensively.

For existing buildings, most banks also rely on building certifications. In addition, banks grant sustainable mortgages on the basis of pre-defined energy-efficient renovations or for relative improvements of the building.

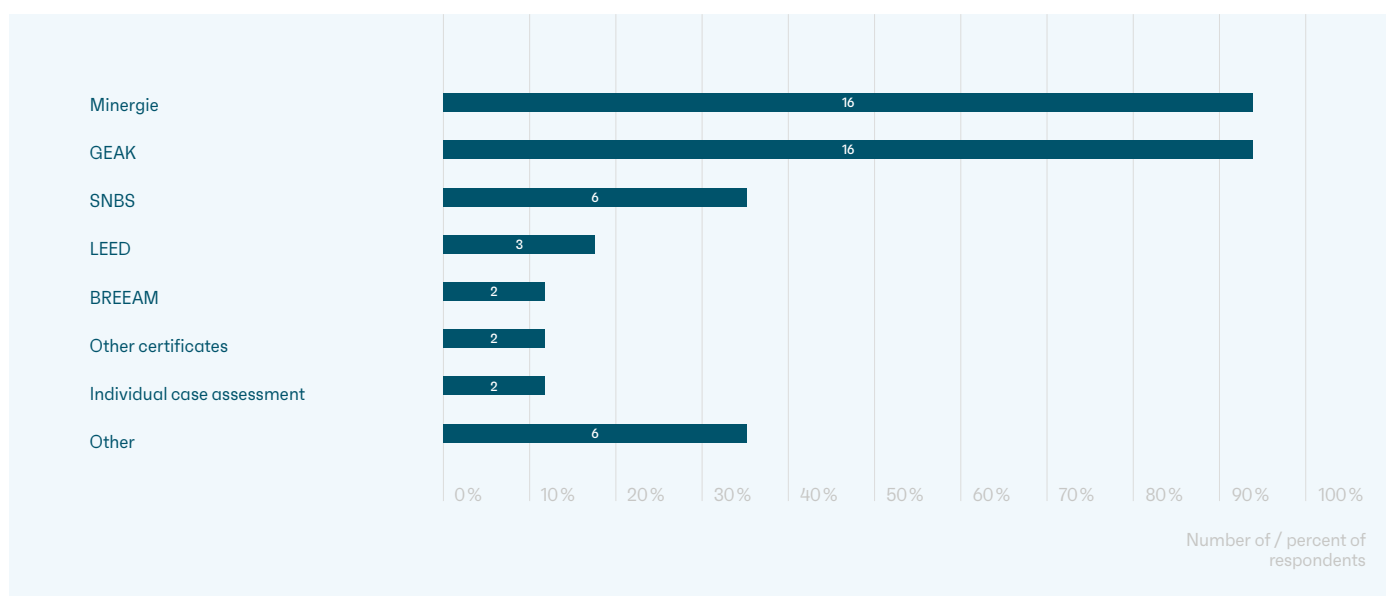


Figure: Requirements for sustainable mortgages for new buildings (n=17; multiple replies possible)

Sustainability considerations as an element of the client advisory process

Clients are increasingly aware of sustainability considerations and related transitions in the economy. The study shows that banks are starting to integrate ESG factors into client advisory services, while clients are increasingly demanding a sustainability dialogue. It is important to note that the SBA's Guidelines for mortgage providers on the promotion of energy efficiency was not yet in force at the time to which the obtained data refer (late 2022).

The survey assessed clients' motives for sustainability topics by type of client, whereby not all banks responded for each segment (a total of 19 for SMEs, 20 for large corporates and 22 for retail clients). The survey findings suggest that retail clients seem to be mainly interested in discussing sustainability because they aim for a price reduction or have a general interest in the topic. Most banks see a general interest in the topic from SMEs, with assessing the company's risk as the least important. By comparison, large companies show a high level of interest in assessing their own risk, likely also driven by regulatory developments.

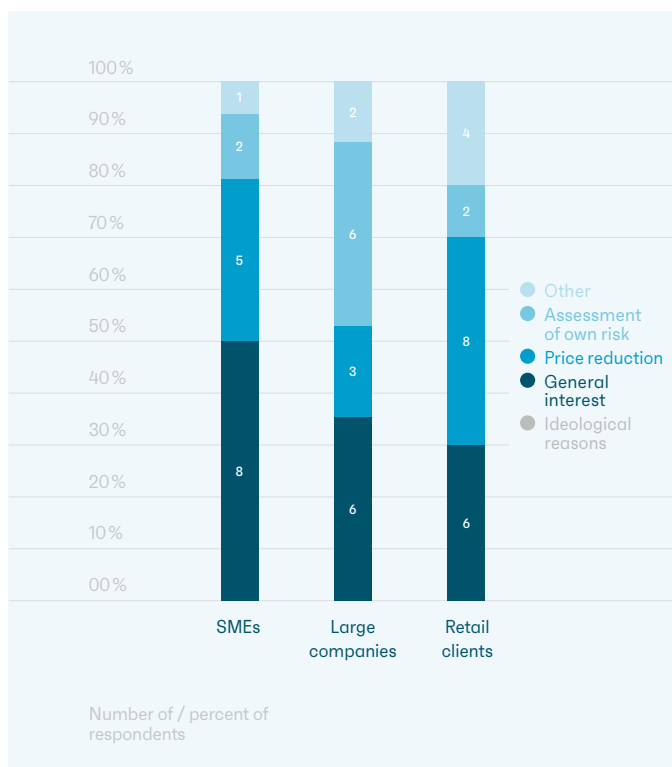


Figure: Reasons for client's interest in sustainability

Looking ahead

In the coming years, we can expect that sustainability considerations will be gaining more importance in financial institutions' credit assessments and that sustainable lending products will become more widely applied and turn into standard practice among financial institutions, driven primarily by growing awareness for sustainability-related challenges. In particular, an expansion into the SME business is to be expected. Financial service providers will integrate sustainability factors into their lending approaches even more to meet the expected growing demands of both retail and corporate clients for lending solutions that reflect their sustainability objectives. Banks can act as facilitators to drive the transition to more sustainable assets and practices and raise awareness among their clients in the advisory process.

Introduction

- 1.1. Objective of study
- 1.2. Study methodology
- 1.3. Overview of study participants

1.1. Objective of Study

For the past six years, Swiss Sustainable Finance (SSF) has presented insights on the Swiss investment market and the uptake of various sustainable investment approaches by Swiss asset managers and asset owners in the Swiss Sustainable Investment Market Study. As ESG factors and sustainability metrics are not exclusively considered in the investment market, but are becoming increasingly relevant for loans and mortgages, sustainable lending is of growing interest to the financial industry and the general public. This first edition of the Swiss Sustainable Lending Market Study focuses on the sustainable lending market in Switzerland and for the first time provides in-depth insights on current practices in considering ESG factors in lending and the related lending volumes.

SSF and the ZHAW School of Management and Law (ZHAW) laid out various approaches in the field of sustainable financing and lending in the 2022 report on sustainability in lending². Amidst a shifting regulatory environment, in addition to advancements within the industry, the market is keen on gaining insights on best market practices and the functioning of sustainable lending approaches and instruments. Therefore, this first study aims to provide a comprehensive overview of how sustainability is integrated into the lending market, based on self-reported data of market participants.

For this important study, SSF continues its work with the ZHAW research team and bases its market analysis on the theoretical foundation of recent publications. In the report, Section 2 discusses the fundamentals of sustainability in lending while covering the approaches and financing instruments used in the market. Section 3 covers the analysis of the sustainable lending market in Switzerland. This includes the ESG policies of the institutes, unsecured loans, mortgages (covered loans) and the client advisory process. The data analysis concludes with a summary of the findings and an outlook (Section 4).

By providing the fundamentals of sustainability in lending and an overview of the Swiss market, this study aims to contribute to a broader consideration of sustainability factors in the lending market and a better understanding of its effects on risks and opportunities. It further aims to provide a basis for emerging discussions around the role of regulation in this field.

² See executive summary of the report in English. Available at: https://www.sustainablefinance.ch/upload/cms/user/SSF_VSKB_Sustainability_in_Lending_EN_Executive_Summary1.pdf.

1.2. Study methodology

This study describes various approaches to integrating sustainability factors in lending, which serve various objectives. Excluding clients from financing or integrating ESG factors into the credit risk analysis and pricing can lead to improved risk management for the lender. Financing transformation by providing incentives to improve ESG performance or specific key performance indicators (KPIs) on the one hand provides the bank with business opportunities and on the other hand incentivises companies to accelerate the transition. Financing sustainability solutions require special financing instruments, which address innovations and projects with no access to traditional lending or financial markets.

The Swiss Sustainable Lending Market Study 2024 was prepared on the basis of survey data obtained from financial institutions domiciled, or with operations, in Switzerland and providing sustainable lending instruments or taking sustainability factors into consideration when granting loans.

All available data was compiled, reviewed and evaluated by SSF and its academic partner, ZHAW. Data were compiled from November 2023 to January 2024, using questionnaires sent out to over 60 banks and insurance companies in Switzerland. The data compiled is as of 31 December 2022 and was provided voluntarily by the study participants.

To avoid uncertainty, SSF provided clear guidance on the definitions and nature of data to be reported, and participants were encouraged to respect the defined scope of the questionnaire. Banks and insurance companies were asked to provide established ESG policies on a corporate level, business in unsecured loans and mortgages, and their client advisory processes.

To provide an accurate picture of how sustainability factors are integrated into the Swiss loan market, all data and information were checked for consistency. In case of any anomalies in the data, the respective participants were contacted and potential issues were resolved.

1.3. Overview of study participants

As shown in Figure 1, all questionnaires returned came from banks active in Switzerland. Of the 25 banks that participated in this first edition of the Swiss Sustainable Lending Market Study, eight are either active on a regional or national level, while nine pursue international business activities, in addition to their activities in Switzerland. Regarding their business segments, 19 banks are active in retail and private banking, while 20 offer corporate banking services. Together, the participating banks³ represent a total credit volume of CHF 956 billion, compared to CHF 1,336.8 billion – representing 71.52% of the total market as reported by the Swiss National Bank (SNB) as of the end of 2022.⁴ This difference with the total market volume can be explained by the fact that the survey was not sent to all players and not all invited institutions contributed to the survey. Furthermore, SNB reports approximately CHF 89 billion of other secured domestic loans, which are not captured by our questionnaire.

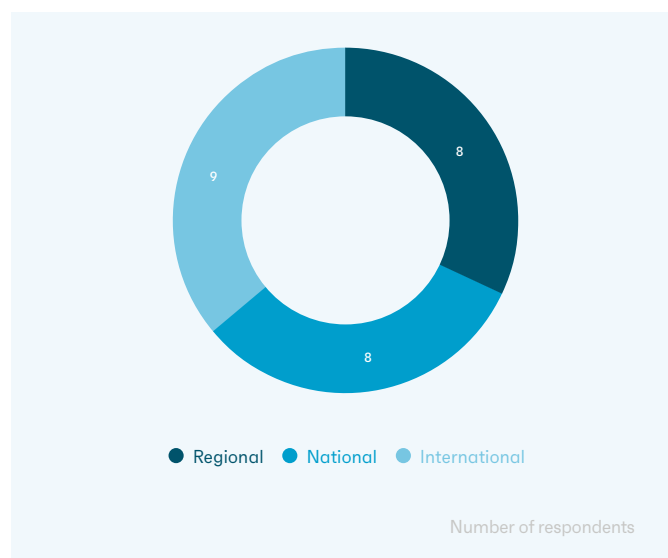


Figure 1: Regional focus of business activities of participating banks

³ A list of study participants who consented to be named is provided on page 54.
⁴ See SNB's website. Available at: [https://data.snb.ch/en/topics/banken/cube/bakredinausbm?fromDate=2018-12&toDate=2022-12&dimSel=D1\(T0\),A\),D2\(T1,H\),D3\(F,B\),D0\(AV1\)](https://data.snb.ch/en/topics/banken/cube/bakredinausbm?fromDate=2018-12&toDate=2022-12&dimSel=D1(T0),A),D2(T1,H),D3(F,B),D0(AV1)).

Approaches to integrating sustainability factors into lending

- 2.1. Basics of sustainability in lending
- 2.2. Loans
- 2.3. Mortgages
- 2.4. Client advisory process at a bank

This section describes how and at which levels sustainability is relevant for lending and which approaches can be pursued by lenders (Section 2.1). It then shows how these approaches can be integrated into corporate loans (Section 2.2) and mortgages (Section 2.3). Section 2.4 concludes with the integration of sustainability considerations into the lending advisory process of banks.

2.1. Basics of sustainability in lending

Two levels of action for integrating sustainability factors into lending

Integration of sustainability factors into the lending processes can be divided into two different levels of action: the level of strategy and the level of sustainable financing approaches (see Figure 2 for an overview).

On the *strategy level*, the organisation actively manages the loan and mortgage portfolio on the basis of the sustainable lending strategy and any regulatory obligations or voluntary measures of the financial institution. This manifests itself, for example, in the identification of, and the engagement with, unsustainable companies in the portfolio with the aim of initiating a sustainability transformation (independent of a specific financing request). As financial institutions commit to net zero, the importance of portfolio management and the engagement approach can be expected to increase. Engagement is already taking place today by specifically integrating sustainability into the advisory process. In the mortgage sector, for example, this can take the form of actively drawing borrowers' attention to the energy renovation potential of their properties or integrating energy efficiency advice into the mortgage process.⁵ The strategy level forms the basis of the application of the four sustainable financing approaches.

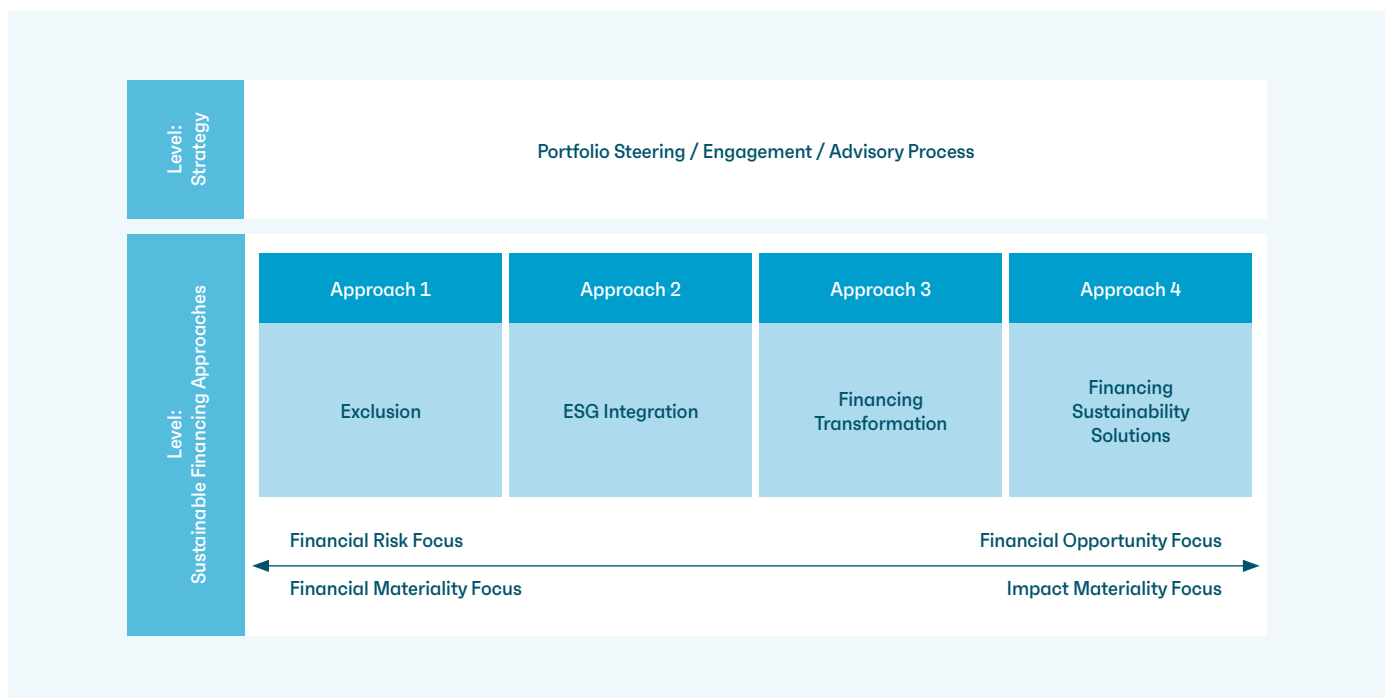


Figure 2: Levels of action in sustainable lending

5 The client advisory process of the first level of action is described (Section 2.4) and surveyed (Section 3.4) separately from the financing instruments in this study.

On the level of sustainable financing approaches, sustainability is considered by restricting lending, integrating ESG factors, financing transformations, and providing specific financing sustainability solutions. A distinction is made here between four different approaches:⁶

- **Approach 1 – Exclusion:** The exclusion approach consists in the financial institution’s excluding certain sectors of the economy or certain business activities from financing.
- **Approach 2 – ESG integration:** The ESG integration approach encompasses the consideration of ESG factors in the loan approval, risk assessment and pricing processes. A company with a sustainable product or business model – which is reflected in a sustainability rating – could be granted a discount on the loan conditions.
- **Approach 3 – Financing transformation:** The financing transformation approach encompasses all instruments aimed at financing or supporting corporate transformations. The focus is on companies or corporate divisions that have the potential to improve their sustainability performance. This can be done through lending instruments such as sustainability-linked loans.
- **Approach 4 – Financing sustainability solutions:** The financing sustainability solutions approach includes instruments that specifically target the funding of new sustainability innovations, business areas or business solutions with a positive sustainability footprint. These can refer to new business models or technologies, either within existing companies or as specialised SMEs or start-ups in the growth phase. In the latter case, this is generally difficult to address through traditional lending instruments, due to the increased risk or potentially long-term financing needs. This often requires innovative financing instruments or risk mitigation mechanisms (e.g., blended finance approaches).

While the approaches can be clearly distinguished from each other in theory, there is some overlap in practice. For example, a sustainability solution (e.g., a new solar power plant) could be financed as a specific project (approach 4) or as part of a corporate transformation of an energy company (approach 3).

The relevance of the double materiality concept to sustainable lending

Double materiality is an important and widely accepted concept in sustainable finance. It describes the relationship between a company and the planet and society.⁷ Based on this concept, a distinction must be made between two directions of impact. Financial materiality describes the direct or indirect financial impact of a sustainability factor on the company, while impact materiality refers to the influence of the company on a sustainability factor. Effects can be both positive (opportunities) and negative (risks) for both types of materiality (see Figure 3). This distinction is important when it comes to assessing a company’s sustainability (e.g., sustainability ratings). Accordingly, the concept is also central to sustainable lending.

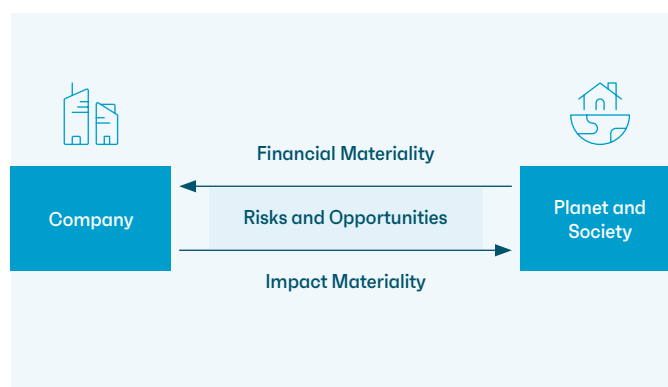


Figure 3: The concept of double materiality

6 For a more detailed explanation and derivation of the action areas, see: Swiss Sustainable Finance (2022). *Nachhaltigkeit in der Kreditfinanzierung*. Available at: https://www.sustainablefinance.ch/upload/cms/user/SSF_VSKB_Nachhaltigkeit_in_der_Kreditfinanzierung_DE.pdf.

7 The concept of the double materiality was introduced by the European Commission (2019). Available at: [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52019XC0620\(01\)&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52019XC0620(01)&from=EN).

The concept of double materiality can be illustrated using the example of global warming. Financial materiality answers the question of how the company is affected by global warming. This can be either positive (e.g., a manufacturer of solar panels, which benefits from business opportunities due to additional demand or additional solar energy potential) or negative (e.g., a ski resort operator that can sell fewer ski tickets due to an worsening lack of snow). These effects can have a long-term financial impact on the company, even if the primary effects are non-financial (e.g., reputational risks due to a climate-damaging, but still functioning, business model). While traditional ESG ratings often focus on financial materiality and mainly on the level of risk, impact materiality can be measured for example with SDG ratings, which examine the alignment and impacts of companies with the UN Sustainability Development Goals.

International and national developments in the terminology of sustainable finance point to a greater focus on impact materiality.⁸ As financial materiality is – from a conceptual point of view – already part of financial risk management, a pure focus on financial materiality will no longer be referred to as “sustainable” in the future. Sustainability considerations should therefore also include impact materiality.

With regard to the sustainable lending approaches described above, the focus on financial materiality and risk is by nature inherent in all areas of lending. Impact materiality, however, is more emphasised in approaches 3 (financing transformation) and 4 (financing sustainability solutions).

⁸ For the position of the Swiss Government, see *The Federal Council's position on the prevention of greenwashing in the financial sector* (December 16, 2022). Available at: <https://www.news.admin.ch/news/message/attachments/74580.pdf>.



Regulatory developments in Switzerland and the role of sustainable lending

Sustainable lending is driven not only voluntarily by banks, insurance companies and institutional investors (on the basis of opportunity or risk considerations, or client demand), but also at a regulatory level even though there are so far no mandatory requirements directly related to sustainable lending. In short, existing sustainability-related regulations aim either to create transparency on sustainable topics or to address financial risks. The financial industry must also contribute to achieving Switzerland's net-zero target embedded in the climate and energy regulations. The following non-comprehensive list contains some examples of such regulations:

- Report on non-financial matters based on Art. 964a et seq. Code of Obligations (CO): It must cover environmental matters (e.g., CO₂ goals) social issues, employee-related issues, respect for human rights and combating greenwashing. For the report of environmental matters, the Ordinance on Climate Disclosure refers to the “Recommendations of the Task Force on Climate-related Financial Disclosure” (TCFD). This framework recommends that lending institutions disclose metrics that reflect climate-related risks related to credit exposures.⁹ The Ordinance also specifies that climate issues include the double-materiality concept.
- Art. 964j et seq. CO requires reporting and due diligence obligations in relation to minerals and metals from conflict areas and child labour.
- The Climate and Innovation Act (KIG) requires companies to be climate-neutral by 2050 at the latest. To this end, they can develop roadmaps outlining how they intend to achieve this goal. The federal government will support those companies that make rapid progress and develop such roadmaps by 2029. The Climate Protection Ordinance, which was in the consultation process until 1 May, specifies, among other things, minimum criteria for such roadmaps. Regarding the financial sector, the Federal Council mandated the Federal Department of Finance (FDF) to specify minimum requirements for transition plans for financial institutions by the end of 2024 in the Ordinance on Climate Disclosures to ensure the implementation of climate targets in accordance with the KIG.¹⁰
- FINMA, in its Circulars 2016/01 (Disclosure – banks) and 2016/02 (Disclosure – insurers), outlined transparency requirements for climate risks, effective from 1 July 2021. Banks and insurers falling under supervisory categories 1 and 2 were required to disclose climate-related financial risk management information annually in their financial condition reports, starting with the financial year 2021. In addition, FINMA urged supervised institutions to critically review and enhance their instruments and processes concerning climate risks, aligning them with their specific risk profiles.¹¹
- The Draft FINMA Circular on managing nature-related risks of 1 February 2024¹² specifies the extent to which nature-related financial risks must be taken into account in corporate governance and institution-wide risk management by banks and insurance companies, including credit risk management.
- Finance associations are also supporting the Net Zero Strategy 2050. In the area of lending, the Swiss Bankers Association has introduced guidelines for its members to promote energy efficiency in their mortgage business, effective from June 2022.¹³

As sustainable lending plays a role in fulfilling these regulatory obligations, financial institutions should analyse their lending practices and improve their instruments. Balancing financial returns with sustainability goals, standardising ESG metrics, and ensuring consistent regulatory oversight are among the challenges the industry is facing. As global awareness of environmental and social issues grows, sustainable lending practices are likely to become an integral part of the financial sector.

9 See TCFD (2021). *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures*. Available at: https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf.

10 See the press release of the Federal Council (2024). Available at: <https://www.admin.ch/gov/de/start/dokumentation/medienmitteilungen.msg-id-99780.html#:~:text=Der%20Bundesrat%20hat%20am%2024.Mai%202024.>

11 See FINMA (2023). *FINMA Guidance 01/2023 – Developments with regard to the management of climate risks*. Available at: [https://www.finma.ch/en/-/media/finma/dokumente/dokumentencenter/myfinma/4dokumentation/finma-aufsichtsmittellungen/20230124-finma-aufsichtsmittellung-01-2023.pdf?sc_lang=en&hash=AE5AC34C3A564F4CF9FBD08557A3D124.](https://www.finma.ch/en/-/media/finma/dokumente/dokumentencenter/myfinma/4dokumentation/finma-aufsichtsmittellungen/20230124-finma-aufsichtsmittellung-01-2023.pdf?sc_lang=en&hash=AE5AC34C3A564F4CF9FBD08557A3D124)

12 The consultation for this FINMA Circular ran until 31 March 2024. See <https://www.finma.ch/en/news/2024/02/20240201-mm-rs-naturbezogene-risken>. See SBA (2022). *Guidelines for mortgages providers on the promotion of energy efficiency*. Available at: https://www.swissbanking.ch/_Resources/Persistent/c/b/b/3/cbb3619179bd238dca41328b2464af560a2c0f3a/SBA_Guidelines_mortgage_providers_on_the_promotion_of_energy_efficiency_EN.pdf. Please note that they are not recognised by FINMA as a minimum standard.

13 See SBA (2022). *Guidelines for mortgages providers on the promotion of energy efficiency*. Available at: https://www.swissbanking.ch/_Resources/Persistent/c/b/b/3/cbb3619179bd238dca41328b2464af560a2c0f3a/SBA_Guidelines_mortgage_providers_on_the_promotion_of_energy_efficiency_EN.pdf. Please note that they are not recognised by FINMA as a minimum standard.

2.2. Loans

The transition to a net-zero economy requires increased investments from both the public and private sectors.¹⁴ Of the CHF 387 billion in net-zero investments estimated for Switzerland until 2050, over 80 percent (CHF 10.7 billion of the annual CHF 12.9 billion investments) are considered bankable.¹⁵ Subtracting the CHF 2.1 billion that are related to the real-estate market – and hence qualify for mortgage coverage – leaves a financing gap of CHF 8.6 billion p.a. This means that lenders are playing a major role in providing funds and assessing the related business opportunities and credit risks in the transition to a more sustainable and net-zero economy.

At the strategic level, banks need a specific sustainability strategy for their lending business that not only defines the product range, but also determines the various sustainable financing approaches applied. For banks that have made any commitments (e.g., a net-zero commitment) under the industry-led and UN-convened Net Zero Banking Alliance, a sustainable lending strategy forms a key element for implementing such a commitment. Key success factors are up-to-date credit assessment skills and a clear decision by the bank as to which of the sustainable financing approaches they wish to pursue.

14 The OECD and UNDP estimate that SDGs will create USD 12 trillion in private sector investment opportunities annually. See OECD & UNDP (2021). *Closing the SDG Financing Gap in the COVID-19 era*. Available at: <https://dwgg20.org/app/uploads/2021/10/OECD-UNDP-Scoping-Note-Closing-SDG-Financing-Gap-COVID-19-era.pdf>.

15 For the Swiss economy, the Swiss Bankers Association and Boston Consulting Group estimate a total investment requirement of CHF 387 billion by 2050. These are exclusively net-zero investments and do not take into account any other sustainability-related investments. See Swiss Bankers Association & Boston Consulting Group (2021). *Sustainable Finance. Investment and financing requirements for a climate-neutral Switzerland by 2050*. Available at: <https://www.swissbanking.ch/en/news-and-positions/press-releases/net-zero-by-2050-climate-target-requires-annual-investments-of-chf-12-9-bn>.



Sustainable financing instruments

In recent years, new instruments aimed at financing the transformation of a company's business to a more sustainable business model have emerged on the credit market, mirroring the emergence of sustainability-related bond instruments on the capital market. These are green loans (hereinafter GLs), social loans (hereinafter SLs) and sustainable loans (together hereinafter GSLs) and sustainability-linked loans (hereinafter SLLs).

While GSLs are related to a specific green or social project that restricts the use of the funds (so-called use-of-proceeds instruments)¹⁶, SLLs allow funds to be used freely within an organisation (so-called general-purpose instruments)¹⁷. Apart from the use of funds, the two types of financing differ in the assessment of the sustainability aspect and the linkage between the achievement of sustainability objectives and the economic outcome. In the case of GSLs the project plan is reviewed at the beginning of the loan term, and an interest-rate subsidy is granted throughout the entire term. In the case of SLLs, a recurring review of the degree of target achievement is foreseen throughout the term. Achievement of the target can be linked to an interest-rate reduction, while failure to achieve the target can be linked to an interest-rate increase. If the sustainability target is achieved, an SLL can be expected to receive an interest-rate reduction of between 2.5 and 25 basis points.¹⁸ The most important differences between the two financing classes are summarised in Table 1.

Green / Social Loans (GSLs)	Sustainability-Linked Loans (SLLs)
<ul style="list-style-type: none"> — Use of proceeds financing — Main objective: Financing a clearly defined and described ecological (green), social or sustainable project — Demonstration of an environmental, social or sustainable benefit of the project — Transparent communication of process for project evaluation and selection — Guaranteeing traceability of loan proceeds — Regular and transparent reporting on the use of proceeds 	<ul style="list-style-type: none"> — Sustainability-linked financing — Main objective: Improving the borrower's sustainability profile during the term of the loan — Selection of relevant, core, measurable and comparable measurement criteria (KPI) — Setting ambitious, material and realistic sustainability targets (Sustainability Performance Targets (SPT)) — Interest rate linked to SPT achievement, reviewed on a regular basis — Regular and transparent reporting on the status of the KPIs and their impact

Table 1: Comparison of the features of green, social and sustainability-linked loans¹⁹

SLLs are usually structured in the form of a bilateral or syndicated revolving credit facility. One reason for this may be that the companies concerned have already addressed their sustainable development and with that have established the necessary processes for defining and measuring the corresponding key indicators. Companies with a low ESG risk also primarily define an internal KPI as sustainability performance target (SPT), while an aggregated measurement in the form of an ESG rating is common for companies with a higher ESG risk.²⁰ It should be noted that the costs for measuring an SPT or an ESG rating are not linear with the loan amount, for which the interest-rate reduction is applied. The smaller the company or the financing requirement, the lower the savings from an interest-rate reduction, which must be used to cover the reporting costs. As long as no cost-effective methods for measuring sustainability development in the SME sector are established, the use of SLLs in this corporate segment will remain limited.

16 See APLMA, LMA, & LSTA. (2023). *Green Loan Principles*. Available at: <https://www.lsta.org/content/green-loan-principles>.

17 See APLMA, LMA, & LSTA. (2023). *Sustainability-Linked Loan Principles*. Available at: <https://www.lsta.org/content/sustainability-linked-loan-principles-sllp>.

18 See Pop, D., & Atanasov, V. A. (2021). *Sustainability Linked Loans*. Available at SSRN: <https://ssrn.com/abstract=4446185>.

19 Based on APLMA, LMA, & LSTA. (2023). *Green Loan Principles*. Available at: <https://www.lsta.org/content/green-loan-principles>; APLMA, LMA, & LSTA. (2023). *Sustainability-Linked Loan Principles*. Available at: <https://www.lsta.org/content/sustainability-linked-loan-principles-sllp>; Bechtold, N., Fister, L., Illi, J., & Kraft Ch. (2023). *IFZ Sustainable Lending Monitor 2023*. Available at: https://mcusercontent.com/f5c66315b21d15b6e4f382983/files/e84a56f4-25ec-57ce-696c-98c8aa70ce56/IFZ_Sustainable_Lending_Monitor_2023.pdf.

20 See Loumioti, M., & Serafeim, G. (2023). *The Issuance and Design of Sustainability-linked Loans*. Available at SSRN: <https://ssrn.com/abstract=4287295>.

Exclusion

The approach of excluding entire sectors or individual companies from financing is a result of both existing credit policies and increased application of sustainability assessments. Most commercial banks have had credit policies in place for several decades that provide for exclusion for economic or reputational reasons, most commonly in the adult entertainment sector and for producers of weapons of mass destruction. Sustainability considerations by commercial banks have led to a wider range of exclusions (e.g., coal-fired power generation, nuclear power, and tobacco products). From a double-materiality perspective, the way an exclusion approach is handled has various implications. Lenders with a strict exclusion strategy seek to avoid any sustainability risks related to the borrower. Furthermore, they do not take on unsustainable borrowers, in order not to compromise the sustainability characteristics of their own loan portfolio. The excluded companies are likely to continue to exist in their current form, attracting funds from another source. In terms of impact materiality, an exclusion strategy is much more effective if it allows funds to be provided, possibly for a limited period, on the condition that a transformation process takes place.²¹ In this way, the lender supports the transformation effort and takes an active position on impact materiality.

ESG Integration

ESG factors can be material drivers for a company's value and its credit risk. Hence, lenders are interested in incorporating ESG factors into their loan approval, risk assessment and pricing processes. ESG integration is done by considering either an external ESG rating or an internal sustainability indicator, both of which can be used not only for the loan assessment but also for pricing. The economic rationale is that sustainability-related improvements can have a risk-reducing effect on financing, which then justify a lower interest rate (i.e. lower risk compensation). Through an ESG integration approach a lender primarily focuses on financial materiality and uses conventional loan instruments.

21 An example for such an approach is the sector policy of BNP Paribas, under which the bank provides financial products or services to power generation companies only if, for example, they have a strategy for reducing coal-fired power generation in its mix. See: https://cdn-group.bnpparibas.com/uploads/file/bnpparibas_csr_sector_policy_coal_fired_power_generation.pdf.

Financing Transformation

A company's pursuing a transformation process may affect the entire organisation, as regular business operations need to continue while a transformation process is executed. It is therefore often not possible to clearly distinguish between operational and transformation activities. In terms of double materiality, this financing approach includes both a financial and an impact focus, given the link to business transformation and the related impacts on society and the planet.

The financing of general operating activities and transformation related action is often mixed, using either conventional debt financing instruments or – mainly amongst larger companies – SLLs. From their structure of connecting the targeting of a sustainability-related KPI with the interest rate while not limiting the use of the funds raised to a specific project, SLLs are predestined for a transformation approach.

In practice, GSLs are sometimes also used by companies that pursue a transformation, which is partly due to historical reasons, as the conditions on the use of proceeds instruments were established on the capital market before the sustainability-linked instruments. If such initially project-related transformations develop into a company-wide transformation, a shift from use of proceeds to general corporate purpose financing instruments can usually be observed.²²

Financing Sustainability Solutions

This approach comprises the dedicated financing of new products, technologies and business models that have a positive impact on the planet and society (impact materiality). This approach is less in the focus of traditional corporate banks, as it is difficult to predict the economic success of such projects. For this reason, mezzanine or equity-like financing instruments are generally used and granted by business angels or venture capitalists. However, if the new product, technology or business model is developed by a larger company with strong credit metrics, that allows the financing of this endeavour under a traditional loan financing scheme. In this sense, green and social loans can be used in this approach.

22 The electricity group AXPO issued a green bond under a green financing framework in 2020 and adjusted its financing strategy in 2022, as it is now seeking financing under a sustainability-linked financing framework without restrictions on the use of proceeds. See: [https://www.axpo.com/content/dam/axpo19/global/annual-results/Nachhaltigkeitsbericht_%2022_2023_Axpo%20Holding_Englisch.pdf](https://www.axpo.com/content/dam/axpo19/global/annual-results/Nachhaltigkeitsbericht_%202022_2023_Axpo%20Holding_Englisch.pdf).

2.3. Mortgages

Due to the substantial proportion of mortgages in banks' total assets and the significant carbon footprint related to the Swiss building sector, sustainable mortgage lending has become a pressing concern. According to SNB statistics, mortgage volume in Switzerland totalled CHF 1,182 billion in October 2023.²³ This represents 35% of the Swiss banking sector assets according to the SBA banking barometer.²⁴ Based on data from the Swiss Federal Office of the Environment, the building sector is responsible for approximately one quarter of greenhouse gas emissions in Switzerland.²⁵ BCG and SBA estimate that the Swiss building sector will require investments of over CHF 2 billion annually until 2050 to achieve net-zero targets. These investments in the building sector represent the second-largest category, after light road transport.²⁶

To meet the required funding and increasing client demand²⁷ for sustainable banking instruments such as sustainable mortgages, the SBA has implemented new self-regulation rules, which came into effect on 1 January 2023 (with a transition period until 1 January 2024). These rules further emphasise the importance of sustainable practices in mortgage lending. The “Guidelines for Mortgage Providers on the Promotion of Energy Efficiency” mandate that banks advise their clients regarding the long-term value retention of their buildings when financing them. These guidelines include discussions on the energy efficiency of the buildings financed and emphasise the necessity for banks to differentiate between financing conditions, such as interest rates or affordability, between sustainable and non-sustainable buildings. In addition, banks are expected to collect information on the climate efficiency of the buildings they finance.²⁸

23 SNB (2023). *Monatliche Bankenstatistik, 2023-12-21*. Available at: [https://data.snb.ch/de/topics/banken/cube/bakredinausbm?fromDate=2022-10&toDate=2023-10&dimSel=D1\(T0,I,A\),D2\(H\),D3\(F,B\),D0\(AV1\)](https://data.snb.ch/de/topics/banken/cube/bakredinausbm?fromDate=2022-10&toDate=2023-10&dimSel=D1(T0,I,A),D2(H),D3(F,B),D0(AV1)).

24 SBA (2023). *Banking Barometer 2023. August 2023*. Available at: <https://publications.swissbanking.ch/banking-barometer-2023/balance-sheet>.

25 Credit Suisse (2022). *Im Zeichen von Zinswende und Knappheit – Schweizer Immobilienmarkt 2023 | März 2023*. Available at: <https://www.credit-suisse.com/media/assets/private-banking/docs/ch/privatkunden/eigenheim-finanzieren/cs-immobilienstudie-2023-de.pdf>.

26 Swiss Bankers Association & Boston Consulting Group. (2021). *Sustainable Finance. Investment and financing requirements for a climate-neutral Switzerland by 2050*. Available at: https://www.swissbanking.ch/_Resources/Persistent/b/e/0/9/be0949b50b2ac8462b7459b9cd4708ffaa30da27/SBA_Sustainable_Finance_2021.pdf.

27 Recent industry studies have provided survey data evidence indicating a growing client demand for sustainable banking products, with sustainable mortgages emerging as an attractive financing trend. See Moneypark (2023). *Wohnraumstudie*. Available at: <https://www.helvetia.com/content/dam/os/ch/web/documents/about-us/blog-und-medien/wohnraumstudie-wohnraumstudie-2022.pdf>.

28 SBA (2022). *Richtlinien für Anbieter von Hypotheken zur Förderung der Energieeffizienz. Juni 2022*. Available at: https://www.swissbanking.ch/_Resources/Persistent/c/b/3/cbb3619179bd238dca41328b2464af560a2c0f3a/SBA_Guidelines_mortgage_providers_on_the_promotion_of_energy_efficiency_EN.pdf.



Sustainable mortgage instruments

Market dynamics have given rise to various financing solutions in the mortgage sector aimed at promoting sustainability in lending. Many banks now provide what are commonly referred to as “sustainable mortgages”. According to a recent WWF and PWC study, 13 of the 15 largest Swiss retail banks offer a sustainable mortgage instrument.²⁹ As there is no common definition of sustainable mortgages, the term encompasses various offerings, such as mortgages offered at a discount when financing a building with a specific building certificate or when the loan amount is used for energy-efficient renovations.³⁰ Consequently, in practice the product’s name and design differ (e.g., environmental mortgage, green mortgage or energy efficiency mortgage).

The amount of the discount varies among the banks offering it. Often the interest-rate reduction is capped at a maximum mortgage amount or a certain period of time (e.g., five years). Sustainable mortgages often provide additional benefits beyond reduced interest rates for borrowers. For example, some banks offer subsidies to cover expenses related to obtaining a building certification. Furthermore, these mortgages may feature lower minimum loan amounts, making it more accessible for borrowers to finance smaller-scale renovations (aimed at enhancing the buildings energy efficiency). This allows for the financing of eco-friendly upgrades through mortgage instruments, broadening the scope of renovation projects that can benefit from the sustainable mortgage instrument being offered. It is also worth mentioning that sustainable mortgages are sometimes structured as a stand-alone instrument or as a feature of a conventional mortgage product.

When it comes to the requirements for a sustainable mortgage, banks usually distinguish between two cases: new construction and renovation. For new buildings, most banks require a building certificate that proves that the building meets very high environmental and/or energy efficiency standards. The most common certificates accepted by Swiss banks are Minergie or certain GEAk (Swiss Cantonal Energy Certificate for Buildings) classes (e.g., A or B).³¹ For renovations, banks typically have less stringent requirements. The sustainable mortgage product can be used to finance energy-efficient renovations if the building meets specified overall energy standard certified by GEAk (often accepting lower classes, such as C) or Minergie (with specialised certification system for renovations), a significant improvement (e.g., an improvement of several GEAk classes even if the high overall standard is not met in the end) or if certain parts of the building are renewed or acquired that are considered to improve its energy efficiency (e.g., solar panels or new heating). Sometimes banks may offer separate renovation mortgages or product features.

At present, most mortgage instruments focus on the environmental dimension of sustainability, with a special emphasis on energy efficiency in buildings’ operational phase.³² The instruments described above are used in retail banking mortgages, e.g., for private individuals and sometimes also for SMEs in the retail segment that use mortgages as a financing instrument. Large real-estate companies use the credit instruments described in Section 2.2 for real-estate financing.³³

29 WWF und PWC (2021). *Nachhaltigkeit im Schweizer Retailbanking*. Available at: https://www.wwf.ch/sites/default/files/doc-2021-08/Nachhaltigkeit_im_Schweizer_Retailbanking_08_21.pdf.

30 Henger, R., & Voigtländer, M. (2013). *Green Investments and Green Mortgages in Germany*. In EMF (Hrsg.), *Hyostat 2013: A review of Europe’s mortgage and housing markets* (p. 18-21). Brüssel: EMF.

31 For more detailed about building certification systems in Switzerland see e.g., Archer-Svoboda, L. & Kimmerle, H. (2023). *Sustainable Real Estate Investments – Insights for Direct Real Estate Investors*. SSF Spotlight. Available at: https://www.sustainablefinance.ch/upload/rm/ss/fp/ssf-pub-report-real-estate-ly07-1.pdf?_=1698939345059.

32 An exception is e.g., Alternative Bank Schweiz, which also offers special financing solutions for social housing. Alternative Bank Schweiz (2023). *Sozialer Wohnraum Erschwingliches Wohnen für alle fördern*. Available at: <https://www.abs.ch/de/sozialer-wohnraum-1>.

33 See e.g., Swiss Prime Site (2022). *Green Finance Framework*. Available at: https://sps.swiss/fileadmin/user_upload/redakteure/gruppe/pdf/anleihen/Green_Finance_Framework.pdf.

Exclusion

In theory, lenders may exclude financing of buildings that fail to meet current environmental or social standards. An example of this would be banks' refusing to finance buildings with oil-based heating systems. However, it is questionable whether this approach will have the assumed positive effect of both reducing the risk of default and speeding up the transformation of the building sector. In practice, exclusion criteria have not played a significant role in Switzerland. Additionally, it should be mentioned that certain banks, such as cantonal banks, have mandates to serve the entire market. This may result in a conflict of objectives between strict sustainability exclusion criteria and their mandate. Instead of excluding certain energy-inefficient practices, banks provide incentives to build with high energy-efficient standards (see also below). Similarly, in the social domain banks prefer to support entities such as housing corporations rather than enforcing strict exclusion criteria.

ESG Integration

As mentioned above, clients who require financing for a building that meets the criteria of a building certification system are eligible for mortgage discounts. These building certification schemes are similar to traditional ESG rating schemes but differ in focus. In particular, many widely used building certification systems, such as the GEAK, prioritise energy efficiency over a comprehensive assessment of all ESG dimensions. Nevertheless, the consideration of building certification systems in loan pricing (discounts for financing certified buildings) can be categorised as ESG integration (see Figure 1). Academic studies indicate that sustainable buildings have lower default rates.³⁴ This means the interest-rate reduction for sustainable mortgages can be at least in part attributed to risk reduction and therefore financial benefits.

34 See e.g., Billio, M., Costola, M., Pelizzon, L., & Riedel, M. (2022). *Buildings' energy efficiency and the probability of mortgage default: The Dutch case*. *The Journal of Real Estate Finance and Economics*, 65(3), 419-450.

Financing Transformation

Sustainable mortgages can also support the transformation of companies and buildings. The financing of energy-efficient renovations to facilitate building transformation can be categorised as financing transformation (see approach 3 in figure 1). As mentioned in Section 2.1, assigning mortgage products to the approaches is not always unambiguous. From a broader perspective, sustainable mortgages used to finance a certified new building could also be seen as contributing to transformation. No transformation of an existing building in the narrower sense takes place. However, it can be argued that a higher share of sustainable buildings can contribute to the transformation of the entire buildings sector or to the transformation of the company that owns the building.

Financing Sustainability Solutions

At present, financing sustainability solutions is not commonly associated with the mortgage sector, making this area seem irrelevant to mortgages. With the emerging trend of creating financial products that promote the SDGs, this field is gaining significance. A sustainable mortgage product that promotes sustainable building practices or facilitates the provision of social housing could be categorised within this approach. Considering that there are compelling reasons that sustainable buildings contribute to achieving several SDGs³⁵, it appears feasible to connect sustainable mortgage products with SDGs. As a concrete example, one could argue that the interest-rate reduction for housing cooperatives, if they meet social sustainability criteria, promotes SDG 11 (Sustainable Cities and Communities), especially since one of the SDG's outcome targets is affordable housing.

35 The World Green Building Council also maps out the benefits of green buildings to SDGs and concludes that there are many contributions. Solar panels on the roof can, for example, help to ensure access to affordable, reliable, sustainable and modern energy for all (SDG 7), and circular economy principles can be used to contribute to responsible consumption and production (SDG 12). World Green Building Council (2023). *Sustainable built environments & the UN's Sustainable Development Goals*. Available at: <https://worldgbc.org/sustainable-development-goals>.

2.4. Client advisory process at a bank

Client advisory at a bank typically follows a pre-defined process, in order to gain a clear picture of the client's financial needs. From the initial consultation to assess the client's financial needs, to ongoing consulting and monitoring, financial advisors play a pivotal role in guiding clients through the complexities of financial decisions.

A typical lending advisory process is in general applied in four steps to the SME, large company and retail client segments, as identified in this study (Figure 4). As the integration of sustainability factors into the client advisory process is

already an important practice and will become even more important in the future, the advisory process is being enhanced to increase the relevant influence of sustainability considerations. Sustainability considerations can either be requested by the client ("client's sustainability needs") or introduced by the bank on the basis of its strategy ("bank's sustainability strategy"). The bank offers a wide range of sustainable lending instruments, while the advisory process and instruments are constantly adapted to current binding and voluntary regulations, e.g., self-regulation of the Swiss Bankers Association regarding mortgages.³⁶

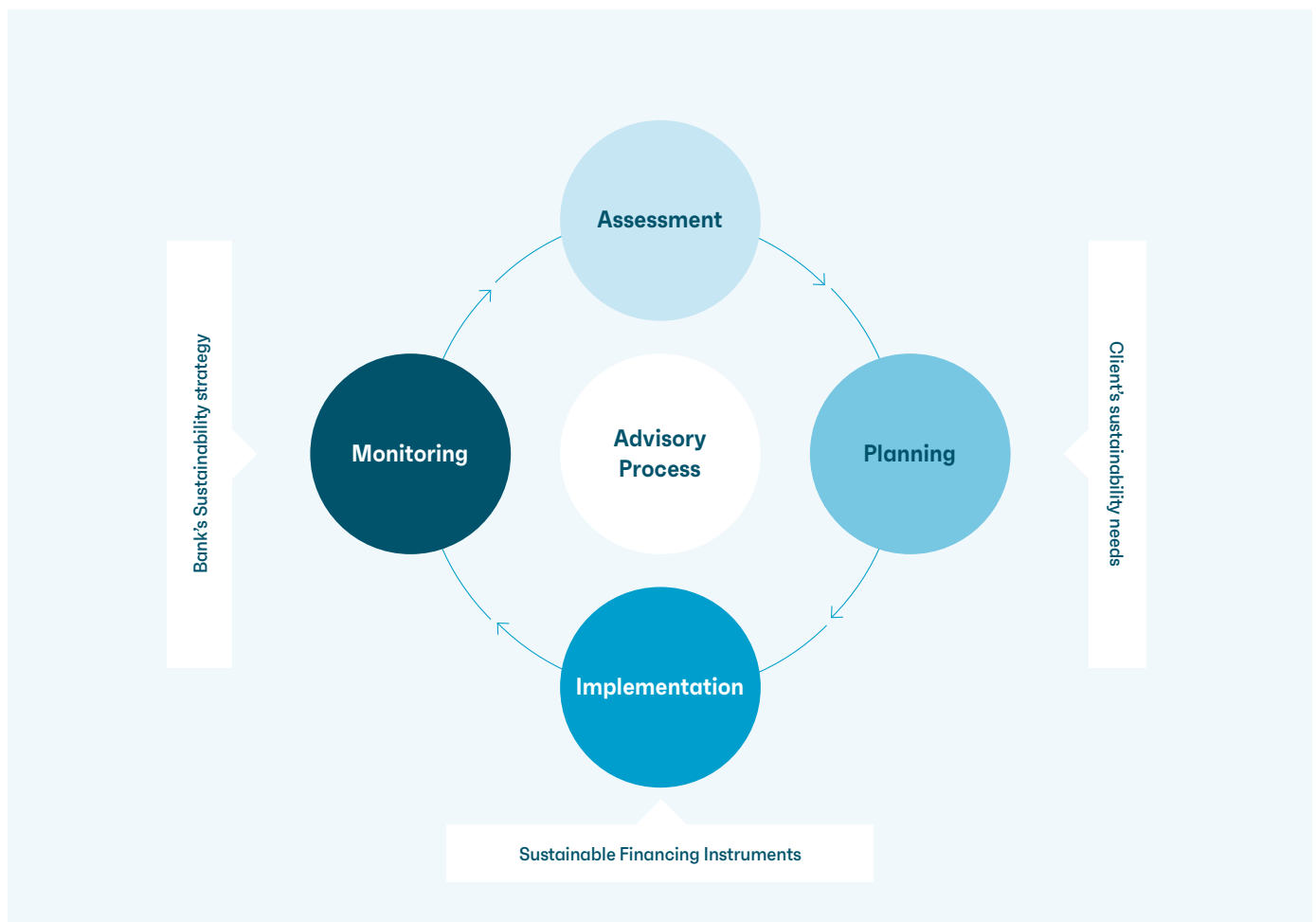


Figure 4: Influence of sustainability considerations on the client advisory process

³⁶ Swiss Bankers Association (2022). *Guidelines for mortgage providers on the promotion of energy efficiency*. Available at: <https://www.swissbanking.ch/en/topics/sustainable-finance/principles-and-recommendations>.

Interaction with a client can be structured into four steps, as illustrated in Figure 4 and described in the following section:

Assessment

The first step is an initial assessment to get to know the needs of the client and/or the client's business. During this dialogue, the advisor seeks to understand the client's financial situation, goals, time horizon and risk tolerance. In this context, sustainability factors can be addressed by either the bank or the client. From the bank's perspective, the transparency of additional information to the client on sustainability risks will make risk assessment more accurate and the understanding of sustainability preferences will provide a more accurate fit for the sustainable lending instrument. For companies, the dialogue enables clients to consider sustainability as a new approach when laying out the possible transformation of their business or when articulating their individual financial goals. In some cases, certain financing needs of clients may be rejected due to the bank's exclusion policy, which can take the form of zero tolerance, threshold-based exclusion, or phasing out.

Planning

Through a comprehensive understanding of the client's profile and risk tolerance, the advisor can then draw up a customised financing plan. The loan or mortgage offered by the bank can take into account a client's exposure to environmental and social risks and – in case of a company – assess its governance structure. It enables banks to support, for example, a retail client's sustainable building or a company in the transformation of its business model. To support the transition, banks can offer products and services which are linked to sustainability-related goals (e.g., supporting renewable energy projects or reducing the carbon footprint), such as SLLs or GSLs.

Implementation

Once the proposed financing plan has been approved by the client, the strategy will be implemented. Depending on the lending instrument used, there could be a lower cost for the client as the bank incentivises the borrower to apply sustainability factors, e.g., a retail client applies for a green mortgage, or a company transitions its business with the help of an SLL. In the short term, the transformation will cause higher costs for the client, but in the long term, the potential transformation will help to generate additional cash flows.

Monitoring

The bank regularly reviews the client's progress towards the previously agreed goals and takes appropriate action when necessary. It is important to ensure that the previously implemented plan remains relevant to the client and can be adapted to changing circumstances. On a regular basis, the client will be informed of economic and market updates or of new products in the bank's offering. In the case of GSLs, where sustainable financing instruments have been implemented, the bank requires regular and transparent reporting on the use of the proceeds. In the case of SLLs, the bank monitors the achievement of sustainability performance targets for certain relevant KPIs.

The previously mentioned elements of "client's sustainability needs", "bank's sustainability strategy" and "sustainable financing instruments" are also constantly changing and need to be considered. Dialogue with the client is a continuous process that will eventually start again with a new assessment at the end of the loan term or before the set objectives have been achieved.

Adoption of sustainability in the Swiss lending market

3.1. Strategy and organisation

3.2. Loans

3.3. Mortgages

3.4. Client advisory



3.1 Strategy and organisation

This section deals with the overarching aspects of strategy, motivation and organisational implementation of sustainability efforts that are relevant to both corporate lending and the mortgage business.

Sustainability strategy and motives

Of the 25 respondents to the survey, a majority of 18 (72%) have a sustainability strategy, policy or guideline for their lending operations. Only seven participants (28%) do not yet have a strategy (see Figure 5). Based on the total lending volume of the organisations with a positive reply to this question, this accounts for 96% of the lending volume of the sample.

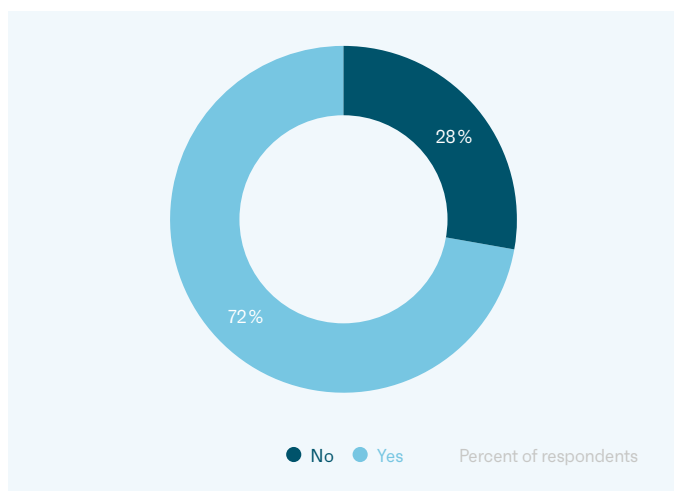


Figure 5: Sustainability strategy, policy or guideline for the lending business (n=25)

In order to comply with a sustainability strategy, policy or lending guideline, 15 of the 25 sampled lenders have set up dedicated lending units responsible for specific sustainability aspects. This 60% share is even higher when the responses are weighted by total lending volume, accounting for 90% of the sample's lending volume.

Respondents also provided information on the organisation of these specialised units. 40% of banks with a specific unit organise their sustainability experts centrally and 53% non-centrally, with the remainder not providing any information. The volume-weighted breakdown makes the predominance of decentralisation clearer, suggesting that larger organisations are more likely to have sustainability professionals in multiple business units.

When asked specifically about the motives for sustainable lending, respondents were asked to select their top three motivations (see Figure 6). A positive social and ecological impact ranked first, with 16 respondents choosing this motivation as their first, second or third priority, followed by customer expectations and the avoidance of reputational and financial risks. Owners' expectations, regulatory considerations and business potential achieved roughly equal preferences, while marketing considerations played a minor role in the self-declared motivations. In the 'other' category, respondents reported that they considered the motives to be equally important, or that they are committed to a net-zero strategy. Hence, the motives were driven from the top down.

Overall, we see that having an impact on their loan portfolio is very important to respondents, while managing client expectations and risks is also key.

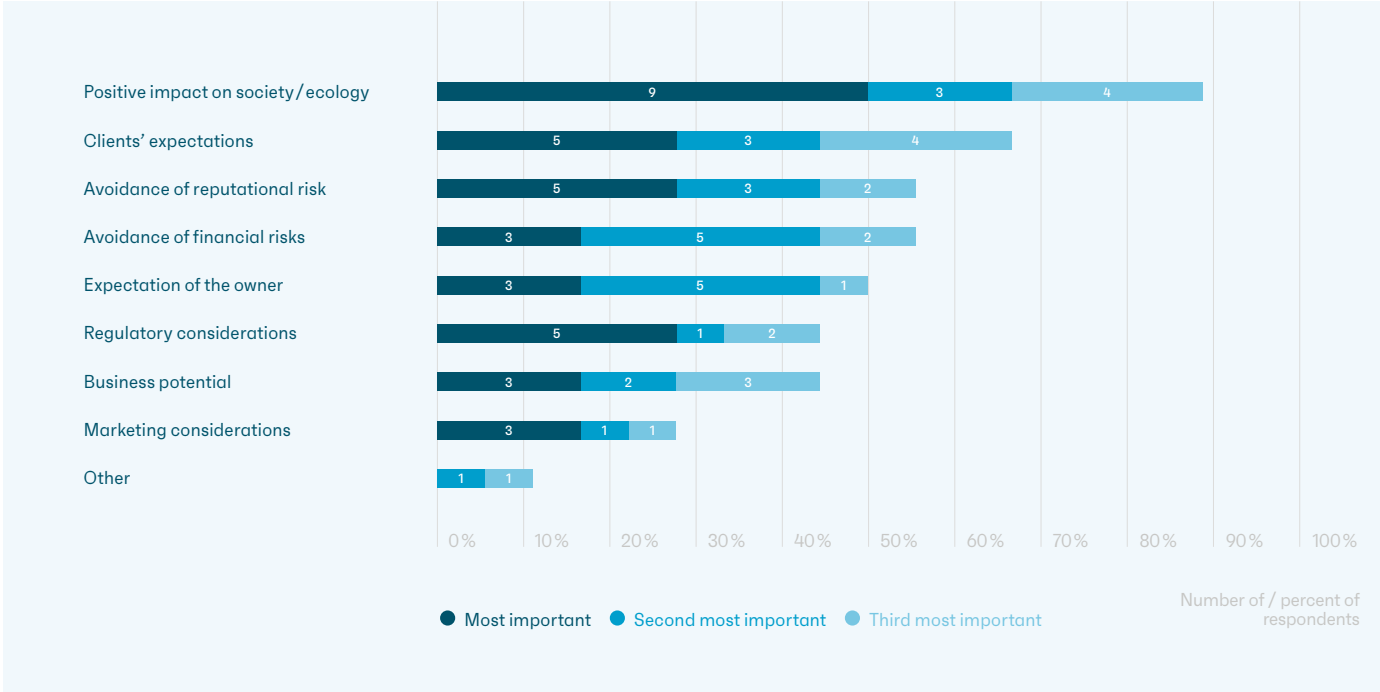


Figure 6: Motives for sustainable lending activities (n=18)

3.2 Loans

This section deals with the loan market and banks' activities, structured according to the four approaches outlined in Section 2.1. Dedicated findings on sustainability-linked loans (SLLs) can be found in the section Financing Transformation, those on green and social loans (GSLs), in the section Financing Sustainability Solutions.

Exclusion

Of the 25 banks participating in the survey, 17 (68%) pursue an exclusion strategy, as shown in Figure 7. Five of these banks have a regional scope, and seven a national scope, while five have international business activities. According to the survey, three regional banks, one national bank and two international banks do not have an exclusion strategy. Regarding their future plans, one of the six banks currently not applying an exclusion strategy plans to do so within the next two years while four continue to refrain from applying an exclusion strategy.

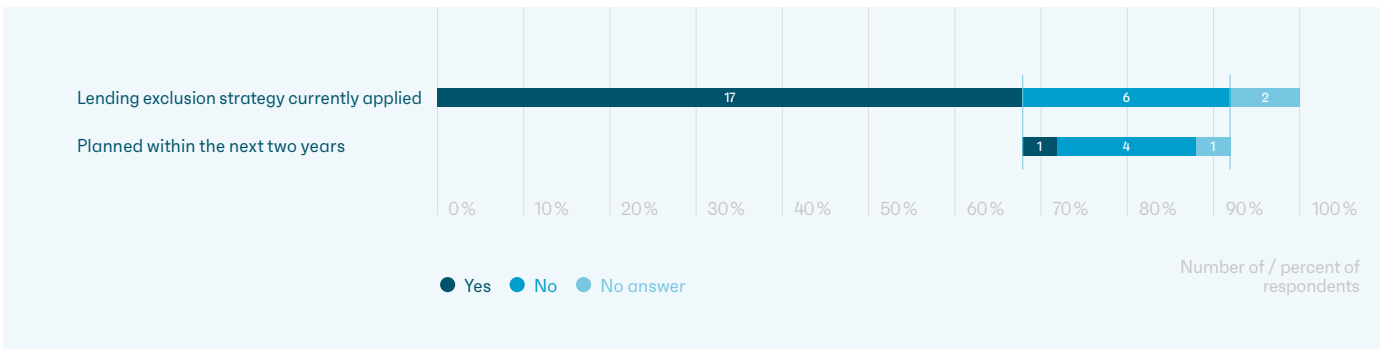


Figure 7: Application of an exclusion strategy in lending (n=25)

Where an exclusion strategy is applied, the most common one is the consistent exclusion of production of controversial weapons (16 of the 17 banks with an exclusion strategy), as shown in Figure 8. Fifteen and 14 of the banks, respectively, also apply an exclusion strategy to the extraction of coal and coal reserves and the extraction of oil and gas. In these cases, however, a general exclusion is only applied in 12 and 10 cases, respectively. Threshold exclusion is applied in three and two cases, respectively, and two banks apply a phase-out strategy for oil and gas extraction.

lations, particularly in the areas of child labour or violations of the UN Global Compact in general. It should be noted that exclusion strategies were used long before the current sustainability debate and were motivated primarily by ethical considerations and fear of negative reputational effects.

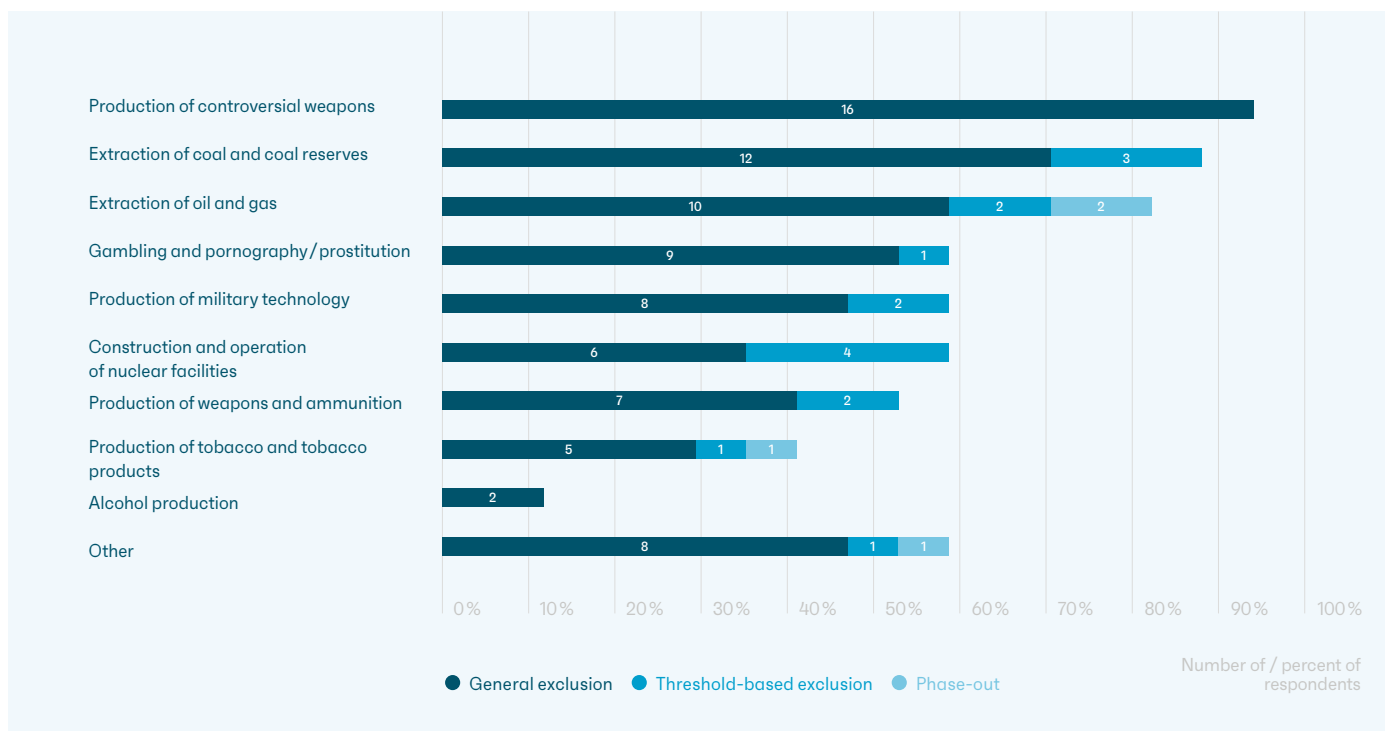


Figure 8: Criteria applied in exclusion strategies in lending (n=17)

Disclosing individual exclusion criteria (“other”), several banks also state that they do not finance palm oil producers or only finance them if they have the required certifications. Other agricultural products such as soy, fishing & seafood production, or forestry can also lead to exclusion from financing services in the event that no corresponding sustainability certificates are available. The same applies to iron ore, uranium and thorium ore mining, which are completely excluded by one bank. Other reasons for exclusion are serious human rights vio-

ESG Integration

Of the 25 institutions surveyed, 13 currently have a strategy for integrating ESG factors or sustainability indicators (hereafter referred to as ESG factors) into the risk assessment of their lending business, regardless of specific sustainable financing products, as shown in Figure 9. Of these 13 banks, three are regional, six are national and four are international. The 13 banks that integrate ESG factors account for more than 80% of the total lending volume covered by the survey.

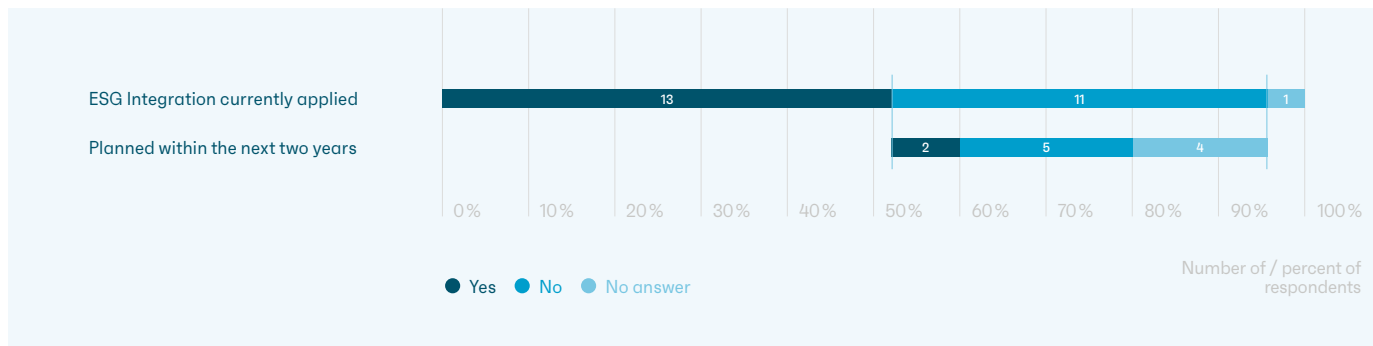


Figure 9: Application of an ESG integration approach in lending (n=25)

One national and one international bank, which do not currently have an ESG integration strategy, have concrete plans to implement one within the next two years. The lending volume represented by these banks and the ones currently applying an ESG integration approach will therefore rise to just under 90%. Five banks without an ESG integration approach have no plans to do so within the next two years, whereas four banks did not reply about future plans.

Of the 13 institutions that already have a strategy, 10 intend to further develop or generally revise their strategy during this period. Four other banks without a strategy did not provide any information on their future plans.

A total of eight banks (two regional, four national and two international) generally apply ESG factors across all economic sectors. One other bank generally applies ESG factors only in selected sectors. One nationally active bank applies ESG factors across all sectors in some, but not all, of its financing transactions, while a further three banks apply them to individual sectors, depending on the business case.

The most widespread use of ESG factors, according to the study, is to be found in the energy sector. It accounts for 13 banks, or 52%, of the institutions covered by the panel. For each of the other sectors, this figure is around 40%. In gen-

eral, banks with large loan portfolios – i.e., those with greater market power – are more likely to apply ESG factors on a partial, rather than comprehensive, basis.

Only seven of the 13 banks that currently have an ESG Integration strategy in place, provided detailed information on its application, depending on the borrower's size. Four of these banks consider ESG factors in all lending decisions for all company sizes; two banks apply them only when lending to medium-sized and large companies; while one bank states that it uses ESG factors when lending to large companies.

Sustainability-related pricing is only applied by one bank in the SME segment and by two banks in the large corporate segment.

Financing Transformation

Nine banks are currently active in the sustainability-linked loan market (see Figure 10). They account for three quarters of the loan volume covered in the survey. In addition, one internationally active bank (which did not provide information on its current offering) has plans to offer this financing instrument in two years' time. Nine of the banks that do not currently offer this product do not plan to do so within the next two years. Four banks did not reply about future plans.

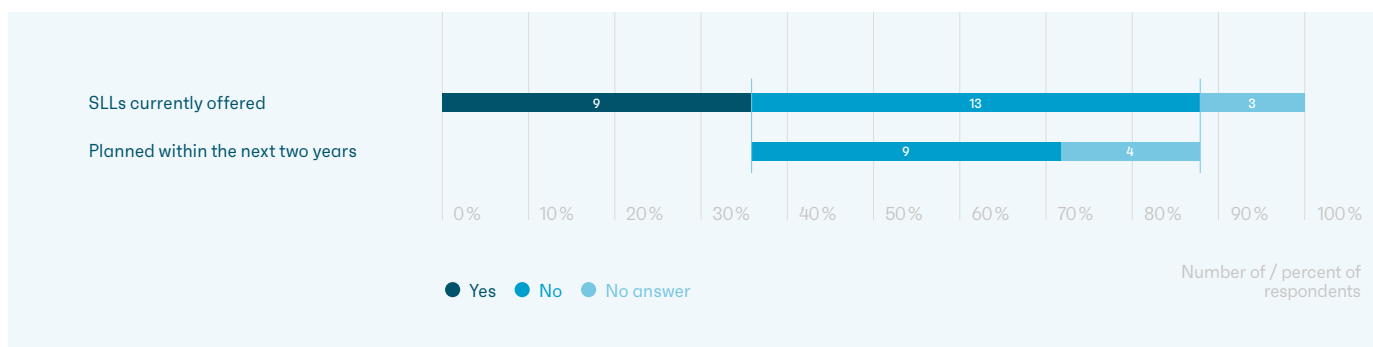


Figure 10: Current and future offer of sustainability-linked loans (SLLs) (n=25)

SLLs can be structured as either a bilateral loan or a syndicated loan. While six banks, accounting for half of the total loan volume covered by the survey, offer bilateral SLLs, three of them also act as structurers and lead lenders in syndicated loans (see Figure 11). The loan volume of these three banks (45% of the credit volume covered by the survey) shows that they are

institutions with large market coverage. The group of banks that act as lenders in syndicated loans consists of all banks that also offer bilateral loans, as well as the structurers in a syndicate. Three banks (one regional, one national and one international) act exclusively as lenders in syndicated loans.

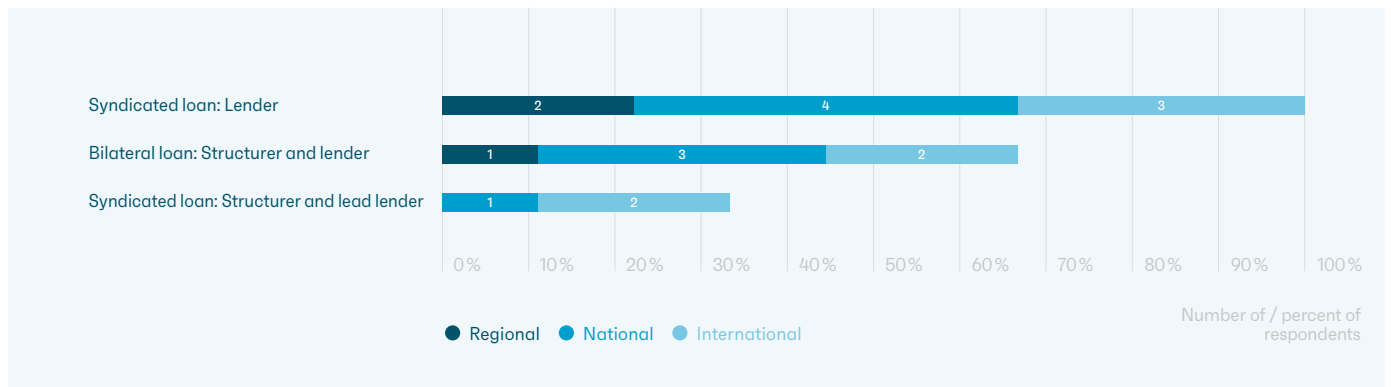


Figure 11: Roles of banks active in the sustainability-linked loan market (n=9)

SLLs are granted using various KPIs or external ESG ratings, the most common of which are shown in Figure 12. The most common KPI in the SLL market is the improvement of an existing ESG rating of the borrower. Targets for improving energy efficiency, reduce greenhouse gas emissions or increase the use of renewable energy are also prominent.

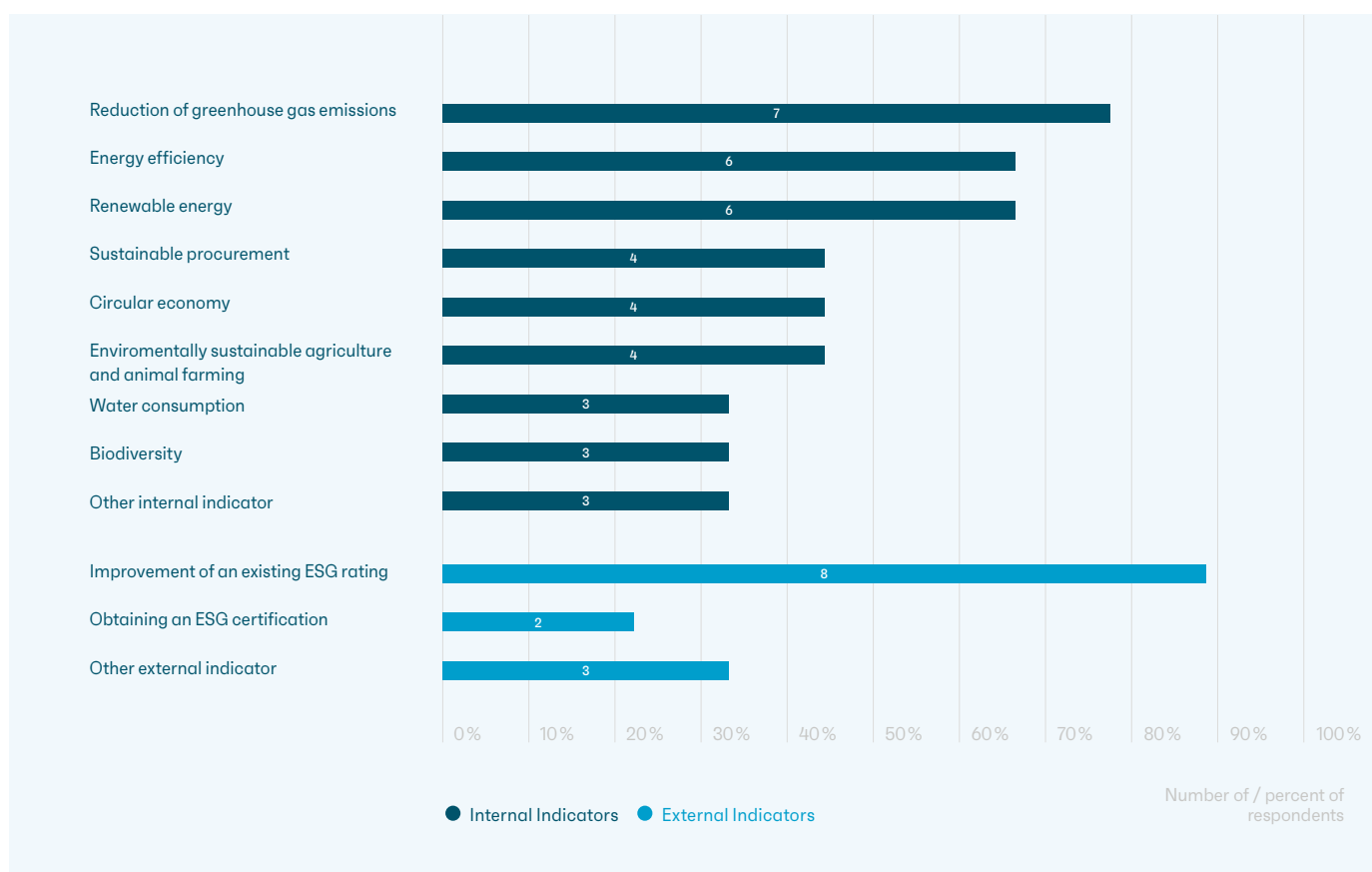


Figure 12: Internal and external indicator categories based on which sustainability-linked loans are granted (based on the SLL Principles of the LMA; n=9)

Sustainable procurement, the circular economy and sustainable agriculture are in the midfield, with four mentions each, while biodiversity and the reduction of water consumption appear to be less important.

In terms of other internal KPIs, two banks state that they generally aim to define individual targets for each client.

Only five banks (20%) offer transformation financing using financing instruments other than SLLs or GSLs, such as green bonds, green promissory notes³⁷, leasing of capital goods, or with conventional loan instruments. However, these five banks account for more than half of the loan volume represented in the survey.

Financing Sustainability Solutions

Green and social loans are currently offered by eight banks (32% of the banks; see Figure 13). However, only five banks offer both SLLs and GSLs. Three of the 12 banks that do not currently offer GSLs have concrete plans to do so in the near future, while five have no plans to offer such instruments within the next two years.

37 German: Schuldscheindarlehen

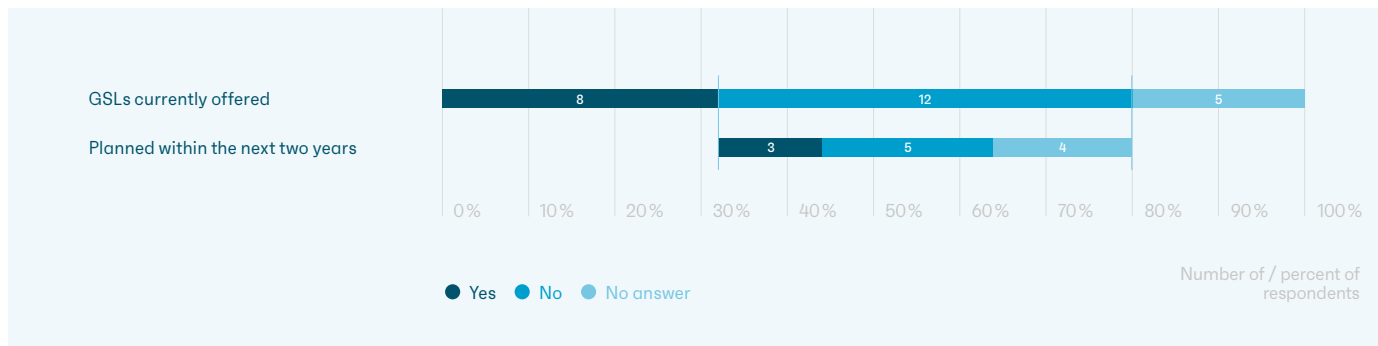


Figure 13: Current and future offer of green and social loans (GSLs) (n=25)

Among GSLs, bilateral loans are more widespread than syndicated loans. Six of the eight banks that describe themselves as active in the GSL market offer bilateral GSLs. One of the remaining banks is exclusively a lender in syndicated loans but does not act as structurer and lead lender. The other remaining bank did not provide any information on its specific role in the GSL market.

The dedicated use of funds by GSLs extends to projects listed in the respective LMA principles (see Figure 14). As with the SLLs, the focus is on renewable energy. Seven banks grant loans for renewable energy projects and six banks for energy efficiency projects.

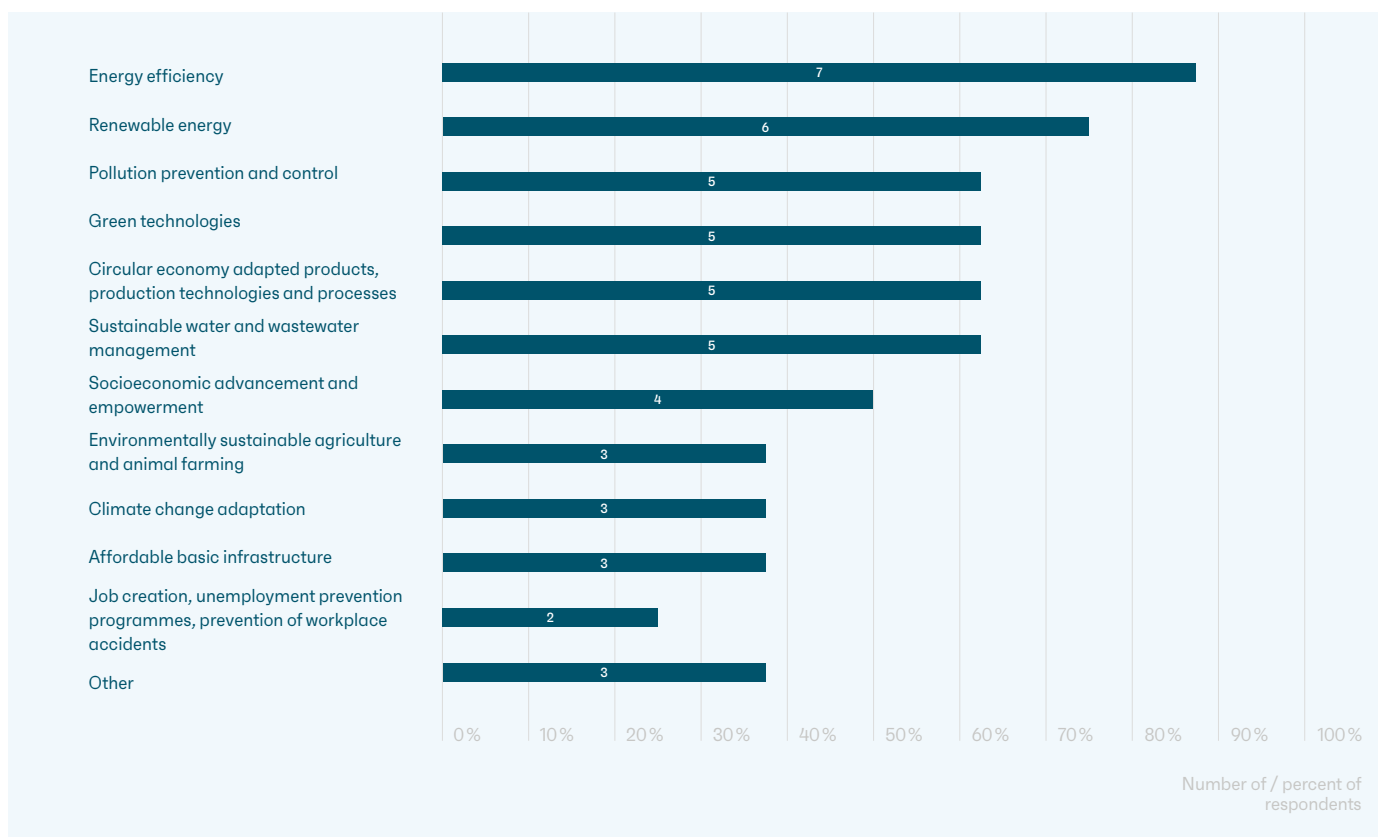


Figure 14: Utilisation of the use-of-proceeds instruments (based on the GL and SL principles of the LMA; n=8)

Under “other”, three banks refer to projects that go beyond the LMA Principles. These include alignment with the EU taxonomy, the Climate Bond Initiative and generally accepted market standards.

Five of the eight banks apply an interest rate discount to GSLs. The remaining three banks did not reply to this question.

Six of the banks surveyed currently offer financing for sustainability solutions using financing instruments other than SLLs or GSLs (not displayed in a figure). These banks account for a high market coverage as they account for almost two-thirds of the total loan volume of the banks surveyed. When asked about the financing instruments currently used, the banks active in this financing approach mention environmental loans, sustainability-linked, green and social bonds, or the Technology Fund or the Climate Foundation. Some banks mention the use of conventional loans with interest rate reductions but without restrictions on the use of funds, or they point out that they finance innovation as part of ordinary financing business without a separate financing vehicle.

3.3. Mortgages

This section examines the survey findings related to advancements in sustainability practices within the mortgage lending sector of the Swiss market. These developments are framed within the context of the sustainable financing approaches outlined in Section 2.1. Empirically classifying the banks’ activities within these approaches is challenging, since the characteristics of the products in the mortgage business are specific to each bank and, therefore, more heterogeneous than the rather standardised financing instruments used in connection with cash-flow-based loans, such as green, social or sustainability-linked loans.

Exclusion

As mentioned in Section 2.3, exclusion strategies do not play a major role in the context of sustainability in the mortgage business. Although nine of the surveyed banks (36%) have exclusions in place (see Figure 15), most are related to contaminated sites or buildings, uninsured buildings, or the intended use of the building (see Figure 16). As already noted for loans in the previous section, these exclusions usually stem from traditional risk considerations rather than the current sustainability debate. Going forward, one of the 14 banks that currently does not have an exclusion strategy in place has reported plans to introduce one.

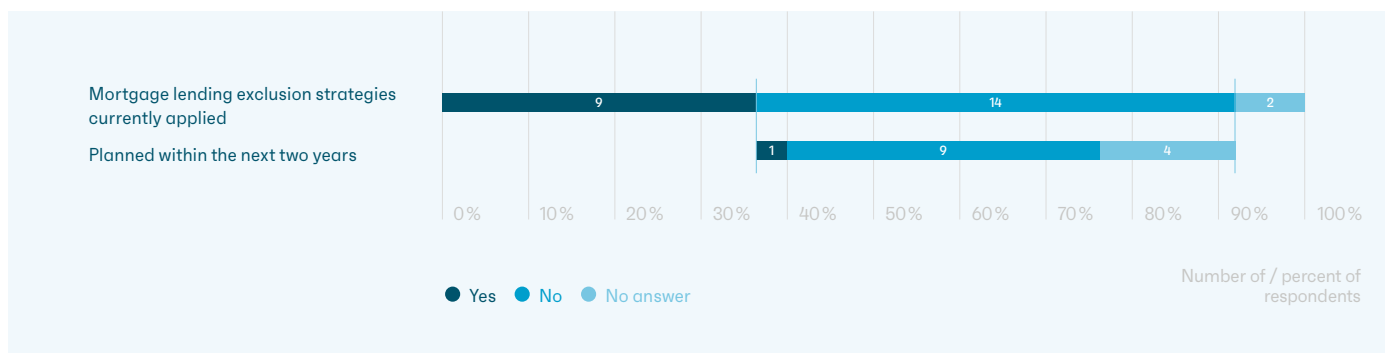


Figure 15: Application of an exclusion strategy in mortgage lending (n= 25)

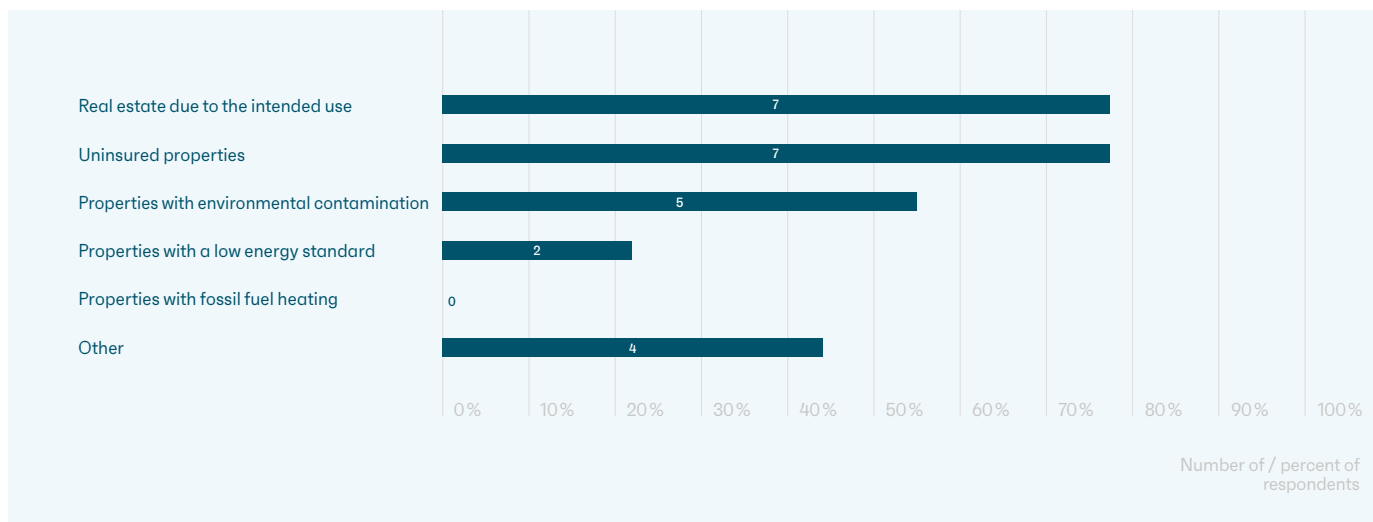


Figure 16: Criteria applied in exclusion strategies in mortgage lending (n=9)

When asked about underlying exclusion strategies, environmental sustainability topics, such as energy efficiency, which are central to sustainable mortgage instruments, play a very minor role in the area of exclusions. Only two small lenders (22% of the lenders with exclusions in place) reported excluding properties with low energy-efficiency standards, and no bank reported applying an exclusion for properties heated with fossil fuels.

ESG Integration and Financing Transformation

As outlined in Section 2.3, sustainable mortgage instruments can be categorised within the sustainable financing approaches either as ESG Integration or Financing Transformation. Often a sustainable mortgage instrument of a bank covers financing of sustainable new buildings, the acquisition of sustainable buildings and (energy efficient) renovation financing.

The findings with respect to the prevalence of sustainable mortgage instruments are summarised in Figure 17. They broadly confirm the existing findings that sustainable mortgage instruments are fairly widespread.³⁸ As shown in the figure, 68% of the banks offer such sustainable mortgage instruments (accounting for approximately 94% of the mortgage volume covered by the survey). However, the findings also show that 24% of the banks do not have such a product, and 8% did not reply. Furthermore, the results show that smaller banks or banks with a lower mortgage volume are more likely to lack such specialised mortgage products. The survey findings also show that the development of sustainable mortgage products is continuing. Of the six banks that reported that they do not currently have a dedicated sustainable mortgage instrument, one bank reported that it has concrete plans to change this in the next two years.

38 Existing research has demonstrated that mortgage products linked to sustainability topics are widespread in the Swiss lending market. According to a study by WWF and PwC on the sustainability efforts of the fifteen largest retail banks in Switzerland, it was reported that 87% of them offer a product that could be termed a sustainable mortgage. See WWF und PWC (2021). *Nachhaltigkeit im Schweizer Retailbanking*. Available at: https://www.wwf.ch/sites/default/files/doc-2021-08/Nachhaltigkeit_im_Schweizer_Retailbanking_08_21.pdf.

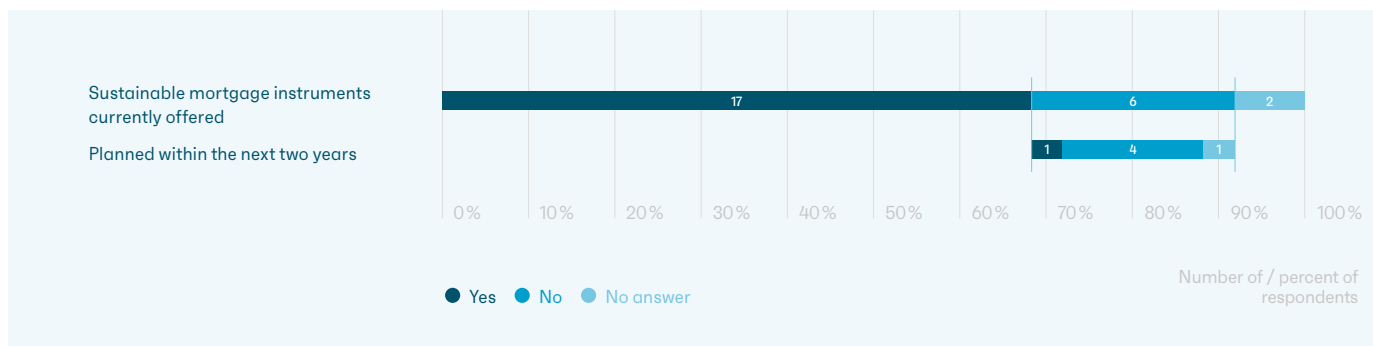


Figure 17: Current and future offer of sustainable mortgage instruments (n=25)

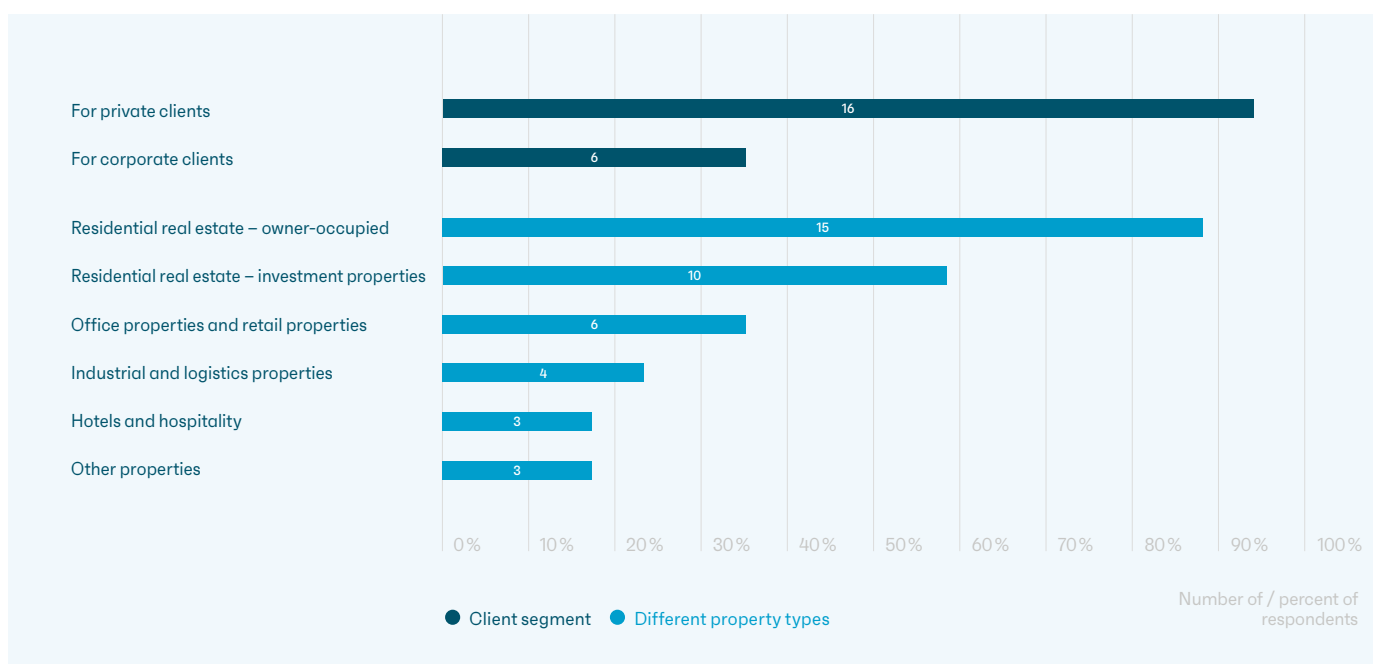


Figure 18: Product coverage in client segments and for different property types (n=17)

While a significant share of banks offers sustainable mortgage instruments, only a small fraction of the total mortgage volume can be linked to these instruments. Fourteen out of 17 banks reported a total sustainable mortgage volume of CHF 5.65 billion, which accounts for less than 1% of these banks' total mortgage volume.

Delving deeper into the segments covered by sustainable mortgage instruments provides additional insights. The survey findings displayed in Figure 18 indicate that while existing sustainable mortgage products are usually available to retail clients, only six of the surveyed banks offer these specialised products to corporate clients. These banks cover about 53% of the mortgage volume in the market.

Furthermore, regarding different segments of the property market, many mortgage products are primarily tailored to the residential real estate segment. Fifteen of the surveyed banks (88% of the lenders with sustainable mortgage instruments) offer these specialised products for the owner-occupied segment, and 59% of the lenders with sustainable mortgage instruments also offer them for income-producing residential real estate. However, product coverage for other types of real estate is considerably lower. This pattern persists regarding volume-weighted figures (not displayed in a figure), although there is a slight tendency for banks with larger outstanding mortgage volumes to offer broader coverage.

When it comes to the requirements for granting a sustainable mortgage for new buildings, as outlined in Section 2.3, building certification systems are mainly utilised. Figure 19 displays the requirements for sustainable mortgages, including responses from 17 banks that offer them. It reveals that almost all banks accept GEAK and Minergie certifications. Additionally, 35% of the banks (that offer sustainable mortgages) accept the SNBS (Swiss Sustainable Building Standard). Other certifications, such as LEED (Leadership in Energy and Environmental Design) and BREEAM (Building Research Establishment Environmental Assessment Method), are applied by a small

minority of the surveyed banks. It is also observed that larger mortgage lenders tend to have more comprehensive coverage of certificates (not displayed in a figure).

Regarding existing buildings, 14 out of 17 banks that offer a relevant product still rely on building certifications (Figure 20). However, it's often not just an absolute standard that is applied; improvements according to building certifications are also considered by four banks, as well as predefined energy-efficient renovation measures by nine banks. There is no significant difference between large and small lenders in this regard.

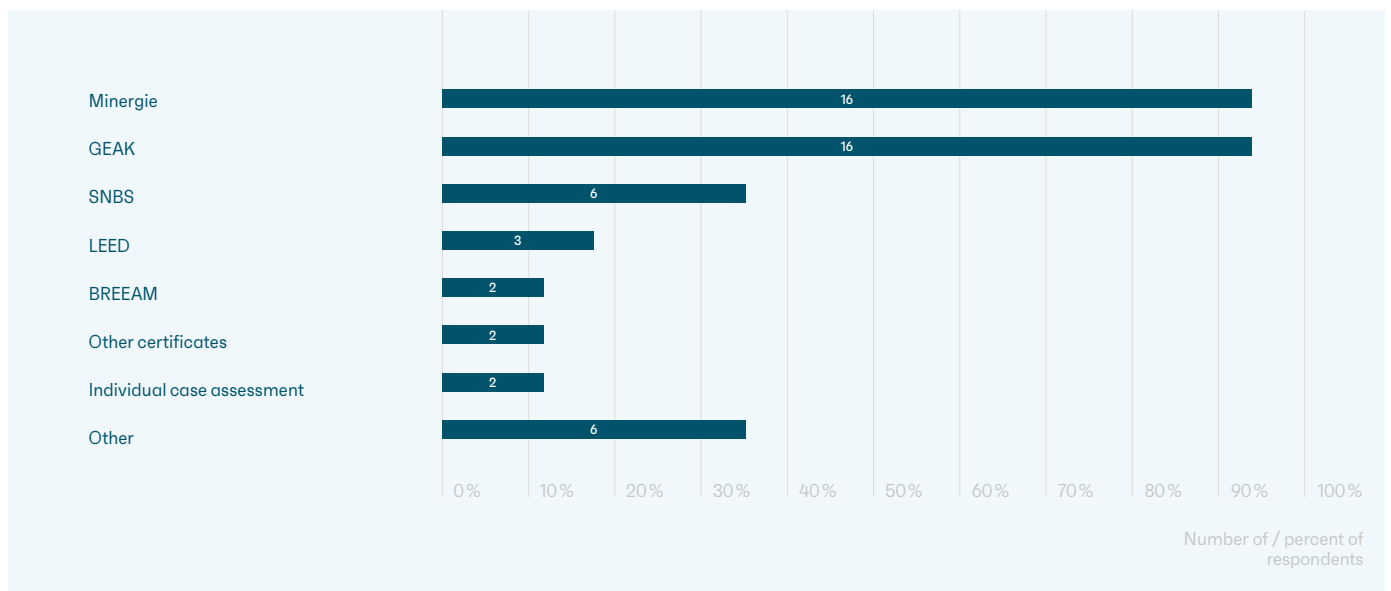


Figure 19: Requirements for sustainable mortgages for new buildings (n=17; multiple replies possible)

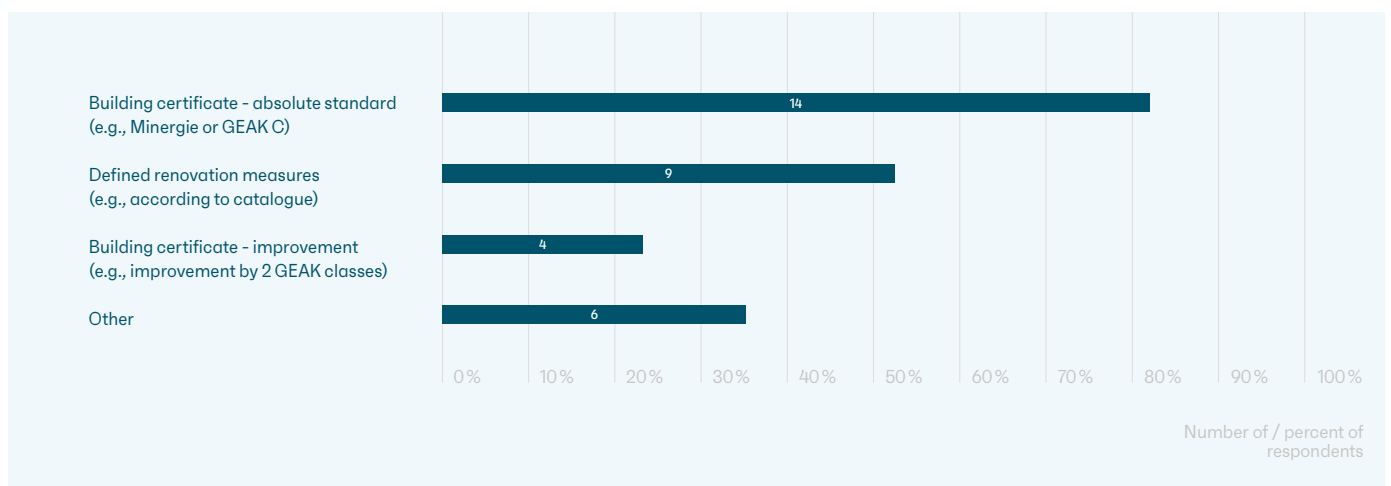


Figure 20: Requirements for sustainable mortgages for energy-efficient renovations (n=17; multiple replies possible)

Sustainable mortgage products are often used by banks as a tool for financing energy-efficient renovations. Figure 21 shows that it is not always possible to distinguish these from other mortgage contracts. Aside from the question of differentiation, 10 banks reported that they offer financing for energy-efficient renovations.

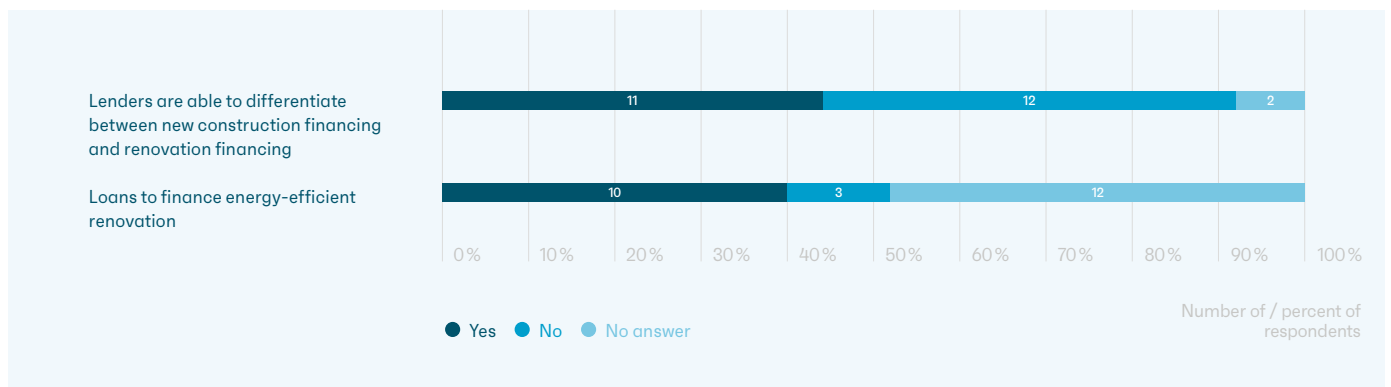


Figure 21: Data coverage and availability of energy efficient renovation financing (n=25)

Financing Sustainability Solutions

As mentioned before, financing innovations do not fall within the scope of the traditional mortgage business, and therefore, this aspect is not a focal point of the current study. According to the considerations outlined in Section 2.3, sustainable mortgage instruments that promote SDGs are categorised under the approach Financing Sustainability Solutions. Considering the general development in the field of sustainable finance, coupled with the survey findings discussed above, which indicate that banks are actively working on developing their mortgage product portfolio, it seems that this area is likely to gain significant importance in the near future.

3.4. Client advisory

In this part of the study, participants answered questions about the advisory process. All these questions were asked independently of specific financing needs (whether the clients seek general advice, a loan or a mortgage). Where relevant, a distinction was made between the three different client segments – SMEs, large companies and retail clients – to gain a better understanding of the market landscape.

When asked about the relevance of sustainability in the client advisory process (Figure 22), it can be observed that the segment of retail clients achieved the highest share of positive responses (14 out of 25), followed by large companies with 11 and SMEs with 10. It is important to note that the SBA's Guidelines for mortgage providers on the promotion of energy efficiency was not yet in force at the time to which the obtained data refer (late 2022).³⁹

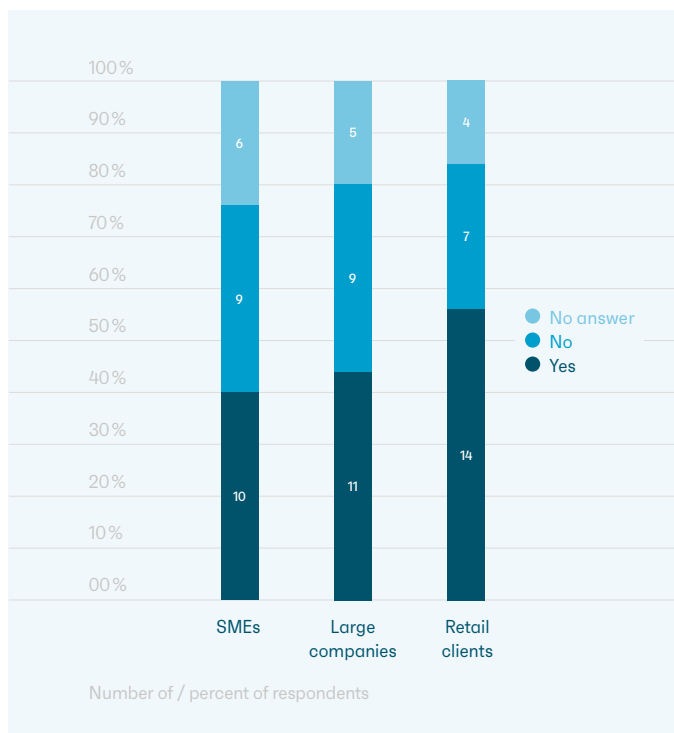


Figure 22: Sustainability as an integral part of the client advisory process (n=25)

39 The SBA's "Guidelines for mortgage providers on the promotion of energy efficiency" entered into force 1 January 2023 and a transition period for the adaption of internal processes up to 1 January 2024 is applied. For more information see: https://www.swissbanking.ch/_Resources/Persistent/c/b/b/3/cbb3619179bd238dca41328b2464af560a2c0f3a/SBA_Guidelines_mortgage_providers_on_the_promotion_of_energy_efficiency_EN.pdf.

In the advisory process of banks, clients have an interest in addressing sustainability topics. Figure 23 shows the findings for the question whether clients initiate the discussion on the topic of sustainability. It should be noted that not all banks responded for each segment: the total number of replies for SMEs was 19, for large companies 20 and for retail clients 22.

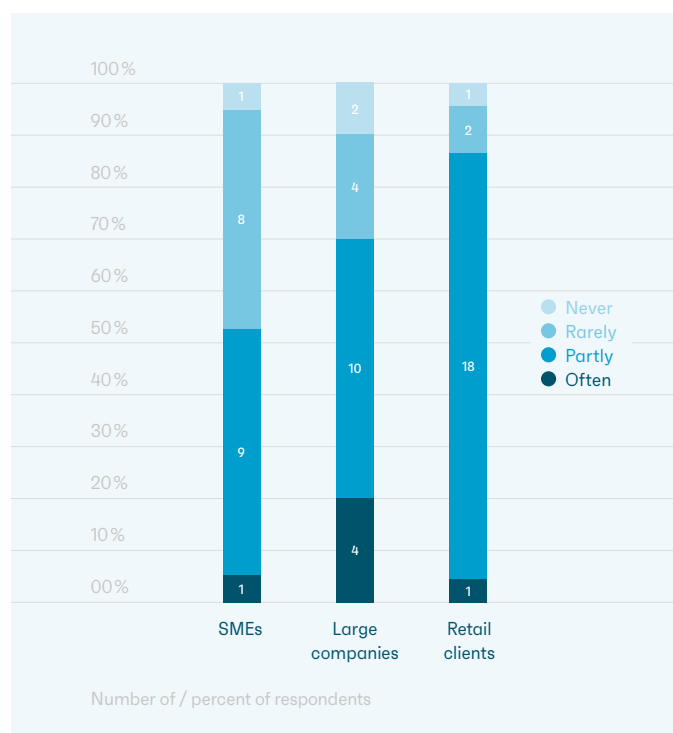


Figure 23: Initiative from the client to discuss sustainability

It is the retail client segment that has the highest proportion of "partly" and "often" replies, corresponding to 86% of the replies for this client segment. This means that they are likely to raise the issue during a client meeting. The respective negative replies were chosen only three times for this segment.

In contrast, the SME segment has the largest proportional share of "never" or "rarely" replies with a total of nine out of 19 mentions, meaning that SMEs rarely raise the topic. This result is in line with the findings displayed in Figure 22, where only a minority of banks expressed that sustainability was an integral part of the client dialogue for SMEs.

The findings for large companies fall in the middle, with balanced findings for the other two segments. 70% of the replies were positive, indicating that the client – often or partly – initiates the discussion.

At a more detailed level, the survey then asked why clients are interested in discussing sustainability during a client dialogue. The findings for this question are shown in Figure 24.

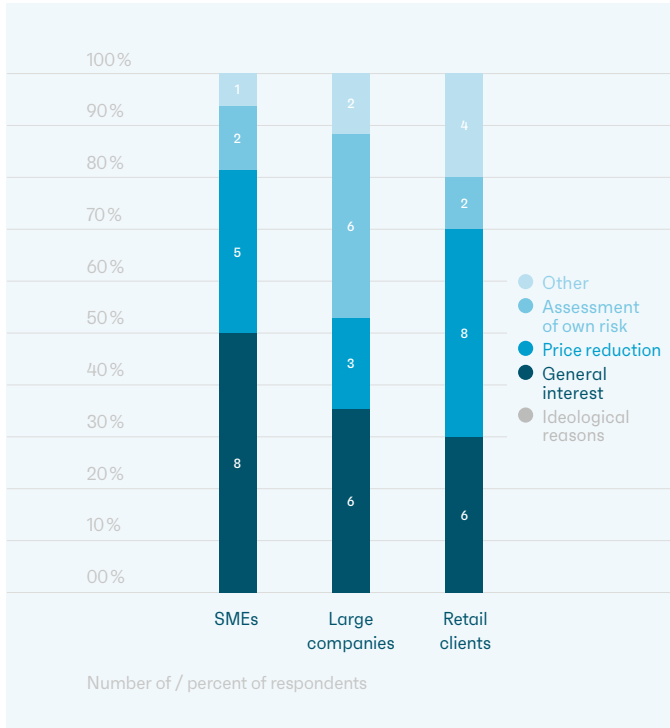


Figure 24: Reasons for client's interest in sustainability

Retail clients seem to be mainly interested in a discussion about sustainability because they seek price reductions (eight out of 20) or have a general interest in the topic (six). It has been mentioned before that retail clients are also the ones most likely to initiate the topic in the advisory process, as they are interested in favourable pricing offers. Based on the findings of this question, these clients seemingly care less about their own assessment of risk (only two mentions).

Regarding the findings for SMEs, most of the participants mention a general interest in sustainability topics (eight out of 16). Some mention price reductions as a motivation (five) and only two are interested in the assessment of their own risk.

As for large companies, the findings distinctively show the largest proportion (of all three segments) mentioning "assessment of the own risk" (with six out of 17). They appear to be more aware of the financial materiality. General interest is also mentioned by six participants, while only three name "price reduction" as a motivation for discussing sustainability topics. Overall, it is noticeable that none of the respondents mentioned ideological reasons for any of the client segments.

The study asked the participating banks if they can identify sectors which have a need for a dialogue about sustainability. The findings are first shown in Figure 25 for large companies and in a subsequent graph (Figure 26) for SMEs.

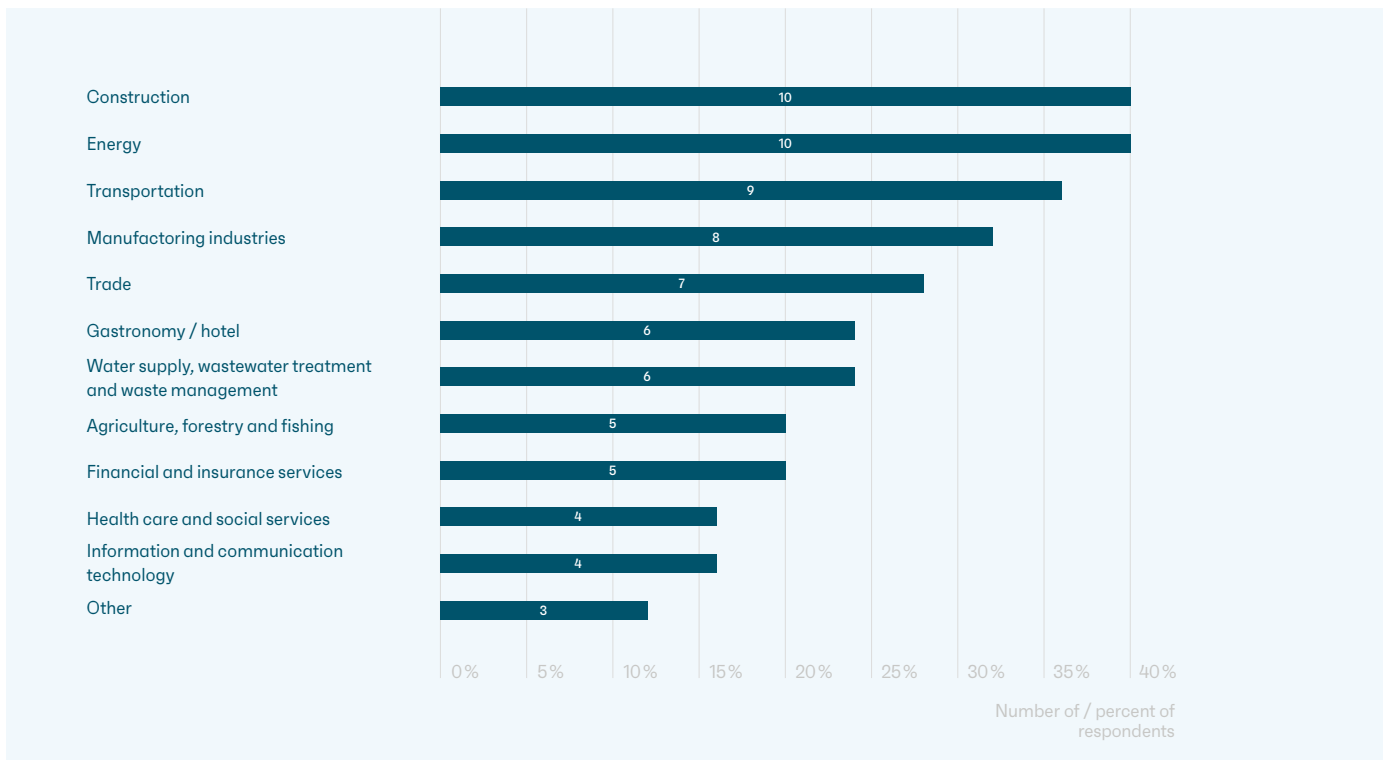


Figure 25: Large Companies – Clients and their needs for a sustainability dialogue (n=25)

Sectors with the highest need for a sustainability dialogue in the segment of large companies are construction, energy, transportation, closely followed by manufacturing industries (see Figure 25). 40% of the respondents consider it as particularly relevant to have a sustainability dialogue with clients of these sectors. The findings of the study also revealed clients in certain sectors who seem to show less interest in a dialogue (20% or less): information and communication technologies, health care and social services, financial and insurance services, as well as agriculture, forestry and fishing.

The study further addressed the banks' offering of energy consultancy services and whether energy certificates are financed (relevant for mortgages business). Responses range from "free of charge", "chargeable", "mandatory for financing" and "voluntary for financing". In general, it is clear that for financing, these services are (still) voluntary and mostly offered free of charge.

In the SME segment, nine of the 25 study participants (36%) offer energy consultancy services, six of them are "free of charge", while only three charge for the service. Furthermore, only one respondent reported that a certificate is mandatory for financing, while 10 participants say its voluntary.

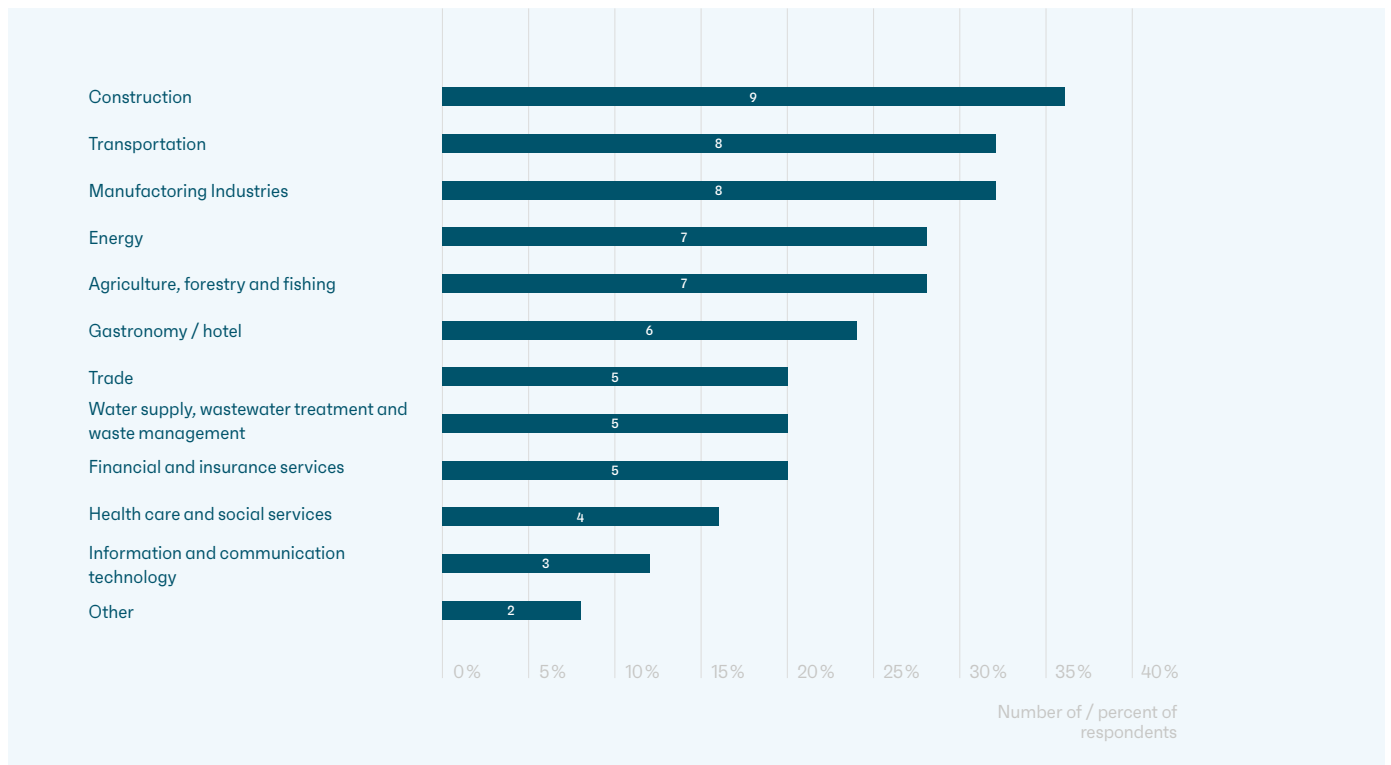


Figure 26: SMEs – Clients and their needs for a sustainability dialogue (n=25)

As shown in Figure 26, the sectors with the highest need for a discussion of sustainability topics among SMEs are construction (nine mentions), manufacturing industries, and transportation (eight mentions each). Agriculture, forestry and fishing and energy follow closely, with seven mentions each. On the other hand, information and communication technologies as well as health and social services are seen as having very little need to discuss sustainability topics, with only 12% to 16% of the SME segment estimated to be interested.

In case of the large companies, the share of participants reporting that energy consultancy services are charged is slightly higher: four voted "free of charge", four "chargeable". It is noteworthy that, again, very few participants chose "mandatory for financing", bringing the findings for large companies very close to the findings for SMEs.

Regarding the bank's offering of energy consultancy services and the financing of certificates, retail clients show, relatively speaking, the highest proportion of free of charge services (32%), and it becomes clear that certificates are voluntary for financing solutions.

Conclusion and outlook



Switzerland has committed to becoming climate-neutral by 2050, and this goal was formally anchored in the Climate and Innovation Act in the public vote of June 2023. This will require major efforts by many different actors, some of which will involve large investments. Current estimates consider a large proportion of these activities to be bankable, i.e., they can be financed by banks operating in Switzerland. At the same time, it must be noted that awareness of the pending sustainability transformation still varies greatly among companies. There are currently no explicit state regulatory requirements regarding the integration of sustainability factors for the lending business. In the second half of 2024, the final requirements regarding the credit risk management of the new FINMA Circular on the management of nature-related financial risks are expected to be published. For Swiss banks that are members of the SBA, sustainability has only been a component of mortgage advisory since the beginning of 2023.

While the market for sustainable investments has been systematically analysed for several years, this has not yet been the case for the Swiss credit market. This study for the first time provided an analysis of the Swiss loan and mortgage market by investigating the application of various sustainable financing approaches. Based on this research, it can be stated that most banks with a large loan portfolio currently have a sustainability strategy, a sustainability policy, or specific guidelines for their financing business. The reasons for this, as reported by the surveyed banks, are to achieve a positive impact on society or the environment, to fulfil client needs, and to avoid reputational or financial risks. Marketing considerations do not seem to be in the foreground. However, the study also revealed that – especially for banks with a small loan portfolio – not all banks in Switzerland already implement a sustainability strategy.

In the lending business, the exclusion approach is currently the most widespread of the four sustainability related approaches. This should come as no surprise, as this approach has been used by numerous banks for several decades, even before the current sustainability debate to avoid reputational risks.

The other three approaches ESG Integration, Financing Transformation and Financing Sustainable Solutions are less widespread, which is hardly surprising, seeing that they relate to avoiding emerging financial risks or they are either linked to the more recently discussed sustainability transformation. The survey shows that Swiss banks apply such approaches by using different instruments. Sustainable lending is either carried out through the use of both conventional or through special sustainable financing instruments such as sustainability-linked loans, green and social loans. The volume of such

sustainable financing instruments is still low, which is primarily due to the still short history.

Although only a small minority of the banks surveyed are currently active in the SLL market, these banks have a dominant position in the Swiss loan market. Overall, sustainability-linked financing through SLLs is more widespread than proceeds financing through GSLs. Furthermore, the Swiss Technology Fund was mentioned several times in the survey as an alternative to granting unsecured traditional loans or injecting equity capital, especially for the riskier financing of sustainable solutions. This emphasises the importance of blended financing solutions for the financing of the transition to a sustainable economy.

Many banks offer instruments linked to sustainability also for their mortgage business. Sustainable mortgages for new buildings and energy-efficient renovations are often interlinked at the product level, making it challenging for some banks to distinguish between the volumes of mortgages for new and existing buildings. In both cases, eligibility for a green mortgage usually requires that the building be certified as a green building or, in some cases for existing buildings, that specific measures are taken to improve the building. Yet, so far most of the instruments are aimed at retail clients and the residential property segment. The corporate segment and other property sectors, such as office buildings, are less frequently covered by the existing instruments.

In general, it can be stated for the Swiss loan and mortgage market that the banks with a large market dominance are already well positioned with their strategies and sustainable lending approaches and respective instruments. Various of the banks that are not currently active in sustainable lending make no statement about their short-term plans.

Sustainability considerations in the lending business not only relate to the product dimension but can also be enhanced by changing lending processes and data collection. A significant fraction of banks reported that they are working on ESG integration beyond the product dimension. An example for this activity in the mortgage market is the sourcing of data from public repositories with the help of external consultants. This facilitates the integration of sustainability information into decision making and reporting (increased transparency).

At the same time, it is essential for both the loan and mortgage business that sustainability-related data be collected as systematically as possible. This is important for banks to accurately assess the risks associated with their financing business in the context of the economy transforming to more sustainable business models.

According to this study, the topic of sustainability is already part of discussions with clients from all segments, with the greatest prevalence in the retail client segment. In the SME sector, the topic is rarely discussed. According to the study, assessing their own risk or seeking specific price reductions in financing is less of a focus for SMEs. For large companies, the main reason for discussions about sustainability lies primarily in the assessment of their own risk, while retail clients are interested in favourable price conditions. It is important to note that the SBA's Guidelines for mortgage providers on the promotion of energy efficiency was not yet in force at the time to which the obtained data refer (late 2022).

Regarding different sectors, clients in the construction, energy, transportation sectors show the greatest need for a sustainability dialogue, while those in the information and communications technology, health care and social services as well as financial and insurance services sectors are at the other end of the spectrum. This raises the question of whether it is worthwhile for lenders to deliberately focus on sectors with a need for a sustainability dialogue, for example by setting up specialised advisory teams. The sectors mentioned correspond to those which, according to other studies, will be affected by a high need for investment.

To summarise, it can be said that sustainability-related aspects have been incorporated in various areas of the lending business of a large share of the banks that participated in this survey, hence of a large share of the Swiss lending market. At the same time, there is still a great deal of potential for further development in this field. The fact that many banks with limited offerings in sustainable lending do not report having plans to introduce such instruments appears to be associated with uncertainties regarding mechanisms, related client demand and influence on risks. Banks will benefit from a better understanding of their clients' needs to further develop their product offering and their advisory business. At the same time, the systematic collection of sustainability-related loan and mortgage data is an important prerequisite to assess the risks of financing transformation projects. And finally, systematic publication of sustainable lending volumes, which was initiated by means of this report will help to raise awareness of the topic.

Sponsor contributions

Sustainability-linked loans in practice

Author name, function	Sarah Zaugg, Sustainable Finance Manager
Company name	Basler Kantonalbank
Number of employees	1'047 (as of: June 2023)
Total lending volume	CHF 19.4 billion
Specific Sustainable Lending Process or Product described below	Sustainability-linked loan



Scan to see more.

As a responsible financial service provider, Basler Kantonalbank (BKB) supports and advises companies on their path to a sustainable future. BKB's Sustainability-Linked Loan is not only an attractive financing instrument with conditions that support the achievement of sustainability goals. It also opens up an efficient way to make a company climate and future ready.

The classification process is crucial for sustainable finance instruments. This process should be clearly defined to avoid green, social and ethical washing. A lack of guidelines and know-how significantly increases the risk of misclassification.

BKB was one of the first financial service providers in Switzerland to establish a coherent classification process. BKB offers its customized service to clients who are aiming for sustainable development for their businesses.

Three steps to professional classification

- Application:** We develop and define the sustainability goals of the sustainability-linked loan together with our clients in an interdisciplinary team. The Sustainable Finance Expert Group at BKB receives the application for consideration.
- Assessment by the Sustainable Finance Expert Group:** The expert group decides whether the Sustainability-Linked Loan can be granted based on certain requirements, such as the level of ambitiousness or the materiality of the sustainability goals. In addition, the impacts on the 17 Sustainable Development Goals of the UN Member States (SDGs) are assessed. The business model is always considered holistically: Where is the greatest impact for sustainable development?
- Allocation of financing:** If the expert group consents to the conditions, funding can be provided through the sustainability-linked loan.

- Allocation of financing:** If the expert group consents to the conditions, funding can be provided through the sustainability-linked loan.

This demanding yet lean approach ensures that we can guide our clients towards the sustainable transformation of their companies without compromising on quality.



Raising awareness through advice is key to success

Author name, function	Daniel Jakobi, Deputy Head Housing & Financing Fabienne Fricker, Corporate Responsibility & Sustainability Expert
Company name	Raiffeisen Group
Number of employees	10'305 FTE
Total lending volume	CHF 222.6 billion
Specific Sustainable Lending Process or Product described below	Home ownership consulting

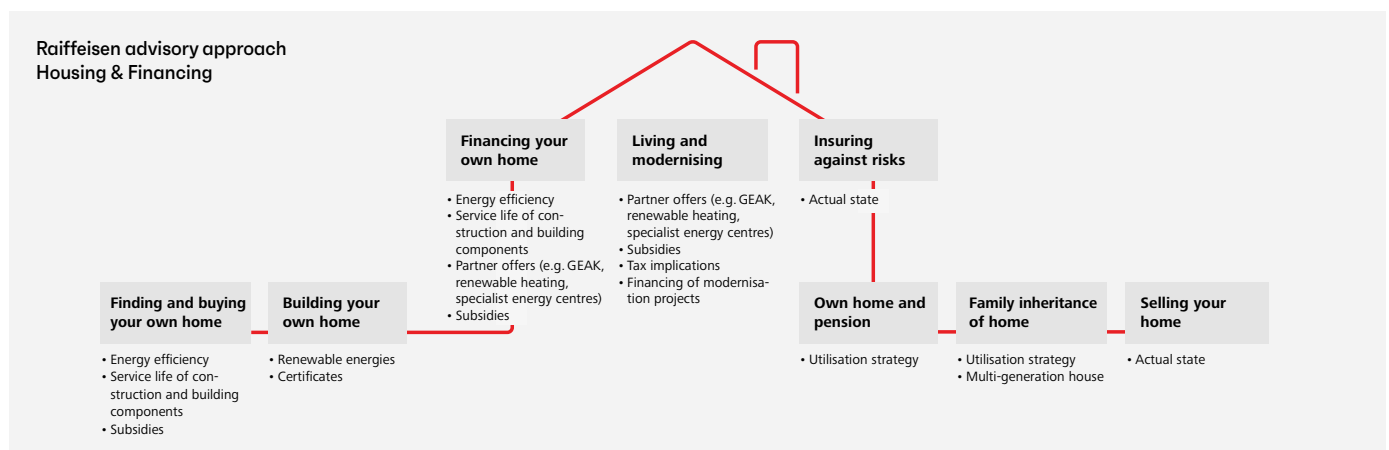


Scan to see more.

The Raiffeisen Group was one of the first Swiss banks to address the consumption of natural resources and CO₂ emissions in connection with financed residential properties. It has been actively working on this topic since 2015. Its engagement includes studies, events, consultations on the topic of energy-efficient modernisation and cooperation with network partners.

In order to develop a holistic range of advisory services and to anchor the topic of sustainability more strongly and systematically in advisory discussions, Raiffeisen identified key client needs in 2022 through client interviews, discussions with advisors and market tests, and analysed how clients can be better supported in addition to financing. This resulted in five strategic directions for home ownership consulting: Search and Purchase Advice, New Construction Advice, Financing Advice, Modernisation Advice and Sales Check.

Experience has shown that client advisors have an important role to play in raising awareness among homeowners and highlighting opportunities to improve energy efficiency. At the same time, client advisors are financial specialists, not modernisation experts. It is therefore essential to build up basic knowledge among advisors, to provide simple advisory tools (e.g. presentation, tool for calculating energy efficiency and upcoming modernisation measures) and to build up networks with national and local partners. In this way, appropriate support offers (e.g. GEAK, renewable heating, offers from local companies) can be identified after the initial raising of awareness. The aim is to motivate clients to tackle the planning of energy-efficient modernisation. At the same time, bank advisors support their clients in their financial planning with tailor-made solutions based on a sustainable product range (e.g. eco-mortgage).



Rewarding investments in sustainability

Author name, function	Marcel Frei, Product Manager Financing
Company name	Zürcher Kantonalbank
Number of employees	> 5'500 FTE
Total lending volume	> CHF 100 billion
Specific Sustainable Lending Process or Product described below	Eco-Check, ZKB Umweltleasing



Scan to see more.

Small and medium-sized enterprises (SMEs) are under increasing pressure to make their operations more sustainable. However, SMEs often lack the expertise, personnel and financial resources to actively address these issues and implement effective measures.

This is precisely where the Eco-Check business analysis comes in. Experts from Reffnet.ch visit the companies, analyse the resources and energy aspects on site and identify potential for improvement. Reffnet.ch is a nationwide network in Switzerland for resource efficiency and energy advice supported by the Federal Government.

Zürcher Kantonalbank covers the costs of the Eco-Check for its customers. In the resulting report, the experts show SMEs where the greatest potential for improvement lies, with a focus on the efficient use of energy and resources. This not only reduces the environmental impact, but also saves money in the face of rising energy and raw material costs.

If an SME would like to analyse the identified potential in more detail, it can fix an appointment directly with a specialist in the relevant topic area. The consultants at Reffnet.ch will then develop practicable improvement measures in the selected area based on the results of the Eco-Check. Their report will show the estimated investment costs, the expected cost savings and the positive environmental impact.

If an SME decides to implement the measures, Zürcher Kantonalbank can support it with appropriate financing solutions for the investment required. One example is the new ZKB environmental leasing, where the Bank contributes one percent to the net acquisition costs of capital goods such as commercial electric vehicles. Particularly resource efficient and innovative projects can also benefit from the preferential conditions of sustainable capital goods leasing. This supports SMEs in remaining competitive in the long term.



Appendix

List of abbreviations

BREEAM	Building Research Establishment Environmental Assessment Method
CO	Code of Obligations
ESG	Environmental, Social, Governance
FDJ	Federal Department of Finance
FINMA	Financial Market Supervisory Authority
GEAK	Swiss Cantonal Energy Certificate for Buildings
GL	Green loan
GSL	Green and social loan
KIG	Climate and Innovation Act
KPI	Key performance indicator
LEED	Leadership in Energy and Environmental Design
LMA	Loan Market Association
SBA	Swiss Bankers Association
SDG	Sustainable Development Goal
SLL	Sustainability-linked loan
SLS	Social loan
SME	Small and medium size enterprise
SNB	Swiss National Bank
SNBS	Swiss Sustainable Building Standard
SPT	Sustainability Performance Target
SSF	Swiss Sustainable Finance
TCFD	Task Force on Climate-related Financial Disclosure
ZHAW	Zurich University of Applied Sciences, School of Management and Law

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Study participants

- Aargauische Kantonalbank
- Banca Popolare di Sondrio (Suisse)
- Bank BSU Genossenschaft
- Banque Alternative Suisse SA
- Banque Cantonale de Fribourg
- Banque Cantonale Neuchâteloise
- Banque Cantonale Vaudoise
- Basellandschaftliche Kantonalbank
- Basler Kantonalbank
- CA Indosuez (Switzerland) SA
- Commerzbank AG, Frankfurt am Main, Zweigniederlassung Zürich
- Graubündner Kantonalbank
- HSBC Private Bank (Suisse) SA
- LGT Bank (Schweiz) AG
- Liechtensteinische Landesbank AG
- Migros Bank
- PostFinance AG
- Raiffeisen Gruppe
- Rothschild & Co Bank AG
- St.Galler Kantonalbank
- UBS Group AG und/ inkl. Credit Suisse, Schweizer Geschäft
- Valiant Bank AG
- VP Bank AG
- Zuger Kantonalbank
- Zürcher Kantonalbank

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