



**Volksbank**

**Volksbank - Banca Popolare dell'Alto Adige S.p.A  
GREEN BOND FRAMEWORK**

15<sup>th</sup> September 2023



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## Sustainability background and commitment

*Volksbank is a mutual bank with the important purpose of exercising the banking activity with a strong presence and relationship with the territory, delivering financial and investment solutions to its customers, leveraging on omnichannel and dedicated customer experience. In 2022 Volksbank counted 159 branches spread across Trentino-Alto Adige, Veneto and Friuli-Venezia Giulia.*

*With the industrial plan “Sustainable 2021 - 2023”, Volksbank confirms its intention to be a relevant sustainable bank for Italy’s North-East region, offering profiles of excellence to its clients in the retail and SME segments and being a transformation engine for the local communities. The execution of the industrial plan has now entered its third phase, scheduled for 2023, and the focus shifted towards fine-tuning activities and efficacy, optimization of those initiatives born with the first two phases of the plan. This is consistent with the bank’s continuous improvement approach, guiding the implementation and strengthening of new programs, that goes by the name ‘Plan-Do-Check-Act’.*

*Volksbank has declined its sustainability through different aspects of the bank’s operations, including a careful evaluation through a materiality assessment of what the risk exposure to E, S and G factors is for the institute. Initiatives put in place, among others, are: promotion of a sustainability culture within employees, SRI investment criteria implementation for investment strategy, support to green initiatives for clients, adoption of paperless and plastic free policies, carbon neutrality commitment for its own emissions and, finally, the emission of a green covered bond. Moreover, Volksbank’s commitment is demonstrated also through its management compensation policy, that starting from 2023 is taking into account also ESG parameters for key people within the organization.*

*Volksbank has indeed committed to take into consideration also its indirect social and environmental impacts due to the relevance of the banking activity. Volksbank’s commitment in the lending area has been translated into practice with the definition of an ESG Credit Framework to identify guidelines for the bank’s sustainable lending activity. Within the period 2021-2023 Volksbank plans to provide EUR 2 billion of financing aligned with ESG criteria to both households and businesses, equally split between green mortgages and financing to corporate projects with a positive ESG rating. The bank is also aware of business impacts of ESG dynamics and is constantly raising its level of preparedness with a dedicated intervention plan, integrated in the already mentioned “Sustainable 2021 – 2023” industrial plan. Other than a training program, the plan provides for the enlargement of risk management and compliance’s function responsibilities, to better address climate and environmental risks in collaboration with the Innovation & Sustainability team. As a results, ESG risks have been integrated even more. One of the major targets in the context of mitigating banking business related environmental and climate risks is the reduction of the so called “data gap”, so that the bank is building and improving its data collection infrastructures to deliver a greater value out of the available data. The integration of ESG-linked risks has also been carried out with respect to Volksbank’s Risk Appetite Framework (RAF) and a program to further integrate these risks in the Risk Appetite Statement (RAS) has been launched. Volksbank has also defined an action plan to align to Banca d’Italia’s expectations on climate environmental risks. As of today, the bank has updated its risk management systems in order to include ESG related monitoring thresholds, a materiality heatmap for ESG risks identification has been defined together with vertical stress test on climate and environmental risks.*

*To make sustainability commitments effective, in the last two years Volksbank has created dedicated teams:*

- *In 2020 the Innovation & Sustainability Team has been set up to identify and manage sustainability actions. The team has the role of scouting innovative ideas and technologies and of coordinating various streams for the integration of ESG and innovation elements within the bank activities.*
- *The cross-functional Sustainability working group was set up in 2020 and consists of key people from all departments of the bank acting as internal sponsors of sustainability activities. Meetings are held on a monthly basis with the aim of aligning the entire bank on the ESG initiatives implemented.*
- *In 2021, another unit called Corporate Finance and Sustainable Credit has been established with the aim to drive the bank’s branches in defining and evaluating those corporate finance*

*transactions alternative to traditional loans. The team also has the task of promoting the development and the integration of ESG issues within the bank's lending process.*

*From a high level, Volksbank's strong ESG commitment is already visible in the reflection of sustainability in each of the three company values:*

- **Forward-thinking:** *commitment to preserve the environment and finding ethically responsible solutions to respond to current and future needs of local community*
- **Present:** *reliable long-term partner for clients, employees and other stakeholders*
- **Dynamic:** *commitment, among others, to act in complete transparency, to ensure good governance and to pursue safe and prudent business*

## **Green Bond Framework**

This Green Bond Framework ("Framework") aims at strengthening Volksbank's ESG drive and lay down best practices to contribute towards a more sustainable finance market.

Volksbank aims at furthering its commitment towards sustainability by aligning its funding strategy with the highest environmental objectives. Under this Framework Volksbank can issue Green Covered Bonds and any other type of Green Bonds whose proceeds will be entirely dedicated to finance or re-finance Eligible Green Loans, as described in the Use of Proceeds section below.

Volksbank Green Bonds issuance under this Framework is based on principles and guidelines stated in the Green Bond Principles (GBP) 2021 version<sup>1</sup>, as administered by the International Capital Markets Association ("ICMA"). The Framework is also intended to align (to the extent currently possible) with the Proposal for the EU Green Bond Standard (EU GBS)<sup>2</sup> and the development of an EU classification of environmentally sustainable economic activities (the "EU Taxonomy"), including the first Delegated Act formally adopted on 4<sup>th</sup> June 2021.

The Framework is based on four core components:

- 1) Use of Proceeds
- 2) Process for Asset Evaluation and Selection
- 3) Management of Proceeds
- 4) Reporting

The Framework may be updated and amended from time to time. Any such updated and amended Framework will be published on Volksbank's website<sup>3</sup>.

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<sup>1</sup> <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-100621.pdf>


<sup>2</sup> On February 2023 a political agreement has been reached between the European Parliament and the European Council on the Commission's proposal for the EU Green Bond Regulation [https://eur-lex.europa.eu/resource.html?uri=cellar:e77212e8-df07-11eb-895a-01aa75ed71a1.0001.02/DOC\\_1&format=PDF](https://eur-lex.europa.eu/resource.html?uri=cellar:e77212e8-df07-11eb-895a-01aa75ed71a1.0001.02/DOC_1&format=PDF)

<sup>3</sup> <https://www.volksbank.it>

## 1. Use of proceeds

Volksbank intends to use an amount equal to the Green Bonds' net proceeds to finance or refinance Eligible Green Loans<sup>4</sup> originated to purchase assets ("Eligible Assets") that have been specifically selected in accordance with this Framework.

Eligible Green Loans shall meet the eligibility criteria defined in the following table:

Eligible Categories	Eligibility criteria	European Environmental Objective	SDGs
<b>Green buildings</b>	<ul style="list-style-type: none"> <li>➤ Construction or acquisition of commercial or residential green buildings which meet at least one of the following criteria:               <ul style="list-style-type: none"> <li>- The building meets a recognised environmental standard such as: LEED gold or higher, or BREEAM very good or higher</li> <li>- Buildings with Energy Performance Certificate (EPC) class 'A' or 'B'</li> </ul> </li> </ul>	Climate Change Mitigation	

## 2. Process of Evaluation and Selection

The Product committee will be responsible for the following activities:

- Assessment and selection of Eligible Green Loans;
- The supervision on the duly implementation of the rules defined in the Management of Proceeds section;
- Monitoring of green bonds market practices and for the periodical review of this Framework to maintain the document aligned with them.

The committee includes senior management representatives of the following departments as well as the CEO: Finance, Commercial, Lending, Operations, Strategic Planning, Accounting and Reporting, Risk Management, Compliance, Product Management, Anti-Money Laundering.

All assets financed by Volksbank have to strictly comply with the relevant internal lending procedures and applicable law.

Volksbank adopted the ESG Credit Framework in 2020, which is a document that defines the main guidelines for the granting of "sustainable" credits. Furthermore, Volksbank has defined a blacklist for the financing of activities related to arms production, child labour exploitation, and gambling.

During 2021 an "ESG Evaluation Tool" has been developed to support relationship managers to assess the environmental, social and governance impacts of clients and their projects to be financed. The Tool has been fully implemented in the lending process for corporate loans above EUR 500,000 since 2022. The threshold has been lowered to EUR 250,000 from 2023 onwards.

<sup>4</sup> Eligible Green Loans means loans meeting at least one of the Eligibility Criteria

### 3. Management of Proceeds

The Green Bonds proceeds will be managed by Volksbank in a portfolio approach.

Volksbank intends to allocate the proceeds of the Green Bonds to a portfolio of loans that meets the Eligibility Criteria for use of the proceeds and follows the evaluation and selection process outlined above.

To ensure that proceeds are allocated in accordance with this Framework, Volksbank will track Eligible Green Loans within a dedicated register (“Eligible Green Loans Portfolio Register”).

An amount exceeding the net proceeds will be used to finance and refinance Eligible Green Loans.

In case of the issuance of Green Covered Bonds, Volksbank ensures that Eligible Green Loans, exceeding the total nominal value of the Green Covered Bond will be held in the cover pool of Voba CB until maturity. On a semi-annual basis, the assets are monitored to ensure the timely replacement of any loan which ceases to be an Eligible Green Loan, it is matured, repaid or, for any reason, no more satisfying the selection criteria.

The Product committee will be responsible for periodically updating and maintaining the Eligible Green Loans Portfolio Register. In case of the issuance of Senior Unsecured Bonds, pending the full allocation, the amount of net proceeds not yet allocated will be held in accordance with Volksbank usual liquidity management policy (including treasury liquidity portfolio, cash, time deposit with banks or other short-term forms such as Commercial Paper Program or Bank Credit Line). Volksbank also commits not to temporarily invest the liquidity in activities which may conflict with the environmental objectives of this Framework.

Volksbank will monitor the investments of the proceeds allocated to Eligible Assets, through the review of the external auditor. This monitoring of the funds is integrated into the annual reporting and further described in section “External review” below.

### 4. Reporting

To enable investors and other stakeholders to assess Volksbank’s Green Bonds issuance and how the net proceeds are allocated, Volksbank will make available a Green Bond Allocation Report. This could be a separate report or included in other reports like the general Covered Bonds Investors Report or the annual Non-Financial Declaration.

Such report will initially be issued the earliest one year after the issuance of the first bond and then annually until maturity.

The Green Bond Allocation Report will be made available for each bond under this Framework and will include:

- The amount of bonds outstanding
- The aggregated amount allocated to Eligible Assets
- Total amount allocated per Eligible Category
- The total amount of unallocated Green Bonds proceeds (if any)
- The amount or the percentage of new loans and refinancing of existing loans (if relevant)
- In case of Green Covered Bond, the breakdown of the pool by EPC certification level

In addition, an Impact Report about the expected environmental impact of the Eligible Assets or cover pool will be made available at least on an annual basis, subject to the availability of the relevant data<sup>5</sup>. Qualitative reporting such as project descriptions or case studies might be provided instead of key environmental impact indicators, should these not be available.

Annual Green Bond Allocation Report and Impact Report will be made available to investors through the Volksbank’s website until maturity.

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<sup>5</sup> Please refer to the Annex 1 for examples of potential key environmental impact indicators

## 5. External Review

Volksbank has appointed Sustainable Fitch to provide a Second Party Opinion on this Green Bond Framework, which will be made available on the Company's website.

Volksbank also intends to perform an external independent post-issuance verification on the Green Bond Allocation Report and Impact Report provided by a third party ESG agency or independent auditor until maturity of the notes.

### Annex 1: Examples of potential key environmental impact indicators

Eligible Sustainable Categories	Examples of Potential Key Environmental Impact Indicators
Green Buildings	<ul style="list-style-type: none"> <li data-bbox="592 752 1054 786">➤ Energy Performance Certificate</li> <li data-bbox="592 786 1126 819">➤ Annual energy savings in MWh/GWh</li> <li data-bbox="592 819 1442 853">➤ Annual GHG emissions reduced/avoided in tonnes of CO<sub>2</sub> eq</li> </ul>