

ESG Disclosure under Art 449a CRR

ASSOCIATION OF VOLKSBANKS AS AT 30 JUNE 2023

Qualitative information on environmental, social and governance risks (ESG risks)

In this document, the subheadings preceded by letters refer to the qualitative information contained in “ANNEX XXXIX – Prudential disclosures on ESG risks (Article 449a CRR)” to the EBA/ITS/2022/01 (Tables 1-3). The relevant context is provided, on the one hand, by the three risk categories of environmental risks, social risks and governance risks and, on the other hand, by the more detailed division per risk category contained in the annex by business strategy and processes, governance and risk management.

1. Business strategy and processes

CRR Art 449a in conjunction with Art 435

Qualitative information on environmental risks

Sustainability and regionality have been part of the business model of the Association of Volksbanks for more than 170 years. The Association of Volksbanks operates in line with cooperative principles and has been built up successfully and sustainably over many generations of members. Our cooperative identity and the sustainability values we go by are distinguishing features of the Association of Volksbanks. Our focus is on customers, partners and employees. The principles of the Association of Volksbanks are set down in a Code of Conduct and honoured by all employees within the scope of our corporate activities.

The Association of Volksbanks is a purely Austrian association of credit institutions and operates almost exclusively within its catchment area: the Austrian market. The Association has no foreign major shareholders, but a democratic cooperative decision-making and control structure. Austrian special interest groups are the owners of Österreichische Ärzte- und Apothekerbank. The main objective of the cooperatives is the development mission that determines the purpose of any cooperative, industrial and provident society. Right from the beginning, this purpose has always been to maintain and strengthen the legal and economic independence of the members and of the cooperative facilities, resources and services, instead of profit maximisation. Ever since their formation, the Volksbanks have been representing the values of trust, regionality and customer focus. In the 21st century, these sustainable values are as important as ever. They still are the solid foundation of the marketing concept of the Association of Volksbanks.

The company's business strategy is based on a combination of regional customer service know-how, on the one hand, and on the settlement and control services of a modern association of independent banks, on the other hand. This means that decisions relevant to customers are taken quickly and directly on the spot where the customers are. The independent primary banks are self-reliant in terms of sales management and accordingly able to act quickly and without red tape. The handling of administrative activities as well as control and management in compliance with banking law are mostly performed in centralised units of the Association. This cooperative division of labour enables the primary banks to focus on their marketing activities, while bundling activities that are not directly associated with retail business within centrally organised units. In this way, costs can be reduced, which in turn benefits our customers.

The Association takes care of the core services of a retail bank itself: loans, deposits and payment transactions. Other products and services are offered by competent partners. Therefore, cooperation agreements were concluded with reliable product partners. Our product partners also pursue sustainable business policies – which is of essential importance to the Association. Through considerable streamlining and standardisation of the product range, transparency is increased for our customers due to a neat array of products. The core business with the highest impact on performance is the retail lending business.

The core of the Association of Volksbanks is the Austrian network of retail branches. The Volksbanks within the Association operate almost exclusively in their catchment area and on the Austrian market (a maximum of 5 % of the customer exposure may exist in neighbouring countries). The focus of the Volksbanks is on being the relationship bank for customers in the region. Accordingly, business activities have focussed on Austria in previous years, resulting in streamlined logistics and a comparatively lower burden on the environment than that of a global player.

This business model, in combination with the focus on Austria, minimises the risk of negative effects on human rights and the environment, as well as any associated reputational risk for the Association of Volksbanks (legal framework applicable in Austria).

The Association of Volksbanks has taken extensive steps to integrate sustainability aspects into its core business and to further expand its sustainability management. The material topics forming the basis of the bank's sustainability management were worked out together with stakeholders. The topics were selected considering the ecological and social impact of the sustainability topics identified, as well as their relevance to stakeholders. The identification and impact assessment of sustainability topics are continuously monitored in workshops with employees and the managing board members of the Volksbanks. In 2021, a stakeholder survey was conducted for the first time, not only for VOLKSBANK WIEN AG but also for the entire Association of Volksbanks, followed by a materiality analysis. An update of the materiality analysis for VOLKSBANK WIEN AG and the Association of Volksbanks is being worked out at present. Apart from another stakeholder survey, the focus is on aligning the organisation with new regulatory requirements (CSRD). Following determination of the essential topics, an ESRS gap analysis will be performed to prepare the bank for reporting from business year 2024 in time. In the spring of 2023, VOLKSBANK WIEN AG, representing the Association of Volksbanks, joined the TCFD to emphasize the importance of sustainability- and climate-related risks and opportunities. A TCFD GAP analysis was performed, involving all relevant specialist departments. In the reports and also in the present document, the missing information on the TCFD is continuously being supplemented and disclosed.

A decision-making committee of the entire Managing Board on the topic of sustainability was established within VOLKSBANK WIEN AG early in 2022: the Sustainability Committee (NAKO). The NAKO convenes every two months and consists of all members of the Managing Board as well as a majority of the area managers of VOLKSBANK WIEN AG. This Committee decides on, reports on and manages sustainability-related topics. Steering and control activities by the Managing Board are based on sustainability goals, which include the monitoring of ESG risks.

The primary banks, too, are managed and controlled on the basis of these sustainability goals. Sustainability Officers (SO) have been appointed at the primary banks, who serve as multipliers and contribute ideas from the banks. They are responsible for ESG topics in the primary banks and support the managing boards of the primary banks in their efforts to manage the banks based on the sustainability goals. All divisions of VOLKSBANK WIEN AG (as the central organisation) are involved in implementation measures and have each appointed sustainability ambassadors to accompany internal communication on the topic of sustainability and to support the process of achieving their sustainability goals with forward-looking ideas. A communication platform was set up on the intranet for the entire Association, where all information relating to sustainability is available.

The Managing Board of VOLKSBANK WIEN AG (as the central organisation) has nominated a Sustainability Officer for the Association of Volksbanks whose task, in addition to managing, organising and determining the contents of the NAKO, is to prepare the sustainability strategy in coordination with the Managing Board and to prepare the sustainability reports for VOLKSBANK WIEN AG and the Association of Volksbanks.

a) *Business strategy of the credit institution with a view to integrating environmental factors and risks, taking account of the impact of environmental factors and risks on the business environment, the business model, the strategy and the financial planning of the institution*

The Association of Volksbanks has established ESG aspects in all areas of the company and has formulated a sustainability strategy applicable across the Association. By defining sustainability principles, the sustainability strategy creates consistent framework conditions for a uniform approach to environmental, social and corporate governance issues. It is part of the business strategy and describes, among other things, how the Association of Volksbanks integrates ESG criteria into the organisation and the core business, how it takes ESG risks into account and exploits development potentials in connection with sustainability.

Ever since 2022, steps have been taken to survey and improve the carbon footprint of Volksbank's portfolio (Scope 3.15). In doing so, Volksbank followed the calculation standard of the "Partnership for Carbon Accounting Financials" (PCAF). In addition, steps were taken to establish a climate strategy and specific climate targets in the areas of facility management, financing and treasury, which will be further refined in the coming year and integrated into Volksbank's overall climate strategy. The ambitions in the area of carbon footprint calculation as well as climate target setting are to be complemented next year by examining the possibility of joining various initiatives. Specifically, it is being evaluated whether joining the PCAF or the Science Based Target Initiative (SBTi) will be able to further support the climate ambitions of the Association of Volksbanks.

In 2022, a scoring system was developed for the assessment of credit risks associated with ESG factors. By assessing soft facts, the account managers evaluate risks of their customers within the scope of an ESG score. In the sphere of the environment ("E"), these soft facts also include the topics of biodiversity and preservation of species. Moreover, ESG risks are analysed and reassessed as part of the risk inventory using ESG heat maps on a regular basis. In the ESG heat map, various risk events, such as loss of biodiversity and preservation of species, are described and evaluated.

Biodiversity is the basis for life and enables adaptation to changing environmental conditions, such as the climate crisis. Nature provides us humans with food, medication, building materials and helps improve our well-being, health and the economy. Therefore, the Association of Volksbanks incorporates the topics of loss of biodiversity and preservation of species into its processes.

b) *Goals, requirements and upper limits for the short-, medium- and long-term assessment and management of environmental risks, as well as the measurement of performance based on these goals, requirements and upper limits, including the consideration of forward-looking information on shaping the company's business strategy and processes*

The sustainability strategy formulates concrete measures and targets for the Association of Volksbanks in the sphere of the environment, of social affairs and corporate governance. The Managing Board is fully involved in the strategy process and is responsible for approving the sustainability strategy. Opportunity and risk analyses were carried out to develop the sustainability strategy, and the findings were incorporated into the strategy. These analyses included, for example, a materiality analysis, a SWOT analysis, impacts of transition risks, and physical risks regarding the business model in the form of outside-in and inside-out risks. The sustainability strategy is constantly being developed and adapted to the evolving regulatory environment, new findings and innovations, e.g. by joining the TCFD in 2023.

Since 2022, apart from the existing qualitative goals for the Association of Volksbanks, additional goals have been quantified and included in the planning for the individual areas. Within the Sustainability Committee, steering and control activities are carried out by the Managing Board based on sustainability goals, which also include the monitoring of ESG risks.

Based on the sustainability goals, nine management KPIs have been developed: four environmental KPIs, three social KPIs, and two governance KPIs. The short- and long-term management of environmental risks was taken into account in defining the KPIs. A clear decarbonisation path was determined for Scope 1 and 2 emissions already in the short term. In the medium term, VOLKSBANK WIEN AG is striving to increase the share of sales of sustainable securities. For Scope 3 emissions, we are focusing on long-term strategic considerations and on improving the data basis in the short term. The social KPIs are geared to the customer relationship, employee satisfaction and diversity. Both short- and long-term goals are being set here, which are included in the definition of a target path. The governance KPIs refer to the structure, the processes and control mechanisms used by the company within its corporate governance.

The Sustainability Report contains all measures and goals implemented as well as an outlook on further plans with regard to the material topics of the Association of Volksbanks. In 2020, the implementation of the ESG measures defined in the investment strategy was started. The main content is the simultaneous pursuit of an active and a passive strategy.

VOLKSBANK WIEN AG will not enter into business relationships or financing with industries or in business areas that fail to comply with environmental regulations. Moreover, we take care to protect the environment, and the Association of Volksbanks is committed to advance environmentally friendly technologies and projects. For this reason, we will not, for instance, enter into business relationships in the following branches of industry and areas of business: owning or operating nuclear or coal-fired power plants and/or radioactive waste repositories or the mining of uranium, soft and hard coal.

c) *Current investment activities and (future) investment requirements with a view to environmental goals and EU taxonomy-compliant activities*

VOLKSBANK WIEN AG is the only bank within the Association of Volksbanks that is subject to the NFRD. With a view to implementing the EU Taxonomy Regulation, companies subject to the NFRD must report their eligibility for taxonomy. In the course of the disclosure for the 2022 financial year, VOLKSBANK WIEN AG was still subject to a simplified disclosure obligation; the figures are presented for the Association of Volksbanks as well. The Sustainability Report contains a publication regarding Taxonomy Art. 8. A so-called sustainability check was implemented for the purpose of labelling sustainable financing.

The business model of VOLKSBANK WIEN AG provides for a focus on the bank's core business and on entering into cooperations with strong product partners. In the area of investment funds, Union Investment is VOLKSBANK WIEN AG's product partner; it currently has 13 sustainable funds on its list of recommended funds for sale in Austria.

The Association of Volksbanks intends to intensify its activities on the green financial market. For VOLKSBANK WIEN AG as the central organisation of the Association of Volksbanks to be able to issue green, social and sustainability bonds, it has now published its Sustainability Bond Framework. This has created the basis for the Association of Volksbanks to finance ecological and/or socially sustainable investments on the capital market. The Framework was prepared taking account of the Green Bond Principles, the Social Bond Principles and the Sustainability Bond Guidelines of the International Capital Market Association (ICMA). Sustainalytics GmbH has reviewed the Framework of VOLKSBANK WIEN AG and has confirmed compliance with ICMA Principles and Guidelines. VOLKSBANK WIEN AG issued a green bond for the first time in March 2023.

The aim is to continuously build an ESG portfolio within the banking book. For this purpose, an amount of ESG bonds (which is taken into account in budgeting) is purchased annually. Currently, all green bonds, social bonds and sustainable bonds that are issued within a framework widely recognised in the market are considered to be ESG bonds.

d) Strategies and processes for the direct and indirect cooperation with new or existing counterparties in relation to their strategies for mitigating and reducing environmental risks

In 2022, a scoring system was developed for the assessment of credit risks associated with ESG factors. By assessing soft facts, the account managers evaluate risks of their customers within the scope of an ESG score. During the relevant assessment, topics such as energy efficiency, air pollution, environmental damage and biodiversity are dealt with.

The assessment of the risks associated with ESG factors is considered within the scope of the credit decision. In this context, transitory and physical environmental risks and onerous or hazardous aspects in relation to the customer's earning power, financial situation and/or business model need to be assessed.

In accordance with the Code of Conduct, attention is paid to the protection of the environment within the scope of lending. Financed transactions must comply with environmental regulations. For this reason, no business is conducted in environmentally harmful sectors.

Moreover, in order to avoid physical and transitory risks, the following processes are applied to ESG investments in the banking book:

- Risk analysis within the scope of credit line requests
- In the event of significant changes to the credit risk due to sustainability risks, a statement will be made during the holding period within the scope of the rating process.
- Ad hoc evaluation in the event of a new purchase, if possible

See Chapter 3. Risk management, *Qualitative information on environmental risks*, lit. l) and m).

See also Chapter 1. *Qualitative information on social risks*, lit. c).

Qualitative information on social risks

For more than 170 years, the cooperative development mission in the region and the special aspect that customers of the Volksbanks are also owners of the bank have been distinguishing features of the credit cooperatives. Within the Association of Volksbanks, this participation option is partly guaranteed indirectly via the holding cooperatives ("Beteiligungsgenossenschaften"). Cooperatives are sustainable because they think and operate with a long-term perspective, with a mission to benefit their members without being driven by short-term shareholder value. They support the reasonable dimensions and the diversity of regional economic structures (as opposed to monopolies). They are built on proximity and personal contact and usually very deeply rooted in the region and among the people who live there. Hence, they strengthen regional economic cycles – for example, when Volksbank finances local SMEs. Regionality and sustainable action are therefore firmly anchored in Volksbank's DNA.

The cooperative connects a wide variety of stakeholders in the region. In addition to its role as sponsor and financier, the regional bank is a hub, an enabler and a networker. According to the terminology of the EU Commission and the OECD, "social economy" also includes cooperatives. The ÖGV is therefore explicitly mentioned in the EU Commission's Country Report as a driver of the social economy (<https://beta.op.europa.eu/en/publication-detail/-/publication/b6f7a49d-67cd-11e9-9f05-01aa75ed71a1/language-en/format-PDF/> quote, page 56).

Sustainability from the cooperative's perspective:

- Ecological sustainability manifests itself, for instance, in energy cooperatives that contribute to the achievement of climate targets, and regional independence from the commercial energy suppliers and uncontrollable electricity price increases.
 - Social sustainability means the preservation of communal identity and also overcoming poverty (e.g. cooperatives supporting regional building projects, 'assistance cooperatives').
 - Economic sustainability means guaranteeing the livelihood of people in the region, providing for the sustainable existence of businesses, and enabling companies to have long-term business relationships.
- a) Modification of the business strategy of the credit institution with a view to integrating social factors and risks, taking account of the impact of social risks on the business environment, business model, strategy, and financial planning

Actively exemplifying the values of VOLKSBANK WIEN AG and the commitment to modern compliance are the mandate of the Managing Board and part of the permanent management mission across all hierarchical levels. The issue of human rights also has a high priority at VOLKSBANK WIEN AG and is taken into account in all units involved in the company's core business. The Code of Conduct was established by the Supervisory Board and documents the values of VOLKSBANK WIEN AG in its internal and external relations (publication on the intranet and internet).

The Code of Conduct is the introduction to the working instruction "Compliance Manual" and is the responsibility of the Compliance department. With regard to responsible corporate behaviour with a focus on human rights, VOLKSBANK WIEN AG has two further guidelines, the Data Protection Manual and the Diversity Policy. All policies are subject to an approval process, regular updating and are approved by the Managing Board.

The Code of Conduct explicitly states that VOLKSBANK WIEN AG respects human rights and opposes child labour. Furthermore, the Code of Conduct states that any form of discrimination will not be tolerated. Volksbank values the dignity of human beings, their rights and their privacy. Therefore, VOLKSBANK WIEN AG has joined the UN Global Compact and supports its ten principles in the area of human rights, among others. To ensure compliance with human rights in the company's core business, for example, industries and business areas have been defined where the bank will not enter into business relationships. In addition, employee training events have been carried out, and care is taken to ensure that business partners comply with human rights. A policy statement approved by the NAKO regarding the protection of human rights ("Human Rights Policy") underscores the existing position of Volksbank, emphasizing the latter's corporate duty of care. It has been published on the bank's sustainability web page (www.volksbank.at/nachhaltigkeit)

See also Chapter 3. "Qualitative information on social risks". Chapter 1. *Qualitative information on environmental risks* lit. a) applies to ESG aspects.

- b) Goals, requirements and upper limits for the short-, medium- and long-term assessment and management of social risks, as well as the measurement of performance based on these goals, requirements and upper limits, including the consideration of forward-looking information in shaping the company's business strategy and processes

VOLKSBANK WIEN AG will not enter into business relationships or financing with industries or in business areas that are in conflict with the fundamental values of the bank. This list of industries and business areas includes, among others, business relationships associated with violations against, for instance, forced labour or child labour, against the European Convention on Human Rights or against obligations under labour and social law.

Chapter 1. *Qualitative information on environmental risks* lit. (b) applies to ESG aspects.

c) *Strategies and processes for the direct and indirect cooperation with new or existing counterparties in relation to their strategies for mitigating and reducing socially harmful activities*

The majority of suppliers/procurement in VOLKSBANK WIEN AG's Facility Management is from Austria (75 %) and Germany. In general, it can be said that VOLKSBANK WIEN AG fulfils its cooperative mission in the region. As the central organisation of the Association of Volksbanks, VOLKSBANK WIEN AG, or more specifically, since November 2019, the newly established company VB Infrastruktur und Immobilien GmbH, is also in charge of central purchasing for all regional Volksbanks. In this context, the company sets great store by sustainable products, regional suppliers and, if possible, environmental certificates. Due to the fact that most suppliers are Austrian companies, the risk of human rights violations or other social issues is minimal. Framework conditions for sustainable procurement were entered into a matrix. A supplier's sustainability is evaluated by means of indicators (company headquarters located in Austria, sustainable concepts or certificates of the supplier available, location of production checked, etc.).

Based on the guideline on Risk Assessment of Outsourcing, all outsourcing activities of VOLKSBANK WIEN AG are reviewed using a defined standard process. A sustainability check is part of this process. The investigation by sustainability risks covers a wide range of questions (e.g. sustainability principles).

In accordance with the Code of Conduct, in the context of lending, attention is paid to the sustainability of matters in the sphere of social concerns. For this reason, no business is conducted in socially harmful sectors (see also Chapter 1. *Qualitative information on social risks*, lit. b).

2. Corporate governance

CRR Art 449a in conjunction with Art 435

Qualitative information on environmental risks

e) *Responsibilities of the management body with a view to defining the risk framework, the monitoring and control of target implementation, strategies and measures associated with environmental risk management in relation to relevant transmission channels*

Based on the sustainability strategy, the Managing Board has overall responsibility for implementing ESG aspects in internal governance structures, in the risk management framework and in relevant guidelines of the Association of Volksbanks, which are subject to regular review. The entire Managing Board is responsible for defining roles and competencies for managing sustainability risks within the three lines of defence of the business organisation and to ensure a clear assignment of tasks and duties. In this context, reporting lines and the responsibilities of individual functions must be clearly defined and delimited. The requirement of integrating sustainability topics into all areas falling within the sphere of competence of the CO under Section 30a of the Austrian Banking Act results in the necessity of control requirements being defined by the CO. As part of its monitoring of the entire Managing Board, the Supervisory Board of VOLKSBANK WIEN AG checks whether the latter takes comprehensive account of the principles of sustainability (ESG criteria) in managing the company. Topics from the NAKO are regularly reported to the Supervisory Board, and via the Sustainability Officers in the Volksbanks also to the supervisory boards of the primary banks.

The consideration of sustainability aspects was anchored in the rules of procedure of the Managing Board and the rules of procedure of the Supervisory Board. Members of the Supervisory Board and of the Managing Board regularly attend Fit&Proper training events that also deal with sustainability topics. A decision-making committee of the entire Managing Board on sustainability was established early in 2022: the Sustainability Committee (NAKO). This Committee decides on, reports on and manages sustainability-related topics, and rules of procedure have been drawn up. Steering and control

activities by the Managing Board are based on sustainability goals, which also include the monitoring of ESG risks. The Managing Board of VOLKSBANK WIEN AG (as the central organisation) has nominated a Sustainability Officer for the Association of Volksbanks whose task, in addition to managing, organising and determining the contents of the NAKO, is to prepare the sustainability strategy in coordination with the Managing Board and to prepare the sustainability reports for VOLKSBANK WIEN AG and the Association of Volksbanks.

The Sustainability Report contains all measures and goals implemented as well as an outlook on further plans with regard to the material topics of the Association of Volksbanks. The application of the GRI standards as a de facto standard for sustainability reporting ensures continuous and standardised reporting.

f) Consideration of the short-, medium- and long-term effects of environmental factors and risks by the management body, organisational structure both within the divisions and within the internal control functions

The Association of Volksbanks aims to make its sustainability strategy measurable and controllable and to take account of major sustainability risks by using divisional goals, KPIs and KRIs. The Association of Volksbanks has determined a set of KPIs that cover the three ESG aspects and are relevant for controlling the ESG goals of the group of credit institutions. These KPIs are being implemented at present and will then be reported on in the NAKO on a current basis; this committee is also responsible for steering these efforts (see Chapter 1.).

Within the Association of Volksbanks, sustainability risks are not considered as a separate risk type, but are mapped within the existing risk types and accordingly are embedded in the existing organisational structure as an integral part of bank management and of the risk framework.

See also Chapter 2. *Qualitative information on environmental risks*, lit. e).

g) Integration of measures to manage environmental factors and risks into the internal governance rules, including the role of the committees, the allocation of tasks and responsibilities, and the feedback loop from Risk Management to the management body that covers the relevant transmission channels

The steering, coordination and monitoring of key sustainability issues is carried out by the bi-monthly Sustainability Committee (NAKO). The NAKO is a decision-making body of the entire Managing Board and serves to advise on and monitor all sustainability-related issues, ensuring that decisions are in line with the sustainability strategy and sustainability goals. The NAKO provides the Managing Board with a holistic view of sustainability-related issues for the Association of Volksbanks. The responsibilities include both subject areas of VOLKSBANK WIEN AG as a single institution and matters concerning the entire Association of Volksbanks. Members of the NAKO include, among others, the internal control functions Compliance and Risk Control.

See also Chapter 2. *Qualitative information on environmental risks*, lit. e).

h) Reporting lines and frequency of reporting in relation to environmental risks

As ESG risks are mapped within existing risk types, reporting in connection with ESG risks takes place in the Risk Committee. For details regarding risk reporting, please refer to Chapter 2 Risk management and governance.

See also the information on the NAKO and on internal reporting, Chapter 2. *Qualitative information on environmental risks*, lit. e)

i) Alignment of the remuneration policy with the goals of the institution in connection with environmental risks

The remuneration policy of the Association of Volksbanks and its incentive systems rely on profitability, sustainability and other drivers of sustainable business, taking special account of risk, capital cost, and efficiency. They are geared to the future and designed to be in line with the performance outcomes of the Association and of the respective credit institution. The incentive systems take into account the sustainability goals of the Association, they are compatible with the risk strategy and with the Risk Appetite Framework, and they do not provide any incentives for taking excessive risks, incl. environmental risks.

Qualitative information on social risks

d) Responsibilities of the management body with a view to defining the risk framework, the monitoring and control of target implementation, strategies and measures associated with the management of social risks in relation to the approaches of the counterparties in the following areas:

The information on responsibilities, goal setting, monitoring, administration, strategy, and risk management contained in Chapters 1. and 2. *Qualitative information on environmental risks*, lit. e) applies to ESG aspects.

(i) Activities oriented towards society and the community

Assuming responsibility and making a contribution to the common welfare is an integral part of the vision of the Association of Volksbanks. The company considers it its mission to support social and arts facilities as well as sports associations in a spirit of partnership. The focus here is on long-term, integral concepts and mutual learning from each other. The basic criteria for determining whether a cooperation is suitable and relevant for the Association of Volksbanks are precisely defined and were laid down in guidelines for regional and sustainable sponsorships. One essential aspect of the sustainability policy of the Association of Volksbanks is to support sports, cultural and social/charitable activities, thus making an important contribution to society at large. Sports play an extremely important role within society. The Association of Volksbanks focuses on providing children and young people with opportunities to do sports. The targeted promotion of sports in Austria and the associated enhanced presence of such activities in the population may lead to increased sports enthusiasm and hence improved physical and mental fitness in the long run. In 2021, the Association of Volksbanks established guidelines on the topic of sustainable sponsorships, which describe sponsorship and promotion principles across the Association to support the regional approach.

(ii) Employer/employee relations and labour standards

The Association of Volksbanks builds on a relationship based on trust because when it comes to banking, mutual trust has been a bond with customers for many years. The same is also very important to the Association of Volksbanks as an employer in the relationship with its employees. That is why the Association relies on mutual trust through partnership.

As a central element of the HR strategy, a promise to employees was formulated by the managing boards of the banks of the Association in 2022, which is supported by the employer values and the strategic HR guiding principles, addressing the challenges and opportunities arising from the current environment: "As a modern and customer-oriented regional bank, we promise you performance-based remuneration with flexible working models in a corporate culture based on trust. Within the scope of our sustainable business model, we offer meaningful work that we support through top-level training and development opportunities."

In working together, the employees represent the authentic employer values of the Association of Volksbanks – encounters at eye level, the courage to get involved, and making the company 'fit for the future through flexibility'. Behind all three

employer values is a value commitment that the individual affiliated banks make vis-à-vis their employees. This value commitment has become an integral part of the value framework practiced within the Association of Volksbanks, helping the affiliated banks to improve as employers. As part of the organisation's positioning as an attractive employer, great importance is attached to training and education, flexible working hours, equal rights, recognition, innovation and self-fulfilment. The Association of Volksbanks is building on this, because this is how Volksbank will remain fit for the future and sustainably successful.

For years, the Association of Volksbanks has been committed to a fair and positive working environment for all employees, with a strong focus on diversity and inclusion. First and foremost, all employees are valued and treated equally. The aim of "living diversity" is to create an organisational culture where no one is disadvantaged and everyone is able to develop and unfold their potentials. This increases productivity, motivation and social skills and brings sustainable success to the company and all employees. In the Code of Conduct, to which all employees are bound, the Association of Volksbanks states that it expressly respects human rights and rejects any form of discrimination.

For the Association of Volksbanks, further training is an essential component of HR development and employee retention in order to ensure and develop the knowledge and skills of the employees required to implement the "relationship bank of the future" strategy throughout the Association. In this context, the services of Volksbank's own academy (Volksbank Akademie) are used, which provides needs-based training courses with optimal coordination between executives, technical experts and HR management.

The Association of Volksbanks relies on mutual trust through partnership. This includes listening to, and systematically using, employee feedback to develop the organisation and executives. This is operationalised in the form of employee surveys and appraisal interviews.

The Association of Volksbanks is proud of its executives and employees, who contribute a high degree of professionalism as well as technical, interdisciplinary and social skills. In order to be able to guarantee and develop these resources in the long term, an annual appraisal interview is held between supervisors and employees. The aim is to look back on the past period, to reflect on the joint successes, learnings and areas of development and to define and plan further joint goals.

In order to ensure equal rights, the Association of Volksbanks primarily implements measures for the advancement of women with a view to equal opportunities. The overriding goal of cross-company measures for the advancement of women is to reduce or prevent the underrepresentation of women in senior positions. The proportion of women in managerial positions is meant to increase steadily in order to achieve equal participation in decision-making and responsibility.

The Association of Volksbanks is convinced that the compatibility of professional and private life is decisive for the quality of life and the health of its employees. HR management sets itself the strategic goal of making this possible. A healthy and successful work-life balance is meant to be facilitated by flexible working hours and workplace models.

Within the framework of operational safety, a working instruction has been drawn up that contains the main tasks and obligations arising from the Austrian Industrial Safety Act (ArbeitnehmerInnenschutzgesetz; ASchG) for the Association of Volksbanks. According to the ASchG, employers are obliged to ensure the safety and health of employees with regard to all work-related aspects. Employees are obliged to comply with the protective measures provided for and to follow the employer's instructions. The implementation of the ASchG within the Association of Volksbanks as well as compliance with or observance of the provisions of other laws such as the Austrian Workplace Ordinance (AStV) are described in an internal working instruction. Furthermore, all required documents must be made available digitally at every workplace. Each retail branch is responsible for updating these documents, and at the headquarters, this is done by the safety officer.

Details are also provided in the 2022 Sustainability Report of the Association of Volksbanks in the chapter “Employees”.
www.volksbank.at/nachhaltigkeit

(iii) Protection of customers and product responsibility

As of 2 August 2022, the sustainability preference query has been introduced in the financial services sector. In concrete terms, this means that investment advisors must ask their customers about their wishes with regard to sustainability and are allowed to recommend to them only financial instruments that meet their sustainability preferences. A committee of experienced investment specialists from the Association of Volksbanks develops and decides on product proposals from the area of investment funds and certificates. The product proposals are reviewed in the course of the investment process with regard to sales approval, tax transparency and MiFID regulations, as every MiFID-II-relevant product actively offered to a customer in the Association of Volksbanks has to pass a product approval procedure to be documented in advance. However, a successfully tested product may only be included in the product range (Volksbank master list) if it is in line with the business strategy of the Association of Volksbanks.

As regards responsible corporate behaviour with a focus on human rights, a number of guidelines have been established throughout the Association. Throughout the Association of Volksbanks, the “Data Protection Manual” on data protection (a human right) applies as a uniform guideline and was approved by the Managing Board. Additionally, data protection management has been implemented in all banks of the Association.

Financial Literacy

With the support of cooperative associations – including the ÖGV – the first student cooperatives were launched in 2021. The idea behind it: the young generation should get to know the successful model of cooperative business in a practical way. Along the way, important skills such as self-initiative, creativity and team spirit are conveyed as well.

The right way to handle money is essential these days, but often not easy for customers to understand in the usual banking jargon. This is the reason why, since 2021, there has been “Veronica” on the Volksbank Instagram and Facebook channels, who presents a term from the world of finance every month, making the services of the Association of Volksbanks more tangible for the customers in a playful way.

(iv) Human rights

The Code of Conduct explicitly states that the Association of Volksbanks respects human rights and opposes child labour. Furthermore, the Code of Conduct states that any form of discrimination will not be tolerated. Volksbank values the dignity of human beings, their rights and their privacy. Therefore, VOLKSBANK WIEN AG has joined the UN Global Compact and supports its ten principles in the area of human rights, among others. To ensure compliance with human rights in the company’s core business, for example, industries and business areas have been defined where the bank will not enter into business relationships. In addition, employee training events have been carried out, and care is taken to ensure that business partners comply with human rights.

See also the policy statement on the protection of human rights (“Human Rights Policy”) of VOLKSBANK WIEN AG:
www.volksbank.at/nachhaltigkeit.

- e) Integration of measures to manage social factors and risks into the internal governance rules, including the role of the committees, the allocation of tasks and responsibilities, and the feedback loop from Risk Management to the management body

See Chapter 1. *Qualitative information on environmental risks* as well as Chapter 2. *Qualitative information on environmental risks*, lit. e) and g); the information applies to ESG aspects.

f) *Reporting lines and frequency of reporting in relation to social risks*

See Chapter 2. *Qualitative information on environmental risks*, lit. h); the information applies to ESG aspects.

g) *Alignment of the remuneration policy with the goals of the institution in connection with social risks*

The following sustainability factors serve to support the achievement of the sustainable aspects and long-term value creation within the Association of Volksbanks:

- Compliance with labour law standards;
- compliance with occupational health and safety;
- reasonable fixed and variable remuneration, in connection with the sustainable cooperative business model;
- fair conditions at the workplace, diversity as well as education and training opportunities;
- fighting inequality, and
- encouraging social cohesion.

Qualitative information on governance risks

a) *Integration of the efficiency of counterparties in corporate governance terms into the governance rules of the institution, including the committees of the top management body and the committees responsible for making decisions in economic, environmental and social matters*

The Association takes care of the core services of a retail bank itself: loans, deposits and payment transactions. Other products and services are offered by competent partners. Therefore, cooperation agreements were concluded with reliable product partners. Our product partners also pursue sustainable business policies – which is of essential importance to the Association. Through considerable streamlining and standardisation of the product range, transparency is increased for our customers due to a neat array of products.

See also Chapter 2. *Qualitative information on environmental risks*, lit. e); the information applies to ESG aspects.

b) *Integration of the role of the top management body of the counterparty into the reporting of the institution on non-financial information*

The essential topics forming the basis for sustainability management are continuously being worked out together with the stakeholders. The topics are selected considering the ecological and social impact of the sustainability topics identified, as well as their relevance to stakeholders. The stakeholders are asked to evaluate the importance of the sustainability topics as well as the commitment of the Association of Volksbanks to sustainability topics. The surveys are conducted for the entire Association of Volksbanks. In this way, the stakeholders make an important contribution to determining the main sustainability topics. Counterparties are also stakeholders. At present, a CSRD-compliant materiality analysis is being carried out to prepare for reporting on the 2024 financial year.

Details are provided in the 2022 Sustainability Report of the Association of Volksbanks in the chapter “SUSTAINABILITY MANAGEMENT/stakeholder survey”. www.volksbank.at/nachhaltigkeit

c) *Integration of the efficiency of counterparties in corporate governance terms into the governance rules of the institution, including the following aspects:*

- (i) *Ethical considerations*
- (ii) *Strategy and risk management*
- (iii) *Inclusivity*
- (iv) *Transparency*
- (v) *Management of conflicts of interest*
- (vi) *Internal communication regarding critical matters*

The main product partners of the Association are domiciled in Austria and Germany and hence are subject to the strict requirements applicable to companies under EU regulations.

See also Chapter 1. *Qualitative information on social risks*, lit. c).

3. Risk management

CRR Art 449a taking account of Art 435 CRR

Qualitative information on environmental risks

- j) *Integration of short-, medium- and long-term effects of environmental factors and risks into the risk framework*

The Association of Volksbanks has comprehensively integrated ESG risks into its risk framework and created corresponding framework conditions. For example, the Risk Appetite Framework (RAF) for the Association of Volksbanks has been developed further and explicitly takes ESG risks into account in its specifications.

- ESG risks are managed centrally by the Risk Management Function
- Involvement of the Managing Board with a view to identifying and managing ESG risks
- Quarterly reporting to the Supervisory Board about progress in terms of integrating ESG risks
- The Association of Volksbanks is a group of credit institutions under ECB supervision and accordingly complies with the latter's high supervisory standards
- Standardised identification of ESG risks within the scope of the risk inventory process
- Calculation of ESG-related scenarios in the internal stress test
- Evaluation of ESG aspects in the course of the new product process since Q3/2021
- Assessment of outsourcing risks 2022 extended by ESG aspects
- The risk strategy of the Association represents the findings from the internal stress test and risk inventory
- Since 2022, ESG risks in specific risk types are also quantified in the risk bearing capacity calculation
- Consideration within the scope of regular risk reporting

On the one hand, the risk strategy of the Association maps ESG risks via a specially formulated sub-risk strategy; on the other hand, important findings from the risk identification and assessment process are described in the sub-risk strategies for existing risk types. The sub-risk strategy for ESG risks was determined at the level of the Association and is applied to all affiliated banks as part of the local risk strategies.

Details on the RAF and the risk strategy are included in Chapter 2 Risk management and governance (Disclosure Association 31 December 2022).

k) Definitions, methods and international standards that the framework for environmental risk management is based on

Environmental, social and governance risks (ESG risks) refer to operational risk events or conditions affecting the climate, the environment, social affairs or corporate governance, the occurrence of which could have an actual or potential negative impact on the value of assets or on the net assets, financial position and earnings situation, as well as the reputation of the Association of Volksbanks. ESG risks arise because climate, environmental, social and governance matters (ESG factors) may affect counterparties, customers and other contractual partners of the Association of Volksbanks. ESG risks comprise the following sub-risk categories:

- **Climate and environmental risks** are the risks arising from exposures of the Association of Volksbanks to counterparties, customers and other contractual partners that may contribute to or be affected by climate change or other forms of environmental degradation. Climate and environmental risks can manifest themselves in physical risks or transition risks. Physical risks arise as a result of changing climatic and/or environmental conditions. Transition risks arise as a result of the adjustment process towards a lower-carbon and more environmentally sustainable economy.
- **Social risks** are risks arising from exposures of the Association of Volksbanks to counterparties, customers and other contractual partners that are negatively impacted by the neglect of social aspects.
- **Risks in the area of corporate governance** are risks arising from exposures of the Association of Volksbanks to counterparties, customers and other contractual partners that are negatively impacted by the neglect of appropriate corporate governance.

Within the Association of Volksbanks, ESG risks are not considered as a separate risk type, but are mapped within the existing risk types.

In the spring of 2023, VOLKSBANK WIEN AG, representing the Association of Volksbanks, joined the TCFD to emphasize the importance of sustainability- and climate-related risks and opportunities.

As regards the requirements of various stakeholders in terms of transparency and disclosure (supervision, rating agencies, auditors, customers, etc.), we are in the process of joining the following further initiatives and standards:

- PCAF (= Partnership for Carbon Accounting Financials): standardised method to measure carbon emissions (= basis for managing climate risks)
- SBTi (= Science Based Targets Initiative): initiative aiming at the definition of scientifically sound climate targets

l) Process for identifying, measuring and monitoring activities and exposures (and collaterals, if any) susceptible to environmental risks, including relevant transmission channels

Risk identification

The Association of Volksbanks basically considers ESG risks as material. Therefore, ESG risks are regularly analysed and reassessed as part of the risk inventory using ESG heat maps. ESG heat maps are a tool to identify, analyse and assess the materiality of ESG risks and/or their risk drivers. In the ESG heat maps, various risk events (e.g. increased costs due to CO2 taxes, extreme weather events, biodiversity loss, water stress, land use, etc.) are described and evaluated for all relevant risk types of the Association of Volksbanks. The 17 risk events included in the ESG heat map are derived from the United Nations Sustainable Development Goals (SDGs). The assessment of the impact of risk events is based on a

medium- to long-term horizon of five to ten years¹. The underlying economic conditions in the assessment are those of an orderly transition to a lower-carbon economy. The application of ESG heat maps enables ESG risks to be systematically recorded across risk factors and risk drivers and allows a detailed analysis of individual industries and portfolios as well as the identification of those risk events that have the greatest impact from the perspective of the Association of Volksbanks. The results of the ESG heat map Credit Risk are incorporated into the ESG score.

Within the scope of the regular revision, risk events, risk drivers and assumptions are made plausible and/or verified based on the results available. The risk events are assessed and newly evaluated along qualitative classification criteria by the respective risk owner. This is based on the existing ESG heat maps in each case; reclassifications will take place whenever they can be justified on the basis of new insights or extended expertise. The classifications obtained in the course of the heat map process will be aligned within the scope of the risk inventory process as a final step and resolved upon in the Risk Committee. Subsequently, the results will be integrated in the risk strategy of the Association, with any measures being derived therefrom if required. A separate scoring system was developed for assessing the risks associated with ESG factors at the level of the individual borrower, which is applied to Corporate and Real Estate customers depending on credit exposure. By means of the assessment of soft facts by the account managers, the risks associated with ESG factors as well as the risk-mitigating measures taken by the customers are evaluated in the context of an ESG score. The soft facts, which are tailored to the customer segments, cover all three risk aspects (environmental, social and governance). Moreover, certain aspects regarding corporate governance are taken into account in the soft facts of the rating models applied.

The ESG score is designed to take into account both industry risks (results from the ESG heat map) and customer awareness and actions in relation to ESG factors. In quantitative terms, the additional assessment of customer-specific soft facts (evaluation of qualitative information), in addition to industry-specific ones, results in an ESG score, which can subsequently be used to classify ESG risks. The ESG score informs the customer evaluation, but does currently not affect the customer rating.

An assessment of the risks associated with ESG factors takes place within the scope of the lending and monitoring processes. The assessment of the borrower's ability to service the debt is generally made taking into account the borrower's current and future financial circumstances, whereby risks to the future financial and liquidity position must be included in the consideration. The credit decision must therefore also take into account transitory and physical environmental risks. The manufacturing, energy supply and transport sectors in particular are currently undergoing a major transformation process with regard to the reduction of CO₂ emissions. For customers in these sectors, the front office statement should therefore address – in addition to the ESG score – the extent to which costs/efforts for high CO₂ emissions or for the transformation towards low CO₂ economic activity are incurred by the customer. In doing so, onerous or hazardous aspects in relation to the customer's earning power and business model need to be assessed.

Furthermore, the statement must address if a financed property is located in a hazard zone (e.g. flooding, danger of avalanches, earthquakes). As it may be assumed that there is insufficient insurance cover for properties in hazard zones, an assessment must be made as to whether there are reserves in the customer's financial position to cover any losses.

¹ Any periods beyond that will be considered within the scope of the longer-term climate scenario based on the NGFS (Network for Greening the Financial System) scenarios until 2050. The effects of these NGFS scenarios are consolidated within the period of ten years considered in the internal stress test. Short-term effects for the period of up to three years will additionally be taken into account in the individual stress scenario.

Climate and environmental risks are examined as part of the valuation of commercial and residential properties. This is done by examining environmental impacts (noise, flooding, hazard zones), energy efficiency, and use of fossil fuels. For this purpose, climate and environmental influences (noise, flooding, hazard zones), energy efficiency (energy certificate, year of construction, year of refurbishment) and the use of fossil fuels (oil, gas) are documented and incorporated into the assessment. If a real property is located within the sphere of any climate or environmental hazard, the assessment must indicate if this fact is relevant in terms of value and if a corresponding impairment must be recognised.

Risk assessment

Within the Association of Volksbanks, ESG risks are mapped in existing risk types (e.g. credit, market and operational risk). The management of ESG risks is therefore carried out using existing risk types and is being driven forward by successively expanding the quantification methods and the related data basis and enriching them with new findings.

Quantification of ESG risks through credit risk

The assumptions regarding expected losses are still considered to be reasonable. However, overall economic uncertainties arising from ESG risks (e.g. CO2 pricing, increasing physical risks, compliance costs) may systematically influence the economic valuation and hence are measured as part of unexpected losses.

For the purpose of quantifying ESG risks, an ESG credit spread premium (exceeding the currently used credit spreads) per rating level and maturity is calibrated. The derivation is based on the difference in GDP development in the NGFS scenarios "Orderly Transition" and "Disorderly Transition Front Loaded".

Application in the loan portfolio model

- Simulation of impairments for the unsecured portions of the performing exposures of Corporates.
- For Private Customers and for other positions, no ESG risk is currently provided for.

Quantification of ESG risks in operational risk

Within the scope of the annual analysis of operational risk, various negative scenarios are considered. These scenarios have been classified in terms of any relation to ESG risks since 2022, for longer-term ESG risk trends to be subsequently derived therefrom.

Risk monitoring

The ESG score is updated once a year within the scope of the annual credit review. Any climate-related transitional and physical risks are taken into account as part of the lending and monitoring process in assessing the creditworthiness of the customer. For instance, when checking the customer's repayment ability, the way in which climate change (e.g. transformation costs) will impact on the customer's business is critically analysed. Aspects that burden or jeopardise the customer's sustainable profitability, their assets and/or their business model must be reported and taken into account when assessing the customer's creditworthiness.

In the course of a regular industry analysis based on external, macroeconomic as well as internal and ESG factors, branches of industry associated with higher risks are identified, and measures are taken if necessary.

m) Activities, obligations and exposures that contribute to the mitigation of environmental risks

The Association of Volksbanks is committed to conducting lending operations in a sustainable and responsible manner. For this reason, we do not enter into business relationships in sensitive areas that conflict with this claim. Business relationships or financing transactions are not possible for traders in ethically questionable sectors and business areas, or are only possible in accordance with the rules of conduct specified by Compliance. In the context of lending, accordingly, attention is paid to the protection of the environment. Financed transactions must comply with environmental regulations. For this reason, no business is conducted in environmentally harmful sectors. In case of doubt, the matter needs to be discussed with Compliance in the course of assessing the business relationship or within the scope of granting credit lines. Defining undesirable branches of industry and business areas reduces the reputational risk of the individual primary banks and of the Association of Volksbanks.

As regards risk mitigation within the lending and monitoring process, reference is made to item l) *Risk identification* and the information on the ESG score.

The new product process ensures that new products, markets, services and service providers are in line with the understanding of sustainability of the Association of Volksbanks, and that ESG risks can be identified and mitigated at an early stage. Based on the General Instruction on Risk Assessment of Outsourcing, all outsourcing activities of the Association of Volksbanks are reviewed using a defined standard process. A sustainability check is part of this process. Checking for sustainability risks covers a wide range of issues, e.g. whether the service provider endangers the environment and/or biodiversity, is heavily dependent on resources such as coal, gas, oil, water, etc. or has established sustainability principles.

n) Introduction of tools to identify, measure and manage environmental risks

In addition to the new product process, risk identification and assessment for ESG risks is carried out via ESG heat maps and the internal stress test. As part of the internal stress test, ESG-related scenarios are simulated that reflect both physical and transition risks as well as risk events from the social and/or governance categories. For example, the effects of extreme weather events as well as the rapid implementation of stricter requirements in connection with climate and environmental standards on the portfolio of the Association of Volksbanks are simulated. The scenarios are designed with respect to the portfolio composition of the Association of Volksbanks and also take into account the key assumptions of the NGFS (Network for Greening the Financial System). The time horizon of the internal stress test is up to 3.5 years. In addition to the internal stress test, an adverse scenario for a long-term horizon of up to 10 years has been analysed for selected portfolios since 2022. In this longer-term climate scenario, the effects on relevant macroeconomic factors are derived on the basis of long-term NGFS scenarios, consolidated within the 10-year period of review, and the effects on the income statement of the Association of Volksbanks (in particular, the expected losses) are determined.

o) Results of the risk tools used and estimated effects of environmental risk on the risk profile with a view to capital and liquidity

The results of the scenario analyses show that the internal hurdle rates are complied with throughout the stress test horizon. The effects of the longer-term climate scenario on the expected default rates of the loan portfolio are manageable. The analyses show that the Association of Volksbanks can maintain all regulatory capital ratios and adequate liquidity levels even if potential ESG risks materialise, and that the resilience of the business model is not jeopardised over the simulated period due to ESG risks.

For each risk type, the qualitative assessment performed in 2023 of the risk events indicated in the ESG heat maps has shown that the operational risk events have an impact within our planning horizon (5 years) which the Association of Volksbanks is able to manage. Due to the business model of the Association of Volksbanks, a special focus is on credit

risk here, with the effects of ESG risks on 29 industry groups having been analysed. Almost the entire portfolio (> 99 %) was classified for “no” or “manageable” effects. No industry group was classified as “critical”. By way of summary, credit risk and operational risks (incl. compliance risk & risk of money laundering and financing of terrorism, as well as reputational risk) show manageable effects; no material effects are shown for the other risk types. While, basically, ESG risks may be material, and although they have resulted in increased credit risk values in various sub-branches of industry for individual risk events, cumulatively speaking they are not material for the Association of Volksbanks for our planning horizon due to the current portfolio structure; in other words, they are manageable in terms of their effects on income statement, capital, reputation, and entrepreneurs or customers.

The assessment is derived from the following scale of evaluation:

In the ESG heat maps, the following classification has been defined for each risk event per risk driver and/or industry sector:

- No effects
No effect of the risk event on the Association of Volksbanks or the industry sector expected
- Manageable effects
Risk events of the ESG heat map potentially have a moderately negative influence on risk drivers/risk factors, the effects on income statement, capital and reputation are manageable for the Association of Volksbanks and/or the customers of the respective industry sector
- Harmful effects
Risk events of the ESG heat map potentially have a significantly negative influence on risk drivers/risk factors, the effects on income statement, capital and reputation may be harmful for the Association of Volksbanks and/or the customers of the respective industry sector
- Critical effects
Risk events of the ESG heat map potentially have a greatly negative influence on risk drivers/risk factors, the effects on income statement, capital and reputation may be critical for the Association of Volksbanks

Physical risks

Acute and chronic physical risks were determined for each transaction or real estate collateral based on external data sources. For the portfolio in Austria, physical risks were evaluated by means of a scenario analysis, taking into account various data sources and forward-looking climate scenarios. The assessment of the physical risks of foreign exposures is based on the Think Hazard! data source. The exposures reported as “sensitive to physical risks” exclusively concern acute physical risks (in Austria: heavy rain, landslide and snowfall). Chronic physical risks are insignificant.

In line with the EBA ITS on supervisory disclosures of ESG risks under Article 449a CRR, the results of our analyses of physical climate risks are disclosed in Template 5. It shows the credit exposure of the Association of Volksbanks that is sensitive to physical climate risks, broken down by maturity among others. In addition to the information presented in Template 5, it should be noted that sensitivities to physical climate risks concern Austria’s mountainous regions, in particular, especially the federal Länder of Salzburg and Tirol.

CO2 emissions

The measurement of financed CO2 emissions started in 2021 is effected in line with the PCAF standard and developed continuously (extension to Scope 2 and Scope 3 emissions in FY 2022). Directly captured CO2 emission data are meant to be integrated in the next step. Details are provided in the 2022 Sustainability Report of the Association of Volksbanks in the chapter “SUSTAINABILITY MANAGEMENT/Financed emissions (Scope 3)”. www.volksbank.at/nachhaltigkeit

p) Availability, quality and accuracy of the data and efforts to improve these aspects

Data are an essential factor with a view to identifying, measuring, monitoring and managing ESG risks. A comprehensive gap analysis (taking account of regulatory requirements, in particular the expectation of the ECB under the *Guideline on Climate and Environmental Risks* and the *EBA Guideline Loan Origination and Monitoring*) has already been carried out as part of the sustainability project of the Association of Volksbanks, and measures to close the gaps identified were initiated or implemented, among others the implementation of ESG scoring, determination of energy certificates, extended documentation requirement for climate and environmental risks within the scope of real estate valuations.

In order to achieve the strategic plans and ensure the requirements for ESG data, the Association of Volksbanks set up an ESG data project in the 4th quarter of 2022 – to continue and expand the topics addressed by the sustainability project – in particular for the loan portfolio. This project ensures the comprehensive ESG data requirements for internal control and risk management as well as sustainability reporting and regulatory disclosure.

Many of the planned initiatives have already been implemented:

- Collection of data for the quantification of acute and chronic physical risks in the loan portfolio.
- Within the scope of CRR disclosure/Template 5, quantification of exposures “sensitive to acute and chronic risks”. For the portfolio in Austria using different forward-looking climate scenarios (RCP 2.6, RCP 4.5, RCP 6.0 and RCP 8.5) and based on several external data sources (e.g. Copernicus, World Bank, ISIMIP, etc.).
- Collection of CO2 emission data (Scope 1, 2 and 3) for the loan portfolio (in line with the PCAF standard).
- Calculation of financed CO2 emissions: The emission data used for greenhouse gases (in CO2e) for the corporate sectors come from the Statistical Office of the European Commission (Eurostat) and are publicly available there per NACE code. For the property-specific emissions, the data source used was the Climate Protection Report 2021 of the Austrian Federal Environment Agency (see also 2022 Sustainability Report of the Association of Volksbanks, chapter “SUSTAINABILITY MANAGEMENT/Financed emissions (Scope 3)”).
- Identification of ESG risks within the scope of the ESG score by assessing questions about soft facts in relation to the customer (assessment is made by the account manager based on talks with customers).
- Labelling of sustainable real estate financing (pilot phase in selected banks of the Association).
- Initiative for the labelling of sustainable financing (EU Taxonomy).

Acute and chronic physical risks were determined for each transaction or real estate collateral based on external data sources. For the portfolio in Austria, physical risks were evaluated by means of a scenario analysis, taking into account various data sources and forward-looking climate scenarios. The assessment of the physical risks of foreign exposures is based on the Think Hazard! data source. The exposures reported as “sensitive to physical risks” exclusively concern acute physical risks (in Austria: heavy rain, landslide and snowfall). Chronic physical risks are insignificant.

In Austria, the share of companies subject to the NFRD (and hence companies that have to disclose their ESG data) is low, especially in the SME segment which is relevant for the Association. Moreover, there is currently no energy certificate database that covers the whole of Austria. Therefore, apart from the measures taken by the Association to collect ESG data directly from our customers, external ESG databases and data providers constitute essential sources of data. Therefore, the Association supports external initiatives to establish ESG databases covering the whole of Austria, especially for SMEs, such as the OeKB > ESG Data Hub, and is exchanging technical information with the OeKB (among others, participation in the ESG questionnaire of the OeKB tool for the tourism sector).

q) Description of upper limits for environmental risks (as drivers of risks subject to supervision) that are defined and will trigger escalations and exclusions if exceeded

Apart from the undesirable branches of industry and areas of business (see Chapter 3. *Qualitative information on governance risks*, lit. d)), external financing transactions are limited within the Association, due to the regional business model. The major part of admissible foreign exposure (currently no more than 5 %) originates from Germany and other European neighbouring countries.

The Association of Volksbanks aims to make its sustainability strategy measurable and controllable and to take account of major sustainability risks by using divisional goals, KPIs and KRIs. The Association of Volksbanks has determined a set of KPIs that cover all three ESG aspects and are relevant for controlling the ESG goals of the group of credit institutions. These KPIs are being implemented at present and will then be reported on in the NAKO on a current basis; this committee is also responsible for steering these efforts (see also Chapter 1. *Qualitative information on environmental risks*, lit. b)).

r) Description of the link (transmission channels) between environmental risks/social risks and credit risk, liquidity and financing risk, market risk, operational risk, and reputational risk within the Risk Management framework

In assessing the impact of ESG risks, consideration was given to key transmission channels. Transmission channels explain how ESG factors can affect the Association of Volksbanks via counterparties, customers, contractual partners as well as invested assets. These transmission channels are mapped on the one hand via the scenarios of the internal stress test or via the risk events of the ESG heat maps. The following transmission channels were considered, for example:

- Profitability
- Real estate values
- Household incomes
- Performance of investments
- Cost of implementation of and compliance with regulatory requirements
- Legal costs

The qualitative assessment based on the ESG heat maps for 2023 has shown that existing risks due to ESG risks will not materially increase overall. The quantitative results of the internal stress test confirm this finding.

The long-term integration of ESG aspects into the business model of the Association of Volksbanks is managed via the sustainability strategy, which is part of the business strategy. Building on existing initiatives such as the United Nations SDGs, the Paris Agreement on Climate Change and the United Nations Global Compact, it sets out concrete plans and corresponding framework conditions in connection with products and services.

The Austrian real estate market has basically proven its immediate robustness and stability in all previous crises. Structural changes, short- to medium-term negative effects are possible, in particular, for retail stores, obsolete office buildings and commercial real estate with respect to higher costs for current operation (energy) and ESG-compliant refurbishment measures.

Qualitative information on social risks

h) Definitions, methods and international standards that the framework for the management of social risks is based on

Being an employer as well as a user and provider of products and services, VOLKSBANK WIEN AG is in a position to influence human rights, and the company proactively assumes this responsibility within the scope of its corporate duty of care. The bank is convinced that a business model geared to sustainability is an absolute necessity for its continuing success; VOLKSBANK WIEN AG considers the protection of human rights as a core element of responsible governance.

Representing the Association of Volksbanks in its role as central organisation of the latter, VOLKSBANK WIEN AG joined the United Nations Global Compact (UNGC) in 2018. By committing to the Ten Principles of the UNGC regarding human rights, labour, the environment and anti-corruption, the company emphasizes the importance of responsible governance and sustainability within the scope of its business model.

The principles regarding human rights, in particular, (Principle 1 and Principle 2) as well as the principles regarding labour (Principle 3 to Principle 6) focus on the protection of human rights. As a signatory of the UNGC, VOLKSBANK WIEN AG is committed to:

- supporting and respecting the protection of internationally proclaimed human rights within its sphere of influence (Principle 1),
- making sure that it is not complicit in human rights abuses (Principle 2),
- upholding the freedom of association and the effective recognition of the right to collective bargaining (Principle 3),
- eliminating all forms of forced and compulsory labour (Principle 4),
- effectively abolishing child labour (Principle 5),
- eliminating discrimination in respect of employment and occupation (Principle 6).

Additionally, VOLKSBANK WIEN AG is geared towards other initiatives relating to human rights issues:

- “Charta der Vielfalt” (advancing diversity and mutual respect within the company),
- Declaration of the ILO (International Labour Organization) and the core labour standards, and
- Oikocredit (advancing ethical investment, fair investments and social return).

Based on these international principles, VOLKSBANK WIEN AG undertakes to respect and advance human rights in all its business activities.

VOLKSBANK WIEN AG has implemented a Code of Conduct that constitutes an integral part of its corporate culture, taking all employees, including the management, up on their promise to comply with the CoC.

The Code of Conduct constitutes the basis of the bank’s own commitment to sustainability, to dealing with any violations, and to the Ten Principles of the UNGC. This Policy Statement focuses on the bank meeting its duty of care; in this way, VOLKSBANK WIEN AG contributes to raising people’s awareness, confirming corporate responsibility for the protection of human rights with respect to its own business activities and those along the supply chain.

i) Process for identifying, measuring and monitoring activities and exposures (and collaterals, if any) susceptible to social risks, including relevant transmission channels

j) Activities, obligations and assets that contribute to the mitigation of social risks

The Association of Volksbanks is committed to conducting lending operations in a sustainable and responsible manner. For this reason, we do not enter into business relationships in sensitive areas that conflict with this claim. Business relationships or financing transactions are not possible for traders in ethically questionable sectors and business areas, or are only possible in accordance with the rules of conduct specified by Compliance. In the context of lending, therefore, attention is paid to the sustainability of matters in the social sphere. For this reason, no business is conducted in socially harmful sectors.

k) Introduction of tools to identify and manage social risks

l) Description of how the upper limits for social risks are determined and in which cases these upper limits will trigger escalations and exclusions if exceeded

m) Description of the link (transmission channels) between social risks and credit risk, liquidity and financing risk, market risk, operational risk, and reputational risk within the Risk Management framework

We refer to Chapter 3. Risk management lit. j) to r); the information refers to ESG aspects.

Qualitative information on governance risks

d) Integration of the efficiency of counterparties in corporate governance terms into the risk management rules of the institution, including the following aspects:

- (i) Ethical considerations
- (ii) Strategy and risk management
- (iii) Inclusivity
- (iv) Transparency
- (v) Management of conflicts of interest
- (vi) Internal communication regarding critical matters

The Association of Volksbanks and its affiliated banks act in accordance with the highest ethical and professional standards and are therefore committed to conducting the lending business in a sustainable and responsible manner. For this reason, we reserve the right not to enter into any business relationships or financing transactions with sectors or in business areas that are in conflict with these core values. This list of industries and business areas includes, among others, business relationships related to the following topics:

- Forced labour or child labour
- Violations against the European Convention on Human Rights, or of obligations under social and labour law
- Corruption
- Violations against environmental protection in general (environmental hazards, intentional violation of environmental protection regulations, increased contamination, etc.)
- Animal testing
- Ownership and operation of nuclear power plants or operation of final disposal sites for nuclear waste
- Mining of coal or operation of coal-fired power plants
- Arms deals
- Particularly controversial forms of gambling

Business relationships or financing transactions are not possible for businesspersons in ethically questionable sectors and business areas, or are only possible in accordance with the rules of conduct specified by Compliance.

Furthermore, in the context of lending, attention is paid to the protection of the environment and the sustainability of social concerns. Financed transactions must comply with environmental regulations. For this reason, no business is conducted in environmentally or socially harmful sectors.

See also the information on the ESG score (Chapter 3. *Qualitative information on environmental risks*, lit. I), *Risk identification*).