

# SUSTAINABILITY STRATEGY OF THE ASSOCIATION OF VOLKSBANKS

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Short version 2024

## I. THE ASSOCIATION OF VOLKSBANKS' UNDERSTANDING OF SUSTAINABILITY

### 1. Importance of sustainability for the Association of Volksbanks

Sustainability and regionality have been integral parts of the business model of the Association of Volksbanks for 170 years. The cooperative identity and sustainability values are distinguishing features of the Volksbanks. Our focus is on customers, partners and employees.

The members of the Association operate almost exclusively in their catchment areas in Austria. The focus is on being the relationship bank for customers in the region, thus minimising the risk of negative effects on the environment or on human rights as well the associated reputational risks. The Association aims to establish the principles of sustainability in all business areas and to be perceived by all stakeholders as a sustainable financial partner in the region.

In addition to its role as sponsor and financier, the regional bank is a hub, an enabler and a networker and supports the regional economy through the cooperative value cycle. According to the terminology of the EU Commission, 'social economy' also includes cooperatives. Sustainability from the cooperative's perspective means, among other things:

- Environmental sustainability: e.g. energy cooperatives, reduction of commuting distances and above all: members have no interest in destroying their environment
- Social sustainability: preservation of the communal identity as well as alleviation of poverty, e.g. cooperatives supporting regional building projects, 'assistance cooperatives'
- Economic sustainability: guaranteeing the livelihood of people in the region, providing for the sustainable existence of businesses, and focusing on long-term business relationships

The Association of Volksbanks' understanding of sustainability is based on this three-pillar model.

The Association of Volksbanks is clearly committed to the Paris climate agreement and to the SDGs of the United Nations, with the SDGs forming the centre of the Volksbanks' sustainability strategy. This understanding is supplemented by the vision/mission of the Association of Volksbanks (sustainable, regional activities based on cooperative values).

The key issues that form the basis of Volksbanks' sustainability management, are worked out together with the stakeholders and are defined according to their environmental and social impact and their relevance for the stakeholders. The new standards of the Corporate Sustainability Reporting Directive (CSRD) will become effective for the Association of Volksbanks in 2024. This new EU directive includes a double materiality analysis, the methodology and topics of which are defined and specified by the European Sustainability Reporting Standards (ESRS). To prepare for the new directive, the Association of Volksbanks has carried out a double materiality analysis in 2023 already and has thus defined all key topics for the 2024 sustainability report. In contrast to the previous materiality analysis, in 2023 the outside-in perspective (financial impact or opportunities and risks) was taken into account in addition to the inside-out perspective (ecological and social impact). All relevant stakeholders were included in the process.

In implementation of the taxonomy regulation, the Volksbanks have reported their taxonomy capability as well as a scientifically sound estimate of financed emissions (scope 3) of the customer portfolio for the first time in 2022. In 2023, preparations were made for reporting

on the taxonomy conformity of the financed economic activities. Consequently, the taxonomy-compliant Green Asset Ratio (GAR), and applicable reporting templates, will be included in the sustainability report for the first time in 2024.

The Volksbanks' sustainability efforts are also reflected in the improved sustainability rating of VOLKSBANK WIEN AG. VOLKSBANK WIEN AG was able to improve its Sustainalytics ESG risk rating score from 17.4 to 10.2 in 2023. After an improvement from 26.7 to 17.4 in the previous year, the bank has made a big leap forward in the global ranking with the new rating in 2023: VOLKSBANK WIEN AG is now in an excellent tenth place in the „regional banks“ category - out of a total of 426. VOLKSBANK WIEN AG has thus achieved its goal of reaching and maintaining a „low risk“ ESG risk rating score.

## 2. Integration of sustainability risks

Sustainability risks (ESG risks) refer to events or conditions affecting the climate, the environment, social topics or corporate governance, the occurrence of which could have an actual or potential negative impact on the value of assets or on the financial position and earnings situation, as well as on the reputation of the Association of Volksbanks. Sustainability risks are included in the existing risk types and comprise the following risk subcategories:

- Climate and environmental risks (E = Environment)
- Social risks (S = Social)
- Risks relating to corporate governance (G = Governance)

To ensure an effective management of ESG risks, the Association of Volksbanks takes these risks into account in its business strategy, internal governance rules, risk management framework and - based on the business strategy - in its risk and investment strategies as well as in the lending business.

Internal stress tests and sensitivity analyses are carried out to assess the potential impact of ESG risks on the Association of Volksbanks. As part of the internal stress tests, ESG-related scenarios, that include physical and transition risks as well as risk events from the social and/or governance categories, are simulated. The scenarios are based on the portfolio composition of the Association of Volksbanks and take into account the core assumptions of the NGFS (Network for Greening the Financial System). The time horizon of the internal stress test is at least 3 years. In addition to the internal stress test, a long-term climate scenario (up to 10 years) with a focus on credit risk has been analysed for selected portfolios since 2022.

For the assessment of risks associated with ESG factors at the individual borrower level, a separate scoring system - which is, depending on the credit exposure, applicable to commercial and real estate customers - has been developed. Within the framework of an ESG score, risks associated with ESG factors as well as the customers' ESG risk-mitigating measures are evaluated through an assessment of soft facts by the customer advisors. The soft facts, which are tailored to specific customer segments, cover all three risk aspects (environmental, social and governance). An assessment of the risks associated with ESG factors is carried out as part of the lending and monitoring processes.

The Association of Volksbanks has been analysing physical risks since 2022, physical risks were disclosed for the first time for the reporting date 31 December 2022. For the evaluation of physical risks of the portfolio in Austria various data sources and forward-looking climate scenarios were taken into account. Further details can be found in the CRR disclosure and in the sustainability report.

## 3. Exploiting market opportunities

The transformation of the economy towards a sustainable form of development opens up significant market opportunities. In this context, the Association has set itself the goal of offering sustainable products and services, and considers sustainability a success factor for a competitive company.

The Volksbanks are currently working on a project in the area of sales with the aim of identifying ESG-related impulses for action regarding product ideas and customer approach. For this purpose, the Volksbanks' residential and commercial real estate portfolio is being analysed in order to identify indicators and sales approaches. Furthermore, the customer perspective will be examined more closely to ensure a targeted positioning of ESG-related products and services.

#### 4. Sustainability principles of the Association of Volksbanks

The Association of Volksbanks is committed to the Paris climate protection agreement and the topic of sustainability has been integrated into the core business and the corporate culture. Through its sustainable business strategy, the Association wants to contribute to the achievement of the United Nations' SDGs. The importance of sustainability in the Association's business activities is underlined by the membership of the central organisation VOLKSBANK WIEN AG in the United Nations Global Compact (UNGC). The Association supports the 10 principles of the Global Compact for the development of a sustainable global economy for the benefit of all people, communities and markets. By adhering to these principles, VOLKSBANK WIEN AG (and the Association of Volksbanks) is committed to a responsible corporate governance and anchors sustainability as an integral part of its corporate culture. The Association of Volksbanks aims at managing ESG risks appropriately and to enhance the positive impact of its business activities on the environment and on people.

The Association of Volksbanks and VOLKSBANK WIEN AG publish sustainability reports and report transparently on the efforts and activities in relation to the achievement of the SDGs and on the implementation of its sustainability principles. Volksbank Vorarlberg e. Gen. has also been preparing a - legally non-mandatory - sustainability report since FY 2017. As the CSRD comes into force in the 2024 financial year, sustainability reporting will be successively adapted to the new requirements.

## II. SUSTAINABILITY GOALS AND AMBITION LEVELS

The Association of Volksbanks aims to be 'Austria's regional sustainable relationship bank' and to position itself as such in the market. Sustainability is recognized as a strategic opportunity. The Association of Volksbanks is accordingly committed to a sustainable corporate culture, ESG criteria are further integrated into the core business. With respect to ESG, our goals are:

- We pursue a sustainable business model and have a sustainable business strategy
- We operate within regional dimensions and on the basis of cooperative principles
- We take account of sustainability risks in our risk management
- We comply with regulatory requirements regarding the integration of sustainability risks
- We expand our range of sustainable products and services
- We implement sustainability in the areas of real estate, mobility and procurement
- We are a reliable and attractive employer
- We ensure transparent and clear communication to all stakeholders

A specific climate strategy as well as measures to reduce greenhouse gas are planned for both, operations and the portfolio.

#### ESG targets of the Association of Volksbanks

The Association's sustainability management is aligned to specific sustainability targets which were defined in 2021. These targets relate to all ESG aspects, are continuously quantified, included in the planning of the individual departments and managed via the Sustainability Committee and the Association banks.

## III. PRODUCTS AND SERVICES

Through sustainable products and services, negative impacts on climate and environment can be reduced, and the Association of Volksbanks thus contributes to the transformation towards a sustainable economy.

As a specialist bank, Österreichische Ärzte- & Apothekerbank AG focuses on financial services for doctors, dentists and pharmacists. The bank for healthcare professions disposes of utmost competence, comprehensive know-how and offers tailor-made solutions for its target group, making an explicit contribution to the 'Social' pillar.

#### Sustainability in investment consulting / product partners

Goal of the Association of Volksbanks is to successively expand its range of sustainable investment products in cooperation with its product partners. The focus is on the integration of ESG aspects in the context of securities selection in investment management as well as in the insurance business.

Union Investment, the leading German asset manager for sustainable investments, has been a reliable product partner of the Association since 2016. In its investment process, Union Investment takes account of environmental and social considerations as well as of aspects of corporate governance.

As cooperative partner of the Association of Volksbanks, ERGO Versicherung AG not only offers sustainable insurance products, but considers ESG criteria in the selection of investments, promotes renewable energies, and has defined criteria that exclude certain companies and industries from investments.

Volksbank Vorarlberg has a specialised private banking team and is the only Volksbank with an in-house asset management. It offers this service to all other banks of the Association and their customers through a cooperation agreement. Volksbank Vorarlberg has signed the UN Principles for Responsible Investing (PRI) financial initiative and undergoes regular re-certification. Furthermore, in 2020 it has received the FNG seal from 'Forum Nachhaltige Geldanlage' (FNG, forum for sustainable investment) for its in-house equity fund 'Premium Selection Sustainable Equity', which has been renewed annually. The transparency logo of the European Sustainable and Responsible Investment Forum has also been renewed annually since 2020.

### Sustainable loans

The aim is to classify newly originated investment financings in terms of sustainability as part of the loan application process. This classification process was introduced in 2023 and will be further developed on an ongoing basis.

### Digitalisation

Digitisation and sustainability are closely linked. The implementation of digital processes helps to save resources and to support customers in their transition to sustainable business practices.

Digital support of process will therefore be further developed in cooperation with the product partners, with a specific focus on the expansion of online self-services (e.g. limit changes, fund-based savings), the expansion of end-to-end digitalised customer processes and on the implementation of new robotics processes (back office and customer processes). The introduction of video counselling helps to reduce CO2 emissions by eliminating the need for travelling and saves paper by reducing the number of documents printed.

By using the Qualified Electronic Signature (QES), the printing of documents in the branches will be further reduced, the use of digital signatures for all relevant documents will be implemented on an Association-wide basis in the coming months. Implementation of „becoming a customer online“ increases the degree of automation in the opening of accounts and therefore saves customer time and eliminates manual checking activities in the middle and back office. The introduction of the „eSafe“ for secure document exchange increases security and minimises the need to send customer and bank documents by post.

## IV. GOVERNANCE

Based on the sustainability strategy, the Managing Board has overall responsibility, within the scope of its management function, for implementing sustainability 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 Managing Board has approved the following sustainable mission, which extends the Volksbanks' core values ('trust, regionality and customer proximity'):

Volksbanks

- operate sustainably and regionally, in accordance with cooperative values,
- assume responsibility for the long-term well-being of customers and employees
- act in an environmentally and climate-conscious manner.

The Supervisory Board is committed to sustainability in all areas of the company and, as part of its monitoring of the Managing Board, checks whether the latter takes comprehensive account of the principles of sustainability in its management of the company.

The consideration of sustainability aspects is anchored in the rules of procedure of the Managing Board and the Supervisory Board.

The Managing Board has nominated a sustainability manager for the Association of Volksbanks whose responsibilities include the determination of relevant topics for the Sustainability Committee, the definition of the sustainability strategy in cooperation with the Managing Board as well as the preparation of the sustainability reports for VOLKSBANK WIEN AG and the Association.

## **V. SUSTAINABILITY COMMITTEE**

The Association of Volksbanks has taken extensive measures to integrate sustainability aspects into its core business and to further expand its sustainability management. To this end, a comprehensive sustainability project was set up in 2020 and, following the successful integration of sustainability into core business and processes, was completed as planned in mid-2022.

In connection with the project, the Sustainability Committee, a decision-making body of the entire Management Board responsible for the topic of sustainability, has been established at the beginning of 2022. This committee decides on, reports on and manages all sustainability issues. Sustainability management of VOLKSBANK WIEN AG and all other Association banks is carried out based of the defined sustainability targets. Sustainability officers have been appointed at the Association banks who serve as multipliers and contribute ideas from their banks. They are responsible for ESG issues in the Volksbanks and support their Management Boards in steering the banks in line with the sustainability targets.