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1. Introduction

Hypo Landesbank Vorarlberg (HypoV for short) has set itself the goal of bringing the economic success of its business activities into balance with ecological compatibility and social aspects. The values that define its corporate culture include responsibility in business, the utmost possible quality in products and services, a systematic focus on customers' needs and a mindful approach to employees and resources, in addition to social commitment. It is also particularly important to us to support and continue to promote the state of Vorarlberg's **Energy Autonomy 2050** project by financing energy-efficient ventures.

HypoV wishes to assume responsibility for the ecology and its social environment beyond the level economically required. To ensure that the financial services it offers do not have any unintended impact on people or the environment, the Bank's sustainability team has developed **ethical guidelines** and **positive and negative criteria** in the field of finance and investment, and implemented them in business processes. The Bank also endeavours to promote and viably preserve the regional economy in its key markets. Environmental protection and ecological sustainability are playing an ever greater role for customers and employees. In line with this goal, we are striving to finance and promote green, sustainable projects. For many years, the company has also set great value on measures to reduce its own environmental pollution, for example through the improvement of energy efficiency of buildings and by reducing other unnecessary consumption of resources. For instance, at its head office in Bregenz and in Dornbirn, HypoV itself already utilising renewable energy by using photovoltaic plants.

The warming of the world's climate is scientifically undisputed, and many of these changes observed since the 1950s have never occurred so rapidly before or to this extent for anywhere from decades to millennia. The temperatures of the atmosphere and oceans are rising, the amount of snow and ice is in decline, the sea level has risen and the concentration of greenhouse gases has increased. In order to at least reduce these dramatic consequences, and take a first step in the right direction, ten renowned companies of the Vorarlberg economy have created the **Climate Neutrality Alliance 2025¹** initiative, with the goal of achieving climate neutrality by 2025. As a founding member, HypoV is delighted about more than 90 companies that are now reaching for the same goal. All participants undertake to contribute to the reduction of CO₂ emissions. HypoV has set itself the goal of achieving an annual reduction of corporate CO₂ emissions of at least 1% year-on-year, but also strives for energy neutrality. If the target of climate neutrality is not achieved, the rest will be compensated by purchasing selected climate certificates.

In the spirit of the above mentioned initiative, and the associated reduction of the consequences of climate change and the achievement of the 2° Celsius target, HypoV's Green Bond Framework, based on the latest version of the **Green Bond Principles (2017 version)**, is intended to give investors the opportunity to use their money responsibly and climate-efficiently. It will also make it easier for our customers to build and extend climate-

¹ Source: <http://www.klimaneutralitaetsbuendnis2025.com/> (retrieved: 2017-04-25)

neutral buildings. The **Green Bond Framework** is specifically designed as a platform for HypoV's inaugural and future green bond issues. Going forward other project categories might be added for future green bond issues. In that case a new version of the Green Bond Framework will be published on our website. HypoV's first green bond will have a volume of EUR 300 million.

2. HypoV Green Bond

A green bond is a bond as defined in the final terms – issued by HypoV – for which HypoV undertakes to use an amount equal to the proceeds from the issue for projects classified as eligible. For senior unsecured bonds, investors do not bear a direct credit risk for the financed loan receivables and are pari-passu with existing senior unsecured investors.

The addition of green bonds to our bond portfolio supports our goal of increasing the sustainability of our business activities. A green bond is also the best opportunity to combine sustainable aspects of business with targeted investor demand.

From the procedure of the use of proceeds to the external review, all parts are described in detail in this Green Bond Framework. This way, the Bank ensures that a well-defined and comprehensible process is maintained throughout the entire term of the bond.

3. HypoV Green Bond Framework

This Green Bond Framework follows the structure of the Green Bond Principles² published by the International Capital Market Association (ICMA). The Green Bond Principles are voluntary process guidelines that recommend transparency and disclosure, and that promote integrity in the development of this rapidly growing market.

A brief outline of the recommended procedure for ensuring transparency is shown below:

1. **Use of proceeds**
2. **Process for evaluation and selection**
3. **Management of proceeds**
4. **Reporting**
5. **External review**

² Source: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/GreenBondsBrochure-JUNE2017.pdf> (Request date: 2017-06-27)

3.1 Use of proceeds

At the heart of any green bond is the definition of eligible use of proceeds. An amount equal to the issue proceeds of every HypoV green bond will be used to **finance or refinance selected eligible loans, investments and/or projects in categories which have clear environmental benefits following criteria further described in this chapter (“Eligible Assets”)**. These projects must be verifiably classified as sustainable.

The current framework will include projects, loans and investments in the field of:

1. **Energy Efficiency** such as in new and refurbished buildings
2. **Green Buildings** which meet regional, national or internationally recognised standards

Any financing not classified within this Green Bond framework will not be financed or refinanced with the issue proceeds from a green bond. All Eligible Assets selected for our green bonds are located in the State of Vorarlberg.

The **exact energy indicators** of each new mortgage will be assigned on the basis of the energy performance certificate (heating energy demand, primary energy consumption, final energy demand, factor of the overall energy efficiency, carbon dioxide emissions) so that compliance with the selection criteria can be demonstrated at any time. Existing loans are automatically supplemented with the values calculated by the Energy Institute Vorarlberg. Loans for energy-efficient buildings that are classified as sustainable according to our selection criteria on the basis of their energy performance certificate are flagged in our newly developed green bond management system and entered in a register.

The list of project categories described in this chapter is expected to be expanded as the sustainability focus area expands, and supplemented by social aspects among others. Any changes which will be used for future transactions will be described in an update of the HypoV Green Bond Framework and published via our website.

3.1.1 Exclusions

Regarding the loans financed or refinanced with a green bond, HypoV guarantees that they will have **no ties to morally or ethically unacceptable industries**. These include pornography, prostitution as well as drug trafficking and weapons production. HypoV also avoids exposures that could be linked to child labour in any way in their Green Pool. It also adheres strictly to the European Convention on Human Rights and the Universal Declaration of Human Rights of the United Nations.

3.1.2 Eligible sectors and eligibility criteria

Eligible energy-efficient buildings are divided into mortgage loans of, or investments in, new or existing buildings which follow the requirements for Energy Efficient buildings. That means

1. following the State of Vorarlberg criteria for energy-efficient buildings and received residential building subsidies
2. which have not received subsidies but fulfil criteria as indicated in the table below.

The minimum requirements for the energy quality of buildings are defined in Austria by Directive 6 of the Austrian Institute for Structural Engineering (OIB). However, they only become legally binding when endorsed in the Structural Engineering Order of the Austrian federal states (BTV). The limits shown here therefore relate to **respective applicable legal provisions** by the State of Vorarlberg³, which are below the levels set in the OIB.

The **statutory limits** of the **OIB directive** in combination with the respective energy mix are taken as **reference values** for the calculation of the CO₂ savings. These levels will be compared to the statutory limits of the BTV in combination with the respective energy mix.

The State of Vorarlberg provides residential building subsidies for the construction of residential housing (new buildings, conversions or additions), the amount of which is defined by a basic subsidy per square metre of eligible housing space and that can be increased by fulfilling additional guidelines. To obtain a subsidy, stricter energy values than the minimum standards of the BTV have to be applied. These values must be set by each Austrian state – and those selected by the state of Vorarlberg are particularly ambitious. The residential building subsidies are paid by the state of Vorarlberg.

³ Vorarlberger Landesgesetzblatt 83rd Ordinance/2007, 84th Ordinance/2012; Housing Subsidy Guidelines 2009/2010, New Construction Subsidy Guidelines 2011, 2012, 2013, New Construction Subsidy Guidelines for Private Housing 2014/2015, 2016/2017

The following table shows the maximum limits for eligible loans which can be included in the Green Bond Portfolio:

Eligible sector	Limits
Energy efficiency of buildings	<p><u>Private customers:</u></p> <ul style="list-style-type: none"> • Buildings with residential building subsidies <ul style="list-style-type: none"> ○ HED⁴ limit 2010: 45 kWh/m²a ○ HED limit 2011: 45 kWh/m²a ○ HED limit 2012: 36.49 kWh/m²a ○ HED limit 2013: 36.49 kWh/m²a ○ HED limit 2014: 44.2 kWh/m²a (bonus at 36) ○ HED limit 2015: 44.2 kWh/m²a (bonus at 36) ○ HED limit 2016: 44.2 kWh/m²a (bonus at 36) ○ HED limit 2017: 44.2 kWh/m²a (bonus at 36) • Buildings without residential building subsidies <ul style="list-style-type: none"> ○ HED limit 2010: 50 kWh/m²a ○ HED limit 2011: 50 kWh/m²a ○ HED limit 2012: 50 kWh/m²a ○ HED limit 2013: 47.6 kWh/m²a⁵ ○ HED limit 2014: 47.6 kWh/m²a⁵ ○ HED limit 2015: 47.6 kWh/m²a⁵ ○ HED limit 2016: 50 kWh/m²a⁶ ○ HED limit 2017: 50 kWh/m²a⁶ <p><u>Commercial customer/institutions:</u></p> <ul style="list-style-type: none"> • Buildings from 2010 <ul style="list-style-type: none"> ○ HED limit until 2010: 20 kWh/m²a ○ HED limit until 2012: 17 kWh/m²a ○ LEK⁷ limit from 2013: 25 or PEB limit from 2015: 230 kWh/m²a

Right from the time of issuance, HypoV attempts to invest 100% of the proceeds in the refinancing of energy-efficient buildings from 2010 to 2017. If this is not possible, the Bank will try to use the remaining share to finance new energy-efficient buildings within the next two years. Generally, HypoV's goal is to replace at least 15% of the refinanced loans with new business during the entire tenor of the issue.

⁴ The heating energy demand (HED) describes the quantity of heating that must be supplied in a room to keep it at the stipulated standard room temperature (20°C for residential buildings).

⁵ Based on the legal definition the HED has to be below the following curve: $14.00 \times (1 + 3 / I_c)$ Assuming the same characteristic length (years 2010-2012) the result would be a HED of 47.6 kWh/m²a.

⁶ Based on the legal definition the HED has to be below the following curve: $17.47 \times (1 + 2.328 / I_c)$ Assuming the same characteristic length (years 2010-2012) the result would be a HED of 50 kWh/m²a.

⁷ Indicator of the thermal quality of the building shell, taking the building's geothermal energy into account

3.2 Process for evaluation and selection

The selection process described below provides an overview of the evaluation and selection process and allocation of the proceeds toward eligible assets.

To ensure transparency, a report will be submitted to the **Sustainability Committee** – consisting of the Sustainability Officer, two Treasury members, a Credit Management member, a member of the Compliance department and the member of the Managing Board responsible for sustainability – on a semi-annual basis. This report includes the allocation of sustainable loans towards green bonds proceeds and the volume development of lending for the purpose of building, purchasing or refurbishment of green, sustainable buildings. The Sustainability Committee will decide which new financing will be added to our green pool and verifies that all selected Eligible Assets comply with HypoV's Use of Proceeds criteria as indicated in Chapter 3.1.

It has not been ruled out that the buildings financed or refinanced by the issue proceeds are also included in our cover pool as collateral (mortgage and municipal bonds). However, HypoV guarantees that there is only one intended use for each loan. The issuing purpose of mortgage and municipal bonds is general corporate finance.

3.3 Management of proceeds

After issuance, net proceeds of the green bond issue will be used for refinancing loans in our green pool. HypoV has developed a green bond management system and all Eligible Loans, and the related requirements are entered in a ledger. As long as the relevant green bonds are outstanding, the balance of the green bond proceeds will be reduced by the amount of Eligible Assets which are approved for allocation by the Sustainability Committee.

Until maturity, HypoV will invest a volume equal to the proceeds of its green bonds issuance in Eligible Assets, and to continue to finance and promote energy-efficient housing and commercial properties.

If, contrary to expectations, proceeds cannot be allocated to Eligible Assets, HypoV aims to invest these unallocated proceeds in other green bonds that comply with the ICMA Green Bond Principles and that can provide a positive second party opinion from a sustainability rating agency. The green bonds will be replaced by Eligible Assets as quickly as possible.

3.4 Reporting

On an annual basis, HypoV will provide a report on the development of its green bond proceeds. The following points are essential elements of each report:

- **Outstanding volume:**
 - Aggregate volume in each investment area, including a percentage of the use for refinancing and financing of new business

- **Impact reporting:**
 - Detailed description of the energy indicators (carbon dioxide emissions, heating energy demand and primary energy demand for energy efficiency)
 - Avoided CO₂ emissions of financed projects relative to the buildings built in the same year in Austria calculated by the Energy Institute of Vorarlberg

The report will be published via our website. The impact reporting (avoided CO₂ emissions) of the Energy Institute of Vorarlberg, an independent association, will be only available in German, but a summary will be made available in German and English.

3.5 External review

3.5.1 Second party opinion

HypoV has selected oekom research⁸ as its second party opinion provider. Oekom research is known as one of the world's leading agencies, which has experience on the market and is considered highly qualified. A report from oekom research as sustainability rating agency serves to ensure transparency by verifying and confirming the additional sustainability value of the green bond and compliance with this Green Bond Framework. In addition, the report by oekom research also includes a sustainable assessment score of HypoV. This report will be further discussed in Chapter 3.5.3. The second party opinion will be published on our website.

3.5.2 Third Party Assurance

HypoV will commission a qualified external institute to provide limited assurance on the allocation of the proceeds to eligible assets. The result of the independent audit will be published on our website.

3.5.3 Corporate rating

HypoV's corporate ESG rating by oekom research is an overall score of C and therefore reached the prime status. The strengths attributed to it include its wide range of sustainable investment products and services, the measures taken to ensure responsible sales and marketing methods, measures regarding the responsible handling of customers experiencing difficulty in loan repayment and measures for guaranteed access to financial services without discrimination. A summary of the full report can be found on the HypoV website.

⁸ Information: http://www.oekom-research.com/index_en.php?content=second_party_opinion (Request date: 2017-06-27)