S&P Global Ratings

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Second Party Opinion

Iccrea's Sustainable Bond Framework

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Location: Italy **Sector:** Banks

Alignment With Principles

Aligned = ✓ Conceptually aligned = O Not aligned = ✕

- ✓ Social Bond Principles, ICMA, 2023
- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Sustainability Bond Guidelines ICMA, 2021

See Alignment Assessment for more detail.

Strengths

Iccrea's strong presence in Italian municipalities, and its mutualistic structure, enable the bank to better understand the needs of local communities. This helps the issuer address local social needs through the project categories outlined in the framework. These include affordable housing and lending to micro, small, and midsize enterprises (MSMEs) in disadvantaged areas to support employment generation.

Weaknesses

Buildings that use on-site fossil fuels are not explicitly excluded from the framework. Iccrea aims to consider a building's heating source on a best-effort basis, but the bank will not always have information on buildings' heating sources. Furthermore, the framework criteria do not explicitly require fossil-fuel heating exclusion. This could lead to the financing of both new and existing buildings that are exposed to fossil fuels and therefore to transition risks. We expect new buildings financed under the framework will have lower exposure to fossil-fuel heating because the Italian government now requires more than 50% of a new building's energy demand to come from renewable energy sources.

Areas to watch

The framework categories have disparate environmental benefits. For example, feedstock for bioenergy could entail land-use change risks. Some categories do not specify performance thresholds. While common for frameworks with extensive lists of projects, this limits our insights on benefits.

The ambition of and progress toward emissions reduction targets are challenging to assess due to limited disclosure. The bank has not publicly reported greenhouse gas emission reduction targets given the complexity of creating reduction trajectories for affiliated banks and because lending is mainly to MSMEs and households.

The bank's physical risk considerations appear relatively nascent. It carries out physical risk assessments as part of the lending process, but the extent to which this leverages scenario analysis and influences lending decisions remains unclear.

Eligible Green Projects Assessment Summary

Iccrea is currently evaluating its loan book to identify eligible assets. On a preliminary basis it expects green bonds will be focused on green building and renewable energy projects. The issuer will disclose the expected proceeds to each project category ahead of each bond issuance. The expected proportion of financing versus refinancing will also be disclosed.

Eligible projects under the issuer's green finance framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

Green Buildings	**Light green**
Construction, acquisition, and renovation of existing residential and commercial buildings	
Other measures to improve the energy performance of buildings	

Energy Efficiency	**Medium to Light green**
Manufacture or installation of energy efficient equipment and technology	

Renewable Energy	**Dark to Medium green**
Renewable energy including solar, wind, ocean, small-scale hydropower, geothermal energy, and bioenergy.	
Electricity transmission, storage and distribution systems designed to integrate renewable energy into the grid	

Clean Transportation	**Medium green**
Low carbon transportation and related infrastructure	

Sustainable Water & Wastewater Management	**Light green**
Construction, extension, operation, and renewal of water and wastewater collection, treatment and supply systems and related infrastructure	

See Analysis Of Eligible Projects for more detail.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

Iccrea Cooperative Banking Group (Iccrea) is a wholly Italian-owned banking group with a significant presence across Italy. It operates through its parent company, Iccrea Banca S.p.A., as well as 116 affiliated mutual banks, also known as BCCs, and 31 subsidiaries.

The cooperative banking group was created after the Italian cooperative banking sector reform in 2016, which required each cooperative bank operating in Italy to become part of a cooperative banking group with a holding company regulated as a joint-stock company. The BCCs are part of Iccrea under a cohesion contract with the parent. Under this contract, Iccrea Banca has the authority to establish and oversee risk strategies, policies, and principles. The primary objective is to maintain the stability of the group and its members, while also promoting the cooperative spirit and mutualistic function of the affiliated banks and the group. Iccrea operates in three business areas: finance and lending, payment system, and corporate center. Of 2023 gross loans, 82% is to households and MSMEs. The largest proportion of gross loans to customers is to consumer households (41%), followed by services (16%), real estate (13%), and manufacturing activities (12%).

Material Sustainability Factors

Physical Climate Risk

Banks finance a wide array of business sectors that are exposed to physical climate risks, exposing banks through their financing activities. However, while climate change is a global issue, weather-related events are typically localized, so the magnitude of a bank's exposure is linked to the geographical location of the activities and assets it finances. Italy is exposed to intense rainfall, more consecutive days without rain, high temperatures and heat waves, all of which have negative implications for agriculture, forests, and even the hydrological system. Similarly, banks' physical footprints (for example, branches or BCCs) can also be exposed to physical risks, which could disrupt their ability to service clients in the event of a natural catastrophe, amplifying the impact on communities. Banks could help mitigate the effects of physical climate risks by financing adaptation projects and climate-resilient infrastructure, as well as by investing in solutions that support business continuity in exposed geographies.

Climate transition risk

Banks are exposed to climate transition risk through financing economic activities that affect the environment. The direct environmental impact of banks is small compared to financed emissions and stems mainly from power consumption (data centers, for instance). Policies and rules to reduce emissions could raise credit, legal, and reputational risks for lending institutions with large exposures to high-emitting sectors. As part of its Nationally Determined Contribution, Italy has committed to reduce domestic emissions by 55% by 2030 versus 2019 levels. Positively, financing the climate transition offers a growth avenue for banks through lending activities. In Europe, regulatory authorities are intensifying their push for banks to integrate sustainability into their strategies and disclosures. The European Central Bank (ECB) is tightening requirements, for example related to model risk management. These measures are part of a larger EU push for financial resilience and transparency in addressing climate risks, ensuring sustainability remains central to financial institutions' operations.

Access and affordability

Banks' significant impact on society and the economy stems from their role in enabling access to financial services to individuals and businesses, and in ensuring the correct functioning of payment systems, which are cornerstones of economic development and stability. In most countries, unbanked and underserved population segments are still meaningful, although the access gap is most acute in emerging economies. Market imperfections such as low competition, incomplete information, and lack of financial literacy often result in costly alternatives for small businesses and low-income individuals, so ensuring affordable access to financial services, especially to the most vulnerable people, remains a challenge for the banking industry. Banks have meaningful opportunities to support economic development through financial inclusion, including by using new technologies.

Impact on communities

Banks can address a wide range of community issues by providing economically vulnerable groups with access to financing. This can help alleviate income inequality and foster upward social mobility. The realization of these objectives hinges on banks' responsible lending practices. These include transparent contractual terms, financial education programs, and support for borrowers encountering unexpected financial hardships. By contrast, obscure loan terms or predatory lending practices can exacerbate existing socioeconomic disadvantages in the customer base. By actively addressing such concerns, banks can access new markets, achieve better financial performance, attract top talent, and mitigate reputational and regulatory risk.

Issuer And Context Analysis

The project categories in the sustainable bond framework address risks related to climate transition, access and affordability and impact on communities, which are key sustainability factors for Iccrea bank. Several green projects aim to address climate transition risk; these relate to renewable energy, green buildings, clean transportation, and energy efficiency. The social projects aim to benefit communities by boosting employment, increasing access to essential services and affordable housing, and supporting socioeconomic advancement.

While Iccrea has internal decarbonization objectives, it has yet to set public targets to reduce its greenhouse gas emissions. It reports scope 1, 2, and 3 emissions, which have been externally verified. Scope 3 emissions include financed emissions as required by the Corporate Sustainability Reporting Directive. The issuer has not yet set public targets because of the complexity of creating reduction trajectories for small size banks (local BCCs) and because they mainly lend to MSMEs and households. But the group has started to develop tools for the governance and management of climate and environmental factors to align with ECB expectations. The bank has also started assessing the implications of physical and transition climate risk drivers for its risk categories, integrating these analyses into its risk management framework. Furthermore, since the formation of the cooperation, Iccrea has worked to centralize risk management as well as refine the ESG policies of its affiliated banks. The issuer is supporting the affiliated banks on their sustainability journeys by offering shared services and resources, including expertise in sustainability reporting, risk management, and product development. Iccrea also runs training programs and workshops for its affiliated banks' employees, focusing on topics such as climate risk assessments, sustainable finance, and stakeholder engagement.

A key component of Iccrea's business plan is its sustainability plan. Spanning 2024-2026, the plan aims to further integrate ESG factors into the bank's corporate strategy. This includes developing a decarbonization strategy for the credit portfolio, expanding and consolidating the sustainable finance product offering, rolling out ESG client-related services, and further developing ESG risk reporting. It aims to evolve its lending framework to better integrate climate and environmental factors and reduce risks in the loan origination process. In January 2024 the group launched an EU Taxonomy Product Catalogue and the individual BCCs will be able to select which products to offer clients. This could help the issuer reduce its financed emissions.

The issuer conducts physical risk assessments as part of its lending-decision process but the extent to which it leverages scenario analysis remains unclear. Firstly, Iccrea assesses counterparties’ exposure to physical risk via a questionnaire, supplementing this information with data from external providers. The issuer also considers the exposure of the properties pledged as collateral, via a supplement to the standard real estate assessment that provides information on physical and transition risk. The issuer has identified three material channels through which physical climate risks could affect its business: property damage, operational discontinuity, and risks related to outsourced operations.

Iccrea is working to improve access and affordability for its customers by leveraging its strong presence in local communities to understand their needs and promote economic development. Iccrea has a mutual structure, meaning its customers are the owners and profits are reinvested back into the business. As such, mutuals tend to have a greater focus on customers, which in Iccrea's case are predominantly MSMEs and households, creating a strong link to community. Furthermore, Iccrea has at least one branch in 1,675 municipalities (37% of total banking municipalities), and in 355 municipalities (21%) it represents the only banking presence. This local presence allows branches to understand the needs of their own territories and support local economic development and prosperity. Positively, the most recent social bond issued had the objective of supporting SMEs operating in economically disadvantaged areas of Italy, as well as young entrepreneurs and female entrepreneurs.

Alignment Assessment

This section provides an analysis of the framework's alignment to the Social and Green Bond Principles and the Sustainability Bond Guidelines.

Alignment With Principles

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- ✓ Social Bond Principles, ICMA, 2023
- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Sustainability Bond Guidelines ICMA, 2021]

✓ Use of proceeds

We assess all the framework's green project categories as having a green shade and consider all social project categories to be aligned. The issuer commits to allocate the net proceeds issued under the framework exclusively to finance or refinance eligible green and social projects. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the environmental and social benefits of the expected use of proceeds. The issuer states that the sustainable debt instruments may include covered bonds, senior unsecured bonds, and subordinated bonds. We observe that the framework does not reference a look-back period for refinanced eligible projects as is recommended by the Principles.

✓ Process for project evaluation and selection

The framework outlines a process that Iccrea has developed to evaluate and select potential projects, with environmental and social objectives clearly outlined for all project categories. The Working Group, composed of the Treasury Department, Asset Liability Management & Funding Department, and the ESG Department, will select and review projects based on the framework's eligibility criteria. Then the Eligible Asset Portfolio for each issuance will be submitted to the Finance Committee, ESG Committee, and the Executive Committee for final approval. The bank identifies and manages potential environmental and social risks associated with the projects through the group's lending and sustainability policies. The issuer provides a comprehensive exclusion list that includes, among others, the manufacture, distribution, and marketing of weapons.

✓ Management of proceeds

Iccrea will maintain a register to track and record all the allocations of proceeds. The issuer commits to maintain over time an aggregate amount of the Eligible Asset Portfolio that matches or exceeds the balance of net proceeds of all outstanding sustainable debt instruments issued under the framework. The bank intends to allocate the net proceeds within 24 months of the issuance date. Any unallocated funds will be managed in accordance with the bank's standard liquidity management procedures. This may include investing in a treasury liquidity portfolio, holding cash, placing time deposits with banks, or utilizing other available short-term and medium/long-term funding sources. Unallocated funds will not be invested in any activities that are excluded under the framework's guidelines. Moreover, if a loan or project no longer meets the eligibility criteria, Iccrea plans to reallocate the funds to other eligible assets as soon as reasonably possible, if necessary.

✓ Reporting

Iccrea commits to disclose annually the allocation of proceeds and impact of the financed projects in its sustainable financing instrument report, available on the bank's website. Allocation reporting will include information such as the total amount of sustainable debt instruments outstanding, the total amount of the eligible asset portfolio, a breakdown of the eligible green and social assets portfolios by industry and geography, and the share of financing and refinancing. Meanwhile, impact reporting will include qualitative environmental and social indicators and case studies. The bank will also disclose quantitative performance indicators, with potential indicators listed in the framework.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the "Analytical Approach: Shades Of Green Assessments," as well as our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

Green project categories

Green Buildings	
Assessment	**Description**
Light green	(Re)financing of new or existing residential and commercial buildings: • Built before Dec. 31, 2020: EPC of at least A or belonging to the top 15% of the local or regional building stock based on Primary Energy Demand (PED) • Built after Dec. 31, 2020: PED at least 10% lower than the threshold set for the nearly zero-energy building (NZEB) requirements in national measures • Certified sustainable buildings: LEED (Gold or better), BREEAM (Excellent or better), HQE (Excellent or better) Financing or refinancing of the renovation of residential and commercial buildings complying with the applicable requirements for major renovations or alternatively resulting in a reduction in PED of ≥30% and validated through an Energy Performance Certificate (EPC) (Re)financing of other interventions aimed at improving the energy performance of buildings, for example reduction of energy needs, thermal improvement of the building, installation of solar panels or other renewable energies, replacement of winter air conditioning systems, according to the criteria defined by sections 7.3, 7.4, 7.5 or 7.6 of the EU Taxonomy Climate Delegated Act.

Analytical considerations

- The IEA emphasizes that reaching net-zero emissions in buildings demands major energy efficiency strides and fossil fuel abandonment. All properties must achieve high energy performance. New properties should also cut emissions from building materials and construction. Additionally, addressing physical climate risks is crucial for strengthening climate resilience across all buildings.
- The split of proceeds between acquisition, new construction, and renovation is not yet known as Iccrea is currently evaluating its loan portfolio for eligible assets. The eligibility criteria for new and existing buildings will ensure that buildings that promote sustainable practices are financed. However, in our view, these criteria do not necessarily ensure these buildings represent the highest environmental ambitions. As such, we assess activities related to acquisitions and new construction as Light green. We could consider renovation and energy efficiency measures as Medium green on a stand-alone basis, however, absent information on the expected split between renovation and other building activities, we assign the overall project category a Light green shade.
- Both new and existing properties are exposed to physical climate risks. Iccrea conducts a physical climate risk assessment as part of its lending policies. Please see the issuer sustainability context for more details.
- Iccrea may rely on an external technical consultant to help identify the top 15% most energy efficient buildings and define NZEB-10%. At this stage, there is uncertainty as to how robust the definition of these two thresholds will be. For new construction, while embodied emissions in building materials are significant, the framework does not include criteria to systematically seek to reduce those. Similarly, green building certifications cover a broad set of environmental issues, and they differ considerably in their requirements for energy efficiency, embodied emissions of construction materials, and

climate resilience. The certifications' point-based systems do not guarantee low carbon new construction nor highly energy efficient existing buildings. Their robustness depends on a variety of factors, such as levels achieved and type of certification. For example, design phase certifications are generally more robust than "in-use" certifications. The latter can be a solid way of enabling a continued improvement in energy performance though proper management, but seldom include specific energy-efficiency thresholds.

- Energy efficiency measures have clear environmental benefits, with on-site renewable energy also reducing the carbon emissions related to energy use in buildings. It is positive that energy efficiency improvements are clearly defined.
- Buildings with on-site fossil fuel heating are not explicitly excluded under the framework. According to the issuer, it will not always have information on the heating source of a building when making lending decisions. When the bank has this information, it may take it into account when selecting the eligible portfolio on a best effort basis, however there is no formal commitment to exclude such buildings under the framework. Furthermore, in Italy all new buildings are required to have more than 50% of energy demand supplied by renewable energy generated on site.

Energy Efficiency

Assessment	Description
Medium to Light green	(Re)financing the manufacturing and / or installation of energy efficient equipment and technology: • Smart grid, smart meters, smart thermostats • LED lighting • District heating and cooling* *Systems using at least 50% renewable energy, 50% waste heat, 75% cogenerated heat or 50% of a combination of such energy and heat in line with Directive 2012/27/EU

Analytical considerations

- Improvements in energy efficiency are important across all sectors, with the potential to reduce greenhouse gas emissions through reduced energy used, improving alignment with an LCCR future. That said, when improving energy efficiency there is the risk of rebound effects where improved efficiency can lead to increased demand, reducing the achieved energy savings.
- The framework criteria are not exhaustive, and do not include a required energy efficiency improvement threshold. The framework outlines examples of investments, which are not limited to those related to smart grids, smart meters, smart thermostats, LED lighting, and district heating and cooling. We consider the projects being financed to have varying climate risks and benefits, which we reflect in our assessment of Medium to Light green.
- Improving the efficiency of electricity networks is key to achieving a low carbon future in line with the 2050 Paris Agreement. Smart grids help to better match the supply and demand of electricity in real time. The overall climate benefits, however, depend on the grid's energy mix and its progress toward decarbonizing, and we assess these types of projects as Medium green. Meanwhile, smart meters and smart thermostats can help end-users manage energy use. Investments in LED lighting can also help to reduce energy consumption.
- Efficient district heating and cooling networks can help in the transition to a low carbon future, but the extent depends on feedstocks. The issuer has committed to only finance networks that are in line with the substantial contribution criteria of the EU Taxonomy, which requires that they be powered by at least 50% renewable energy, or 50% waste heat, or 75% cogenerated heat, or 50% of a combination of these sources. Beyond these criteria, the issuer has no further clarity as to the proportion of fossil fuels that might power district heating networks, therefore we assess these projects as Light green.
- Energy efficiency will not be applied to fossil-fuel-generation assets.

Renewable energy

Assessment	Description
Dark to Medium green	(Re)financing of the operation, construction, installation, maintenance or repair, and manufacturing of renewable energy projects and components, including the following technologies: • Solar photovoltaic (PV) • On shore and offshore wind • Ocean energy • Small-scale hydropower (<10MW)* • Geothermal energy** • Bioenergy*** (Re)financing of the construction, operation, and maintenance of electricity transmission, storage, and distribution systems designed to integrate renewable energy into the grid: • Direct connections, or expansion of existing direct connections of renewable energy sources Battery storage systems connected to renewable energy projects * Facilities must comply with one of the following criteria: i) the facility is a run-of-river plant and does not have an artificial reservoir, ii) the power density of the facility is above 5W/m2, or iii) the lifecycle greenhouse gas emissions are less than 100g CO2e / kWh) ** Lifecycle greenhouse gas emissions <100g CO2e / kWh *** Greenhouse gas savings of ≥80% relative to relative fossil fuel comparator. Only biomass/biofuels using certified sustainable feedstocks are eligible. Excludes use of virgin food/feed crops, and palm oil/palm oil waste

Analytical considerations

- Renewable energy projects such as solar photovoltaic (PV), wind, and hydropower are key to limiting global warming to well-below 2°C, provided their negative impacts on the local environment, and physical risks, are sufficiently mitigated.
- We assess the overall project category as Dark to Medium green, reflecting our assessment of most projects in this category as Dark green, except for bioenergy. We consider Iccrea's lending to bioenergy projects to be Light green given potential risks related to land-use change and food competition, and because the energy sources will not be exclusively waste-based. However, bioenergy is likely to attract only a relatively small portion of the overall proceeds as the bank is currently only testing lending to such projects.
- We assign a Dark green shade to the financing of renewable energy generation from solar, wind, ocean, hydropower, geothermal, and ocean sources. Only small hydropower projects (less than 10MW) will be eligible for financing, limiting their environmental impact. These projects must also align with the EU Taxonomy Substantial Contribution Criteria (SCC), meaning either the facility is a run-of-river plant and does not have an artificial reservoir, the power density of the facility is above 5W/m2, or the lifecycle greenhouse gas emissions are less than 100g CO2e/kWh.
- Projects financed under this category could face physical climate risk due to the fixed nature of the assets as well as in the supply of renewable feedstocks for energy generation. Iccrea conducts a physical risk assessment as part of its lending decisions. Please see the issuer sustainability context for more details.
- Bioenergy can play a role in the transition from fossil-based energy. That said, risks and impacts depend on the type of feedstock; lifecycle emissions, including consideration of direct and indirect land use changes; degrees of water stress; and

levels of biodiversity threat. Positively, Iccrea excludes virgin food/feed crops, as well as palm oil and waste from palm oil. However, the framework does not exclude energy crops, which carry additional risks related to their production including the use of agrichemicals, and competition for land for food products. Iccrea will require bioenergy projects to be certified in line with such schemes as Roundtable on Sustainable Biofuels (RSB) EU RED, Biomass Biofuels Sustainability voluntary scheme (2BSvs), and Abengoa RED Bioenergy Sustainability Assurance (RBSA), which partially addresses these risks.

- Reliable transmission and storage are effective ways to increase grid flexibility and adaptability. Connecting renewable energy sources to the grid helps contribute to grid decarbonization. Furthermore, financing for electricity storage technologies will facilitate the scaling of renewable energy capacity. Nevertheless, there are significant supply-chain exposures related to the metals (aluminum) and materials (lithium, cobalt) used in batteries, as well as end-of-life pollution risks associated with using hazardous chemicals. These risks may be addressed by regulatory requirements for lifecycle emissions and circular management of battery components, such as the EU Batteries Regulation (2023/1542).

Clean Transportation

Assessment	Description
Medium green	(Re)financing of low carbon transportation and related infrastructure, including: • Zero direct CO2 emissions passenger cars and commercial vehicles • Hybrid vehicles (passenger cars and light commercial vehicles) with an emissions threshold of 50 gCO2/km (until Dec. 31, 2025*) • Electric vehicle charging stations * Or as long as they are included in the EU Taxonomy

Analytical considerations

- Electric vehicles are seen as a key technology to decarbonize road transportation and we consider them Dark green, alongside the electric vehicle charging points that are essential for their operation.
- Due to uncertainty about the expected allocation of proceeds between electric vehicles and their charging stations, and hybrid vehicles, which we consider Light green, we assign a Medium green shade to the overall project category.
- Hybrid vehicles continue to run, in part, on fossil fuels, leading to carbon lock-in risks. However, the framework clearly outlines that hybrid vehicles will only be eligible for financing until Dec. 31, 2025, or for as long as they are included in the EU Taxonomy. Additionally, they must meet an emissions threshold of 50 gCO2/km, consistent with the EU Taxonomy SCC.
- Value chain emissions for EVs depend on the grid's energy mix. According to the IEA, 35.6% of Italy's electricity generation came from renewables in 2022, and the country aims to reach 65% of electricity generation from renewables by 2030. Battery packs in vehicles and charging stations are subject to supply chain risks, namely from the extraction of minerals (lithium and cobalt).

Sustainable Water & Wastewater Management

Assessment	Description
Light green	(Re)financing of the construction, extension, operation, and renewal of water and wastewater collection, treatment, and supply systems and related infrastructure

Analytical considerations

- Financing the development, construction, extension, operation, and renewal of sustainable water and wastewater management projects can result in positive environmental benefits in terms of water consumption and water security, and is necessary to achieve 2050 Paris Agreement objectives.
- The framework criteria are broadly defined and do not include specific thresholds related to key environmental considerations such as loss-ratio improvements and operational emissions for the different types of projects, limiting comparability of benefits. As such we assign a Light green shade to this category. Iccrea informed us that typical projects financed are those that increase water-use efficiency and water quality via recycling, treatment, and reuse (including treatment of wastewater), while maintaining high energy efficiency. Projects related to the construction, development, operation, and maintenance of facilities, systems, or equipment used for sustainable infrastructure for clean and/or drinking water, wastewater treatment, and sustainable urban drainage infrastructure are also eligible under this category.
- Systems to treat and convey water are energy intensive, and might generate significant waste, exacerbate water stress for other stakeholders, or disrupt hydrology and aquatic ecosystems if not sufficiently managed. Improvements in water efficiency help reduce demands on natural capital and reduce greenhouse gas emissions associated with water treatment and conveyance, and therefore help achieve an LCCR future. Water supply systems are key to achieving reliable access to sufficient water of adequate quality, for all stakeholders. That said, these systems are energy intensive and can generate significant waste, exacerbate water stress for other stakeholders, and pose disruptions to hydrology and aquatic ecosystems, if not sufficiently mitigated.
- Wastewater systems reduce pollution, enable resource recovery, and enhance ecosystems and public health, and as a result are key to an LCCR future. The primary benefits include improved water quality and have important cumulative effects in a watershed; such systems can help relieve water stress and be a source of nutrient and energy recovery depending on the system. That said, these systems are energy intensive and can produce significant solid waste and methane if not sufficiently managed. Iccrea is currently not clear as to the kinds of waste from industrial processes that the wastewater plants will treat, but it will aim to avoid counterparties engaging in hazardous waste. Furthermore, the project category is supported by Italy's regulations on wastewater management, which require environmental permits.

S&P Global Ratings' Shades of Green

	Dark green	Medium green	Light green	Yellow	Orange	Red
Description	Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects	Solar power plants	Energy efficient buildings	Hybrid road vehicles	Health care services	Conventional steel production	New oil exploration

Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

Social project categories

Employment Generation

(Re) financing of loans to microenterprises and SMEs (MSMEs)

- Located in disadvantaged areas, defined as areas with a GDP below the national average
- Affected by natural disasters / health emergencies (such as the COVID-19 pandemic)

Analytical considerations

- Iccrea's initiatives under the employment generation category aim to improve access to financial services for MSMEs located in economically disadvantaged areas and those affected by natural disasters or health emergencies, such as the COVID-19 pandemic. Reflecting the cooperative bank's mission of community support and social impact, the projects offer loan (re)financing options, supporting small businesses in generating employment opportunities and stimulating economic activity in regions with a GDP below the national average.
- The primary social objective of these projects, according to the issuer, is to create and maintain decent employment opportunities in economically underperforming areas. By helping people access essential financial resources, Iccrea's initiatives help small businesses to continue operating and contribute to local economic recovery. We also view positively that Iccrea's Employment Generation projects align with SDG Target 8.3, which promotes the development of policies that support productive activities, decent job creation, entrepreneurship, and MSME growth. We recognize the positive contribution of these projects to inclusive economic growth and consider this category to be aligned with the principles.
- The MSMEs eligible for this program are defined according to the European Commission's criteria, which classify businesses based on the number of employees and financial thresholds. For COVID-19-related projects, these financings are covered under the Italian government's SME guarantee scheme outlined in Law Decree no. 23 of 8 April 2020 (Decreto Liquidità) and Law no. 27 of 24 April 2020 (Decreto Cura Italia). This ensures Iccrea's support is aligned with national recovery efforts, enhancing the social impact by contributing to economic recovery and stability in the targeted areas.

Affordable Housing

Re) financing the construction, renovation, or acquisition of social housing in Italy

Analytical considerations

- Iccrea's affordable housing projects aim to increase access to quality housing for low-income individuals and households in Italy. As a mutual, Iccrea aims to fulfill a social role by maintaining its products' accessibility and affordability for the target population. Through (re)financing the construction, renovation, or acquisition of social housing, these efforts are intended to address housing shortages and improve living conditions for economically disadvantaged populations.
- The social objective of these projects is to provide affordable, good-quality housing to those in need, supporting a more inclusive housing market. Social housing eligibility in Italy is regulated by national laws, with income thresholds set by local authorities, generally €25,000-€30,000 per household. By focusing on this target group, Iccrea ensures its projects benefit the intended population, addressing housing needs in areas with high demand for affordable accommodation, which we view positively. Therefore, we consider this category to be aligned with the Principles.
- Furthermore, we view favorably that Iccrea aligns its affordable housing projects with SDG Targets 1.4 and 11.1, which emphasize the need for safe, adequate, and affordable housing for all, particularly vulnerable groups. These initiatives contribute to reducing social inequality by enhancing access to housing for low-income families, creating more stable and sustainable communities.
- In terms of social and environmental risks, Iccrea applies ESG criteria to assess the counterparties and collateral involved in the projects. The group's lending policies include an exclusion list to avoid financing controversial sectors and are guided by its Charter on Human Rights, which aligns with international standards such as the UN Global Compact. Environmental factors, including physical and transition risks, are assessed during loan origination through a counterparty questionnaire and external data providers. Iccrea also monitors ESG-related controversies and commits to removing any

assets associated with violations of human rights, environmental issues, or non-compliance with its sustainability commitments.

Access to Essential Services – Financial Services

(Re)financing of mortgages under the 80% Public Guarantee of the First Home Mortgage Guarantee Fund (Fondo Prima casa) administered by CONSAP (Concessionaria Servizi Assicurativi Pubblici):

- Loans to first-time buyers with ISEE (Equivalent Economic Situation Indicator) of <€40K/year, for applicants who are i) young people below the age of 36, or ii) single parent families with minor children. For these mortgages, a controlled interest rate is envisaged

Analytical considerations

- Iccrea's projects under the access to essential services – financial services category aim to improve access to affordable home financing for first-time buyers in Italy. These projects involve the (re)financing of mortgages under the 80% Public Guarantee of the First Home Mortgage Guarantee Fund (Fondo Prima Casa) administered by CONSAP. The loans are aimed at young buyers (who Iccrea defines as under 36), and single-parent families with children, with an annual ISEE (equivalent economic situation indicator) below €40,000. Controlled interest rates ensure affordability for these groups.
- With regard to social objectives, these projects aim to empower individuals by increasing access to essential financial services, enabling first-time home buyers to achieve homeownership and improve their financial stability. We view favorably that Iccrea ensures affordability through a governance mechanism that identifies eligible loans in line with Italian laws and offers various social products, such as CONSAP-backed loans, to improve financial accessibility. By focusing on those with limited financial resources, such as young adults and single-parent families, Iccrea contributes to broader efforts that support economic inclusion. We therefore consider this category to be aligned with the Principles.
- Iccrea's financial services projects are aligned with SDG Targets 1.2 and 10.2, which focus on reducing poverty by improving access to financial resources and promoting the social and economic inclusion of vulnerable groups. By providing affordable mortgage solutions, Iccrea is addressing inequality, allowing first-time buyers to secure stable housing.
- In terms of managing social risks, Iccrea applies ESG criteria when assessing counterparties and collateral to ensure that projects meet social responsibility standards. Iccrea's compliance department monitors ESG-related issues and reports directly to the board of directors. If significant social concerns arise, Iccrea is committed to addressing them promptly.

Socioeconomic Advancement and Empowerment

Re)financing of loans to specific target groups:

- Young entrepreneurs
- Woman-owned enterprises
- Students

Re(financing) of loans to third-sector organizations, associations, foundations, and philanthropic entities focused on:

- Art, culture, and sport (e.g. recreational facilities and services, visual and performing arts)
- Welfare and solidarity (e.g. education, vocational skills training, housing, and medical care)

Analytical considerations

- Iccrea's socioeconomic advancement and empowerment projects are designed to improve access to financial resources for specific target groups in Italy. These projects include the (re)financing of loans to support young entrepreneurs, woman-owned enterprises, and students, as well as third-sector organizations that focus on art, culture, sport, welfare, and solidarity. We believe these projects can help empower underrepresented populations and strengthen social inclusion by supporting both individual and community development.

- We view positively that Iccrea's target population definition relies on clear criteria, identifying young individuals aged up to 35, female entrepreneurs as defined by the IFC, and students, along with third-sector organizations in line with Italian law on the third sector. The vulnerable populations included in this target group are the underemployed, the unemployed, the elderly, the undereducated, the disabled, and migrants. We believe these projects contribute to the overall advancement of local communities and therefore consider this category to be aligned with the Principles.
- According to Iccrea, the social objective of these projects is to promote equal employment opportunities, particularly for women and young individuals, and to support local communities through initiatives that enhance social protection and inclusion. Iccrea's focus on these specific groups aligns with efforts to address inequality and provide economic opportunities to vulnerable groups facing challenges in accessing financial services. In addition, Iccrea's socioeconomic advancement projects contribute to SDG Target 10.1, which focuses on reducing inequality by ensuring equal access to financial resources and economic opportunities.
- In terms of social risk management, Iccrea applies ESG criteria when evaluating counterparties and loan recipients. The group's policies include exclusion criteria to avoid lending to controversial sectors and are guided by the group's Charter on Human Rights, which follows international frameworks like the UN Global Compact. Iccrea's compliance department monitors ESG-related issues and reports directly to the board of directors. If a significant social concern arises, Iccrea is committed to addressing it promptly.

Access to Essential Services – Healthcare & Education

(Re)financing of loans to schools, hospitals, sport facilities, and elder care centers that are affiliated with providing broadly accessible (to the whole public) healthcare and education services through government spending, subsidies, or social security

Analytical considerations

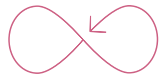
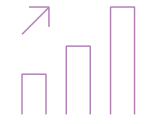
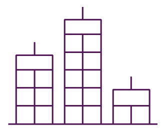
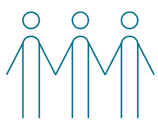
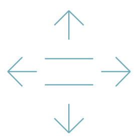
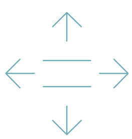
- Iccrea's initiatives under this category focus on improving access to critical healthcare, and education for the general public and, in particular, as mentioned in the framework, for underserved populations in Italy. These projects include the (re)financing of loans to schools, hospitals, sports facilities, and elder care centers, all of which provide publicly accessible services through government spending, subsidies, or social security programs, which we view favorably. The goal is to enhance the availability of essential services for vulnerable groups, ensuring equitable access regardless of financial capacity.
- Icceas' healthcare and education projects target the general public, with a specific focus on underserved populations, particularly vulnerable groups, low-income individuals, and the elderly, who face barriers in accessing publicly funded or subsidized healthcare and education services. By providing financing to facilities that serve these populations, Iccrea supports the expansion of services that directly benefit those in need, contributing to a more inclusive healthcare and education system. We therefore consider this category to be aligned with the Principles.
- Additionally, we view positively that Iccrea's healthcare and education projects are aligned with SDG Targets 3.8, 4.1, 4.3, and 10.2. These targets focus on achieving universal health coverage, ensuring access to free, equitable, and quality primary and secondary education, expanding access to affordable higher education and vocational training, and promoting the social and economic inclusion of vulnerable groups.
- Iccrea incorporates ESG criteria in evaluating loan recipients and collateral to ensure projects align with social and environmental standards. The group adheres to its Charter on Human Rights, based on international frameworks like the UN Global Compact. In addition, the compliance department monitors ESG issues and reports them to the board of directors, addressing any significant concerns as they arise.

Mapping To The U.N.'s Sustainable Development Goals

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs		
Green buildings	7. Affordable and clean energy	11. Sustainable cities and communities*	13. Climate action
Energy efficiency	7. Affordable and clean energy*	13. Climate action	
Renewable energy	7. Affordable and clean energy*	13. Climate action	
Clean transportation	9. Industry, innovation and infrastructure	11. Sustainable cities and communities*	13. Climate action

Sustainable water and wastewater management	 **6. Clean water and sanitation***  **12. Responsible consumption and production***
Employment Generation	 **8. Decent work and economic growth***
Affordable Housing	 **1. No poverty***  **11. Sustainable cities and communities***
Access to Essential Services – Financial Services	 **1. No poverty***  **10. Reduced inequalities***
Socioeconomic Advancement and Empowerment	 **10. Reduced inequalities***

Access to Essential Services – Healthcare & Education	**3. Good health and well-being***	**4. Quality education***	**10. Reduced inequalities***

*The eligible project categories link to these SDGs in the ICMA mapping.

Related Research

- SPO Spotlight: Second Party Opinions, March 28, 2024
- Analytical Approach: Second Party Opinions: Use of Proceeds, July 27, 2023
- FAQ: Applying Our Integrated Analytical Approach for Use-of-Proceeds Second Party Opinions, July 27, 2023
- Analytical Approach: Shades of Green Assessments, July 27, 2023
- S&P Global Ratings ESG Materiality Maps, July 20, 2022

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