

# Green Bond Framework

May 2024

## Zürcher Kantonalbank sustainability mandate

Zürcher Kantonalbank has a long tradition of promoting sustainability. In 1995, Zürcher Kantonalbank signed the United Nations Declaration of Financial Institutions on the Environment and Sustainable Development (UNEP Finance Initiative), which aims to integrate aspects of sustainability at all levels of the company. Likewise, Zürcher Kantonalbank is a long-standing member of "öbu", the Swiss association for sustainable business. The purpose of the association – which is made up of around 320 Swiss companies – is to promote further development of the Swiss economy in accordance with the principles of sustainability.

Zürcher Kantonalbank's first public environmental report was published in 1998. Since then, the bank's understanding of sustainability issues has continuously expanded. The initial focus on ecological aspects has expanded over time to include other facets of sustainability. Sustainability as part of the public service mandate is a strategic objective of Zürcher Kantonalbank. The objectives of the public service mandate are measured annually and revised every three years with the bank's Board of Directors.

Zürcher Kantonalbank also takes environmental, social and good governance (ESG) criteria into consideration in its sustainability policy by enshrining minimum standards into its investment policy and transparency. Measures to increase transparency, in turn, provide incentives to improve sustainability, enable relevant discussion and serve as a decision-making aid.

## Zürcher Kantonalbank green bonds

The International Capital Markets Association (ICMA) defines green bonds as bonds whose proceeds are used exclusively to finance appropriate green projects, in whole or in part, and which are aligned with the four core components of the Green Bond Principles (GBP). These may be new or existing projects. The GBP outline voluntary process guidelines for issuing green bonds. Compliance with the GBP is intended to promote transparency and integrity in the green bond market.

Zürcher Kantonalbank uses green bonds to finance loans and projects that meet recognised sustainability criteria. On the one hand, green bonds take account of the growing demand for sustainable investments. On the other hand, the areas in which and to what extent Zürcher Kantonalbank is developing corresponding investments become more transparent. At the same time, the expansion of the investor base contributes towards diversification of Zürcher Kantonalbank's sources of refinancing. Investors have the opportunity to invest in sustainable bonds and support the bank's contribution towards a lower carbon environment.

Specifically, green bonds are issued mainly for refinancing ZKB environmental loans and for financing projects with energy-related objectives in the office buildings used by Zürcher Kantonalbank itself.

Green bonds are issued under the existing Zürcher Kantonalbank issuance programme. The bonds create senior unsecured obligations on the part of Zürcher Kantonalbank, which rank similarly with the other bonds issued under the issuance programme. The issuance programme is posted on the Zürcher Kantonalbank homepage at <https://www.zkb.ch/de/uu/nb/investor-relations/obligationen-anleihen.html>.

## Framework conditions for issuance of green bonds

Within the Green Bond Framework, the financing concept is presented to investors in a transparent manner, and uniform handling of all green bond issues is guaranteed.

In issuing green bonds, Zürcher Kantonalbank is guided by the following four core components of the ICMA's Green Bond Principles:

1. Use of Proceeds
2. Process for Project Evaluation & Selection
3. Management of Proceeds
4. Reporting.

### 1. Use of proceeds

Under the GBP, qualifying uses of funds include financing projects in the area of building energy efficiency. At Zürcher Kantonalbank, ZKB environmental loans and energy-related investments in the bank's own office buildings are suitable in this context.

#### a) ZKB environmental loans

Since the launch of the ZKB environmental loan in 1992, the number of subsidised loans to promote energy-efficient buildings has risen sharply. An important contribution towards this was the inclusion of the Minergie® certificate as a criterion for awarding a ZKB environmental loan in 1997. Zürcher Kantonalbank takes a leading role in financing newly certified Minergie® buildings in the canton of Zurich. Together with Minergie®, Zürcher Kantonalbank therefore makes a substantial contribution towards promoting energy-efficient living. In 1992, for example, consumption of heating oil in new buildings was around 12 litres per square metre per year. Today, the value is 4.8 litres, in Minergie®-certified buildings 3.5 litres, and the trend is downwards.

As at the end of December 2023, the volume of ZKB environmental loans amounted to CHF 1.237 billion, which corresponds to a portfolio of around 3,490 ZKB environmental loans. The portfolio of ZKB environmental loans is constantly being renewed as new loans are concluded and existing loans expire.

#### b) Internal projects

In recent years, Zürcher Kantonalbank has been able to significantly reduce energy consumption in the office buildings used by the bank through renovations and individual energy measures. The largest project was the conversion of the bank's head office, during which the building was connected to a lakewater heat pump. It was also possible to significantly reduce the demand for building and heating energy as well as associated CO<sub>2</sub> emissions at various branches in the canton through renovations or specific energy-saving measures.

The total amount invested in selected internal projects as at the end of December 2023 was approximately CHF 308 million. The project portfolio will be renewed over time with ongoing investments in renewable energy sources and the use of efficiency potential in new buildings and renovations.

## 2. The project evaluation and selection process

#### a) ZKB environmental loans

##### Embedding of the ZKB environmental loan in the sustainability policy of Zürcher Kantonalbank

Zürcher Kantonalbank's understanding of and commitment to sustainability is described in the [sustainability policy of the Bank](#). This policy states the targeted sustainability effects for each business area according to the ESG dimensions. Consequently, all financings are evaluated and selected in line with the policy, which includes the identification and management of project related ESG risks. The key features of the governance structure regarding the sustainability policy as well as reporting on climate-related financial risks are part of the [yearly regulatory disclosure report](#).

The granting of environmental loans is embedded in this overall framework. The ZKB environmental loan is part of Zürcher Kantonalbank's public service mandate. Given the nature of the environmental loan the focus with respect to the ESG dimensions is on the achievement of environmental benefits. Planning, implementation, monitoring and reporting of the public service mandate and the topics related to sustainability (including the ZKB environmental loan as part of the sustainable products and services) are carried out by the public service mandate unit. As the highest decision-making body, the Public Service Mandate Steering Com-

mittee meets at regular intervals to advise and support the Board of Directors and the Committee of the Board of Zürcher Kantonalbank in all matters relating to the public service mandate. The Public Service Mandate Steering Committee is composed of representatives from all business units and is chaired by the public service mandate officer.

#### Project selection criteria

The lending criteria for the ZKB environmental loan are defined by Product Management Financing. From a financial point of view, the lending process does not differ from the regular lending process. In addition to the financial criteria, however, the borrower must demonstrate that the building project will achieve a high energy standard.

Specifically, granting of ZKB environmental loans is subject to the following additional criteria:

- New buildings: Minergie® or 2000-Watt-Areal® certificate<sup>1</sup> or GEAK® certificate class A (total energy efficiency).
- Energy renovations: Minergie® certificate after renovation or GEAK® Plus certificate after renovation of at least class C (total energy efficiency) and improvement by at least one efficiency class or individual energy measures (such as thermal insulation, heat recovery, climate-friendly heating systems, solar power, photovoltaic systems, etc.).
- The certificate or label may be no more than five years old.
- The permissible location of the property covers the whole of Switzerland
- The Minergie® or 2000-Watt-Areal® certificate and the GEAK® certificate must be issued for the entire property. Minergie® certificates for building components/modules do not entitle the holder to a ZKB environmental loan.
- The entirety of the funding must come from Zürcher Kantonalbank.
- The ZKB environmental loan cannot be integrated into an existing fixed-rate commitment.
- The term of the ZKB environmental loan can be between 2 and 15 years. However, the interest rate reduction applies for a maximum of the first five years of the term.

Existing and future ZKB environmental loans that meet these lending criteria at the time the financing is concluded qualify as eligible assets. Expired ZKB environmental loans are no longer taken into account when selecting the project. The portfolio financed in this way by green bonds is renewed on average every five years. If the certification criteria of the recognised standards are changed, Zürcher Kantonalbank reserves the right to adjust the requirements for granting of ZKB environmental loans as well. However, existing ZKB environmental loans that have been designated as eligible assets will not lose their status if they do not meet the new eligibility criteria.

#### b) Internal projects

Since 2012, the bank has examined all projects in the internal building sector individually with regard to their energy impact based on effective consumption measurements. As at the evaluation date at the end of 2023, a total of eleven projects implemented between 2015 and 2021 have been selected for refinancing through green bonds. Included are projects in which a significant reduction in energy consumption and/or CO<sub>2</sub> emissions can be demonstrated. These projects include about 60% of the office space used by Zürcher Kantonalbank.

- The selected projects include three complete renovations and one new replacement building implemented in the period under review.
- In addition, the selection includes seven smaller projects focused on optimising energy consumption.

The selected internal projects qualify for green bond financing for 15 years from the year of implementation. For example, a project that was implemented in 2015 will remain in the portfolio of projects until 2030. Investments and projects completed before 2012 are not taken into account for the green bond programme, although a further part of the office space was built according to energy-efficient criteria earlier as part of the bank's overall building strategy.

### 3. Management of proceeds

Zürcher Kantonalbank undertakes to use all the proceeds of the green bonds to fund existing and future ZKB environmental loans or selected internal projects. The proceeds are allocated to the pool of eligible assets overall, i.e., they are not dedicated individually to specific projects, as all selected projects qualify as green assets as per the conditions under this Green Bond Framework. To ensure that the funds raised are used for the intended purpose, new green bonds will only be issued if – following the planned new issue – the total outstanding volume of ZKB environmental loans and the bank's internal projects exceeds the volume of green bonds in issue by at least 10%. Compliance with this condition is reviewed on a quarterly basis using an internal control

<sup>1</sup> In September 2023 two new labels, the Minergie-Areal and the SNBS-Areal, have replaced the label 2000-Watt-Areal. Zürcher Kantonalbank will still accept certificates for the 2000-Watt-Areal over a transition period of five years.

system. In addition, Zürcher Kantonalbank excludes existing and future ZKB environmental loans from the collateral pool of covered bond loans («Pfandbriefdarlehen»).

As at the end of 2023, the proceeds from the issuance of green bonds of CHF 1,025 million compared with an asset pool size of CHF 1,545 million.

<b>Asset pool by project category as at 31.12.2023</b>	<b>Sub-category</b>	<b>Share of asset pool in CHF m</b>	<b>Share of asset pool in %</b>
Green Buildings: Environmental loans	– Private Mortgage Loans	656	42 %
	– Housing Cooperatives	172	11 %
	– Commercial Real Estate	409	26 %
	<i>Subtotal environmental loans</i>	<i>1,237</i>	<i>80 %</i>
Green Buildings: Bank-internal projects	– Commercial Real Estate	308	20 %
<b>Total</b>	<b>Selected projects</b>	<b>1,545</b>	<b>100 %</b>
<b>Total</b>	<b>Outstanding green bonds</b>	<b>1,025</b>	

Should the volume of outstanding green bonds at any point exceed the total outstanding volume of ZKB environmental loans and internal projects, the surplus funds from the green bond issues will be used as follows:

- Held in reserve as cash
- Invested in green bonds of other issuers.

The following criteria are applied when investing in green bonds of other issuers:

- Currency/rank: CHF, EUR or USD/senior unsecured
- Issuer rating: investment grade
- At least one independent audit in the form of a second party opinion or green bond rating from a recognised auditor.

Use of the surplus funds described will apply until such time as enough ZKB environmental loans or internal projects exist once again or the green bonds are redeemed. Zürcher Kantonalbank shall furthermore be entitled at any time to repurchase green bonds in any number either for its own investment or for redemption purposes.

#### 4. Ongoing reporting

Zürcher Kantonalbank provides information updated on an annual basis on the use of proceeds and the environmental impact of green bonds. As the green bond programme is designed as an ongoing programme, with green bonds being issued on a regular basis such that the pool of environmental loans and of the Bank's internal projects is continuously refinanced, this reporting will be upheld for as long as the Bank is committed to its green bond programme. The reporting consists of the following parts:

- The Green Bond Framework sets out the guidelines and procedures according to which the proceeds of the green bonds issued by Zürcher Kantonalbank are used. The Green Bond Framework is in line with ICMA's Green Bond Principles (GBP).
- The Annual and Environmental Reporting on green bonds highlights the energetic impact associated with the projects financed by ZKB environmental loans and the bank's internal projects. The scope of the impact analysis for ZKB environmental loans is limited to building projects that are based on the Minergie Standard. The impact analysis for the bank's internal projects covers all selected projects and is based on actual consumption values. These analyses provide estimates for the reduction in energy consumption and/or in CO<sub>2</sub> emissions achieved through the projects.
- The Second-party opinion from ISS-Corporate re-verifies the sustainability quality of the issuer and the green bond asset pool.

The ongoing reporting can be found at <https://www.zkb.ch/en/home/investor-relations/bond-issues.html>

#### External assessment

Zürcher Kantonalbank obtains a new second-party opinion from ISS-Corporate every year to confirm the transparency and reliability of the Green Bond Framework and issuance process. The second-party opinion is published on the Zürcher Kantonalbank homepage as mentioned above.

## Appendix: Explanations of energy standards

### What is Minergie®?

Minergie® is a quality label for new and renovated buildings, which refers to a construction method that optimally combines environmental sustainability, efficiency and living comfort. Minergie® is a voluntary building standard that enables the rational use of energy and widespread use of renewable energy while at the same time improving the quality of life, ensuring competitiveness and reducing environmental pollution.

Further information on Minergie® is available at [minergie.ch](https://minergie.ch).

### What does GEAK® have to offer?

The cantonal building energy certificate (GEAK®) enables buildings to be evaluated from an energy-efficiency perspective. In addition to the results of the GEAK®, the GEAK® Plus identifies energy-saving modernisation measures and works out how much they would cost. GEAK® Plus is a suitable instrument for comprehensive renovation analysis based on the following factors:

- Professional building analysis.
- Objectively assesses the energy profile and efficiency of the building and creates transparency regarding the expected energy costs.
- Well thought-out overall concept before the start of construction, which helps to avoid inefficient measures during house renovations.
- Simple investment decision enabled by a transparent cost and benefit analysis.
- Enables measures to be planned in segments to suit the individual budget situation.
- Ensures good comparability, since the standard is uniform throughout Switzerland.

Further information on GEAK® is available at [geak.ch](https://geak.ch).

### What is a 2000-Watt-Areal®?

The 2000-Watt-Areal® certificate is awarded to residential areas that demonstrate a sustainable approach to resources and climate protection for the construction, renovation, and operation of buildings, as well as site-dependent mobility. The process-oriented label views the site as a holistic living space and evaluates its entire development cycle. Existing sites in particular offer great potential for sustainably reducing resource consumption – the potential of which has been little exploited thus far. The 2000-Watt-Areal® certificate is based on the well-known Energy City («Energiestadt») label for municipalities in combination with the SIA Energy Efficiency Path for buildings. The certificate is awarded by the Energy Cities Association and is only issued for a limited period and must be renewed periodically.

Further information on 2000-WattAreal® is available at [2000watt.ch](https://2000watt.ch).<sup>2</sup>

nb: This is a translation of the German version of the Green Bond Framework. In case of any deviations resulting from the translation, the German version shall prevail.

<sup>2</sup> In September 2023 two new labels, the Minergie-Areal and the SNBS-Areal, have replaced the label 2000-Watt-Areal. Zürcher Kantonalbank will still accept certificates for the 2000-Watt-Areal over a transition period of five years.

#### Disclaimer

Zürcher Kantonalbank gives no warranty that the green bonds will be suitable for meeting the environmental, social and/or sustainable investment objectives of potential investors or for meeting their expectations of Zürcher Kantonalbank's corporate governance. It is the responsibility of the potential investors alone to assess the relevance and effectiveness of the purpose described in light of their own personal investment objectives. As such, investors buy the bonds based on their own independent assessment and after making the investigations that they individually deem necessary. An assessment by ISS-Corporate has been issued regarding the bonds' conformity with certain criteria. This assessment is not an integral part of this Green Bond Framework and does not consider the potential implications of structural and market risks or other factors that could affect the value of the bonds. The assessment does not constitute a recommendation to buy, sell or hold the bonds, and only reflects the situation at the time of issue. Zürcher Kantonalbank has undertaken to comply with certain principles regarding the management of the issue proceeds and transparency. However, non-compliance with these principles would not lead to early repayment under the terms of the bond. Potential investors motivated by the environmental qualities of the bonds should note that the business activities funded may not necessarily produce the expected environmental, social and sustainability results or the expected impact on Zürcher Kantonalbank's corporate governance.