

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Green Bond Framework

Zürcher Kantonalbank

8 May 2024

VERIFICATION PARAMETERS

Type(s) of instruments contemplated

- Green bond

Relevant standards

- Green Bond Principles (GBP), as administered by the International Capital Market Association (ICMA) (as of June 2021 with June 2022 Appendix 1)

Scope of verification

- ZKB Green Bond Framework (as of May 7, 2024)
- ZKB Eligible Green Asset Pool (as of Dec. 31, 2023)

Lifecycle

- Pre-issuance verification
- Third update of SPO as of May 4, 2023(<https://www.iss-corporate.com/file/documents/spo/spo-20230504-zkb.pdf>)

Validity

- Valid as long as the cited Framework and the underlying portfolio composition remains unchanged

CONTENTS

SCOPE OF WORK.....	3
ZKB OVERVIEW	4
ASSESSMENT SUMMARY	5
SPO ASSESSMENT.....	6
PART I: ALIGNMENT WITH ICMA’S GREEN BOND PRINCIPLES	6
PART II: SUSTAINABILITY QUALITY OF THE GREEN BOND ASSET POOL	8
A. CONTRIBUTION OF THE GREEN BOND TO THE UN SDGs	8
B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE FINANCIAL INSTITUTION AND THE GREEN BOND ASSET POOL.....	12
PART III: CONSISTENCY OF GREEN BOND WITH ZKB’S SUSTAINABILITY STRATEGY.....	17
ANNEX 1: METHODOLOGY	22
ANNEX 2: QUALITY MANAGEMENT PROCESSES.....	22
ANNEX 3: ZKB ASSET POOL	23
About this SPO.....	24

SCOPE OF WORK

Zürcher Kantonalbank (“the Issuer”, or “ZKB”) commissioned ISS-Corporate to assist with its green bond by assessing three core elements to determine the sustainability quality of the instruments:

1. ZKB’s Green Bond Framework (as of May 7, 2024) – benchmarked against the ICMA’s GBP.
2. The Green Bond Asset Pool – whether the project categories contribute positively to the United Nations Sustainable Development Goals (U.N. SDGs) and how they perform against proprietary issuance-specific key performance indicators (KPIs) (See Annex 1).
3. Consistency of green bond with Zürcher Kantonalbank’s Sustainability Strategy, drawing on the key sustainability objectives and priorities defined by the Issuer.

ZKB OVERVIEW

ZKB engages in the provision of universal banking services. It is classified in the Public & Regional Banks industry, as per ISS ESG's sector classification.

ZKB offers its services through the following divisions: Private Banking, International Banking and Asset Management. The Private Banking division offers private advisory, asset management, fiduciary and other services. The International Banking division provides international payments and trade finance services. The Asset Management division includes segregated, balanced and overlay mandates. It also offers strategy advice and portfolio analysis services. The company was founded on Feb. 15, 1870, and is headquartered in Zürich.

ESG risks associated with the Issuer Industry



ZKB is classified in the Public & Regional Banks industry, as per ISS ESG's sector classification. Key sustainability issues faced by companies¹ in this industry are:

- Business ethics.
- Labor standards and working conditions.
- Sustainability impacts of lending and other financial services/products.
- Customer and product responsibility.
- Sustainable investment criteria.

This report focuses on the sustainability credentials of the issuance. Part III of this report assesses the consistency between the issuance and the Issuer's overall sustainability strategy.

¹ Please note, that this is not a company specific assessment but areas that are of particular relevance for companies within that industry.

ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ²
<p>Part I:</p> <p>Alignment with GBP</p>	<p>The Issuer has defined a formal concept for its green bond regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the GBP.</p>	<p>Aligned</p>
<p>Part II:</p> <p>Sustainability quality of the Green Bond Asset Pool</p>	<p>The green bond will (re)finance the eligible asset category of Green Building.</p> <p>Product and/or service-related use of proceeds individually contribute to one or more of the following SDGs:</p> <div data-bbox="632 927 983 1043" style="text-align: center;">  </div> <p>Process-related use of proceeds categories individually improve (i) the Issuer's/Borrower's operational impacts and (ii) mitigate potential negative externalities of the Issuer's/Borrower's sector on one or more of the following SDGs:</p> <div data-bbox="632 1326 983 1442" style="text-align: center;">  </div> <p>The environmental and social risks associated with the use of proceeds category and the financial institution are managed.</p>	<p>Positive</p>
<p>Part III:</p> <p>Consistency of Green Bond with ZKB's Sustainability Strategy</p>	<p>The key sustainability objectives and the rationale for issuing the green bond are clearly described by the Issuer. The project category financed is in line with the sustainability objectives of the Issuer.</p>	<p>Consistent with Issuer's sustainability strategy</p>

² The evaluation is based on the ZKB's Green Bond Framework (May 7, 2024, version), on the analysed Asset Pool as received on December 31, 2023.

SPO ASSESSMENT

PART I: ALIGNMENT WITH ICMA’S GREEN BOND PRINCIPLES

This section evaluates the alignment of the ZKB’s Green Bond Framework (as of May 7, 2024) with the GBP.

ICMA GBP	ALIGNMENT	OPINION
<p>1. Use of Proceeds</p>	<p>✓</p>	<p>The Use of Proceeds description provided by ZKB’s Green Bond Framework is aligned with the GBP.</p> <p>The Issuer’s green categories align with the project categories as proposed by the GBP, and criteria are defined in a clear and transparent manner. Disclosure of distribution of proceeds by project category is provided and environmental benefits are described and quantified.</p>
<p>2. Process for Project Evaluation and Selection</p>	<p>✓</p>	<p>The Process for Project Evaluation and Selection description provided by ZKB’s Green Bond Framework is aligned with the GBP.</p> <p>The project selection process is defined and structured in a congruous manner. ESG risks associated with the project categories are identified and managed through an appropriate process. Moreover, the projects selected show alignment with ZKB's sustainability strategy.</p> <p>The Issuer involves various stakeholders in this process, in line with best market practice.</p>
<p>3. Management of Proceeds</p>	<p>✓</p>	<p>The Management of Proceeds provided by ZKB’s Green Bond Framework is aligned with the GBP.</p> <p>The net proceeds collected are equal to the amount allocated to eligible projects, with no exceptions. The net proceeds are tracked in an appropriate manner and attested in a formal internal process. The net proceeds are managed on an aggregated basis for multiple green bonds (portfolio approach). Moreover, the Issuer</p>

		discloses the temporary investment instruments for unallocated proceeds.
<p>4. Reporting</p>	<p>✓</p>	<p>The allocation and impact reporting provided by ZKB’s Green Bond Framework is aligned with the GBP.</p> <p>The Issuer commits to disclose the allocation of proceeds transparently and to report with appropriate frequency. The reporting will be publicly available on the Issuer’s website. ZKB has disclosed the type of information that will be reported and explains that the level of expected reporting will be at portfolio level. Moreover, the Issuer commits to report annually on an ongoing basis as long as the Bank is committed to its green bond program.³</p> <p>The Issuer is transparent on the information, frequency, scope, duration and level of impact reporting, in line with best market practice.</p>

³ ZKB’s green bond program is designed as an ongoing program, 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 program.

PART II: SUSTAINABILITY QUALITY OF THE GREEN BOND ASSET POOL

A. CONTRIBUTION OF THE GREEN BOND TO THE U.N. SDGs⁴

Companies can contribute to the achievement of the SDGs by providing specific services/products which help address global sustainability challenges, and by being responsible corporate actors, working to minimize negative externalities in their operations along the entire value chain. The aim of this section is to assess the SDG impact of the UoP categories financed by the Issuer in two different ways, depending on whether the proceeds are used to (re)finance:

- specific products/services.
- improvements of operational performance.


1. Products and services

The assessment of UoP categories for (re)financing products and services is based on a variety of internal and external sources, such as the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of an Issuer's products or services on the U.N. SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate Delegated Acts, ICMA's Green and/or Social Bond Principles and other regional taxonomies, standards and sustainability criteria).

The assessment of UoP categories for (re)financing specific products and services is displayed on a three-point scale:



The green bond's Use of Proceeds categories have been assessed for their contribution to, or obstruction of, the SDGs:

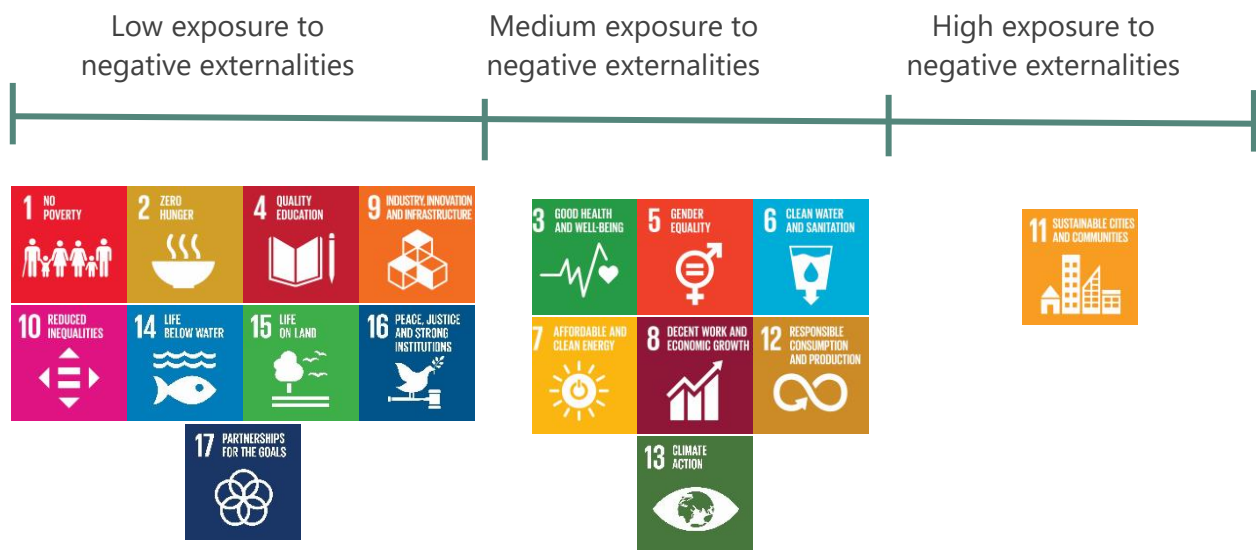
USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p>Green Buildings (New Buildings)</p> <ul style="list-style-type: none"> ▪ <i>Minergie</i> ▪ <i>Minergie -A</i> ▪ <i>Minergie -P</i> 	<p>Contribution</p>	

⁴ The impact of the UoP categories on UN Sustainable Development Goals is assessed with proprietary methodology and may therefore differ from the Issuer's description in the framework.









2. Improvements of operational performance (processes)

The below assessment aims to qualify the direction of change (or “operational impact improvement”) resulting from the operational performance projects (re)financed by the UoP categories, as well as related U.N. SDGs impacted. The assessment displays how the UoP categories are mitigating the exposure to the negative externalities relevant to the business model and the sector of the Issuer.

According to ISS ESG SDG Impact Rating methodology, potential impacts on the SDGs related to negative operational externalities in the real estate industry are the following:



The table below aims to display the direction of change resulting from the operational performance improvement projects. The outcome displayed does not correspond to an absolute or net assessment of the operational performance.

USE OF PROCEEDS (PROCESSES)	OPERATIONAL IMPACT IMPROVEMENT ⁵	SUSTAINABLE DEVELOPMENT GOALS
<p>Green Buildings (Renovation)</p> <ul style="list-style-type: none"> ▪ <i>Minergie</i> ▪ <i>Minergie -A</i> ▪ <i>Minergie -P</i> ▪ <i>Minergie eco</i> 		
<p>Green Buildings (Renovation)</p> <ul style="list-style-type: none"> ▪ <i>2000-Watt-Areal</i> ▪ <i>GEAK</i> 		
<p>Green Buildings (Renovation)</p> <p><i>Bank's own projects:</i></p> <ul style="list-style-type: none"> ▪ <i>District heating</i> ▪ <i>Lake-water heat pump</i> ▪ <i>Wood-fired systems</i> ▪ <i>Heat pump based on green electricity</i> ▪ <i>Biogas</i> ▪ <i>Waste incineration and green electricity</i> 		
<p>Green Buildings (Renovation)</p> <p><i>Other measures:</i></p> <ul style="list-style-type: none"> ▪ <i>Individual component</i> <ul style="list-style-type: none"> • <i>Thermal insulation of walls, ceilings and floors</i> • <i>Window replacement</i> ▪ <i>Renewable energy and waste heat</i> <ul style="list-style-type: none"> • <i>Solar system</i> • <i>Solar collectors</i> 		

⁵ Limited information is available on the scale of the improvement as no threshold is provided. Only the direction of change is displayed.

SECOND PARTY OPINION

Sustainability Quality of the Issuer
and Green Bond Framework

- *Heat pump*
- *E-charging station*
- *Wood-fired heating*
- *Heat regeneration from
wastewater or air*
- *District heating*
- *Rainwater tank*

B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE FINANCIAL INSTITUTION AND THE GREEN BOND ASSET POOL

The table below evaluates the Green Bond Asset Pool against issuance-specific KPIs. The entirety of the assets are and will be located in Switzerland.

ASSESSMENT AGAINST KPIs

ESG guidelines into financing process

ZKB considers ESG criteria in its credit assessment and monitoring process. In its investment business, ZKB abides by the United Nations Principles for Responsible Investment (U.N. PRI) and provides annual reports on these principles. ZKB does not enter a business relationship with new customers with high ESG risks and falling within the exclusion criteria, as stated in their sustainability policy. For existing customers, where significant change in the business activity and ESG risks is determined during the review process, a review of the position is undertaken.⁶ In such cases, either a customer relationship is terminated or an agreement with the customer is reached for measures to improve sustainability. All business cases are reviewed and assessed on an individual basis and all lending transactions and projects financed go through the ESG monitoring process at Bank level. In addition to the U.N. PRI, the Bank also aligns with guidelines such as Principles for Responsible Banking (PRB), Net-Zero Banking Alliance (NZBA) and the Net Zero Asset Managers initiative (NZAM).

For loans eligible under green building renovation - other measures, the borrower is required to provide the Bank, as part of the overall loan application, a written confirmation of the individual measures that are part of the project scope:

- A form documenting the concrete measures taken and the amount invested.
- The signature of the planner/architect in charge of the project in addition to the borrower's signature for each measure, confirming that each of the measures is compliant with the minimum standards as set out in the form.
- The signature of the client advisor and addition to the customer file.

The verification of the completeness of the documentation is part of periodic internal audits.

In accordance with the requirements of Financial Market Infrastructure Ordinance (FINMA) Circular 2016/1 'Disclosure – Banks', ZKB has integrated climate-related financial risks into its risk management, which also follows the recommendations of the Task Force on Climate Related Financial Disclosure (TCFD). Climate-related financial risks for the loan portfolio are assessed as part of the credit policy. For financial investments that consist of a bond portfolio,

⁶ This Issuer confirms that in the mortgage business a review is generally conducted when the renewal of an expiring mortgage is imminent while for its commercial lending activities, reviews are usually conducted annually.

the issuer should not belong to an industry ruled out by the sustainability policy for the provision of financing, and the CO₂e intensity is also tracked.

The Board of Directors defines the group strategy concerning sustainability, and the Executive Board is responsible for setting the various business policies including the sustainability policy. The Service Mandate Steering Committee and the Public Service Mandate unit are responsible for planning, implementing, refining, monitoring and communicating the sustainability mandate.

Labor, Health and Safety

- ✓ As all assets financed will be located in Switzerland, high labor, health and safety standards are ensured by Swiss national legislation.

Biodiversity

- ✓ All assets financed will be in Switzerland. Thus, the Issuer ensures that its environmental impacts have been mitigated and reduced in alignment with Swiss standards for Environmental Impact Assessment. Furthermore, Switzerland is an Equator Principles Designated Country. ZKB confirms that all lending transactions and projects comply with the Bank's policies and legal standards as mandated by Swiss law.

Community Dialogue

- ✓ All assets financed will be in Switzerland. Thus, the Issuer ensures that its impacts on local communities have been mitigated and reduced in alignment with Swiss standards for Social Impact Assessment. Furthermore, Switzerland is an Equator Principles Designated Country. ZKB confirms that all lending transactions and projects comply with the Bank's policies and legal standards as mandated by Swiss law.

Data protection and information security

- ✓ ZKB has a Privacy policy, Cookie and Tracking policy and processes for Transmission of Customer Data to systematically ensure that data collection processes on retail borrowers meet minimum requirements for data and information security. ZKB must comply with all FINMA Circulars on data protection and information security, especially FINMA Circular 2008/21 – operational risks – banks, margin note 135ff., and FINMA Circular 2023/1 – operational risks and resilience - banks. Data protection is ensured in cooperation with various specialized departments. Every employee must be able to independently recognize and fulfill the essential requirements of the data protection laws (e.g., transparency, purpose limitation, need to know principle, data economy, documentation, etc.). There is also a mandatory

whistleblower team on data protection for all employees of the Bank. The client data of ZKB is subject to Swiss bank-client confidentiality and data protection law in Switzerland and is treated confidentially by the Bank. ZKB's information security management system is not certified to ISO27001. However, ZKB confirms that security assessments for IT systems, both for internal and outsourced IT systems at third parties, are based on the ISO 27001 standard and supplemented by measures from the National Institute of Standards and Technology's Cybersecurity Framework. Security assessments are updated at least annually for critical IT systems.

Responsible treatment of customers with debt repayment problems



Clients who are not satisfied with ZKB's services are advised to contact their relationship manager and an amicable solution is implemented. If a case remains unresolved, clients can contact the Swiss Banking Ombudsman, which is a neutral information and mediation institution affiliated with ZKB. The Swiss Banking Ombudsman becomes active only after a client has submitted a written complaint to the Bank and has given the Bank the opportunity to settle the matter directly. ZKB has implemented various measures to deal responsibly with clients having debt repayment problems. The Bank adheres to the "Guidelines for the examination, valuation and processing of loans secured by real estate liens" issued by the Swiss Bankers Association. These guidelines prescribe factors to be considered when granting loans, such as affordability, loan-to-value ratio and amortization. ZKB also calculates a debt sustainability ratio based on borrowers' sustainable net incomes and expenses. The Bank's recovery strategy assures that all possible options are examined before undertaking foreclosure. As a rule, ZKB does not give notice on mortgage loans as long as the mortgage debtor fulfills the legal and contractual obligations, is creditworthy and capable, and the real estate lien is well maintained and has value. In the event of an emergency occurring through no fault of the borrower, the Bank may assume increased risks in such special situations. However, ZKB does not provide support to clients in finding adequate housing prior to foreclosure in these situations.

Sales practices



All loans at ZKB originate through the Bank's own network, therefore compliance and sales regulations and procedures for KYC, AML, customer suitability, pricing policy and credit risk methodology apply uniformly to all loans. ZKB has corporate governance directives for ethical behavior and whistleblowing, as well as responsible sales practices in place. All sustainability funds bear the European Transparency Code logo. ZKB's responsible sales practices encompass all of its marketing activities, and the Bank avoids hidden fees. ZKB's compensation policy is based on the long-term goals of the Bank,

and it does not create incentives to take inappropriate risks. The Executive Board is responsible for sales, brands and marketing issues and it is supported by the Sales Committee. ZKB tracks and analyzes customer feedback, which is directly captured with a front office tool. ZKB conducts customer satisfaction surveys every two years and conducts touchpoint surveys in which customers are asked for feedback while they are interacting with the Bank executives. The survey results are communicated to each organizational unit via reports or dashboards. Sales team members are required to undergo training on ethical business conduct and compliance. Over the last few years, the Bank has also developed specific training modules on sustainable investment and lending. In addition, ZKB tracks the customer's sustainability preference.

Responsible marketing



The issuer has a policy in place systematically ensuring that assets financed under this framework provide for responsible marketing. A comprehensive commitment is available to marketing and product information that is easily understandable, not misleading, comprehensive, accurate and balanced. ZKB has a commitment to correct pricing and no hidden costs, as well as transparency regarding product risks.

Exclusion criteria

The Issuer's policies explicitly exclude direct financing for the following activities:

- Fossil energy sources:
 - Coal mining and oil and gas extraction.
 - Fossil energy power plants run on coal or oil.
 - Commodity trading of coal for electricity production, as well as crude oil and fuel.
- Nuclear power:
 - The development and construction of nuclear power plants, or for their modernization.
 - Companies whose primary business activity is the production, trade and marketing of nuclear energy and/or the processing of nuclear fuel and uranium enrichment plants.
- Transactions involving bitumen/asphalt, asbestos, uranium, precious woods, live goods, diamonds, rare earth metals, perishable goods and non-certified palm oil.
- Non-certified agriculture and forestry operations abroad that cause tropical deforestation and/or the degradation of High Conservation Value Areas.
- Mining projects that apply particularly destructive mining methods, such as mountain top removal.

- Unlawful, intentional water/groundwater pollution.

Adverse effects on High Conservation Value Areas abroad, namely primeval forests (illegal slash-and-burn and/or deforestation), endangered animal and plant species, wetlands and biotopes, cultural assets and cultural World Heritage sites.

PART III: CONSISTENCY OF GREEN BOND WITH ZKB'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the Issuer

TOPIC	ISSUER APPROACH
<p>Strategic ESG topics</p>	<p>Sustainability is a part of ZKB's public service mandate, assessed annually and updated every three years by the Board of Directors. The Issuer integrates ESG criteria into its sustainability policy,⁷ establishing minimum standards within its investment guidelines and ensuring transparency. This transparency aims to facilitate sustainability discussions, improvements, and assists in decision-making processes.</p> <p>Additionally, the Issuer defines exclusion criteria and contributes to mitigating the impact of climate change by increasing energy efficiency and substituting fossil fuels with renewable energy sources.</p>
<p>ESG goals/targets</p>	<p>In December 2022, ZKB joined the Net-Zero Banking Alliance (NZBA) with the aim of achieving net-zero greenhouse gas emissions by 2050. The Issuer committed to setting sector-specific, science-based targets and milestones aligned with the 1.5 degrees Celsius climate target through its business activities.</p> <p>The Issuer aims to achieve the following targets:</p> <ul style="list-style-type: none"> ▪ 8.7 kg CO₂/m² energy reference area (ERA)⁸⁹ by 2030. ▪ To reach Net zero by reducing to 1,800 metric tons of CO₂e¹⁰ in the Issuer's operations by 2030. ▪ 0.9 kg CO₂/m² energy reference area (ERA) by 2040.

⁷ Sustainability Policy: https://www.zkb.ch/media/zkb/dokumente/en/sustainability_policy_july_2023.pdf

⁸ Climate Report 2023, page 22, https://www.zkb.ch/media/zkb/dokumente/investor-relations/zkb_climate_report_2023.pdf

⁹ Climate Report 2023, page 33, https://www.zkb.ch/media/zkb/dokumente/investor-relations/zkb_climate_report_2023.pdf

¹⁰ The Issuer has reduced its operational emissions by 68% since 2010.

	<ul style="list-style-type: none"> ▪ CO₂e intensity reduction of at least 4% and 7.5% per year¹¹ for 20% and 25% of Assets under management respectively. <p>Furthermore, the targets are disclosed in the Sustainability Report¹² and Climate Report. Currently, the Issuer does not have any verified science-based targets.</p>
<p>Action plan</p>	<p>The Issuer has established different action plans for its financing business, the investment business and internal operations:</p> <ul style="list-style-type: none"> ▪ Financing business: The Issuer has created incentives for clients to adopt environmentally friendly and energy-efficient practices in building, modernizing and managing properties and infrastructure. ZKB is also expanding its range of products and services in this area. The Issuer provides solutions to their clients for energy-efficient renovations and new buildings without excluding clients based on their fossil fuel heating system. ▪ Investment business: ESG risks and opportunities are systematically integrated into investment solutions. For direct investments in self-managed funds, the Issuer focuses on dialogue with companies that have invested to achieve the SDGs as well as greenhouse gas neutrality by 2050. ▪ Own operations: The Issuer plans to offset the remaining emissions through negative emission technologies.
<p>Climate Transition Strategy</p>	<p>The Issuer aims to minimize climate risks across its business operations and establish transparency in this regard. The Issuer helps mitigate climate change by promoting energy efficiency and substituting fossil fuels with renewable energy sources. To be in line with Switzerland’s long-term climate strategy,¹³ the Issuer</p>

¹¹ Plus economic growth

¹² Sustainability Report 2023: https://www.zkb.ch/media/zkb/dokumente/en/zkb_sustainability_report_2023.pdf

¹³ Switzerland’s long-term climate strategy: <https://www.bafu.admin.ch/bafu/en/home/topics/climate/info-specialists/emission-reduction/reduction-targets/2050-target/climate-strategy-2050.html>

	<p>focuses on two strategic areas of action in the buildings sector:</p> <ul style="list-style-type: none"> ▪ Replacing fossil fuel heating systems with heat pumps and refurbishing buildings to make them more energy efficient. ▪ Replacing oil and gas heating systems with environmentally friendly heating solutions at the end of their service life. <p>Furthermore, the Board of Directors oversees and manages climate-related risks and opportunities.</p>
Top three areas of breaches of international norms and ESG controversies in the industry¹⁴	Sexual harassment in the workplace, financial market irregularities and embezzlement.
Breaches of international norms and ESG controversies by the Issuer	At the date of publication and leveraging ISS ESG Research, no controversy in which the Issuer would be involved has been identified.
Sustainability Reporting	The Issuer’s Sustainability reporting is in line with the Global Reporting Initiative and Task Force on Climate-related Financial Disclosures (TCFD) recommendations.
Industry associations, Collective commitments	The Issuer is a signatory to the Net-Zero Banking Alliance (NZBA), Principles for Responsible Investment (PRI), United Nations Principles for Responsible Banking (PRB), Partnership for Carbon Accounting Financials (PCAF), United Nations Environment Programme Finance Initiative (UNEP FI), and swisscleantech.
Previous sustainable/sustainability-linked issuances or transactions and publication of sustainable financing framework	At the end of 2023, the Issuer issued a green bond totaling CHF 1.025 billion. This bond was issued to refinance the Issuer’s environmental loans and to finance projects aimed at improving energy efficiency within the office buildings used by the Issuer.

¹⁴ Based on a review of controversies identified by ISS ESG over a 2-year period, the top three issues that have been reported against companies within the Public & Regional Banks industry are displayed above. Please note that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry

Rationale for issuance

ZKB has established the Green Bond Framework to demonstrate its alignment with recognized sustainability criteria. Sustainability, as part of the public service mandate, is a strategic objective of ZKB. These bonds help meet the growing demand for sustainable investments and contribute to greater transparency. The expansion of the investor base further diversifies ZKB's sources of refinancing. The issuance of the green bond is primarily for refinancing ZKB's environmental loans and financing projects with energy-related objectives, including renovations and individual energy measures in the office buildings used by ZKB itself.

Opinion: *The key sustainability objectives and the rationale for issuing its green bond are clearly described by the Issuer. The project category financed is in line with the sustainability objectives of the Issuer.*

DISCLAIMER

1. Validity of the External Review ("External Review"): Valid as long as the cited Framework and the underlying portfolio composition remains unchanged.
2. ISS Corporate Solutions, Inc. ("ISS-Corporate"), a wholly-owned subsidiary of Institutional Shareholder Services Inc. ("ISS"), sells, prepares, and issues External Reviews, on the basis of ISS-Corporate's proprietary methodology. In doing so, ISS-Corporate adheres to standardized procedures designed to ensure consistent quality.
3. External Reviews are based on data provided to ISS-Corporate by the contracting party and may change in the future, depending in part on the development of market benchmarks and ISS-Corporate's methodology. ISS-Corporate does not warrant that the information presented in this External Review is complete, accurate or up to date. ISS-Corporate will not have any liability in connection with the use of these External Reviews, or any information provided therein. If the External review is provided in English and other languages, in case of conflicts, the English version shall prevail.
4. Statements of opinion and value judgments given by ISS-Corporate are not investment recommendations and do not in any way constitute a recommendation for the purchase or sale of any financial instrument or asset. In particular, the External Review is not an assessment of the economic profitability and creditworthiness of a financial instrument, but refers exclusively to social and environmental criteria.
5. This External Review, certain images, text, and graphics contained therein, and the layout and company logo of ISS-Corporate, are the property of ISS-Corporate (or its licensors) and are protected under copyright and trademark law. Any use of such ISS-Corporate property requires the express prior written consent of ISS-Corporate. The use shall be deemed to refer in particular to the copying or duplication of the External Review wholly or in part, the distribution of the External Review, either free of charge or against payment, or the exploitation of this External Review in any other conceivable manner.

© 2024 | ISS Corporate Solutions, Inc.

ANNEX 1: METHODOLOGY

The ISS-Corporate SPO provides an assessment of labeled transactions against international standards using ISS-Corporate proprietary methodology.

ANNEX 2: QUALITY MANAGEMENT PROCESSES

SCOPE

ZKB commissioned ISS-Corporate to compile a Green Bond SPO. The Second Party Opinion process includes verifying whether the Green Bond Framework aligns with the ICMA's Green Bond Principles and assessing the sustainability credentials of its green bond, as well as the Issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion:

- ICMA's Green Bond Principles

ISSUER'S RESPONSIBILITY

ZKB's responsibility was to provide information and documentation on:

- Framework
- Asset pool
- Documentation of ESG risks management at the asset level

ISS-CORPORATE'S VERIFICATION PROCESS

Since 2014, ISS Group, of which ISS-Corporate is a part of, has built up a reputation as a highly reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

This independent Second Party Opinion of the green bond to be issued by ZKB has been conducted based on a proprietary methodology and in line with ICMA's Green Bond Principles.

The engagement with ZKB took place from March to May 2024.

ISS-CORPORATE'S BUSINESS PRACTICES

ISS-Corporate has conducted this verification in strict compliance with the ISS Group Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

ANNEX 3: ZKB ASSET POOL

Note: the following table documents all Use of Proceeds categories outlined in ZKB’s Green Bond Framework (May 7, 2024), and the share of assets in terms of amount allocated included in its asset pool until Dec. 31, 2023.

GREEN ASSET CATEGORY	SUBCATEGORIES	SHARE OF ASSET PORTFOLIO
Green Buildings (New Buildings): Environmental Loans.	Minergie	16.31%
	Minergie-A	0.29%
	Minergie-P	7.48%
Green Buildings (Renovation): Environmental Loans	2000-Watt-Areal	2.15%
	GEAK	14.74%
	Minergie	22.91%
	Minergie-A	0.89%
	Minergie-P	3.31%
	Other measures	11.95%
Green Buildings (Renovation): Bank’s Own Projects	Minergie	18.41%
	Minergie eco	1.44%
	Lake-water heat pump	0.01%
	Biogas	0.02%
	District heating	0.02%
	Heat pump	0.01%
	Wood-fired systems	0.04%
Total		100%

About this SPO

Companies turn to ISS-Corporate for expertise in designing and managing governance, compensation, sustainability and cyber risk programs that align with company goals, reduce risk, and manage the needs of a diverse shareholder base by delivering best-in-class data, tools, and advisory services.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the Issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.iss-corporate.com/solutions/sustainable-finance/bond-issuers/>

For more information on SPO services, please contact: SPOsales@iss-corporate.com

Project team

Project lead

Medha Dalvi
Senior Associate
Sustainable Finance Research

Project support

Snehal Tiwari
Analyst
Sustainable Finance Research

Project supervision

Marie-Bénédicte Beaudoin
Associate Director
Head of Sustainable Finance
Research