

## SECOND PARTY OPINION (SPO)

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Sustainability Quality of the Issuer and Green Bond Framework

Aargauische Kantonalbank  
3 January 2022

### VERIFICATION PARAMETERS

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Type(s) of instruments contemplated	<ul style="list-style-type: none"><li>Green Bonds</li></ul>
Relevant standards	<ul style="list-style-type: none"><li>Green Bond Principles, administered by the International Capital Market Association, updated as of June 2021</li><li>Aargauische Kantonalbank Green Bond Framework (as of 20.12.2021)</li></ul>
Scope of verification	<ul style="list-style-type: none"><li>Aargauische Kantonalbank Eligibility Criteria (as of 20.12.2021)</li></ul>
Lifecycle	<ul style="list-style-type: none"><li>Pre-issuance verification</li></ul>
Validity	<ul style="list-style-type: none"><li>As long as no material changes to the Framework are undertaken by the Issuer</li></ul>

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## Scope of work

Aargauische Kantonalbank (“the issuer” or “AKB”) commissioned ISS ESG to assist with its Green Bonds issuance by assessing three core elements to determine the sustainability quality of the instruments:

1. The Green Bonds link to AKB’s sustainability strategy – drawing on AKB’s overall sustainability profile and issuance-specific Use of Proceeds categories.
2. AKB’s Green Bond Framework (as of 20.12.2021) – benchmarked against the International Capital Market Association's (ICMA) Green Bond Principles (GBP).
3. The Eligibility Criteria – whether the projects contribute positively to the UN SDGs and perform against ISS ESG’s issue-specific key performance indicators (KPI) (See Annex 2).

## ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION <sup>1</sup>
<b>Part 1:</b>  <b>Green Bonds link to the issuer’s sustainability strategy</b>	<p>According to the ISS ESG Corporate Rating published on 13.05.2020, the issuer shows a high sustainability performance against the industry peer group on key ESG issues faced by the Public &amp; Regional Banks industry. The issuer is rated 46<sup>th</sup> out of 278 companies within its industry.</p> <p>The Use of Proceeds financed through the AKB’s Green Bonds are consistent with the issuer’s sustainability strategy and material ESG topics for the issuer’s industry. The rationale for issuing Green Bonds is clearly described.</p>	<b>Consistent with the issuer’s sustainability strategy</b>
<b>Part 2:</b>  <b>Alignment with GBP</b>	<p>The issuer has defined a formal concept for its Green Bonds regarding Use of Proceeds, Processes for Project Evaluation and Selection, Management of Proceeds and Reporting. This concept is in line with the Green Bond Principles, administered by the International Capital Market Association.</p>	<b>Aligned</b>
<b>Part 3:</b>  <b>Sustainability quality of the Eligibility Criteria</b>	<p>The overall sustainability quality of the eligibility criteria in terms of sustainability benefits, risk avoidance and minimisation is good based upon the ISS ESG assessment. The Green Bonds will exclusively refinance existing and future AKB Green Mortgages of eligible asset categories including Green Residential and Commercial Buildings, Renewable Energy and Energy Efficiency.</p> <p>Those use of proceeds categories have a positive contribution to the SDG 11 ‘Sustainable Cities and Communities’, SDG 7 ‘Affordable and Clean Energy’ and 13 ‘Climate Action’. The environmental and social risks associated with the use of proceeds categories are well managed.</p>	<b>Positive</b>

<sup>1</sup> ISS ESG’s evaluation is based on the AKB’s Green Bond Framework (December 2021 version), on the Eligibility Criteria as received on 20.12.2021, and on the ISS ESG Corporate Rating updated on the 13.05.2020 and applicable at the SPO delivery date.

## ISS ESG SPO ASSESSMENT

### PART I: GREEN BONDS LINK TO AKB'S SUSTAINABILITY STRATEGY

#### A. ASSESSMENT OF AKB'S ESG PERFORMANCE

The ISS ESG Corporate Rating provides material and forward-looking environmental, social and governance (ESG) data and performance assessments.

COMPANY	INDUSTRY	DECILE RANK	TRANSPARENCY LEVEL
<b>AKB</b>	<b>PUBLIC &amp; REGIONAL BANKS</b>	<b>2</b>	<b>MEDIUM</b>

This means that the company currently shows a high sustainability performance against peers on key ESG issues faced by the Public & Regional Banks industry as it obtains a Decile Rank relative to its industry group of 2, given that a decile rank of 1 indicates highest relative ESG performance out of 10.

#### ESG performance

As of November 18, 2021, this Rating places Aargauische Kantonalbank 46<sup>th</sup> out of 278 companies rated by ISS ESG in the Public & Regional Banks industry.

Key issues faced by companies in terms of sustainability management in this sector, as well as the issuer's performance against those key challenges in comparison to the average industry peers' performance are displayed in the chart on the right.

#### Key Issue Performance



#### Sustainability Opportunities

Aargauische Kantonalbank (AKB) provides various banking products and services for private and corporate clients, and institutional investors in Switzerland with a focus on the canton of Aargau in which it is located. The financial industry aims to provide solutions to sustainability challenges via the provision of equal access to financial products, financial services with high social benefit and sustainable investment products. AKB offers various SRI products through its partner Swisscanto subject to a wide range of best-in-class and exclusion criteria such as weapons, tobacco and nuclear energy. It additionally offers sustainability themed investments on water and climate, as well as the possibility to invest in fair-trade gold. However, these products and initiatives so far do not constitute a major business of the company and sustainability issues are seemingly not yet integrated into the company's core business.

### *Sustainability Risks*

Through the offering of financial products and services, Aargauische Kantonalbank (AKB) faces not only environmental and social risks relating to lending and investment activities but also risks related to customer and product responsibility. AKB offers SRI products subject to a wide range of best-in-class criteria as well as theme funds through its partner Swisscanto. It further offers a basic banking account subject to moderate terms and offers banking services to clients with physical impairments. As the company only addresses some of the risks it faces with these measures, it needs to be considered that AKB is a regional bank, focused on the canton of Aargau. Exposure to international project finance and thereby risks related to its lending business are therefore limited. Regarding the responsible treatment of its workforce, the company has established comprehensive regulations for its employees on workplace flexibility as well as sabbaticals and offers financial support to employees with children. Located in Switzerland only, the employees also benefit from high standards on issues such as employment security. As for business ethics, the company has established a code of ethics covering important compliance topics such as insider dealings, conflicts of interest and money laundering in general terms. AKB further conducts compliance audits risk assessments and has installed reporting channels for non-compliance reporting and ensures non-retaliation against whistleblowers.

### *Governance opinion*

Aargauische Kantonalbank is wholly owned by the canton of Aargau. Concerning the company's governance structure, while the chair of the board has executive duties and is therefore not independent, board independence is assured as the remaining board members are company outsiders. AKB has further established a fully independent audit committee and almost all members of the nomination and remuneration committee are also independent (all information as at May 13, 2020). AKB discloses the remuneration of its CEO individually and of the executive management team as a whole and further sub-divides the amounts according to fixed and variable performance-related components. The company further states that there are no long-term components.

With regard to its governance of sustainability, while a sustainability committee is in place, it is only staffed with a minority of independent board members (as of May 13, 2020). In terms of remuneration for the executives, it remains unclear whether ESG targets are included in the variable remuneration. Concerning business ethics, AKB has established a code of ethics covering important compliance topics such as insider dealings, conflicts of interest and money laundering in general terms. AKB further conducts compliance audits and risk assessments and has installed reporting channels for non-compliance reporting and ensures non-retaliation against whistle-blowers.

### *Sustainability impact of products and services portfolio*

Using a proprietary methodology, ISS ESG assessed the contribution of AKB's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along AKB's production process.

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE	DIRECTION OF IMPACT	UN SDGS
Others	N/A	NO NET IMPACT	N/A

### *Breaches of international norms and ESG controversies*

The company is not facing any severe controversy.

## B. CONSISTENCY OF AKB GREEN BONDS WITH AKB'S SUSTAINABILITY STRATEGY

### *Key sustainability objectives and priorities defined by the issuer*

AKB relies on sustainable growth that is based on security, customer proximity and on dealing responsibly with the consumption on natural resources. AKB published its first sustainability report in 2007<sup>2</sup>. The issuer sets the following sustainability targets for 2021:

- Development and introduction of a new training concept for employees
- Integration of climate-related financial risks into AKB's existing risk management
- Implementation of the newly defined sustainability concept in AKB asset management
- Establishment of the sustainability approach in investment advice
- Integration of exclusion criteria in the credit guidelines and corresponding implementation for corporate client business
- Completion of the placement of the CHF 100 million from the Green Bond by the Green Mortgage by the end of 2021
- Equal opportunities within the group

In general, AKB applies ESG criteria when assessing and evaluating investments and defined specific sustainability objectives and activities. The issuer follows the Global Reporting Initiative (GRI) since 2009. The sustainability reporting has been prepared in accordance with the GRI Standards Option "Core"<sup>3</sup>. In the areas of its core business, AKB implements measures and defines corresponding targets for the material topics relevant to the report. The reporting has not been externally audited. Further AKB publishes the results on the consumption of ecological resources in accordance with the VfU<sup>4</sup> principles, enabling comparability with previous years and with other financial institutions.

The Sustainability Charter<sup>5</sup> contains all the basic principles, focal points and guidelines of AKB's sustainability management and serves as the basis for all future efforts.

<sup>2</sup> AKB, Nachhaltigkeitsbericht 2020, [AKB Nachhaltigkeitsbericht 2020](#)

<sup>3</sup> AKB, GRI-Content-Index 2020, [AKB Content Index 2020](#)

<sup>4</sup> VfU, <https://www.vfu.de>

<sup>5</sup> AKB, Nachhaltigkeits-Charta der Aargauischen Kantonalbank, [AKB Nachhaltigkeits-Charta](#)

### *Rationale for issuance*

The purpose of issuing green bonds is to refinance existing and/or future mortgages. According to the issuer, Investors are given the opportunity to participate in investing in sustainable bonds and contributing the sustainable and responsible objectives as set by the latter. The AKB Green mortgages aim to finance environmentally friendly buildings and renovation projects in Switzerland exclusively, targeting the reduction environmental risks.

In summer 2020, AKB became the second Swiss bank to issue Green Bonds in CHF with a volume of CHF 100 million. Investors with a focus on sustainability are therefore with the projects of ecologically active builders. Issuing Green bonds is part of AKBs conviction to position sustainability in its core business and to further expand it in the future. This Green Bond Framework follows previous and forms the basis for future Green Bond issuances.

### *Contribution of Use of Proceeds categories to sustainability objectives and priorities*

ISS ESG mapped the Use of Proceeds categories financed under these Green Bonds with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Public & Regional Banks industry. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g. climate change and energy efficiency in the buildings sector. From this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds categories.

USE OF PROCEEDS CATEGORY	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
<b>Green Mortgages<sup>6</sup></b>	✓	✓	Contribution to a material objective

**Opinion:** *ISS ESG finds that the Use of Proceeds financed through the Green Bond Framework are consistent with the issuer’s sustainability strategy and material ESG topics for the issuer’s industry. The rationale for issuing green bonds is clearly described by the issuer and is consistent with the company’s overall sustainability approach.*

<sup>6</sup>AKB Green Mortgages exclusively financing eligible asset and project categories such as green residential and commercial buildings, renewable energy and energy efficiency

## PART II: ALIGNMENT WITH GBP

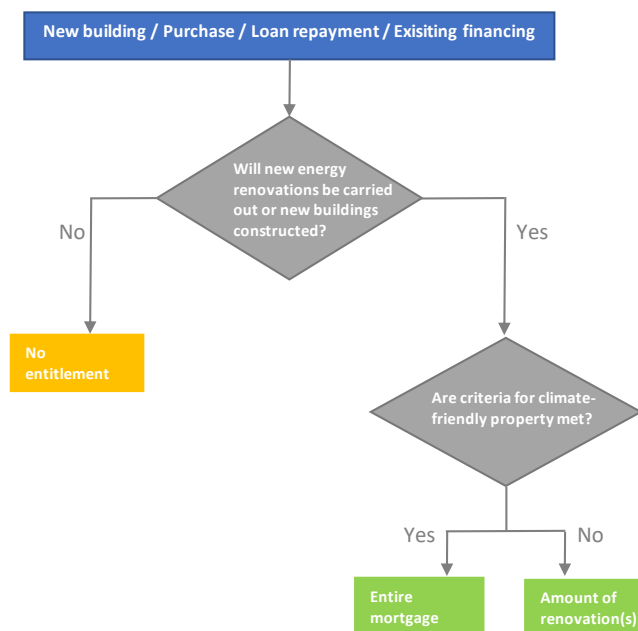
### 1. Use of Proceeds

#### FROM ISSUER'S FRAMEWORK

According to the GBP, the use of proceeds includes financing for energy efficiency projects and “green buildings” that meet recognised energy efficiency certifications. Aargauische Kantonalbank offers its own financing product, the AKB green mortgage, for this purpose. Eligible properties are divided into three categories: owner-occupied homes, residential properties and business/commercial properties. All proceeds will be used exclusively for eligible projects (the management of proceeds in accordance with GBP 3 remains reserved if the volume of outstanding green bonds exceeds the total outstanding volume of AKB green mortgages at any time).

#### General conditions and allocation criteria for all three eligible categories

1. Suitable projects include financing of:
  - a. new buildings
  - b. individual energy measures (renovations)
  - c. extensive energy interventions in the case of existing property owners or following the acquisition of a new property
2. The permissible property location covers the whole of Switzerland for all financing transactions.
3. The following decision tree shows the amount of refinancing of the AKB green mortgage via the green bond:



4. The following set of criteria as a points table shows the allocation criteria for new buildings, individual energy measures and comprehensive overall renovations and serves as a basis for



classifying a climate-friendly property. The following allocation criteria are used uniformly for all categories:

Allocation criterion	Points					Details
	1	2	3	4	5	
New building					x	<ul style="list-style-type: none"> <li>Compliance with cantonal building regulations and energy ordinances</li> <li>Excluded if fossil fuel-based energy source (oil/gas)</li> <li>Excluded if the specifications of electrical charging infrastructures are not met (see allocation criterion “Electrical (charging) infrastructure”)</li> <li>First occupancy of the defined property categories generally falls under this category (especially condominiums)</li> </ul>
Renewal of energy sources			x			<ul style="list-style-type: none"> <li>Installation of new climate-friendly heating system</li> <li>Excluded if fossil fuel-based energy source (oil/gas)</li> </ul>
Optimisation of insulation/outer shell		x				<ul style="list-style-type: none"> <li>Reinforcement/extension of insulation of façade, outer wall, roof, basement or building ground</li> </ul>
Window renovation		x				<ul style="list-style-type: none"> <li>Improvement of building emissions through the replacement of all windows</li> </ul>
Optimisation of building services engineering		x				<ul style="list-style-type: none"> <li>Renewal of ventilation, air-conditioning or hot water heating</li> <li>Installation of a heating or power storage system</li> <li>Installation of low-flow (low-pressure) water piping in kitchens and sanitary facilities</li> <li>Installation of smart heat regulation systems (various types of smart thermostats) and sensor technology such as lighting controls through motion detectors (in each case for domestic use)</li> <li>Installation of a building management system</li> </ul>
Renewable energy sources		x				<ul style="list-style-type: none"> <li>Installation of photovoltaic systems</li> <li>Installation of panels to produce hot water</li> <li>Installation of wind turbines</li> <li>Installation of heat-generating solar collectors/façades</li> </ul>

<p>Electric charging infrastructure for electromobility x</p>	<table border="1"> <thead> <tr> <th data-bbox="657 286 1013 342">Type of property</th> <th data-bbox="1013 286 1369 342">Criteria</th> </tr> </thead> <tbody> <tr> <td data-bbox="657 342 1013 1312"> <ul style="list-style-type: none"> <li>▪ Multi-family home</li> <li>▪ Residential and business properties (mainly residential or business properties)</li> <li>▪ Business property</li> <li>▪ Shopping centre and specialist retailer</li> </ul> </td> <td data-bbox="1013 342 1369 1312"> <p><u>Application for new buildings and renovations (individual measure or comprehensive):</u></p> <ul style="list-style-type: none"> <li>▪ The dimensioning of the connecting lines must allow electrification for a proportion of 25% of the parking spaces (= expansion stage B “power to building” according to SIA 2060). This must be done immediately but no charging stations installed yet</li> </ul> <p>or</p> <ul style="list-style-type: none"> <li>▪ Installation of a fast-charging station (“electric recharging point”) for the entire building</li> </ul> </td> </tr> <tr> <td data-bbox="657 1312 1013 1742"> <ul style="list-style-type: none"> <li>▪ All other property types including owner-occupied homes</li> </ul> </td> <td data-bbox="1013 1312 1369 1742"> <p><u>Application only for renovations (individual measure or comprehensive):</u></p> <ul style="list-style-type: none"> <li>▪ Installation of at least one electric charging infrastructure</li> </ul> <p><u>There is no specification for these property types for new buildings.</u></p> </td> </tr> </tbody> </table>	Type of property	Criteria	<ul style="list-style-type: none"> <li>▪ Multi-family home</li> <li>▪ Residential and business properties (mainly residential or business properties)</li> <li>▪ Business property</li> <li>▪ Shopping centre and specialist retailer</li> </ul>	<p><u>Application for new buildings and renovations (individual measure or comprehensive):</u></p> <ul style="list-style-type: none"> <li>▪ The dimensioning of the connecting lines must allow electrification for a proportion of 25% of the parking spaces (= expansion stage B “power to building” according to SIA 2060). This must be done immediately but no charging stations installed yet</li> </ul> <p>or</p> <ul style="list-style-type: none"> <li>▪ Installation of a fast-charging station (“electric recharging point”) for the entire building</li> </ul>	<ul style="list-style-type: none"> <li>▪ All other property types including owner-occupied homes</li> </ul>	<p><u>Application only for renovations (individual measure or comprehensive):</u></p> <ul style="list-style-type: none"> <li>▪ Installation of at least one electric charging infrastructure</li> </ul> <p><u>There is no specification for these property types for new buildings.</u></p>	
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<p>Certificate for entire property x</p>	<ul style="list-style-type: none"> <li>▪ Cantonal building energy certificate (GEAK) with overall efficiency:             <ul style="list-style-type: none"> <li>• For new buildings in at least class B</li> <li>• For existing buildings in at least class C</li> </ul> </li> <li>▪ Minergie:             <ul style="list-style-type: none"> <li>• Minergie</li> <li>• Minergie P</li> <li>• Minergie A</li> <li>• Minergie ECO</li> </ul> </li> </ul>							

- Certification by the Standard for Sustainable Building Switzerland (SNBS)

#### Key principles

- A property in category 1 “Owner-occupied home” is considered to be climate-friendly (energy-efficient) on the whole if at least a total score of 4 is achieved.
- A property in category 2 “Residential properties” and 3 “Business/commercial properties” is considered to be climate-friendly (energy-efficient) overall if at least a total score of 5 is achieved.

#### Other conditions:

- Evidence must be provided by means of appropriate quotations, invoices or certificates from a specialist planner (architect/specialist). The measures and certificates must not be older than two years.
- Points are awarded per allocation criterion regardless of the size of the investment.
- Individual energy measures or renovations that meet one or more of the above criteria can be financed via the AKB green mortgage, regardless of the overall score achieved.
- If a building has a fossil-fuel energy source (oil or gas) or does not meet the electric charging infrastructure requirements, the entire property is classified as not climate-friendly. In this case, only individual energy measures or renovations can be financed, even if the total score required is achieved through comprehensive interventions.
- All non-heated or cooled properties (not thermo-controllable) are excluded.

#### Eligible category 1: Owner-occupied home

- The issue funds are used to finance owner-occupied residential property (owner-occupied homes) of private customers (natural persons).
- The following owner-occupied property categories are considered owner-occupied homes:
  - Single-family homes
  - Terraced houses
  - Condominium
  - Two-family homes (at least one unit is owner-occupied)

#### Eligible category 2: Residential properties

- The issue funds are used to finance properties used by private customers (natural persons) or corporate customers (legal entities) for owner-occupied or third-party use.
- The product is approved for the following property types:
  - Single-family homes (excl. owner-occupied homes)
  - Terraced houses (excl. owner-occupied homes)
  - Residential condominium (excl. owner-occupied homes)
  - Two-family houses (excl. owner-occupied homes)
  - Holiday home
  - Holiday apartment
  - Farm

- Multi-family homes
- Residential and business property (mainly residential)

**Eligible category 3: Business/commercial properties**

- The issue funds are used to finance properties used by private customers (natural persons) or corporate customers (legal entities) for owner-occupied or third-party use.
- The product is approved for the following property types:
  - Business property
  - Business condominium
  - Residential and business property (mainly business)
  - Shopping centre and specialist retailer
  - Commercial and industrial property
  - Commercial property with residential
  - Commercial condominium
  - Restaurants and hotels
  - Retirement/care home and hospital
  - Various special properties

**Spotlight: Cantonal building energy certificate (GEAK®)**

The building energy certificate issued by the cantons – GEAK® for short – is a Switzerland-wide assessment and advisory tool for buildings. The trilingual GEAK® is recognised by all cantons and may only be issued by certified experts. It shows how energy-efficient the building envelope is and how much energy a building requires during standard use.

The calculated energy requirement is shown in classes from A (very energy-efficient) to G (less energy-efficient) on the energy label. This provides property owners with an objective assessment of their building's energy status and efficiency.

GEAK®: The basic product GEAK® is the official energy label for the current status of a given residential building. The building envelope's efficiency describes the quality of the building envelope's thermal insulation.

GEAK® Plus: With GEAK®-Plus, in addition to the energy label, three variants for energy modernisation tailored to the building are shown.

Based on planning values, GEAK®-Neubau (new building) sets the target values for energy efficiency, which has a positive effect on the operation and use of the new building.

The benefits can be summarised as follows:

- When deciding whether to buy or rent, GEAK® offers property owners transparency with regard to the expected energy costs and thermal living comfort (professional building analysis).
- GEAK® is the same throughout Switzerland: all GEAK®-certified buildings can be compared at a glance.

- GEAK® can (depending on the canton) be used as a basis for obtaining subsidies and cheaper mortgages.
- During a house inspection, the GEAK® expert identifies weaknesses in the building. These are put in a report and help homeowners avoid the use of inefficient measures when carrying out a home modernisation.
- Investment decisions are simplified thanks to transparent cost and benefit statements. This means measures can be staggered to meet the person's individual budget.
- GEAK® and Minergie® products are perfectly matched to one another. GEAK® classes thus form the basis for the simplified Minergie® certification process for system renewal.

Further information on GEAK® can be found at [www.geak.ch](http://www.geak.ch).

### **Spotlight: MINERGIE®**

Minergie® is a Swiss building standard for new and modernised buildings. The brand is supported by business, the cantons and the federal government and is protected against abuse. Its focus is on a construction method that optimally combines environmental compatibility, economic efficiency and living/working comfort. This comfort is made possible by a high-quality building envelope and systematic air renovation.

Minergie® buildings are also characterised by very low energy requirements and as high a proportion of renewable energies as possible. The building standard is voluntary.

The Minergie® building standard enjoys widespread acceptance. There are many reasons, with the most important one being that building contractors, architects and planners are completely free to choose the design, materials and the internal and external structure of a building. This means it is also possible to improve the quality of life, ensure competitiveness and reduce environmental pollution at the same time.

If the Minergie® certification criteria are changed, Aargauische Kantonalbank reserves the right to also amend the conditions for granting AKB green mortgages. However, existing AKB green mortgages and those marked as eligible assets will not lose their status should they fail to meet the new eligibility criteria.

### **Spotlight: Standard for Sustainable Building Switzerland (SNBS®)**

With the SNBS® Hochbau (building construction), an overarching concept for sustainable building in Switzerland was created. It covers the building itself and the site in the context of its surroundings. It enables the needs of society, the economy and the environment to be considered equally and as comprehensively as possible in planning, construction and operations. For this, an overview of the entire life cycle of a property is needed.

The standard was developed on the initiative of business and the public sector. Its development was funded by the Swiss Federal Office of Energy through the EnergieSchweiz programme. It is supported and updated by the NNBS (Sustainable Construction Network Switzerland). This broad support gives it credibility.

In the work on the standard, tried-and-tested and existing elements were used wherever possible. New elements were added where necessary. The first version of the SNBS® was published in 2013 and tested

on 28 buildings. Since then, it has been revised and streamlined based on the experiences gained. The aim has always been to create an easy-to-use tool that provides added value for the construction, planning and real estate industry and can be applied voluntarily.

**Opinion:** ISS ESG considers the Use of Proceeds description provided by AKB's Green Bond Framework to be aligned with the GBP. Environmental and social benefits are described and quantified following an allocation score catalogue. The Green Bonds are exclusively used to finance or refinance existing or future AKB Green mortgages.

## 2. Process for Project Evaluation and Selection

### FROM ISSUER'S FRAMEWORK

Aargauische Kantonalbank's green bonds are not project bonds. It is therefore not necessary to allocate the green bonds to one or more specific projects. The focus is on refinancing existing and future AKB green mortgages. The allocation is subject to the allocation criteria as per GBP 1.

The four-eyes principle is applied to ensure procedural and organisational compliance with the allocation criteria and adequate documentation: The Private Clients & Private Banking Division and the Corporate Clients & Institutional Banking Division (sales units) perform the initial audit. The subsequent second audit and controls are performed in the Credit & Finance Division. Documentation is provided by attaching the relevant evidence to the credit file (created per mortgage). Product Management Credits acts in an advisory capacity and is the end point of escalation.

In the event of a (e.g., legal) dispute in connection with the issuance of the AKB green bond and the application of the Green Bond Principles, Aargauische Kantonalbank will make this transparent in the annual report, provided that it is both a systemic and a material incident involving the majority of the asset pool.

**Opinion:** ISS ESG considers the Process for Project Evaluation and Selection description provided by AKB's Green Bond Framework to be aligned with the GBP. The Issuer has set up a structured process to identify eligible assets and ESG risks associated with the eligible assets. Moreover, the issuer has committed to transparency in the event of a controversy and has outlined the responsibility of various internal stakeholders in the selection process, which is considered as a market's best practice. Certificates and proofs are provided in the form of corresponding offers, invoices, or certificates from a third party, architect, or specialist. The measures and certificates are not older than 2 years.

## 3. Management of Proceeds

### FROM ISSUER'S FRAMEWORK

Aargauische Kantonalbank undertakes to use the proceeds from the issue of the green bonds to refinance existing and future AKB green mortgages. The AKB green mortgages are allocated in accordance with the eligible categories in GBP 1. In order to ensure that the funds are used for the intended purpose, the proceeds from the green bond are monitored on an ongoing basis using an internal control system. In addition, new green bonds will only be issued if, after a planned new

issue on the Bank's balance sheet, the total outstanding volume of AKB green mortgages exceeds the issue volume of green bonds by at least 10 per cent.

If the volume of outstanding green bonds exceeds the total outstanding volume of AKB green mortgages at any time, the excess proceeds from green bond issues will be used as follows

- Hold the proceeds in cash and/or
- Invest in green bonds of other issuers.

The following criteria are applied to investments in green bonds of other issuers:

- Currency/rank: CHF, EUR or USD/senior unsecured
- Issuer rating: investment grade range
- At least one independent test: second party opinion or green bond rating

Accepted auditors:

Second party opinion: CICERO, ISS ESG, Sustainalytics, Vigeo EIRIS or DNV GL

Green bond rating: Moody's or S&P

The described use of the surplus proceeds is applied until sufficient AKB green mortgages exist again, or green bonds are repaid. Aargauische Kantonalbank is also entitled to repurchase any number of green bonds at any time for its own investment or redemption purposes.

**Opinion:** ISS ESG finds that Management of Proceeds proposed by AKB's Green Bond Framework to be well aligned with the GBP. Best market practices according to the GBP are followed, such as the timeframe for the allocation of proceeds, how the unallocated proceeds will be used, and treatment of projects which are no longer eligible.

#### 4. Reporting

##### FROM ISSUER'S FRAMEWORK

Aargauische Kantonalbank will regularly (at least once a year) provide up-to-date information on the use of proceeds and the environmental impact of the green bonds.

The Bank will provide the following information on the green bonds on its homepage ([www.akb.ch](http://www.akb.ch)):

- Green Bond Framework
- Green bond annual reporting
  - Overview and use of allocated proceeds
  - Presentation of the surplus proceeds not yet used
- Second party opinion from ISS ESG

Reporting will be conducted during the term of the green bond (i.e. at least until final maturity) and includes all proceeds from the asset pool or the proceeds.

**Opinion:** ISS ESG finds that the reporting proposed by AKB's Green Bond Framework to be aligned with the GBP. All funds are allocated to refinance existing and future AKB Green Mortgages. The annually publicly available impact reporting includes quantitative and qualitative performance indicators. The annual impact reporting is subject to a publicly available limited assurance provided by an external auditor.

## External review

### FROM ISSUER'S FRAMEWORK

#### **Second party opinion**

Aargauische Kantonalbank has obtained a second party opinion from ISS ESG to confirm the transparency and reliability of the Green Bond Framework. The second party opinion is published on Aargauische Kantonalbank's homepage.

#### **New audit every year**

Aargauische Kantonalbank will prepare an annual report on the distribution of proceeds of all bonds issued. As an independent external auditor, ISS ESG has been commissioned to review each year the allocation of AKB green mortgages and to publish compliance with the criteria documented in this framework. The report and the external review are published on Aargauische Kantonalbank's homepage.



## PART III: SUSTAINABILITY QUALITY OF THE CATEGORIES









### A. CONTRIBUTION OF THE GREEN BONDS TO THE UN SDGs

Based on the assessment of the sustainability quality of the Green Bonds Selection Criteria and using a proprietary methodology, ISS ESG assessed the contribution of the AKB's Green Bonds to the Sustainable Development Goals defined by the United Nations (UN SDGs).

This assessment is displayed on 5-point scale (see Annex 2 for methodology):

<b>Significant Obstruction</b>	<b>Limited Obstruction</b>	<b>No Net Impact</b>	<b>Limited Contribution</b>	<b>Significant Contribution</b>
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Each of the Green Bonds Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<b>Green Buildings</b>  Buildings certified with Minergie, or SNBS	<b>Limited Contribution</b>	
<b>Green Buildings</b>  Buildings certified with GEAK or compliant with cantonal building regulations and energy ordinances	<b>Limited Contribution<sup>7</sup></b>	
<b>Energy Efficiency</b>  E.g., Reinforcement/extension of insulation of façade, outer wall, roof, basement or building ground	<b>Significant Contribution</b>	 
<b>Energy Efficiency</b>  Refurbishment and renovation <sup>8</sup>	<b>Limited Contribution</b>	 
<b>Energy Efficiency</b>  Smart thermostats, Sensor technology such as lighting control via motion detectors	<b>No Net Impact</b>	 

<sup>7</sup> This assessment differs from the ISS ESG SDG Solutions Assessment (SDGA) proprietary methodology designed to assess the impact of an issuer's product and service portfolio on the SDGs.

<sup>8</sup> E.g., Heating or power storage system and window renovation, low-flow (low pressure) water pipes in kitchens and sanitary facilities, renewal of ventilation, air-conditioning technology or hot water preparation, charging infrastructure for electric and hybrid vehicles

**Renewable Energy**

E.g., Photovoltaic systems, panels to produce hot water, wind turbines, heat-generating solar collectors/façades

**Significant  
Contribution**



## B. MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS ASSOCIATED WITH THE ELIGIBILITY CRITERIA

### Green Buildings, Energy Efficiency, Renewable Energy

The Use of Proceeds categories, Green Buildings and Energy Efficiency have a significant contribution as well as a no net impact to the SDG 11 'Sustainable cities and communities', a significant, limited contribution as well as a no net impact to SDG 7 'Affordable and clean energy' and 13 'Climate action'. The table below presents the findings of an ISS ESG assessment of the Asset Pool against ISS ESG KPIs.

#### ASSESSMENT AGAINST ISS ESG KPI GREEN BUILDINGS

##### Energy efficiency prerequisite

- ✓ All assets underwent an appropriate and detailed selection process that ensures good standards regarding energy efficiency (e.g., heating energy demand below 50 kWh/m<sup>2</sup>a). According to an assessment made by IAZI AG, financed assets reach an EPC equivalence.

##### Site selection

- ✓ AKB has responsible site selection procedures (e.g., brownfield development, exclusion of protected areas and sites of high environmental value) in place.
- No or limited information is available on policies ensuring location of assets at maximum of 1 km from one or more modalities of public transport. However, assets are located in Switzerland exclusively with adapted local modalities of public transport.

##### Construction standards

- ✓ Assets are located in Switzerland exclusively where high labour, health and safety standards are in place (e.g., ILO core conventions).
- No or limited information is available on measures for sustainable procurement regarding building materials (e.g., recycled materials, third-party certification of wood-based materials).

##### Water use minimisation

- ✓ AKB has measures in place aiming to reduce water consumption (e.g., panels for the preparation of hot water, low-flow (low pressure) water pipes in kitchens and sanitary facilities).

##### Safety of building users

- ✓ Assets are located in Switzerland exclusively where high safety standards are applicable.

##### Sustainability labels

- No or limited information is available on a policy ensuring that the assets are certified with sustainability labels. AKB commits to report on certifications of assets by mid-2022.

## ASSESSMENT AGAINST ISS ESG KPI ENERGY EFFICIENCY AND RENEWABLE ENERGY

### Environmental aspects of solar panels

- No or limited information are available regarding measures or policies on a comprehensive life-cycle-assessments of solar panels.
- No or limited information is available regarding measures that aim to reduce the use of certain hazardous substances in electrical and electronic equipment (such as the RoHS Directive and WEEE).
- No or limited information is available on information whether policies are in place to reduce hazardous waste and prevent pollution.

### Environmental aspects of charging stations

- No or limited information is available regarding measures or policies on a comprehensive life-cycle-assessments for the charging stations.

### Construction standards

- ✓ Assets are located in Switzerland exclusively where high labour, health and safety standards are in place (e.g., ILO core conventions).

## ASSESSMENT AGAINST ISS ESG KPI PRIVATE MORTGAGES

### Responsible treatment of customers with debt repayment problems

- ✓ For all mortgages, pre-emptive actions to prevent client debt repayment problems (e.g., data collection on client indebtedness, long-term fixed interest rates) are in place.
- ✓ For all mortgages, sustainable solutions for customers with debt repayment problems are in place (e.g., debt counselling, foreclosure as a last resort).
- ✓ For all mortgages, the creditor excludes the selling of contractually serviced loans or has implemented measures to ensure clients do not face unfavourable conditions as a result of the sale (e.g., required customer consent in case of sale, written confirmation of non-detrimental conditions).

## DISCLAIMER

1. Validity of the SPO: As long as no material changes to the framework are undertaken by the Issuer
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
3. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS ESG in connection with the use of these SPO, the information provided in them and the use thereof shall be excluded. In particular, we point out that the verification of the compliance with the selection criteria is based solely on random samples and documents submitted by the issuer.
4. All statements of opinion and value judgements given by us do not in any way constitute purchase or investment recommendations. In particular, the SPO is no assessment of the economic profitability and credit worthiness of a bond but refers exclusively to the social and environmental criteria mentioned above.
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## ANNEX 1: Methodology

### ISS ESG Green KPIs

The ISS ESG Green Bond KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of AKB's Green Bonds.

It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the assets can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the assets and which can also be used for reporting. If a majority of assets fulfill the requirement of an indicator, this indicator is then assessed positively. Those indicators may be tailor-made to capture the context-specific environmental and social risks.

### Environmental and social risks assessment methodology

ISS ESG evaluates whether the assets included in the asset pool match the eligible asset pool category and criteria listed in the Green Bond KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment “no or limited information is available” either indicates that no information was made available to ISS ESG or that the information provided did not fulfil the requirements of the ISS ESG Green Bond KPIs.

The evaluation was carried out using information and documents provided to ISS ESG on a confidential basis by AKB (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the issuer.

### Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, ISS ESG identifies the extent to which AKB Green Bonds contributes to related SDGs.

## ANNEX 2: ISS ESG Corporate Rating Methodology

The following pages contain methodology description of the ISS ESG Corporate Rating.

### Methodology - Overview

The ESG Corporate Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for more than 25 years.

**ESG Corporate Rating** - The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

**Analyst Opinion** - Qualitative summary and explanation of the central rating results in three dimensions:

- (1) Opportunities - assessment of the quality and the current and future share of sales of a company's products and services, which positively or negatively contribute to the management of principal sustainability challenges.
- (2) Risks - summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, in particular regarding its sector's key issues.
- (3) Governance - overview of the company's governance structures and measures as well as of the quality and efficacy of policies regarding its ethical business conduct.

**Norm-Based Research - Severity Indicator** - The assessment of companies' sustainability performance in the ESG Corporate Rating is informed by a systematic and comprehensive evaluation of companies' ability to prevent and mitigate ESG controversies. ISS ESG conducts research and analysis on corporate involvement in verified or alleged failures to respect recognized standards for responsible business conduct through Norm-Based Research.

Norm-Based Research is based on authoritative standards for responsible business conduct such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the Sustainable Development Goals.

As a stress-test of corporate disclosure, Norm-Based Research assesses the following:

- Companies' ability to address grievances and remediate negative impacts
- Degree of verification of allegations and claims
- Severity of impact on people and the environment, and systematic or systemic nature of malpractices

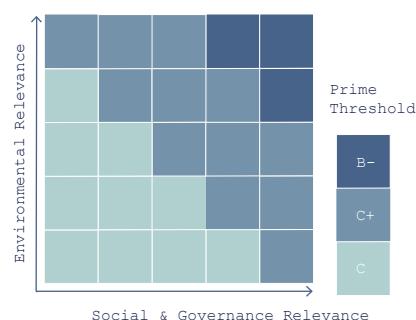
Severity of impact is categorized as Potential, Moderate, Severe, Very severe. This informs the ESG Corporate Rating.

**Decile Rank** - The Decile Rank indicates in which decile (tenth part of total) the individual Corporate Rating ranks within its industry from 1 (best – company's rating is in the first decile within its industry) to 10 (lowest – company's rating is in the tenth decile within its industry). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of companies within an industry cannot be evenly divided by ten, the surplus company ratings are distributed from the top (1 decile) to the bottom. If there are Corporate Ratings with identical absolute scores that span a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of Corporate Ratings in the decile below.

**Distribution of Ratings** - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ESG Corporate Rating universe (company portrayed in this report: dark blue).

**Industry Classification** - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analyzed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ESG Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS ESG Prime Status (Prime threshold) are defined (absolute best-in-class approach).



**Industry Leaders** - List (in alphabetical order) of the top three companies in an industry from the ESG Corporate Rating universe at the time of generation of this report.

**Key Issue Performance** - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

**Performance Score** - The ESG Performance Score allows for cross-industry comparisons using a standardized best-in-class threshold that is valid across all industries. It is the numerical representation of the alphabetic ratings (D- to A+) on a scale of 0 to 100 with 50 representing the prime threshold. All companies with values greater than 50 are Prime, while companies with values less than 50 are Not Prime. As a result, intervals are of varying size depending on the original industry-specific prime thresholds.

**Rating History** - Development of the company's rating over time and comparison to the average rating in the industry.

**Rating Scale** - Companies are rated on a twelve-point scale from A+ to D-:

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

**Sources of Information** - A selection of sources used for this report is illustrated in the annex.

**Status & Prime Threshold** - Companies are categorized as Prime if they achieve/exceed the sustainability performance requirements (Prime threshold) defined by ISS ESG for a specific industry (absolute best-in-class approach) in the ESG Corporate Rating. Prime companies are sustainability leaders in their industry and are better positioned to cope with material ESG challenges and risks, as well as to seize opportunities, than their Not Prime peers. The financial materiality of the Prime Status has been confirmed by performance studies, showing a continuous outperformance of the Prime portfolio when compared to conventional indices over more than 14 years.

**Transparency Level** - The Transparency Level indicates the company's materiality-adjusted disclosure level regarding the environmental and social performance indicators defined in the ESG Corporate Rating. It takes into consideration whether the company has disclosed relevant information regarding a specific indicator, either in its public ESG disclosures or as part of the rating feedback process, as well as the indicator's materiality reflected in its absolute weight in the rating. The calculated percentage is classified in five transparency levels following the scale below.

0% - < 20%: very low

20% - < 40%: low

40% - < 60%: medium

60% - < 80%: high

80% - 100%: very high

For example, if a company discloses information for indicators with a cumulated absolute weight in the rating of 23 percent, then its Transparency Level is "low". A company's failure to disclose, or lack of transparency, will impact a company's ESG performance rating negatively.



## ANNEX 3: Quality management processes

### SCOPE

AKB commissioned ISS ESG to compile a AKB Green Bonds SPO. The Second Party Opinion process includes verifying whether the AKB Green Bond Framework aligns with the GBP and to assess the sustainability credentials of its AKB Green Bonds, as well as the issuer's sustainability strategy.

### CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA GBP
- ISS ESG Key Performance Indicators relevant for Use of Proceeds categories selected by the Issuer

### ISSUER'S RESPONSIBILITY

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

- Green Bond Framework
- Eligibility Criteria
- Documentation of ESG risks management

### ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG 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.

ISS ESG has conducted this independent Second Party Opinion of the AKB Green Bonds to be issued by AKB based on ISS ESG methodology and in line with the ICMA GBP.

The engagement with AKB took place from November 2021 to January 2022.

### ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour 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.

## About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

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.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For Information about SPO services, contact: [SPOsales@isscorporatesolutions.com](mailto:SPOsales@isscorporatesolutions.com)

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