

# AKB Green Investment Products

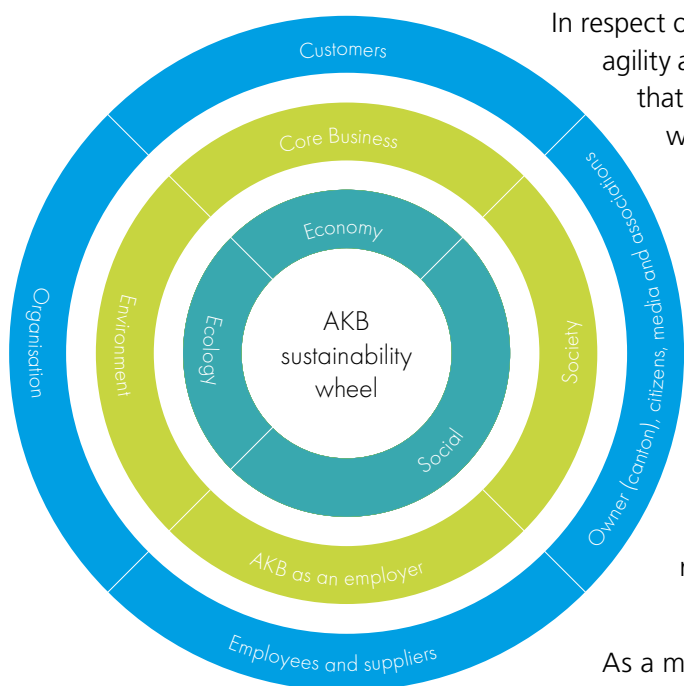
Framework

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# Sustainability at Aargauische Kantonalbank

We have made sustainability a central pillar for the strategy period 2021–2024 and are therefore focusing on our responsibilities in all three areas (ecology, social issues and economy). Ecological and social considerations are a key component of corporate decisions. AKB's goal is to be considered as the most sustainable financial services provider in its area of the market.

Sustainability is anchored in business activities, management understanding and the corporate culture, but it is also considered in our overall bank strategy. Customers, suppliers and partners, employees and the canton of Aargau all benefit from the added value created. An important pillar is the mandate to promote economic and social development in the canton of Aargau, which is laid down in the Aargauische Kantonalbank Act. For this reason, AKB launched the non-profit foundation LEBENSRAUM AARGAU in 2021. The foundation facilitates projects relating to society and social issues, art and culture, health and movement, the environment, nature and animals.



In respect of all AKB's core values, such as trust, openness, responsibility, agility and respect, the pillar of sustainability plays its part in ensuring that AKB is firmly anchored in society and the environment. AKB works out its actual contribution to sustainability in accordance with the «sustainability wheel» and communicates it in a way that is appropriate for its stakeholders.

AKB has published a sustainability report since 2007 and has based its reporting on the most important sustainability standard of the Global Reporting Initiative (GRI) since 2009. The aim of this standard is to present the company's performance to internal and external stakeholders in a balanced and appropriate manner with regard to sustainable development. This ensures uniformity and comparability in reporting.

As a member of «Öbu» – the Swiss association for ecologically conscious corporate management – Aargauische Kantonalbank has been contributing to the sustainable development of the Swiss economy since 2007. AKB is also a signatory to the global investor initiative UNPRI (United Nations Principles for Responsible Investments) and a member of the Swiss industry association Swiss Sustainable Finance. These commitments help us to follow closely the dynamic developments. Accordingly, we are continuously developing the AKB sustainability approach and thus taking into account the latest developments and findings.

# Project goals of the Aargauische Kantonalbank green bond issue and green time deposits

The purpose of issuing green bonds is to refinance existing and/or future mortgage financing and this is the link between the assets and liabilities side of the Bank's balance sheet. At the same time, expanding the investor base will help to diversify Aargauische Kantonalbank's sources of refinancing. Investors are given the opportunity to invest in sustainable bonds and support the Bank's contribution to sustainable and responsible business. The Bank also offers sustainable time deposits ("green time deposits"), with investment available on a daily basis in freely selectable denominations of CHF 1,000 or more. Investments have a fixed term of between 2 and 10 years as well as a fixed rate of interest set upon execution.

The Green Investment Products Framework transparently sets out the refinancing concept for investors. It guarantees uniform handling of all green bond issues and green time deposits. If conditions change, there is no right to repayment of the bond or green time deposit.

The AKB green mortgage finances projects with ecological benefits. Aargauische Kantonalbank uses it to promote the environmentally compatible development of construction activity and create added value for society. The AKB green mortgage is about environmentally friendly construction and renovation and helps save resources, minimise emissions and reduce environmental risks.

## Green Bond Principles according to the ICMA

Aargauische Kantonalbank's Green Investment Products Framework complies with the Green Bond Principles (GBP) of the International Capital Market Association (ICMA). From here on, the framework conditions described apply to all green bonds and green time deposits issued by Aargauische Kantonalbank.

Aargauische Kantonalbank's Green Investment Products Framework is explained in more detail below, based on the four core components of the GBP:

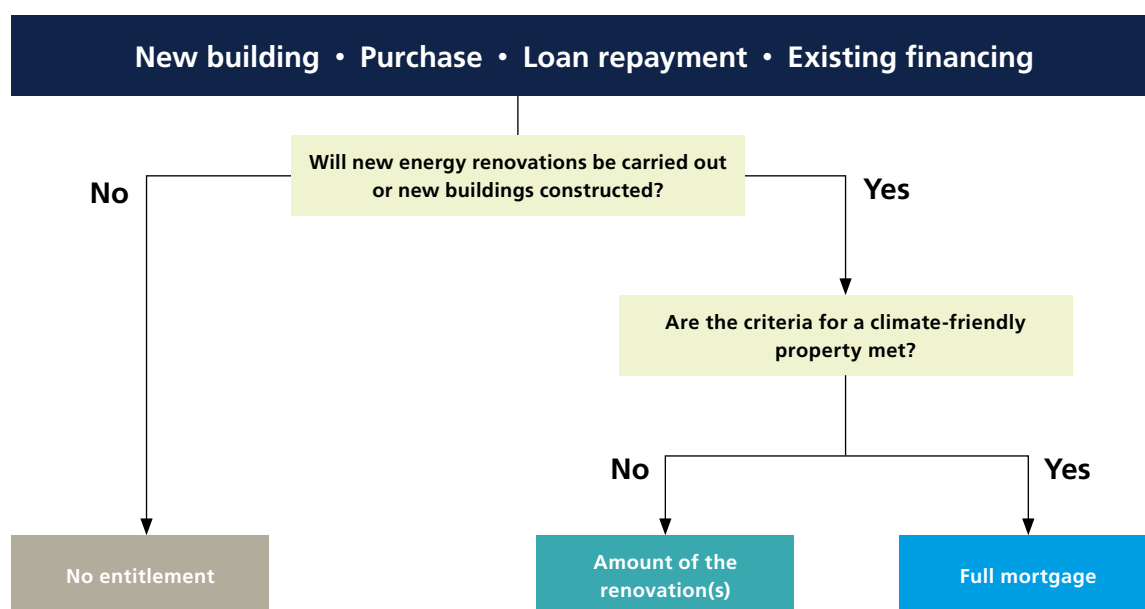
- GBP 1:** Use of proceeds
- GBP 2:** Process for project evaluation and selection
- GBP 3:** Management of proceeds
- GBP 4:** Reporting

## Green Bond Principle 1 (GBP1): Use of proceeds

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). The allocation criteria are reviewed at least once a year. More frequent reviews may be carried out in the event of any significant changes in the law or any adjustments to market standards (e.g. ICMA GBP). Any adverse material, social or environmental risks are assessed with reference to legal requirements.

### 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	Score	Any details						
<b>New building</b>	1 2 3 4 5	<ul style="list-style-type: none"> <li>Compliance with cantonal building regulations and energy ordinances</li> <li>Excluded if fossil fuel-based energy source (crude 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> <li>Buildings with first occupancy and year of construction in 2021 or later are classified as new buildings</li> </ul>						
<b>Renewal of energy sources</b>	1 2 3 4 5	<ul style="list-style-type: none"> <li>Installation of new climate-friendly heating system based on solar energy</li> <li>Installation of new climate-friendly heating system based on heat pumps<sup>1</sup></li> <li>Installation of new climate-friendly heating system based on wood-fired heating</li> <li>Installation of new climate-friendly heating system based on district heating</li> <li>Fuel-based energy sources (crude oil/gas) are excluded</li> </ul>						
<b>Optimisation of insulation /outer shell</b>	1 2 3 4 5	<ul style="list-style-type: none"> <li>Reinforcement/extension of insulation of façade, outer wall, roof, basement or building ground</li> </ul>						
<b>Window renovation</b>	1 2 3 4 5	<ul style="list-style-type: none"> <li>Improvement of building emissions through the replacement of all windows with maximum Ug value of <math>\leq 0.9 \text{ W}/(\text{m}^2\cdot\text{K})</math></li> </ul>						
<b>Optimisation of building services engineering</b>	1 2 3 4 5	<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 based on renewable energy</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 focusing on energy management</li> </ul>						
<b>Renewable energy sources</b>	1 2 3 4 5	<ul style="list-style-type: none"> <li>Installation of photovoltaic systems</li> <li>Installation of solar panels to produce hot water</li> <li>Installation of wind turbines</li> <li>Installation of heat-generating solar collectors/façades</li> </ul>						
<b>Electric charging infrastructure for electromobility</b>	1 2 3 4 5	<table border="1"> <thead> <tr> <th>Type of property</th> <th>Criteria</th> </tr> </thead> <tbody> <tr> <td> <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>           Application for new buildings and renovations (individual measure or comprehensive):           <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>           or           <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>All other property types including owner-occupied homes</td> <td>           Application only for renovations (individual measure or comprehensive):           <ul style="list-style-type: none"> <li>Installation of at least one electric charging infrastructure</li> </ul>           There is no specification for these property types for new buildings.         </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>	Application for new buildings and renovations (individual measure or comprehensive): <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> or <ul style="list-style-type: none"> <li>Installation of a fast charging station («electric recharging point») for the entire building</li> </ul>	All other property types including owner-occupied homes	Application only for renovations (individual measure or comprehensive): <ul style="list-style-type: none"> <li>Installation of at least one electric charging infrastructure</li> </ul> There is no specification for these property types for new buildings.
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<b>Certificate for entire property</b>	1 2 3 4 5	<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: Minergie, Minergie P, Minergie A, Minergie ECO</li> <li>Certification by the Standard for Sustainable Building Switzerland (SNBS)</li> </ul>						

<sup>1</sup> This category includes air-water heat pumps, brine-water heat pumps, air-air heat pumps and water-water heat pumps

## 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.

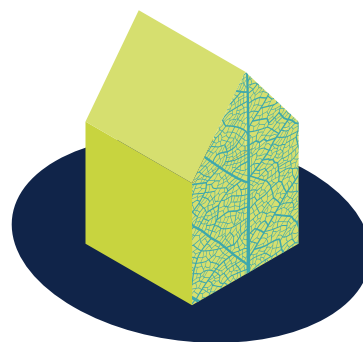
## Other conditions

- 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.



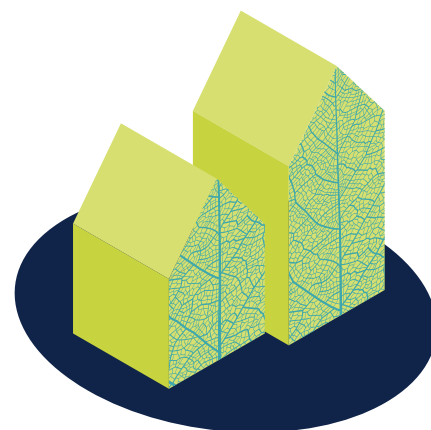
## Eligible category 1: Owner-occupied home

- The issue funds from AKB green bonds and the proceeds from green time deposits 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)



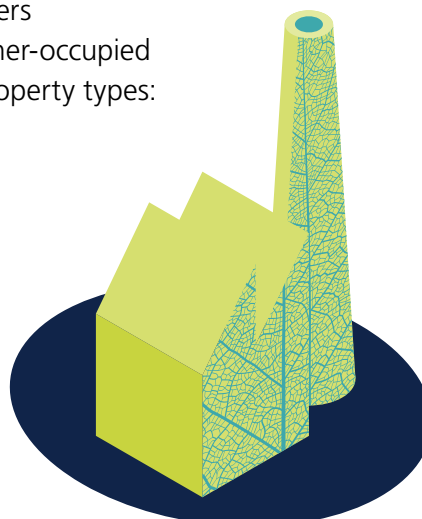
## Eligible category 2: Residential properties

- The issue funds from AKB green bonds and the proceeds from green time deposits 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
  - Agriculture
  - Multi-family homes
  - Residential and business property (mainly residential)



## Eligible category 3: Business/commercial properties

- The issue funds from AKB green bonds and the proceeds from green time deposits 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 residential)
  - 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





## Gebäudeenergieausweis der Kantone (GEAK®) (cantonal energy performance certificate for buildings)

The cantonal building energy certificate – known as GEAK® for short – is a nationwide assessment and advisory tool for buildings. The trilingual GEAK® is recognised by all cantons and can 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 entry-level 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.

GEAK® Neubau (new building) indicates the target values for energy efficiency based on planning values 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, the GEAK® offers property owners transparency on the expected energy costs and thermal living comfort (professional building analysis).
- The GEAK® is the same throughout Switzerland: All GEAK®-certified buildings can be compared at a glance.
- The GEAK® can (depending on the canton) be used as a basis for obtaining subsidies and cheaper mortgages.
- During a home inspection, the GEAK® expert identifies weak points 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 optimally coordinated with each other. The GEAK® classes thus form the basis for the simplified Minergie® certification process for system renewal.

Further information on the GEAK® can 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 noted for their very low energy requirements and the highest possible proportion of renewable energy. The building standard is voluntary.

The Minergie® building standard is broadly accepted. 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 Kantonbank 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.

## Green Bond Principle 2 (GBP 2): Process for project evaluation and selection

Aargauische Kantonalbank's green bonds and green time deposits are not project bonds. It is therefore not necessary to allocate the green bonds and green time deposits 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, green time deposits or 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.

## Green Bond Principle 3 (GBP 3): Management of proceeds

Aargauische Kantonalbank undertakes to use the proceeds from the issue of the green bonds as well as the proceeds from green time deposits 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 or green time deposits 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, including green time deposits, by at least 10 per cent. The issue of green time deposits may be suspended if the volume of all green mortgages exceeds the volume of green bonds and green time deposits by at least 10%.

If the volume of outstanding green bonds and green time deposits 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 and green time deposits are repaid. Aargauische Kantonalbank is also entitled to repurchase any number of green bonds at any time for its own investment or redemption purposes or to suspend the offer of green time deposits.

## Green Bond Principle 4 (GBP 4): Reporting

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 and green time deposits.

The Bank will provide the following information on the green bonds and green time deposits on its homepage (akb.ch):

- Green Investment Products Framework
- Green Investment Products annual reporting
  - Overview and use of allocated proceeds
  - Overview and use of allocated proceeds per product category
  - 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 of the last green bond). Reporting includes all funds from the asset pool or the proceeds.

# External audit

## Second party opinion

Aargauische Kantonalbank has obtained a second party opinion from ISS ESG to confirm the transparency and reliability of the Green Investment Products 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.

## Disclaimer

Aargauische Kantonalbank provides no warranty that the green bonds or green time deposits are suitable for meeting the environmental, social and/or sustainable investment objectives of potential investors or their expectations of Aargauische Kantonalbank's corporate governance. It is the sole responsibility of potential investors to evaluate the relevance and effectiveness of the described intended use in respect of their own investment objectives. This means that investors purchase the bonds or execute time deposits based on own independent assessment and on the individual investment that are deemed necessary. ISS ESG has issued assessments of the conformity of the bonds with regard to certain criteria. These assessments do not form an integral part of this Green Investment Products Framework and do not address the potential impact of structural and market risks or other factors that may affect the value of the bonds. The assessments do not constitute advice or a recommendation to buy, sell or hold bonds or time deposits and describe the situation only at the time of issue or execution. Aargauische Kantonalbank has undertaken to comply with certain principles regarding the management of the proceeds of the issue and transparency. However, failure to comply with these principles does not result in early redemption under the terms of the bonds and time deposits. Potential investors who value the environmental characteristics of the bonds and time deposits recognise that the refinanced business activities will not necessarily produce the expected environmental, social and sustainable results or impact on the corporate governance of Aargauische Kantonalbank.