

Zürcher Kantonalbank – Issuer perspective on green bonds



ICMA – Developments in the green bond markets – the Swiss perspective
29 January 2020, Dario Laterza, Head of Funding, Treasury





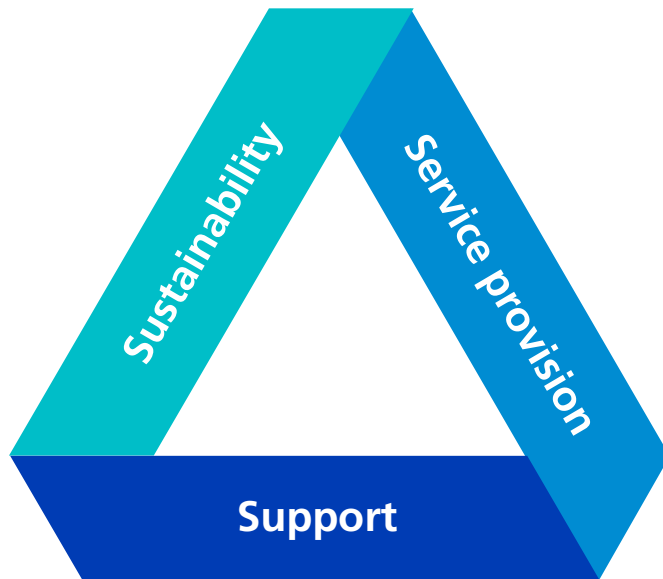
Sustainability
as part of our
public service
mandate

Green Bond
Framework &
issuance

Deal review
&
key findings

Sustainability is anchored in our public service mandate

Public service mandate in the Canton of Zurich



Sustainability mandate

Sustainability is an integral aspect of our business model. It is reflected in our products, the way we manage our staff, our commitments and how we configure our value chain.

Service mandate

We provide people and businesses in the canton with comprehensive banking services.

Support mandate

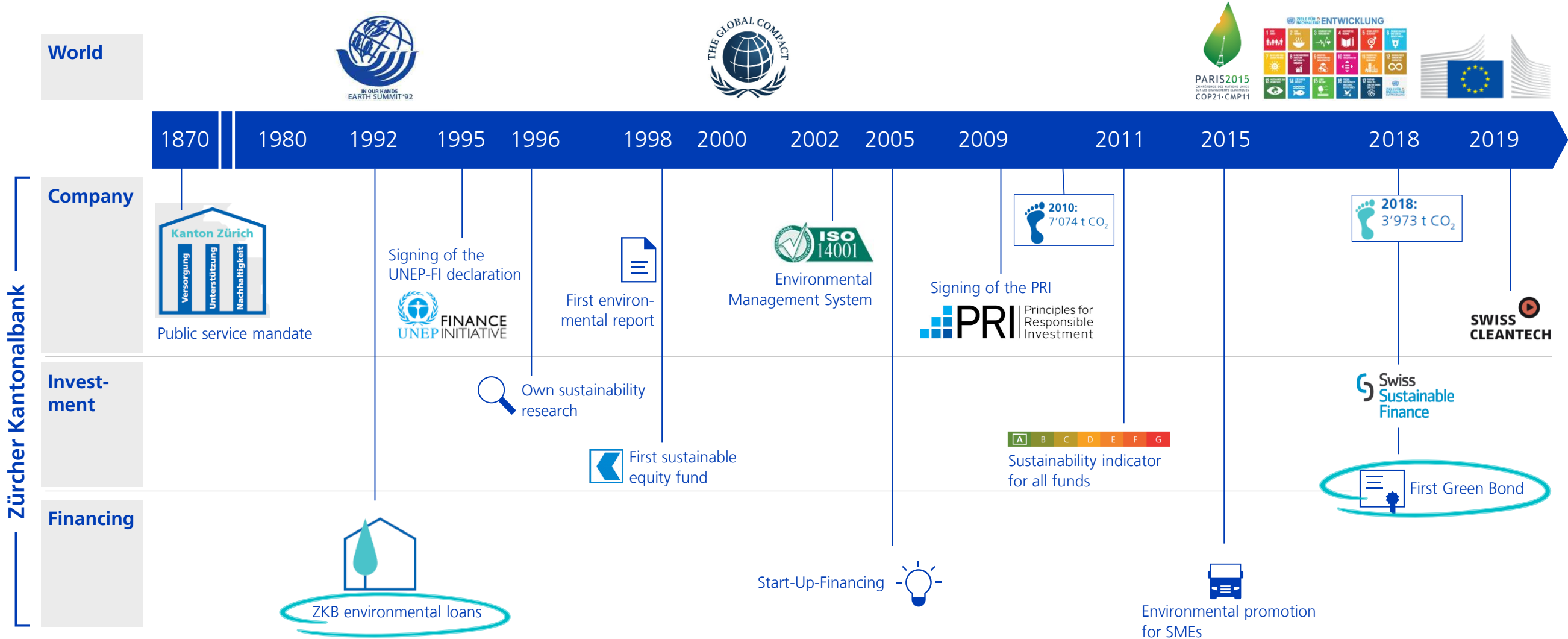
We assist the Canton of Zurich in the economic, social and environmental areas.

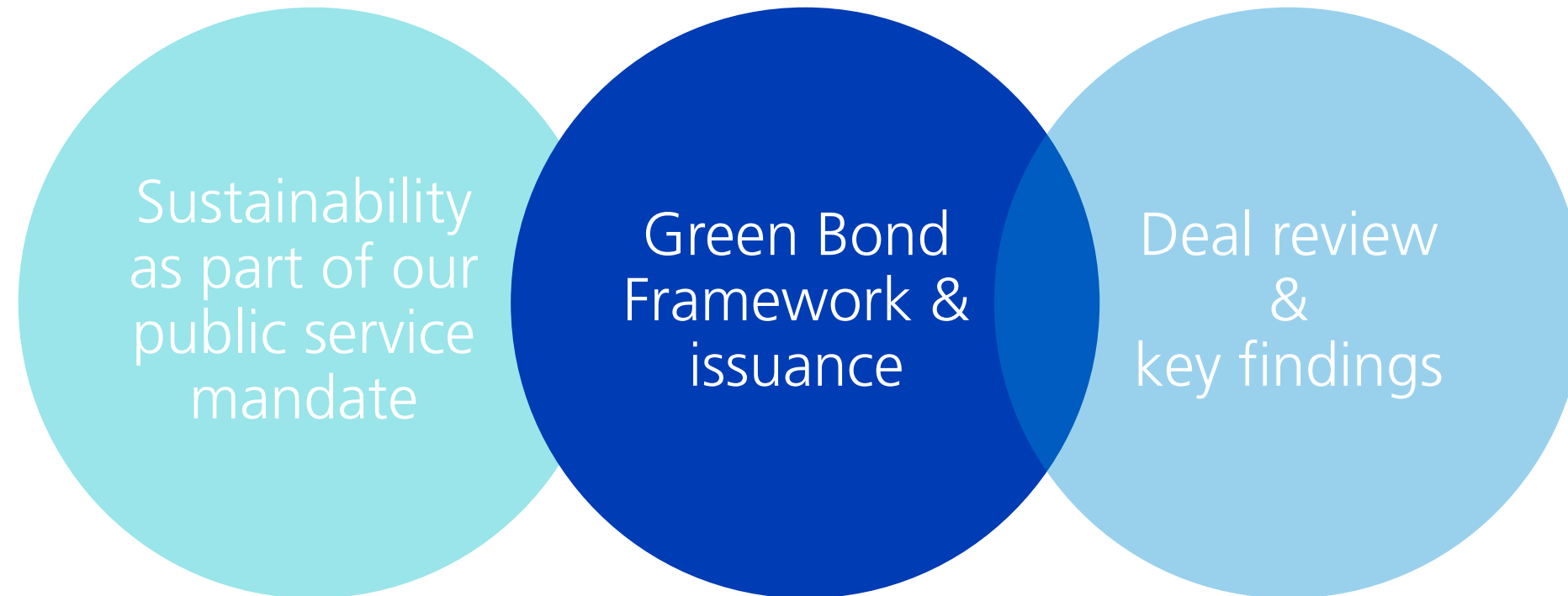


Law and Guidelines

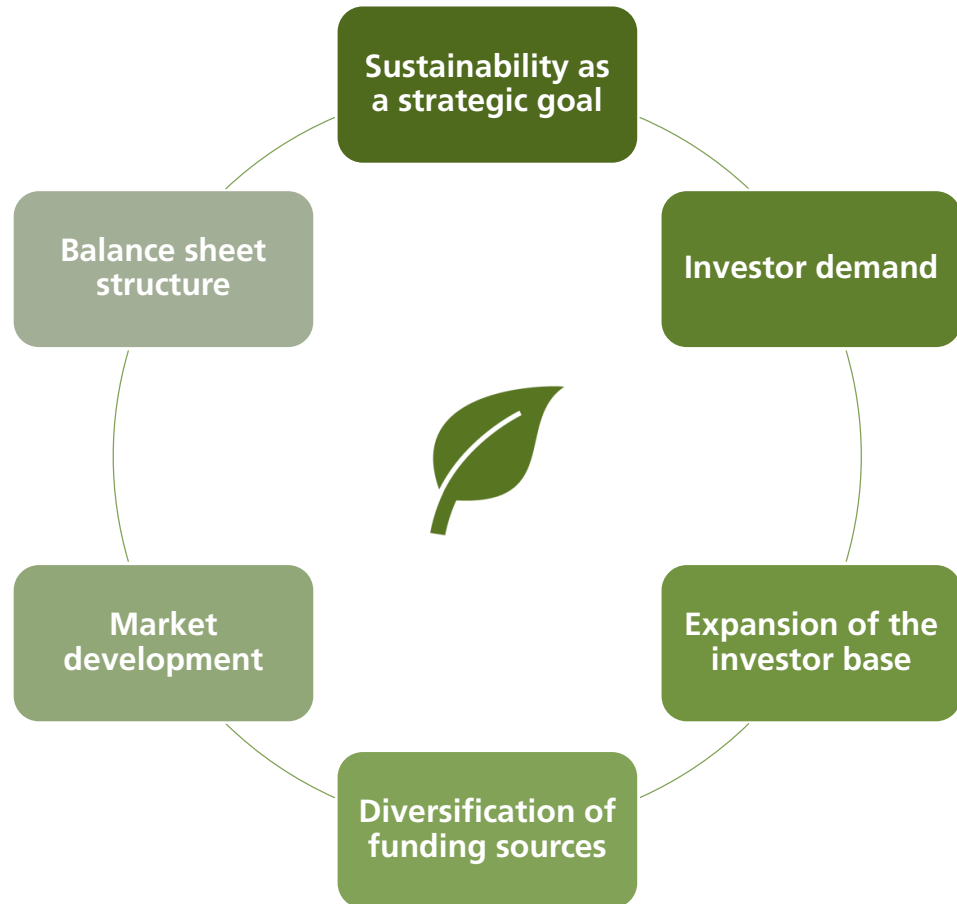
- Law on Zürcher Kantonalbank (§2 purpose)
- Guidelines for the fulfilment of the public service mandate (Parliament of Canton of Zurich)

Sustainability has been a focus since 1992





Motivation to issue Green Bonds



- **Sustainability as a strategic goal:** positioning as a company with commitment to sustainability. Sustainability mandate as part of our public service mandate
- **Investor demand:** increasing demand of institutional investors for sustainable investment opportunities
- **Expansion of the investor base:** possibility to address new investors and investment vehicles
- **Diversification of funding sources:** possibility to further diversify refinancing instruments
- **Market development:** establishing and further developing the market for debt financing of projects with environmental benefits
- **Balance sheet structure:** link between the asset and liability side of the balance sheet

Green Bond Principle 1 – Use of Proceeds

- The **financing of projects related to energy efficiency** as well as **«green buildings» that satisfy recognised energy efficiency certifications** qualify as use of proceeds according to the ICMA Green Bond Principles.
- In this context, the refinancing of ZKB environmental loans is a suitable use of proceeds.

The proceeds of our Green Bonds are used to **refinance existing and future ZKB environmental loans**

ZKB environmental loans – since 1992

- Zürcher Kantonalbank has been promoting environmentally friendly construction and renovation **for more than 25 years.**
- **ZKB environmental loans** stand for **environmentally friendly construction and renovation** and **contribute to saving resources, minimising emissions** and **reducing environmental risks.**
- **Benefits:**
 - **Interest rate reduction** of up to 0.8% p.a. for max. 5 years for a certain amount of the mortgage
 - **Reimbursement of certification fees**
- **Lending criteria:**
 - **Energy-efficient new buildings**
 - Minergie® certificate
 - GEAK® new building certificate for at least class A
 - 2000-Watt-Areal® certificate
 - **Energy-efficient renovations**
 - Minergie® certificate
 - GEAK® Plus certificate for at least class C with an improvement of at least one efficiency class
 - Individual energy measures
- The **certificates** may **not** be **older than five years.**

Green Bond Principle 2 – Process for Project Evaluation and Selection

ZKB environmental loans are subject to clearly defined lending criteria

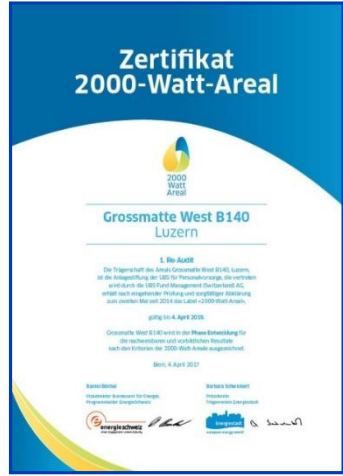
Minergie® Certificate



GEAK®/GEAK® Plus Certificate



2000-Watt-Areal® Certificate



Individual energy measures



– Zürcher Kantonalbank applies a **portfolio view** to its green bonds (comparison of Green Bonds to the total pool of ZKB environmental loans). Green Bond proceeds are therefore not allocated to specific projects.

Green Bond Principle 3 – Management of Proceeds

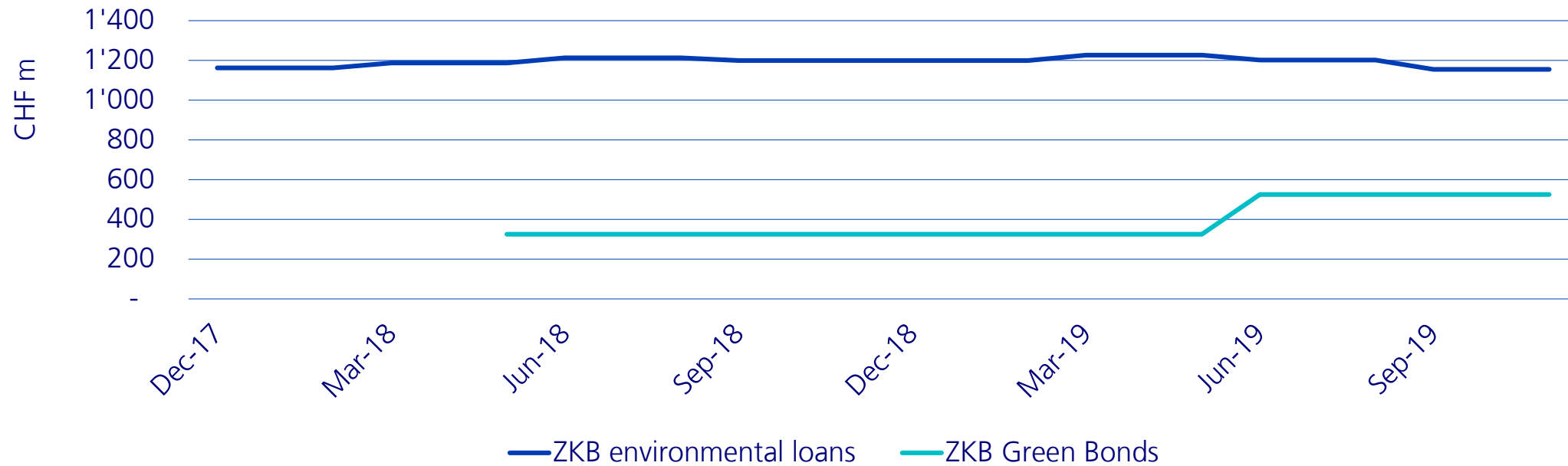
- Zürcher Kantonalbank undertakes to use the proceeds from Green Bonds to refinance existing and future ZKB environmental loans.

New green bonds are only issued if the outstanding volume of ZKB environmental loans exceeds the issue volume of green bonds by at least 10%

- If the volume of outstanding green bonds exceeds the outstanding volume of ZKB environmental loans at any time, the surplus funds from the green bond issues shall be used as follows:
 - Investment in green bonds from other issuers
 - Holding of funds in cash

Comparison of Green Bonds & ZKB environmental loans

- The volume of ZKB environmental loans is constantly above CHF 1.1 bn*.
- Currently, Zürcher Kantonalbank has issued two Green Bonds in the amount of CHF 525m.
- The intention is to **issue further Green Bonds in the coming years.**



* the value of the financed properties is significantly higher, as the ZKB environmental loan is limited to a specific amount.

Green Bond Principle 4 – Reporting

- Zürcher Kantonalbank will **provide up-to-date information on the use of proceeds and the environmental impact of the Green Bonds once a year.**

- Green Bond Framework
- Green Bond Annual & Environmental Report
- Second Party Opinion by ISS-oekom
- Green Bond Assessment by Moody's

- All documents are published on the homepage of Zürcher Kantonalbank under the following link:
<https://www.zkb.ch/de/uu/nb/investor-relations/obligationen-anleihen.html>

Green Bond Annual & Environmental Report

- The impact analysis was **methodically developed in collaboration with Minergie Switzerland**.
- The report provides an assessment on the environmental impact of the real estate pool financed with ZKB environmental loans:

Energetic effects	Energy reference area in m²	ZKB environmental loans¹⁾ in CHF millions	in GWh	in tons of CO₂
Total	518'791	1'062	351	59'909

The total savings of approx. 59'909 tons of CO₂ shown above correspond illustratively to approx. **172'000 barrels of oil** or **2'900 road tankers** (each with a capacity of 12'000 litres)

The energetic effect is **1.41 tons of CO₂ per year and per million ZKB environmental loans or Green Bond**

¹⁾ Minergie®-certified environmental loans as of 31.12.2018

Second Party Opinion by ISS-oekom

Evaluation of the Green Bond

Positive

Performance against the ICMA Green Bond Principles

Positive

Sustainability quality of the Green Bond asset pool:

- All buildings have high energy efficiency criteria ensuring good environmental standards
- The overall sustainability quality of the asset pool in terms of sustainability benefits, risk avoidance and minimization is positive

Positive

Evaluation of Zürcher Kantonalbank

Good sustainability performance

Sustainability performance

Rating C – «Prime»

Rating in a sector comparison

Rated 13th out of 189

Assessment of sector-specific key issues

Outperformance of peer average

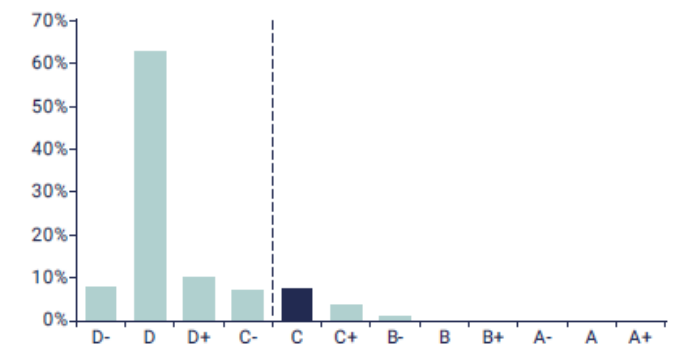
Significant outperformance

- Sustainable investment criteria
- Labour standards and working conditions



Distribution of Ratings

189 companies in the industry



Green Bond Assessment by Moody's

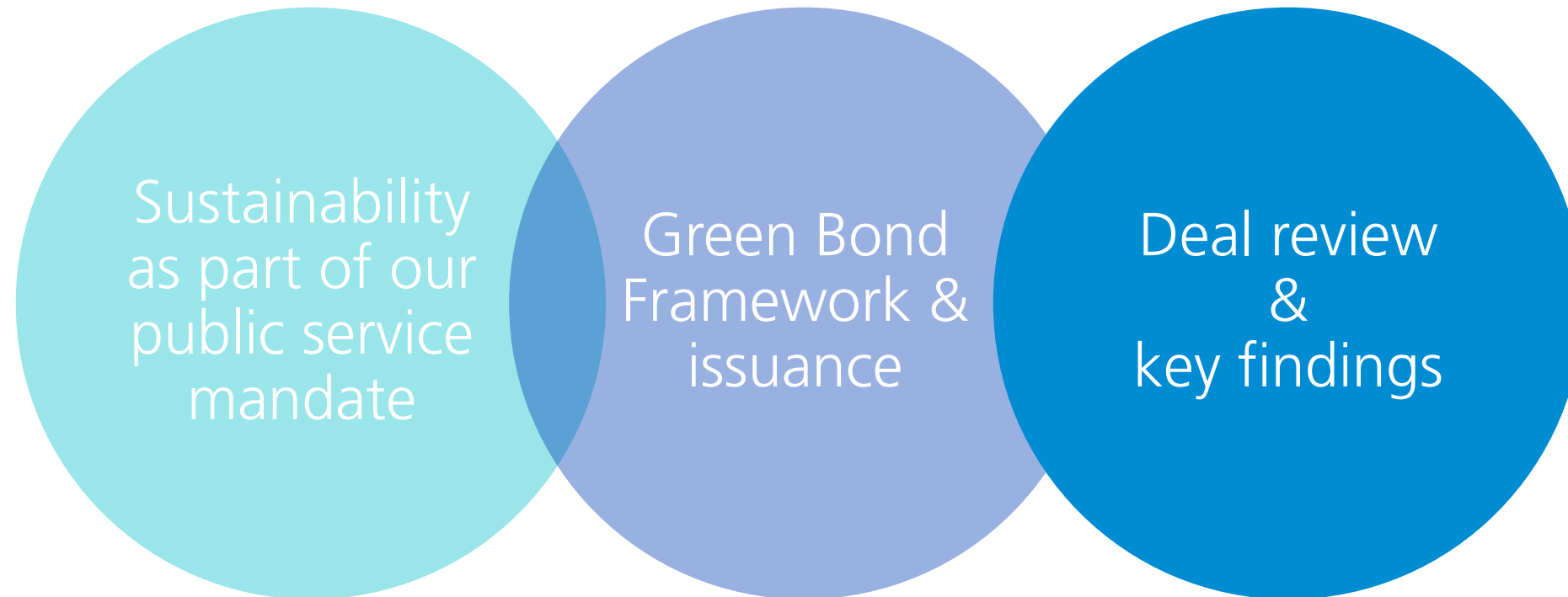
The Green Bonds of Zürcher Kantonalbank are rated GB1 "Excellent" by Moody's:



Moody's assessment is primarily based on the following aspects:

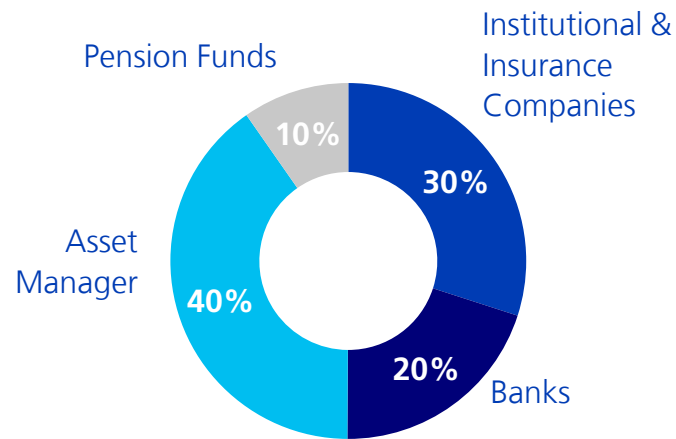
Strengths and weaknesses

Strengths	Weaknesses
Green bond organization supported by the application of the green bond proceeds fully to an environmental loan program that aligns with the sustainability initiatives of the bank and has been in existence since 1992	Post-issuance impact reporting somewhat limited by the inability to calculate actual energy efficiency performance of the green loans in the identified pool
Proceeds fully going to energy efficient properties consistent with the taxonomy of the Green Bond Principles	
Very good disclosure on use of proceeds including granular details about the pool of green mortgages and the expected environmental benefits of the aggregate pool	
Full refinancing of existing qualified green mortgages makes proceeds management clear; identified practices for investment of unallocated proceeds in the unlikely event that green bond volumes exceed outstanding green mortgages	
Demonstrated track record of publishing post-issuance disclosures on the use of green bond proceeds from its debut green bond issued in May 2018	

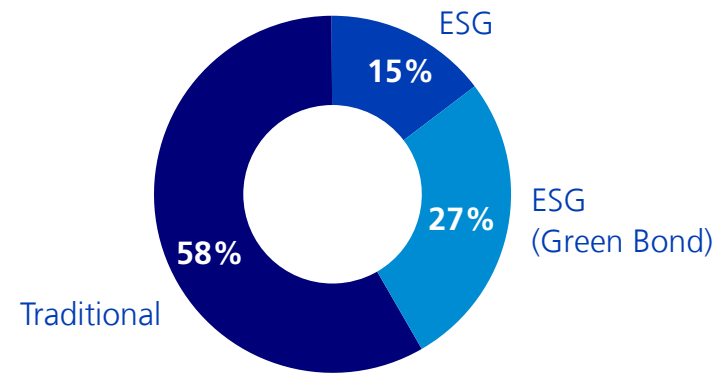
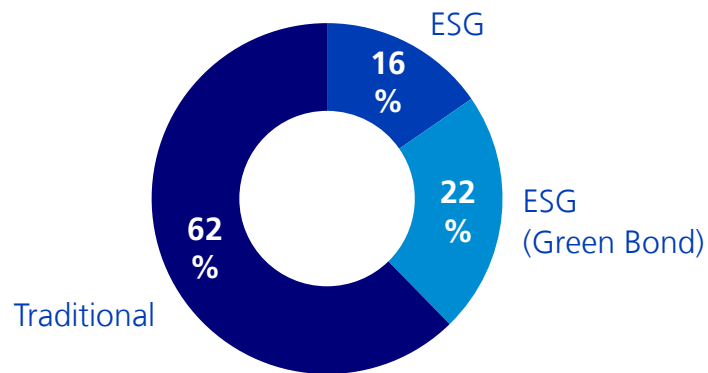
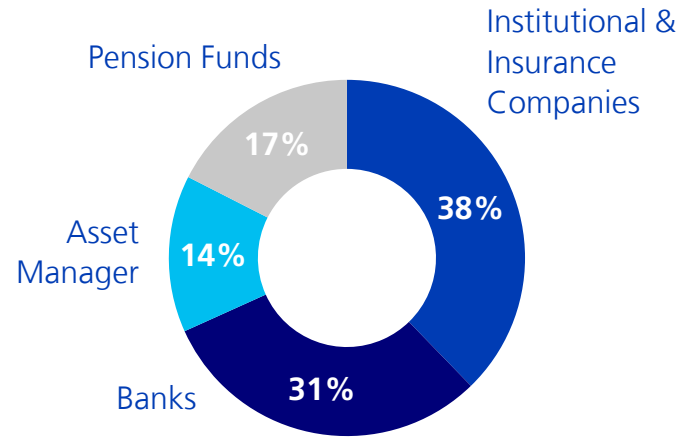


Deal Review - Green Bonds of Zürcher Kantonalbank

CHF 325m Green Bond 2018



CHF 200m Green Bond 2019

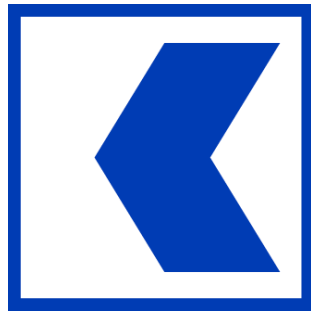


Findings from the two issues

- Usually, Zürcher Kantonalbank does not go on roadshow for "senior" funding: the Green Bond was a **good opportunity to present the bank from a sustainability perspective**.
- The **Roadshow** for the **first issue** was well attended and was marked by great interest in the Green Bond topic.
- Around **40% of the investors were dedicated ESG investors** (Environmental, Social, Governance).
- Besides **attracting new investors, existing investors have also increased their limits** for Zürcher Kantonalbank.
- Both green bonds have **no measurable price effect** in the primary or secondary market.

Take-aways from the Green Bond issues

- **Green Bonds** are **more complex** and therefore more expensive **than conventional senior funding**
- A Green Bond Program is **worthwhile if the effort can be scaled up by several issues**
- The involvement of third parties **confronts Treasury with new questions around the availability of data** that were **previously not in focus** from a purely financial perspective
- **Networking within the company** is enabled on the aspect of sustainability (increased awareness)
- The **Impact study is a core element** of the Green Bond issuance / specific know-how is required
- The **Green Bond issuance promotes a dialogue with investors** under "new" aspects
- **Our investor base was expanded** thanks to the Green Bond
- The **Green Bond offers investors a participation in our efforts to promote environmentally friendly construction and renovation**
- Our conclusion: **issuing Green Bonds was absolutely worthwhile for Zürcher Kantonalbank!**



Zürcher
Kantonalbank