



Centrale de lettres de gage
Banques Cantonales Suisses



Pfandbriefzentrale
Schweizer Kantonalbanken

Sustainability policy

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1 General information

1.1 Principles

The Sustainability Policy sets out the guidelines for ESG-related business activities of the central issuing body, Pfandbriefzentrale der schweizerischen Kantonalbanken AG (PBZ), based in Zurich/Switzerland. PBZ aims to contribute to sustainable development and avoid negative impacts when conducting its business activities, which are limited to the domestic market (Switzerland) with the exception of the investment of its equity capital (see subsection 2.3.1.4).

PBZ was founded in 1931 and is a joint venture of all 24 Swiss cantonal banks, which are also the sole shareholders and member banks of PBZ. PBZ does not have any subsidiaries. PBZ's annual financial statements are prepared in accordance with Swiss GAAP FER accounting principles and give a true and fair view of its net assets, financial position and results of operations. PBZ is supervised by the Swiss Financial Market Supervisory Authority (FINMA). A renowned audit firm (currently Ernst & Young AG) performs the regulatory audit based on company law requirements.

This PBZ Sustainability Policy supplements the PBZ business regulations.

1.2 Responsibilities

PBZ's Board of Directors is responsible for the development of the Sustainability Policy, which the Board of Directors reviews annually and, if necessary, adapts to the current circumstances and/or requirements. PBZ's Executive Board is responsible for the implementation of the Policy and achievement of its targets.

1.3 Roles

PBZ issues Swiss Pfandbriefe® on the capital market within the clearly defined legal framework¹ and grants member banks loans against registered pledge cover to refinance the Swiss or exclusively domestically oriented mortgage business. PBZ, however, has no influence on the process regarding the mortgages provided by the member banks as cover, nor does it have a direct right of instruction vis-à-vis the member banks in matters relating to their credit process and mortgage lending guidelines. The member banks are exclusively responsible for the management of the mortgage portfolio and any incentivisation of the corresponding clientele with regard to associated climate risks.

PBZ therefore does not have a direct influence in this regard and thus also cannot achieve a direct impact. PBZ nevertheless believes it has a responsibility to take advantage of the opportunities to exert an indirect influence in this regard through dialogue with its member banks and, in particular, through dialogue with FINMA, the Association of Swiss Cantonal Banks (ASCB) and the Swiss Bankers Association (SBA), and thus to make an indirect contribution to sustainability.

PBZ therefore aims to define appropriate goals and measures within the framework of the sustainability strategy for areas with a possible direct and indirect contribution.

For further explanations, please refer to section 1.5.

1.4 Stakeholder groups

Key stakeholder groups are PBZ's member banks, their clients, investors in PBZ's Swiss Pfandbriefe®, ZKB employees working for PBZ, suppliers and partners, and the general public.

The Board of Directors is responsible for the overall management of PBZ. PBZ is a joint venture of the member banks, i.e. the 24 cantonal banks. The Board of Directors is therefore composed primarily of representatives of the member banks (usually CEOs/CFOs). In addition, the Federal Council also appoints one Board member to act as a representative of the mortgage debtors.

¹Pfandbrief Act (Pfandbriefgesetz, PFG) of 25 June 1930 (as at 1 January 2023) – Adopted by the Federal Assembly of the Swiss Confederation

Pfandbrief Ordinance (Pfandbriefverordnung, PfV) of 23 January 1931 (as at 1 January 2023) – Enacted by the Swiss Federal Council (see www.pfandbriefzentrale.ch/en/index)

In order to meet the requirements of a joint venture, the composition of the Board of Directors is balanced regarding the size of the respective member banks, but also with regard to geographical and linguistic criteria.

1.5 Our understanding of sustainability and our principles for a responsible product offering

PBZ's understanding of sustainability is directly related to the business purpose formulated in the Pfandbrief Act (Pfandbriefgesetz, PfG) and is thus strategically anchored. This obliges PBZ, in accordance with the provisions of Pfandbrief-related legislation, to enable long-term mortgages for property owners (in Switzerland) indirectly through the refinancing of its member banks at the most stable and favourable interest rate possible.

Art. 5 PfG stipulates that PBZ's scope of business includes:

1. the issue of Swiss Pfandbriefe®;
2. the investment of the proceeds from the issue of Pfandbriefe in mortgage-covered loans to the member banks; and
3. the investment of PBZ's equity capital in securities eligible for repo transactions with the Swiss National Bank and in debt securities of domestic debtors traded on a representative market.

PBZ complies with this legal mandate by issuing Swiss Pfandbriefe® on the capital market. It forwards the resulting proceeds to the member banks in the form of mortgage-covered loans. PBZ informs the public about its business activities on a quarterly basis.

The chain of protective measures for Swiss Pfandbriefe® provided by the law offers Pfandbrief creditors fivefold security:

- In the first place, PBZ is liable with its capital.
- In second place, the cantonal banks are liable for the loans they obtain.
- Furthermore, the obligations of most of the cantonal banks are covered by a guarantee from their own canton.
- The mortgage debtors are liable to the cantonal banks.
- The mortgage debtors' pledged properties additionally secure the Pfandbrief receivables.

Not least because of this, the highest rating (AAA) has been awarded since 2002 by both the Moody's rating agency to the Swiss Pfandbriefe® issued by PBZ, and by ZKB's Bond Research to PBZ.

Investors therefore benefit from the greatest possible security. This enables attractive conditions for PBZ, which in turn have a correspondingly positive effect on the member banks' borrowing costs in connection with the mortgage-covered loans granted.

The legal requirements described above regarding the scope of business have a restrictive effect because the responsibilities are clearly allocated between PBZ and the member banks. As previously explained in section 1.3, the business policy responsibilities regarding the mortgage origination process therefore lie exclusively with the member banks and cannot be directly influenced by PBZ. Here, too, PBZ thus cannot achieve a direct impact.

Sustainability is nevertheless in the DNA of the Swiss Pfandbrief®. The Swiss Pfandbrief® enables member banks to refinance real estate financing on a long-term, stable, secure and, in particular, favourable basis. It allows the member banks to offer their clients mortgages on fair terms or to create incentives for real estate investments that reduce CO₂ emissions. What this means is that clients have cheaper or incremental funds available for energy-efficient renovations.

Which is why the Swiss Pfandbrief® and thus also PBZ, the investors and the member banks have always made an important direct and/or indirect contribution with regard to:

- increasing the proportion of house and apartment owners in Switzerland;
- transitioning to a more climate-efficient Swiss building stock and its financing; and thus
- enabling the creation of a sustainable Swiss financial centre.

1.6 Sustainability ambition

PBZ's business activities are guided by the UN Sustainable Development Goals (SDGs). The SDGs support the overall protection of sustainable development at an environmental, social and economic level. By taking them into account, PBZ creates a solid basis for long-term economic activity and thus proactively helps shape a sustainable and successful future. This is in line with PBZ's statutory mandate and the efforts of the Federal Council, which is working nationally and internationally to achieve the goals of the Federal Sustainable Development Strategy 2030 and the SDGs.

PBZ focuses in particular on making a positive contribution to SDG Goal 11 – Sustainable Cities and Communities.

PBZ makes a significant contribution to the creation of sustainable cities and communities through its statutory mandate and the associated provision of long-term debt capital at favourable terms for the financing of properties. In this way, through PBZ a contribution can be made to the social sustainability dimension as defined in SDG 11, in particular to subsection 11.1, which emphasises "adequate, safe and affordable housing".

Furthermore, the Swiss Pfandbrief® provides a central pillar in the upcoming transformation process of the domestic building stock to become more environmentally sustainable. The refurbishment of the real estate stock represents one of the core elements for sustainably reducing the energy demand of our society and for achieving the climate targets. Large sums of additional capital will be needed not only to finance these renovation investments, but also because the stock that has not yet been renovated must also remain financed.

Although the investment decision itself lies with the property owner, and PBZ – as previously mentioned – also does not have a direct influence on the member banks' lending processes, the Swiss Pfandbrief® is becoming a relevant enabler for the required transformation process because it is an important, reliable, long-term and low-cost refinancing source for the mortgage market. PBZ therefore also contributes to the environmental sustainability dimension as defined in SDG 11.

PBZ also aims to make a direct and/or indirect impact – whenever feasible given its possibilities – with regard to the achievement of the Paris climate goals and the net-zero target by 2050. This is to be attained by establishing concrete goals and measures.

2 Specifics related to the ESG dimensions

The following section lays out the concrete specifications according to the ESG dimensions (E: environment; S: social affairs and society; G: governance).

2.1 ESG dimension Environment

2.1.1 Climate and energy

Sustainability in the issuance of mortgage-covered loans

Legal requirements (see PfG Art. 1) set out that PBZ may issue mortgage bond loans only to its member banks, which are the 24 cantonal banks in Switzerland.

This implicitly excludes the financing of the following goods/companies:

Fossil energy sources:

- Coal mining, oil and gas extraction: This also includes financing in connection with controversial processes for the extraction of oil and natural gas (e.g. Antarctic/Arctic drilling, fracking, offshore oil projects, deep sea drilling or projects related to the exploitation of oil-bearing tar sands)
- Fossil-energy power plants
- Commodity trading, e.g. coal for electricity production (thermal coal), as well as crude and fuel oil

Nuclear power:

- Development and construction of new nuclear power plants
- Uranium mining

Sustainability in operations

ZKB, in whose operations PBZ is integrated, aims to minimise climate risks across its entire business activities and to create transparency in this regard. Its climate ambition is oriented towards the goals of the Paris Climate Agreement and greenhouse gas neutrality by 2050. ZKB's corporate environmental programme includes targets it has set for itself to reduce CO₂e emissions in its own operations. **ZKB offsets 100 per cent of unavoidable, residual CO₂e emissions in own operations. This also covers the CO₂e emissions caused directly by PBZ.**

2.1.2 Commodities (industrial metals, precious metals, agricultural resources)

Sustainability in the issuance of mortgage-covered loans

Legal requirements (see PfG Art. 1) set out that PBZ may issue mortgage-covered loans only to its member banks, which are the 24 cantonal banks in Switzerland.

This implicitly excludes the financing of the following goods:

- bitumen/asphalt, asbestos, uranium, precious woods, live goods, diamonds, rare earth metals, perishable goods and palm oil.

2.1.3 Biodiversity

Sustainability in the issuance of mortgage-covered loans

Legal requirements (see PfG Art. 1) set out that PBZ may issue mortgage-covered loans only to its member banks, which are the 24 cantonal banks in Switzerland.

This implicitly excludes the financing of the following goods/projects:

- non-certified agriculture and forestry operations abroad, i.e. outside Switzerland, that cause tropical deforestation and/or the degradation of High Conservation Value Areas (HCVA) as defined by <https://www.hcvnetwork.org/>.
- mining projects that apply particularly destructive mining methods, such as mountaintop removal;
- unlawful, intentional water/groundwater pollution; and
- adverse effects on High Conservation Value Areas abroad, namely primeval forests (illegal slash-and-burn and/or deforestation), endangered animal and plant species, wetlands and biotopes, cultural assets and cultural World Heritage sites.

2.2 ESG dimension Social affairs and society

2.2.1 Human rights, working conditions and equal opportunities

PBZ categorically rejects any form of child labour and forced labour as well as any violation of the human rights conventions set out by the United Nations. It expects the same from its suppliers and other business partners.

PBZ is also committed to the respect of human dignity and human rights and to the protection of the individual's personality in the workplace.

All of PBZ's 7 employees (FTEs < 3) have been permanently employed at ZKB for many years and usually perform other responsible activities at ZKB in addition to their work for PBZ. ZKB offers its employees, and thus those working for PBZ, attractive and fair employment conditions with the aim of strengthening their personal integrity and sense of security.

The salaries are based on gender-neutral job descriptions. ZKB also has its equal-pay status audited externally every two years and makes adjustments if necessary. The issue volume and the issuance of mortgage-covered loans have no influence on the remuneration of PBZ employees.

The promotion of diversity in the employee portfolio is anchored in ZKB's personnel strategy, which has a direct impact on PBZ. ZKB attaches great importance to the equal treatment of all persons and creates framework conditions to strengthen its staff's gender mix, including in management positions.

A politically and denominationally neutral institution exists at ZKB, instituted on the basis of the Federal Act on the Provision of Information to and the Consultation of Employees of Businesses (Mitwirkungsgesetz, MwG). This institution, which is subject to democratic elections, represents employees' interests in relation to ZKB and consistently exercises the participation rights assigned to it.

Furthermore, ZKB invests in the training and continuing professional education of its employees.

2.3 ESG dimension Governance

2.3.1 Principles of corporate governance

2.3.1.1 Fulfilment of the legally defined purpose

PBZ, as a joint venture of all 24 cantonal banks, does not focus on maximising its profits. It instead aims to fulfil the statutory purpose stipulated in Art. 1 (1) PfG and to enable property owners to benefit from long-term mortgages at the most stable and favourable conditions possible. For this reason, PBZ is exempt from direct federal, cantonal and municipal taxes under Art. 6 (1) PfG.

2.3.1.2 Protecting the needs of stakeholders and lobbying

The issue volume and the issuance of mortgage-covered loans are based on the needs of the member banks and investors. The principles of corporate governance ensure that the interests of the various stakeholder groups are taken into account in a balanced manner. By establishing an appropriate organisation we ensure that tasks, competencies and responsibilities are clearly assigned, effective and coordinated.

PBZ strives for an active exchange with the ASCB whenever it makes sense to safeguard common interests, promote cooperation and strengthen the position of the cantonal banks in Switzerland. PBZ also regularly exchanges information with the SBA and actively participates in this exchange (e.g. on the topic of environmental mortgages).

PBZ conducts advocacy activities in compliance with local laws and is guided by the principles of honesty, completeness, respect, accuracy of information and transparency. Furthermore, this advocacy is limited to topics that directly affect PBZ or the Pfandbrief system in Switzerland.

PBZ's business activities are narrowly defined, and changes to its articles of association and valuation regulations must be approved by the Federal Council (government of Switzerland). The Federal Council also appoints an independent Board of Directors, as previously mentioned.

PBZ, which has an annual issuing volume of several billion Swiss francs, is one of the largest issuers in Switzerland. It therefore plays a key role in the financial sector and bears responsibility towards its stakeholder groups within the scope of its business activities.

The handling of conflicts of interest (identification, avoidance, implementation of measures) is governed by provisions in the organisational regulations and is reviewed annually by the Board of Directors.

2.3.1.3 Risk management

PBZ applies a variety of measures to control and minimise risks:

- The borrowing per member bank is limited to 35 per cent of the respective bank's on-balance-sheet domestic mortgage assets (net values).
- The cover for the drawn mortgage-covered loans must be at least 115 per cent at all times.

- Moreover, the interest income of the segregated pledge receivables must total least 110 per cent of the interest payable on the loans.
- The issuance of Pfandbriefe must not result in bonds and direct placements of more than CHF 1.2 billion becoming due when they mature.

Risks are consistently monitored by the Executive Board (on an ongoing basis) and the Board of Directors (at least quarterly). Sustainability aspects are also taken into account within the risk management process.

2.3.1.4 Sustainability in the investment of equity capital

PBZ's equity capital is invested by ZKB under an asset management mandate. The mandate fulfils the criteria for a "responsible" portfolio in accordance with the principles of ZKB's asset management business².

"Responsible" portfolios as defined by ZKB's asset management business focus on the systematic integration of ESG criteria in investments. They fulfil the following specific principles:

- voting engagement (dialogue with company management)
- Swisscanto Blacklist (manufacture of outlawed weapons, compatibility with Swiss legislation and exclusion recommendations promulgated by the Swiss Association for Responsible Investments (SVVK-ASIR))
- further exclusions of critical business models (coal-related revenue >5%, coal reserves, production of war technology >5% of revenue, child labour, production of pornography, UN Global Compact violations)
- systematic ESG integration (ESG criteria as an integral component of the active investment process in addition to traditional financial analysis)
- CO₂ reduction (compatibility with the Paris Climate Agreement, two-degree reduction target)

The investment guidelines also contain clear specifications regarding the permitted investments, such as rating requirements or specifications regarding repo-eligibility.

2.3.1.5 Sustainability in procurement

PBZ's procurement is largely integrated directly into ZKB. Preference is given to regional and Swiss suppliers and partners. **All suppliers undertake to respect recognised environmental and social standards in accordance with ZKB's terms and conditions of purchase. The procurement process aims to ensure that products are as resource-efficient as possible in terms of how they are manufactured, used and disposed of.**

These principles also apply to procurements made directly by PBZ in exceptional cases. Moreover, these are almost exclusively regional and Swiss service purchases (e.g. audit, legal advice, IT services, translations).

2.3.1.6 Integrity and prevention of corruption and bribery

The guiding principles in the fulfilment of our responsibility include the principle of integrity, the prevention of corruption and bribery through clear and consistent conduct, and the principles of sustainability. These principles already result from the statutory purpose article governing PBZ.

Integrity and reputation are also among the most important principles for ZKB, whose employees are responsible for the management of PBZ. It therefore relies on receiving reports from its employees concerning suspected misconduct within the organisation. Misconduct includes, for example, violations of criminal, supervisory and administrative law, as well as other legal regulations and internal guidelines. To report potential misconduct, employees may discuss the circumstances with their supervisors; in addition, ZKB has created a highly secure reporting platform, which is maintained by an external independent reporting office (law firm). As employees of ZKB, PBZ's employees also have unrestricted access to this reporting platform.

2.3.1.7 Dealing with totalitarian regimes

PBZ, as a matter of principle and conviction, does not violate sanctions and embargoes imposed by the United Nations (UN).

PBZ's business model focuses in terms of assets on transactions with cantonal banks regarding the granting of mortgage-covered loans and the investment of its equity capital as defined in subsection 2.3.1.4. On the liabilities side, PBZ's business activities are limited to refinancing on the capital market and issuing Pfandbriefe to investors.

2.3.1.8 Antitrust law

PBZ is fully and unreservedly committed to fair competition. This commitment is due not only, but primarily, to the arrangement under which ZKB employees have been performing PBZ's management since its foundation.

PBZ expects its employees to comply with all applicable competition and antitrust laws. ZKB has contractually undertaken not to issue any instructions to employees working for PBZ that conflict with them in this context.

PBZ ensures that its business practices in relation to suppliers, its shareholders (which are also its member banks) and its only direct competitor in Switzerland (Pfandbriefbank) are compatible with legal principles in general and with antitrust and competition law in particular, regardless of where these businesses are conducted.

The risk that violations of antitrust and competition law might occur is also only minimal thanks to the legally prescribed allocation of banks in Switzerland with mortgage lending activities to the two mortgage bond institutions (cantonal banks to PBZ and all other banks to Pfandbriefbank).

PBZ observes antitrust and competition laws in all of its business activities and business agreements. It rejects price-fixing, cartels or other competition-distorting activities as a matter of principle.

2.3.1.9 Combating money laundering and terrorist financing

The legal basis (see also under section 1.3) governing PBZ restricts its business activities to granting mortgage-covered loans to its member banks and their refinancing on the capital market. PBZ therefore does not perform any business activity as a financial intermediary, which is why no risk exists regarding either money laundering or possible terrorist financing.

3 Concluding provisions

This Sustainability Policy enters into force immediately and will be reviewed by the Board of Directors at regular intervals.

Zurich, 26 May 2023

For and on behalf of the Board of Directors*

The Chair of the Board of Directors:	The Secretary:
Daniel Fust	Michael Benn

*valid without signature