

# Sustainability policy

July 2021

## I General information

This Sustainability Policy sets out the guidelines for Zürcher Kantonalbank's business activities. We respect the principles of sustainability in our business activities in Switzerland and abroad.

### Our understanding of sustainability

We view sustainability as the long-term reconciliation of successful business activities and responsibility for the environment and society.

### Stakeholder groups

Our key stakeholder groups are clients, employees, the owner (Canton of Zurich), suppliers and partners, and the general public.

### Understanding of roles

We are aware of the pivotal role that the financial sector plays in the efforts to realise sustainable development worldwide and achieve greenhouse gas neutrality by 2050. We see ourselves as a service provider for society and the economy, especially in the Greater Zurich Area as a place to live and do business. We promote long-term success focused on sustainability, as well as the competitiveness and innovative strength of companies and public-sector entities (municipalities and cantons) throughout the entire company life cycle.

### Sustainability ambition

Zürcher Kantonalbank is guided by the United Nations' 17 sustainable development goals (SDGs), the Paris Climate Agreement, and the objective of achieving greenhouse gas neutrality by 2050. Our actions are based on scientific principles. We develop products and services that have a positive effective on sustainability and accompany our clients on their journey towards a more sustainable future.

Zürcher Kantonalbank focuses on areas with significant potential for impact.

We integrate risks and opportunities related to environmental, social and governance issues (ESG) into our business activities (ESG integration). We also define exclusion criteria.

When products and services are approved for the first time or are reassessed, we examine, when relevant, their contribution to sustainable development and the achievement of greenhouse gas neutrality by 2050. We then report transparently on our findings. We have defined processes and responsible committees for dealing with specific business transactions.

### Understanding of transparency

We set ourselves measurable targets and report transparently on both the measures we have taken and the achievement of our targets in compliance with the guidelines set forth by the Global Reporting Initiative (GRI). Transparency is a central, overarching basic principle.

### Our business activities and our commitment

We respect the principles of sustainability and the recognised rules of risk management in our business activities based on our legally stipulated public service mandate (Law on Zürcher Kantonalbank).

We integrate the principles of sustainability across all our business activities at the group level, in our investment and retirement planning business, financing business, deposit business and monetary transactions, as well as in our own financial investments, operations, procurement system and engagement.

### Our investment and retirement planning business

We guide our investment business based on the six United Nations Principles for Responsible Investment (UN PRI) and report on these on an annual basis. We systematically integrate ESG risks and opportunities into all investment solutions and, when making direct investments, focus on dialogue with the investee companies with a view to achieving the SDGs and greenhouse gas neutrality by 2050.

Our asset management business maintains a direct dialogue with the companies in which we invest and is involved through the UN PRI collaboration platform and investor initiatives. We exercise voting rights based on Swiss and international corporate governance rules and the United Nations Principles for Responsible Investment (UN PRI) in order to foster the sustainability-oriented success of the investee company over the long term. We publish our voting policy and voting behaviour transparently. In wealth management, the dialogue with the companies in which we are invested as well as the participation in investor initiatives and the exercise of voting rights are carried out indirectly through the choice of external asset managers.

We systematically query our clients about their sustainability preferences as part of our wealth management and investment advice services. We inform our clients comprehensively and transparently about the ESG effects of the investment solutions.

### Our financing business

Our financing business is guided primarily by the objectives set out by the federal government and the Canton of Zurich with regard to Agenda 2030 and the achievement of greenhouse gas neutrality by 2050. We actively support sustainable development through our financing business and minimise sustainability risks. The borrowers' ESG risks and opportunities are taken into account when the loan is appraised and monitored. We address ESG risks and opportunities with our clients and promote sustainable business models that are fit for the future. A credit policy geared towards continuity makes us a reliable financial partner for companies with intact future prospects, even in difficult times. We support small and medium-sized enterprises and entrepreneurs by providing start-up, development, expansion and acquisition financing, and by financing projects involving sustainable technologies.

In addition, we also participate in companies with innovative products, services or distribution models in the early phases of the company life cycle.

### Our sustainability in operations

Zürcher Kantonalbank is committed to continuously improving its environmental performance and – where possible and appropriate – even goes above and beyond the legal requirements.

We apply an environmental management system based on the ISO 14001 international standard.

### Our procurement system

Our procurement system prioritises regional and Swiss suppliers and partners. All our suppliers undertake to respect recognised environmental and social standards in accordance with our terms and conditions of purchase. As part of our procurement process, we ensure that products are as resource-efficient as possible in terms of how they are manufactured, used and disposed of, and that they are environmentally and socially sustainable. Stricter requirements are set for the procurement of particularly sensitive products.

### Our engagement

Our legally stipulated public service mandate requires that we promote the environment, society and the economy for the Greater Zurich Area as a place to live and do business. We participate in the regional development and communal life of the Canton of Zurich through our involvement in over 150 sponsorship projects. Our efforts benefit in particular our clients and the people of the Canton of Zurich. When we commit to these sponsorships and corporate citizenship engagements, we pursue the comprehensive approach to sustainability in order to protect natural resources, strengthen social cohesion and bolster the competitiveness of Zurich as a business location.

## II Specifics related to the ESG dimensions

The following section provides a detailed overview of the targeted sustainability effects for each business area according to the ESG dimensions (E: environment, S: social affairs and society, G: governance).

### 1. Environment

#### 1.1 Climate and energy

##### 1.1.1 Group

We aim to minimise climate risks across all our business activities and to create transparency in this regard. When doing so, we focus on the recommendations set out by the Task Force on Climate-Related Financial Disclosures (TCFD).

Our climate ambition is based on the goals of the Paris Climate Agreement and on the achievement of greenhouse gas neutrality by 2050. We help mitigate climate change by promoting energy efficiency and the substitution of fossil, non-renewable sources of energy with renewable sources.

##### 1.1.2 Investment and retirement planning business

Our asset management business has committed to a quantitative reduction path for all active investment solutions in the traditional asset classes and is thus making a concrete contribution to achieving the goals of the Paris Climate Agreement. To this end we implement in all investment decisions a science-based CO<sub>2</sub>e reduction target of at least four percent annually (two-degree climate target). We also conduct a direct dialogue with the investee companies about achieving greenhouse gas neutrality by 2050.

Our direct real estate investments are geared towards the target values set out in the Energy Efficiency Path (SIA 2040), which is based on the vision of the 2000-watt society and the Paris Climate Agreement.

##### 1.1.3 Financing business

Our financing business targets the promotion of sustainable development in the areas of energy, mobility and buildings.

##### Energy sector

When financing projects in the energy sector, we make an effort to increase the efficiency of plants even further and promote a gradual shift to renewable energy sources.

##### Mobility

We are committed to sustainable mobility concepts and support innovative projects. We support biofuels only if they are produced using agricultural and forestry residues or biogenic waste and do not compete with food crop production.

##### Buildings

We create incentives for our clients to build, modernise and operate their properties and infrastructure in the most environmentally friendly and energy-efficient manner possible. To that end we are constantly expanding our product and service portfolio. We offer our clients favourable solutions for energy renovations and new construction.

We support our clients with the issuance of green bonds. We issue green bonds ourselves to refinance the environmental loans we make and to finance projects with energy objectives in the office buildings used by Zürcher Kantonalbank itself.

We explicitly exclude the direct financing of the following activities:

##### Fossil energy sources

- Coal mining, oil and gas extraction: As a regional bank, we have never financed the mining of coal or the extraction of oil or natural gas and, accordingly, are not involved in controversial oil and gas extraction processes (e.g. Arctic and Antarctic drilling, fracking, offshore oil projects, deep sea drilling or projects related to the exploitation of oil-bearing tar sands).
- Fossil-energy power plants: We do not finance power plants that run on coal or oil.
- Commodity trading: We explicitly exclude coal for electricity production (thermal coal), as well as crude and fuel oil.

##### Nuclear power

We exclude new financing for the development and construction of nuclear power plants and for their modernisation, other than for the purpose of maintaining safety. We also will not finance companies whose main business activity is the production, trade and marketing of nuclear energy and/or the reprocessing of nuclear fuel and uranium enrichment plants. We also exclude the financing of uranium mining.

#### 1.1.4 Operations

Our corporate environmental programme includes targets we have set for ourselves to reduce CO<sub>2</sub>e emissions in our own operations. We offset 100 percent of unavoidable, residual CO<sub>2</sub>e emissions, preferably nationally with projects in the Greater Zurich Area.

### 1.1.5 Engagement

We commit to specific sponsorships in order to promote renewable energies, energy efficiency and sustainable mobility.

We use the redistribution of the CO<sub>2</sub> levy for sustainable projects in the Canton of Zurich.

## 1.2 Commodities (industrial metals, precious metals, agricultural resources)

### 1.2.1 Group

We are committed to ensuring transparent environmental and social standards with respect to commodity lifecycles and to gradually closing raw material cycles. In addition, we participate in cooperative ventures related to fair trade and are committed to the traceability of commodities so that the integrity of the value chain is guaranteed.

### 1.2.2 Investment and retirement planning business

We do not offer investment solutions that invest in certain agricultural commodities (wheat, corn, soya beans and rice).

### 1.2.3 Financing business / international commodity trading finance

We systematically review our clients involved in commodity trading to address sector-specific ESG risks and opportunities. This review, which takes place during the onboarding process as part of our due diligence and on an annual basis, is based on reported data or data collected through our own questionnaires. We address environmental and human rights issues in our client relationships based on the relevant internationally recognised industry standards with the aim of continuous improvement.

Each individual transaction is subject to a standardised review process that covers the involved parties, goods and projects.

We explicitly exclude transactions involving bitumen/asphalt, asbestos, uranium, precious woods, live goods, diamonds, rare earth metals, perishable goods and non-certified palm oil.

## 1.3 Land

### 1.3.1 Group

We are committed to environmentally sustainable land use and the transparent handling of contaminated properties.

### 1.3.2 Financing business

Our credit assessment process also takes into account the pollution of the subsoil (contaminated sites) and building structure.

We help our customers implement the relevant requirements of environmental law.

## 1.4 Biodiversity

### 1.4.1 Group

We contribute to the conservation of different forms of life (species of animals, plants, fungi, bacteria), the diversity of habitats (ecosystems such as forests or water bodies) and the genetic diversity within species (e.g. subspecies, varieties and breeds).

### 1.4.2 Financing business

We traditionally exclude financing involving:

- non-certified agriculture and forestry operations abroad that cause tropical deforestation and/or the degradation of High Conservation Value Areas<sup>1</sup>;
- 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.

### 1.4.3 Operations

We promote regional biodiversity at our own sites.

### 1.4.4 Engagement

We actively campaign for nature conservation in the Canton of Zurich through renaturalisation and the preservation of natural areas, and thus enable people to

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<sup>1</sup> Based on the High Conservation Value Areas (HCVA) as defined by [www.hcvnetwork.org](http://www.hcvnetwork.org).

experience it in nature parks or on hikes. We also support regional nature and environmental education programmes.

## 2. Social affairs and society

### 2.1 Human rights and equal opportunities

#### 2.1.1 Group

We respect and, within our sphere of influence, support the protection of international human rights as set forth by the United Nations, including the right to life, liberty, security, fair working conditions, equal opportunities and children's rights. When we make financing and investment decisions, human rights issues form part of our reputation risk assessment for globally active companies.

Our interaction with our clients and employees as well as our public commitments emphasise the equal rights of people regardless of origin, race, gender, age, language, social status, income, religion, political convictions and physical, mental or psychological disability.

#### 2.1.2 Investment and retirement planning business

Our issuance of structured products as well as the actively and passively managed investment solutions of our asset management business do not involve investments in defence companies that manufacture weapons prohibited by international treaties and/or violate Swiss sanctions. These include manufacturers of cluster bombs/ammunition, anti-personnel and land mines, biological and chemical weapons, nuclear weapons, enriched uranium as well as blinding laser weapons and incendiary weapons. In addition, our asset management's active investment solutions in the traditional asset classes exclude arms and munitions manufacturers as well as companies that are involved in the production of war technology.

#### 2.1.3 Financing business

We do not provide financing to clients whose business activity:

- relates to gambling abroad and unlicensed gambling in Switzerland;
- violates the rights of indigenous peoples; or
- involves child labour and forced labour in violation of the human rights conventions set out by the United Nations.

We do not finance:

- foreign defence companies with a business focus on the defence industry; and
- the production of and trading with controversial weapons, such as cluster bombs/ammunition, anti-personnel and land mines, biological and chemical

weapons, nuclear weapons, enriched uranium as well as blinding laser weapons and incendiary weapons.

#### 2.1.4 Operations

We offer our employees fair, attractive employment conditions with the aim of strengthening their personal integrity and sense of security. Our salaries are based on gender-neutral job descriptions. Every two years we have the equal-pay status audited externally and, if necessary, make adjustments.

The promotion of diversity in the employee portfolio is anchored in our personnel strategy. We attach great importance to the equal treatment of all persons and create framework conditions to strengthen our staff's gender mix, including in management positions. We help employees to align their professional responsibilities with their personal life planning and the respective phase of their lives. That is why we promote flexible working time models, leadership as well as part-time and co-lead working arrangements.

#### Procurement

All our suppliers undertake to respect human rights in accordance with our terms and conditions of purchase. Stricter requirements are set for the procurement of particularly sensitive products.

### 2.2 Our commitments in social affairs and society

We are involved in a wide range of activities related to nature, youth, culture, sport, social activities and entrepreneurship through more than 150 partnerships, memberships and sponsorships.

We commit to specific sponsorships in order to promote women in the workforce and in management positions and to help them balance family life and work.

#### Education and non-profit commitment

We help improve education as well as the availability of knowledge and information, particularly on specialist subjects related to banking.

- We support Zurich as a centre of research and education and people in education through specific commitments and banking services.
- We promote access to a wide range of cultural activities for the people of Zurich.
- We offer our employees attractive conditions that enable them to get involved in politics, public

authorities, their church, culture, educational institutions, trade associations and clubs, and to share their banking expertise with the general public as part of this involvement.

- We invest in the education and advanced training of our employees and offer attractive and multifaceted apprenticeships with future prospects.

### Health

We promote the health of the people within our sphere and help them enhance their quality of life.

- We make a public commitment to fostering health, sport and exercise for all age groups, especially for children, young people and pensioners.
- We have a diverse range of offerings designed to boost our employees' health.

### Financial stability

We are committed to ensuring that our clients manage their financial resources responsibly.

- Our savings, investment and pension products contribute to our clients' long-term financial stability and independence.
- We employ awareness campaigns and effective technical resources to prevent individuals, particularly young people, from becoming over-indebted.

## 3. Governance

### Principles of corporate governance

#### Group

The principles of corporate governance ensure that the interests of the various stakeholder groups are taken into account in a balanced manner across all management bodies of a company. We ensure good corporate governance by establishing an appropriate organisation so that tasks, competencies and responsibilities are clearly assigned, effective and coordinated.

The Canton of Zurich is the owner of Zürcher Kantonalbank (parliamentary bank). The Law on Zürcher Kantonalbank includes the ownership strategy. Sustainability is an integral component of Zürcher Kantonalbank's public service mandate. The relevant guidelines stipulate that the corporate bodies are assisted in fulfilling this mandate by a specialist committee made up of representatives of all business units and chaired by the Public Service Mandate Specialist Unit. This specialist committee, the Public Service Mandate Steering

Committee, advises and supports the corporate bodies in all matters relating to the public service mandate.

### Investment and financing business

We apply minimum corporate governance standards as a decision-making criterion in the investment and financing process.

### Tax compliance

We expect all our clients to comply with the tax requirements applicable for the assets they hold with us. We therefore do not accept untaxed funds. We expect our clients to resolve any tax issues from the past and help them to do so.

### Combating money laundering, corruption and terrorist financing

We make an active contribution towards maintaining the integrity of the financial system and ensure the integrity of our business by consistently and responsibly performing our duties in the fight against money laundering, corruption and terrorist financing.

To combat money laundering, corruption and terrorist financing, we apply strict, internally established procedures that are aligned with national and international regulations.

### Compliance with financial sanctions

We implement effective compliance management to monitor compliance with the national and international financial sanctions that Zürcher Kantonalbank must observe.

The bank's Sustainability Policy is reviewed annually and approved by the Executive Board.



## Annex – Overview of the principles

### a. Law on Zürcher Kantonalbank

The Law on Zürcher Kantonalbank stipulates that Zürcher Kantonalbank shall conduct the business of a universal bank (Section 7 “Business”) and fulfil a public service mandate consisting of service, support and sustainability mandates (Section 2 “Purpose”). Zürcher Kantonalbank’s area of operations includes primarily the Greater Zurich Area. Transactions in the rest of Switzerland and abroad are permitted, provided that the bank does not incur any disproportionate risks as a result (Section 8 “Area of operations”).

### b. Guidelines for the public service mandate

Sustainability is also explicitly stated in the guidelines for fulfilling Zürcher Kantonalbank’s public service mandate: Zürcher Kantonalbank shall fulfil its public service mandate based on a market-oriented business policy that is geared towards long-term continuity and aims to achieve an appropriate profit (Section 2 “Definition”). In fulfilling its public service mandate, Zürcher Kantonalbank, as a universal bank, shall observe the principles of sustainability and the recognised rules of risk management (Section 4 “General conditions for fulfilling the public service mandate”).

### c. Organisational regulations

The regulations governing the organisation of the Zürcher Kantonalbank Group have enshrined sustainability as an integrated business principle (Section 26 “Principle of sustainability” and Section 27 “Integrated business principle”).

### d. Code of conduct

Zürcher Kantonalbank undertakes to conduct its business in an ethical manner as defined in its code of conduct.

This code contains the rules of conduct applicable for employees’ daily actions related to topics such as tax evasion, corruption and money laundering.

### e. Group mission statement

The group mission statement, which describes Zürcher Kantonalbank’s identity, includes the bank’s vision, roots, overarching goals, core values and basic standards of conduct.

### f. Group strategy

The public service mandate is anchored in the group strategy under the following strategic principles:

“We are guided by our statutory public service mandate, which includes the dimensions of service, support and sustainability. When fulfilling this mandate, we respect the principles of sustainability and the recognised rules of risk management.

We view sustainability as the long-term reconciliation of successful business activities and responsibility for the environment and society. To achieve this alignment, our ambition, as set out below, is guided by the United Nations’ 17 sustainable development goals (SDG):

- We actively shape sustainability issues.
- We are a leader in sustainable offerings.
- We support our clients on their journey to a more sustainable future.”

In addition, one of our strategic goals is to fulfil and enhance the public service mandate. This goal is measured using a balanced scorecard framework.

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<sup>i</sup> Carbon equivalents (CO<sub>2</sub>e) are a unit of measurement used to standardise the climate impact of the following greenhouse gases: carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O) and fluorinated greenhouse gases (CFCs). All these gases remain in the atmosphere for different periods and do not contribute to the greenhouse effect to the same extent.