

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Green Investment Products Framework

Aargauische Kantonalbank
25 April 2023

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none">Green Bonds and Green Term Deposits (Green Termingelder)
Relevant standards	<ul style="list-style-type: none">Green Bond Principles (GBP), as administered by the ICMA (as of June 2021 with June 2022 Appendix I)
Scope of verification	<ul style="list-style-type: none">Aargauische Kantonalbank Green Bond Framework (as of March 30, 2023)Aargauische Kantonalbank Eligibility Criteria (as of March 30, 2023)
Lifecycle	<ul style="list-style-type: none">3rd Update SPO as of May 25, 2021 (ICS weblink)
Validity	As long as there is no material change to the Framework

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SCOPE OF WORK

Aargauische Kantonalbank (hereafter ‘the Issuer’ or ‘AKB’) commissioned ISS Corporate Solutions (ICS) to assist with its Green Bonds and Green Term Deposits (Green Termingelder) (hereafter ‘Green Investment products’) by assessing three core elements to determine the sustainability quality of the instruments:

1. Aargauische Kantonalbank’s Green Investment Products Framework (as of March 30, 2023) – benchmarked against the International Capital Market Association’s (ICMA) Green Bond Principles (GBP).
2. The Eligibility Criteria – whether the project categories contribute positively to the UN SDGs and how they perform against proprietary issuance-specific key performance indicators (KPIs) (See Annex 1).
3. The transaction(s) link to Aargauische Kantonalbank’s overall ESG profile - drawing on the issuance-specific Use of Proceeds categories.

AARGAUISCHE KANTONALBANK

Aargauische Kantonalbank provides banking services for private individuals, companies and communities. It comprises five divisions: corporate governance, private clients & private banking, corporate clients & institutional banking, client solutions and loans, finance & BI. The company is founded in 1854 and is headquartered in Aarau, Switzerland.

It is classified in the Public and Regional Banks industry, as per ISS ESG’s sector classification.

ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ¹
Part 1: Alignment with GBP	<p>The Issuer has defined a formal concept for its Green Investment products 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.</p> <p>*The project categories identified by AKB are aligned with the Principles, except for Refurbishment/Renovation - Optimization of building services engineering ('Installation of new climate-friendly heating systems based on wood-based biomass, district heating'), which are assessed as providing no clear environmental and/or social benefits according to our methodology. (Part 2 of this report).</p>	Aligned with exceptions*
Part 2: Sustainability quality of the Eligibility Criteria	<p>The Green Investment products will (re-)finance eligible asset categories which include existing and future AKB Green mortgages.</p> <p>The use of proceeds categories have significant contribution to SDGs 7 'Affordable and clean energy', SDG 11 'Sustainable Cities and Communities' and 13 'Climate action'. Further, the use of proceed categories improve the project categories' operational impacts and mitigate potential negative externalities of the Issuer's use of proceeds categories' sector on SDGs 7 'Affordable and clean energy', SDG 11 'Sustainable Cities and Communities' and SDG 13 'Climate action'.</p> <p>For Refurbishment/Renovation - Optimization of building services engineering (Installation of new climate-friendly heating systems based on wood-based biomass, district heating), there is no evidence of an improvement on AKB's operational impacts and potential negative externalities of the Issuer's sector.</p> <p>The environmental and social risks associated with those use of proceeds categories are well managed.</p>	Positive
Part 3: Linking the transaction (s) to AKB's	<p>The key sustainability objectives and the rationale for issuing Green Investment products are clearly described by the Issuer. The project categories financed are in line with the sustainability objectives of the Issuer.</p>	Consistent

¹ The evaluation is based on the Aargauische Kantonbank's Green Investment products Framework (March 30, 2023), on the analyzed Eligibility Criteria, as received on March 30, 2023, and on the ISS ESG Corporate Rating updated on January 26, 2023 and applicable at the SPO delivery date.

**overall ESG
profile**

At the date of publication of the report, leveraging on ISS ESG Research, the Issuer is not exposed to severe controversies.

SPO ASSESSMENT

PART I: ALIGNMENT WITH GREEN BOND PRINCIPLES

This section evaluates the alignment of the Aargauische Kantonalbank's Green Investment Products Framework (as of March 30, 2023) with the Green Bond Principles.

GREEN BOND PRINCIPLES	ALIGNMENT	OPINION
1. Use of Proceeds	✓	<p>The Use of Proceeds description provided by Aargauische Kantonalbank's Green Investment Products Framework is aligned with the Green Bond Principles.</p> <p>The Issuer's green categories align with the project categories as proposed by the Green Bond Principles, Eligibility criteria are defined in a clear and transparent manner. Disclosure of distribution of proceeds by project category is provided in the annual allocation and impact report and environmental benefits are described. The Issuer defines exclusion criteria on a project basis (e.g.: new buildings cannot have a fossil fuel-based energy source).</p>
2. Process for Project Evaluation and Selection	✓	<p>The Process for Project Evaluation and Selection description provided by Aargauische Kantonalbank's Green Investment Products Framework is aligned with the Green Bond Principles.</p> <p>The project selection process is defined. Moreover, the projects selected show alignment with the sustainability strategy of the Issuer. Processes by which the Issuer identifies and manages social and environmental risks associated with the relevant project categories are described and are only carried out at legal level.</p> <p>The Issuer involves various stakeholders in this process, in line with best market practice.</p>
3. Management of Proceeds	✓	<p>The Management of Proceeds proposed by Aargauische Kantonalbank's Green Investment Products Framework is aligned with the Green Bond Principles.</p> <p>The net proceeds collected are equal to the amount allocated to eligible projects, with no exceptions. The net proceeds are tracked in an appropriate manner and attested in a formal internal process. The Green Bonds and</p>

		<p>the Green deposits are not project bonds. An allocation of the Green Bonds and the Green Deposits to one or more specific projects is therefore not applicable. In order to ensure that 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. Moreover, the Issuer discloses the temporary investment instruments for unallocated proceeds and the criteria of temporary investments, in line with best market practice.</p>
<p>4. Reporting</p>	<p>✓</p>	<p>The allocation and impact reporting proposed by Aargauische Kantonalbank's Green Investment Products Framework is aligned with the Green Bond Principles.</p> <p>The Issuer commits to disclose the allocation of proceeds and environmental impact transparently and to report in an appropriate frequency. The annual reporting is publicly available on the Issuer's website². Aargauische Kantonalbank explains the level of expected reporting and the type of information reported. Moreover, the Issuer commits to report annually during the term of the Green Bonds or Green Deposit (i.e., until at least final maturity). The annual report is established at an aggregate level. The Bank displays proceeds allocation at project category level.</p> <p>Further, the Issuer commits to external independent verification of the Allocation and Impact report, in line with best market practices.</p>

² AKB Impact Reporting Green Bond 2021, <https://www.akb.ch/documents/30573/33099/akb-green-bond-impact-reporting-2021-en.pdf/9963fdd9-3748-41b5-0121-a97eb43eabf9?version=1.0&t=1651399786564>

PART II: SUSTAINABILITY QUALITY OF THE ISSUANCE

A. CONTRIBUTION OF THE GREEN INVESTMENT PRODUCTS TO THE UN SDGs³

Financial institutions can contribute to the achievement of the SDGs by providing specific services/products which help address global sustainability challenges, and by being responsible actors, working to minimize negative externalities in their financing along the entire value chain. The aim of this section is to assess the SDG impact of the Issuer's UoP categories in two different ways, depending on whether the proceeds are used to (re)finance:

- specific products/services,
- improvements of operational performance.


1. Products and services

The assessment of UoP categories for (re)financing products and services is based on a variety of internal and external sources, such as the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of an Issuer's products or services on the UN SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate Delegated Acts, the ICMA Green and/or Social Bond Principles and other regional taxonomies, standards and sustainability criteria).

The assessment of UoP categories for (re)financing specific products and services is displayed on 5-point scale (see Annex 1 for methodology):

Significant Obstruction	Limited Obstruction	No Net Impact	Limited Contribution	Significant Contribution
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Each of the Green Investment Products' Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:




USE OF PROCEEDS ⁴ (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p>Construction of New Buildings (built after December 31, 2020) (AKB scoring 5 points)⁵</p> <p><i>Residential and Non-Residential Buildings belonging to the top 15% of the Swiss building stock in terms of primary energy demand⁶</i></p>	<p>Limited Contribution</p>	

³ The impact of the UoP categories on UN Social Development Goals is assessed with proprietary methodology and may therefore differ from the Issuer's description in the Framework.

⁴ AKB Green Mortgages categories include New Buildings, Renovation/ individual measures, and climate-friendly objects. A property in category 1 'owner-occupied home' is considered to be climate-friendly (energy-efficient) if a total score of 4 or more is achieved. A property in categories 2 'residential properties' and 3 'business/ commercial properties' is considered to be climate-friendly (energy-efficient) if a total score of 5 or more is achieved.

⁵ In general, the first occupancy of the defined property categories falls under this category (especially condominiums). Excluded if energy source with fossil fuel (oil/gas). Excluded if the requirements for electric charging infrastructure are not met (cf. award criterion "Electric (charging) infrastructure").

⁶ This assessment is based on an internal study conducted by IAZI AG.

<p>Green Buildings Certified (AKB scoring 5 points)</p> <p>Minergie⁷</p> <ul style="list-style-type: none"> Minergie Minergie-P Minergie-A Minergie ECO 	<p>Limited Contribution</p>	
<p>Green Buildings Certified (AKB scoring 5 points)</p> <p>GEAK⁸</p> <ul style="list-style-type: none"> For new buildings of at least class B For existing buildings of at least class C 		<p>Limited Contribution</p>
<p>Green Buildings Certified (AKB scoring 5 points)</p> <p>SNBS</p>	<p>Significant Contribution</p>	
<p>Refurbishment/Renovation - Optimization of building services engineering (AKB scoring 1 point)</p> <ul style="list-style-type: none"> Installation of intelligent heat regulation systems (various types of smart thermostats) as well as sensor technology such as⁹ lighting control via motion detectors (in each case for domestic use). Installation of a Building Energy Management System 		<p>Significant Contribution</p>
<p>Refurbishment/Renovation - Renewable energy sources (AKB scoring 1 point)</p> <ul style="list-style-type: none"> Installation of photovoltaic systems Installation of panels for the preparation of hot water Wind turbine installation 	<p>Significant Contribution</p>	

⁷ This assessment is based on the Minergie study retrievable at <https://www.minergie.ch/de/standards/modernisierung/systemerneuerung/>

⁸ This assessment is based on the GEAK study retrievable at <https://www.geak.ch/>. The study evidence that buildings are within the top 15% in terms of primary energy demand.

⁹ The review is limited to the examples of projects spelled out in the Framework.

Refurbishment/Renovation - Renewable energy sources

(AKB scoring 1 point)

- *Installation of heat-generating solar collectors/façades*

Significant Contribution



Refurbishment/Renovation - Electric charging infrastructure for electro-mobility

(AKB scoring 1 point)

- *The dimensioning of the connection lines must allow electrification for 25% of the parking spaces (= expansion stage B "power to building" according to SIA 2060)¹⁰*
- *Installation of a fast-charging station ("electricity filling station") for the entire building¹¹*
- *Installation of at least one electric charging infrastructure¹²*

Significant Contribution



Limited Contribution



¹⁰ This category refers to new buildings and renovations of the following infrastructures: apartment house, residential and commercial properties (residential or commercial predominantly), business property, shopping centre and specialist market

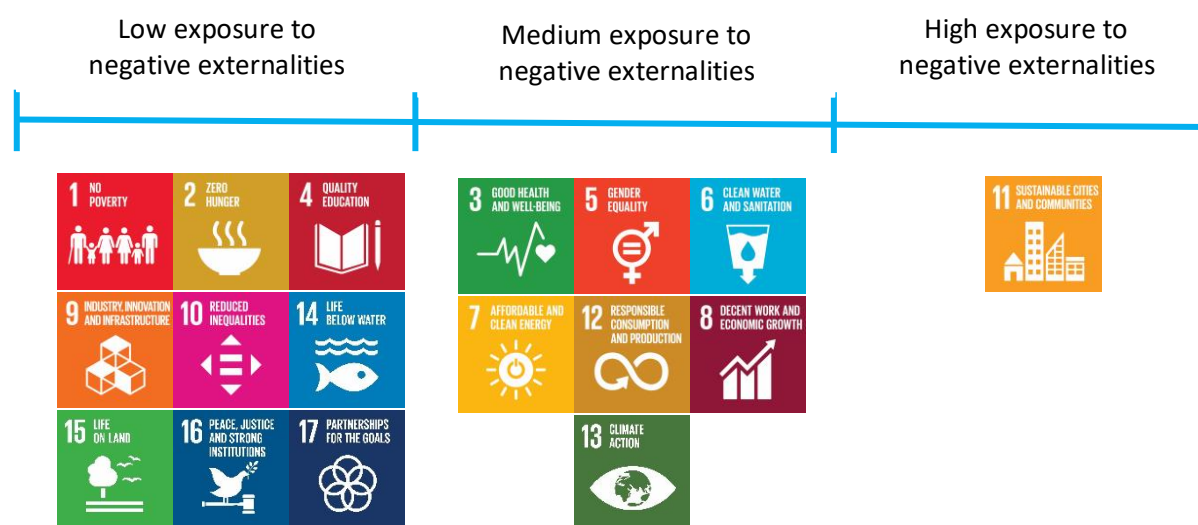
¹¹ This category refers to new buildings and renovations of the following infrastructures: apartment house, residential and commercial properties (residential or commercial predominantly), business property, shopping centre and specialist market.

¹² This category refers to renovation only of all other property types included owner-occupied home. For new buildings, there is no specification for these property types.



2. Improvements of operational performance (processes)

The below assessment aims at qualifying the direction of change (or “operational impact improvement”) resulting from the operational performance projects (re)financed by the UoP categories, as well as related UN SDGs impacted. The assessment displays how the UoP categories are mitigating the exposure to the negative externalities relevant to the business model and the sector of the Issuer.

Aargauische Kantonalbank finances operations/processes in the Real Estate sector. According to ISS ESG SDG Impact Rating methodology, potential impacts on the SDGs related to negative operational externalities¹³ in the Real Estate industry are the following:



The table below aims at displaying the direction of change resulting from the operational performance improvement projects. The outcome displayed does not correspond to an absolute or net assessment of the operational performance.

USE OF PROCEEDS (PROCESSES)	OPERATIONAL IMPACT IMPROVEMENT ¹⁴	SUSTAINABLE DEVELOPMENT GOALS
Refurbishment/Renovation - Optimization of building services engineering (AKB scoring 1 point) <i>Renewal of ventilation, air-conditioning technology¹⁵</i>	✓	 

¹³ Please, note that the impact of the issuer’s products and services resulting from operations and processes is displayed in section 3 of the SPO.

¹⁴ Limited information is available on the scale of the improvement as no threshold is provided. Only the direction of change is displayed.

¹⁵ Excluded if energy source with fossil fuel (oil / gas)

Refurbishment/Renovation - Optimization of building services engineering

(AKB scoring 1 point)

- *Renewal of hot water preparation¹⁶*
- *Installation of low-flow (low-pressure) water pipes in kitchens and sanitary facilities*

✓



Refurbishment/Renovation - Optimization of Insulation / outer shell

(AKB scoring 1 point)

Reinforcement or extension of insulation of façade, exterior wall, roof, cellar or building ground

✓



Refurbishment/Renovation - Renewal energy sources

(AKB scoring 5 points)

Installation of new climate-friendly heating systems based on solar energy

✓



Refurbishment/Renovation – Optimization of building services engineering

(AKB scoring 5 points)

Installation of new climate-friendly heating systems based on heat pumps¹⁷

✓



Refurbishment/Renovation - Optimization of building services engineering

(AKB scoring 5 points)

Installation of new climate-friendly heating systems based on wood heating¹⁸

-

Refurbishment/Renovation - Optimization of building services engineering

(AKB scoring 5 points)

Installation of new climate-friendly heating systems based on district heating¹⁹

-

¹⁶ Excluded if energy source with fossil fuel (oil/gas)

¹⁷ This category includes air-to-water heat pumps, brine-water heat pumps, air-air heat pumps, water-water heat pumps

¹⁸ The energy source of climate-friendly heating systems based on wood heating cannot specify if wood-based biomass is certified or not

¹⁹ Energy source of district heating cannot be determined to operate with natural gas, nuclear energy, or heating oil as the main energy source

Refurbishment/Renovation - Optimization of building services engineering
(AKB scoring 5 points)



Installation of a heat or power storage system based on renewable energy²⁰

Refurbishment/Renovation - Window replacement
(AKB scoring 5 points)



Installation of a window replacement

²⁰ Excluded if energy source with fossil fuel (oil / gas)

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

The table below evaluates the Eligibility Criteria against issuance specific KPIs. Eligible assets are and will be located in Switzerland.

ASSESSMENT AGAINST KPIs

ESG guidelines into lending process

AKB has different processes in place to integrate ESG considerations into its lending activities. The focus is on the refinancing of existing and future AKB Green Mortgages. The allocation is subject to the allocation criteria according to the Green Bond Principles. The procedural and organizational assurance of compliance with the award criteria and sufficient documentation is carried out by means of a four-eye principle: the Private Clients & Private Banking division and the Corporate Clients & Institutional Banking division (sales units) carry out the initial review. The Loans & Finance division carries out the subsequent secondary audit and control. The documentation is carried out by means of corresponding evidence in the credit dossier (created per mortgage). Credit Product Management acts in an advisory capacity and is the final escalation level.

In the event of a controversy (e.g., legal dispute) in connection with the issuance of the AKB Green Investment products and the implementation of the Green Bond Principles, Aargauische Kantonalbank will make this transparent as part of the annual reporting, provided it is both a systemic and a substantial incident²¹ involving the majority of the asset pool. No information on ESG due diligence has been disclosed by AKB.

Health and safety



All assets are or will be located in Switzerland where policies and measures in place systematically ensuring that assets financed under this framework provide for high health and safety standards for own employees and volunteers. Switzerland is a signatory partner of the eight ILO core labor conventions, thus entering an obligation under international law to transpose the ILO standards into national law.²²

Labour standards



All assets are or will be located in Switzerland where policies and measures in place systematically ensuring that assets financed under this framework provide for high labor standards for own employees and volunteers. In Switzerland, the Labor Act forms the basis of employee protection. In the Federal Act of March 13, 1964²³ the working hours and rest periods as well as health protection are regulated by law.

²¹ A significant incident would be, for example, if an award criterion did not comply with the GBP.

²² ILO Core Conventions, <https://www.humanrights.ch/de/ipf/grundlagen/rechtsquellen-instrumente/uno/ilo-konventionen/>

²³ Federal Act of March 13, 1964, https://www.ilo.org/ifpdial/information-resources/national-labour-law-profiles/WCMS_158921/lang-en/index.htm

Biodiversity



Policies and measures systematically ensuring that projects financed under this Framework provide for biodiversity protection could not be identified. For any type of eligible project, specific environmental standards apply according to national (federal and regional level) legislation and standards. Eligible assets under this Framework are located in Switzerland, an Equator Principles designated country.²⁴ The Federal Act on the Protection of Nature and Cultural heritage²⁵ is applied across all the cantons and ensures the protection of the Swiss Confederation's heritage landscapes and sites, the promotion of the conservation of biological diversity and conservation of indigenous flora and fauna among others. However, it is noted that the Issuer does not conduct a verification process to ensure that its borrowers comply with IFC performance standards nor an Environmental Impact Assessment.²⁶

Community dialogue



Policies and measures systematically ensuring that projects financed under this Framework featuring community dialogue as an integral part of the planning process could not be identified. The Green Investment Products Framework relies on the building and use regulations (BNO) which comprises the communal spatial planning, environmental and building law, and regulated the construction of buildings and facilities, their use, and the protection of the soil. The BNO applies to the entire communal territory. Accordingly, a building permit must be obtained from the relevant municipality for a community dialogue to take place.

Eligible assets under this Framework are located in Switzerland, an Equator Principles designated country.²⁷ However, it is noted, that the Issuer does not conduct a verification process to ensure that its borrowers comply with IFC performance standards.²⁸

Data protection and information security



AKB has a publicly available data protection policy to handle data responsibility and relies on the Swiss Data Protection Act (DSG) and the European General Data Protection Regulation (GDPR). The technical and organizational measures used include authentication and encryption technologies and firewalls, antivirus protection, physical and technical access restrictions, data leakage prevention and

²⁴ Equator Principles Designated Country, <https://equator-principles.com/about-the-equator-principles/>

²⁵ Federal Act on the Protection of Nature and Cultural Heritage, https://www.fedlex.admin.ch/eli/cc/1966/1637_1694_1679/en

²⁶ International Finance Corporation Performance Standards, https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards

²⁷ Equator Principles Designated Country, <https://equator-principles.com/about-the-equator-principles/>

²⁸ International Finance Corporation Performance Standards, https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards

training, and raising awareness among employees and service providers. AKB processes and stores clients' personal data for as long as is necessary to fulfill contractual and legal storage obligations. Once the data are no longer required, they will be deleted from the servers. In connection with the transmission of data in international payment transactions and investments in foreign securities, reference is also made to the corresponding information letter of the Swiss Bankers Association (SBA) of February 2016.

Responsible treatment of customers with debt repayment problems



The Issuer has implemented measures to deal responsibly with clients having debt repayment problems (e.g., debt counselling, foreclosure as a last resort). These measures comply with the guidelines of the Swiss Bankers Association (SBA), which oblige to run examination, evaluation and processing of loans secured for all mortgages to prevent client debt repayment problems (e.g., data collection on client indebtedness, long-term fixed interest rates) and set out the requirements for the creditworthiness and affordability of a borrower.

For all mortgages, the creditor excludes the selling of contractually serviced loans or has implemented measures to ensure clients do not face unfavorable conditions as a result of the sale (e.g., required customer consent in case of sale, written confirmation of non-detrimental conditions). General Mortgage and Credit Conditions (AHKB) are an integral part of all of the Bank's loan agreements and are transparently supplied with every new loan agreement.

Sales practices



The Issuer has a control system in place that is applied for its distribution activities and sales network. This is based on random checks and quality assurance measures, aiming to guaranteeing a proper conduct and compliance with the operational limits set and the general rules, and conducting internal audits on the activities to identify potential operational or reputational risks and prevent malpractices. Repetitive training sequences are carried out as well to ensure the quality of mortgage origination.

Responsible marketing



The Issuer is committed to being transparent in its marketing activities. It has guidelines in place on clear and correct pricing (the AKB Green Mortgage is offered with an interest rate reduction compared to the "normal" fixed-rate mortgages), and the provision of complete and understandable information. Sales personnel carry out screening checks, supported by an audit and control process from the Loans and Finance Division. The Credit Product Management acts in an advisory capacity and is the final evaluation authority. The fee regulations apply equally for all mortgage products.

Exclusion criteria

The Issuer has a systemic policy for exclusion in place. The assessment is run both at project category level and at singular measure. This is based on the code of conduct for the due diligence of Banks (CDB) and the Anti-Money Laundering Act (AMLA). The Issuer policies excludes non-heated or cooled properties (not thermo-controllable). The Issuer defines exclusion criteria on a project basis (e.g.: new buildings cannot have a fossil fuel-based energy source). Moreover, the Bank applies exclusion criteria which are reviewed at least annually to reflect current developments and can be viewed on the AKBs website²⁹. The Bank orients itself to the exclusion criteria of the IFC (International Finance Corporation of the World Bank).³⁰

²⁹ AKB Sustainable Lending, <https://www.akb.ch/firmen/finanzieren/nachhaltige-kreditvergabe>

³⁰ AKB Sustainability Report 2021, <https://www.akb.ch/documents/30573/9232872/nachhaltigkeitsbericht-2021.pdf>

PART III: LINKING THE TRANSACTION(S) TO AARGAUISCHE KANTONALBANK'S ESG PROFILE

A. CONSISTENCY OF GREEN INVESTMENT PRODUCTS WITH AARGAUISCHE KANTONALBANK'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the Issuer

AKB relies on sustainable growth based on working models, sustainable projects and sponsorships, dialogue with their stakeholders, sustainable communication and development-focused management. Within their own premises AKB has set the goal to saving energy, optimize consumption and reduce CO₂ emissions. AKB applies the environmental management system ISO 14001:2015 in its own operations and has been certified since 2022. AKB's short-term goal for 2024 is to be considered the most sustainable financial services provider in their area of the market. In order to make this process transparent, since 2007 AKB yearly publishes a sustainability report.

The Bank also is a member of "Öbu" – the Swiss Association for Ecologically Conscious Corporate Management, a signatory of the global investor initiative UNPRI (United Nations Principles for Responsible investment), and a member of the Swiss industry association Swiss Sustainable Finance.

AKB issued their second Green Bond in November 2021 and are planning on expanding. Furthermore, AKB reports on trying to increase the share of their Green Mortgage model. The Bank has been climate-neutral in its own operations since 2013. AKB offsets the unavoidable CO₂ emissions by purchasing Swiss Charter Units (SCU). In the 2021 financial year, this amounted to 690 tonnes of CO₂ equivalents.

To achieve a sustainable corporate governance AKB set up three entities.

- a. The Bank Council is responsible for the ultimate direction and supervision of the management. This includes oversight of AKB's strategic direction, including with regard to sustainability. The Bank Council is represented on the Sustainability Committee by the Chairman of the Audit and Risk Committee. Executive Board
- b. The Executive Board is responsible for the operational business of the Bank and thus for the implementation of sustainability in the individual departments. The Executive Board is represented on the Sustainability Board by four members.
- c. The Sustainability Board drives the development of sustainability at AKB in line with the overall bank strategy 2021-2024. This includes the selection of priority fields of action, the preparation of preparatory decisions for the Executive Board and the consideration of trends and developments.

AKB publishes in conformity with the systematic structure of the Global Reporting Initiative (GRI) annual reports since 2007. The GRI is an international standard for sustainability reporting which discloses on key management initiatives, measures and performance indicators.

In line with its environmental commitments, as of year-end 2021, AKB extended loans for CHF 143,7 million in green building, renewable energy and energy efficiency. 93 % of that amount was allocated to new green buildings and 7 % to the sustainable renovation of buildings.

Rationale for issuance

The purpose of issuing green Bonds and Green Deposits 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 of 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 AKB's conviction to position sustainability in its core business and to further expand it in the future. This Green Investment Product Framework forms the basis for future Green Investment product issuances.

Opinion: *The key sustainability objectives and the rationale for issuing Green Investment Products are clearly described by the Issuer. The project categories financed are in line with the sustainability objectives of the Issuer.*

B. AARGAUISCHE KANTONALBANK'S BUSINESS EXPOSURE TO ESG RISKS

This section aims to provide an overall level of information on the ESG risks to which the Issuer is exposed through its business activities, providing additional context to the issuance assessed in the present report.

ESG risks associated with the Issuer's industry

The Issuer is classified in the Public and Regional Banks industry, as per ISS ESG's sector classification. Key challenges faced by companies in terms of sustainability management in this industry are displayed in the table below. Please note, that this is not an issuer-specific assessment but areas that are of particular relevance in the Issuer's industry.

ESG KEY ISSUES IN THE INDUSTRY
Business ethics
Labour standards and working conditions
Sustainability impacts of lending and other financial services/ products
Customer and product responsibility
Sustainable investment criteria

ESG performance of the Issuer

Leveraging ISS ESG's Corporate Rating research, further information about the Issuer's ESG performance can be found on ISS ESG Gateway at: <https://www.issgovernance.com/esg/iss-esg-gateway/>.

Please note that the consistency between the issuance subject to this report and the Issuer's sustainability strategy is further detailed in Part III.A of the report.

Sustainability impact of products and services portfolio

Leveraging ISS ESG's Sustainability Solutions Assessment methodology, the contribution of the Issuer's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs) has been assessed as per the table below. This analysis is limited to the evaluation of final product characteristics and does not include practices along the Issuer's production process.

ISS ESG determined that, based on the information provided by the company, its overall business model has no net impact (contribution and/or obstruction) to the UN SDGs³¹.

³¹ This analysis is limited to the evaluation of final product characteristics and does not include practices along AKB's processes.

Breaches of international norms and ESG controversies

At Issuer level

At the date of publication and leveraging ISS ESG Research, no controversy in which the Issuer would be involved has been identified.

At industry level

Based on a review of controversies over a 2-year period, the top three issues that have been reported against companies within the Bank industry are as follows: Failure to prevent money laundering, failure to mitigate climate change impacts and failure to prevent deforestation/illegal logging.

Please note, that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

DISCLAIMER

1. Validity of the Second Party Opinion (“SPO”): Valid as long as the cited Framework remains unchanged.
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ANNEX 1: Methodology

Green and Social KPIs

The Green and Social KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of Aargauische Kantonalbank 's Green Investment products.

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

The Environmental and social risks assessment evaluates whether the assets included in the asset pool match the eligible project 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 or that the information provided did not fulfil the requirements of the Green Bond KPIs.

The evaluation was carried out using information and documents provided on a confidential basis by Aargauische Kantonalbank (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, the extent to which Aargauische Kantonalbank 's Green Investment products contribute to related SDGs has been identified.

ANNEX 2: ISS ESG Corporate Rating Methodology

ISS ESG Corporate Rating provides relevant and forward-looking environmental, social, and governance (ESG) data and performance assessments. For more information, please visit:

<https://www.issgovernance.com/file/publications/methodology/Corporate-Rating-Methodology.pdf>

ANNEX 3: Quality management processes

SCOPE

Aargauische Kantonalbank commissioned ICS to compile a Green Investment Products Framework SPO. The Second Party Opinion process includes verifying whether the Green Investment Products Framework aligns with the Green Bond Principles and to assess the sustainability credentials of its Green Investment products, as well as the Issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- Green Bond Principles, as administered by ICMA
- Key Performance Indicators relevant for Use of Proceeds categories selected by the Issuer

ISSUER'S RESPONSIBILITY

Aargauische Kantonalbank's responsibility was to provide information and documentation on:

- Framework
- Eligibility criteria
- Documentation of ESG risks management at Framework level

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.

This independent Second Party Opinion of the Green Investment products to be issued by Aargauische Kantonalbank has been conducted based on a proprietary methodology and in line with the ICMA Green Bond Principles.

The engagement with Aargauische Kantonalbank took place in from January to April 2023.

ISS' 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 behavior 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 this 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.

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/>

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