



SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Green Bond Framework

City of Zurich
6 June 2023

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none">Green Bonds
Relevant standards	<ul style="list-style-type: none">Green Bond Principles, as administered by the ICMA (as of June 2021 with June 2022 Appendix 1)
Scope of verification	<ul style="list-style-type: none">City of Zurich Green Bond Framework (as of June 5, 2023)City of Zurich Eligibility Criteria (as of June 5, 2023)
Lifecycle	<ul style="list-style-type: none">Pre-issuance verification
Validity	<ul style="list-style-type: none">As long as there is no material change to the Framework

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SCOPE OF WORK

City of Zurich (“the Issuer”) commissioned ISS Corporate Solutions (ICS) to assist with its Green Bond Framework by assessing three core elements to determine the sustainability quality of the instruments:

1. City of Zurich’s Green Bond Framework (as of June 5, 2023) – benchmarked against the International Capital Market Association's (ICMA) Green Bond Principles, as administered by the ICMA (as of June 2021 with June 2022 Appendix 1)
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. Linking the transaction to City of Zurich’s overall ESG profile – drawing on the issuance-specific Use of Proceeds categories.

ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ¹
Part 1: Alignment with GBP	The Issuer has defined a formal concept for its Green Bonds 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.	Aligned
Part 2: Sustainability quality of the Eligibility criteria	<p>The Green Bonds will (re-)finance eligible asset categories which include Environmentally Friendly Construction Projects for New Buildings and Repairs, and Climate Protection Measures.</p> <p>Environmentally Friendly Construction Projects for New Buildings and Repairs use of proceeds categories have a limited contribution to SDGs 7 'Affordable and clean energy', 11 'Sustainable cities and communities' and 13 'Climate action'.</p> <p>Climate Action use of proceed categories improve the operational impacts of the City of Zurich's operational impacts and mitigate potential negative externalities of the Real Estate sector on SDG 13 'Climate action'.</p> <p>The environmental and social risks associated with those use of proceeds categories are well managed.</p>	Positive
Part 3: Linking the transaction to City of Zurich's overall ESG profile	<p>The key sustainability objectives and the rationale for issuing Green Bonds are clearly described by the Issuer. All project categories financed are in line with the sustainability objectives of the Issuer.</p> <p>At the date of publication of the report and leveraging ISS ESG Research, the Issuer is exposed to controversy of using nuclear power for its primary energy supply. The Issuer has a strategy to phase out nuclear power in favor of renewables once its existing reactors have reached the end of their lifespan.</p>	Consistent with Issuer's sustainability strategy

¹ The evaluation is based on the City of Zurich's Green Bond Framework (as of June 5, 2023 version) and on the ISS ESG Corporate Rating updated on the January 17, 2023 and applicable at the SPO delivery date.

SPO ASSESSMENT

PART I: ALIGNMENT WITH GREEN BOND PRINCIPLES

This section evaluates the alignment of the City of Zurich's Green Bond Framework (as of June 5, 2023) with the Green Bond Principles, as administered by the ICMA (as of June 2021 with June 2022 Appendix 1).

GREEN BOND PRINCIPLES	ALIGNMENT	OPINION
1. Use of Proceeds	✓	<p>The Use of Proceeds description provided by the City of Zurich's Green Bond Framework is aligned with the Green Bond Principles, as administered by the ICMA (as of June 2021 with June 2022 Appendix 1).</p> <p>The Issuer's green categories align with the project categories as proposed by the Green Bond Principles, as administered by the ICMA. Criteria are defined in a clear and transparent manner and environmental benefits are described. Moreover, the Issuer commits to provide the disclosure of distribution of proceeds by project category in reporting.</p>
2. Process for Project Evaluation and Selection	✓	<p>The Process for Project Evaluation and Selection description provided by City of Zurich's Green Bond Framework is aligned with the Green Bond Principles, as administered by the ICMA.</p> <p>The project selection process is defined and structured in a congruous manner. ESG risks associated with the project categories are identified and managed through an appropriate process. Moreover, the projects selected show alignment with the sustainability strategy of the Issuer.</p> <p>The Issuer involves various stakeholders in this process, in line with best market practices.</p>
3. Management of Proceeds	✓	<p>The Management of Proceeds proposed by City of Zurich's Green Bond Framework is aligned with the Green Bond Principles, as administered by the ICMA.</p> <p>The net proceeds collected will be equal to the amount allocated to eligible projects, with no exceptions. The net proceeds are tracked in an appropriate manner. The net proceeds are managed per bond. The Issuer discloses on the portfolio balance of unallocated proceeds and the nature of temporary investments, in line with best market practice.</p>

4. Reporting	✓	<p>The allocation and impact reporting proposed by City of Zurich's Green Bond Framework is aligned with the Green Bond Principles, as administered by the ICMA.</p> <p>The Issuer commits to disclose the allocation of proceeds transparently. The reporting will be prepared annually and publicly available on the Issuer's website. The City of Zurich explains the level of expected reporting and the type of information that will be reported and commits to get the allocation report reviewed by an external party, in line with best market practices.</p>
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PART II: SUSTAINABILITY QUALITY OF THE ISSUANCE

A. CONTRIBUTION OF THE GREEN BOND TO THE UN SDGs²

‘Sub-sovereigns’ can contribute to the achievement of the SDGs by providing specific services/products which help address global sustainability challenges, and by being responsible public actors, working to minimize negative externalities in their financing. The aim of this section is to assess the SDG impact of the UoP categories financed by the Issuer 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 Bond’s Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p>Environmentally friendly construction projects- new buildings</p> <p>Adherence to standards:</p> <ul style="list-style-type: none"> ▪ Minergie-P ECO ▪ Minergie-A ECO 	Limited Contribution	

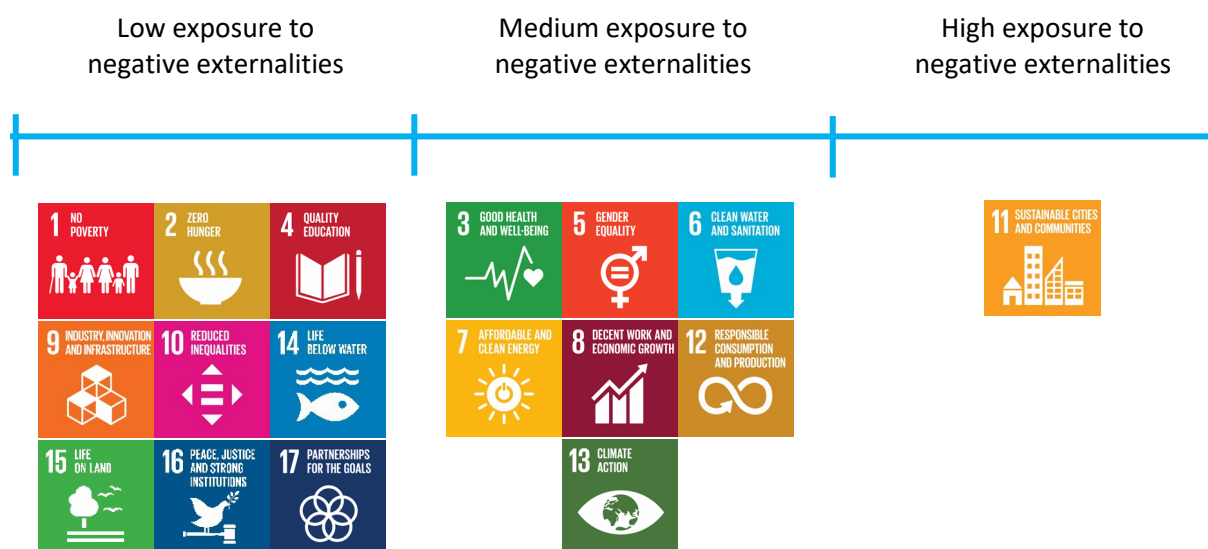
² The impact of the UoP categories on UN Social Development Goals is assessed with proprietary methodology and may therefore differ from the Issuer's description in the framework.

<p>Environmentally friendly construction projects- new buildings</p> <p>Adherence to standards: SIA Energy Efficiency Path (SIA 2040)</p>	<p>Limited Contribution</p>	 
<p>Environmentally friendly construction projects-repairs</p> <p>Adherence to standards Minergie modernization</p>	<p>Limited Contribution</p>	  
<p>Environmentally friendly construction projects-repairs</p> <p>Adherence to standards SIA-Effizienzpad Energie (SIA 2040)</p>	<p>Limited Contribution</p>	 


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.

The City of Zurich invests on operational categories related to one specific sector. According to ISS ESG SDG Impact Rating methodology, potential impacts on the SDGs related to negative operational externalities³ in the Real Estate industry (in which the City of Zurich invests) 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 ⁴	SUSTAINABLE DEVELOPMENT GOALS
<p>Climate action</p> <p>Contribution to net-zero climate protection target: e.g.</p> <ul style="list-style-type: none"> fund programmes 	✓ ⁵	

⁵ The Issuer states that the eligible projects under this project category shall provide documents clearly stating the projects will lead to GHG reduction, which is subject to approval by the parliament or the voters. Moreover, a public final report will be provided at completion to describe the impact on GHG reduction.

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- measures to improve energy efficiency
- decarbonization

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

Green Bonds

The table below evaluates the Eligibility criteria against issuance-specific KPIs. All of the assets are or will be located in Zurich, Switzerland.

ASSESSMENT AGAINST KPIs

All Categories

Labour, health and safety

- ✓ As all assets or projects (re)financed are or will be located in Switzerland, where high labour, health and safety standards are ensured by the relevant national legislation.

User safety

- ✓ User safety of the assets or projects (re)financed is covered via legislation and mandatory in Switzerland. The legal basis for fire protection implementation for buildings in Switzerland are complied with the Swiss VKF fire protection regulations⁶.

Green Buildings

Environmental aspects of construction (or production) and operation

- ✓ The Issuer ensures sustainable procurement takes place for building materials through Minergie-ECO certification, as well as selecting building materials in accordance with ECO-BKP⁷ for all new buildings and repairs. In addition, KBOB life cycle assessment is required in order to achieve Minergie-ECO, taking into account renewable building materials, recycled or reused materials. The Issuer states that quality assurance is required to be carried out accordingly. Moreover, all municipal projects are monitored through all phases by the Environmental Construction Unit of the Office of Structural Engineering, and the achievement of targets is regularly reviewed.

Conservation and Biodiversity Management

⁶ Refer to <https://www.bsvonline.ch/de>

⁷ Refer to www.eco-bau.ch

- The Issuer states that new construction is not permitted in protected zones⁸ and there is no greenfield development in the city area. Moreover, the legal framework applicable in Switzerland guarantees that buildings do not pose a risk of significant ecological damage.
- ✓ In addition, buildings in nature reserves are prohibited or only permitted if there is an overriding public interest⁸. Assets (re)financed under this Framework are and will be located in the City of Zurich, Switzerland exclusively, an Equator Principles Designated country, which by definition apply some rules on biodiversity for project financing.

Site location

- ✓ The City of Zurich is mainly categorized to be public transport quality class A or B according to the Federal Office for Spatial Development ARE^{9, 10}. Class A or B indicate that stops are within 750 m of each other and have short service intervals. The Issuer confirms that all buildings to be financed will be at least one bus stop within 1km, otherwise the project will not qualify for a green bond.

Water use minimization in buildings

- ✓ The Issuer confirms the relevant ratings in Minergie certification is achieved by implementing water-saving fittings¹¹. Moreover, it is part of the building services engineering guideline for KBOB¹² that efficient sanitary equipment and fitting must be checked and used wherever possible and the maximum water requirement for urinal must be met.

⁸ E.g., die Bundesversammlung der Schweizerischen Eidgenossenschaft, Bundesgesetz über den Umweltschutz (Umweltschutzgesetz, USG) https://fedlex.data.admin.ch/filestore/fedlex.data.admin.ch/eli/cc/1984/1122_1122_1122/20220101/de/pdf-a/fedlex-data-admin-ch-eli-cc-1984-1122_1122_1122-20220101-de-pdf-a-8.pdf and Bundesgesetz über die Raumplanung, https://fedlex.data.admin.ch/filestore/fedlex.data.admin.ch/eli/cc/1979/1573_1573_1573/20190101/de/pdf-a/fedlex-data-admin-ch-eli-cc-1979-1573_1573_1573-20190101-de-pdf-a-1.pdf

⁹ GIS borrower for public transport quality classes

<https://maps.zh.ch/?offlayers=bezirkslabels&scale=358119&srid=2056&topic=OevGueteklassenZH&x=2692500&y=1252500>

¹⁰ https://maps.zh.ch/system/docs/afv/KTZH_AfV_OeV_Gueteklassen_2_1_2020_08_25.pdf

¹¹ Requirement new Buildings, Hot water Minimized energy and water consumption, https://www.minergie.ch/media/rz_min_102_2021-03-21_flyer_baustandard_minergie_en_2022_03_web_1.pdf

¹² KBOB Recommendation for building technology

https://www.kbob.admin.ch/dam/kbob/de/dokumente/Publikationen/gebaeudetechnik/KBOB_Empfehlung_Geb%C3%A4udetechnik_Endfassung_2020_d.pdf.download.pdf/KBOB_Empfehlung_Geb%C3%A4udetechnik_Endfassung_2020_d.pdf

PART III: LINKING THE TRANSACTION TO CITY OF ZURICH'S ESG PROFILE

A. CONSISTENCY OF GREEN BOND FRAMEWORK WITH CITY OF ZURICH'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the Issuer

In 2021, Switzerland submitted its updated Nationally Determined Contribution (NDC) Framework Convention on Climate Change. Under the NDC¹³, Switzerland has committed to at least minus 50% of greenhouse gas emission by 2030 compared to 1990 levels and to net zero emissions by 2050. This target lays the foundations for Switzerland's 2050 climate strategy, which was transmitted to the UNFCCC Secretariat on 28 January 2021. Moreover, City of Zurich aims to reduce its greenhouse gas emissions to net zero by 2040.

City of Zurich has set four long-term goals in its environmental strategy¹⁴ which are:

- (i) Climate neutral city: Direct greenhouse gas emissions are to be reduced to net zero by 2040. The city also defines a target for indirect greenhouse gas emissions per inhabitant. These are to be reduced by 30 % by 2040 compared to 1990.
- (ii) Healthy urban environment: City of Zurich sets high environmental qualities, including protection from sound and noise, temperature, light, and radiation, besides a high quality of air, through the Heat Mitigation Plan (2021), the Noise Protection Strategy (2020), the Air Pollution Control Action Plan (2020) and the Urban Trees Plan (2022).
- (iii) Networked urban nature: Zurich complements urbanity with a variety of interconnected ecologically valuable habitats. The Green Book (2019) shows how the green and open spaces of the city of Zurich are to develop in the future and sets out the goals and measures of the green City of Zurich up to 2030. And the Concept of Species and Habitat Promotion points out concrete goals and measures on how this can be achieved in the City of Zurich.
- (iv) Intelligent use of resources: The city is committed to the circular economy. It promotes careful and ever more efficient use of energy, water, soil, and natural raw materials along the entire value chain through sustainable procurement guidelines.

The City of Zurich has set both short-term and long-term targets for reducing emissions. They aim to achieve decarbonization by aiming to convert all of their municipal buildings to fossil-free heat supply by 2035. The urban housing estates will be converted to renewable heat. With the conversion to renewable heat sources by 2030, a reduction in direct CO₂ emissions from the combustion of natural gas and heating oil at the building site will be achieved from today's 8,300 tonnes to zero in 2030.

¹³ Swiss NDC 2021-2030 https://unfccc.int/sites/default/files/NDC/2022-11/Swiss%20NDC%202021-2030%20incl%20ICTU_0.pdf

¹⁴ Environmental Strategy <https://stadt-zuerich.ch/environmental-strategy>

Switzerland is a signatory of the Paris Agreement. The city council of the City of Zurich has identified key challenges in eight different areas and offers possible solutions in the Zurich Strategies 2035¹⁵. Moreover, the City of Zurich is a member of the Swiss Cities Association (Schweizerischer Städteverband, SSV¹⁶). It ensures that key strategic decisions in the area of climate and energy policy are taken at a federal level with the involvement of the cantons. Together with the goal of a "2000-watt society¹⁷," the voters anchored the principle of sustainability in the municipal code in November 2008 by a three-quarters majority. With the "2030 Agenda for Sustainable Development¹⁸", a globally applicable framework has been in place since 2016 to which Switzerland is also committed. The Issuer commits to report annually on the Allocation and Impact of the Green Bond(s) in line with the ICMA requirements.

Switzerland issued its first Confederation green bond in October 2022, raising CHF766 million. The eligible green expenditure in the adopted framework includes clean transportation, agriculture, forestry, natural landscapes, and biodiversity, green buildings and energy efficiency, renewable energy, international cooperation, as well as research, innovation, and awareness raising.

Rationale for issuance

The City of Zurich's rationale for issuing Green Bonds is to achieve climate neutrality by 2040. By 2050, the share of non-profit apartments in Zurich is expected to be on third of rental apartments. The Issuer will continue to play a major role in non-profit housing to adapt to population growth, while it is necessary to renew the building stock in order to achieve the net-zero targets.

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

¹⁵ Zurich Strategies 2035 https://www.stadt-zuerich.ch/content/dam/stzh/portal/English/politics_and_law/Documents/Strategies%20Zurich%202035_EN.pdf

¹⁶ Schweizerischer Staedteverband, SSV, <https://staedteverband.ch/de>

¹⁷ Stadt Zürich, 2000-Watt-Gesellschaft, https://www.stadt-zuerich.ch/gud/de/index/umwelt_energie/2000-watt-gesellschaft.html

¹⁸ Schweizerische Eidgenossenschaft, Agenda für nachhaltige Entwicklung, <https://www.eda.admin.ch/agenda2030/de/home.html>

B. SWITZERLAND'S EXPOSURE TO ESG RISKS

This section aims to provide macro-country level ESG risks and offers additional context to the issuance assessed in the present report. It leverages ISS ESG Country Rating methodology as well as relevant external sources such as United Nations Development Programme, Transparency International and Institute for Economics & Peace.

Issuer overview

Switzerland is located in Western Europe. The Issuer is a confederation with strong regional subjects, the cantons. It is classified as a high-income country by the World Bank. The Issuer has an estimated population of 8.39 million inhabitants as of 2020, with 73.849% of its population living in urban areas, and a level of greenhouse gas emissions per capita of 4.90 as of 2020, which have decreased in recent years.

Additional information relating to the Issuer, based on international indices:

INDEX	RANK, AS OF DATE
Human Development Index ¹⁹	1, in 2021
Corruption Perception Index ²⁰	3, in 2022
Global Peace Index ²¹	11, in 2022

ESG risks associated with the Issuer and sovereign Issuers

Leveraging ISS ESG's Country Rating methodology, key challenges faced by sovereign Issuers have been identified in terms of sustainability management as displayed in the table below. Please note, this is not an Issuer-specific assessment.

ESG KEY ISSUES FOR SOVEREIGN ISSUERS	
Political system and governance	Product and consumption
Human Rights and fundamental freedoms	Natural resources
Social rating	Environmental Rating
Social Conditions	Climate Change and Energy

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.

¹⁹ Source : <https://hdr.undp.org/en/countries/profiles/FRA>

²⁰ Source : <https://www.transparency.org/en/cpi/2020/index/che>

²¹ Source : <https://www.visionofhumanity.org/maps/#/>

Exposure of the Issuer's country to controversial areas

At the date of publication, the country of Issuer is exposed to the following areas which may be considered controversial by investors:

SOVEREIGN CONTROVERSIAL AREAS	DESCRIPTION
Nuclear power	Approximately 27% of total primary energy supply, has a strategy to phase out nuclear power in favor of renewables once its existing reactors have reached the end of their lifespan

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ANNEX 1: Methodology

Green KPIs

The Green Bond KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of City of Zurich’s Green Bond.

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 City of Zurich (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 City of Zurich’s Green Bond Framework contributes to related SDGs has been identified.

ANNEX 2: ISS ESG Country Rating Methodology

ISS ESG Country 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/Country-Rating-Methodology.pdf>

ANNEX 3: Quality management processes

SCOPE

City of Zurich commissioned ICS to compile a Green Bond SPO. The Second Party Opinion process includes verifying whether the Green Bond aligns with the Green Bond Principles, as administered by the ICMA (as of June 2021 with June 2022 Appendix 1) and to assess the sustainability credentials of its Green Bond, as well as the Issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- Green Bond Principles, as administered by the ICMA (as of June 2021 with June 2022 Appendix 1)
- Key Performance Indicators relevant for Use of Proceeds categories selected by the Issuer

ISSUER'S RESPONSIBILITY

City of Zurich's responsibility was to provide information and documentation on:

- Framework
- Eligibility criteria
- Documentation of ESG risks management at the 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 Bond Framework to be issued by City of Zurich has been conducted based on a proprietary methodology and in line with the ICMA Green Bond Principles, as administered by the ICMA (as of June 2021 with June 2022 Appendix 1).

The engagement with City of Zurich took place from January to June 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/>

For more information on SPO services, please contact: SPOsales@isscorporatesolutions.com

For more information on this specific Green Bond SPO, please contact: SPOOperations@iss-esg.com

Project team

Project lead	Project support	Project support	Project support	Project supervision
Alice Wong Associate ESG Consultant	Vittoria Favaloro Analyst ESG Consultant	Kushum Mehra Junior Analyst ESG Consultant	Johanna-Charlotte Flemmig Associate Vice President ESG Consultant	Marie-Bénédicte Beaudoin Associate Director Head of ISS ESG SPO Operations