

## SECOND PARTY OPINION (SPO)

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Re-verification of the Sustainability Quality of the Issuer and Green Asset Pool

Kanton Basel-Stadt  
11 December 2020

### VERIFICATION PARAMETERS

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Type(s) of instruments contemplated	<ul style="list-style-type: none"><li>• Green Bond</li></ul>
Relevant standards	<ul style="list-style-type: none"><li>• Green Bond Principles</li></ul>
Scope of verification	<ul style="list-style-type: none"><li>• Kanton Basel-Stadt's Green Bond Framework (as of August 2018)</li><li>• Kanton Basel-Stadt's Green Bond Portfolio (as of 03.11.2020)</li></ul>
Lifecycle	<ul style="list-style-type: none"><li>• Re- verification</li></ul>
Validity	<ul style="list-style-type: none"><li>• For a single issuance after SPO publication. This SPO replaces the SPO dated of 20 September 2018</li></ul>

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## SCOPE OF WORK

Kanton Basel-Stadt commissioned ISS ESG to assist with its Green Bond re-verification by assessing three core elements to determine the sustainability quality of the instrument:

1. Switzerland’s sustainability performance, according to the ISS ESG Country Rating.
2. Kanton Basel-Stadt’s Green Bond Framework (August 2018 version)– benchmarked against the International Capital Market Association's (ICMA) Green Bond Principles (GBPs).
3. The Green Asset Pool– whether the projects contribute positively to the UN SDGs and perform against ISS ESG’s issue-specific key performance indicators (KPIs) (See Annex 2).

## ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION <sup>1</sup>
<b>Part 1:</b>  <b>Issuer sustainability performance</b>	<p>Switzerland, the country of which the issuer is part of, shows a good sustainability performance and has been given a rating of B+ which classifies it as Prime by the methodology of the ISS ESG Country Rating.</p> <p>It is rated 2<sup>nd</sup> out of 121 countries as of 11.12.2020. This equates to a high relative performance, with a Decile Rank<sup>2</sup> of 1.</p>	<p><b>Status:</b> Prime</p> <p><b>Rating:</b> B+</p> <p><b>Decile Rank:</b> 1</p>
<b>Part 2:</b>  <b>Alignment with GBPs</b>	<p>The issuer has defined a formal concept for its Green Bond 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><b>Positive</b></p>
<b>Part 3:</b>  <b>Sustainability quality of the Green Asset Pool</b>	<p>The overall sustainability quality of the Green Asset Pool in terms of sustainability benefits, risk avoidance and minimisation is good based upon the ISS ESG assessment. The Green Bond will (re-)finance eligible asset categories which include Green Buildings.</p> <p>That use of proceed category has a limited contribution to SDG 11 “Sustainable cities and communities”. The environmental and social risks associated with those assets have been well managed.</p>	<p><b>Positive</b></p>

<sup>1</sup> ISS ESG’s evaluation is based on the Kanton Basel-Stadt Green Bond Framework (August 2018 version), on the analysed Green Asset Portfolio as received on the 03.11.2020, and on the ISS ESG Country Rating applicable at the SPO delivery date (updated on the 24.11.2020). ISS ESG underwent a controversy screening of the asset pool on the 26.11.2020.

<sup>2</sup> Rank relative to country group. 1 indicates a high relative ESG performance, while 10 indicates a low relative ESG performance.

## ISS ESG SPO ASSESSMENT

### PART I: ASSESSMENT OF SWITZERLAND'S ESG PERFORMANCE

The ISS ESG Country Rating provides material and forward-looking environmental, social and governance (ESG) data and performance assessments. The overall analysis is graded on a twelve-point scale from A+ (the country shows excellent performance) to D- (the country shows poor performance or fails to demonstrate any commitment to appropriately address the topic). "Prime" status is granted to countries who fulfill demanding performance expectations.

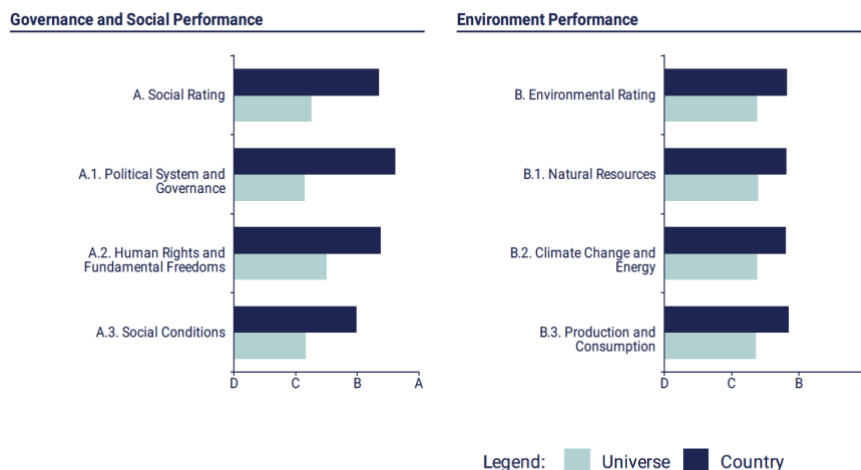
COUNTRY	STATUS	RATING	DECILE RANK
<b>SWITZERLAND</b>	<b>PRIME</b>	<b>B+</b>	<b>1</b>

This means that the country's sustainability performance is good compared to other countries assessed by ISS ESG.

#### ESG performance

As of 11.12.2020, this Rating places Switzerland 2<sup>nd</sup> out of 121 countries rated by ISS ESG.

An ESG performance comparison between Switzerland and the ISS ESG Country Rating Universe is displayed in the chart on the right.



#### Governance Opinion

Switzerland is a confederation with strong regional subjects, the cantons. Elections are always free and fair. National elections were last held in 2019, for the national council, the lower house. The right-wing SVP are currently the largest party in the national council, but the Federal Council, the executive, is typically comprised of the biggest parties in a consensual manner. The political system of Switzerland also features particularly strong direct democracy elements and referendums are a regular occurrence on a variety of topics. Switzerland's political system and institutions are designed for uttermost stability and the confidence in the administration is very high. Corruption is perceived to be very low. Stability is also a feature and reason when it comes to its attractiveness as a destination for illegal financial flows. Switzerland thus is widely considered to be a tax haven, even though its banking secrecy has been under increasing international pressure. Human rights are effectively safeguarded in Switzerland and infringements on these rights are virtually absent.

However, gender equality could not yet be attained in Switzerland and the representation of women in politics or at work is comparatively low. Switzerland pursues a strategy of non-interference in global politics and positions itself as neutral in foreign policy (military spending is very low with 0.7% of GDP in 2018). Yet, the country is integrated to some degree in the European Union as it takes part in the single market.

### *Social Opinion*

Switzerland belongs to the world's richest nations and provides a high standard of living. Although social security systems cover a comprehensive scope of life risks, spending on them is comparatively low. Access to healthcare is high and education is well-above average. Good working conditions and typically high wages as well as strong economic fundamentals provide the frame for a society in which the risk of poverty is relatively low, and income is distributed relatively equal.

### *Environmental Opinion*

Switzerland's energy mix is dominated by nuclear power with 22.7% of total primary energy supply. Switzerland has, however, embarked on a strategy to phase out nuclear in favor of renewables. The level of energy consumption, both measured per economic output and per head, is relatively low. Greenhouse gas emissions are still at an upper-medium level measured per capita, but on a decreasing trend. Natural resources are comparatively well-preserved in Switzerland, although artificial land cover is a growing problem and fish species are threatened. There is no scarcity of water. Industry and agriculture in Switzerland are highly efficient. Pesticide usage is at a high level, but so is organic farming. Like in other industrialized nations, Swiss' consumption patterns are not yet on a sustainable pathway, in particular with respect to waste generated.

### *Sustainability Summary*

Switzerland is a country of uttermost political stability. Institutions are well-designed and functioning. Switzerland is becoming softer on its once rock-solid banking secrecy. Yet, the country still attracts very high sums of illicit financial flows, increasingly isolating Switzerland in the international community. Social cohesion is strong in Switzerland and environmental performance is comparatively high. The high share of nuclear energy requires careful maintenance of the residual waste for generation, but Switzerland has agreed to phase out this type of energy generation.

### *Breaches of international norms and ESG controversies*

Switzerland violates the exclusion criteria Nuclear Power and Euthanasia, screened by ISS ESG.

## PART II: ALIGNMENT WITH THE GREEN BOND PRINCIPLES

### 1. Use of Proceeds

The proceeds of this Green Bond will be used exclusively to finance Green Eligible Projects falling in the Green Buildings category. The buildings are all located in the city of Basel (Switzerland) and consist of administrative assets. Below, the eligibility criteria:

#### Administrative assets

Criteria for newbuilds (at least one of the following energy efficiency and ecological criteria):

- Minergie Minergie®-P/-A/-ECO- Standard or
- SNBS – Standard Gold or
- 2000 Watt-Areal® - Standard or
- Compatibility with "SIA-Effizienzpfad Energie"

Criteria for renovations/refurbishments (at least one of the following energy efficiency and ecological criteria):

- Minergie®/-P/-A/-ECO - Standard refurbishments or
- Reduction of 25% compared to SIA requirements for refurbishments (QH,li / SIA 308/1) or
- GEAK® Plus Label with improvement of at least one category or
- Energy measures such as thermal insulation, climate-friendly heat generation (termic solar systems, heat pumps, regenerative energy sources, heat recovery), PV installations or
- Minergie – Eco Standard for refurbishments or
- Ecological measures such as resource-saving development through the reuse of existing infrastructure (reduction of embodied energy), use of resource-saving construction methods (wood constructions) or use of recycled material (recycled concrete, wood, recycled insulation materials)

**Opinion:** ISS ESG considers the Use of Proceeds description provided by Kanton Basel-Stadt's Green Bond Framework as aligned with the Green Bond Principles. Environmental benefits are appropriately described and quantified.

### 2. Process for Project Evaluation and Selection

The financial administration of the financial department of Kanton Basel-Stadt, in cooperation with Real Estate Basel-Stadt, will review the evaluation and the selection of the green projects according to the criteria listed above. Only eligible projects following Kanton Basel-Stadt's selection criteria will be included in this Green Bond.

**Opinion:** ISS ESG considers the Process for Project Evaluation and Selection as described by Kanton Basel-Stadt's Green Bond Framework as aligned with the Green Bond Principles. Moreover, the projects selected show alignment with the sustainability strategy of the issuer. However, the issuer did not indicate its commitment to transparency in case of controversy or potential ESG risks identified.

### 3. Management of Proceeds

The proceeds of the Bond will exclusively be used to finance green projects. If the volume of proceeds exceeds at any time the number of financing needed for the green projects, the remaining funds shall be held on a purposely designated bank account.

**Opinion:** ISS ESG finds that Management of Proceeds proposed by Kanton Basel-Stadt is partially aligned with the Green Bond Principles, as all the proceeds are to be directly allocated to eligible projects. However, the issuer did not indicate the expected allocated period of the proceeds.

### 4. Reporting

Kanton Basel-Stadt commits to report on the use of proceeds of the Green Bond on its financial administration homepage <https://www.fv.bs.ch/rating.html>

**Opinion:** ISS ESG finds that the reporting proposed by Kanton Basel-Stadt is aligned with the Green Bond Principles. The issuer has published on its website two Green Bond Reporting documents for the years 2018 and 2019, which include allocation and impact reporting. The issuer intends to continue to do so on an annual basis.

### External review

The Kanton of Basel-Stadt has obtained a second party opinion from ISS-ESG to confirm the transparency and reliability of the Green Bond Framework. The Second Party Opinion will be published on Kanton Basel-Stadt's website:

<https://www.fv.bs.ch/rating.html>

## PART III: SUSTAINABILITY QUALITY OF THE ISSUANCE


### A. CONTRIBUTION OF THE GREEN BOND TO THE UN SDGs

Based on the assessment of the sustainability quality of the Green Bond Asset Pool and using a proprietary methodology, ISS ESG assessed the contribution of the Kanton Basel-Stadt's Green Bond to the Sustainable Development Goals defined by the United Nations (UN SDGs).

This assessment is displayed on 5-point scale (see Annex 2 for methodology):



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	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<b>Commercial Green Buildings</b>	<b>Limited contribution</b>	



## B. MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS ASSOCIATED WITH THE GREEN ASSET POOL

### Commercial Green Buildings

As a Use of Proceeds category, commercial green buildings has a limited contribution to the SDG 11 “Sustainable cities and communities”. The table below presents the findings of an ISS ESG assessment of the assets (re-) financed against ISS ESG KPIs.

#### ASSESSMENT AGAINST ISS ESG KPI

##### Energy Efficiency prerequisites

- ✓ 100% of the assets underwent an appropriate and detailed selection process that ensures good standards regarding energy efficiency.

##### Site selection

- ✓ 100% of assets are located in the city of Basel and have a policy on responsible site selection in place (e.g. brownfield development, exclusion of protected areas and sites of high environmental value).
- ✓ 100% of the assets are located within 1 km from one or more modalities of public transport.

##### Construction standards

- ✓ 100% of assets are located in Switzerland where high labour and health and safety standards are in place (e.g. ILO core conventions).
- 2 out of 12 assets, accounting for 18% of the asset pool provide for sustainable procurement regarding building materials (e.g. recycled materials, third-party certification of wood-based materials). The remaining 10 projects have no information available on sustainable procurements regarding building materials.

##### Water use minimization in buildings

- 1 out of 12 assets, accounting for 3% of the asset pool provided for measures to reduce water consumption (e.g. water metering, high-efficiency fixtures and fittings, rainwater harvesting). No information was available for the remaining assets.

##### Safety of building users

- ✓ 100% of assets that provide for measures to ensure operational safety according to national legislation (e.g. emergency exits, fire sprinklers, fire alarm systems).

##### Sustainability labels/certification

- 34% of assets obtained a (or an equivalent of a) BREEM “Very Good”, DGNB „Silver/Gold”, LEED “Gold”, HQE „excellent”, MINERGIE or better certification. 100% of assets comply with the requirements of MINERGIE, but not all assets are certified.

### **Controversy assessment**

The controversy assessment did not reveal any controversial activities or practices that could be attributed to the issuer.

## DISCLAIMER

1. Validity of the SPO: For Kanton Basel-Stadt's first issuance following the SPO release date.
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
3. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS ESG in connection with the use of these SPO, the information provided in them and the use thereof shall be excluded. In particular, we point out that the verification of the compliance with the selection criteria is based solely on random samples and documents submitted by the issuer.
4. All statements of opinion and value judgements given by us do not in any way constitute purchase or investment recommendations. In particular, the SPO is no assessment of the economic profitability and credit worthiness of a bond but refers exclusively to the social and environmental criteria mentioned above.
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## ANNEX 1: ISS ESG Country Rating

The following pages contain extracts from Switzerland's 2020 ISS ESG Country Rating.

# ESG Country Rating

## Switzerland

Status **Prime**

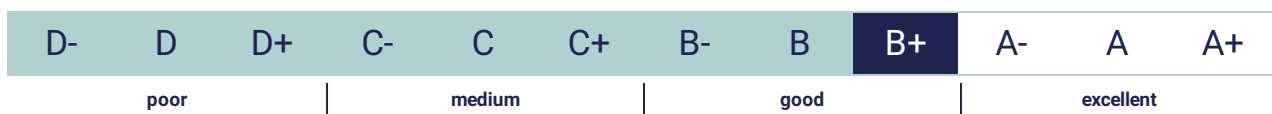
Rating **B+**

Prime Threshold **B-**

Decile Rank **1**



### Absolute Rating



The assessment of a company's sustainability performance is based on approximately 100 criteria, selected specifically for each industry. A company's failure to disclose, or lack of transparency, regarding these matters will impact a company's rating negatively

### Decile Rank



Indicates decile rank relative to all rated entities. A decile rank of 1 indicates a high relative ESG performance, while a 10 indicates a lower relative ESG performance.

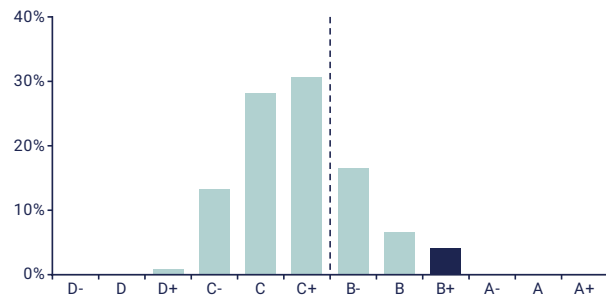
### Country Leaders

Country (in alphabetical order)	Grade
Denmark	B+
Sweden	B+
Switzerland	B+

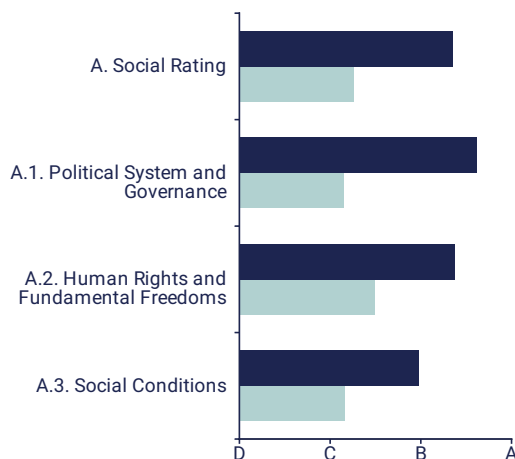
Legend: Universe Country Prime

### Distribution of Ratings

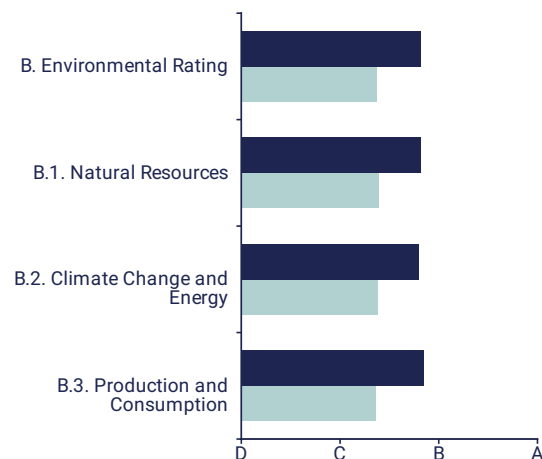
124 entities in the universe



### Governance and Social Performance



### Environment Performance



# Switzerland

## Additional Country Information

### Country Profile

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#### Politics and Geography

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National territory (2017):	41290 [km2]
Capital (2019):	Bern
Climate (2019):	temperate oceanic, tundra
Government type (2019):	federal republic (formally a confederation)
Next general elections:	October, 2023

#### Population

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National population (2019):	8348737 [people]
Population change (2018):	0.76 [in %]
Population density (2019):	208.7 [persons per km2]
Urban population (2018):	73.8 [as % of total]

#### Economy and Society

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GDP per capita (2019):	66196.09 [in USD (PPP)]
Income group (2019):	high income
Real GDP growth (2018):	2.8 [in %]
Consumer prices (2019):	0.56 [in %]
Current account balance (2018):	10.2 [as % of GDP]
General government gross debt (2018):	40.5 [as % of GDP]
Budget deficit (2017):	0.2 [in %]
Unemployment rate (2018):	2.5 [as % of labour force]
Human Development Index (2018):	2 [index rank]

# Switzerland

## Methodology - Overview

The ESG Country Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for many years.

**ESG Country Rating** – The ESG Country Rating universe comprises 58 countries, as well as Hong Kong and the European Union, representing 96 per cent of global outstanding sovereign debt (as of June 2018). The assessment of a country's sustainability performance is based on approximately 100 environmental, social and governance criteria with equal weight assigned to the social and environmental dimension. All criteria are individually weighted and evaluated and the results are aggregated to yield an overall score (rating). The selection of criteria is derived from ISS ESG's understanding of sustainability and reflects various global challenges that are embodied in the Sustainable Development Goals. Criteria are selected according to their relevance (materiality) and the quality of data regarding availability, up-to-dateness and consistency for all the countries rated.

**Country controversies** – In addition to the rating, ISS ESG conducts a comprehensive analysis of relevant controversies. Thereby, our clients have the possibility to consider, either separately or in addition to the rating, circumstances in areas they view as especially critical. The country controversy assessment is either directly derived from information provided by credible and acknowledged external sources, such as indices or blacklists, or it is based on the country's performance in the respective rating section. In the latter cases, underperformance in a specific set of indicators constitutes a controversy. Some controversy issues are delineated on different levels of severity.

**Country leaders** - List (in alphabetical order) of the top three countries from the ESG Country Rating universe at the time of generation of this report.

**Criteria design** – The rating comprises both qualitative and quantitative criteria. For instance, the safeguarding of fundamental freedoms by a country's government is mostly assessed in qualitative terms, while a country's consumption of resources is quantified. Qualitative criteria are evaluated against absolute targets and/or best practices, the assessment of quantitative indicators is based on thresholds. Those either reflect normative considerations and/or relative performance in a given area. In order to ensure their validity, some quantitative indicators are normalised against eligible denominators. To assess the quality of government policy in a specific area, we use indicators measuring input, such as spending on education as a proportion of GDP, as well as criteria measuring output, such as female participation in education.

**Decile Rank** - The Decile Rank indicates in which decile (tenth part of total) the individual Country Rating ranks from 1 (best – country's rating is in the first decile within the country universe) to 10 (lowest – country's rating is in the tenth decile within the country universe). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of countries cannot be evenly divided by ten, the surplus countries are distributed from the top (1. decile) to the bottom. If there are Country Ratings with identical absolute scores that would span a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of Country Ratings in the decile below.

**Distribution of Ratings** - Overview of the distribution of the ratings of all countries that are included in the ESG Country Rating universe (country portrayed in this report: dark blue).

**Rating Scale** – countries are rated on a twelve-point scale from A+ to D-:

A+: the country shows excellent performance

D-: the country shows poor performance

Overview of the range of scores achieved in the ESG Country Rating universe (light blue) and indication of the grade of the country evaluated in this report (dark blue).

**Sources of Information** - The sources we draw on include international institutions such as the World Bank, the International Energy Agency (IEA) and the World Health Organisation (WHO), as well as respected non-governmental organisations such as Amnesty International, Transparency International and the Stockholm International Peace Research Institute (SIPRI). A selection of sources used for this report is illustrated in the annex.

**Status & Prime Threshold** – Countries are categorised as Prime if they achieve/exceed the minimum sustainability performance requirements (Prime threshold) defined by ISS ESG for the Country Rating.

**Update cycle** - The vast majority of rating criteria is updated annually, only single indicators receive event-driven updates. The exact timing is determined by the publication dates of major sources of information.

## ANNEX 2: Methodology

### ISS ESG Green KPIs

The ISS ESG Green Bond KPIs serves as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of Kanton Basel-Stadt'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.

To review the KPIs used in this SPO, please contact Federico Pezzolato (details below) who will send them directly to you.

### Asset evaluation methodology

ISS ESG 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 to ISS ESG or that the information provided did not fulfil the requirements of the ISS ESG Green Bond KPIs.

The evaluation was carried out using information and documents provided to ISS ESG on a confidential basis by Kanton Basel-Stadt (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, ISS ESG identifies the extent to which Kanton Basel-Stadt's Green Bond contributes to related SDGs.



## ANNEX 3: Quality management processes

### SCOPE

Kanton Basel-Stadt commissioned ISS ESG to compile a Green Bond SPO. The Second Party Opinion process includes verifying whether the Green Bond Framework aligns with the Green Bond Principles 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

- ICMA Green Bond Principles
- ISS ESG KPI set: - Commercial Green Buildings

### ISSUER'S RESPONSIBILITY

Kanton Basel-Stadt's responsibility was to provide information and documentation on:

- Framework
- Asset pool
- Documentation of ESG risks management at the asset 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.

ISS ESG has conducted this independent Second Party Opinion of the Green Bond to be issued by Kanton Basel-Stadt based on ISS ESG methodology and in line with the ICMA Green Bond Principles.

The engagement with Kanton Basel-Stadt took place in October 2020.

### ISS ESG'S 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 behaviour 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 ISS ESG 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.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

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 Information about SPO services, contact:

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ESG Consultant

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Associate  
ESG Consultant

**Project supervision**

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Deputy Head of Climate Services