

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Green Bond Framework

Kanton Basel-Stadt

13 November 2024

VERIFICATION PARAMETERS

Type(s) of instruments contemplated

- Green bond

Relevant standards

- Green Bond Principles, ICMA, June 2021 (with June 2022 Appendix 1)
- Kanton Basel-Stadt's Green Bond Framework (as of Nov. 6, 2024)

Scope of verification

- Kanton Basel-Stadt's asset pool (as of Nov. 6, 2024)

Lifecycle

- Pre-issuance verification

Validity

- Valid as long as the cited Framework remains unchanged

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SCOPE OF WORK

Kanton Basel-Stadt (“the Issuer” or “Basel-Stadt”) commissioned ISS-Corporate to assist with its green bond by assessing three core elements to determine the sustainability quality of the instrument:

1. Kanton Basel-Stadt’s Green Bond Framework (as of Nov. 6, 2024), benchmarked against the International Capital Market Association’s (ICMA) Green Bond Principles (GBP).
2. The asset pool — whether the project contribute positively to the United Nations Sustainable Development Goals (U.N. SDGs) and how they perform against ISS-Corporate’s proprietary issuance-specific key performance indicators (KPIs) (see Annex 1).
3. Consistency of the green bond with Kanton Basel-Stadt’s sustainability strategy, drawing on the key sustainability objectives and priorities defined by the Issuer.

KANTON BASEL-STADT OVERVIEW

Kanton Basel-Stadt is one of the 26 cantons forming Switzerland and consists of the city of Basel itself and the two rural municipalities of Riehen and Bettingen.

Switzerland is located in Western Europe. It is a federal republic (formally a confederation), classified as a high-income country by the World Bank. Switzerland has an estimated population of 8.8 million as of 2024, with 74.2% of its population living in urban areas.



ESG risks associated with sovereign Issuers

ISS ESG’s Country Rating identifies sustainability risks in the following key areas for Switzerland:¹ political system and governance, human rights and fundamental freedoms, social conditions, natural resources, climate change and energy, and product and consumption.

This report focuses on the sustainability credentials of the issuance. Part III of this report assesses the consistency between the issuance and the Issuer’s overall sustainability strategy.

¹ Please note that this is not an Issuer-specific assessment.

ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ²
<p>Part I:</p> <p>Alignment with GBP</p>	<p>The Issuer has defined a formal concept for its green bond regarding the use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the GBP.</p>	<p>Aligned</p>
<p>Part II:</p> <p>Sustainability quality of the asset pool</p>	<p>The green bond will (re)finance the following eligible green asset category: Green Buildings.</p> <p>Product and/or service-related use of proceeds categories³ individually contribute to one or more of the following SDGs:</p> <div data-bbox="632 927 983 1043" style="text-align: center;">  </div> <p>Other use of proceeds categories⁴ improve the operational impacts of Kanton Basel-Stadt's borrowers and mitigate potential negative externalities of its sector on one or more of the following SDGs:</p> <div data-bbox="691 1379 924 1496" style="text-align: center;">  </div> <p>The environmental and social risks associated with the use of proceeds category are managed.</p>	<p>Positive</p>
<p>Part III:</p> <p>Consistency of green bond with Basel-Stadt's sustainability strategy</p>	<p>The key sustainability objectives and the rationale for issuing the green bond are clearly described by the Issuer. All the project categories considered are in line with the Issuer's sustainability objectives.</p>	<p>Consistent with Issuer's sustainability strategy</p>

² The evaluation is based on Kanton Basel-Stadt's Green Bond Framework (Nov. 6, 2024, version), on the analyzed asset pool as received on Nov. 6, 2024.

³ Green Buildings (New Buildings), Energy-efficient and ecological criteria.

⁴ Green Buildings Refurbishment/Conversion.

SPO ASSESSMENT

PART I: ALIGNMENT WITH THE GREEN BOND PRINCIPLES

This section evaluates the alignment of the Kanton Basel-Stadt’s Green Bond Framework (as of Nov. 6, 2024) with the GBP.

GREEN BOND PRINCIPLES	ALIGNMENT	OPINION
<p>1. Use of Proceeds</p>	<p>✓</p>	<p>The use of proceeds description provided by Kanton Basel-Stadt’s Green Bond Framework is aligned with the GBP.</p> <p>The Issuer’s green categories align with the project categories as proposed by the GBP. Criteria are defined clearly and transparently. Disclosure of distribution of proceeds by project category is provided and environmental benefits are described and quantified, in line with best market practice.</p>
<p>2. Process for Project Evaluation and Selection</p>	<p>✓</p>	<p>The process for project evaluation and selection description provided by Kanton Basel-Stadt’s Green Bond Framework is aligned with the GBP.</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 appropriately. Moreover, the projects selected show alignment with the Issuer’s sustainability strategy.</p> <p>The Issuer clearly and transparently defines responsibilities in the process for project evaluation and selection, and involves various stakeholders in this process, in line with best market practice.</p>
<p>3. Management of Proceeds</p>	<p>✓</p>	<p>The management of proceeds provided by Kanton Basel-Stadt’s Green Bond Framework is aligned with the GBP.</p> <p>The net proceeds collected will equal the amount allocated to eligible projects. The net proceeds</p>

		<p>are tracked appropriately. The net proceeds are managed per bond (bond-by-bond approach). Moreover, the Issuer discloses the temporary investment instruments for unallocated proceeds.</p> <p>Finally, the Issuer discloses information regarding the allocation to individual or portfolio disbursements.</p>
<p>4. Reporting</p>	<p>✓</p>	<p>The allocation and impact reporting provided by Kanton Basel-Stadt’s Green Bond Framework is aligned with the GBP.</p> <p>The Issuer commits to disclose the allocation of proceeds transparently and report with appropriate frequency. The reporting will be publicly available on the Issuer’s website. Kanton Basel-Stadt has disclosed the type of information that will be reported and explains that the level of expected reporting will be at the project category level. Moreover, the Issuer commits to report annually until the proceeds have been fully allocated.</p> <p>The Issuer is transparent on the level of impact reporting and the information reported and further defines the duration, scope and frequency of the impact reporting, in line with best market practice. Furthermore, the Issuer discloses the location and link of the report(s), in line with best market practice.</p>

PART II: SUSTAINABILITY QUALITY OF THE ASSET POOL

A. CONTRIBUTION OF THE GREEN BOND TO THE U.N. SDGs⁵

The Issuer can contribute to the achievement of the SDGs by providing specific services/products that help address global sustainability challenges, and by being responsible actors, working to minimize negative externalities in their operations along the entire value chain. This section assesses 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 U.N. SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate Delegated Acts, the Green/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 a three-point scale:



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>Green Buildings (New Buildings)</p> <p><i>Energy-efficient and ecological criteria:</i></p> <ul style="list-style-type: none"> ▪ SNBS — Standard Gold ▪ 2000 Watt-Areal® — Standard 	<p>Contribution</p>	

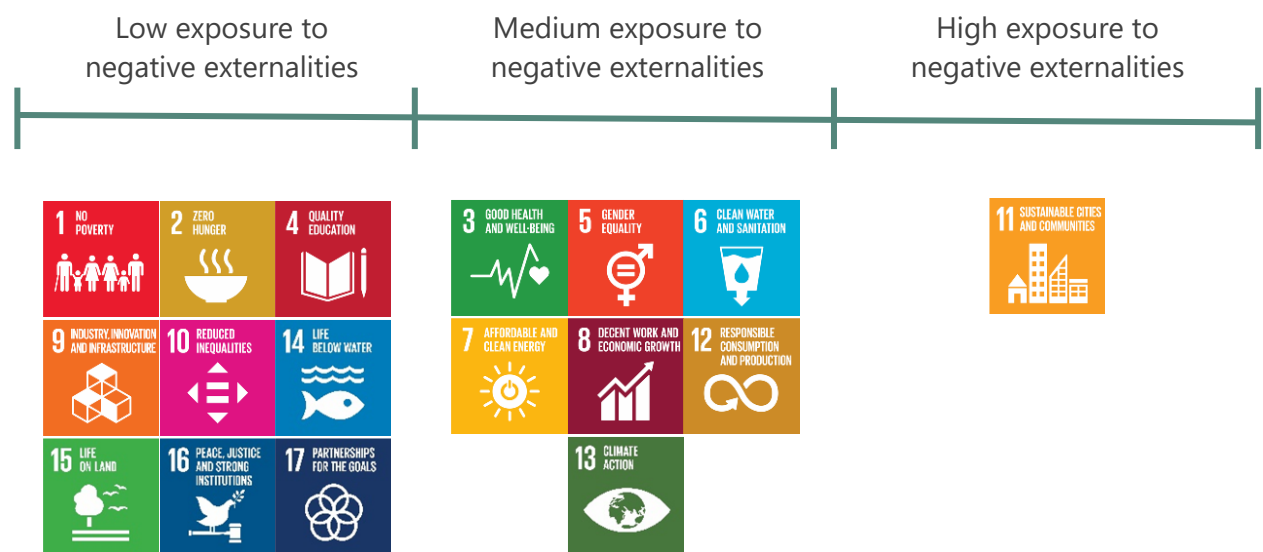
⁵ The impact of the UoP categories on U.N. Sustainable Development Goals is assessed with proprietary methodology and may therefore differ from the Issuer's description in the Framework.

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p>Green Buildings (New Buildings)</p> <p>Energy-efficient and ecological criteria:</p> <ul style="list-style-type: none"> ▪ <i>Minergie® -P/-A/-ECO Standard (administrative property)</i> ▪ <i>Compatible with the SIA energy efficiency path</i> 	<p>Contribution</p>	 


2. Improvements of operational performance (processes)

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

According to ISS ESG SDG Impact Rating methodology, potential impacts on the SDGs related to negative operational externalities in the real estate sector (which Kanton Basel-Stadt finances) are the following:



The table below displays 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 ⁶	SUSTAINABLE DEVELOPMENT GOALS
<p>Green Buildings Refurbishment/Conversion At least one of the criteria covered: Energy-efficient and ecological criteria:</p> <ul style="list-style-type: none"> Minergie®/-P/-A/-ECO — Standard Renewal 25% below the SIA requirements for conversions (QH,li/SIA 308/1) 	<p>✓</p>	

⁶ Limited information is available on the scale of the improvement as no threshold is provided. Only the direction of change is displayed.

USE OF PROCEEDS (PROCESSES)	OPERATIONAL IMPACT IMPROVEMENT ⁶	SUSTAINABLE DEVELOPMENT GOALS
<ul style="list-style-type: none"> ▪ <i>GEAK® Plus certificate with improvement by at least one category</i> ▪ <i>Individual energy measures such as thermal insulation, climate-friendly heat generation (thermal solar systems, heat pumps, regenerative energy sources, heat recovery), photovoltaic systems</i> ▪ <i>Individual ecological measures such as resource-saving construction through the use of existing building fabric (reduction of grey energy), the use of resource-saving construction methods (timber construction) or the use of recycled materials (recycled concrete, sand, wood, insulating materials with recycled content)</i> 		

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

Green Buildings (New Buildings)

The table below evaluates the asset pool against issuance-specific KPIs. All the assets are/will be located in Switzerland.

ASSESSMENT AGAINST KPIs

Environmental aspects of construction (or production) and operation

✓ 50% of the assets provide for sustainable procurement of building materials (e.g., materials based on locally sourced wood from Switzerland and the German Black Forest). No information or limited information is available regarding sustainable procurement of building materials for the remaining projects.

Conservation and biodiversity management

✓ 100% of the assets are located in Basel-Stadt and 50% of the assets have assessed biodiversity as part of a policy on responsible site selection or in an environmental impact assessment (e.g., brownfield development, exclusion of protected areas, sites of high environmental value).

Site selection

✓ 100% of the assets are located within 1 kilometer of one or more modes of public transportation.

Construction standards

✓ 100% of the assets are located in Switzerland, where high labor, health and safety standards are in place (e.g., ILO core conventions).

User safety

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

Water

○ None of the assets provide information on measures to reduce water consumption (e.g., water metering, high-efficiency fixtures and fittings, rainwater harvesting).

Green Buildings — Renovation, Refurbishment, Conversion

ASSESSMENT AGAINST KPIs

Environmental aspects of construction (or production) and operation

- No information or limited information is available on whether projects meet high environmental standards and requirements in the supply chain (e.g., whether suppliers are required to have an EMS and/or ISO 14001/EMAS certification).
- No information or limited information is available on whether projects feature take-back and recycling at end of life (e.g., WEEE).

Energy efficiency

- ✓ 100% of the assets have implemented renovation measures resulting in energy efficiency improvements (insulation, heating systems, lighting).⁷

Labor, health and safety

- ✓ 100% of the assets are located in Switzerland, where high labor, health and safety standards are in place (e.g., ILO core conventions).

⁷ While the energy efficiency of the asset located at 58 Sandgrubenstrasse is estimated to improve from 73.2 kWh/m² to 58 kWh/m², the energy consumption for the heating system — in this case the connection to the district heating system — is estimated to increase by 2,177 kWh/oil eq. to 3,389 kWh/oil eq.

PART III: CONSISTENCY OF GREEN BOND WITH KANTON BASEL-STADT’S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the Issuer

TOPIC	ISSUER APPROACH
<p>Strategic ESG topics</p>	<p>Kanton Basel-Stadt’s sustainability strategy focuses on six interconnected pillars outlined in its cantonal constitution (§ 15): population, state action, basic needs and well-being, natural resources, social cohesion, and economic development.</p>
<p>ESG goals/targets</p>	<p>To achieve its strategic ESG topics, the Issuer aims to:</p> <ul style="list-style-type: none"> ▪ Enhance the quality of life by preserving or improving current levels of natural, social, financial, material and human resources, which together support the overall quality of life ▪ Empower society by enabling adaptability and resilience in the face of evolving living conditions, ensuring that society can respond effectively to change ▪ Ensure intergenerational justice by promoting fairness both within today’s population and between present and future generations, ensuring that all individuals can live freely without compromising the well-being of others <p>Additionally, in November 2022, the population of Basel-Stadt voted for a measure to become climate-neutral by 2037. This goal has not been verified by the SBTi or SBTN. It is communicated online, and the canton is currently developing a dashboard to show the implementation status. The data in the dashboard will be updated at least every two years.</p>
<p>Action plan</p>	<p>Basel-Stadt has outlined specific actions to achieve its sustainability goals, which include expanding renewable energy sources, further developing the district heating network, electrifying public transport and reducing emissions in private transportation and industry. Additionally, Basel-Stadt wants to develop social programs by</p>

	<p>implementing initiatives to support social cohesion, such as affordable housing projects, community development programs and inclusive public services. Finally, Basel-Stadt wants to foster a green economy by supporting sustainable businesses and promoting innovation in green technologies. Basel-Stadt does not disclose the relevant financial budget to achieve its specific ESG targets/goals (in CapEx, OpEx, product mix).</p>
<p>Climate transition strategy</p>	<p>Basel-Stadt is committed to a robust climate transition strategy by aiming to become climate neutral by 2037.</p> <p>This strategy relies on five key components:</p> <ul style="list-style-type: none"> ▪ Energy efficiency: Basel-Stadt implements energy efficiency standards for buildings. New and renovated buildings in administrative and financial assets must meet at least Minergie-P/Minergie-ECO standards. ▪ Renewable energy: Basel-Stadt promotes the use of renewable energy sources in public infrastructure. The canton plans to reduce the consumption of fossil fuel for industrial processes to almost zero as far as economically and technically possible. The energy efficiency of company will be increased by 15% and climate-relevant refrigerants (i.e., in refrigeration and industrial systems) will be reduced by 85% by 2037. ▪ Sustainable transportation: Basel-Stadt plans to invest in public transportation that utilizes renewable energy, such as electric buses and trams, so public transport in the canton becomes emission-free by 2027. ▪ Emission-free construction site: Basel-Stadt aims to reduce the emissions caused by the construction and disposal of buildings and infrastructure. This is achieved through a combination of low-emission building materials, circular construction and reducing

	<p>the amount of land used for living and working.</p> <ul style="list-style-type: none"> ▪ Climate adaptation measures: Basel-Stadt develops infrastructure and policies to mitigate the impacts of climate change, including flood protection, heatwave management and preservation of green spaces.
<p>Sustainable Development Goals Agenda</p>	<p>To implement the 2030 Agenda in Switzerland, the Federal Council formulated the Sustainable Development Strategy 2030. It emphasizes key priorities for sustainable development, including resource conservation, climate action and social equity. This strategy applies throughout Switzerland, but each canton, including Basel-Stadt, adapts it to local contexts. Basel-Stadt aligns with the federal strategy by incorporating measures in its local sustainability framework to address the SDGs and environmental targets.</p>
<p>ESG risk and sustainability strategy management</p>	<p>Material risks related to negative social or environmental impacts are analyzed either at the cantonal level (based on the legislation governing eligible expenditures) or within the relevant public departments. The Finance Department also monitors potential ESG controversies that might impact the associated expenditures.</p>
<p>Issuer ranking against international indexes</p>	<ul style="list-style-type: none"> ▪ Human Development Index: 1, in 2022 ▪ Corruption Perception Index: 6, in 2023 ▪ Global Peace Index: 6, in 2024
<p>Sustainability reporting</p>	<p>There is no sustainable reporting for Basel-Stadt as an "organization." However, Basel-Stadt has reported since 2001 on its sustainable development status, and since 2016 as part of the 2030 Agenda.⁸ There is limited information available on whether the reports follow any reporting standards.</p>
<p>Industry associations, collective commitments</p>	<p>Basel-Stadt is a member of/signatory to the following collective commitments and city alliances:</p>

⁸ Basel-Stadt's latest sustainability report is available [here](#).

	<ul style="list-style-type: none"> ▪ Climate Charter of the Northwestern Swiss Intergovernmental Conference ▪ Climate Energy Charter for Cities and Municipalities ▪ Milan Urban Food Policy Pact
<p>Previous sustainable/sustainability-linked issuances or transactions and publication of sustainable financing framework</p>	<p>Basel-Stadt began issuing green refinancing instruments in 2018. The canton has since issued green bonds in 2018, 2019 and 2022, focusing on green buildings as eligible assets. The total issued amount is EUR 561 million.</p> <p>The frameworks published in 2018, 2019 and 2022 were externally verified by ISS-Corporate.</p>

Rationale for issuance

Basel-Stadt has established a Green Bond Framework to support sustainable development and raise funds for refinancing eligible green projects that align with its sustainability strategy of becoming climate-neutral by 2037. Green bonds under this Framework are used to finance or refinance eligible green projects, including Green Buildings, and environmentally friendly construction for new buildings and renovations, all aimed at providing environmental benefits.

Opinion: *The key sustainability objectives and the rationale for issuing a green bond are clearly described by the Issuer. All of the project categories financed are in line with the Issuer's sustainability objectives.*

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

The ISS-Corporate SPO provides an assessment of labeled transactions against international standards using ISS-Corporate's proprietary [methodology](#).

ANNEX 2: QUALITY MANAGEMENT PROCESSES

SCOPE

Kanton Basel-Stadt commissioned ISS-Corporate 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 assessing 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, ICMA, June 2021 (with June 2022 Appendix 1)

ISSUER'S RESPONSIBILITY

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

- Framework
- Asset pool
- Documentation of ESG risk management at the asset level

ISS-CORPORATE'S VERIFICATION PROCESS

Since 2014, ISS Group, which ISS-Corporate is a part of, 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 to be issued by Kanton Basel-Stadt has been conducted based on proprietary methodology and in line with the Green Bond Principles.

The engagement with Kanton Basel-Stadt took place in October and November 2024.

ISS-CORPORATE'S BUSINESS PRACTICES

ISS-Corporate has conducted this verification in strict compliance with the ISS Group 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

Companies turn to ISS-Corporate for expertise in designing and managing governance, compensation, sustainability and cyber risk programs that align with company goals, reduce risk and manage the needs of a diverse shareholder base by delivering best-in-class data, tools and advisory services.

ISS-Corporate assesses alignment with external principles (e.g., the Green/Social Bond Principles), analyzes the sustainability quality of the assets and reviews the sustainability performance of the Issuer itself. Following these three steps, we draw up an independent SPO so investors are as well-informed as possible about the quality of the bond/loan from a sustainability perspective.

Learn more: <https://www.iss-corporate.com/solutions/sustainable-finance/bond-issuers/>.

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