

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Social Bond Framework

Kanton Basel-Stadt
21 June 2022

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none">• Social Bonds
Relevant standards	<ul style="list-style-type: none">• Social Bond Principles, as administered by ICMA (June 2021)
Scope of verification	<ul style="list-style-type: none">• Kanton Basel-Stadt Social Bond Framework (as of 20.05.2022)• Kanton Basel-Stadt Selection Criteria (as of 20.05.2022)¹
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

¹ It is noted that the Social Bond Framework of Kanton Basel-Stadt contains multiple Use of Proceeds categories. However, for the purpose of this SPO, only 'Affordable housing' is considered relevant and within the scope of assessment.

CONTENTS

SCOPE OF WORK	3
ISS ESG ASSESSMENT SUMMARY	4
ISS ESG SPO ASSESSMENT	5
PART I: ALIGNMENT WITH SOCIAL BOND PRINCIPLES	5
PART II: SUSTAINABILITY QUALITY OF THE ISSUANCE	6
A. CONTRIBUTION OF THE SOCIAL BONDS TO THE UN SDGs	6
B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE SELECTION CRITERIA	7
PART III: SOCIAL BONDS LINK TO KANTON BASEL-STADT'S SUSTAINABILITY STRATEGY	8
A. SWITZERLAND'S EXPOSURE TO ESG RISKS	8
B. CONSISTENCY OF SOCIAL BONDS WITH THE CANTON'S SUSTAINABILITY STRATEGY	9
ANNEX 1: Methodology	12
ANNEX 2: ISS ESG Country Rating Methodology	13
ANNEX 3: Quality management processes	14
About ISS ESG SPO	15

SCOPE OF WORK

Kanton Basel-Stadt (“the issuer”) commissioned ISS ESG to assist with its Social Bonds by assessing three core elements to determine the sustainability quality of the instrument:

1. Kanton Basel-Stadt’s Social Bond Framework (20.05.2022 version) – benchmarked against the International Capital Market Association's (ICMA) Social Bond Principles (SBP).
2. The Selection Criteria – whether the projects contribute positively to the UN SDGs and perform against ISS ESG’s issue-specific key performance indicators (KPIs) (See Annex 1).
3. Social Bonds link to Kanton Basel-Stadt’s sustainability strategy – drawing on Kanton Basel-Stadt’s overall sustainability profile and issuance-specific Use of Proceeds categories.

ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ²
Part 1: Alignment with SBP	The issuer has defined a formal concept for its Social Bonds regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the Social Bond Principles.	Aligned
Part 2: Sustainability quality of the Selection Criteria	<p>The Social Bonds will (re-)finance eligible asset categories which include: affordable housing.</p> <p>Those use of proceeds categories have a significant contribution to SDGs 1 'No Poverty', 10 'Reduced Inequalities', 11 'Sustainable Cities and Communities'.</p> <p>The environmental and social risks associated with those use of proceeds categories have been well managed.</p>	Positive
Part 3: Social Bonds link to issuer's sustainability strategy	<p>According to the ISS ESG Country Rating published on 20.05.2022, the issuer shows a high sustainability performance on key ESG issues faced by sovereign issuers.</p> <p>The Use of Proceeds financed through these Social Bonds are consistent with the issuer's sustainability strategy and material ESG topics for sovereigns. The rationale for issuing Social Bonds is clearly described by the issuer.</p>	Consistent

² ISS ESG's evaluation is based on the Kanton Basel-Stadt's Social Bond Framework (20.05.2022) and on the ISS ESG Country Rating updated on the 31.05.2022 and applicable at the SPO delivery date.

ISS ESG SPO ASSESSMENT

PART I: ALIGNMENT WITH SOCIAL BOND PRINCIPLES

This section describes ISS ESG's assessment of the alignment of the Kanton Basel-Stadt's Social Bond Framework (dated 20.05.2022) with the Social Bond Principles.

SOCIAL BOND PRINCIPLES	ALIGNMENT	ISS ESG'S OPINION
1. Use of Proceeds	✓	<p>ISS ESG considers the Use of Proceeds description provided by Kanton Basel-Stadt's Social Bond Framework as aligned with the Social Bond Principles.</p> <p>The issuer's social categories align with the project categories as proposed by the Social Bond Principles and criteria are defined in a clear and transparent manner.</p>
2. Process for Project Evaluation and Selection	✓	<p>ISS ESG considers the Process for Project Evaluation and Selection description provided by Kanton Basel-Stadt's Social Bond Framework as aligned with the Social Bond Principles.</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, compliant with Swiss national legislation. Moreover, the projects selected show alignment with the sustainability strategy of the issuer.</p>
3. Management of Proceeds	✓	<p>ISS ESG finds that the Management of Proceeds proposed by Kanton Basel-Stadt's Social Bond Framework as aligned with the Social Bond Principles.</p> <p>The proceeds collected will be equal to the amount allocated to eligible projects, with no exceptions. The proceeds are tracked in an appropriate manner and attested in a formal internal process. Moreover, the issuer discloses the temporary investment instruments for unallocated proceeds.</p>
4. Reporting	✓	<p>ISS ESG finds that the allocation and impact reporting proposed by Kanton Basel-Stadt's Social Bond Framework as aligned with the Social Bond Principles.</p> <p>The issuer commits to disclose the allocation of proceeds transparently and to report in an appropriate frequency. Kanton Basel-Stadt explains the level of expected reporting and the type of information that will be reported. Moreover, the issuer commits to report annually, until the proceeds have been fully allocated.</p>

PART II: SUSTAINABILITY QUALITY OF THE ISSUANCE

A. CONTRIBUTION OF THE SOCIAL BONDS TO THE UN SDGs

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 Social Bonds'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
Social Housing <i>Provision and maintenance of low-cost housing for disadvantaged populations³ & "safe living in old age"-program⁴</i>	Significant contribution	
Affordable Housing <i>Provision and maintenance of low-cost housing without specific target population⁵</i>	Limited contribution	

³ Based on §16 of the Housing Promotion Act (Wohnraumförderungsgesetz, WRFG, SG 861.500) of June 5, 2013, which provides that the canton may, for the benefit of particularly disadvantaged persons, provide low-cost housing.

⁴ "Sicheres Wohnen im Alter". Tenants need to meet various criteria related to age and size of apartment, as well as the "Basler Kostenmietmodell", where reduced rent is available to those households for which rent would represent 25% or more of net income

⁵ Including initiatives such as the "Wohnbauprogramm 1000+", which provides for the construction of more than 1000 new apartments by 2035 as an own investment of the canton and to rent them out at rents 15-20% below the average supply rents (market rents) of comparable apartments.

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

Affordable Housing

The table below presents the findings of an ISS ESG assessment of the Selection Criteria against ISS ESG KPIs.

ASSESSMENT AGAINST ISS ESG KPI

Site selection

- ✓ All financed buildings by the Canton are subject to responsible site selection practices, including cantonal guidelines on biodiversity and ecological protection⁶.
- ✓ All financed buildings by the canton are subject to *ÖV-Güteklasse A*, ensuring that they will be located within no more than 500m to public transport, according to the Federal Office for Spatial Development.

Construction standards

- ✓ All financed buildings are located in Switzerland where high labour and health and safety standards are in place (e.g. ILO core conventions).
- There is no information available to what extent the buildings will draw on sustainable procurement regarding building materials (e.g. recycled materials, third-party certification of wood-based materials).

Water use minimization in buildings

- ✓ All financed buildings provide for measures to reduce water consumption (e.g. water metering, high-efficiency fixtures and fittings, rainwater harvesting).

Safety of building users

- ✓ All financed buildings provide for relevant safety measures, including fire alarms, gas warning and extinguishing systems (e.g. fire dampers, gates, sprinkler system).

Prerequisite for Affordable Housing

- ✓ All financed buildings are subject to rents at a reduced rate. On average, these will be 10% lower than the average market level in Basel-Stadt.

⁶Kantonaler Richtplan, Nature conservation and ecological corridors, <https://www.richtplan.bs.ch/richtplantext/objektblaetter/nl-natur-landschaft/nl3-natur-landschaftsschutz/nl3-1-naturschutz-o-korridore.html>

PART III: SOCIAL BONDS LINK TO KANTON BASEL-STADT'S SUSTAINABILITY STRATEGY

A. 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 federal republic (formally a confederation), classified as a high income country by the World Bank. The issuer has an estimated population of 8.4 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 0.07 as of 2019, which has decreased in recent years.

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

INDEX	RANK, AS OF DATE
Human Development Index ⁷	2, in 2020
Corruption Perception Index ⁸	84, in 2021
Global Peace Index ⁹	7, in 2021

ESG risks associated with the issuer and sovereign issuers

Leveraging ISS ESG's Country Rating methodology, ISS ESG assessed the current sustainability performance of the issuer to be high. Please note that the consistency between the issuance subject to this report and the issuer's sustainability strategy is further detailed in Part III.B of the report.

Key challenges faced by sovereign issuers in terms of sustainability management are displayed in the table below. Please note, this is not an issuer-specific assessment.

ESG KEY ISSUES FOR SOVEREIGN ISSUERS	
Political system and governance	Natural resources
Human Rights and fundamental freedoms	Climate change and energy
Social conditions	Product and consumption

⁷ Source: <https://hdr.undp.org/en/countries/profiles/FRA>

⁸ Source: <https://www.transparency.org/en/cpi/2021/index/fra>

⁹ Source: <https://www.visionofhumanity.org/maps/#/>

Exposure 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
Euthanasia	-
Nuclear power	> 10% of total primary energy supply (TPES), no decision on abandoning nuclear power but moratorium on NP plants

B. CONSISTENCY OF SOCIAL BONDS WITH THE CANTON'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the issuer

The canton of Basel-Stadt is obliged by the constitution to strive for sustainable development. According to section 15 of its constitution, the state is to be guided in the fulfillment of its the needs and well-being of the population and, at the same time, takes into account the dignity, personality and personal responsibility of the individual. It fulfills ecological, economic and social needs of the present generation and at the same time enables future generations to choose their own way of life. In doing so, it works towards the preservation of the natural resources, equal opportunities, cultural diversity, integration, equality and economic development.

The Canton has a holistic understanding of sustainable development. The following six areas can be derived from the cantonal constitution (§ 15):

- Population
- State action
- Basic needs and well-being
- Natural resources
- Social cohesion
- Economic development

These six areas are considered closely interrelated and influence each other in a variety of ways.

Rationale for issuance

With the launch of social bonds, the canton of Basel-Stadt aims to promote the sustainable development off the region. According to the issuer, housing is of great importance to the population. It has a significant influence on lifestyle and well-being. It is also a significant fixed item in the cost of living.

Contribution of Use of Proceeds categories to sustainability objectives and key ESG industry challenges

ISS ESG mapped the Use of Proceeds categories financed under this Social Bond Framework with the sustainability objectives defined by the issuer, and with the key ESG challenges as defined in the ISS ESG Country Rating methodology. Key ESG challenges are key issues that are highly relevant for sovereign or sub-sovereign issuers to tackle when it comes to sustainability. From this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds category.

USE OF PROCEEDS CATEGORY	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG CHALLENGES	CONTRIBUTION
Affordable Housing	✓	✓	Contribution to a material objective

Opinion: *ISS ESG finds that the Use of Proceeds financed through these Social Bonds are consistent with the issuer’s sustainability strategy and material ESG topics for sovereigns. The rationale for issuing Social Bonds is clearly described by the issuer.*

DISCLAIMER

1. Validity of the SPO: As long as there is no material change to the Framework.
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 standardized procedures to ensure consistent quality of responsibility research worldwide. In addition, we provide Second Party Opinion (SPO) on bonds based on data provided by 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.
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ANNEX 1: Methodology

ISS ESG Social KPIs

The ISS ESG Social 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 Kanton Basel-Stadt’s Social Bonds.

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

ISS ESG evaluates whether the assets to be financed under the Issuer’s Framework are covered by relevant ESG risk mitigation policies & measures. 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 Social 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 Social Bonds contribute to related SDGs.

ANNEX 2: ISS ESG Country Rating Methodology

The following pages contain methodology description of the ISS ESG Country Rating.

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 179 countries, as well as Hong Kong and the European Union, representing 100 per cent of global sovereign debt (as of January 2022). 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 normalized 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 3: Quality management processes

SCOPE

Kanton Basel-Stadt commissioned ISS ESG to compile a Social Bonds SPO. The Second Party Opinion process includes verifying whether the Social Bond Framework aligns with the Social Bond Principles and to assess the sustainability credentials of its Social Bonds, as well as the issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- Social Bond Principles
- ISS ESG Key Performance Indicators relevant for Use of Proceeds categories selected by the issuer

ISSUER'S RESPONSIBILITY

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

- Framework
- Eligibility criteria

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 Social Bonds to be issued by Kanton Basel-Stadt based on ISS ESG methodology and in line with the ICMA Social Bond Principles.

The engagement with Kanton Basel-Stadt took place in May and June 2022.

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/>

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