

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Green Bond Framework

Kantonsspital Winterthur

18 August 2021

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none">• Green Bond
Relevant standards	<ul style="list-style-type: none">• ICMA Green Bond Principles (GBPs)
Scope of verification	<ul style="list-style-type: none">• Kantonsspital Winterthurs's Green Bond Framework (as of 30.07.2021)
Lifecycle	<ul style="list-style-type: none">• Pre-issuance verification
Validity	<ul style="list-style-type: none">• Until material changes are made to the framework

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Scope of work

Kantonsspital Winterthur (“KSW” or “the issuer”) commissioned ISS ESG to assist with its Green Bond by assessing three core elements to determine the sustainability quality of the instrument:

1. Green Bond’s link to KSW’s sustainability strategy – drawing on KSW’s overall sustainability profile and issuance-specific Use of Proceeds categories.
2. KSW’s Green Bond Framework (August 2021 version) – benchmarked against the International Capital Market Association's (ICMA) Green Bond Principles (GBPs).
3. The 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 ¹
<p>Part 1:</p> <p>Green Bond's link to issuer's sustainability strategy</p>	<p>According to the ISS ESG Indicative Corporate Rating, the issuer demonstrates a high sustainability performance against the industry peer group on key ESG issues faced by the 'Health care facilities and services' sector.</p> <p>ISS ESG finds that the Use of Proceeds financed through this bond are consistent with the issuer's sustainability strategy and contributes to a non-material ESG objective for the issuer's industry. The rationale for issuing green bonds is clearly described by the issuer.</p>	<p>Consistent with issuer's sustainability strategy</p>
<p>Part 2:</p> <p>Alignment with GBPs</p>	<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 ICMA Green Bond Principles.</p>	<p>Aligned</p>
<p>Part 3:</p> <p>Sustainability quality of the Asset Pool</p>	<p>The overall sustainability quality of the asset pool in terms of sustainability benefits, risk avoidance and minimisation is good based upon the ISS ESG assessment. The Green Bond will finance a Green Buildings project.</p> <p>This use of proceeds category has a positive contribution to SDG 3 'ensuring health' and SDG 11 'sustainable cities and communities'. The environmental and social risks associated with those use of proceeds categories have been well managed.</p>	<p>Positive</p>

¹ ISS ESG's evaluation is based on KSW's Green Bond Framework (August 2021 version), on the analysed Asset Pool as received in July 2021, and on the ISS ESG Indicative Corporate Rating applicable at the SPO delivery date.

ISS ESG SPO ASSESSMENT

PART I: SUSTAINABILITY BONDS LINK TO KSW'S SUSTAINABILITY STRATEGY

A. KSW'S INDICATIVE SUSTAINABILITY PROFILE

Methodological note: *Please note that KSW is not part of the ISS ESG Corporate Rating Universe. Thus, the below sustainability profile is an assessment conducted by the analyst in charge of the 'Health care facilities and services' sector based on publicly available information exclusively. No direct communication between the issuer and the analyst has taken place during the process. The below is not based on an ISS ESG Corporate Rating but considers ISS ESG Research's methodology.*

Industry classification: Health Care Facilities and Services

Key Issues of the industry

1. Quality and patient safety
2. Employee relations and work environment
3. Energy and waste management
4. Health benefits of the product portfolio

Indicative ESG risk and performance assessment:

Kantonsspital Winterthur is a hospital located in Switzerland offering services in various medical areas such as surgery, obstetrics and gynecology, and children and adolescent medicine among others. The company has around 500 beds, 18 of which are allocated to an intensive care unit currently used for the treatment of COVID-19 patients.

The company manages sustainability risks related to the quality of service and patient safety at a reasonable level. Kantonsspital Winterthur has implemented respective measures such as quality data collection, audits, and complaints management. Single hospital units are also certified to relevant quality standards such as ISO 9001. The company collects relevant patient safety data such as patient falls and other medical incidents. Further, reasonable hygiene measures are in place to prevent infections and spreading of COVID-19 in its facilities.

The company allows for workplace flexibility (e.g., flexible working hours) and offers support for dependant care (childcare facilities). In addition, as the company is active only in Switzerland, there are high legal standards regarding equal opportunities and non-discrimination. However, there is no indication that other relevant staff related topics such as occupational safety and freedom of association are systematically addressed.

Regarding environmental impact, the company implements comprehensive waste management, including handling and proper disposal of medical and hazardous waste. Furthermore, the company promotes energy-efficiency in its facilities and has received Minergie certification.

Indicative product portfolio assessment:

Social impact of the product portfolio

By offering health care services to various medical fields, Kantonsspital Winterthur ensures basic medical care in the Winterthur region. With this, the company's business operations considerably contribute to the improvement of public health.

Environmental impact of the product portfolio

As a hospital, Kantonsspital Winterthur neither has significant positive nor negative environmental impacts.

Controversy assessment

Company Screening

The analyst in charge of producing this report conducted a high-level controversy assessment, based on publicly available information exclusively. There is no indication of Kantonsspital Winterthur being involved in any of the below mentioned controversies.

Industry Risks

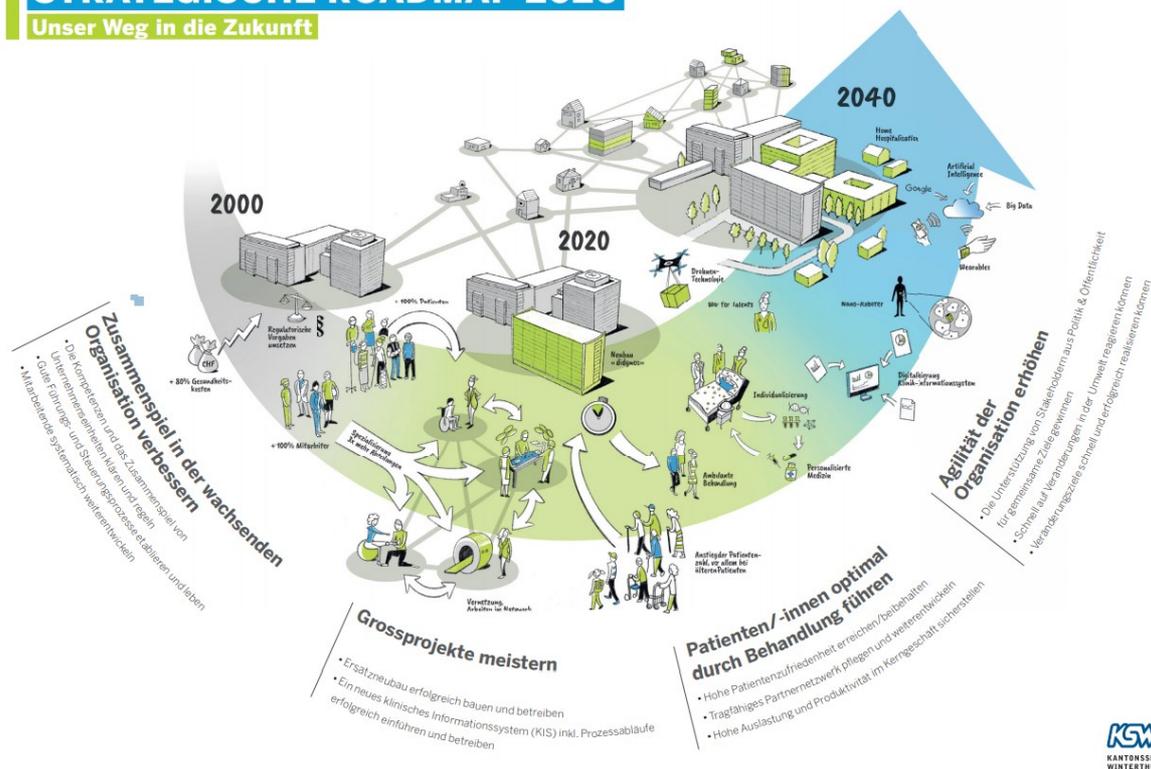
Based on a review of controversies in the period of January 1, 2019 to July 21, 2021, the greatest risks affecting companies operating in the Hospital/Nursing management industry relate to activities that may have adverse human rights and labor rights impacts. The top three issues that have been reported for companies within the industry are the alleged failure to respect consumer health and safety, to respect the right to just and favorable conditions of work, and to respect the right to life. These are closely followed by risks related to business malpractice. Allegations include deceptive misleading and fraudulent practices, failure to respect the right to safe and healthy working conditions, and accounting fraud.

B. CONSISTENCY OF SUSTAINABILITY BONDS WITH KSW'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the issuer

KSW's aims to ensure primary health care in the Region of Winterthur as well as provide other hospitals nearby with specialized medical care. Further, KSW, being one of the biggest employers in Winterthur, is committed to act in a green and social way. Consequently, KSW has defined four pillars, which they call "Werte" ("values") and aim to act in accordance to them. These contain the pledge to act humane, ethically, sustainably and differentiated. Additionally, KSW has set up a roadmap which is depicted below (in German), outlining key strategic objectives. However, the sustainability strategy could be further improved by setting specific and quantified targets associated with those objectives.

STRATEGISCHE ROADMAP 2020
Unser Weg in die Zukunft



Rationale for issuance

The financed green building “Didyomos” is being built as a replacement for an old building and aims to follow the eligibility criteria of the ICMA Green Bond Principles. KSW is the first Swiss hospital to subscribe to a sustainable Green Bond and hence the rationale is given.

Contribution of Use of Proceeds categories to sustainability objectives and priorities

ISS ESG mapped the Use of Proceeds categories financed under this Green Bond with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Health Care Facilities and Services sector. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g. climate change and energy efficiency in the buildings sector. From this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds categories.

USE OF PROCEEDS CATEGORY	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES ²	CONTRIBUTION
Hospital - Green Building (Didyomos)	✓	✓	Contribution to a material objective

² Since KSW is a hospital, this section normally evaluates the key ESG industry challenges of the health care facilities and services sector. However, in this particular case, the assessment has considered the key ESG industry challenges of the building sector, to which this project is more closely connected.

Opinion: *ISS ESG finds that the Use of Proceeds financed through this bond are consistent with the issuer's sustainability strategy and contributes to a non-material ESG objective for the issuer's industry. The rationale for issuing green bonds is clearly described by the issuer.*

PART II: ALIGNMENT WITH ICMA GREEN BOND PRINCIPLES

1. Use of Proceeds

Currently, a large proportion of KSW patients are treated in a high-rise hospital building from the 1960s. This high-rise hospital building does not meet today's requirements and standards for a modern hospital, neither ecologically nor in terms of its infrastructure. A feasibility study showed that the desired energy efficiency and sustainability could only be achieved with a replacement building.

In the "Didymos" project selected for this purpose, the focus is on cost-effectiveness in construction and operation, energy efficiency and an ecological construction method. The "Didymos" project has already mastered a first important stage with the occupation of the new radiooncology building in 2017, will reach its climax with the occupation of the ward block at the beginning of 2022 and will be completed with the subsequent demolition of the old high-rise building.

The new replacement building will ensure holistic basic medical care at the highest level for the greater Winterthur area in the long term. Patients will benefit from bright, friendly rooms with plenty of daylight and a pleasant indoor climate. The facilitation of procedures through the modern expansion facilitates the exchange between clinical staff and patients, which enables optimal care and treatment. Examinations and treatments can now take place directly in the room.

The building generates electricity through photovoltaics, is heated by district heating and bears the Minergie P Eco label. The outdoor areas will also be landscaped to give both patients and their families a place to rest, but also to provide flora and fauna with a place to thrive.

The proceeds from the bond issue will be invested in the new "Didymos" building.

Opinion: ISS ESG considers the Use of Proceeds description provided by KSW's Green Bond Framework as aligned with the ICMA Green Bond Principles. KSW states that all proceeds are fully allocated to finance a single project category, which reflects best market practice.

2. Process for Project Evaluation and Selection

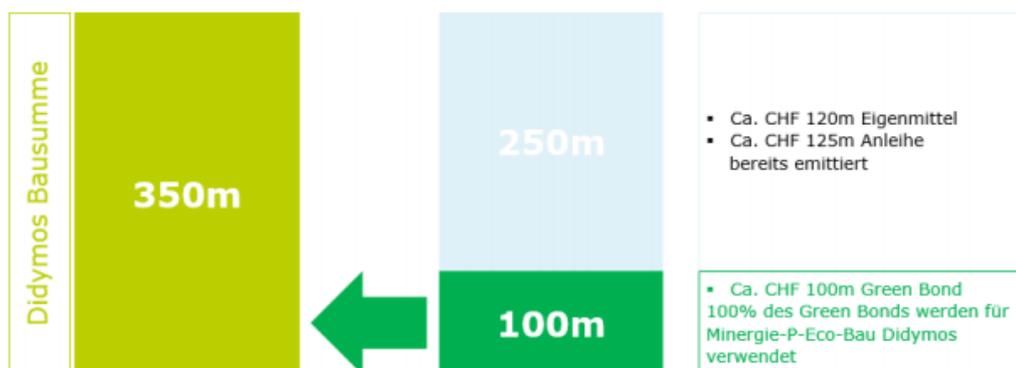
All funds from the Green Bond will be used exclusively for the "Didymos" project. The KSW project portfolio does not include any other projects that require external financing.

Opinion: ISS ESG considers the Process for Project Evaluation and Selection description provided by KSW's Green Bond Framework as aligned with the ICMA Green Bond Principles.

3. Management of Proceeds

The "Didymos" project costs a total of around CHF 350 million. The invoices for the project are to be paid periodically by the KSW. Larger invoice installments are due at the end of 2021 and in 2022. Around CHF 100 million of this is to be covered by the issuance of the green bond.

CHF 125 million has already been financed through the issuance of another bond in 2019 and the remainder will be covered by own funds.



After the green bond is paid, the bond funds are held in cash in a KSW account. KSW gradually settles the installments due for the Didymos project.

Opinion: ISS ESG finds that Management of Proceeds proposed by KSW's Green Bond Framework is well aligned with the ICMA Green Bond Principles, as all the proceeds are to be directly allocated to the green building project "Didymos".

4. Reporting

The KSW will report annually on its homepage³ until after the first year of operation of the new building:

Allocation of funds

- Interim report - "Didymos" funding (spring 2022)
- Funding progress - "Didymos" funding (spring 2023)
- Final Report - Financing "Didymos"

Impact Report

- Annual energy generation through photovoltaics (spring 2023)
- Annual energy savings old building to new building (spring 2023)
- Annual CO2 savings (spring 2023)

Opinion: ISS ESG finds that the reporting proposed by KSW's Green Bond Framework is aligned with the ICMA Green Bond Principles and reflects best market practice. KSW is transparent on the level of reporting, on its frequency, scope and type of information reported.

³ www.ksw.ch

See also: Final report from the Canton of Zurich/Hochbauamt of the construction on the homepage of the Canton of Zurich

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 KSW'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):

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	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
Green Building	Limited contribution	
Ensuring Health	Significant contribution	

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

Green medical care facilities

As a Use of Proceeds category, Hospital - Green Building has a positive contribution to SDG 11 "Sustainable cities and communities" and SDG 3 "Ensuring Health". The table below presents the findings of an ISS ESG assessment of the asset pool against ISS ESG KPIs.

ASSESSMENT AGAINST ISS ESG KPI

Standards for care/medical facilities

- ✓ 100% of assets provide a resident-centered environment (i.e. service facilities including trained staff, privacy, recreational areas, etc.)
- ✓ All the assets have a quality management system in place (in line with ISO 9001 and ISO 123485).

Site selection

- ✓ 100% of assets are located within 250m from one or more modalities of public transport.

Labour standards

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

Waste reduction and disposal

- ✓ All the assets have sufficient policies in place that provide for measures to reduce and correctly dispose of waste (e.g. sorting and separation, safe storage).

Safety of building users

- ✓ 100% of assets have safety measures in place that ensure operational safety (e.g. emergency exits, fire sprinklers, fire alarm systems).

Energy efficiency

- ✓ 100% of assets underwent an appropriate and detailed selection process that ensures good standards regarding energy efficiency as they have an Minergy P Eco label.

DISCLAIMER

1. Validity of the SPO: Until material changes are made 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 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.
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ANNEX 1: Methodology

ISS ESG GREEN KPIS

The ISS ESG 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 KSW'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.

Environmental and social risks assessment 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 Kantonsspital Winterthur (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 KSW 's Green Bond contributes to related SDGs.

ANNEX 2: Quality management processes

SCOPE

Kantonsspital Winterthur commissioned ISS ESG to compile a Green Bond SPO. The Second Party Opinion process includes verifying whether the Green Bond Framework aligns with the ICMA 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: Medical Care Facilities

ISSUER'S RESPONSIBILITY

KSW'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 Kantonsspital Winterthur based on ISS ESG methodology and in line with the ICMA Green Bond Principles.

The engagement with Kantonsspital Winterthur took place in July/August 2021.

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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