

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Green Bond Framework

Lucerne Cantonal Hospital

26 April 2024

VERIFICATION PARAMETERS

Type(s) of
instrument
contemplated

- Green Bond

Relevant standards

- Green Bond Principles as administrated by the International Capital Market Association (ICMA) (as of June 2021 with June 2022 Appendix 1)

Scope of verification

- Lucerne Cantonal Hospital Green Bond Framework (as of April 26, 2024)
- Lucerne Cantonal Hospital Selection Criteria (as of April 26, 2024)

Lifecycle

- Pre-issuance verification

Validity

- Valid as long as the cited Framework remains unchanged

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SCOPE OF WORK

Lucerne Cantonal Hospital (“the Issuer”, or “the Company”) commissioned ISS-Corporate to assist with its Green Bond by assessing three core elements to determine the sustainability quality of the instrument:

1. Lucerne Cantonal Hospital’s Green Bond Framework (as of April 26, 2024) – benchmarked against the International Capital Market Association's (ICMA) Green Bond Principles (GBP).
2. The Selection Criteria – whether the project category contributes positively to the United Nations Sustainable Development Goals (UN SDGs) and how it performs against proprietary issuance-specific key performance indicators (KPIs) (See Annex 1).
3. Consistency of Green Bond with Lucerne Cantonal Hospital’s Sustainability Strategy – drawing on the key sustainability objectives and priorities defined by the Issuer.

LUCERNE CANTONAL HOSPITAL OVERVIEW

Luzerner Kantonsspital is a hospital with multiple locations that embodies a philosophy of careful medicine. The private company is based in Lucerne, Switzerland. The Swiss company's approach is characterized as warm, competent, and interconnected. The CEO of the company is Benno Fuchs.

ESG risks associated with the Issuer

Lucerne Cantonal Hospital is classified in the Health care facilities and services industry, as per ISS ESG's sector classification. Key sustainability issues faced by companies¹ in this industry are: Health benefits of the product portfolio, Quality and patient safety, Data protection and information security, Employee relations and work environment, and Energy and waste management.

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 a company specific assessment but areas that are of particular relevance for companies within that industry.

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 Green Bond Principles.</p>	<p>Aligned</p>
<p>Part II:</p> <p>Sustainability quality of the Selection Criteria</p>	<p>The Green Bond will (re)finance the eligible asset category Green Buildings.</p> <p>Product and/or service-related use of proceeds category individually contributes to one or more of the following SDGs:</p> <div 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 Lucerne Cantonal Hospital's Sustainability Strategy</p>	<p>The key sustainability objectives and the rationale for issuing a Green Bond are clearly described by the Issuer. The project category financed is in line with the sustainability objectives of the Issuer.</p> <p>At the date of publication of the report and leveraging ISS ESG Research, no severe controversies have been identified.</p>	<p>Consistent</p>

² The evaluation is based on the Lucerne Cantonal Hospital's Green Bond Framework (April 18, 2024), on the analyzed Selection Criteria as received on April 26, 2024.

SPO ASSESSMENT

PART I: ALIGNMENT WITH GREEN BOND PRINCIPLES

This section evaluates the alignment of the Lucerne Cantonal Hospital's Green Bond Framework (as of April 26, 2024) with the Green Bond Principles.

GREEN BOND PRINCIPLES	ALIGNMENT	OPINION
<p>1. Use of Proceeds</p>	<p>✓</p>	<p>The Use of Proceeds description provided by Lucerne Cantonal Hospital's Green Bond Framework is aligned with the Green Bond Principles.</p> <p>The Issuer's green category aligns with the project category as proposed by the Green Bond Principles. Criteria are defined in a clear and transparent manner. Disclosure of distribution of proceeds by project category and commitment to report by project category has been provided and environmental benefits are described.</p> <p>The Issuer defines the percentage of assets that are refinanced or financed, 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 Lucerne Cantonal Hospital's Green Bond Framework is aligned with the Green Bond Principles.</p> <p>The project selection process is defined. ESG risks associated with the project categories are identified and managed through an appropriate process. Moreover, the projects selected show alignment with the sustainability strategy of the Issuer.</p>
<p>3. Management of Proceeds</p>	<p>✓</p>	<p>The Management of Proceeds provided by Lucerne Cantonal Hospital's Green Bond Framework is aligned with the Green Bond Principles.</p>

		<p>The net proceeds collected will be equal to the amount allocated to eligible projects, with no exceptions. The net proceeds are tracked in an appropriate manner. The net proceeds are managed per bond (bond-by-bond approach). Moreover, the Issuer discloses the temporary investment instruments for unallocated proceeds.</p>
<p>4. Reporting</p>	<p>✓</p>	<p>The allocation and impact reporting provided by Lucerne Cantonal Hospital's Green Bond Principles is aligned with the Green Bond Principles.</p> <p>The Issuer commits to disclose the allocation of proceeds transparently and to report in an appropriate frequency. The reporting will be publicly available on the Issuer's website. Lucerne Cantonal Hospital 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 commits to getting the allocation report audited by an external party, in line with best market practices.</p>

PART II: SUSTAINABILITY QUALITY OF THE SELECTION CRITERIA

A. CONTRIBUTION OF THE GREEN BOND TO THE UN SDGs³

Companies can contribute to the achievement of the SDGs by providing specific services/products that help address global sustainability challenges, and by being responsible corporate actors, working to minimize negative externalities in their operations along the entire value chain.

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 a 3-point scale:



The Green Bond's Use of Proceeds category 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</p> <p><i>Construction of buildings certified with Minergie-P-ECO</i></p>	<p>Contribution</p>	

³ The impact of the UoP categories on UN Sustainable Development Goals is assessed with proprietary methodology and may therefore differ from the Issuer's description in the framework.

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

Green Buildings

The table below evaluates the Selection Criteria against issuance-specific KPIs. The asset is located in Switzerland.

ASSESSMENT AGAINST KPIs

Labor, Health, and Safety



The hospital will be located in Switzerland where high labor and health and safety standards are in place (e.g. ILO core conventions). The Issuer’s corporate social responsibility and sustainability report 2023⁴ includes its commitments regarding labour and human rights, like freedom of association, equal opportunities, diversity, and non-discrimination, and a zero-tolerance policy against bullying, sexual harassment, and inappropriate behaviour.

Environmental aspects of construction and operation



The hospital provides for sustainable procurement regarding building materials. According to the Minergie P-ECO label,⁵ the woods and wood materials used to bear the mark of origin are Schweizer Holz Herkunftszeichen Schweizer Holz (HSH),⁶ the Forestry Stewardship Council (FSC),⁷ or the Programme for the Endorsement of Forest Certification (PEFC) label.⁸ The material used for the construction of the building can be dismantled and reused, ensuring maintainability. To obtain the Minergie P-ECO, a calculation of the grey energy the building uses was requested and calculated, with the result being within the limits. The concrete used is almost exclusively RC-C concrete with an increased proportion of RC-C granulate (min. 40% of the aggregate). The Issuer confirms that many building materials are regionally sourced.⁹

Conservation and biodiversity management



The hospital will be located in Switzerland, where performing an Environmental Impact Assessment (EIA) before construction is required by the EU Directive

⁴ Luzerner Kantonalbank, 2023. Corporate social responsibility and sustainability 2023. URL: [Corporate social responsibility and sustainability 2023 \(lukb.ch\)](https://www.lukb.ch/csr-sustainability-2023)

⁵ Minergie building standards: For climate-friendly comfort in life and work, 2022. URL: [rz_min_102_2021-03-21_flyer_baustandard_minergie_en_2022_03_web_1.pdf](https://www.minergie.ch/21-flyer-baustandard-minergie-en-2022-03-web-1.pdf)

⁶ HSH label. URL: [Label Swiss Wood - A Good Decision - Swiss Wood \(holz-bois-legno.ch\)](https://www.holz-bois-legno.ch/)

⁷ FSC label. URL: [Home | Forest Stewardship Council \(fsc.org\)](https://www.fsc.org/)

⁸ PEFC label. URL: [PEFC - Programme for the Endorsement of Forest Certification](https://www.pefc.org/)

⁹ Swiss Confederation, Construction Products & European Affairs – PCAE. URL: [Construction Products and European Affairs \(PCAE\) Specialist Area \(admin.ch\)](https://www.pcae.admin.ch/)

2014/52/EU,¹⁰ which has been implemented into Swiss national legislation.¹¹
The EIA covers conversation and biodiversity management.

Water use minimization in buildings



The hospital has water reduction measures in place. According to the Minergie P-ECO label, rainwater is retained, and water-saving actions are taken.

User Safety



The Issuer follows the specifications of the federal government for public law clients, Coordination Conference for Public Sector Construction (Koordinationskonferenz der Bau-und Liegenschaftsorgane der öffentlichen Bauherren, KBOB)¹² for its contracts with third-party construction companies.

The hospital provides operational safety measures in its building (e.g. emergency exits, fire sprinklers, fire alarm systems), as mandated by national legislation. The Swiss Office for Integral Safety states that *the legal basis for the evacuation concept in Switzerland can be found in the Labor Act (ArG) and the Fire Protection Act (BGSchG). The ArG obliges companies to create and implement an evacuation concept. The BGSchG stipulates that the evacuation concept must meet fire safety requirements.*¹³

Additionally, the SUVA (Swiss accident insurance)¹⁴ is independently auditing construction sites to ensure appropriate working conditions.

Site Location



The site is within 1 km from public transportation. The hospital will be located next to two public transport bus stations connecting to Lucerne's main station.

¹⁰ Directive 2014/52/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2011/92/EU on the assessment of the effects of certain public and private projects on the environment [Directive - 2014/52 - EN - EIA - EUR-Lex \(europa.eu\)](https://eur-lex.europa.eu/eli/dir/2014/52/oj)

¹¹ Swiss Confederation, EIA: Acts and ordinances. URL: <https://www.bafu.admin.ch/bafu/en/home/topics/eia/law/acts-ordinances.html>

¹² Swiss Confederation, Coordination Conference of the Building and Real Estate Bodies of Public Builders KBOB. URL: [KBOB \(admin.ch\)](https://www.kbob.admin.ch)

¹³ Swiss office for integral safety, Evacuation concept. URL: [SBIS: Evacuation concept for companies](https://www.sbis.ch/SBIS-Evacuation-concept-for-companies)

¹⁴ Swiss accident insurance. URL: [Swiss accident insurance \(ch.ch\)](https://www.suva.ch)

PART III: CONSISTENCY OF GREEN BOND WITH LUCERNE CANTONAL HOSPITAL'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the Issuer

TOPIC	ISSUER APPROACH
Strategic ESG topics	The Issuer focuses on improving its ecological footprint, promoting environmental actions, focusing on employment attraction, and developing towards a lean hospital reducing waste. These sustainability pillars have been defined through LUKS Group's corporate strategy.
ESG goals/targets	To achieve its strategic ESG topics, the Issuer has the following ambitions: Net-zero operational greenhouse gas emissions by 2050, including Scope 1 and 2, and be resilient against the risks of climate change. From 2026, waste heat will be stored and reused.
Action plan	The Issuer has an energy strategy and a "universal target strategy" in place to achieve Net-zero by 2050, but it is not public.
Climate Transition Strategy	Lucerne Cantonal Hospital plans on being fossil-fuel-free in its operations by 2040 and reaching Net-zero by 2050. The residual emissions will be compensated. It is planning on making its vehicles CO ₂ -neutral when possible. Scope 1 and 2 gas emissions are monitored annually.
ESG Risk and Sustainability Strategy Management	The Issuer uses KBOB specifications for its contracts with third-party construction companies, covering environmental aspects and social, like human rights, child labor, and anti-corruption. Lucerne Cantonal Hospital has a corporate risk management system, and climate risks are part of it. The Board is responsible for this system.
Top three areas of breaches of international norms and ESG controversies in the industry¹⁵	Failure to respect consumer health and safety, Embezzlement, and Failure to prevent money laundering.

¹⁵ Based on a review of controversies identified by ISS ESG over a 2-year period, the top three issues that have been reported against companies within the [Industry_Name] industry are displayed above. Please note that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry

Breaches of international norms and ESG controversies by the Issuer	At the date of publication and leveraging ISS ESG Research, no controversy in which the Issuer would be involved has been identified.
Sustainability Reporting	The Issuer reports on its ESG performance and initiatives on an annual basis. The report is prepared according to the Global Reporting Initiative (GRI) recommendation. For next year’s reporting, the Issuer will follow the Task Force on Climate-related Financial Disclosures (TFCD) too.
Industry associations, Collective commitments	-
Previous sustainable/sustainability-linked issuances or transactions and publication of sustainable financing framework	-

Rationale for issuance

Lucerne Cantonal Hospital’s key sustainability topics are, among others, climate change and energy, resource utilization, and circular economy. The issuance of its first green bond to build the new hospital with a Minergie-P-ECO label will help achieve those goals for the Issuer. The new construction will focus on cost-effectiveness during construction and operation, energy efficiency, and ecological construction methods.

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

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 labelled transactions against international standards using ISS-Corporate proprietary methodology. For more information, please visit: <https://www.iss-corporate.com/file/publications/methodology/iss-corporate-green-social-and-sustainability-bond-loan-spo-methodology-summary.pdf>

ANNEX 2: QUALITY MANAGEMENT PROCESSES

SCOPE

Lucerne Cantonal Hospital 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 to assess the sustainability credentials of its Green Bond, as well as the Issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion:

- Green Bond Principles

ISSUER'S RESPONSIBILITY

Lucerne Cantonal Hospital's responsibility was to provide information and documentation on:

- Framework
- Selection criteria
- Documentation of ESG risks management at the asset level

ISS-CORPORATE'S VERIFICATION PROCESS

Since 2014, ISS Group, of 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 Lucerne Cantonal Hospital has been conducted based on a proprietary methodology and in line with the ICMA Green Bond Principles.

The engagement with Lucerne Cantonal Hospital took place in April 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.

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.iss-corporate.com/solutions/sustainable-finance/bond-issuers/>

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