

## SECOND PARTY OPINION (SPO)

---

Sustainability Quality of the Issuer and Social Bond Framework

Investitionsbank Berlin  
14 June 2022

### VERIFICATION PARAMETERS

---

Type(s) of instruments contemplated	<ul style="list-style-type: none"><li>• Social Bonds</li></ul>
Relevant standards	<ul style="list-style-type: none"><li>• International Capital Market Association's (ICMA) Social Bond Principles (SBP), as of June 2021</li></ul>
Scope of verification	<ul style="list-style-type: none"><li>• Investitionsbank Berlin Social Bond Framework (as of 03.06.2022)</li><li>• Investitionsbank Berlin selection criteria (as of 03.06.2022)</li></ul>
Lifecycle	<ul style="list-style-type: none"><li>• Pre-issuance verification</li></ul>
Validity	<ul style="list-style-type: none"><li>• As long as there is no material change to the Framework</li></ul>

## CONTENTS

SCOPE OF WORK .....	3
IBB BUSINESS OVERVIEW .....	3
ISS ESG ASSESSMENT SUMMARY .....	4
ISS ESG SPO ASSESSMENT .....	5
PART I: ALIGNMENT WITH ICMA’S SOCIAL BOND PRINCIPLES .....	5
PART II: SUSTAINABILITY QUALITY OF THE SELECTION CRITERIA .....	7
A. CONTRIBUTION OF THE SOCIAL BONDS TO THE UN SDGs .....	7
B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE SELECTION CRITERIA.....	10
PART III: SOCIAL BOND LINK TO IBB’S SUSTAINABILITY STRATEGY.....	14
A. IBB’S BUSINESS EXPOSURE TO ESG RISKS .....	14
B. CONSISTENCY OF SOCIAL BOND WITH IBB’S SUSTAINABILITY STRATEGY.....	16
ANNEX 1: Methodology .....	19
ANNEX 2: ISS ESG Corporate Rating Methodology .....	20
ANNEX 3: Quality management processes .....	22
About ISS ESG SPO .....	23

## SCOPE OF WORK

Investitionsbank Berlin (“the Issuer” or “IBB”) commissioned ISS ESG to assist with its Social Bonds by assessing three core elements to determine the sustainability quality of the instrument:

1. IBB’s Social Bond Framework (03.06.2022 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 IBB’s sustainability strategy – drawing on IBB’s overall sustainability profile and issuance-specific Use of Proceeds categories.

## IBB BUSINESS OVERVIEW

Investitionsbank Berlin is a promotional bank owned by and active within the German federal state of Berlin. Property development and improvement of the local economy are two of its long-standing focus areas, with development of the labor market growing in prominence. IBB’s property development segment targets real estate investors, owners and tenant-owner associations. Product offerings include loans, grants and advisory services for energy-efficiency improvements, modernization of accessible housing, and promotional loans for social housing. The promotion of local economy includes the provision of loans, grants, advisory services, and equity investment to entrepreneurs and start-ups, Berlin-based corporations, and university and research institutes.

## ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION <sup>1</sup>
<b>Part 1:</b>  <b>Alignment with ICMA's SBP</b>	<p>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 ICMA's Social Bond Principles.</p>	<b>Aligned</b>
<b>Part 2:</b>  <b>Sustainability quality of the selection criteria</b>	<p>The Social Bonds will (re-)finance eligible project categories which include: affordable housing, affordable basic infrastructure, access to essential services, SME financing and employment generation, and access to public goods &amp; services.</p> <p>Those use of proceeds categories have a significant contribution to SDGs 1 'No poverty', 6 'Clean water and sanitation', 8 'Decent work and economic growth', 10 'Reduced inequalities', 11 'Sustainable cities and communities' and 12 'Responsible consumption and production' and a limited contribution to SDGs 3 'Good health and well-being', 4 'Quality education', 7 'Affordable and clean energy' and 13 'Climate action'.</p> <p>The environmental and social risks associated with those use of proceeds categories have been well managed.</p>	<b>Positive</b>
<b>Part 3:</b>  <b>Social Bonds link to issuer's sustainability strategy</b>	<p>According to the ISS ESG Corporate Rating published on 05.05.2022, the issuer shows a medium sustainability performance.</p> <p>The Use of Proceeds financed through these Social Bonds are consistent with the issuer's sustainability strategy and material ESG topics for the issuer's industry. The rationale for issuing Social Bonds is clearly described by the issuer.</p>	<b>Consistent with issuer's sustainability strategy</b>

<sup>1</sup> ISS ESG's evaluation is based on the IBB's Social Bond Framework (03.06.2022), on the analysed selection criteria as received on the 03.06.2022, and on the ISS ESG Corporate Rating updated on the 05.05.2022 and applicable at the SPO delivery date.

## ISS ESG SPO ASSESSMENT

### PART I: ALIGNMENT WITH ICMA'S SOCIAL BOND PRINCIPLES

This section describes ISS ESG's assessment of the alignment of the IBB's Social Bond Framework (dated 03.06.2022) with the ICMA's Social Bond Principles.

ICMA'S SBP	ALIGNMENT	ISS ESG'S OPINION
1. Use of Proceeds	✓	<p>ISS ESG considers the Use of Proceeds description provided by IBB's Social Bond Framework as <b>aligned</b> with the ICMA's SBP.</p> <p>The Issuer's social categories align with the project categories as proposed by the ICMA's SBP, criteria are defined in a clear and transparent manner. Social benefits are described.</p> <p>The Issuer has defined the expected look-back period for eligible projects occurred no earlier than 36 months prior to the issuance year of each social bond. The percentage of assets to be refinanced or financed will also be reported. IBB has also defined exclusion criteria for harmful projects categories, in line with best market practice.</p>
2. Process for Project Evaluation and Selection	✓	<p>ISS ESG considers the Process for Project Evaluation and Selection description provided by IBB's Social Bond Framework as <b>aligned</b> with the ICMA's SBP.</p> <p>The project selection process is defined and structured in a congruent manner. 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>The issuer clearly defines responsibilities in the process for project evaluation and selection and is transparent about it. Furthermore, IBB involves various stakeholders in this process, which is in line with best market practice.</p>
3. Management of Proceeds	✓	<p>ISS ESG finds that the Management of Proceeds proposed by IBB's Social Bond Framework as <b>aligned</b> with the ICMA's SBP.</p> <p>The proceeds collected will be equal to the amount allocated to eligible projects, with no exceptions. The</p>

		<p>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>
<p><b>4. Reporting</b></p>	<p>✓</p>	<p>ISS ESG finds that the allocation and impact reporting proposed by IBB’s Social Bond Framework as <b>aligned</b> with the ICMA’s SBP.</p> <p>The Issuer commits to disclose the allocation of proceeds transparently and to report in an appropriate frequency. IBB 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> <p>The issuer is transparent on the information reported in the impact report, outlined specific metrics to measure the impacts in respective project categories, in line with best market practice.</p>

## PART II: SUSTAINABILITY QUALITY OF THE SELECTION CRITERIA

### A. CONTRIBUTION OF THE SOCIAL BONDS TO THE UN SDGs

Companies can contribute to the achievement of the SDGs by providing specific services/products which 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 aim of this section is to assess 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.

#### 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 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):

<b>Significant Obstruction</b>	<b>Limited Obstruction</b>	<b>No Net Impact</b>	<b>Limited Contribution</b>	<b>Significant Contribution</b>
------------------------------------	--------------------------------	--------------------------	---------------------------------	-------------------------------------

Each of the social 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><b>Affordable housing</b></p> <p>- Loans to state-owned housing companies for rental housing in Berlin (Target population: Persons entitled to a WBS according to the Berlin income limits: One-person household: EUR 16,800 per annum / Two-person household: EUR 25,200 per annum / Plus for each further person who is counted as belonging to the household: EUR 5,740 per annum / Surcharge for each child belonging to the household: EUR 700 per annum   The net cold rent is not more than 30% of the income of a tenant   Sections of the population with low income)</p> <p>- Loans to housing cooperatives declaring that the average rent is below the city average rent of Berlin for rental housing in Berlin (Target population: Sections of the population with low income)</p>	<b>Significant contribution</b>	

**Affordable housing**

- Loans to state-owned housing companies for rental housing in Berlin (Target population: Sections of the population with middle income)

- Loans to housing cooperatives declaring that the average rent is below the city average rent of Berlin for rental housing in Berlin (Target population: Sections of the population with middle income)

Limited contribution



**Affordable basic infrastructure**

- Loans to municipal and state-owned infrastructure companies in Berlin with the established (social) mission of affordable and environmentally friendly service provision to improve access to:

- Electric, hybrid or fuel cell-powered public transport (Target population: All populations in Berlin)

Limited contribution



**Affordable basic infrastructure**

- Loans to municipal and state-owned infrastructure companies in Berlin with the established (social) mission of affordable and environmentally friendly service provision to improve access to:

- Non-electric, hybrid or fuel cell-powered public transport (Target population: All populations in Berlin)

Limited contribution



**Affordable basic infrastructure**

- Loans to municipal and state-owned infrastructure companies in Berlin with the established (social) mission of affordable and environmentally friendly service provision to improve access to:

- Water treatment and supply (Target population: All populations in Berlin)

Significant contribution



Limited contribution



**Affordable basic infrastructure**

- Loans to municipal and state-owned infrastructure companies in Berlin with the established (social) mission of affordable and environmentally friendly service provision to improve access to:

- Waste management services with systematic recycling is integrated into waste disposal (Target population: All populations in Berlin)

Significant contribution



**Affordable basic infrastructure**

- Loans to municipal and state-owned infrastructure companies in Berlin with the established (social) mission of affordable and environmentally friendly service provision to improve access to:

- Energy services (exclusively for remunicipalisation of energy grids as well as maintenance of remunicipalised grids), (Target population: All populations in Berlin)

Limited contribution



<p><b>Access to essential services</b></p> <p>- Loans to state-owned hospitals in Berlin with the aim of modernizing and digitizing the healthcare system (Target population: All populations in Berlin)</p>	<p>Limited contribution</p>	
<p><b>Access to essential services</b></p> <p>- Loans to state-owned (housing) companies in Berlin for the construction and renovation of schools to improve access to education (Target population: Participants in primary to tertiary education)</p>	<p>Limited contribution</p>	
<p><b>SME financing and employment generation</b></p> <p>- General loans for small and medium-sized enterprises with the purpose of creating and safeguarding jobs (Target population: SMEs in Berlin)</p>	<p>Significant contribution<sup>2</sup></p>	
<p><b>Access to public goods &amp; services</b></p> <p>- General loans to German economically disadvantaged municipalities for infrastructure and services (Target population: Citizens of municipalities with a GDP/capita below the German average and/or an unemployment rate that is above the median of all German municipalities related to the commitment year)</p>	<p>Limited Contribution</p>	
<p><b>Access to public goods &amp; services</b></p> <p>- General loans to German economically disadvantaged municipalities for infrastructure and services (Target population: Citizens of municipalities with a GDP/capita below the German average and/or an unemployment rate that is above the median of all German municipalities related to the commitment year)</p>	<p>Limited Contribution<sup>2</sup></p>	

<sup>2</sup> This assessment differs from the ISS ESG SDG Solutions Assessment (SDGA) proprietary methodology designed to assess the impact of an issuer's product and service portfolio on the SDGs.

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

### **Affordable housing; Affordable basic infrastructure; Access to essential services; SME financing and employment generation; Access to public goods & services**

The table below presents the findings of an ISS ESG assessment of the selection criteria against ISS ESG KPIs.

#### ASSESSMENT AGAINST ISS ESG KPI

##### Inclusion



All products or programmes must be commissioned by the Berlin government. In this process, government administrations including those responsible for socially disadvantaged groups are involved and must approve a bill for the implementation of the programme. All access information and eligibility requirements are transparent and published in public guidelines and leaflets.

For programmes that have certain qualifications as a prerequisite (loans etc.), IBB cooperates with many local partners offering accompanying measures, advice, and qualification for disadvantaged groups.

##### Responsible treatment of customers with debt repayment problems



IBB has pre-emptive internal work instructions in place to prevent client debt problems, including but not limited to practices such as EBA guidelines and minimum requirements for risk management (Mindestanforderungen an das Risikomanagement – MaRisk). The issuer reviews the customer's ability to service debt as part of the creditworthiness check and uses flat-rate approaches and considers the use of loan collateral. The default risk of a borrower is also examined in the rating process and regular credit monitoring is performed.

An early warning system is in place to identify trigger factors for customer repayment difficulties to be able to initiate appropriate countermeasures. Furthermore, the possibility for concessions to a debtor to avoid a deterioration of the debtor's financial situation, in particular a default on the debt concerned (e.g. a 90 day default), is also included in internal work instructions.

IBB's applicable risk strategy also include fixed interest rate period and compliance with the specified (product) limits, such as risk limits, counterparty limits, large loan limits, etc.

For the social loan pool, all loans with negative credit events that have already resulted in individual value adjustments are excluded.

## Stakeholder Management



IBB's borrowers are governed under German labour laws that have rigid health and safety guidelines. In addition, some of the use of proceeds within this guideline also requires companies to comply with Berlin Law on Tender and Public procurement (Berliner Ausschreibungs- und Vergabegesetz – BerlAVG) that strive to enforce the ILO Core Conventions.



In Germany, public participation in construction projects is mandatory by the German Building Code (Baugesetzbuch – BauGB). Development plans have to be publicized so that all citizens can voice their comments and/or objections within a specific timeline. Public authorities will then process and consider all of the comments before issuing construction permits.



Business practices are covered by German and EU laws/regulations (the German Criminal Code (Strafgesetzbuch – StGB), Money Laundering Act (Geldwäschegesetz – GWG) as well as Regulation (EU) No 596/2014 (Market Abuse Regulation) penalize unlawful behaviour). Cooperatives also must comply with the German Cooperatives Code (Genossenschaftsgesetz – GenG) plus their respective statutes. State-owned housing companies as well as other companies owned by the federal state of Berlin servicing public needs have to comply with the basic principles of German commercial law such as section 347 Commercial Code (Handelsgesetzbuch – HGB), with the Investment Directions of the federal state of Berlin (so-called "Beteiligungshinweise") as well as the Berlin Corporate Governance Codex. German Municipalities have to follow their local or Federal State issued guidelines as well. In addition, IBB has a rating procedure in place to measure the management quality and corporate structure of potential clients, these factors are considered in both business development and real estate development.

## Prerequisite for affordable housing



The existing German Cooperatives Code (GenG) states that all members in a cooperative are equal and have the right to vote in the Cooperatives' general assembly. The annual report made on the cooperation agreement "Leistbare Mieten, Wohnungsneubau und soziale Wohnraumversorgung"<sup>3</sup> between the federal state of Berlin and the state-owned housing companies contains information on the average existing rent per state-owned housing company with a comparison to the Berlin rent index ("Berliner Mietspiegel"). The law on the realignment of social housing provision in Berlin (Berliner Wohnraumversorgungsgesetz – WoVG Bln), defines the criteria for social portfolio management and a social housing policy that strengthens the implementation of special social obligation of state-owned housing companies. Tenants in houses owned by cooperatives generally enjoy a lifelong right of residence, since

<sup>3</sup> [Leistbare Mieten, Wohnungsneubau und soziale Wohnraumversorgung](#), Cooperation agreement with the municipal housing companies in Berlin

section 573 of the German Civil Code (Bürgerliches Gesetzbuch – BGB) is usually waived. In addition, tenants of the state-owned housing companies also enjoy certain benefits under the cooperation agreement "Leistbare Mieten, Wohnungsneubau und soziale Wohnraumversorgung", which limit the agency's statutory right to increase rents or terminate lease agreements in accordance with the German Civil Code (BGB).

#### User's safety



Buildings operational safety (e.g. statics, fire protection) is checked either with a building permit if mandatory or through the final building inspection (a confirmation by the construction manager/architect). In addition, the building supervisory authority can issue a prohibition of use if the building damage cannot be remediated.



Limited information is available on policies systematically ensuring the operational safety of products that may be financed. However, German regulations on product liability, such as the liability for material defects according to the German Civil Code (BGB), the Product Liability Act (Produkthaftungsgesetz – ProdHaftG) and the legal institution of producer liability largely ensure that products put on the market have been tested and have the required operational safety.

#### Environmental Aspects



All assets to be financed will be located within Germany where permits for the construction of buildings may only be granted if they do not violate environmental protection laws/regulations.

#### Biodiversity



In Germany, a tight network of environmental protection regulations, including the Federal Nature Conservation Act (Bundesnaturschutzgesetz – BNatSchG), the Federal Soil Protection Act (Bundes-Bodenschutzgesetz – BBodSchG), the Water Resources Act (Wasserhaushaltsgesetz – WHG) manage potential biodiversity risks of projects. In addition, state laws and ordinances also promote high environmental protection standards.



In addition to the regulations of the (Federal) Building Code, the provisions of the Berlin Law on Nature Conservation and Landscape Management (Gesetz über Naturschutz und Landschaftspflege von Berlin – NatSchG Bln) ensure the responsible selection of locations for building/infrastructure projects. The projects are required to obtain permits which also take into account the nature of the immediate vicinity and other environmental aspects.

#### Quality Management



The SME loan programmes must be compliant with EU's European Structural and Investment Funds (ESIF) regulations, such that no

companies in difficulty as defined by the EU may be financed. On a country level, the German Banking Act (Kreditwesengesetz – KWG) and the Money Laundering Act (GwG) also regulate local intermediary banks' SME loans to prevent any unlawful act.



Germany has stringent regulations in place for companies with non-profit status such as regular audits by the tax office. State-owned infrastructure companies and service providers, like all other clients of IBB, are also obliged to provide the Bank and/or other competent public bodies with any information requested regarding the proper use of IBB's approved funding. They are also subject to the special requirements of the Investment Directions (so-called "Beteiligungshinweise") as well as the Berlin Corporate Governance Codex of the federal State of Berlin.

## PART III: SOCIAL BOND LINK TO IBB'S SUSTAINABILITY STRATEGY

### A. IBB'S BUSINESS EXPOSURE TO ESG RISKS

This section aims to provide an overall level of information on the ESG risks to which the issuer is exposed through its business activities, providing additional context to the issuance assessed in the present report.

#### *ESG risks associated with the Issuer's industry*

Key challenges faced by companies in terms of sustainability management in this sector are displayed in the table below. Please note, that this is not a company specific assessment but areas that are of particular relevance for companies within that industry.

ESG KEY ISSUES IN THE SECTOR
Sustainability standards for financial products and services
Goal-oriented promotion of sustainability issues
Climate change and related risks
Labour standards and working conditions

#### *ESG performance of the Issuer*

Leveraging ISS ESG's Corporate Rating methodology, ISS ESG assessed the current sustainability performance of the issuer to be medium. 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.

#### *Sustainability impact of products and services portfolio*

Leveraging ISS ESG's Sustainability Solutions Assessment methodology, ISS ESG assessed the contribution of the issuer's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along the issuer's production process.

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE <sup>4</sup>	DIRECTION OF IMPACT	UN SDGS
Emergency aid	56% <sup>5</sup>	CONTRIBUTION	

<sup>4</sup> Percentages presented in this table are not cumulative.

<sup>5</sup> This figure pertains to Coronavirus aid (2.2 bn EUR) referenced in the sustainability report 2020. The specific context of the pandemic has resulted in figures that differ from IBB's revenue in typical years.

Financing of healthcare provision, financing energy supply to residential customers, financing of social housing	7.5%	CONTRIBUTION	
			
			
Financing of healthcare facilities, financing of healthcare provision	2%	CONTRIBUTION	
Financing of energy efficiency improvements	2.5%	CONTRIBUTION	 

*Breaches of international norms and ESG controversies*

At issuer level

At the date of publication, ISS ESG has not identified any severe controversy in which the issuer would be involved.

At industry level

Based on a review of controversies over a 2-year period, the top three issues that have been reported against companies within the Development Banks sector are as follows: Failure to assess environmental impacts, failure to mitigate climate change impacts and poor stakeholder consultation.

Please note, that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

## B. CONSISTENCY OF SOCIAL BOND WITH IBB'S SUSTAINABILITY STRATEGY

### *Key sustainability objectives and priorities defined by the issuer*

IBB UV has developed sustainability guidelines, adopted by the Board of Directors in January 2022 and apply to the entire IBB Group. The latest version of the sustainability guidelines is available on IBB's sustainability web page<sup>6</sup>.

The following sustainability guiding principles, which have been established for each of the four fields of action, form the basis for IBB's sustainable actions:

1. Business Ethics and product stewardship
  - a. Support the economy in creating jobs and promoting sufficient affordable housing
  - b. Increase energy efficiency in the Berlin building sector
  - c. Support small and medium-sized enterprises (SMEs) and innovators in their business journey
  - d. Promote the implementation of sustainable and resource-saving investments
  - e. Support customers that go beyond market assessment such as economic, ecological, and social criteria
2. Social commitment, communication & compliance
  - a. Support social and cultural projects
  - b. Support competition for innovative projects and initiatives for a sustainable Berlin
  - c. Commit to communicate business sustainability initiatives
  - d. Commit to good corporate governance and adhere to applicable law against corruption and bribery
3. Social responsibility towards IBB's employees
  - a. Promote employees' performance orientation
  - b. Create transparency related to remuneration policy
  - c. Promote a strong culture of work-life balance
  - d. Promote equal opportunities and diversity
  - e. Promote occupational safety and health of employees
4. Operational environmental protection and resource efficiency
  - a. Promote a sustainable banking operation
  - b. Promote climate protection through efficient use of resources
  - c. Support additional sustainability solutions in procuring services

For all sustainability priorities, IBB defined specific sustainability objectives and activities, as well as a period of relevance of the objectives. However, those objectives are not all quantified.

### *Rationale for issuance*

IBB acts as the extended arm of the federal state of Berlin tasked with implementing relevant steps to fulfil the state's commitment towards sustainability. Furthermore, as a development bank, IBB states its main objective to be to contribute to the sustainable development of Berlin by means of the bank's funding. According to the bank, the issuance of social bond thus aligns with the nature and mission of IBB (and its lending business).

<sup>6</sup> <https://www.ibb.de/de/ueber-uns/nachhaltigkeit/nachhaltigkeit.html>

*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 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 Development Banks industry. 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	CONTRIBUTION
<b>Affordable Housing</b>	✓	✓	Contribution to a material objective
<b>Affordable basic infrastructure</b>	✓	✓	Contribution to a material objective
<b>Access to essential services</b>	✓	✓	Contribution to a material objective
<b>SME financing and employment generation</b>	✓	✓	Contribution to a material objective
<b>Access to public goods &amp; services</b>	✓	✓	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 the issuer’s industry. 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. In particular, we point out that the verification of the asset pool is based on random samples and documents submitted by the issuer.
4. All statements of opinion and value judgments 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 creditworthiness of a bond but refers exclusively to the social and environmental criteria mentioned above.
5. We would point out that this SPO, certain images, text, and graphics contained therein, and the layout and company logo of ISS ESG and ISS-ESG are the property of ISS and are protected under copyright and trademark law. Any use of such ISS property shall require the express prior written consent of ISS. Use shall be deemed to refer in particular to the copying or duplication of the SPO wholly or in part, the distribution of the SPO, either free of charge or against payment, or the exploitation of this SPO in any other conceivable manner.

The issuer that is the subject of this report may have purchased self-assessment tools and publications from ISS Corporate Solutions, Inc. ("ICS"), a wholly-owned subsidiary of ISS, or ICS may have provided advisory or analytical services to the issuer. No employee of ICS played a role in the preparation of this report. If you are an ISS institutional client, you may inquire about any issuer's use of products and services from ICS by emailing [disclosure@issgovernance.com](mailto:disclosure@issgovernance.com).

This report has not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body. While ISS exercised due care in compiling this report, it makes no warranty, express or implied, regarding the accuracy, completeness or usefulness of this information and assumes no liability with respect to the consequences of relying on this information for investment or other purposes. In particular, the research and scores provided are not intended to constitute an offer, solicitation or advice to buy or sell securities nor are they intended to solicit votes or proxies.

Deutsche Börse AG ("DB") owns an approximate 80% stake in ISS HoldCo Inc., the holding company which wholly owns ISS. The remainder of ISS HoldCo Inc. is held by a combination of Genstar Capital ("Genstar") and ISS management. ISS has formally adopted policies on non-interference and potential conflicts of interest related to DB, Genstar, and the board of directors of ISS HoldCo Inc. These policies are intended to establish appropriate standards and procedures to protect the integrity and independence of the research, recommendations, ratings and other analytical offerings produced by ISS and to safeguard the reputations of ISS and its owners. Further information regarding these policies are available at <https://www.issgovernance.com/compliance/due-diligence-materials>.

© 2022 | Institutional Shareholder Services and/or its affiliates

## 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 IBB’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 included in the asset pool match the eligible project category and criteria listed in the Social 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 Social Bond KPIs.

The evaluation was carried out using information and documents provided to ISS ESG on a confidential basis by IBB (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 IBB’s Social Bonds contributes to related SDGs.

## ANNEX 2: ISS ESG Corporate Rating Methodology

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

### Methodology - Overview

The ESG Corporate Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for more than 25 years.

**ESG Corporate Rating** - The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-.

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

**Analyst Opinion** - Qualitative summary and explanation of the central rating results in three dimensions:

- (1) Opportunities - assessment of the quality and the current and future share of sales of a company's products and services, which positively or negatively contribute to the management of principal sustainability challenges.
- (2) Risks - summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, in particular regarding its sector's key issues.
- (3) Governance - overview of the company's governance structures and measures as well as of the quality and efficacy of policies regarding its ethical business conduct.

**Norm-Based Research - Severity Indicator** - The assessment of companies' sustainability performance in the ESG Corporate Rating is informed by a systematic and comprehensive evaluation of companies' ability to prevent and mitigate ESG controversies. ISS ESG conducts research and analysis on corporate involvement in verified or alleged failures to respect recognized standards for responsible business conduct through Norm-Based Research.

Norm-Based Research is based on authoritative standards for responsible business conduct such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the Sustainable Development Goals.

As a stress-test of corporate disclosure, Norm-Based Research assesses the following:

- Companies' ability to address grievances and remediate negative impacts
- Degree of verification of allegations and claims
- Severity of impact on people and the environment, and systematic or systemic nature of malpractices

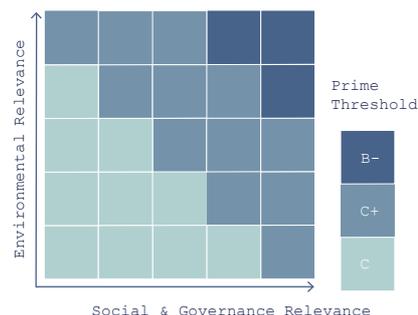
Severity of impact is categorized as Potential, Moderate, Severe, Very severe. This informs the ESG Corporate Rating.

**Decile Rank** - The Decile Rank indicates in which decile (tenth part of total) the individual Corporate Rating ranks within its industry from 1 (best – company's rating is in the first decile within its industry) to 10 (lowest – company's rating is in the tenth decile within its industry). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of companies within an industry cannot be evenly divided by ten, the surplus company ratings are distributed from the top (1 decile) to the bottom. If there are Corporate Ratings with identical absolute scores that 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 Corporate Ratings in the decile below.

**Distribution of Ratings** - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ESG Corporate Rating universe (company portrayed in this report: dark blue).

**Industry Classification** - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analyzed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ESG Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS ESG Prime Status (Prime threshold) are defined (absolute best-in-class approach).



**Industry Leaders** - List (in alphabetical order) of the top three companies in an industry from the ESG Corporate Rating universe at the time of generation of this report.

**Key Issue Performance** - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

**Performance Score** - The ESG Performance Score allows for cross-industry comparisons using a standardized best-in-class threshold that is valid across all industries. It is the numerical representation of the alphabetic ratings (D- to A+) on a scale of 0 to 100 with 50 representing the prime threshold. All companies with values greater than 50 are Prime, while companies with values less than 50 are Not Prime. As a result, intervals are of varying size depending on the original industry-specific prime thresholds.

**Rating History** - Development of the company's rating over time and comparison to the average rating in the industry.

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

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

**Sources of Information** - A selection of sources used for this report is illustrated in the annex.

**Status & Prime Threshold** - Companies are categorized as Prime if they achieve/exceed the sustainability performance requirements (Prime threshold) defined by ISS ESG for a specific industry (absolute best-in-class approach) in the ESG Corporate Rating. Prime companies are sustainability leaders in their industry and are better positioned to cope with material ESG challenges and risks, as well as to seize opportunities, than their Not Prime peers. The financial materiality of the Prime Status has been confirmed by performance studies, showing a continuous outperformance of the Prime portfolio when compared to conventional indices over more than 14 years.

**Transparency Level** - The Transparency Level indicates the company's materiality-adjusted disclosure level regarding the environmental and social performance indicators defined in the ESG Corporate Rating. It takes into consideration whether the company has disclosed relevant information regarding a specific indicator, either in its public ESG disclosures or as part of the rating feedback process, as well as the indicator's materiality reflected in its absolute weight in the rating. The calculated percentage is classified in five transparency levels following the scale below.

0% - < 20%: very low

20% - < 40%: low

40% - < 60%: medium

60% - < 80%: high

80% - 100%: very high

For example, if a company discloses information for indicators with a cumulated absolute weight in the rating of 23 percent, then its Transparency Level is "low". A company's failure to disclose, or lack of transparency, will impact a company's ESG performance rating negatively.

## ANNEX 3: Quality management processes

### SCOPE

IBB commissioned ISS ESG to compile a Social Bonds SPO. The Second Party Opinion process includes verifying whether the Social Bond Framework aligns with the ICMA's SBP 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

- ICMA's SBP
- ISS ESG Key Performance Indicators relevant for Use of Proceeds categories selected by the Issuer

### ISSUER'S RESPONSIBILITY

IBB's responsibility was to provide information and documentation on:

- Framework
- Eligibility criteria
- Documentation of ESG risks management at the framework 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 Social Bonds to be issued by IBB based on ISS ESG methodology and in line with the ICMA's SBP.

The engagement with IBB took place from April to 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/>

For more information on SPO services, please contact: [SPOsales@isscorporatesolutions.com](mailto:SPOsales@isscorporatesolutions.com)

For more information on this specific Social Bonds SPO, please contact: [SPOOperations@iss-esg.com](mailto:SPOOperations@iss-esg.com)

### Project team

Project lead	Project support	Project support	Project supervision
Joao Ferreira Associate ESG Consultant	Tuleen Ashour Analyst ESG Consultant	Allen NG Associate ESG Consultant	Marie-Bénédicte Beaudoin Associate Director Head of ISS ESG SPO Operations