



SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Green Bond Framework

Bausparkasse Schwäbisch Hall AG
12 July 2023

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none">Green financing instruments
Relevant standards	<ul style="list-style-type: none">Green Bond Principles (GBP), as administered by the ICMA (as of June 2021 with June 2022 Appendix I)Bausparkasse Schwäbisch Hall Green Bond Framework (as of June 30, 2023)
Scope of verification	<ul style="list-style-type: none">Bausparkasse Schwäbisch Hall Eligibility Criteria (as of June 30, 2023)
Lifecycle	<ul style="list-style-type: none">Pre-issuance verification
Validity	<ul style="list-style-type: none">Valid as long as the cited Framework remains unchanged.

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SCOPE OF WORK

Bausparkasse Schwäbisch Hall AG ('the Issuer', 'Bausparkasse Schwäbisch Hall' or 'BSH') commissioned ISS Corporate Solutions (ICS) to assist with its Green Covered Bonds ('Green Pfandbrief'), Green Senior Unsecured Bonds and Green Subordinated Bonds (hereafter 'Green financing instruments') by assessing three core elements to determine the sustainability quality of the instruments:



1. Bausparkasse Schwäbisch Hall's Green Bond Framework (as of June 30, 2023) – benchmarked against the International Capital Market Association's (ICMA) Green Bond Principles (GBP).
2. The Eligibility Criteria – whether the project categories contribute positively to the UN SDGs and how they perform against proprietary issuance-specific key performance indicators (KPIs) (See Annex 1).
3. Linking the transaction(s) to Bausparkasse Schwäbisch Hall's overall ESG profile – drawing on the issuance-specific Use of Proceeds (UoP) category.

BAUSPARKASSE SCHWÄBISCH HALL AG BUSINESS OVERVIEW

The Issuer is classified in the Mortgage & Public Sector Finance industry, as per ISS ESG's sector classification.

Bausparkasse Schwäbisch Hall AG's core business segments consist of financing (mortgage loans) of existing properties (e.g., purchases), financing of new constructions, financing of modernization/renovation, and offering home-saving products (Bausparen). Additionally, the Issuer also offers cross-selling of real estate-related insurance and pension products. Bausparkasse Schwäbisch Hall AG is majority-owned by DZ BANK AG Deutsche Zentral-Genossenschaftsbank (DZ BANK), Frankfurt. Bausparkasse Schwäbisch Hall AG operates in Germany. As of December 2022, Bausparkasse Schwäbisch Hall AG's total assets were € 85,599 million.

ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ¹
Part 1: Alignment with GBP	The Issuer has defined a formal concept for its Green Bond Framework regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the Green Bond Principles.	Aligned
Part 2: Sustainability quality of the Eligibility Criteria	<p>The Green Bond Framework will (re-)finance eligible green assets which include: Green Buildings.</p> <p>Product and/or service-related Use of Proceeds category individually contribute to one or more of the following SDGs:</p> <div style="display: flex; justify-content: center; gap: 10px;">   </div> <p>The environmental and social risks associated with those use of proceeds categories are managed.</p>	Positive
Part 3: Linking the transaction(s) to BSH's overall ESG profile	<p>The key sustainability objectives and the rationale for issuing Green Bonds are clearly described by the Issuer. The project categories considered are 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>	Consistent with the Issuer's sustainability strategy

¹ The evaluation is based on the Bausparkasse Schwäbisch Hall's Green Bond Framework (June 30, 2023), on the analyzed Eligibility Criteria as received on May 11, 2023, and on the ISS ESG Indicative Corporate Rating updated on June 27, 2023 and applicable at the SPO delivery date.

SPO ASSESSMENT

PART I: ALIGNMENT WITH GREEN BOND PRINCIPLES

This section evaluates the alignment of the Bausparkasse Schwäbisch Hall's Green Bond Framework (as of June 30, 2023) with the Green Bond Principles (GBP).

GBP	ALIGNMENT	OPINION
1. Use of Proceeds	✓	<p>The Use of Proceeds description provided by Bausparkasse Schwäbisch Hall's Green Bond Framework is aligned with the Green Bond Principles.</p> <p>The Issuer's green categories align with the project category as proposed by the Green Bond Principles, criteria are defined in a clear and transparent manner.</p> <p>Further the Issuer commits to publish a pre-issuance proceeds allocation report with the 'Green financing instruments' issuance. The environmental benefits of the project categories are described.</p>
2. Process for Project Evaluation and Selection	✓	<p>The Process for Project Evaluation and Selection description provided by Bausparkasse Schwäbisch Hall's Green Bond Framework is aligned with the Green Bond Principles.</p> <p>The project selection process is described. ESG risks associated with the project categories are identified and managed through an appropriate process.</p> <p>Borrower's data collected during the loan underwriting process is used to select eligible green assets from BSH's loan book. The selection procedure is facilitated by BSH's IT systems.</p> <p>The Issuer describes how the selected project categories fit within the wider sustainability strategy.</p>
3. Management of Proceeds	✓	<p>The Management of Proceeds proposed by Bausparkasse Schwäbisch Hall's Green Bond Framework is aligned with the Green Bond Principles.</p> <p>BSH will monitor that the amount of Eligible Green Assets within the sub-portfolio constantly exceeds the net proceeds of outstanding green financing instruments issued by BSH. In the unlikely event that the outstanding volume of the Green financing instruments exceeds the volume of eligible green assets BSH will also disclose information on temporary substitute investments, for example in cash or</p>

		cash equivalent instruments or in sustainable bonds. The net proceeds are tracked in an appropriate manner. BSH will manage the net proceeds of its Green financing instruments on a portfolio basis.
4. Reporting	✓	<p>The allocation and impact reporting proposed by Bausparkasse Schwäbisch Hall's Green Bond Framework 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 website². Bausparkasse Schwäbisch Hall describes the level of expected reporting will be at portfolio level and the type of information that will be reported. Moreover, the Issuer commits to report annually, until the Green financing instrument(s) matures. The Issuer is transparent on the level of impact reporting, in line with best market practice.</p>

² Bausparkasse Schwäbisch Hall, 2023, <https://www.schwaebisch-hall.de/>

PART II: SUSTAINABILITY QUALITY OF THE ISSUANCE

A. CONTRIBUTION OF THE GREEN BOND FRAMEWORK TO THE UN SDGs³

Financial institutions 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 Issuer's UoP categories in two different ways, depending on whether the proceeds are used to (re)finance:

- specific products/services,
- improvements of operational performance.

1. Products and services


The assessment of UoP categories for (re)financing in 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 in specific products and services is displayed on 3-point scale (see Annex 1 for methodology):



Each of the Green Bond Framework's Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

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

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p>Construction and acquisition of energy-efficient residential buildings that comprise the selection of the top 15% of the national building stock in Germany⁴</p> <p><i>German energy efficiency standards⁵:</i></p> <ul style="list-style-type: none"> Residential buildings in Germany complying with the Building Energy standard of EnEV 2009 or newer⁶. <p><i>Energy Performance Certificate:</i></p> <ul style="list-style-type: none"> Residential buildings in Germany with an Energy Performance Certificate in terms of Primary Energy Demand (PED) of A+ and A. <p><i>Energy consumption:</i></p> <ul style="list-style-type: none"> Residential buildings in Germany with a PED or final metered energy use of 50 kWh/m² or less⁷. 	<p>Contribution</p>	

⁴ The Eligibility Criteria for the top 15% of the national building stock in Germany are based on a study (2022) conducted by Drees & Sommer for the Association of German Pfandbrief Banks (Verband deutscher Pfandbriefbanken – vdp), https://www.dreso.com/fileadmin/media/06_Presse/Presseinformationen/20220329_vdp_Kooperation/20220404_Kooperation_vdp_Drees_und_Sommer_Top15_EN.pdf

⁵ On 1st November 2020, the Energy Conservation Act (EnEG), the Energy Conservation Ordinance (EnEV), and the Renewable Energies Heat Act (EEWärmeG) were replaced by the Building Energy Act (GEG). Available at: http://www.bgbl.de/xaver/bgbl/start.xav?startbk=Bundesanzeiger_BGBl&jumpTo=bgbl120s1728.pdf

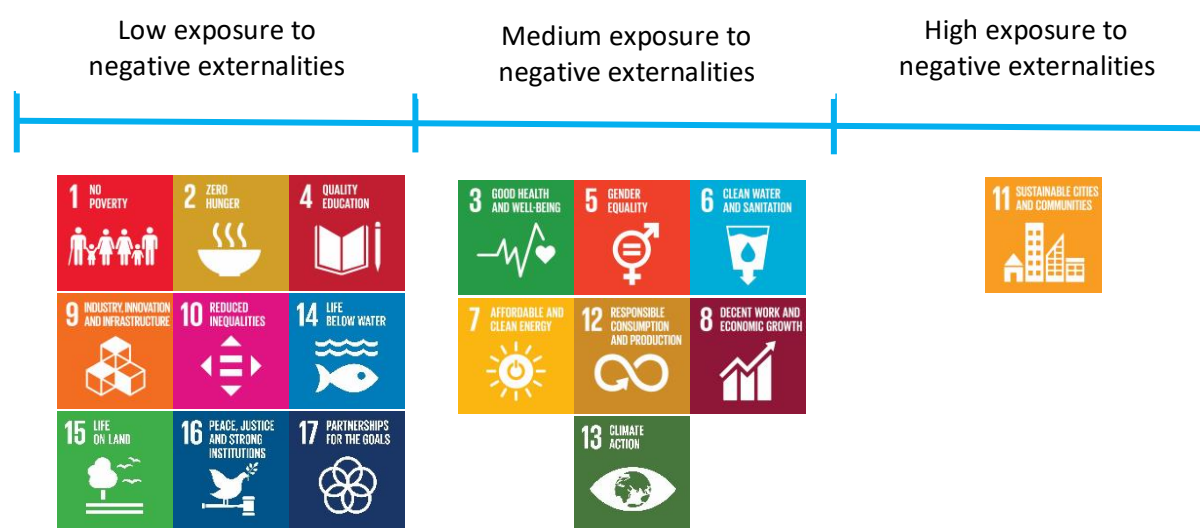
⁶ EnEV 2009 was enforced in 2009. A time lag between the implementation of a new EnEV 2009 energy efficiency standard and the buildings built under that standard is taken into account, hence all residential buildings finished in 2012 (completion date determined in the credit approval process) and later are classified as eligible

⁷ More information on energy efficiency classes of residential buildings in Germany are available at: https://www.gesetze-im-internet.de/geg/anlage_10.html



2. Improvements of operational performance (processes)

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

The purpose of issuing Green financing instruments is to (re)finance existing and/or future mortgages in the Real Estate sector. According to ISS ESG SDG Impact Rating methodology, potential impacts on the SDGs related to negative operational externalities⁸ in the Real Estate industry are the following:



The table below aims at displaying the direction of change resulting from the operational performance improvement projects. The outcome displayed does not correspond to an absolute or net assessment of the operational performance.

USE OF PROCEEDS (PROCESSES)	OPERATIONAL IMPACT IMPROVEMENT ⁹	SUSTAINABLE DEVELOPMENT GOALS
<p>Renovation of residential buildings</p> <p><i>Renovation of existing Residential Buildings:</i></p> <p><i>The renovation complies with the requirements for major renovations, or it leads to a reduction of PED of at least 30% in comparison to the performance of the building prior to renovation.</i></p>	<p>✓</p>	 

⁸ Please, note that the impact of the issuer’s products and services resulting from operations and processes is displayed in section 3 of the SPO.
⁹ Limited information is available on the scale of the improvement as no threshold is provided. Only the direction of change is displayed.

B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE ISSUER AND THE ELIGIBILITY CRITERIA

The table below evaluates the Eligibility Criteria against issuance-specific KPIs. Eligible green assets are and will be located in Germany.

ASSESSMENT AGAINST KPIs

ESG guidelines into financing process

Bausparkasse Schwäbisch Hall manages environmental and social aspects based on existing German and international regulations and guidelines. Moreover, BSH has an internal monitoring system in place for the examination of investing activities and the ESG risks management. It consists of an internal credit approval process and business model for responsible lending standards, which includes checks and controls for customers selection, determination of the mortgage lending value of a real estate, and compliance with the existing regulations as the energy saving regulation (GEG/EnEV). This defines structural and heating system and energy efficiency standards for buildings, as well as criteria for refurbishment. As part of the process, further examination is conducted on specific products related to energy-efficient and sustainable investments in real estates (e.g., "FuchsKonstantEnergie" product, "FuchsEco" building savings tariff), for which BSH offers interest rate advantages.

BSH has also established a risk control and management process to regularly monitor and evaluate climate and environmental risks (including physical and transitory risks). The risk model contains warning indicators to ensure the identification of severe risks takes place at an early stage, decision on and implementation of measures for actively managing the risk, recording them in full and managing them in an appropriate manner with potential exclusion if significant. In the context of this framework, the relevant initial screening has been conducted and the periodical checks will be applied throughout the investment process for each operation to ensure no controversies have been detected and fully align with BSH's overall ESG strategy.

A central principle of BSH's risk management is to only take on risks to the extent necessary to achieve business policy goals. Risks are assessed regarding their significance, and accordingly adequately backed with economic and regulatory capital.

The objective of the processes is to ensure that investments are constantly aligned with the guidelines adopted by the Issuer and its sustainability strategy and to identify the need for any repositioning (or withdrawing) action.

Inclusion



The Issuer has policies¹⁰ in place aiming to ensure that borrowers are not discriminated on the basis of race, sexual orientation, gender, and other relevant categories. In its internal processes, BSH aims to reduce the possibility of discrimination by separating the credit approval process and the data

¹⁰ DZ BANK Group Code of Conduct, <https://www.dzbank.com/content/dzbank/en/home/dz-bank/profile/corporate-management/compliance/code-of-conduct.html#:~:text=DZ%20BANK%20AG%20is%20committed,the%20success%20of%20our%20bank>

collection and processing. BSH does not restrict any interested party in making use of the counselling service offered.

Data protection and information security



The Issuer has policies¹¹ and measures in place systematically ensuring that data collection processes on borrowers meet minimum requirements for data and information security, and data security in outsourced data processing. The Issuer confirms to comply with national regulation (DSGVO/GDPR¹²). Risk assessments, trainings and awareness raising, physical and technical safeguards, information security incident management measures and regular IT audits are confirmed to be in place. Outsourced data service providers are required to be certified for ISO 27001 Information Security Management System.

Responsible treatment of customers with debt repayment problems



The Issuer confirms measures in place systematically ensuring that assets financed under this framework provide for pre-emptive actions to prevent client debt repayment problems including internal debt counselling services and ESG policies around mortgage sale and foreclosure. BSH confirms to comply with strict customer protection laws in Germany (see for example §498 BGB¹³).

Sales practices



The Issuer has implemented systematic measures to ensure responsible sales practices for assets financed under the Framework. This includes the establishment of adequate reward systems, responsible sales targets and commissions, clear responsibilities, and evaluation of agents' competencies and sales practices. BSH, as part of its commitments to product quality, has implemented additional measures such as implementing customer- and value-oriented incentive systems, defining qualification levels for sales advisors, and considering credit risk scores and customer complaints in the advisory process. The Credit and Risk Controlling Divisions are separate from Market Divisions.

Responsible marketing



The Issuer confirms policies and measures in place systematically ensuring that assets financed under this Framework provide for responsible marketing, e.g., transparency regarding product risks, non-use of small print, commitment to inform customers about the reasons leading to rejection. Further BSH follows

¹¹ Bausparkasse Schwäbisch Hall AG, April 2023, Data protection information, <https://www.schwaebisch-hall.de/sicherheit-und-datenschutz.html>

¹² European Union, 2016, REGULATION (EU) 2016/679 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL (EU) 2016/679 General Data Protection Regulation, General Data Protection Regulation, as of April 27, 2016, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016R0679>

¹³ German Civil Code (Bürgerliches Gesetzbuch, BGB), 2022, § Section 498 Total due date for installment loans https://www.gesetze-im-internet.de/bgb/_498.html

the German marketing standards and complies with the provisions of the Unfair Competition Act (Gesetz gegen Unlauteren Wettbewerb (GUW)¹⁴).

Labor, Health and Safety



Eligible assets are located in Germany exclusively. Health and safety for employees, contractors and operators are ensured following national legislation and standards. Germany ratified the eight fundamental ILO core conventions¹⁵.

Biodiversity and Community Dialogue

Eligible assets are located in Germany exclusively. The Federal Nature Conservation Act ensures the protection of German nature and biodiversity, including nature reserves, wild animals, plant species, their habitats and biotopes. It is specified by federal regulations on species' protection such as the Federal Species Protection Ordinance (BartSchV).



100% of eligible assets are located in Equator Principles Designated Countries, as such high standards with regard to environmental impacts and impacts on the communities are considered to be ensured by national legislation and European Union legislation. In addition, the Issuer confirms excluding financing in certain protected areas (List of Wetlands of International Importance- the Ramsar List, UNESCO World Heritage List within the context of the UNESCO Convention Concerning the Protection of the World Cultural and Natural Heritage, the UNESCO Biosphere Reserves List within the context of the UNESCO programme "Man and the Biosphere (MAB)").

Exclusion criteria

The Issuer applies exclusion criteria at Issuer level. BSH confirms to not invest in defined industries (e.g., certain armaments, gambling, pornography or in companies with controversial business practices)¹⁶. Further, BSH follows the Bausparkassengesetz and is thus only providing its customers (particularly, private clients) with loans for residential real estates. Regarding the identification and treatment of entities associated with fraud, terrorism or money laundering, BSH follows the law in force as defined in §25h KWG¹⁷. BSH confirms having risk management and internal safety measures in place to counter criminal activities and fraud. BSH has installed business and customer-related security systems and controls, for example, tools and processes used for Know Your Customer related activities.

¹⁴ Bundesamt für Justiz, 2004, Gesetz gegen Unlauteren Wettbewerb (GUW), https://www.gesetze-im-internet.de/uwg_2004/

¹⁵ ILO Core Conventions, Country profile Germany, https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:11200:0::NO::P11200_COUNTRY_ID:102643

¹⁶ BSH Sustainability Report (Nachhaltigkeitsbericht) 412-103 Pruefung auf Einhaltung der Menschenrechte, https://www.schwaebisch-hall.de/content/dam/dambsh/unternehmen/nachhaltigkeit/reporting-&-rating/nachhaltigkeitsbericht_gri_bilanz_2021.pdf

¹⁷ German Banking Act (Kreditwesengesetz - KWG) § Section 25h Internal Safeguards, https://www.gesetze-im-internet.de/kredwlg/_25h.html

PART III: LINKING THE TRANSACTION(S) TO BAUSPARKASSE SCHWÄBISCH HALL'S ESG PROFILE

A. CONSISTENCY OF GREEN BOND FRAMEWORK WITH BAUSPARKASSE SCHWÄBISCH HALL AG'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the Issuer

BSH's corporate strategy is to enable affordable housing for broad sections of the population through Bauspar savings and housing financing solutions, to enable modernization, particularly in terms of energy-efficiency modernizations, and demographic trends, and to contribute to wealth creation and retirement provision. Its understanding of sustainability encompasses the four fields of action 'Products and services', 'Sustainable banking operations', 'Responsible employer', and 'Social commitment'. BSH derives its understanding of sustainability from the overarching sustainability goals of the United Nations, such as the Sustainable Development Goals, the climate goals of the Paris Agreement or the Global Compact Code of Conduct. BSH's Sustainability Report, which has been published annually since 2012, provides an overview of the Issuer's sustainable performance and activities¹⁸.

In its sustainability strategy, BSH has defined several fields of action and ambition levels that consistently support its corporate vision:

- BSH positions itself as market leader in the field of Bausparen, BSH has the responsibility to raise the profile of the Bausparkassen sector in terms of sustainability among stakeholders in politics, the media, associations and business. This may be achieved, for example, through voluntary commitments as well as own contributions and initiatives.
- BSH is proficient in the multi-faceted regulatory requirements.
- BSH positions itself in the market as a customer-oriented enabler of the climate and energy transition in private residential real estate.
- BSH takes up its responsibility as a sustainable employer and a sustainable bank.
- BSH is committed to being an active corporate citizen and focuses on sustainable CSR commitments.

At Bausparkasse Schwäbisch Hall, the sustainability officer coordinates all sustainability-related activities. He reports directly to the Board of Management. The Sustainability Officer is part of a Sustainability working group newly established in the reporting year. Its members come from the areas of Corporate Strategy, Executive Board Staff, and Risk Management. It steers the implementation of the transformation project.

As part of their joint sustainability activities, the companies of the DZ BANK Group, to which Bausparkasse Schwäbisch Hall belongs, have signed the UN Global Compact. There is no information available on the Issuers quantified ESG targets or action plans to reach the ESG targets/goals. In the reporting year 2021, BSH for the first-time reports on: SDG impact (share of financing with a positive

¹⁸ BSH Sustainability report 2021, GRI aligned, https://www.schwaebisch-hall.de/content/dam/dambs/unternehmen/nachhaltigkeit/reporting-&-rating/nachhaltigkeitsbericht_gri_bilanz_2021.pdf

impact on the United Nations Sustainable Development Goals), financed CO₂ emissions from lending business (CO₂ footprint), EU Taxonomy and Green Asset Ratio.

Rationale for issuance

The purpose of issuing Green financing instruments is to (re)finance existing and/or future mortgages. According to the Issuer, Investors are given the opportunity to participate in investing in green financing instruments and contributing to the sustainable and responsible objectives as set by the former. The BSH mortgages aim to increase energy-efficient residential real estate. This first Green Bond Framework forms the basis for green financing instruments issuances.

Opinion: *The key sustainability objectives and the rationale for issuing Green financing instruments are described by the Issuer. The project categories financed under the Green Bond Framework are in line with the sustainability objectives of the Issuer.*

B. BAUSPARKASSE SCHWÄBISCH HALL AG'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

The Issuer is classified in the Mortgage & Public Sector Finance industry, as per ISS ESG's sector classification. Key challenges faced by companies in terms of sustainability management in this industry are displayed in the table below. Please note, that this is not an Issuer-specific assessment but areas that are of particular relevance for companies within that industry.

ESG KEY ISSUES IN THE INDUSTRY
Sustainability impacts of lending and other financial services/products
Statutory ESG-standards linked to the geographical allocation of the lending portfolio
Customer and product responsibility
Employee relations and work environment

ESG strengths and points of attention related to the issuer's disclosures

Leveraging ISS ESG's Research, ISS ESG identified the following strengths and points of attention¹⁹:

STRENGTHS	POINTS OF ATTENTION
The Issuer provides green financial services, such as financing of solar energy and energy efficiency improvements.	The Issuer's general social and environmental guidelines for its lending and investment activities are not publicly available. Further, the Issuer has not disclosed information on application procedures for environmental and social guidelines.
The Issuer's loan portfolio is mainly distributed in Germany, which has fairly good social and environmental minimum standards set by law or through industry agreements.	The Issuer offers debt management options to the client that include repayment holidays. However, other debt repayment options, including pre-emptive actions such as educational programs for clients and debt counselling, are missing. Further, there is no indication of a policy on responsible marketing and responsible sales practices.
The Issuer has implemented aspects of an Information Security Management System including a data protection officer, awareness-	

¹⁹ Please note that Bausparkasse Schwäbisch Hall AG is not part of the ISS ESG Corporate Rating Universe. Thus, the information is based on a disclosure review conducted by the analyst in charge of the Mortgage & Public sector. 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.



raising measures, internal audits, and physical and technical safeguards.	
The Issuer has an occupational health and safety management system in place. Additionally, the Issuer prevents mental health issues among employees by conducting seminars, mental health assessments, and providing psychological support.	
Further, the Issuer offers educational leave, parental leave, telecommuting, and part-time employment opportunities to its employees.	

Please note that the consistency between the issuance subject to this report and the issuer’s sustainability strategy is further detailed in Part III.A 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.

Social impact of the product portfolio:

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE ²⁰	DIRECTION OF IMPACT	UN SDGS
Financing of affordable housing (for low-to median-income households)	43.17%	CONTRIBUTION	 

²⁰ Percentages presented in these tables are not cumulative.

Environmental impact of the product portfolio:

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE ²¹	DIRECTION OF IMPACT	UN SDGS
Financing of energy efficiency improvements	9%	CONTRIBUTION	 

Breaches of international norms and ESG controversies:

At Issuer level

At the date of publication and leveraging ISS ESG Research, no controversy in which the Issuer would be involved has been identified.

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 Mortgage & Public Sector Finance industry are as follows: Financial market irregularities, Failure to prevent money laundering and layoffs. Please note that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

²¹ Percentages presented in these tables are not cumulative.

DISCLAIMER

1. Validity of the Second Party Opinion (“SPO”): Valid as long as the cited Framework remains unchanged.
2. ISS Corporate Solutions, Inc. (“ICS”), a wholly-owned subsidiary of Institutional Shareholder Services Inc. (“ISS”), sells/distributes Second Party Opinions which are prepared and issued by ISS ESG, the responsible investment arm of ISS, on the basis of ISS ESG’s proprietary methodology. In doing so, ISS adheres to standardized procedures to ensure consistent quality of responsibility research worldwide. Information on ISS’s methodology is available upon request.
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ANNEX 1: Methodology

Green and Social KPIs

The 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 Bausparkasse Schwäbisch Hall's Green Bond Framework.

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

The Environmental and social risks assessment 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 or that the information provided did not fulfil the requirements of the Green Bond KPIs.

The evaluation was carried out using information and documents provided on a confidential basis by Bausparkasse Schwäbisch Hall AG (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, the extent to which Bausparkasse Schwäbisch Hall's green financing instruments contributes to related SDGs has been identified.

ANNEX 2: Quality management processes

SCOPE

Bausparkasse Schwäbisch Hall AG commissioned ICS to compile a green financing instruments 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 financing instruments, as well as the Issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- Green Bond Principles, as administered by the ICMA

ISSUER'S RESPONSIBILITY

Bausparkasse Schwäbisch Hall's responsibility was to provide information and documentation on:

- Green Bond Framework
- Eligibility Criteria
- Documentation of ESG risks management at 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 Issuer 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.

This independent Second Party Opinion of the Green Bond Framework to be issued by Bausparkasse Schwäbisch Hall AG has been conducted based on a proprietary methodology and in line with the ICMA Green Bond Principles.

The engagement with Bausparkasse Schwäbisch Hall AG took place between May and July 2023.

ISS' 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 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

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.

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

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