

## SECOND PARTY OPINION (SPO)

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Sustainability Quality of the Issuer and Social Bond Asset Pool

Landesbank Baden-Württemberg (LBBW)  
18 September 2019

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## Overall Evaluation of the Social Bond

LBBW commissioned ISS-oekom to conduct a reverification of its Social Bond with an updated SPO by assessing three core elements to determine the sustainability quality of the Bond:

1. LBBW's Social Bond framework – benchmarked against the International Capital Market Association's (ICMA) Social Bond Principles (SBPs).
2. The asset pool – whether the projects aligned with ISS-oekom's issue-specific key performance indicators (KPIs) (See Annex 2).
3. LBBW's sustainability performance, according to the ISS-oekom Corporate Rating.

### ISS-oekom ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION <sup>1</sup>
<b>Part 1:</b>  <b>Performance against the SBPs</b>	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 SBPs.	<b>Positive</b>
	The overall sustainability quality of the asset pool in terms of sustainability benefits, risk avoidance and minimisation is good based upon the ISS-oekom Social Bond KPIs.	
<b>Part 2:</b>  <b>Sustainability quality of the asset pool</b>	These KPIs contain a clear description of eligible asset categories which include: wastewater treatment, public transport, medical / care facilities and nursing home, healthcare supply chain, education and inclusion.	<b>Positive</b>
	All assets of the asset pool are located in Germany, a highly regulated and developed country. Legislative frameworks in those countries set minimum standards, which reduce environmental and social risks.	
<b>Part 3:</b>  <b>Issuer sustainability performance</b>	The issuer itself shows a good sustainability performance and has been classified as 'Prime' within the methodology of the ISS-oekom Corporate Rating.	<b>Status:</b> <i>Prime</i>
	It is rated 3 <sup>rd</sup> out of 196 companies within its sector as of 20.07.2019.	<b>Rating:</b> <i>C+</i>
		<b>Prime threshold:</b> <i>C</i>

<sup>1</sup> The ISS-oekom's present evaluation will remain valid until any modification of the Social Bond Framework or addition of new asset categories into the asset pool by the issuer and as long as the issuer's Corporate Rating does not change (last modification on the 20.07.2019). The controversy check of the underlying assets has been conducted on 16.09.2019.







## Contribution of the Social Bond to the UN SDGs

Based on the assessment of the sustainability quality of the social bond asset pool and using a proprietary methodology, ISS-oekom assessed the contribution of the LBBW's social bond to the Sustainable Development Goals defined by the United Nations (UN SDGs).

This assessment is displayed on 5-point scale (see Annex 2 for methodology):

<b>Significant Obstruction</b>	<b>Limited Obstruction</b>	<b>No Net Impact</b>	<b>Limited Contribution</b>	<b>Significant Contribution</b>
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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 CATEGORY	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<b>Wastewater treatment</b>	<b>Limited contribution</b>	
	<b>Significant contribution</b>	
<b>Public transportation</b>	<b>Significant contribution</b>	
<b>Medical / care facilities</b>	<b>Significant contribution</b>	
<b>Healthcare supply chain</b>	<b>Significant contribution</b>	
<b>Education</b>	<b>Significant contribution</b>	

## ISS-oekom SPO ASSESSMENT

### PART I: SOCIAL BOND PRINCIPLES

#### 1. Use of Proceeds

The net proceeds of Social Bond issuances will be used exclusively to finance or refinance in whole or in part an Eligible Social Loan Portfolio consisting of Eligible Social Loans in the following Eligible Categories:

Social Bond Category	Definition	Objectives / Benefit	UN SDG
<b>Affordable basic Infrastructure</b>	Loans for financing / refinancing of: <ul style="list-style-type: none"> <li>Water / Sewage</li> <li>Public Transport</li> </ul>	<ul style="list-style-type: none"> <li>Contribute to access to decent affordable basic infrastructure</li> <li>Facilitate improved coverage of vital water/sewage and public transport infrastructure</li> </ul>	 
<b>Access to essential Services</b>	Loans for financing / refinancing of: <ul style="list-style-type: none"> <li>Health Care</li> <li>Social Care</li> <li>Education &amp; Vocational training</li> </ul>	<ul style="list-style-type: none"> <li>Contribute to access to essential services</li> <li>Facilitate improved social &amp; health care, and education &amp; vocational training, to contribute to reducing social inequality and reduce poverty</li> </ul>	 

**Opinion:** ISS-oekom considers the Use of Proceeds description provided by LBBW's Social Financing Framework as aligned with the SBPs. The social benefits are described and quantified, demonstrating the positive impact of each Use of Proceeds category.

#### 2. Process for Project Evaluation and Selection

The Social Bond Committee will oversee the entire Social Bond process, including the evaluation and selection of eligible loans originated across relevant business lines.

LBBW takes care that all selected Eligible Assets comply with official national and international environmental and social standards and local laws and regulations on a best effort basis. It is part of LBBW's transaction approval process to take care, that all its activities comply with internal environmental and social directives. LBBW has minimum environmental and social requirements in place for all lending businesses, including those financed with the proceeds of the Social Bonds. These eligibility criteria and minimum requirements and ESG related aspects are continuously developed and renewed in its external and internal policy frameworks. LBBW's environmental and social policies can be found on LBBW's website.

**Opinion:** ISS-oekom finds that the process for Project Evaluation and Selection aligns with the SBPs, including how the Social Bond Committee reviews, selects and validates pool of loans.

### 3. Management of Proceeds

The Social Bonds proceeds will be managed by LBBW in a portfolio approach.

LBBW intends to allocate the proceeds from the Social Bonds to an Eligible Social Loan Portfolio, selected in accordance with the use of proceeds criteria and with the evaluation and selection process presented above, the Eligible Social Bond Portfolio.

LBBW will strive, over time, to achieve a level of allocation for the Eligible Social Loan Portfolio that matches or exceeds the balance of net proceeds from its outstanding Social Bonds. Eligible Social Loans will be added to or removed from LBBW's Eligible Social Loan Portfolio to the extent required.

While any Social Bond net proceeds remain unallocated, LBBW will hold and/or invest, at its own discretion, in its liquidity portfolio, in cash or other short term and liquid instruments, the balance of net proceeds not yet allocated to the Eligible Social Loan Portfolio.

**Opinion:** *ISS-oekom finds that the segregation, tracking of funds and process for unallocated funds aligns with the SBPs. Unallocated proceeds that are invested in cash or other liquid instruments have no time limit for this temporary allocation.*

### 4. Reporting

The Social Bond Principles require social bond issuers to provide information on the allocation of proceeds. In addition to information related to the projects to which social bond proceeds have been allocated, the Social Bond Principles recommend communicating on the expected impact of the projects.

LBBW intends to make and keep readily available social bond reporting with the first issuance, to be renewed annually per December 31st until full allocation.

LBBW intends to show the allocation and impact of the social bond proceeds to the Eligible Social Loan Portfolio at least at the category level and on an aggregated basis for all of LBBW's social bonds and other potential social funding outstanding.

On a best effort basis LBBW will align the reporting with the portfolio approach described in "Handbook - Harmonized Framework for Impact Reporting (June 2019)".

#### **Allocation Reporting**

The report will provide, for each Eligible Category:

- The total amount of proceeds allocated to eligible borrowers
- The number of eligible borrowers
- The balance of unallocated proceeds

#### **Impact Reporting**

Where feasible, LBBW intends on a best effort basis to report yearly and until full allocation on social benefits associated to the eligible loans. LBBW has commissioned Prognos AG to develop a methodology and calculate the impact reporting.

Both allocation report and impact report will be made available via the LBBW's Social Bond website.

**Opinion:** *ISS-oekom finds that the reporting is fully aligned to the requirements of the SBPs. This includes publishing on a regular basis and the type of content that will be reported.*

### **External review**

Prior to issuance, LBBW has commissioned ISS-oekom to obtain an external sustainable verification of its Social Bond Framework. ISS-oekom has reviewed LBBW's social bond framework under a programmatic approach and issued a Second Party Opinion (SPO) confirming the alignment of the framework with the Social Bond Principles. Under this framework the issuance of multiple Social Bonds is possible.

## PART II: SUSTAINABILITY QUALITY OF THE SOCIAL BOND ASSET POOL




Evaluation of the assets *(The methodology for the asset evaluation can be found in Annex 2.)*

### Wastewater Treatment

As a Use of Proceeds category, wastewater treatment has a significant contribution to SDG 6 “Clean Water and Sanitation” and limited contribution to SDG 3 “Good Health and Well-being”.

Additionally, when considering the deeper ESG management, wastewater treatment can be associated to other SDGs.

The table below presents the findings of an ISS-oekom assessment of the assets (re-) financed against KPIs and the association with SDGs based on a mapping methodology.

ASSESSMENT AGAINST ISS-OEKOM ESG KPI	ASSOCIATION WITH THE SDGS
<b>Site selection</b>	
<ul style="list-style-type: none"> <li>✓ 100% of assets have basic measures in place for responsible site selection (according to national legislation).</li> </ul>	
<ul style="list-style-type: none"> <li>✓ All assets are not located in key biodiversity areas (Ramsar sites, IUCN protected areas I-IV).</li> </ul>	
<ul style="list-style-type: none"> <li>✓ All assets are required to conduct an environmental impact assessment at the planning stage.</li> </ul>	
<b>Community dialogue</b>	
<ul style="list-style-type: none"> <li>✓ For more than 50% of assets there is basic community dialogue measures in place.</li> </ul>	  
<b>Working conditions during construction and operation</b>	
<ul style="list-style-type: none"> <li>✓ 100% of assets are located in Germany, a country where high labour standards are in place for construction and maintenance work (e.g. ILO core conventions)</li> </ul>	



**Environmental aspects of construction and operation**

- ✓ For all assets, measures are in place to reduce the environmental impacts of sewage sludge disposal (national and regional legislation).
- ✓ 100% of assets are required to meet high standards regarding the quality of treated water (national and regional legislation).
- ✓ For all assets, no information is available on measures to prevent leakage of sewerage systems (e.g. monitoring systems, adequate maintenance and repair).



**Controversy assessment**

- ✓ A controversy assessment on the included projects did not reveal any controversial activities or practices that could be attributed to LBBW.

**Public transportation**

As a Use of Proceeds category, public transportation has a significant contribution to SDG 11 “Sustainable cities and communities”.

Additionally, when considering the deeper ESG management, public transportation can be associated to other SDGs.

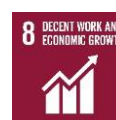
The table below presents the findings of an ISS-oekom assessment of the assets (re-) financed against KPIs and the association with SDGs based on a mapping methodology.

**ASSESSMENT AGAINST ISS-OEKOM ESG KPI**

**ASSOCIATION WITH THE SDGS**

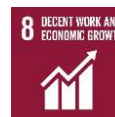
**Social aspects of trains**

- ✓ For all assets, measures to ensure safety for both passengers and operators as well as quality assurance are in place (national and EU legislation).
- ✓ 100% of assets are located in Germany, a country where high labour standards are in place (e.g. ILO core conventions).
- ✓ 100% of assets must observe requirements regarding accessibility and explain any exceptions to the requirements (national legislation).



**Productions standards**

- For no assets, information on a comprehensive Environmental Management System (EMS) at the manufacturing sites of trains is available.
- ✓ For all assets, measures are in place to ensure high labour and health and safety standards at the manufacturing sites of trains (national and local legislation and policy).



**Environmental aspects of trains / buses**

- For all assets, no information is available on comprehensive life-cycle-assessments of the trains.
- For all assets, no information is available on optimisation of energy efficiency during operation



**Controversy assessment**

- ✓ A controversy assessment on the included projects did not reveal any controversial activities or practices that could be attributed to LBBW.

**Medical / care facilities and nursing homes**

As a Use of Proceeds category, medical / care facilities and nursing homes has a significant contribution to SDG 3 “Good Health and Well-being”.

Additionally, when considering the deeper ESG management, medical / care facilities and nursing homes can be associated to other SDGs.

The table below presents the findings of an ISS-oekom assessment of the assets (re-) financed against KPIs and the association with SDGs based on a mapping methodology.

**ASSESSMENT AGAINST ISS-OEKOM ESG KPI**

**ASSOCIATION WITH THE SDGS**

**Standards for medical / care facilities**

- For all assets, no information is available on whether a quality management system in place.



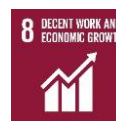
**Site selection**

- ✓ More than 50% of assets are located within a maximum of 250m from one or more modalities of public transport.



**Labour standards**

- ✓ 100% of assets are located in Germany, a country where high labour standards are in place (e.g. ILO core conventions).



**Safety of building users**

- ✓ 100% of assets have measures in place to ensure operational safety (e.g. emergency exits) (national legislation).



**Waste reduction and disposal**

- ✓ For all assets, measures are in place to correctly dispose of waste (according to national legislation).



**Energy efficiency**

- ✓ 100% of the assets must observe the requirements of the Energy Saving Ordinance (Energieeinsparverordnung / EnEV) in the version applicable at the time of credit application.



**Controversy assessment**

- ✓ A controversy assessment on the included projects did not reveal any controversial activities or practices that could be attributed to LBBW.

**Healthcare supply chain**

As a Use of Proceeds category, healthcare supply chain has a significant contribution to SDG 3 “Good Health and Well-being”.

Additionally, when considering the deeper ESG management, healthcare supply chain can be associated to other SDGs.

The table below presents the findings of an ISS-oekom assessment of the assets (re-) financed against KPIs and the association with SDGs based on a mapping methodology.

**ASSESSMENT AGAINST ISS-OEKOM ESG KPI**

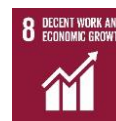
**ASSOCIATION WITH THE SDGS**

**Production standards**

- ✓ More than 50% of assets provide for a comprehensive environmental management system at healthcare products manufacturing sites.

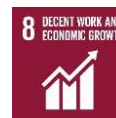


- ✓ More than 50% of assets provide for high labour and health and safety standards at healthcare products manufacturing sites (e.g. ILO core conventions).



### Distribution standards

- ✓ More than 50% of assets provide for strong business practices (e.g. code of business ethics in place, compliance procedures).



### Environmental aspects of the products

- For all assets, there is no information confirming a comprehensive life-cycle assessment have been conducted.
- For all assets, there is no information confirming substances of concern are banned in products (e.g. RoHS substances).



### Social aspects of the products

- ✓ For over 50% of assets, product safety measures are in place (e.g. tests and assessments, safety features, strong production processes, recall processes).
- For all assets, there is no information around policies for fair pricing and affordable access to medicine.



### Controversy assessment



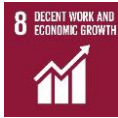



- ✓ A controversy assessment on the included projects did not reveal any controversial activities or practices that could be attributed to LBBW.

## Education

As a Use of Proceeds category, education has a significant contribution to SDG 4 “Quality Education”.

Additionally, when considering the deeper ESG management, education can be associated to other SDGs.

The table below presents the findings of an ISS-oekom assessment of the assets (re-) financed against KPIs and the association with SDGs based on a mapping methodology.

ASSESSMENT AGAINST ISS-OEKOM ESG KPI	ASSOCIATION WITH THE SDGS
<b>Quality standards</b>	
<ul style="list-style-type: none"> <li>✓ All assets are located in countries with strong education standards and supervising bodies.</li> </ul>	
<ul style="list-style-type: none"> <li>✓ 100% of assets are required by law to have quality management systems in place.</li> </ul>	
<b>Labour standards</b>	
<ul style="list-style-type: none"> <li>✓ 100% of assets are located in Germany, a country where high labour standards are in place (e.g. ILO core conventions).</li> </ul>	
<b>Access to education</b>	
<ul style="list-style-type: none"> <li>✓ 100% of assets are located in countries with high social standards regarding non-discrimination.</li> </ul>	
<ul style="list-style-type: none"> <li>✓ 100% of assets must observe the General Equal Treatment Act (Allgemeines Gleichstellungsgesetz AGG) requiring non-discrimination in education.</li> </ul>	
<b>Access to transportation</b>	
<ul style="list-style-type: none"> <li>✓ More than 50% of assets are located within a maximum of 250m from one or more modalities of public transport.</li> </ul>	

### Safety of building users

- ✓ 100% of assets have measures in place to ensure operational safety (e.g. emergency exits) (national legislation).



### Energy efficiency of buildings

- ✓ 100% of the assets must observe the requirements of the Energy Saving Ordinance (Energieeinsparverordnung / EnEV) in the version applicable at the time of credit application.



### Controversy assessment

- ✓ A controversy assessment on the included projects did not reveal any controversial activities or practices that could be attributed to LBBW.

## PART III: ASSESSMENT OF LBBW'S ESG PERFORMANCE

The ISS-oekom Corporate Rating comprises a rating scale from A+ (excellent) to D- (poor).

COMPANY	RATING	STATUS
LBBW	C+	PRIME

This means that the company performed well in terms of sustainability, both compared against others in the industry and in terms of the industry-specific requirements defined by ISS-oekom. In ISS-oekom's view, the securities issued by the company therefore all meet the basic requirements for sustainable investments.

As of 20.07.2019, this rating places LBBW 3<sup>rd</sup> out of 196 companies rated by ISS-oekom in the Financials/Public & Regional Banks sector.

Key Challenges facing companies in term of sustainability management in this sector are:

- Sustainability impacts of lending and other financial services/products
- Customer and product responsibility
- Sustainable investment criteria
- Employee relations and work environment
- Business ethics

In all five of the key issues, LBBW rates above the average for the sector:

- Its rating is at least double that of the industry average for all issues
- The outperformance is particular high for "Customer and product responsibility" and "Sustainable investment criteria"

The company has a minor controversy level, with a controversy score of 0.

Details on the rating of the issuer can be found in Annex 1



Robert Hassler, Head of ISS-oekom  
London/Munich/Rockville/Zurich

## DISCLAIMER

1. Validity of the SPO: For LBBW's social bond issuance following the SPO release date.
2. ISS-oekom uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
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-oekom 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 compliance with the selection criteria is based solely on random samples and documents submitted by the issuer.
4. All statements of opinion and value judgements 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 credit worthiness of a bond but refers exclusively to the social and environmental criteria mentioned above.
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## ANNEX 1: ISS-oekom Corporate Rating

The following pages contain extracts from LBBW'S 2019 ISS-oekom Corporate Rating.

# ISS-oekom Corporate Rating

## Landesbank Baden-Württemberg

Industry	Financials/Public & Regional Banks	Status	<b>Prime</b>	 Corporate Responsibility <b>Prime</b> rated by <b>ISS-oekom</b>
Country	Germany	Rating	<b>C+</b>	
ISIN	DE000LBW6CZ6	Prime Threshold	<b>C</b>	



The assessment of a company's sustainability performance is based on approximately 100 criteria, selected specifically for each industry. A company's failure to disclose, or lack of transparency, regarding these matters will impact a company's rating negatively.

### Industry Leaders

Company name (in alphabetical order)	Country	Grade
Deutsche Kreditbank AG	DE	B-
La Banque Postale S.A.	FR	B-
Landesbank Baden-Württemberg	DE	C+

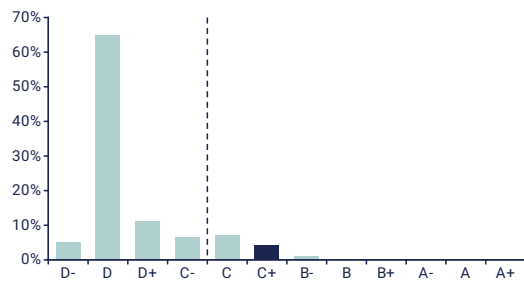
Legend: ■ Industry ■ Company --- Prime

### Key Issue Performance

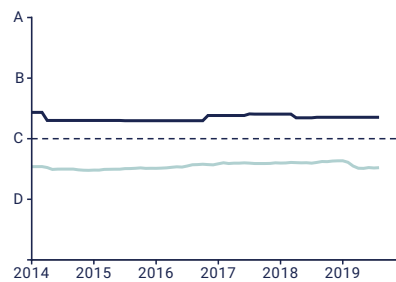


### Distribution of Ratings

196 companies in the industry

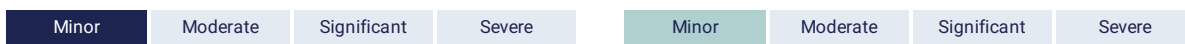


### Rating History



### Controversy Monitor

<b>Company</b>		<b>Industry</b>	
Controversy Score	0	Maximum Controversy Score	-16
Controversy Level	Minor	Controversy Risk	Minor



# Landesbank Baden-Württemberg

## Analyst Opinion

Annette Gregori  
Sector specialist



### Sustainability Opportunities

Landesbank Baden-Württemberg (LBBW) is a public bank providing all kinds of financial services to retail and corporate clients, savings banks, institutional clients and high net worth clients. As a consequence, the company's opportunity is to focus on the provision of financial services with high social and/or environmental benefit. LBBW offers a basic banking account with moderate terms and conditions as well as some further inclusive financial services. Moreover, the company provides some financial services for charitable organisations. LBBW provides a broad range of socially responsible investment products and services applying several best-in-class and exclusion criteria. Among these are SRI funds (e.g. LBBW Nachhaltigkeit Aktien, LBBW Nachhaltigkeit Renten) as well as theme funds and sustainable mandates for institutional customers. These products, however, do not constitute the main business of the company.

### Sustainability Risks

LBBW has set up guidelines for its lending business covering areas such as human and labour rights, and excluding financing of controversial weapons, amongst others. The company further provides credit guidelines for some high-risk sectors such as forestry and paper. LBBW excludes the construction and expansion of coal fired power plants (unless fuel efficiency is improved or emissions are reduced) from financing as well as projects relating to the construction or expansion of nuclear power plants and mountain top removal. Yet, an approach covering all relevant aspects or sectors is missing, and there is no indication for a comprehensive application process including e.g. relevant client monitoring. LBBW integrates sustainability issues into its mainstream asset management through the exclusion of weapons and through the provisions of ESG information to its investment managers. It also works with an external research provider to monitor its portfolio. Moreover, the company has taken steps to integrate environmental and social criteria into its own investments. In addition, LBBW actively engages with investees in case those violate the company's principles.

Most client-related risks are well-managed by the implementation of a policy on responsible marketing, procedures to ensure responsible sales practices, and steps to ensure tax compliance by clients. Furthermore, business ethics risks appear to be comparably well managed by the implementation of a comprehensive code of conduct supported by various compliance measures. Finally, LBBW has set up comparably good measures with regard to labour rights of its employees. There are reports that the company plans to reduce its workforce by 830 positions until 2020. However, it was estimated that almost all of the planned job cuts will occur in Germany, where affected staff members benefit from high legal standard on workforce restructuring. In addition, the company has implemented some measures to avoid compulsory redundancies.

### Governance Opinion

LBBW is not publicly listed and has a stable ownership structure through its major owners being the Savings Bank Association of Baden-Württemberg owning 40.53% of total share capital and the State of Baden-Württemberg, directly holding 24.98% and indirectly owning 40.53% of total share capital (as at July 2018). Regarding LBBW's governance structure, the chairman of the board of directors is independent but 38% of the board members are not (as at July 2018). Moreover, the company has set up committees in charge of audit and remuneration, but it remains unclear whether committee members are independent. The company does not provide individual compensation schemes of its executives but confirms that long-term incentives are part of its remuneration policy. Yet, detailed insight into those objectives is not provided.

Regarding the company's governance of sustainability, there is no indication for an independent sustainability board committee. The company states that sustainability performance objectives are part of its remuneration policy. Furthermore, business ethics risks appear to be comparably well managed by the implementation of a comprehensive code of conduct supported by various compliance measures.

# Landesbank Baden-Württemberg

## Methodology - Overview

**ISS-oekom Corporate Rating** - The ISS-oekom Universe comprises more than 3,900 companies (mostly companies in important national and international indices, but also small and mid caps drawn from sectors with direct links to sustainability as well as significant non-listed bond issuers).

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance criteria, selected specifically for each industry. All criteria are individually weighted and evaluated and the results are aggregated to yield an overall score (rating), in which the key issues account for at least 50 per cent of the total weight. In case there is no relevant or up-to-date company information available on a certain criterion and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the criterion is graded 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 itself as well as information from 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.

An external rating committee assists the analysts at ISS-oekom with the content-related design of industry-specific criteria and carries out a final plausibility check of the rating results at the end of the rating process.

**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.

**Controversial Business Practices and Areas** - In addition to the rating, ISS-oekom undertakes a comprehensive analysis of relevant controversies with respect to numerous business practices and areas for each company. Thereby, our clients have the possibility to consider, either separately or in addition to the rating, the behaviour and the activities of a company in areas they view as especially critical.

With regard to business practices, each controversial case is examined and categorised based on whether it can be clearly attributed to the company. Additionally, the extent of the company's responsibility and the severity of the case are assessed. For the classification of the severity of the misconduct, the concrete negative effects are systematically evaluated. In addition, it is considered whether, to what extent and with what success the company has taken steps to mitigate the impact, to compensate it and to prevent similar incidents from occurring in the future.

To account for the varying levels of severity of the controversies, these are classified into the following three categories: moderate controversies, severe controversies and very severe controversies. Additionally, potential controversies are presented. These constitute issues which could be reclassified into one of the three controversy categories in case new information is reported. The classification follows a clear and uniform methodology for which ISS-oekom has defined specific evaluation parameters and their possible manifestations along a scale, based on international norms and standards and its own understanding of sustainability.

In the Business Practices section, the number of relevant and active cases is displayed in the respective cells. For each criterion, the sum of all corresponding cases for each sub-category is shown in the first line. In the Business Areas section, the activity is marked "x" and summarised as "yes" or "no". The percentage thresholds in the column headers generally refer to the Net Sales of the assessed company. As Net Sales are not an adequate reference value for all companies, these thresholds can refer to other values in individual cases (e.g. for different financial service providers).

Current cases are summarised in the "Comments" field. Irrespective of active cases, criteria marked as "Risk Exposure" indicate the company's risk exposure to controversies based on its business activities.

For the assessment of cases only those sources that have been classified by ISS-oekom as reliable are used. In addition to proven misconduct or activities of companies, alleged misconduct or activities are also assessed when the facts and circumstantial evidence provided by those sources, taking into account the experience of specialised analysts for each topic, is estimated to be sufficiently reliable. This applies not only to alleged practices, but also to the alleged serious negative effects of such practices.

# Landesbank Baden-Württemberg

## Methodology - Overview

**Controversy Monitor** - The Controversy Monitor is a tool for assessing and managing reputational and financial risks associated with companies' negative environmental and social impacts.

The controversy score is a unit of measurement for the number and severity of a company's current controversies. All controversial business areas and business practices receive a negative score, which can vary depending on the significance, number and severity of the controversies. Both the company's score and the maximum score obtained in the industry are displayed.

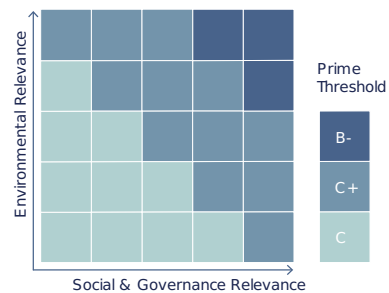
For better classification, the scores are assigned different levels: minor, moderate, significant and severe. The industry level relates to the average controversy score.

Only controversies for which reliable information from trustworthy sources is available are recorded. In addition to proven misconduct and activities of companies, alleged misconduct and activities are also assessed when the facts and circumstantial evidence provided by those sources, taking into account the experience of specialised analysts for each topic, is estimated to be sufficiently reliable. It should be noted that large international companies are more often the focus of public and media attention. Thus, the information available on those companies is often more comprehensive than for less prominent companies.

**Distribution of Ratings** - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ISS-oekom 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 analysed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ISS-oekom Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS-oekom 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 ISS-oekom 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.

**Major Shareholders & Ownership Summary** - Overview of the company's major shareholders at the time of generation of this report. All data as well as the categorisation system for the investor types is based on information from S&P Capital IQ.

**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 categorised as Prime if they achieve/exceed the minimum sustainability performance requirements (Prime threshold) defined by ISS-oekom for a specific industry (absolute best-in-class approach) in the ISS-oekom Corporate Rating. Prime companies rank among the sustainability leaders in that industry.

## ANNEX 2: Methodology

### ISS-oekom Social Bond KPIs

The ISS-oekom Social Bond KPIs serves as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of LBBW’s Social Bond Programme.

It comprises firstly the definition of the use of proceeds category offering added green, 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.

To review the KPIs used in this SPO, please contact Federico Pezzolato (details below) who will send them directly to you.

### Asset evaluation methodology

ISS-oekom 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-oekom or that the information provided did not fulfil the requirements of the ISS-oekom Social Bond KPIs.

The evaluation was carried out using information and documents provided to ISS-oekom on a confidential basis by LBBW (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-oekom identifies the extent to which LBBW’s Social Bond contributes to related SDGs and has a positive association with their respective sub-targets.

The contribution assessment is split into two Levels:

1. **Level 1:** Contribution and/or obstruction of the Use of Proceeds categories to be financed through the bond to the UN SDGs
2. **Level 2:** Association of the assets’ ESG performance with further SDGs

## About ISS-oekom SPO

ISS-oekom 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 Information about SPO services, and this Social Bond, contact:

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