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Second Party Opinion

Korea Land & Housing Corp.'s Social, Green, And Sustainability Bond Framework

Sept. 19, 2023

Location: South Korea
Sector: Real Estate Development

Alignment With Principles

- ✔ Social Bond Principles, ICMA, 2023
- ✔ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix I)
- ✔ Sustainability Bond Guidelines ICMA, 2021

See Alignment Assessment for more detail.

Strengths

Government-owned Korea Land & Housing Corp. (LH) has more than 60-year record of addressing housing access and affordability issues in South Korea. LH focuses on ensuring a stable supply of housing, including for the young and low-income earners. The company has set a mid-term target of supplying 3.88 million housing units by 2027. The main project categories in the framework correspond directly to key sustainability challenges LH is addressing in its core activities.

Weaknesses

Physical climate risk assessment procedures at the company are nascent. LH has established guidelines for comprehensive environmental impact assessments for its business areas. However, the company has not conducted scenario analysis to quantify climate risks, which we believe can be meaningful for social housing construction.

Areas to watch

The assessment of environmental and social risks across the company's value chain is limited. The company is yet to conduct lifecycle assessments for project selection, which limits the potential monitoring of indirect fossil fuel exposure and social risks across the value chain.

The quality of LH’s apartments is an important consideration for assessing its activities’ impact on communities and the credibility of its corporate vision. Auxiliary buildings of LH’s certain housing complexes are undergoing investigation for construction malpractices, which will determine responsibilities for supervising contractors.

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This product is not a credit rating
Sept. 19, 2023 1
## Eligible Green Projects Assessment Summary

The eligible projects under LH’s Social, Green, And Sustainability Bond Framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

<table>
<thead>
<tr>
<th>Green Buildings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Light green</td>
</tr>
<tr>
<td>Energy Saving eco-friendly houses that have or expected to meet national, or international green building certifications.</td>
</tr>
<tr>
<td>Energy efficiency projects reducing energy consumption by at least 15% in the LH properties that meet international and national green building certifications.</td>
</tr>
<tr>
<td>Green remodeling of outdated public rental housing units to enhance energy performance by a minimum of 20%.</td>
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<tr>
<th>Renewable Energy</th>
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<tbody>
<tr>
<td>Dark green</td>
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<tr>
<td>Investments that facilitate the adoption of solar and wind renewable energy.</td>
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</table>

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<thead>
<tr>
<th>Clean Transportation</th>
</tr>
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<tbody>
<tr>
<td>Dark green</td>
</tr>
<tr>
<td>Investment supporting the proliferation of zero direct emission vehicles.</td>
</tr>
<tr>
<td>Investments in pedestrian mobility and cycle logistics.</td>
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</tbody>
</table>

See [Analysis Of Eligible Projects](#) for more detail.
Issuer Sustainability Context

This section provides an analysis of the issuer’s sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

Established in 2009 through the consolidation of two government entities, Korea National Housing Corp. and Korea Land Corp., LH is based in Jinju-si, South Korea. The company engages in public housing (27% of revenues, which totaled 19.6 trillion Korean won in 2022 (US$15.6 billion)), public rental housing (8%), land sales (61%) and others (4%). The government of Korea owns 90% of LH; Korea Development Bank and the Export-Import Bank of Korea hold the rest.

Material Sustainability Factors

Climate Transition Risk

Increased energy use in buildings has been a major contributor to climate change, representing around a third of global GHG emissions on a final-energy-use basis according to the IEA. This leaves the sector highly susceptible to the growing public, political, legal, and regulatory pressure to accelerate climate goals. Building occupiers and operators may face higher energy bills as power prices rise, and higher capital expenditures as upgrades are required to accommodate the energy transition and meet more stringent efficiency standards. This could affect household purchasing power and the competitive strengths of commercial and industrial properties. Incremental climate-related investments can require significant capital outlays but will potentially reduce the risk of obsolescence due to changes in regulation or climate goals. In addition, low-carbon properties may achieve higher cost efficiencies or attract premium rents in the longer term, therefore enhancing their value. Fossil fuels still account for about two-thirds of power generation in South Korea.

Physical Climate Risk

The geographically fixed nature of real estate assets exposes them to physical climate risks. While varying by location, these could include acute risks—such as wildfires, floods, and storms—which are becoming more frequent and severe, as well as chronic risks—such as long-term changes in temperature and precipitation patterns and sea level rise. Acute and chronic risks could damage properties or place tenant health and safety at risk, as well as require investments to manage potential effects or, in severe cases, relocation of tenants. While aggregate impact is moderate—since the type, number, and magnitude of these risks varies by region—highly exposed regions may be subject to material physical climate risk exposure. Most participants have some insurance coverage but it could become more difficult to secure insurance for the most exposed assets in the future, absent adaptation. In addition to changing precipitation patterns, South Korea is seeing more and more coastal flooding. Sea levels along the country’s coast have been increasing by more than 2 millimeters annually since the 1990s (source: Climate Reality Project).

Access and Affordability

Low housing stock and lack of affordable options can severely influence people’s livelihoods, especially vulnerable, low-income populations who can face the threat of homelessness. Access and affordability is especially important for residential tenants where rents can account for a large portion of incomes. Lack of accessibility and affordability of commercial properties can also hinder the sustainable growth of local communities. In 2022, the top wealth decile of households in South Korea owned about 43% of total household net worth, while households in the lowest 10% owned none (source: statista).

Impact On Communities

Properties, and by extension their owners, are inherently part of communities in which they operate because they provide an essential service and can shape communities both economically and socially. The residential sector is particularly impactful on
communities, where affordable housing and gentrification pressures can alter communities’ social fabric and can be challenging to remediate. Hotels, retail, and offices draw an influx of people into a community, which can support the local economy but can also affect community dynamics.

Issuer And Context Analysis

The eligible project categories relate directly to LH’s mission. The company states that its goal is “to enhance the residential environments of the people and promote efficient use of the national territory.” The company aims to supply 3.88 million new units by 2027. Beyond social considerations, LH, as a government-owned enterprise, contributes to the country’s sustainability efforts. For example, it contributes to a national carbon dioxide reduction target.

The three eligible green projects in the framework contribute to address material sustainability factors. The projects tackle climate transition risk and physical climate risks (to a lesser extent). In addition, affordable housing supports access to home ownership. LH will allocate a majority of the net proceeds to affordable housing, with the rest going to green buildings, renewable energy, and clean transportation.

LH has announced it will reach carbon neutrality by 2050, but lacks a detailed action plan. This is frequently the case for long-dated targets. However, the company’s Scope 1 and 2 emissions have been increasing for the last three years. In addition, LH is yet to assess its Scope 3 inventory.

The company is yet to conduct comprehensive climate related analysis on its portfolio and new projects. This is despite physical climate risk being a key consideration for real estate. LH has established environmental directions to mitigate adverse environmental impacts on its assets. However, the company has not conducted climate scenario analysis to assess climate specific risks.

Affordable housing gives people with lower incomes access to housing. LH endeavors to ensure a stable supply of housing in the country, including units for the youth and low-income earners.

LH's projects also impact communities during construction, as the company has a sizable real estate development footprint. The company, for example, sets up meetings with stakeholders such as residents and formulates appropriate and necessary actions to address any issues surfaced. In addition, LH has established an operating procedure to conserve biodiversity that complies with the Wildlife Protection and Management Act of Korea.

There is on ongoing investigation, following recent news on quality issues of some of LH’s public housing apartments. A nationwide probe into faulty apartment complexes has been opened after heavy rainfall exposed problems with architectural design and construction.
Alignment Assessment

This section provides an analysis of the framework’s alignment to the Social and Green Bond principles and the Sustainability Bond Guidelines.

Alignment With Principles

- ✔ Social Bond Principles, ICMA, 2023
- ✔ Green Bond Principles, ICMA, 2021
- ✔ Sustainability Bond Guidelines ICMA, 2021

✔ Use of proceeds

All the framework’s green project categories are shaded, and all social project categories meet the principles’ requirements. LH commits to allocating the net proceeds issued under the framework exclusively to eligible green and social projects. In addition, the company will disclose the share of financing versus refinancing in its allocation of proceeds. The maximum look-back period for refinanced projects is three years after issuance, in line with standard market practice. There is an exclusion list including the extraction, refining, or transportation of fossil fuels, and fossil fuel-based power generation.

✔ Process for project evaluation and selection

The framework clearly articulates the process to select and evaluate the green and social projects. The company’s ESG planning and coordination office will assess potential projects against the framework’s eligibility criteria and recommend some to be included as eligible projects. LH’s cross-departmental Social, Green and Sustainability Bond Working Group (SGSBWG) will review and approve the short-listed projects. The risk management committee, chaired by the CEO and the company’s risk management team, will assess and monitor the associated environmental and social risks. The company identifies relevant objectives for all eligible green and social eligible projects, and defines its target population based on national statistics for affordable housing.

✔ Management of proceeds

LH will maintain a register to track the allocation of proceeds and will manage the funds either bond-by-bond or by portfolio. The SGSBWG will review the eligibility of projects annually, and reallocate proceeds if some projects lose their eligibility. Unallocated proceeds will be held in cash and money market instruments with high liquidity among others, according to LH’s liquidity management policy.

✔ Reporting

LH commits to reporting on the allocation of net proceeds, including a brief description of financed projects and the remaining balance of unallocated proceeds. Likewise, the company will disclose the expected and/or actual environmental and social impacts of financed projects. The company will post both reports on its website either annually or in the event of material changes until the maturity of the underlying debt instruments.
Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the "Analytical Approach: Shades Of Green Assessments," as well as our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

For each financing under the framework, LH expects to allocate the majority of proceeds to affordable housing, followed by green buildings, renewable energy and clean transportation.

The eligible assets will include those for which LH has commenced operations or placed in service prior to the applicable sustainable financing, unless otherwise noted in the respective financing documents.

Green project categories

<table>
<thead>
<tr>
<th>Assessment</th>
<th>Description</th>
</tr>
</thead>
</table>
| Light green | i) Energy saving eco-friendly houses that have or expected to meet national, or international standards, including:  
  - International standards: U.S. Leadership in Energy and Environmental Design (LEED) – Gold or above; U.K. Building Research Establishment Environmental Assessment Method (BREEAM) – Very Good or above; or  
  - National standards: Building Energy Efficiency Certification level 1++ or above; or  
  - Green Standard for Energy and Environmental Design of Korea (G-SEED): Level II or above.  
  ii) Energy efficiency projects of LH properties which meet international and national green building standards specified above. Projects will reduce energy consumption by a minimum of 15%, including LED lighting system and streetlamp installation.  
  iii) Green remodeling of outdated public rental housing units to enhance energy performance and efficiency by a minimum of 20% upon the completion of work, including reductions in greenhouse gas emissions through the improvement of insulation, windows, doors, and installation of high-efficiency air conditioning systems. |

Analytical considerations

- The construction of green buildings supports climate change mitigation by alleviating greenhouse gas emissions. So do (re)developments through energy efficiencies. However, construction raises the key issue of the energy performance and emissions associated with building materials. Mitigating overall exposure to physical climate risks is also crucial, while new construction may raise complex biodiversity issues.

- The company aims to obtain international and national green certificates for its buildings. Their requirements may vary significantly, especially in their emphasis on energy performance. Ambition to reduce embodied emissions will depend on which certification is used, and what level a given building achieves. However, LH is yet to set additional criteria in areas such as energy use and embodied emissions. Likewise, a point-based system does not necessarily result in a decisive reduction in embodied emissions, given their assessment methodology.

- The energy efficiency projects will only include certified buildings. The company compares the level of energy efficiency improvement with historical baselines on a project-by-project basis.

- LH shares its remodeling spending will translate into energy efficiencies that exceed local regulations. Still, LH's cost-benefit analysis may lead to a straight demolition, rather than refurbishment, of ageing properties, raising more issues of building materials embodied emissions.

- The company will also manage buildings' energy use by installing LED lighting systems and LED streetlamps that will reduce energy consumption by a minimum of 15%. This comparatively low threshold has been widely used regionally for such projects and applies to assets that should be already energy efficient in comparison with the building stock in the
Second Party Opinion: Korea Land & Housing Corp.’s Social, Green, And Sustainability Bond Framework

country. For (re)developments, the company is aiming higher in nominal terms, as projects will have to enhance energy performance by a minimum of 20%.

- LH confirmed that the new or refurbished buildings could partly rely on fossil fuels for heating and cooling--particularly under extreme weather events. This could contribute to emissions lock-in.
- The company has a dedicated policy for biodiversity to provide alternative habitats for endangered wildlife as protected by the Wildlife Protection and Management Act of Korea.
- The company communicated they undertake comprehensive environmental impact assessments for development projects. However, there is some uncertainty on the scope and depth of such studies. In addition, while LEED and BREEAM may cover climate resilience, it may be possible to achieve a given certification the level without addressing the issue comprehensively due to the use of points-based systems.

### Renewable Energy

**Assessment**
- Dark green

**Description**
- i) Construction, transmission, purchase, installation, research and development of renewable energy generation components and facilities that facilitate adoption of solar and wind energy;
- ii) Construction, purchase, installation, operation, maintenance and upgrade of renewable energy systems for housing units

**Analytical considerations**
- Renewable energy contributes to climate change mitigation, given its low-carbon nature. However, there are important considerations around the life cycle emissions and waste generation in the value chain of renewable power.
- The projects cover all spending favoring the adoption of solar and wind energy, from research and development to transmission. There is a focus on real estate, with the construction, upgrade and installation of renewable energy systems for housing units, like solar rooftop solar panels. For wind power projects, the company will construct buildings designed to harness wind energy on site Building-integrated Wind Power and vertical small-size wind power facilities.
- LH does not have procedures to monitor life-cycle emissions for solar and wind. Likewise, the company is yet to set any threshold on fossil fuel dependency along these value chains.

### Clean Transportation

**Assessment**
- Dark green

**Description**
- i) Construction, operation, development, maintenance and upgrade of charging stations and infrastructure to support adoption of zero direct emission vehicles (i.e. electric vehicles (EVs) and green hydrogen vehicles);
- ii) Construction, maintenance and operation of infrastructure that is dedicated to person mobility or cycle logistics, such as pavements, bicycle lanes, and pedestrian zones.

**Analytical considerations**
- The company will finance the construction of charging stations, which are crucial to the proliferation of zero direct emissions vehicles, such as EVs and green hydrogen vehicles. Such stations therefore contribute to the transition to a low-carbon economy. Still, there are indirect issues of carbon emissions from a life-cycle perspective (materials sourcing, manufacturing).
- Charging stations will be connected to the national grid, which conventional thermal power dominate. Coal and natural gas account for two-thirds of power generation in South Korea.
- Meanwhile, LH will finance the construction of infrastructure for cyclists and pedestrians, which is essential to promoting secure and low-carbon local transit solutions, all the more if the company uses low-carbon building materials for instance.
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- The company shared that it will conduct environmental impact assessments for eligible transportation projects. This should reduce the potential impact of projects on biodiversity. It also monitors and reports construction waste annually.

S&P Global Ratings' Shades of Green

<table>
<thead>
<tr>
<th>Assessments</th>
<th>Dark green</th>
<th>Medium green</th>
<th>Light green</th>
<th>Yellow</th>
<th>Orange</th>
<th>Red</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td>Activities that correspond to the long-term vision of an LCCR future.</td>
<td>Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.</td>
<td>Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.</td>
<td>Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.</td>
<td>Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.</td>
<td>Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.</td>
</tr>
<tr>
<td>Example projects</td>
<td>Solar power plants</td>
<td>Energy efficient buildings</td>
<td>Hybrid road vehicles</td>
<td>Health care services</td>
<td>Conventional steel production</td>
<td>New oil exploration</td>
</tr>
</tbody>
</table>

Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR—Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2°C), with efforts to limit it to 1.5°C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term—For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in—Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets—Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).
Social project categories

Affordable housing

Provision of affordable housing under the following LH programs:

- Public Build-to-Rent (LH will develop some land and rent out the constructed units); and
- Public Buy-to-Rent (LH will let units, which the company will have priorly purchased)

Analytical considerations

- LH has a mandate to improve the quality of life in the country through the provision of housing. LH commits to providing these houses to the target populations with capped or subsidized rents, and has offered to date housing to 2.6 million people with rentals ranging from 30% to 80% of the prevailing market rates, depending on the type of lease.

- Construction and provision of affordable housing will improve living conditions for citizens with low incomes in the country. The target population is well defined with national statistics, such as the first and second income quintile in South Korea. These groups represent low-income citizens, those who earn less than 50% of the median of the national income distribution.

- LH is legally bound to offer energy efficient housing (i.e. Zero Energy Building Grade five) in its social housing offerings from 2023.
Mapping To The U.N.'s Sustainable Development Goals

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

<table>
<thead>
<tr>
<th>Use of proceeds</th>
<th>SDGs</th>
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</thead>
<tbody>
<tr>
<td><strong>Green building</strong></td>
<td>![Green building icon] 11. Sustainable cities and communities*</td>
</tr>
<tr>
<td><strong>Renewable energy</strong></td>
<td>![Sun icon] 7. Affordable and clean energy*</td>
</tr>
<tr>
<td><strong>Clean transportation</strong></td>
<td>![Building icon] 11. Sustainable cities and communities*</td>
</tr>
<tr>
<td><strong>Affordable housing</strong></td>
<td>![People icon] 1. No poverty* 11. Sustainable cities and communities*</td>
</tr>
</tbody>
</table>

*The eligible project categories link to these SDGs in the ICMA mapping.*
Second Party Opinion: Korea Land & Housing Corp.’s Social, Green, And Sustainability Bond Framework

Related Research

- Analytical Approach: Shades of Green Assessments, July 27, 2023

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