

Social Bond Framework

As of March, 1st 2021

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Introduction

The development bank BayernLabo

Profile

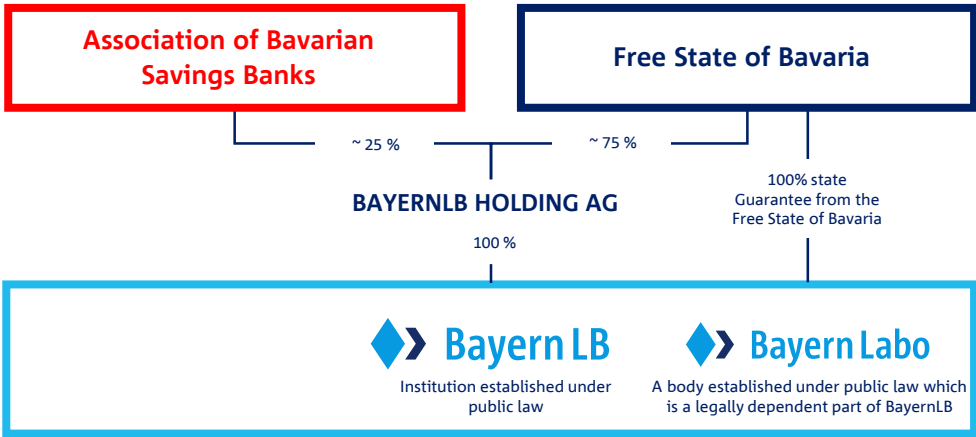
Bayerische Landesbodenkreditanstalt (BayernLabo) is a legally dependent but organisationally and financially independent institution or “Anstalt des öffentlichen Rechts” of Bayerische Landesbank, Munich (BayernLB). BayernLB’s owners are the Free State of Bavaria, with a holding of 75 percent in BayernLB Holding AG, and the Association of Bavarian Savings Banks, with a holding of 25 percent. BayernLabo is an entity charged with implementing government housing policy, it bundles the bank-specific operations that are necessary for furthering residential and municipal construction and it carries out its activities on a non-competitive basis. It is run under the supervisory authority of the Bavarian Ministry of Finance and Homeland (StFMH) and the Bavarian Ministry for Housing, Construction and Transport (StMB).

According to a decision by the EU Commission, BayernLabo is permitted to benefit from a state guarantee (Article 22, paragraph 1 of the Law on Bayerische Landesbank [Bayerische Landesbank Gesetz – BayLaBG]) and a refinancing guarantee (Article 22, paragraph 2 BayLaBG) beyond 18 July 2005. This means that the Free State of Bavaria is fully liable for all obligations that BayernLabo takes on (including contracted loans, mortgage bonds of the Bayerische Landesbodenkreditanstalt, bonds, forward transactions, option rights and loan guarantees).

The legal guarantee, defined in Article 22, paragraph 2 BayLaBG, is unconditional, valid indefinitely, and irrevocable and can only be abolished, limited, or changed by a corresponding state law. A repeal or change of the guarantee is only effective for transactions that are concluded after the law comes into force.

The Free State of Bavaria has been given an Aaa/AAA rating by the leading rating agencies Moody’s and Standard & Poor’s. This excellent Bavarian credit rating supports and underscores the outstanding character of the Free State of Bavaria as a collateral provider of BayernLabo. Due to the guarantee by the Free State of Bavaria, BayernLabo’s long-term bonds are rated Aaa by Moody’s.

Ownership structure



Sustainability

BayernLabo was established in 1884 as Bayerische Landeskulturrentenanstalt to support the state's financing of the modernisation of agriculture. In 1908, the Landeskulturrentenanstalt also began financing the construction of small flats for people with lower incomes. In 1949 it was renamed Bayerische Landesbodenkreditanstalt. In 1972 Bayerische Landesbodenkreditanstalt was merged with Bayerische Gemeindebank Girozentrale to form Bayerische Landesbank Girozentrale (today BayernLB). It remains an economically independent institution whose chief mandate is to subsidise residential housing and urban development in Bavaria, but as a legally dependent institution within BayernLB.

BayernLabo is committed to fulfilling its public mandate. The Free State of Bavaria can rely on BayernLabo's products and services as an institution of state housing policy when meeting this contract. This housing policy marries two equally important goals: the preservation of economically powerful and viable urban centres on the one hand and the strengthening of rural areas on the other. These two components play a definitive role in promoting housing and achieving the high stakes of BayernLabo's business activities.

While engaging in state and local authority lending, BayernLabo concentrates on conducting business exclusively with Bavarian borrowers. The focus is on promoting investments in general municipal and social infrastructure.

The Bavarian government may also transfer additional tasks to BayernLabo, insofar as these do not contravene European state aid law, particularly the European Union's principles and requirements for the business activities of a development institution.

In summary, BayernLabo has been supporting the sustainable development of Bavaria and fulfilling its social and entrepreneurial responsibility since 1884.

Values and ethos of BayernLabo

OUR VALUES

A strong foundation

These values are an integral part of our corporate culture. They determine our attitude, govern our actions and are the basis for our success: professionalism, dedication, reliability, responsibility, team spirit and motivation.

OUR ETHOS

Our mission

As the development bank of the Free State of Bavaria and an entity charged with implementing government housing policy, we have the legal mandate to financially promote the development of Bavaria's housing and settlement structure. In our state and municipal business, we support the Bavarian municipalities and special-purpose and school associations in implementing municipal investment projects.

Our responsibilities

We feel a special responsibility towards families, for whom we help to provide suitable living space, and we assist the Bavarian municipalities as an expert financing partner. Our employees are deeply rooted in the region where we do business. As bankers. And as citizens.

Our focus

We promote the creation of affordable housing for the long term and the expansion of public infrastructure to improve quality of life in the Free State of Bavaria. What else sets us apart? Our outstanding reliability, expertise and ability to get things done.

Our employees

Our employees are our calling card. And their strong suits are expertise, pragmatism and integrity. We foster their dedication and team spirit, giving them attractive working conditions and responsibility. Trainees, specialists and managers alike.

Core business areas

Article 20 para. 1 of the Law on Bayerische Landesbank (BayLaBG) stipulates BayernLabo's intended areas of activity. As a public law institution responsible for housing, BayernLabo's primary statutory mandate is to promote housing and urban development in Bavaria. The Free State of Bavaria confers a set of guidelines for this on BayernLabo.

BayernLabo has been lending to the Bavarian Free State and local authorities since 2006. The legal basis for this activity stems from a change to the Law on Bayerische Landesbank (BayLaBG) on 15th June 2005 (Implementation of the Agreement II between EU Commission and German Federal Government). While engaging in state and local authority lending, BayernLabo has restricted itself to conducting business only with Bavarian borrowers.

BayernLabo's business segments

	Residential development	State and municipal loans
Target Groups	<ul style="list-style-type: none"> › Housing associations › Municipalities › Private investors › Operators of care units 	<ul style="list-style-type: none"> › Bavarian municipal local authorities › Municipal special purpose associations › School associations › Free State of Bavaria
Programmes	<p style="text-align: center;"><i>To be included in social bond</i></p> <ul style="list-style-type: none"> › Municipal programme for the creation of rental properties in Bavaria › Bavarian programme of low-interest loans for private housing › Bavarian modernization programme › Bavarian residential construction program to support owner-occupied homes › Bavarian residential construction program to support rental properties › Subsidized loans for student housing › Supporting renovations for people with disabilities › Modernization of buildings for homeowners' associations › Creation of energy-efficient rental housing › Homes › Flood 	<ul style="list-style-type: none"> › Government loans › Traditional loans to municipalities › Investkredit Kommunal Bayern › Energiekredit Kommunal Bayern › Inklusionskredit Kommunal Bayern

Rationale for issuing a social bond

BayernLabo acts as the extended arm of the Free State of Bavaria tasked with implementing all necessary steps to fulfil Bavaria's strong commitment towards a socially responsible housing policy.

By issuing social bonds, BayernLabo promotes the Free State of Bavaria's sustainable financing strategy. In particular, the proceeds will be used to finance new and existing loans under the Bavarian subsidised interest rate programme to promote home ownership, the Bavarian modernisation programme and the municipal investment loan programme to create affordable rental housing in Bavaria.

BayernLabo issued its first social Bond in November 2017 and scheduled its potential second transaction for 2021.

Social Bond Framework

The BayernLabo Social Bond Framework has been drafted in accordance with the International Capital Markets Association’s (ICMA) 2020 Social Bond Principles (SBP)¹ and its four core components:



- Use of proceeds
- Process for project evaluation and selection
- Management of proceeds
- Reporting

The Social Bond Framework allows BayernLabo to issue public bonds as well as private placements.

Use of proceeds

Proceeds from BayernLabo Social Bonds will be used to exclusively finance/refinance, in whole or in part, eligible social loans including in at least one of the following eligible social categories:

BayernLabo’s Social Loan Programmes

	Eligible Social categories	BayernLabo Eligible Social Loan Programmes	UN SDGs
Affordable Housing	<p>Rental housing promotion: Loans to Bavarian municipalities to create inexpensive rental housing</p> <p>Target population: low-income households respectively refugees</p>	Municipal promotion programme	
	<p>Home ownership promotion: Loans to promote home ownership for low-income households (until the specific income limit).</p> <p>Target population: Low-income households</p>	Bavarian interest subsidy programme	
	<p>Modernization promotion: Loans to adjust existing living space to the needs of the housing market in a socially acceptable manner and renovations adapted to elderly residents.</p> <p>Target population: Owners of rented apartments in multi-family residences and care facilities</p>	Bavarian modernization programme	

¹ <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Social-Bond-PrinciplesJune-2020-090620.pdf>

BayernLabo will only subsidise these proprietary programmes from bond issue proceeds, comprising subsidised loans approved in the year of the issue and subsidies from the previous three calendar years.

Promotion principles

The following must be given particular weight in promotional activities:

1. The regional and local housing situation
2. The particular requirements of the target group for the housing, in particular requirements for barrier-free construction for people with permanently or temporarily limited mobility due to age, disability or illness
3. Creation and preservation of socially stable resident structures and balanced settlement structures
4. Economic use of land, ecological requirements in residential construction and requirements to reduce costs and conserve resources in construction
5. Measures relating to urban development renovation activities
6. The contribution of housing cooperatives to achieving housing promotion goals
7. Avoidance of unjustified housing cost relief
8. Special approaches to advance sustainable housing provision

1. Rental housing promotion

Goals of housing promotion in Bavaria

The goals of housing promotion are defined in Article 2 of BayWoFG, the Bavarian Housing Promotion Act.

Goal of rental housing promotion

The aim of promoting rental housing is to support households that are unable to obtain suitable living space through the market. The subsidies are focussed in particular on families, people with disabilities, older people and students.

Municipal promotion programme to create rental housing in Bavaria

By participating in the municipal housing promotion programme, the Free State of Bavaria together with BayernLabo supports Bavarian local authorities in creating low-cost housing by themselves. Subsidised loans are provided for new builds, upgrades and extensions, as well as for modernisation and initial purchase of rental homes. The programme aims to promote apartment buildings that have a long useful life and fulfil the objective of structured urban development.

The municipal housing promotion programme is targeted at households that are unable to obtain suitable living space on the housing market under their own steam. A reasonable proportion of these homes are also intended to be provided to recognised refugees in accordance with local needs.

The local authority concerned is responsible for managing this. The rental levels are to be structured by the local authority so that the housing can also be used by people with low incomes, such as benefit recipients. The income thresholds should be based on those for housing promotion (Article 11 of BayWoFG, the Bavarian Housing Promotion Act¹).

2. Home ownership promotion

Goal of home ownership promotion

The goal of promoting home ownership is to enable households that would otherwise be unable to purchase their own homes. The subsidies are focussed in particular on families and people with disabilities.

Bavarian interest subsidy programme to promote home ownership

BayernLabo supports primarily young families in building or buying their own house or flat with the aid of a low-interest loan, by providing loans from the Bavarian interest subsidy programme to promote home ownership.

The idea behind the Bavarian interest subsidy programme to promote home ownership is to enable mainly young families to build or buy their own home. The subsidies on offer therefore depend on the family's annual gross income. All households whose total income does not exceed the income threshold stated in Article 11 of BayWoFG, the Bavarian Housing Promotion Act², can apply for a subsidised loan. Within the confines of the Bavarian interest subsidy programme, BayernLabo offers loan options with a 10 or 15-year fixed interest rate and, as an additional alternative, with a 30-year fixed interest rate (full repayment).

3. Modernisation promotion

Goal of modernisation promotion

The goal of promoting modernisation is to adjust existing living space to the needs of the housing market in a socially acceptable manner and to preserve or revive the urban development function of older residential districts.

Bavarian modernisation programme

BayernLabo grants low-interest loans for eligible modernisation and renovation measures in a move to promote rental flats in apartment buildings and places in approved in-patient care facilities.

² BayWoFG, Article 11 income threshold:

- For a single-person household: EUR 22,600
- For a two-person household: EUR 34,500
- For every additional member of the same household: EUR 8,500
- The income threshold according to sentence 1 increases by EUR 2,500 for every child belonging to the household within the meaning of Section 32 para. 1 to 5 of Einkommensteuergesetz, the German Income Tax Act. The same applies if one or more additional children are expected due to an existing pregnancy.

The goals of the promotion are to increase the value in use of living space, improve general living conditions, adapt living space to the needs of the elderly, save energy and water and reduce CO₂ emissions through modernisation, and preserve and restore the urban functioning of older residential districts, in addition to ensuring fair and acceptable rent levels after such modernisation, and clearly defining which groups of people are eligible as tenants by means of a fundamental occupancy right.

For homes due to be rented out, there is a general occupancy right lasting 10 or 20 years for households whose total income does not exceed the income threshold of Article 11 of BayWoFG, the Bavarian Housing Promotion Act. The person authorised to dispose of the housing is obliged at their discretion to only relet it should it become free (change in tenant), for residential purposes and at the permissible rental price to people that provide a certificate of residential entitlement (Wohnberechtigungsschein) from the local authority.

Process for project evaluation and selection

The process to identify eligible loans is based on the credit granting system under local regulations. This process enables eligible social loans to be identified and selected automatically. All eligible social loans comply with the BayernLabo standard credit process.

Pursuant to Article 20 para. 4 of BayLaBG, when implementing its own programmes BayernLabo follows the guidelines of the respective state ministry responsible. The government subsidy directives can be found on the website of the Bavarian Ministry for Housing, Construction and Transport (StMB)³. When it comes to home ownership promotion it is the local authorities, or alternatively for rental housing promotion the district governments or the City of Munich, or the cities of Augsburg and Nuremberg, that check the subsidy conditions and decide on the applications for subsidised loans.

The government promotion directives govern, for example, the application and approval process, including the selection of properties eligible for promotion.

An application for BayernLabo's subsidised loans must be submitted to the local authority responsible (for home ownership) or the district governments responsible, the City of Munich or the cities of Augsburg and Nuremberg (for rental housing) before construction starts, or before an agreement is concluded on a purchase or before implementing modernisation measures.

The government approval offices check the subsidy conditions and make a decision on the application. If the subsidy conditions are met, a certificate of approval for the available funds is produced and provided to BayernLabo.

BayernLabo is responsible for paying out and managing the loans. In particular, its tasks include performing a bank-related check of the applicant's credit standing, concluding the loan agreement and collateralising the loan.

³ <http://www.stmi.bayern.de/buw/wohnen/foerderung/index.php>

Management of proceeds

BayernLabo will set up an internal information system enabling it to track the allocation of the social bonds proceeds.

An amount equivalent to the net proceeds of BayernLabo social bonds issued under this framework will be managed using a portfolio approach. Until maturity of the social bonds, BayernLabo will ensure that the volume of eligible social loans in the eligible social loan portfolio exceeds the proceeds from the social bonds.

On an annual basis, BayernLabo will check the eligibility and availability of the eligible social loans and will strive to substitute any redeemed or maturing eligible social loans with other eligible social loans. If some eligible social loans no longer comply with the definition provided in the 'Use of proceeds' section, BayernLabo will reallocate the proceeds to other eligible social loans on a best efforts basis and as soon as is reasonably practicable.

Pending the full allocation of the proceeds or in the unlikely event that there are insufficient eligible social loans, BayernLabo commits to hold unallocated net proceeds from BayernLabo's sustainable debt instrument issues in money market instruments, cash and/or cash equivalent instruments.

Reporting

BayernLabo commits to provide annual reporting, starting one calendar year after the date of an issue and ending until the social bond proceeds have been fully allocated. The reporting will include information on:

- The allocation of proceeds towards eligible social loans (allocation reporting)
- The social impact of those expenditures (impact reporting)

Allocation reporting

The allocation report will provide information such as:

- The amount of the outstanding social bonds
- The breakdown by social categories
- The breakdown by loan origination dates
- The breakdown by districts
- The total amount of new financing versus refinancing

Impact reporting

Impact reporting will provide, where feasible, information on the impacts of the eligible social loans, such as:

- The number of homes subsidised as part of the Bavarian interest subsidy programme to promote home ownership in the calendar year of the issue date
- The number of people who were enabled to build or buy their own home as a result of subsidised loans under the Bavarian interest subsidy programme

- The number of homes subsidised as part of the Bavarian modernisation programme in the calendar year of the issue date
- The number of places in approved inpatient care facilities subsidised as part of the Bavarian modernisation programme in the calendar year of the issue date
- The number of homes subsidised in the municipal programme to create rental housing in Bavaria
- Similarly, data regarding subsidised loans for the three calendar years preceding the issue for which proceeds were used.

External review

BayernLabo has commissioned an external second-party opinion by ISS ESG to provide an assessment of the framework's alignment with the Social Bond Principles published by ICMA, the robustness of BayernLabo Social Bond Framework's governance and the social quality of eligible social loans.

Appendix

Bavarian interest subsidy programme to promote home ownership

Under the Bavarian interest subsidy programme to promote home ownership, BayernLabo grants fixed-term low-interest loans for up to one third of the total cost of living space for the owner's personal use. Subsidised loans are available for building new housing, purchasing newly built housing (first purchase) and purchasing existing housing (subsequent purchase).

Bavarian modernisation programme

Under the Bavarian modernisation programme, BayernLabo grants low-interest loans, partly financed from the residential programmes of Kreditanstalt für Wiederaufbau (KfW) for "Energy-efficient Restructuring" and "Senior-friendly Conversions".

In addition to these KfW programmes, BayernLabo grants low-interest loans, which it refinances on the capital market, for other modernisation and renovation activities without the involvement of KfW. Furthermore, the Free State of Bavaria provides a subsidy of up to EUR 100 per m² (but only up to 20 percent of the entire subsidised amount).

The goals of the promotion are to increase the value in use of living space, improve general living conditions, adapt living space to the needs of the elderly, save energy and water and reduce CO₂ emissions through modernisation, and preserve and restore the urban functioning of older residential districts, in addition to ensuring fair and acceptable rent levels after such modernisation and clearly defining which groups of people are eligible as tenants by means of a fundamental occupancy right.

BayernLabo offers the portion of the loan refinanced on the capital market with a 10 or 20-year fixed interest rate. After modernisation, the homes must meet today's generally accepted housing needs. Higher rental prices must be expected as a result of the measures.

Municipal promotion programme to create rental housing in Bavaria

Under the municipal housing promotion programme, BayernLabo grants low-interest loans from the Free State of Bavaria in the amount of 60 percent of the eligible total costs to finance new builds, upgrades and extensions, as well as for modernisation and initial purchase of rental homes. In addition, the Free State of Bavaria grants a subsidy of 30 percent of the eligible total costs; the local authority must provide 10 percent of the financing itself.

BayernLabo disburses the low-interest loan, which it funds on the capital market, with a fixed interest rate for 10, 20 or 30 years if the loan is repaid in full within the selected fixed interest rate term, including a one-year payment holiday.

This offer is aimed particularly at municipalities that do not have their own municipal construction company, which can utilise government subsidies from the Bavarian residential construction programme to finance rental homes.

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