

## SECOND PARTY OPINION (SPO)

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Sustainability Quality of the Issuer and Social Bond

Bayerische Landesbodenkreditanstalt

8 March 2021

### VERIFICATION PARAMETERS

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Type(s) of instruments contemplated	<ul style="list-style-type: none"><li>• Social Bond</li></ul>
Relevant standards	<ul style="list-style-type: none"><li>• ICMA Social Bond Principles</li></ul>
Scope of verification	<ul style="list-style-type: none"><li>• BayernLabo Social Bond Framework (as of March 2021)</li><li>• BayernLabo Social Bond asset pool (as of March 2021)</li></ul>
Lifecycle	<ul style="list-style-type: none"><li>• Pre-issuance verification</li></ul>
Validity	<ul style="list-style-type: none"><li>• This SPO is valid as long as no new project categories are added to the Framework and there are no material changes to the asset pool (e.g. addition of assets that do not follow the Eligibility Criteria as set out in the BayernLabo Social Bond Framework of March 2021)</li></ul>

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## SCOPE OF WORK

Bayerische Landesbodenkreditanstalt (“BayernLabo” or “the issuer”) commissioned ISS ESG to assist with its Social Bond by assessing three core elements to determine the sustainability quality of the bond:

1. The instrument’s link to BayernLabo’s sustainability strategy – drawing on BayernLabo’s overall sustainability profile and issuance-specific Use of Proceeds categories.
2. BayernLabo’s Social Bond framework – benchmarked against the International Capital Market Association’s (ICMA) Social Bond Principles (SBPs)
3. The asset pool – whether the projects aligned with ISS ESG’s issue-specific key performance indicators (KPIs) (See Annex 1).

## ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION <sup>1</sup>
<b>Part 1:</b> <b>Issuance’s link to issuer’s sustainability strategy</b>	According to the ISS ESG Corporate Rating published on 14.04.2020, the issuer shows a good sustainability performance against industry peer group on key ESG issues faced by the Financials/Mortgage and Public Sector Finance sector. As of 08.03.2021, the company obtains a Decile Rank relative to industry group of 1, given that a decile rank of 1 indicates highest relative ESG performance out of 10. The issuer is rated 7 <sup>th</sup> out of 129 companies within its sector.	<b>Consistent with the issuer’s sustainability strategy</b>
<b>Part 2:</b> <b>Performance against the SBPs</b>	The issuer has defined a formal concept for its Social Bond framework regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with ICMA’s SBPs.	<b>Positive</b>
<b>Part 3:</b> <b>Sustainability quality of the asset pool</b>	<p>The overall sustainability quality of the Social Bond asset pool in terms of sustainability benefits, risk avoidance and minimisation is good, based upon the ISS ESG’s Social Bond KPIs. The Social Bond KPIs contain a clear description of the eligible asset category which includes mortgage loans for social housing.</p> <p>The use of proceeds category has a significant contribution to SDG 1 “No poverty” and SDG 11 “Sustainable cities and communities” according to the methodology of ISS ESG.</p>	<b>Positive</b>

<sup>1</sup> ESG’s evaluation is based on the BayernLabo Social Bond Framework (March 2021 version), on the analysed Social Bond asset pool and on the ISS ESG Corporate Rating applicable at the SPO delivery date (updated on the 14.04.2020).

## ISS ESG SPO ASSESSMENT

### PART I: INSTRUMENT'S LINK TO BAYERNLABO'S SUSTAINABILITY STRATEGY

#### A. ASSESSMENT OF BAYERNLABO'S ESG PERFORMANCE

The ISS ESG Corporate Rating provides material and forward-looking environmental, social and governance (ESG) data and performance assessments.

COMPANY	SECTOR	DECILE RANK	TRANSPARENCY LEVEL
<b>BAYERNLABO</b>	<b>FINANCIALS/MORTGAGE AND PUBLIC SECTOR FINANCE</b>	<b>1</b>	<b>VERY HIGH</b>

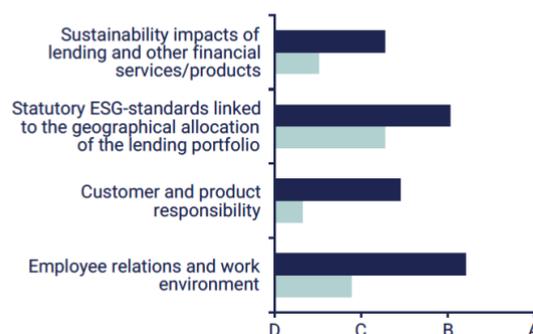
This means that the company currently shows a high sustainability performance against peers on key ESG issues faced by the 'Financials/Mortgage and Public Sector Finance' Sector and obtains a Decile Rank relative to industry group of 1, given that a decile rank of 1 indicates highest relative ESG performance out of 10.

#### ESG performance

As of 08.03.2021, this Rating places BayernLabo 7<sup>th</sup> out of 129 companies rated by ISS ESG in the 'Financials/Mortgage and Public Sector Finance' sector.

Key Challenges faced by companies in terms of sustainability management in this sector are displayed in the chart on the right, as well as the issuer's performance against those key challenges in comparison to the average industry peers' performance.

#### Key Issue Performance



Legend: Industry (light blue), Company (dark blue)

#### Sustainability Opportunities

BayernLabo is commissioned to serve as a lender and fiduciary for social housing development promoted by German federal state of Bavaria. In addition, the institute provides funding to various other socially beneficial purposes including student housing, nurseries, loans for accessible public infrastructure and home improvements for disabled people, and municipality finance for the construction of refugee accommodations. As for the business year 2018, financial services with such a social focus constituted more than 50% of BayernLabo's overall new lending volume. Furthermore, BayernLabo offers zero-interest programmes for municipalities dedicated to energy efficiency modernisation of public non-housing real estate and for the construction or acquisition of energy efficient buildings as well as likewise programmes for private developments. Thereby, the institute is contributed significantly to resolving global sustainability challenges.

### *Sustainability Risks*

As a public law entity exclusively entitled to promotional housing finance and municipality funding in the German federal state of Bavaria, BayernLabo accounts for a particularly low risk exposure concerning negative environmental and social impacts.

BayernLabo tries to mitigate the remaining risks by applying some basic guidelines to at least parts of its lending portfolio including stipulations on conditions for resource efficiency of buildings and biodiversity. Additionally, certain sectors and businesses are identified to be barred from any finance by the institute, first and foremost banned and controversial weapons (which should not enter BayernLabo's business model anyways). However, only some regulations appear to be covenanted and application procedures remain rather weakly implemented. The bank also has implemented suitable safeguards concerning responsible marketing and the treatment of clients with debt repayment problems, but falls short to present a strategy to ensure responsible sales operations.

The company's employees are all located in Germany and thus enjoy comparably high legal working standards added up with the company's comprehensive approach towards work-life balance and health and safety for its staff, including adequate measures to address mental health risks. For managing its business ethics risk, BayernLabo applies the code of conduct of Bayerische Landesbank, its parent, covering a broad range of relevant topics, such as corruption, insider dealings and money laundering as well as providing adequate compliance procedures.

### *Governance opinion*

BayernLabo is a public law institution, financially independent but not legally separated from its 'parent' Bayerische Landesbank, ultimately owned by the Free State of Bavaria and the Bavarian savings bank association. Thus, it shares the corporate governance structures of Bayerische Landesbank. There, the majority of members of the supervisory board can be considered to be independent, although some members are affiliated to the bank's owner, the Free State of Bavaria. In addition, the chairman of BayernLB, Mr Wolf Schumacher (as at June 01, 2019) can be considered independent. Bayerische Landesbank's board has established committees in charge of audit, remuneration and nomination affairs. However, they are composed partially of non-independent members. With regard to compensation, Bayerische Landesbank publishes fixed remuneration and variable payment elements for the executive management as a whole.

A sustainability committee on the board level appears to be missing. In addition, apparently, there are no ESG criteria determining variable executive compensation components. BayernLabo applies the code of conduct of Bayerische Landesbank for its operations, which covers all relevant topics to some extent, including corruption and bribery, insider dealings and money laundering. Compliance measures include comprehensive trainings as well as compliance risk assessments and audits. In addition, employees and stakeholders can address wrongdoing via an anonymous and confidential whistleblower reporting channel.

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

Using a proprietary methodology, ISS ESG assessed the contribution of BayernLabo'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 BayernLabo's production process.

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE (2018 sales)	DIRECTION OF IMPACT	UN SDGS
<b>Promotional loans for energy-efficiency measures and refurbishments</b>	9%	CONTRIBUTION	 
<b>Promotional loans for affordable housing (low-to-middle income families), promotional loans for social housing (vulnerable groups, low-income beneficiaries)</b>	58%	CONTRIBUTION	 
<b>Others</b>	N/A	NO NET IMPACT	N/A

*Breaches of international norms and ESG controversies*

The company is not facing any controversy.

## B. CONSISTENCY OF THE INSTRUMENT WITH BAYERNLABO'S SUSTAINABILITY STRATEGY

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

BayernLabo has a longstanding commitment to sustainability. BayernLabo was established in 1884 as Bayerische Landeskulturrentenanstalt. It was the solution on how the state could help finance the modernisation of agriculture. In 1908, the Landeskultur rentenanstalt also began financing the construction of small flats for people with lower incomes. In 1949 it was renamed in Bayerische Landesbodenkreditanstalt. In 1972 Bayerische Landesbodenkreditanstalt merges with Bayerische Gemeindebank Girozentrale to form Bayerische Landesbank Girozentrale (today BayernLB), nevertheless remaining an economically independent institution whose chief mandate is to subsidised residential housing and urban development in Bavaria, but as a legally dependent institution within BayernLB.

BayernLabo is committed to the public contract. The Free State of Bavaria can rely on the services and the offer of BayernLabo as an institution of state housing policy when fulfilling this contract. This housing policy is characterized by two equivalent goals: the preservation of economically powerful and viable urban centers on the one hand and the strengthening of rural areas on the other. These two components are substantial in the promotion of housing and the important stakes of BayernLabo's business activities.

While engaging in state and local authority lending, BayernLabo is particularly focused on conducting business exclusively with Bavarian borrowers. The focus is on the promotion of investments in general municipal and social infrastructure.

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

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

### *Rationale for issuance*

BayernLabo acts as the extended arm of the Free State of Bavaria in charge of implementing all necessary steps to fulfil the strong commitment that Bavaria has towards a socially responsible housing policy. By issuing social bonds, BayernLabo is promoting the sustainable financing strategy of the Free State Bavaria and will in particular use the proceeds 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.

### *Contribution of Use of Proceeds categories to sustainability objectives and priorities*

ISS ESG mapped the Use of Proceeds categories financed under this Framework with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Financials/Mortgage and Public Sector Finance sector. From

this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds categories.

USE OF PROCEEDS CATEGORY	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
Social housing	✓	✓	Contribution to a material objective

**Opinion:** ISS ESG finds that Use of Proceeds category financed through the bonds issued under this Framework are consistent with the issuer’s sustainability strategy and to material ESG topics for the issuer’s industry. The rationale for issuing Social Bonds is clearly described by the issuer.

## PART II: ALIGNMENT WITH SOCIAL BOND PRINCIPLES

### 1. Use of Proceeds

The proceeds of the social bonds to be issued by BayernLabo (“the Social Bond”) will be exclusively used to finance or refinance subsidised loans granted in the year of issuance of the respective bond as well as loans from three preceding financial years from the following three BayernLabo loan programmes (“Eligible Loans”):

#### **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 Act can apply for a subsidised loan. Within the confines of the Bavarian interest subsidy programme, BayernLabo offers loan variants with a 10 or 15-year fixed interest rate and, as an additional alternative, with a 30-year fixed interest rate (full repayment).

#### **Bavarian modernisation programme**

BayernLabo grants low-interest loans for eligible modernisations and renewal measures of rental housing in apartment blocks as well as in in-patient elderly care facilities.

The objectives of the programme are to increase the utility value of housing, improve general housing conditions, adapt housing to the needs of the elderly, save energy and water, reduce carbon emissions as a result of modernisations, preserve and restore the urban function of older residential areas, ensure a socially acceptable rent after modernisations and to guarantee housing is provided to low-income households.

For a period of 10 years after modernisation, flats to be re-let must be rented to households, who’s total income does not exceed certain income limits.

#### **Municipal subsidised housing programme**

With the municipal rental housing subsidy programme the Free State of Bavaria, together with BayernLabo, supports Bavarian municipalities in their own construction of reasonably priced living space. The programme benefits the construction, alteration, extension as well as the modernisation and first purchase of rented flats. The aim of the programme is to promote residential buildings that can be used in the long term and that correspond to the goal of an orderly urban development.

The target group of the municipal rental housing subsidy programme includes municipalities which cannot construct or purchase housing on the housing market by their own efforts. The apartments should also be made available to recognized refugees to an appropriate extent, in accordance with local needs. It is the task of the respective municipality to coordinate this. The municipalities are also required to ensure socially acceptable rent so that apartments can be rent by low-income persons in particular.

**Opinion:** ISS ESG considers the Use of Proceeds description provided by BayernLabo Social Bond Framework as aligned with the SBPs. Expected social benefits are clearly displayed in a granular way and the eligible categories are aligned with the broader strategy of the issuer toward sustainability.

## 2. Process for Project Evaluation and Selection

The eligible loan identification process relies on the credit granting system based on local regulation. This process automatically allows for the identification and selection of the eligible Social loans. All Social Eligible loans comply with BayernLabo standard credit process.

Pursuant to Article 20 para. 4 of BayLaBG, when implementing its own programmes BayernLabo acts according to the guidelines of the respective state ministry responsible. The government subsidy directives can be found on the website of the Bavarian Ministry of the Interior, for Building and Transport<sup>2</sup>. With regard to home ownership promotion the local authorities, or alternatively for rental housing promotion the district governments or the City of Munich, or the cities of Augsburg and Nuremberg, check the subsidy conditions and make decisions on the applications for subsidised loans.

The government promotion directives govern, for example, the application and approval process, incl. 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 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.

**Opinion:** ISS ESG considers the Project Evaluation and Selection processes as aligned with the SBPs. The eligibility criteria and selection process rely on the credit granting system based on local regulation which is clearly defined and publicly disclosed. This system also envisages exclusion criteria, as the loans can only be used for the proposed program.

## 3. Management of Proceeds

BayernLabo will set up an internal information system enabling 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 in a portfolio approach. Until the maturity of the Social Bonds, BayernLabo

<sup>2</sup> <http://www.stmi.bayern.de/buw/wohnen/foerderung/index.php>

will ensure that the volume of Eligible Social loans in the Eligible Social loan portfolio exceeds the proceeds of the Social Bonds.

On an annually 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. In case 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 effort basis and as soon as reasonably practicable.

Pending the full allocation of the proceeds or in the unlikely case of insufficient Eligible Social loans, BayernLabo commits to hold the funds in the Group's Treasury in accordance with the Group's internal general policy.

Unallocated net proceeds from BayernLabo's sustainable debt instrument issues will be allocated by BayernLabo in money market instruments, cash and/or cash equivalent instruments.

**Opinion:** *ISS ESG considers the management of proceeds as aligned with the SBPs. Appropriate tracking of the proceeds and a granular description of allocation process is in place. Intended types of temporary investment instruments for unallocated proceeds are also disclosed.*

#### 4. Reporting

BayernLabo commits to provide annual reporting, starting one calendar year after the date of an issue and ending until the full allocation of the Social Bonds proceeds. 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 issue and total Social Bonds outstanding.
- 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

The impact reporting will provide, where feasible, information on the impacts of the Eligible Social loans, such as:

- Number of homes subsidised as part of the Bavarian interest subsidy programme to promote home ownership in the calendar year of the issue date
- 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
- Number of homes subsidised as part of the Bavarian modernisation programme in the calendar

year of the issue date

- Number of places in approved inpatient care facilities subsidised as part of the Bavarian modernisation programme in the calendar year of the issue date
- 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
- Examples of subsidised loans in the three programmes financed from the issue proceeds.

**Opinion:** *ISS ESG considers the reporting as aligned with the SBPs. The issuer gives details about level, frequency, scope and duration of reporting for both allocation and impact reporting. Impact indicators are well defined, and intended public disclosure further enhances the quality of the reporting.*

### External review

BayernLabo has engaged with an external Second-party opinion, ISS ESG, to provide an assessment of the alignment of the Framework with the Social Bond Principles published by ICMA and of the robustness of the BayernLabo Social Bond Framework governance as well as the social quality of Eligible Social Loans.

## **PART III: SUSTAINABILITY QUALITY OF THE SOCIAL BOND ASSET POOL**

### **1. CONTRIBUTION OF THE SOCIAL BOND TO THE UN SDGS**

Using a proprietary methodology, ISS ESG assessed the contribution of BayernLabo’s Social Bond to the Sustainable Development Goals defined by the United Nations (UN SDGs). This assessment is an ISS ESG proprietary methodology while taking into account the sustainability quality of the instrument and the issuer’s specific sectorial context.

This assessment is displayed on 5-point scale (see Annex 1 for methodology):



Each of the bond’s Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
Mortgage loans for social housing	Significant contribution	 

## 2. MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS ASSOCIATED WITH THE SOCIAL BOND ASSET POOL

### **Mortgage loans for social housing**

As a Use of Proceeds category, mortgage loans for social housing have a significant contribution to the SDG 1 “No Poverty” and SDG 11 “Sustainable cities and communities”.

The table below presents the financing intentions and the findings of an ISS ESG assessment of the assets (re-)financed against KPIs.

#### **ASSESSMENT AGAINST ISS ESG KPI**

##### **Achieved energy efficiency of social housing**

- ✓ 100% of the projects must observe the requirements of the Energy Saving Ordinance (Energieeinsparverordnung / EnEV) in the version applicable at the time of credit application.
- No information is available either on the annual primary energy consumption or on energy performance certification with a minimum energy performance labelled “B” (on a scale from H to A+).
- No information is available on whether home improvement projects reach or exceed a 20% energy efficiency improvement.

##### **Social standards for construction**

- ✓ 100% of the projects are located in Germany where high labour and health and safety standards are in place for construction and maintenance work conducted by own employees and contractors (e.g. ILO core conventions).

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

- ✓ For 100% of projects, pre-emptive actions to prevent client debt repayment problems (e.g. proactively approaching customers potentially at risk, use of responsible lending performance indicators, long-term fixed interest rates) are in place.
- ✓ For 100% of projects, sustainable solutions for customers with debt repayment problems are in place (e.g. forbearance measures, foreclosure as a last resort).
- ✓ For 100% of projects, the creditor excludes the selling of contractually serviced loans.

##### **Controversy assessment**

Due to a low controversy risk, ISS ESG does not carry out a controversy assessment for private mortgage loans.

## DISCLAIMER

1. Validity of the SPO: this SPO is valid as long as no new project categories are added to the Framework and there are no material changes to the asset pool (e.g. addition of assets that do not follow the Eligibility Criteria as set out in the BayernLabo Social Bond Framework of March 2021)
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to 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.
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## ANNEX 1: Methodology

### ISS ESG Social KPIs

The ISS ESG Social KPIs serves as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of BayernLabo’s Social 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 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 fulfil 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.

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

The evaluation was carried out using information and documents provided to ISS ESG on a confidential basis by BayernLabo (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the issuer.

### ASSESSMENT OF THE CONTRIBUTION AND ASSOCIATION TO THE SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, ISS ESG identifies the extent to which the BayernLabo Social Bond project category contribute to related SDGs.

## ANNEX 2: ISS ESG Corporate Rating Methodology

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

# Bayerische Landesbodenkreditanstalt

## Methodology - Overview

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

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

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

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

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

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

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

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

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

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

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

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

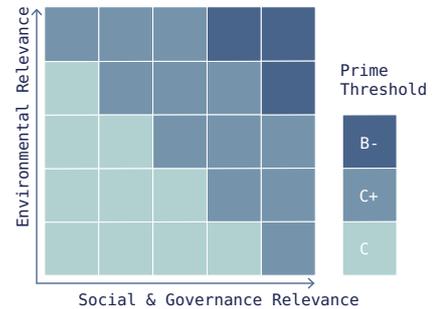
**Distribution of Ratings** - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ESG Corporate Rating universe (company portrayed in this report: dark blue).

# Bayerische Landesbodenkreditanstalt

## Methodology - Overview

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

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



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

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

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

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

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

A+: the company shows excellent performance.

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

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

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

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

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

0% - < 20%: very low

20% - < 40%: low

40% - < 60%: medium

60% - < 80%: high

80% - 100%: very high

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

## ANNEX 3: Quality management processes

### SCOPE

BayernLabo commissioned ISS ESG to compile a Social Bond SPO. The Second Party Opinion process includes verifying whether the Social Bond Framework aligns with the ICMA Social Bond Principles and to assess the sustainability credentials of its Social Bond, as well as the issuer's sustainability strategy.

### CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA SBPs

### ISSUER'S RESPONSIBILITY

BayernLabo responsibility was to provide information and documentation on:

- Framework
- Selection process

### ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Social Bond Framework by BayernLabo based on ISS ESG methodology and in line with the ICMA GBPs, SBPs and SBGs.

The engagement with BayernLabo took place in March 2021.

### ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

## About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

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