



Assessment of the Sustainability Quality of the Social Bond Programme of Bayerische Landesbodenkreditanstalt

19 October 17

Aim and Scope of this Second Party Opinion

Bayerische Landesbodenkreditanstalt (BayernLabo) commissioned oekom research to assist with its Social Bond Programme by confirming the sustainable added value of an asset pool, from which assets for Social Bond issuances will be chosen. The assessment of the Social Bond Programme was conducted using the criteria and indicators of a Social Bond Analysis Framework developed by oekom research. The aim of the Social Bond Programme is to (re-)finance subsidised loans from three of BayernLabo's loan programmes:

- Bavarian programme of low-interest loans for private housing
- Bavarian modernisation programme
- Municipal subsidised housing programme

oekom research's mandate included the following services:

- Definition of a Social Bond Analysis Framework ("oekom Social Bond Analysis Framework") containing a clear description of the eligible asset category and the social and environmental criteria assigned to this category for evaluating the sustainability-related performance of the assets (re-)financed through the proceeds of the bonds.
- Analysis of the alignment of the Social Bonds to be issued out of the Social Bond asset pool against the ICMA's Social Bond Principles.
- Evaluation of compliance of the Social Bond asset pool with the oekom Social Bond Analysis Framework criteria.
- Review and classification of BayernLabo's sustainability performance on the basis of the oekom Corporate Rating.

Overall Evaluation of the Social Bond Programme

oekom's overall evaluation of the Social Bond Programme of BayernLabo is positive:

- BayernLabo 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 Social Bond Principles (Part I of this Second Party Opinion).
- The overall sustainability quality of the Social Bond asset pool in terms of sustainability benefits and risk avoidance and minimisation is good (Part II of this Second Party Opinion)¹.
- The issuer itself shows a good sustainability performance (Part III of this Second Party Opinion).

There are certain aspects for which more specific selection or performance criteria would be recommended as these could add to the overall quality of future Social Bond issuances: oekom research recommends including minimum requirements regarding energy efficiency standards for new constructions and energy efficiency improvements for renovations.

¹ The sustainability quality of the bonds may differ from this assessment depending on the assets selected for inclusion in the bonds.

Part I – Social Bond Principles

1) Use of Proceeds

The proceeds of the Social Bonds to be issued by BayernLabo will be exclusively used to (re-)finance subsidised loans from three of BayernLabo's loan programmes:

- Bavarian programme of low-interest loans for private housing
- Bavarian modernisation programme
- Municipal subsidised housing programme

The proceeds of the bonds are used to (re-)finance the subsidised loans granted in the year of issuance of the respective bond as well as loans from three preceding financial years.

Bavarian programme of low-interest loans for private housing

With the loans from this loan programme, BayernLabo supports especially young families in the construction or purchase of their own house or flat by means of a temporary interest-subsidised loan. Eligibility for the programme depends on the gross annual household income.

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.

Details regarding the loan programmes included in the asset pool as of 31 December 2016 are listed in the following table:

| BayernLabo Loan Programme | | Outstanding Amount |
|----------------------------------|---|---------------------------|
| A | Bavarian programme of low-interest loans for private housing | EUR 2,382 million |
| B | Bavarian modernisation programme | EUR 1,103 million |
| C | Municipal subsidised housing programme | EUR 2 million |
| Total outstanding | | EUR 3,487 million |

2) Process for Project Evaluation and Selection

According to the Law on Bayerische Landesbank, BayernLabo acts in accordance with the guidelines of the responsible ministry of the state in the implementation of its own programmes. State approval authorities examine the eligibility criteria and decide on the funding applications. If the eligibility requirements are met, an approval certificate is issued within the scope of the available funds and delivered to BayernLabo.

The state funding guidelines regulate, among other things, the application and approval procedures, including the selection of the buildings to be promoted.

BayernLabo is responsible for the issuance and administration of loans.

3) Management of Proceeds

BayernLabo plans to engage an auditor to review and approve the use of the proceeds from the issuance of new and / or existing loans under the three credit programmes within its balance sheet.

4) Reporting

BayernLabo commits itself to annual reporting, beginning one calendar year after issuance. The reporting will cover the following aspects:

- Amount of the issuance and the total amount of outstanding Social Bonds.
- Use of proceeds:
 - Number of flats subsidised in the calendar year of issuance in the Bavarian programme of low-interest loans for private housing offering reduced interest rates for the promotion of home-ownership.
 - Number of persons who have been enabled to build or acquire their own living space through the Bavarian programme of low-interest loans for private housing.
 - Number of flats subsidised in the calendar year of issuance in the Bavarian modernisation programme.
 - Number of care places subsidised in the calendar year of the issuance in the Bavarian modernisation programme.
 - Number of flats subsidised in the calendar year of issuance in the Municipal subsidised housing programme.
 - Analogously, data of the three calendar years prior to the issuing year for which the use of proceeds were used.
 - Funding examples in the three programmes financed through the use of proceeds.

Part II – Sustainability Quality of the Social Bond Asset Pool

1) oekom Social Bond Analysis Framework

The oekom Social Bond Analysis Framework serves as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of BayernLabo's Social Bond asset pool. 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 Social Bond asset pool can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the Social Bonds and which can also be used for reporting. Details on the individual criteria and indicators for the categories can be found in Annex 1 „oekom Social Bond Analysis Framework“.

2) Evaluation of the Assets within the Social Bond Asset Pool

Method

oekom research has evaluated whether the assets included in the Social Bond asset pool match the eligible project category and criteria listed in the Social Bond Analysis Framework. The evaluation was carried out using information and documents provided to oekom research on a confidential basis by BayernLabo (e.g. internal guidelines). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by BayernLabo.

Findings

A. Mortgage loans for residential buildings and social housing

Sustainability Benefits and Risks of the Asset Category

The loan programmes of BayernLabo are beneficial from a social point of view by providing housing to low-income households. **The Bavarian loan programme of low-interest loans for private housing** supports especially young families in the construction or purchase of their own living space. The **Bavarian modernisation programme** and the **Municipal subsidised housing programme** increase the supply of reasonably priced rental housing. Especially the **Bavarian modernisation programme** also aims at preserving and restoring the urban function of older residential areas.

However, the construction or modernisation of residential buildings or social housing also encompass social and environmental risks. Minimum energy efficiency standards or improvements should be met/achieved to ensure these buildings contribute to climate protection through optimised energy use. Additionally, fair banking practices need to be in place for retail and municipal clients in order to mitigate potential social risks, e.g. over-indebtedness or foreclosure.

All projects selected for the Social Bond are located in Germany, a highly regulated country.

- 1. Achieved energy efficiency of residential buildings and 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.
- 2. Social standards for construction
 - ✓ 100% of the projects are located in countries 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).

- 3. 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, oekom research does not carry out a controversy assessment for residential buildings and social housing.

Part III – Assessment of BayernLabo's Sustainability Performance

In the oekom Corporate Rating with a rating scale from A+ (excellent) to D- (poor), BayernLabo was awarded a score of C+ and rated "Prime", meaning that it fulfils oekom research's demanding requirements regarding sustainability performance in its sector.



As at 18 October 2017, this rating puts BayernLabo in place 3 out of 52 companies rated by oekom research in the Financials/Mortgage & Public Sector Finance sector.

In this sector, oekom research has identified the following issues as the key challenges facing companies in terms of sustainability management:

- Sustainability impacts of lending and other financial services/products
- Statutory ESG-standards linked to the geographical allocation of the lending portfolio
- Consumer and product responsibility
- Employee relations and work environment

In all four key issues, BayernLabo achieved a rating that was above the average for the sector. A significant outperformance was achieved in "Employee relations and work environment".

In recent years, the company was not involved in any controversies in the areas of controversial business practices or controversial areas of business, and thus does not breach any of the exclusion criteria, which are frequently applied by investors. Overall, the company has a "minor" controversy level with a controversy score of 0. The industry's average is also "minor".

Details on the rating of the issuer can be found in Annex 2 "oekom Corporate Rating of Bayerische Landesbodenkreditanstalt".

Robert Haßler, CEO

oekom research AG

Munich, 19 October 2017

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About oekom research

oekom research is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries with regard to their environmental and social performance. oekom research has extensive experience as a partner to institutional investors and financial service providers, identifying issuers of securities and bonds which are distinguished by their responsible management of social and environmental issues. More than 100 asset managers and asset owners routinely draw on the rating agency's research in their investment decision making. oekom research's analyses therefore currently influence the management of assets valued at over 600 billion euros.

As part of our Green 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 verify the compliance with the criteria in the selection of projects and draw up an independent second party opinion so that investors are as well informed as possible about the quality of the loan from a sustainability point of view.

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Annex

- Annex 1: oekom Social Bond Analysis Framework
- Annex 2: oekom Corporate Rating of Bayerische Landesbodenkreditanstalt

Annex 1: oekom Social Bond Analysis Framework

oekom Social Bond Analysis Framework

The oekom Social Bond Analysis Framework serves as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of BayernLabo's Social Bond asset pool. 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 Social Bond asset pool can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the Social Bonds and which can also be used for reporting.

Use of Proceeds

Mortgage loans for residential buildings and social housing

The proceeds of the Social Bond to be issued by BayernLabo will be exclusively used for (re-)financing Mortgage Loans for Residential Buildings and Social Housing.

Sustainability Criteria and Quantitative Indicators for Use of Proceeds

In order to ensure that the environmental and social risks linked to the underlying assets are prevented and the opportunities clearly fostered, a set of sustainability criteria has been established for the project category.

A. Mortgage loans for residential buildings and social housing

1. Achieved energy efficiency of residential buildings and social housing

Quantitative indicators:

- Percentage of loans allocated to building projects for which the annual energy consumption for space heating and domestic water is below 60 kWh/m²a.
- Percentage of loans allocated to building projects that obtained an energy performance certificate with a minimum energy performance labelled "B" (on a scale from H to A+).
- Percentage of loans allocated to home improvement projects for which the energy efficiency improvement reaches or exceeds 20%.
- Percentage of loans allocated to building projects that comply with and/or exceed the requirements of the latest German Energy Saving Ordinance (Energieeinsparverordnung / EnEV).

2. Social standards for construction

Quantitative indicator:

- Percentage of loans allocated to building projects for which high labour and health and safety standards for construction work are in place (e.g. ILO core conventions).

3. Responsible treatment of customers with debt repayment problems

Quantitative indicators:

- Percentage of loans for which pre-emptive actions to prevent client debt repayment problems (e.g. covenants limiting indebtedness, conservative loan-to-value ratios, long-term fixed interest rates) are in place.
- Percentage of loans for which sustainable solutions for customers with debt repayment problems (e.g. debt counselling, foreclosure as a last resort) are in place.
- Percentage of loans for which the creditor excludes the selling of contractually serviced loans or has implemented measures to ensure clients do not face unfavourable conditions as a result of the sale (e.g. required customer consent in case of sale, written confirmation of non-detrimental conditions).

Controversies

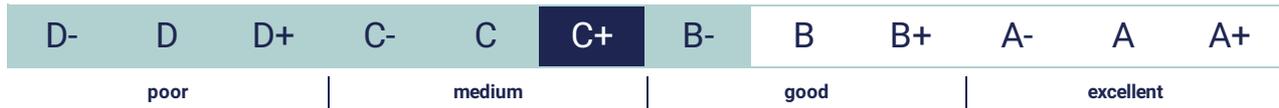
- Description of controversial projects (e.g. due to labour rights violations, environmental accidents, adverse biodiversity impacts).

oekom Corporate Rating

Bayerische Landesbodenkreditanstalt

| | | | |
|----------|--|-----------------|--------------|
| Industry | Financials/Mortgage & Public Sector Finance | Status | Prime |
| Country | Germany | Rating | C+ |
| ISIN | DE000A0Z1TZ0 | Prime Threshold | C |

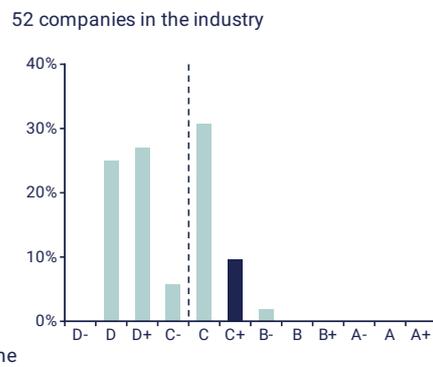
Corporate Responsibility
Prime
rated by
oekom research



Industry Leaders

| Company name (in alphabetical order) | Country | Grade |
|---|---------|-------|
| Bayerische Landesbodenkreditanstalt | DE | C+ |
| Berlin Hyp AG | DE | B- |
| Muenchener Hypothekenbank eG | DE | C+ |

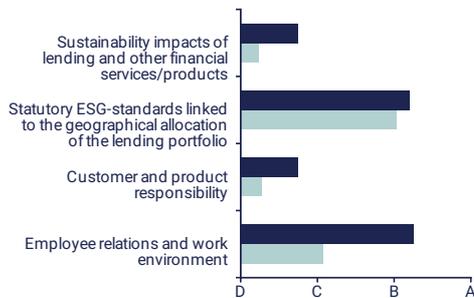
Distribution of Ratings



Rating History



Key Issue Performance



Strengths and Weaknesses

- + entire loan portfolio is allocated in countries with fairly good environmental and social minimum standards
- + reasonable programmes regarding financial services to companies/projects with high social benefit
- + green loan programmes for public sector and commercial customers
- + measures regarding responsible treatment of customers with debt repayment problems
- only limited information on green loan programmes for private customers
- no comprehensive strategy concerning the integration of environmental and social aspects into the company's own investment portfolio

Controversy Monitor

| | | | |
|-------------------|-------|---------------------------|-------|
| Company | | Industry | |
| Controversy Score | 0 | Maximum Controversy Score | 0 |
| Controversy Level | Minor | Controversy Risk | Minor |



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Bayerische Landesbodenkreditanstalt

Methodology - Overview

oekom Corporate Rating - The oekom Universe comprises more than 3,800 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 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 oekom research 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.

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

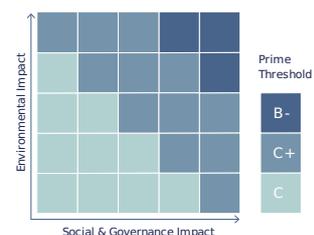
The controversy score is a unit of measurement for the number and severity of a company's current controversies. All controversial business areas and business practices receive a negative score, which can vary depending on the significance, number and severity of the controversies. Both the company's 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 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 oekom Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the 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 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.

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).

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

Strengths & Weaknesses - Overview of selected strengths and weaknesses of a company with regard to the key issues of the industry from a sustainability point of view.