

Sustainable Financing Framework

April 27, 2022

1. Profile

As a streamlined specialized bank, BayernLB is a major investment financier for the Bavarian and German economy. We are committed to progress. Our customers – companies, financial institutions, investors, savings banks and the public sector – are at the center of our sustainable approach. As a stable and financially strong bank with international activities, we work efficiently and think long-term.

We have long-standing experience and in-depth knowledge of the sectors in which our customers operate. We understand their business challenges for the future, offer solutions that match their needs and are partners on an equal footing – always cultivating reliable and trusting working relationships.

Our services:

- We've set our sights on the sectors of the future. Our absolute specialties are mobility, energy, technology, construction, basic materials, and machine and plant engineering. As an investment financier we help companies from these industries in particular to successfully develop their business models.
- As a real estate financier we offer 360-degree know-how across the entire value chain of the real estate business – and in a wide variety of asset classes. We combine our high level of expertise with comprehensive support and a deep understanding of our clients' needs.
- We are the central bank for the Bavarian savings banks and for decades we have been a proven partner to the savings banks in Bavaria and throughout Germany. Our relationship, which has grown over many years, is based on performance, professionalism and reliability.
- We impress banks, insurers and pension funds with our expertise and an offering which matches their financing and investment needs. This is the basis for our close and long-standing relationships to financial institutions.
- We open new doors for the public sector. Our financial solutions make us the principal bank for the Free State of Bavaria and a strong partner to states, municipalities and public companies.
- Our development bank BayernLabo is an essential provider of housing subsidies in the state and the market leader for loans to Bavarian municipalities.

Our subsidiaries:

- As a tech bank, DKB provides its more than 4.5 million customers with an excellent client experience and outstanding digital solutions.
- Our asset management companies BayernInvest and Real I.S. enable our customers to choose from a wide variety of sustainable investments.

Our Owners:

- Free State of Bavaria (approx. 75%)
- Association of Bavarian Savings Banks (approx. 25%)

Right where our customers need us:

- Germany: Munich (head office), Nuremberg, Stuttgart, Frankfurt, Duesseldorf, Hamburg, Berlin, and Leipzig
- Europe: branches in London, Milan, and Paris
- US: branch in New York City
- German Centre: Shanghai and Taicang

2. Sustainability at BayernLB Group

BayernLB has been committed to environmental and climate protection for more than 25 years. One expression of its commitment is its support for national and international initiatives. BayernLB has for example been a member of the UNEP Finance Initiative since 1995 and BayernInvest signed the UN Principles for Responsible Investment (PRI) in 2011. BayernLB is also a member of the Climate Bond Initiative to promote the development of the sustainable bond market, which BayernLB regards as making an important contribution to financing environmental and climate protection. In 2021 BayernLB together with DKB signed the Principles for Responsible Banking (PRB). BayernLB itself has been working climate neutrally at its headquarters in Munich since 2008 and has been doing so at all BayernLB locations in Germany since 2015.

In 2021, BayernLB published a new comprehensive sustainability strategy that was developed within a far-reaching transformation program. The sustainability strategy is of paramount importance for the overall strategic management of the Bank and at the same time takes into account the regulatory requirements for the business model. For us, sustainability is not just an irreversible trend, but the only the only right way to align our company. With our sustainability strategy, we are continuously expanding one of BayernLB's key strengths. This self-image is also derived from our statutory mandate as an institute under public law. We conduct our business as an honorable businessperson future-oriented and make our social contribution to the sustainable transformation of our economic area.

The principles and guidelines for implementing BayernLB's sustainability strategy form a concrete orientation framework for the implementation of the overarching sustainability goals into everyday business decisions. They include concrete exclusion criteria for individual business projects as well as overarching principles such as compliance, human rights principles, climate protection and biodiversity.

The general perception of sustainability is currently governed by the 17 global Sustainable Development Goals of the UN Agenda 2030 and the climate goals of the Paris Agreement and the corresponding European and German Climate Action Plans. BayernLB also takes into account the Bavarian Sustainability Strategy and the objectives of the EU Taxonomy Regulation and its standards where already established.

In addition, we pursue the goals described in the German Sustainable Finance Strategy.

Group-wide, BayernLB has two extremely successful subsidiaries that are very active with their approach to sustainable banking. For more than two decades, DKB focused on financing selected target sectors such as housing, renewable energies and social infrastructure. Its loan portfolio currently already has SDG significance of 77% (as of Dec. 31, 2021) This means that the deposits of its customers flow in particular to regional municipalities and companies and are invested in promising sectors (<https://www.dkb.de/nachhaltigkeit/>).

BayernLabo has been supporting the sustainable development of Bavaria since its foundation in 1884, fulfilling its social and entrepreneurial responsibility. BayernLabo, established under public law, is an institution of state housing policy of the Free State of Bavaria. It is commissioned with a public mandate to financially promote plans and measures to improve and strengthen Bavaria's housing and settlement structure within the context of Bavarian housing policy. 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 (<https://bayernlabo.de/investor-relations-en/>).

With the means of issuing specific sustainable debt instruments BayernLB aims to contribute to environmental sustainability in alignment with the United Nations' Sustainable Development Goals (UN SDGs)¹. With view on the 17 SDGs BayernLB mainly focuses on supporting the following goals:

Goal	SDG Topic	BayernLB Contribution
	Affordable and clean energy	Re/Finance renewable energy projects, promote technological development
	Sustainable cities and communities	Support the participation of cities and municipalities in planning and implementing renewable energies and clean transport solutions
	Responsible consumption and production	Promote measures to ecological compensation, renaturation and emission protection
	Climate action	Support wind, solar and photovoltaic energy to avoid fossils fuels and the production of carbon dioxides

¹ SDG Goal: Affordable and clean energy with the target to increase substantially the share of renewable energy in the global energy mix by 2030

3. Sustainable Financing Framework

The ICMA Green Bond Principles (GBP) are a set of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of the green bond market by clarifying the approach for issuing a green bond. The BayernLB Sustainable Financing Framework follows the GBP 2021 which provide guidelines in the following five key areas:

- a. Use of proceeds
- b. Process for project evaluation and selection
- c. Management of proceeds
- d. Reporting
- e. External review

This document sets the framework for the issuance of sustainable debt instruments by BayernLB and will be updated from time to time related to the inclusion of other eligible asset categories or in case of updates on the GBP. It is valid for any debt capital instruments of whatever format (e.g. unsecured and covered bearer or registered notes or "Schuldschein" loan notes), tenor (e.g. capital market bonds, commercial paper and other money market instruments) and type (e.g. plain-vanilla and structured products) issued by BayernLB as sustainable debt instruments. Any such instruments can be issued under any of BayernLB's issuance programs or standard documentations as public transactions (in benchmark format or otherwise) and private placements.

4. Use of Proceeds

The proceeds collected by a sustainable debt instrument issued by BayernLB will be used to re/finance Eligible Sustainable Loans (ESL) included in BayernLB's Eligible Sustainable Loan Portfolio, as laid out below.

For the purposes of the Sustainable Financing Framework, the following ESL-categories have been identified:

1. *Renewable energy*: Re/Financing the acquisition, production, transmission, expansion and/or development of renewable energy projects as well as the manufacturing of necessary equipment and the connection to the electricity grid.
 - Photovoltaic and solar thermal plants
 - Wind farms (onshore and offshore)
2. *Mobility*: Re/Financing rail infrastructure and public mass transportation projects which reduce the necessity for personal vehicles and thus contribute to low-carbon mobility as well as low-carbon mobility infrastructure for alternative drives
 - Electrical locomotives and multiple unit trains for passenger transport

Green real estate might be added in the future, in particular re/financing of commercial buildings which will have a superior energy efficiency performance and meet nationally or internationally recognized standards. BayernLB will update this framework and its SPO as well as describe the selection criteria when real estate assets are added.

5. Process Project Evaluation and Selection

BayernLB has established an end-to-end credit process with a dedicated ESG assessment. Here, both risks associated with potential environmental developments as well as the environmental impact are evaluated by credit and risk officers. Goal of the impact assessment is to evaluate to what extent a project contributes to any of the UN SDGs and/or as the alignment with the EU Taxonomy. To be eligible for an “ESG-Basic” rating a potential transaction has to exhibit a clear contribution to the SDGs and the Bavarian Sustainability Strategy. The “ESG-Plus” rating is awarded for projects that fulfil the substantial contribution criteria of the EU-Taxonomy. Currently, only projects that fulfil these criteria are eligible for the ESLP.

All Eligible Sustainable Loans financed by sustainable debt instruments comply with the standard credit requirements, the sustainability strategy and the risk management policies of BayernLB. BayernLB’s credit department performs a pre-screening of local business units to identify potential Eligible Sustainable Loans and fully analyses the counterparty and asset – including the implied environmental impact. In order to be qualified as an Eligible Sustainable Loan for the use of proceeds of a sustainable debt instrument, projects need further comply with the following selection criteria:

- Eligible Sustainable Loans as described in section 4
- No double counting of expenditures for the use of proceeds in future sustainable debt instruments
- Internal minimum credit rating requirement
- Exclusion of loans re/financed by third parties

Renewable Energy

- No geothermal or hydro-energy projects

Mobility

- Zero emissions threshold, i.e. electric locomotives and train units only

BayernLB ensures that all Eligible Sustainable Loans comply with official national and international environmental and social standards, where applicable, on a best effort basis. BayernLB ensures that all its loans comply with internal environmental and social directives. The eligibility criteria and minimum requirements as well as ESG related matters are continuously developed. Selection criteria might become stricter due to evolving standards and requirements in the sustainable bond market but never be softened within this framework. BayernLB’s environmental and social policies can be found online.

6. Management of Proceeds

BayernLB has established an “Eligible Sustainable Loan Portfolio” (ESLP) gathering all Eligible Sustainable Loans in order to manage its sustainable debt instrument proceeds in a portfolio approach. As such the ESLP is dynamic, i.e. maturing Eligible Sustainable Loans are removed and BayernLB will use its best efforts to replace these maturing Eligible Sustainable Loans by new Eligible Sustainable Loans to the extent required. The ESLP comprises all Eligible Sustainable Loans successfully assessed and selected in accordance with the eligibility criteria and evaluation and selection process described above. All Eligible Sustainable Loans included in the ESLP are part of BayernLB’s Balance Sheet. BayernLB will strive to maintain a volume of ESLP at least equal to the volume of outstanding sustainable debt instruments at any time.

The proceeds from any BayernLB sustainable debt instrument issue (i) will be applied by BayernLB exclusively (except as indicated below) to finance or refinance, as the case may be, Eligible Sustainable Loans and (ii) can be applied by BayernLB, at its free discretion, to finance or refinance any Eligible Sustainable Loan comprised in the ESLP.

Unallocated net proceeds from BayernLB’s sustainable debt instrument issues will temporarily be used by BayernLB within the treasury of the group, in money market instruments, cash and/or cash equivalent instruments until new projects are added to the ESLP.

The maturity of any sustainable debt instrument issued by BayernLB does not necessarily match the maturities of the Eligible Sustainable Loans. However, in order to reduce mismatches between such maturities the volume-weighted average maturity of BayernLB’s cumulated sustainable debt instruments issued may not exceed the average duration of the of the loan commitments for the Eligible Sustainable Loans Portfolio.

7. Reporting

Information on the allocation of proceeds as well as the environmental impact of projects re/financed with a sustainable debt instrument will be provided separately and over the entire lifetime of the program if bonds are outstanding. The allocation and impact reporting will be made available for investors on BayernLB’s Investor Relations homepage:

https://www.bayernlb.com/internet/en/blb/resp/investor_relations_7/investor_information/green_bond/GreenBonds.jsp

Allocation Reporting

BayernLB plans to issue an informative reporting on an annual basis on the allocation of sustainable debt instrument net proceeds to the Eligible Sustainable Loan Portfolio as long as such instruments are outstanding. The internal tracking method of proceeds is implemented in a synthetic manner based on the volume of Eligible Sustainable Loans and outstanding sustainable debt instruments.

The allocation report will provide:

- The notional amount and maturities of outstanding sustainable debt instruments issued by BayernLB
- The total amount of proceeds allocated to Eligible Sustainable Loans
- The number of Eligible Sustainable Loans
- The balance of unallocated proceeds
- The amount or the percentage of new financing and refinancing
- The technology and geographic distribution of assigned Eligible Sustainable Loans

Impact Reporting

BayernLB will inform investors annually (as long as sustainable debt instruments are outstanding) on the environmental impact of assigned Eligible Sustainable Loans re/financed through sustainable debt instrument issues. Where feasible, the report may provide the following information:

Renewable Energy:

- Renewable energy capacity (MW)
- Estimated annual energy production (MWh)
- Estimated avoidance of CO₂ emissions in tons

Mobility:

- Annual passenger km
- Estimated avoidance of CO₂ emissions in tons

The issued sustainable debt instruments can be increased (tapped). Regarding the management of the proceeds from the tap and the corresponding reporting the tap will be treated like a new issue. As a result, the reporting about the use of proceeds and the corresponding impact can differ regarding the originally issued sustainable debt instrument and the tap if both issues fall into different calendar years.

8. External review

Over the lifetime of a sustainable debt instrument BayernLB will commission a second party opinion provider to confirm the compliance of BayernLB's Sustainable Financing Framework with the sustainable Green Bond Standard of the EU or other future regulation to assess the issued sustainable debt instruments' compliance.

BayernLB has mandated ISS ESG to review and assess its Sustainable Financing Framework and its alignment with the ICMA GBPs. ISS ESG issues a Second Party Opinion including an assessment of BayernLB's strategy, policy and processes related to environmental sustainability. The Second Party Opinion as well as the Sustainable Financing Framework will be made available to investors on BayernLB's investor relations homepage.