

SOCIAL BOND FRAMEWORK

As at October 2017

THE DEVELOPMENT BANK BAYERNLABO

Bayerische Landesbodenkreditanstalt (BayernLabo) is a legally dependent but organisationally and financially independent institution of Bayerische Landesbank, Munich (BayernLB). An entity charged with implementing government housing policy, it bundles the bank-specific operations that are necessary for furthering residential and municipal construction. BayernLabo carries out its activities on a non-competitive basis. It is run under the supervisory authority of the Bavarian Ministry of Finance, Regional Development and Regional Identity and the Bavarian Ministry of the Interior, for Building and Transport.

In accordance with Article 20 para. 1 of *BayLaBG*, the Law on Bayerische Landesbank, BayernLabo is commissioned by the government to financially promote the plans of natural persons and legal entities under private or public law, as well as other measures to improve and strengthen Bavaria's housing and settlement structure, within the context of its housing policy and in line with the aid provisions of the European Union.

To fulfil its mandate, BayernLabo may provide financing for the following:

1. Residential development
2. Subsidies for housing and settlements
3. Promotion of the housing industry
4. Infrastructure measures to support housing policy aims
5. Construction developments in towns and municipalities
6. Housing policy measures aimed at developing structurally weak regions
7. Other measures, provided they are specifically mentioned in any piece of government legislation or directive, or in a published set of guidelines, and are conferred on BayernLabo by the Free State of Bavaria

In accordance with Article 20 para. 1 of *BayLaBG*, BayernLabo may also carry out financing for regional authorities and public-law special-purpose associations as well as participate in financings provided by the European Investment Bank or similar European financing institutions for common-interest projects relating to the areas cited under para. 1 and affecting Bavaria.

The Bavarian government may 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.

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 business card. And their strong cards are competence, pragmatism and integrity. We promote their dedication and team spirit. Which is why we give them attractive working conditions as well as responsibility. Trainees, specialists and managers alike.

PROMOTION PRINCIPLES

The following must be given particular weight in promotional activities:

1. The regional and local housing situation
1. 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
2. Creation and preservation of socially stable resident structures and balanced settlement structures
3. Economic use of land, ecological requirements in residential construction and requirements to reduce costs and conserve resources in construction
4. Measures relating to urban development renovation activities
5. The contribution of housing cooperatives to achieving housing promotion goals
6. Avoidance of unjustified housing cost relief
7. Special approaches to advance sustainable housing provision

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 Act¹ 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 modernisation and renovation measures in a move to promote rental flats in apartment buildings and places in approved in-patient care facilities.

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

¹ **BayWoFG, Article 11 income threshold:**

- For a single-person household: EUR 19,000
- For a two-person household: EUR 29,000
- For every additional member of the same household: EUR 6,500
- The income threshold according to sentence 1 increases by EUR 1,000 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.

emissions through modernisation, to preserve and restore the urban functioning of older residential districts, in addition to ensuring fair and acceptable rent levels after such modernisation, and to clearly define 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 for a duration of 10 or 20 years for households whose total income does not exceed the income threshold of Article 11 of *BayWoFG*, the Bavarian Housing Promotion Act¹. The person authorised to dispose of the housing is obliged at their discretion to only re-let 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.

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

The local authority in question 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 on low incomes, such as recipients of transfer benefits. The income thresholds should be based on those for housing promotion; Article 11 of *BayWoFG*, the Bavarian Housing Promotion Act¹.

Subsidised loans approved in the year of the issue and subsidies from the previous three calendar years are financed.

PROCESS FOR PROJECT EVALUATION AND SELECTION

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 rental housing promotion is to support households unable to obtain suitable living space through the market. The subsidies focus in particular on families, people with disabilities, older people and students.

Goal of home ownership promotion

The goal of home ownership promotion is to enable households who would otherwise be unable to do so to purchase their own homes. The subsidies focus in particular on families and people with disabilities.

Goal of modernisation promotion

The goal of modernisation promotion 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.

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 sub-

sidy directives² can be found on the website of the Bavarian Ministry of the Interior, for Building and Transport . 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.

MANAGEMENT OF PROCEEDS

BayernLabo plans to engage an auditor to review and approve the use of the proceeds to finance new and/or existing loans as part of the Bavarian interest subsidy programme to promote home ownership, the Bavarian modernisation programme and the municipal programme to create rental housing in Bavaria sub-portfolios.

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

REPORTING

BayernLabo commits to provide annual reporting, starting one calendar year after the date of an issue.

- The amount of the issue and total sustainability bonds outstanding
- Use of proceeds
 - 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 in-patient 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.
- Second-party opinion from oekom research

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 own 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) “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 (however 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, to preserve and restore the urban functioning of older residential districts, in addition to ensuring fair and acceptable rent levels after such modernisation, and to clearly define 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. The measures must give rise to expectations of higher rental prices.

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 refinances 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 one year free from repayments.

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.