

Social Bond Framework 2022

I Introduction

The Investitionsbank des Landes Brandenburg (ILB) stands for the financial support of public and private investment projects in the fields of economy, labor, infrastructure and housing. With the promotion of investment projects, the ILB, as the development bank of the state of Brandenburg, pursues the goal of supporting both positive economic as well as ecological and social sustainable development in the state of Brandenburg in the long term.

The development business of ILB is based on two pillars, the regional promotion programs and the ILB promotion programs. In the case of the state aid programs, the ILB processes promotion programs with funds from the EU, the German government and the federal state on behalf of the ministries of the state of Brandenburg and contributes to the design process of the promotion programs. The ILB promotion programs include support in the form of low-interest loans, exemptions from liability, guarantees as well as risk- and equity capital.

As a promotional bank of the state of Brandenburg, we are committed to the common good. Together with the Brandenburg state government and our partners, we promote sustainable development in the country. For more information:

<https://www.ilb.de/nachhaltigkeit/>

The Social Bond Framework is intended to enable the ILB to issue capital market instruments with a social relevance. In doing so, the ILB wants to create the opportunity for sustainably oriented investors to participate in social investment projects and thereby also to support the sustainable development of the state of Brandenburg.

II Systematics of the Social Bond Framework

The Social Bond Framework is used to describe the procedure and the selection of the refinanced loans as the basis for the issue of social bonds of the Investitionsbank des Landes Brandenburg as an independent issuer or also the issue of a joint bond together with the Hamburgischen Investitions- und Förderbank and the Investitions- und Strukturbank Rheinland-Pfalz.

United Nations Sustainability Goals – Sustainable Development Goals (SDGs)

The United Nations (UN) formulated 17 goals for sustainable development. These are to ensure sustainable development at the economic, social and ecological level. The targets entered into force on 1 January 2016 with a duration of 15 years (until 2030) and apply to all states.



Graphic: Sustainable Development goals of the United Nations (<https://www.un.org/sustainabledevelopment/news/communications-material/>)

The promotion programs offered by the ILB have an impact on 12 of the 17 United Nations sustainability goals. Within the framework of this social bond framework, only loans from social rental housing are taken into account. This means that the sustainability targets (1) No poverty, (10) Reduced inequalities and (11) Sustainable cities and communities can be attributed.

Social Bond Principles (SBPs) of ICMA

The International Capital Market Association (ICMA) published voluntary process guidelines on the issue of social bonds in the Social Bond Principles. The purpose of these guidelines is to promote integrity in the social bond market through transparency, disclosure and reporting policies to promote increased capital allocation to social projects through the provision of information. The Social Bond principles provide examples of project categories for classifying loans with social added value and target groups for which the loans alleviate social problems and/or have positive effects.

In the selection of refinanceable loans with social added value, ILB is referencing on the project categories of the Social Bond principles. Within the border of this social bond framework, only loans from social rental housing are taken into account, which are allocated to the project categories of affordable housing for the target group of people and children affected by poverty.

The Social Bond principles provide issuers with a clear recommendation on the procedure and disclosure to enable other market participants (investors, banks, consortium banks, brokers and others) to have a deeper understanding of the specific social bond characteristics. The four core components of the Social Bond Principles are:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

Which are discussed in detail in this framework below.

1. Use of Proceeds

The financial resources made available to ILB by investors in the issue of social bonds are used to refinance existing loans to the housing fund assets of the state of Brandenburg. This housing fund asset is a revolving fund managed by ILB in trust, to which, in addition to refinancing on the capital market, both, federal and state funds are also allocated. According to the Rental Housing Promotion Directive, housing assets are financed by means of loans and subsidies for the following measures:


- The generational adaptation of rental apartments by modernization and renovation
- The restoration, extension and change of use of buildings, whereby new housing is created or buildings are permanently restored for residential purposes
- New housing for socially acceptable rents, as well as
- The installation or extension of lifts, including the production of barrier-free access to apartments.

In particular, the target groups of households with children, people with disabilities, senior citizens, students and apprentices, as well as those in social emergencies, such as the homeless and refugees must be taken into account. In addition, sustainable energy savings, in particular heat energy to reduce CO₂ emissions, and the elimination of structural deficiencies will be achieved.

As an independent special fund for the refinancing of housing promotion, it can borrow both from the ILB and from the capital market. The proceeds from the social bond issue are used to refinance loans from the ILB to the housing fund assets, which were disbursed in December 2020 and 2021 respectively. During this period, the housing promotion directive of 2019¹ was in force, which is discussed in more detail in the following point.

¹ since March 2022, a new housing promotion directive has been in force for current promotion

The assignment of SBP categories and SDG is shown in the following table:

ILB promotion program	Social Bond Principles Category	Target Group	Sustainable Development Goals
Social rental housing	Affordable Housing	<p>People threatened or affected by poverty</p> <p>(Households with children, seniors, people with disabilities, students and trainees, people in social emergencies)</p>	

2. Process for Project Evaluation and Selection

The support ceilings for the above measures were in accordance with the underlying housing promotion directive:

- A maximum of 1,800 euros per square meter of living space up to 100 square meters of living space per rental apartment for the modernization and renovation of the new generation. This support is granted exclusively in the form of building loans, which are interest-free for the period of occupancy.
- A maximum of 2,500 euros per square meter of living space for new rented housing as well as the restoration and expansion of living space. If rental price and occupancy obligations are established for a period of at least 25 years, a grant of 350 euros per square meter of living space will be granted. The remaining support is in the form of building loans, which are interest-free for the period of occupancy.
- A maximum of 25,000 euros per apartment for the installation of elevators.

The subsidies in the form of building loans are linked to the conditions that a fixed rental price and occupancy of 20 years is agreed for at least 75% of the subsidized housing in the structural areas of the surrounding area of Berlin. Promotion in the form of grants even requires a commitment of 25 years. In the other Brandenburg regions away the Berlin region, the housing situation is less tense, which is why there is only a lower limit of at least 50% fixed rental price and occupancy.

Occupancy

At least half of the dwellings to be bound shall be left to beneficiaries and designated by the competent authority who comply with the income limits of § 22 (2) to (4) BbgWoFG 2 and who provide proof of a corresponding residence permit (WBS). The remaining bonded dwellings are to be left to beneficiaries who exceed the income limits of § 22 paragraphs 2 to 4 BbgWoFG by a maximum of 20 percent and prove this by means of a certificate issued accordingly.

2 Law on social housing promotion in the state of Brandenburg (Brandenburg's housing promotion law - BbgWoFG)

Income Limits

The current annual income limits of the § 22 parte2 of the BbgWoFG are

- 15,600 euros for a one-person household
- 22,000 euros for a two-person household
- Plus 4,900 euros for each additional person in the household.

Rental fee Limits

In the case of initial rental of apartments linked to rental price and occupancy to the relevant group of persons with WBS in accordance with § 14 BbgWoFG, the maximum permissible net rental may be 5.50 euros per square meter of living space in the municipalities of the Berlin surrounding area and 4.90 euros per square meter of living space in the new building or after completion of the modernization and renovation in the other municipalities.

For persons who exceed the income limit by a maximum of 20 percent, net rental may not exceed 7.00 euros per square meter of living space in municipalities in the surrounding area of Berlin and a maximum of 6.00 euros per square meter of living space in the other municipalities. Deviating from § 558 of the BGB, any increases in rents within three years during the term of the intended use must be limited to 10 percent, up to the maximum amount of the local comparable rent. Deviating agreements according to § 557 of the BGB, the agreement of a graduated rent according to § 557a of the BGB and the agreement of an index rent § 557b BGB are not permitted.

These guidelines from the promotion directive ensure that loans to housing assets for the financing of housing development in the state of Brandenburg can be assigned to the SBP project category of affordable housing and to the target group of people affected or threatened by poverty.

Only the loans of the ILB to the housing assets of the Land of Brandenburg are used to finance the residential development of the years 2020 and 2021 for social bonds under this framework. Loan amounts that have already been refinanced by other sources of funding are excluded.

The reporting uses the number of total housing units and residential units with rental price and occupancy commitment as an indicator, which were supported by the housing assets of the Land of Brandenburg in 2020 and 2021.

Review of Selection Results, Second Party Opinion (SPO)

The selection results are checked by the sustainability manager of the ILB for compliance with the exclusion and selection criteria as well as for possible ESG controversies. The Sustainability Manager is part of the strategy and communication division of the ILB and therefore operates independently of the Treasury division. The result of the sustainability manager's audit is documented. The selection process from the Treasury department and the examination of the selection results by the sustainability manager are reviewed at regular intervals by the internal audit department as part of its risk-oriented audit planning in accordance with BT 2.3 of the minimum requirements for risk management (MaRisk) of the Federal Financial Supervisory Authority (BaFin).

In addition, the selection process based on the Social Bond Framework is verified by the ESG rating agency imug rating as part of a Second Party Opinion (SPO). For this purpose, the relevant documents were provided to the credit rating agency by the ILB to enable an assessment of compliance with the framework with regard to social aspects, in particular with regard to SBP.

Imug rating is one of the leading German providers for strategy and implementation of ESG investments as well as for sustainability ratings. As a partner for the financial market, business and public sector, the imug rating has stood for sustainable ESG strategies, data and reporting as well as for credible second party opinions, sustainability ratings and opinions for over 25 years.³

3. Management of Proceeds

At the time of the issue of a social bond, the ILB ensures that the financial resources are allocated by means of underlying loans. The volume of the loan pool shall at all times cover or exceed the proceeds of the issue.

The loans to allocate the financial resources of issued social bonds are identified separately. The loan pool is reviewed at least once a year by both the Treasury Department and, independently of this, the ILB sustainability manager with regard to compliance with the defined selection criteria and the overall coverage of the social bonds issued. If the verification shows that loans no longer meet the selection criteria, they are deleted from the loan pool and replaced by other loans of the same quality and purpose. This also applies if the loans to the housing assets expire or are terminated before the maturity date of the issued social bonds. In this case, at the latest at the end of the period, they will be replaced⁴ by other loans already granted to finance the social housing promotion in the state of Brandenburg and the reporting will be adjusted accordingly.

4. Reporting

As part of the annual review, the ILB will prepare a report on the loan pool and outstanding social bonds and publish it on your website www.ilb.de. The report is prepared by Treasury at least annually⁵ for the entire term of the social bond issued under this framework and is reviewed, documented and released for publication by the sustainability manager of the ILB.

The reporting can be used to draw conclusions on the following aspects:

- Use of the proceeds of the issue by category and sub-category of the Social Bond principles, as well as the target group
- Use of the emission proceeds according to the addressed Social Development Goal of the UN
- Loan volume incl. Allocation to the social bond and details of the current residual debt
- Remaining term of the loans
- Information on social housing promotion from the housing assets of the state of Brandenburg

The current reporting is shown on the next page:

³ Source: www.imug-rating.de

⁴ as a rule, future loans to the housing fund assets of the state of Brandenburg. The then applicable rental housing promotion guideline for social housing can differ from the criteria set out in point 2, for example by adjusting the rent price ceilings or income limits.

⁵ as a rule annually; in the event of significant changes in the loan pool, the reporting is immediately adjusted

Social Bond Reporting As Of August 2022

Support program ILB	Project Category SBP	Addressed sustainable Development goal	Target Group	Loans to	Loan volume In EUR	Current outstanding debt In EUR	Of which is Social Bond associated In EUR	Remain ing time In years
MWB - Rental housing construction	Affordable Housing	Objective 1: No Poverty Objective 10: Reduced Inequalities Objective 11: Sustainable cities and communities	People threatened or affected by poverty; people with disabilities; seniors	Housing development in the state of Brandenburg (financing 2020)	140,000,000	140,000,000	75,000,000	5.4
				Housing development in the state of Brandenburg (Financing 2021)	100,000,000	100,000,000	75,000,000	7.4
Total					240,000,000	240,000,000	150,000,000	

Data from the promotion of housing by the housing assets

In the years 2020 and 2021, investment projects in housing construction totaling EUR 437 million were launched, which are financed by grant commitments of EUR 230 million from housing assets. 2,811 is the number of new or modernized apartments, of which 1,928 are provided with a fixed rental price and occupancy.

