



BayernLabo

Social Bond Report 2021

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Preface



Florian Ruhland

Dear Investors and Interested Parties,

Since its founding in 1884, BayernLabo has supported the long-term development of Bavaria, exercising its societal and corporate responsibility in the process.

Today, as legally dependent but organizationally and financially independent institution within Bayerische Landesbank, BayernLabo combines bank-specific operations that implement government policy furthering residential and urban development. At the same time, BayernLabo is closely bound to its public mission. The Free State of Bavaria can rely on the services and offerings of BayernLabo as an instrument of state housing policy as it fulfils this mission.

This housing policy is characterized by two equally important aims: Preservation of economically powerful and liveable urban centres on the one hand and strengthening rural areas on the other. These two elements play a seminal role in encouraging residential construction and are important pillars of the business operations of BayernLabo.

In addition, BayernLabo supports Bavarian regional and local authorities, special-purpose associations run by public authorities, and the Free State of Bavaria to fulfil their public duties by granting low-interest municipal loans and special development loans. Promoting investments in general municipal and social infrastructures is a particular focus.

To finance new and existing loans under the Bavarian programme of low-interest loans for private housing, the Bavarian modernisation programme, and the municipal subsidised housing programme to create rental housing in Bavaria, BayernLabo issued its first social bond in November 2017.

In the following report, we inform you of the use of the proceeds from the issue of 500 million euros. The figures used in the report reflect the situation as of 31 December 2020.

A handwritten signature in blue ink, appearing to read 'F. Ruhland', written in a cursive style.

Florian Ruhland
Head of Department Strategic Tasks BayernLabo



01 BayernLabo

BayernLabo

The Bayerische Landesbodenkreditanstalt (BayernLabo) is a legally dependent but organizationally and financially independent entity within Bayerische Landesbank München (BayernLB). As an entity charged with implementing government housing policy, it bundles the bank-specific operations furthering residential and urban development. 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, Building and Transport.

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

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. Support of infrastructure measures to support housing policy aims
5. Support of construction development in cities and municipalities
6. Support of housing policy measures aimed at developing structurally weak areas
7. Support of other measures, provided they are 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 subsection 1 of BayLaBG, BayernLabo may also carry out financing for regional authorities and public-law special-purpose associations and also participate in financing operations provided by the European Investment Bank or similar European financing institutions for common-interest projects relating to the areas cited under subsection 1 and affecting Bavaria.

The Bavarian government may transfer additional duties 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.

A decorative graphic at the top of the page consists of two overlapping triangles. On the left, a blue triangle points downwards and to the right. On the right, a larger orange triangle points upwards and to the left, overlapping the blue one.

02 Principles of promotion

Principles of promotion

The following must be given particular weight in promotional activities in BayernLabo's programmes:

1. The regional and local housing situation
2. The particular requirements of the target group of the housing; in particular, requirements for barrier-free construction people with permanently or temporarily limited mobility due to age, disability or illness
3. Creation and preservation of socially stable resident structures and balanced settlement structures
4. Economic use of land, ecological requirements in residential construction, and requirements to reduce costs and conserve resources in construction
5. Measures relating to urban development renovation activities
6. The contribution of housing cooperatives to achieving housing promotion goals
7. Avoidance of unjustified housing cost relief
8. Special approaches to develop sustainable housing provision



03 Appropriation process in the capital and reserves programmes of BayernLabo

Appropriation process in the capital and reserves programmes of BayernLabo

Aims of housing promotion in Bavaria

The aims of housing promotion are defined in article 2 of BayWoFG, the Bavarian Housing Promotion Act.

Aim 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.

Aims of home ownership promotion

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

Aim of modernisation promotion

The aim 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 subsection 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, Building, and Transport¹. In the case of home ownership promotion, local authorities or, in the case of rental housing promotion, the district governments or the City of Munich and the cities of Augsburg and Nuremberg check the subsidy conditions and make decisions on the applications for subsidised loans.

The government funding guidelines govern, for example, the application and approval process, including the selection of properties eligible for subsidies.

An application for BayernLabo's subsidized loans must be submitted to the local authority responsible (for home ownership) or the government authorities 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.

¹ [tps:// www.stmb.bayern.de/wohnen/foerderung/index.php](https://www.stmb.bayern.de/wohnen/foerderung/index.php)

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, conclusion of the loan agreement, and collateralising the loan.



04 Social Bond Reporting

Social Bond Reporting

Use of the issue proceeds

BayernLabo has used the proceeds from the social bond of EUR 500,000,000 issued in November 2017 (0.625 percent bearer bonds WKN: A0Z1UQ ISIN: DE000A0Z1UQ7, due 22 November 2027) exclusively to finance or refinance promotional loans from the following three BayernLabo loan programmes granted in the years 2014 to 2017 (year of issue of the bond and the three previous financial years).

Loan portfolios as of 31 December 2020

BayernLabo has marked the portfolio of loans and outstanding commitments for the years 2014 to 2017 in the three BayernLabo loan programmes financed or refinanced from the proceeds of the social bond issued in November 2017 into its core banking system on the basis of programme numbers and programme years.

As of 31 December 2020, there was a total loan remainder of EUR 691,281,160.41, which was distributed among the individual programmes as follows:

Overview

Loan programme in EUR	Loan remainder in EUR	Outstanding commitments in EUR	Gross business volume in EUR
Bavarian programme of low-interest loans for private housing	510,778,021.34	825,469.92	511,603,491.26
Bavarian modernisation programme	98,696,272.14	7,587,095.00	106,283,367.14
Municipal subsidised housing programme	81,806,866.93	0.00	81,806,866.93
Total	691,281,160.41	8,412,564.92	699,693,725.33

Bavarian programme of low-interest loans for private housing

In the Bavarian programme of low-interest loans for private housing, BayernLabo grants fixed-term low-interest loans of up to one third of the total costs of owner-occupied residential property. Funding is provided for the constructing of new housing, the purchase of newly created housing (original acquisition), and the purchase of existing housing (second purchase). BayernLabo supports primarily young families in buying or building their own house or flat with the aid of a reduced-interest loan by providing loans from the Bavarian programme of low-interest loans for private housing.

The idea behind the Bavarian programme of low-interest loans for private housing 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 BayWoFG2 the Bavarian

Housing Promotion Act², can apply for a subsidised loan. Within the confines of the Bavarian programme of low-interest loans for private housing, 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).

Funding overview from committed loans from 2014 to 2017

Bavarian programme of low-interest loans for private housing	Amount
Funded homes	5,800
People for whom construction or purchase of own living space was enabled	21,723

Bavarian modernisation programme

In the Bavarian modernisation programme, BayernLabo grants low-interest loans in a move to promote rental flats in apartment buildings and places in approved inpatient care facilities, partly from the housing industry programmes “Energy-efficient Renovation” and “Age-appropriate Construction” of the Kreditanstalt für Wiederaufbau (KfW), or Reconstruction Loan Corporation.

In addition to these KfW programmes, BayernLabo also extends low-interest loans without KfW’s involvement for further modernisation and renewal measures, which it refinances on the capital market. In addition, a subsidy from the Free State of Bavaria of up to EUR 100 per square metre of living space is granted (a maximum, however, of 20 percent of the total amount of aid).

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- and 20-year fixed interest rate. After modernisation, the flats must meet the generally usual housing needs of today. The measures must be expected to lead to a socially acceptable increase in rent.

For newly rented flats, there is a general right of occupancy for a period of 10 or 20 years for households whose total income does not exceed the income limit of Article 11 of the Bavarian Housing Promotion Act (BayWoFG) 2. The person authorised to dispose of the

² BayWoFG, Article 11 income threshold (as of 01 May 2018):

- For a single-person household: EUR 22,600
- For a two-person household: EUR 34,500,
- For each additional member of the same household: EUR 8,500.
- The income threshold according to sentence 1 increases by EUR 2,500 for every child belonging to the household within the meaning of Section 32 subsections 1 through 5 of the German Tax Act (Einkommensteuergesetz). The same applies if one or several children are expected to be born owing to an existing pregnancy.

housing is obliged at their discretion to only re-let it should it become available (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.

Funding overview from committed loans from 2014 to 2017

Bavarian modernisation programme	Amount
Funded homes	3,561
subsidised places (beds) in authorised inpatient care facilities	1,511

Municipal subsidised housing programme to create rental housing in Bavaria

Under the municipal subsidised housing programme, BayernLabo grants low-interest loans amounting to 60 percent of the total eligible costs in order to finance the construction, conversion, extension, modernisation, and initial purchase of rented housing by the Free State of Bavaria. In addition, the Free State of Bavaria grants a subsidy of 30 percent of the total eligible costs. The municipality has to pay a 10 percent contribution on its own.

The low-interest loan, which BayernLabo refinances on the capital market, is granted by BayernLabo with a fixed interest rate of 10, 20, or 30 years and full repayment within the selected fixed interest rate with a grace period of one year. This offer is aimed in particular at municipalities without an own municipal house-building enterprise, which can take advantage of state subsidies from the Bavarian Housing programme to finance rental flats and apartments.

By participating in the municipal subsidised housing programme, the Free State of Bavaria, along with BayernLabo, supports Bavarian municipalities in creating low-cost housing themselves. Funding is provided for the construction, conversion, extension, modernisation, and initial purchase of rented housing. 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 subsidised housing programme comprises households that are unable to obtain living space on the housing market on their own. The flats and apartments are also to be made available to recognized refugees to an appropriate extent according to local needs. Managing this is the duty of the respective municipality. The rental levels are to be structured by the municipality (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 in accordance with article 11 of BayWoFG, the Bavarian Housing Promotion Act.

Funding overview from committed loans from 2014 to 2017

Municipal subsidised housing programme	Amount
Funded homes	864



05 Examples of aid in the programmes of BayernLabo

Examples of aid in the programmes of BayernLabo

Below, we show one example each of the three BayernLabo loan programmes financed or refinanced from the proceeds of the sustainability bond.

Bavarian programme of low-interest loans for private housing

“We finally wanted something of our own. A house that belongs to us, in which we can grow old, and in which we can raise our children.”
Christian Schauer, Home Owner

For Christmas 2015, the Schauer family from Upper Palatinate gave themselves what is likely the biggest gift of their lives: They bought their own house, making a long-cherished dream a reality.

Up to then, the family of four, consisting of mother Sonja, father Christian, their eight-year-old son Luca, and their five-year-old daughter Lena, along with the cat and dwarf rabbit, had lived on the upper level of Christian’s childhood home. Their big wish was for more space, peace and quiet, and their own garden in which to relax and play. Sonja and Christian Schauer had been searching in vain for the right property for a long time when they discovered “their” house in the market town of Postbauer-Heng. It was love at first sight.



“I knew it immediately: That is our house. Everything was just right. This is where we want to live.”

Sonja Schauer, Home Owner

The decision was made rapidly; only the financing was missing. The Schauer family turned to advice from their house bank, the Raiffeisenbank Neumarkt (Upper Palatinate). It quickly became clear that they fulfilled all the requirements for a new reduced-interest loan from BayernLabo’s Bavarian programme of low-interest loans for private housing, with a 30-year fixed-interest period and simultaneous full repayment.

Besides the purchase price, the outstanding necessary renovation work such as painting the house and renovating the terrace and balcony was included in the total costs. For the Schauer family, the low-interest loan from BayernLabo will pay off, because it means 30 years of fixed low interest, little load, a grace period for repayment of principal, and complete freedom from debt after 30 years.

The Schauers have lived in their own new house since February 2016. The family now has enough space both indoors and out, so that every single member of the family can develop freely. The children are often in their garden with cat Franziska, playing and enthusiastically swinging or playing in their sandbox. Hobby gardener Sonja Schauer lovingly takes care of the

new greenery around the house every spare minute of her day. With the BayernLabo low-interest 30-year subsidised loan with full repayment, the dream of owning one's own four walls has come true for yet another family.

Bavarian modernisation programme



“Modernisation makes our homes future-proof and more economical.”

Resident, St. Marien

Affiliated with Christian values, St. Gundekar-Werk is not just a house-building and urban development enterprise. Rather, it is the second-largest of the seven diocesan housing and settlement works in Bavaria, measured against the company's own rental housing stock, with the aim of offering families, single parents, and senior citizens adequate living space. Founded in 1954, the enterprise now owns more than 4,000 rental units that are continuously modernised to meet

the latest requirements, such as the energy-efficient refurbishment of two retirement homes in Nuremberg-Katzwang.

In a southern city district of Nuremberg, the St. Gundekar-Werk maintains the two St. Marien senior citizens' residential complexes with 53 residential units on the leasehold property of the eponymous Catholic parish and which are located in the immediate vicinity of the parish church, office, and hall and the preschool. The purpose of the residential complexes for the elderly is to provide independent and yet communal living, and, when required, assisted living, for people in the second half of life who have a residential entitlement certificate from the City of Nuremberg. Sixty-one people live in the optimally furnished residential units, three of which are accessible to wheelchairs.

To enable residents to continue living at economical operating costs in the future, the facilities, which were built in 1976 and 1985, were renovated in accordance with the current energy saving ordinance. After the modernisation, all buildings have an electric entrance door control system, an elevator with energy recovery, a central exhaust air system, and efficient staircase lighting with LED technology. Additionally, fire protection measures were brought up to date.

In close cooperation with the City of Nuremberg and the Office for Housing and Urban Development, the application, approval, and disbursement of subsidies went quickly and smoothly. The total costs of EUR 2.44 million were funded through the KfW programme “energy-efficient renovation” and a low-interest capital loan from the Bavarian modernisation programme.

Municipal subsidised housing programme to create rental housing in Bavaria

Council housing (public housing built by local authorities) is the answer to spiralling rental costs and housing shortages.

Neumarkt in Upper Palatinate is an up-and-coming municipality near Nuremberg. With a population of around 40,000, the major district town is a culturally and economically important factor in northern Bavaria. The dynamic city has already been distinguished by UNESCO as “City of the Decade” four times for its sustainable development.

Neumarkt also fulfils its responsibility as regards social housing construction. In the newest construction project in Deininger Way, 27 subsidized flats with a total living area of 1,945 square metres are currently being built. As part of the BayernLabo municipal subsidised housing programme, the City of Neumarkt is creating new living space. Barrier-free social housing is being created on a 2,700 square metre site in the south of the city. From small two-room apartments to large five-room flats, the new housing complex has been designed for a variety of types of household.



The project, the total costs of which are EUR 5,479,000, was financed by subsidies from the Free State of Bavaria, a development loan from BayernLabo, and a ten-percent own contribution from the owner. The development loan of EUR 3,409,800 was fully disbursed shortly after the start of construction. The interest-free loan runs for ten years under the full repayment model.

“Neumarkt has become a popular place to live. The city wishes to counteract a shortage of housing and spiralling rental costs, and for this reason, to create new municipal housing space. The municipal housing promotion programme was ideal for our project.”

Thomas Thumann, Mayor of the City of Neumarkt for 13 years



06 Second Party Opinion

Second Party Opinion

ISS ESG hat im Auftrag der BayernLabo eine Second Party Opinion erstellt, die den nachhaltigen Mehrwert des Social Bonds bestätigt.



ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ¹
Part 1: Performance against SBPs	The issuer 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 ICMA SBPs.	Positive
Part 2: Sustainability quality of the asset pool	The overall sustainability quality of the asset pool in terms of sustainability benefits, risk avoidance and minimisation is good based upon the ISS ESG Social Bond KPIs. The Social Bond KPIs contain a clear description of eligible asset categories which include: mortgage loans for residential buildings and social housing. All assets of the asset pool are located in Germany, a highly regulated and developed country. Legislative frameworks in this country sets minimum standards, which reduce environmental and social risks.	Positive
Part 3: Issuer sustainability performance	The issuer itself shows a medium sustainability performance and has been given a rating of C+, which classifies it as 'Prime' by the methodology of the ISS ESG Corporate Rating. It is rated 1 st out of 103 companies within its sector as of 05.12.2019. This equates to a high relative performance, with a Decile Rank ² of 1.	Status: Prime Rating: C+ Decile Rank: 1

¹ ISS ESG's evaluation will remain valid until any modification of the Sustainability Bond Framework or addition of new assets into the asset pool by the issuer and as long as the Corporate Rating does not change (last modification on the 08.10.2018). The controversy check of the underlying assets was conducted on the 03.12.2019.

² Rank relative to industry group. 1 indicates a high relative ESG performance, while 10 indicates a low relative ESG performance.



07 External verification

External verification

With respect to the use of the issue proceeds of the Social Bond (DE000A0Z1UQ7) issued by BayernLabo on 22 November 2017, the Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich, has conducted agreed investigations in accordance with ISRS 4400 and established on this basis, that BayernLabo's loans that were extended through the three loan programmes Bavarian programme of low-interest loans for private housing, Bavarian modernisation programme, and Municipal subsidised housing programme to create rental housing in Bavaria in the period from 1 January 2014 to and including 31 December 2017 (year of issue of the bond and the three preceding fiscal years), were marked accordingly and delimited in BayernLabo's core banking system.

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