

# Sustainable Lending Framework

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## Abstract

BayernLB sees itself as a financier of progress for projects and companies with ecological or social objectives and is thus committed to transformation towards a sustainable society. BayernLB's goal is to accompany its customers on their journey towards a climate-neutral industry. *Bayern LB's Sustainable Lending Framework* provides guidance and sets the framework for offering sustainable financing that is aligned with BayernLB's sustainability strategy. This creates transparency about BayernLB's range of sustainable financing products and thus also serves as a seal of quality.

[Chapter 1](#) of the framework describes the profile of BayernLB, while [Chapter 2](#) details its sustainability strategy. [Chapter 3](#) outlines the basic requirements and conditions of *Bayern LB's Sustainable Lending Framework*. Building on this, the chapters [4](#), [5](#) and [6](#) look at the characteristics and requirements for each of the products *BayernLB Green Loans*, *Social Loans* and *Sustainability-Linked Loans* in depth. [Chapter 7](#) contains notes on updates and the disclaimer for this document.

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## 1. Profile of BayernLB

As a streamlined specialised bank, BayernLB is a major investment financier for the Bavarian and German economy. BayernLB is committed to progress. Its customers – companies, financial institutions, investors, savings banks and the public sector – are at the centre of its sustainable approach. As a stable and financially strong bank with international activities, BayernLB works efficiently and thinks long-term.

BayernLB has long-standing experience and in-depth knowledge of the sectors in which its customers operate. BayernLB understands its business challenges for the future, offers solutions that match their needs and is partner on an equal footing – always cultivating reliable and trusting working relationships.

BayernLB's services:

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

Right where BayernLB's customers need it:

- Germany: Munich (head office), Nuremberg, Stuttgart, Frankfurt, Düsseldorf, Hamburg, Berlin and Leipzig
- Europe: branches in London, Milan and Paris
- US: branch in New York City
- German Centres: 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 BayemInvest 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. BayernLB takes responsibility by supporting sustainable transformation and innovation processes in the real economy and for its own transformation. With a view to transforming the customer portfolio, BayernLB has established a milestone plan for the next few years. For BayernLB, sustainability is not just an irreversible trend, but the only right way to align the company. With the sustainability strategy, BayernLB is continuously expanding one of its key strengths. This self-image is also derived from the statutory mandate as an institution under public law. BayernLB conducts its business as an honourable businessperson in a future-oriented manner and makes its 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 as well as the corresponding European and German Climate Action Plans. BayernLB also takes into account the Bavarian Sustainability Strategy as well as the objectives of the EU Taxonomy Regulation and its standards where already established.

In addition, BayernLB pursues the goals described in the German Sustainable Finance Strategy.

Group-wide, BayernLB has extremely successful subsidiaries that are very active with their approach to sustainable banking. For more than two decades, DKB has focused on financing selected target sectors such as housing, renewable energies and social infrastructure. DKB's loan portfolio currently already has SDG significance of 77% (as of Dec. 31, 2020). 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 characterised by two equivalent goals: the preservation of economically powerful and viable urban centres 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/>). (By means of offering specific sustainable finance instruments BayernLB aims to contribute to environmental and social sustainability in alignment with the United Nations' Sustainable Development Goals (UN SDGs). With regards to financing activities, BayernLB mainly focuses on supporting the following SDGs:

Goal	SDG Topic	Goal	SDG Topic
	Zero hunger		Good health and well-being
	Quality education		Clean water and sanitation
	Affordable and clean energy		Industry, innovation and infrastructure
	Sustainable cities and communities		Responsible consumption and production
	Climate action		Life on land
	Peace, justice and strong institutions		

## 3 BayernLB's Sustainable Lending Framework

### 3.1 Objective and fundamentals

BayernLB sees itself as a financier of progress for projects and companies with ecological or social objectives and is thus committed to transformation towards a sustainable society. BayernLB's goal is to accompany and support its customers on their journey towards a climate-neutral industry by providing the necessary funds to realise sustainable projects.

*BayernLB's Sustainable Lending Framework* pursues three main objectives. Firstly, it is meant to provide customers with guidance on the various sustainability dimensions that can be financed – environmental, social and governance (ESG) – and inform them about the options for realizing sustainable projects with BayernLB. Customers also gain an overview of the relevant market standards for sustainable financing and how these are applied at BayernLB. At the same time, it sets the framework for offering sustainable financing, which is aligned with BayernLB's sustainability strategy. Secondly, *BayernLB's Sustainable Lending Framework* is BayernLB's contribution to transparency in the currently highly dynamic sustainable finance market: it serves to clearly inform all stakeholders about BayernLB's range of sustainable credit products and their implementation processes. Based on the product spectrum, the respective prerequisites and implementation conditions for sustainable financing are to be specified by asset class. Ultimately, this is to allow the framework to serve as a seal of quality for customers and other stakeholders. This is because financing projects and companies that are suitable for sustainable financing by BayernLB meet both the current market standards for sustainable financing and BayernLB's internal ESG assessment. Thus, in BayernLB's view, they make a positive contribution to the sustainable development of our society and are compatible with the Bavarian sustainability strategy.

*BayernLB's Sustainable Lending Framework* is based on the guidelines of the Loan Market Association (LMA), which are currently the standards commonly used on the international market for sustainable lending. These include the Green Loan Principles (GLP), the Social Loan Principles (SLP) and the Sustainability-Linked Loan Principles (SLLP).

BayernLB offers tailor-made products to finance and support sustainability, depending on individual financing requirements. Depending on the purpose and objective of a loan, the following sustainable financing options are available at BayernLB:

Financing requirement	Recommended product framework
Earmarked for promoting ecologically sustainable goals, such as climate and environmental protection	<i>BayernLB Green Loans</i>
Earmarked for promoting socially sustainable goals	<i>BayernLB Social Loans</i>
Flexible financing without earmarking, where a clear strategic ESG ambition is given	<i>BayernLB Sustainability-Linked Loans</i>

The following overview shows the appropriate form of credit facility based on BayernLB asset class, including exemplary financing projects and sustainable key performance indicators (KPIs) for sustainability-linked loans:

	Project financing Renewable Energies	Asset financing Mobility	Real estate financing	Corporate financing
<b>Green Loan</b>	Solar PV, Hydro-power, Wind power	Rail transport systems and infrastructure	Green real estate	e.g. energy efficiency, circular economy, pollution prevention
<b>Social Loan</b>	-	-	-	Establishing childcare facilities on company premises for employees
<b>Sustainability-Linked Loan</b>	-	-	-	e.g. reducing annual emissions or increasing the quota of female executives

### 3.2 Preselection through internal ESG assessment

BayernLB subjects all financing proposals to an internal ESG assessment. Firstly, the contribution of an exposure to the specified sustainability goals is assessed (ESG impact). BayernLB evaluates the contribution of investments to climate and sustainability goals based on the Bavarian Sustainability Strategy and the climate and environmental goals of the EU taxonomy.<sup>1</sup> Secondly, potential climate and sustainability risks (ESG risks) are analysed. This ensures the high quality of BayernLB's sustainable portfolio as well as compliance with internationally recognised standards.

Financing projects and companies that make a positive contribution to BayernLB's sustainability objectives while having low sustainability risks are categorised as sustainable in the ESG assessment. If the additional requirements stated in [Chapter 3.3](#) are met, the financing project or the company itself qualifies for sustainable loans from BayernLB within the constraints of the *Sustainable Lending Framework*. These are reserved for projects and schemes that make a significant positive contribution to the sustainable development of society.

### 3.3 Core components

In line with international market standards on sustainable financing defined by LMA, BayernLB attaches importance to demonstrably positive effects on sustainability in addition to the initial ESG assessment. These effects will be systematically followed up during the financing period through appropriate reports and information in case of significant progress or changes in the projects.

In principle, the key components for products of *BayernLB's Sustainable Lending Framework* are:




- i. **Ambition:** ensuring sustainable financing intentions or sustainability ambitions,

<sup>1</sup> Once the EU social taxonomy has been adopted, this will also be taken into account.



- ii. Evidence: tracking of sustainable financing purposes and achievement of defined sustainable performance targets and, where appropriate, reporting on the positive impact made by the project,
- iii. External validation: where possible and appropriate, an external assessment of the ambitions and performance targets in the context of sustainability.

The correlations between the core components of the framework and the respective LMA Principles (and chapter numbers of this framework) for Green Loans, Social Loans and Sustainability-Linked Loans are shown in the following overview:

Framework components	LMA principles per ESG product		
	Green Loans	Social Loans	Sustainability-Linked Loans
 <b>i. Ambition</b>	Allocation of funds (4.1) Project selection and evaluation (4.2)	Allocation of funds (5.1) Project selection and evaluation (5.2)	Sustainability KPIs and rating (6.1) Targets (6.2)
 <b>ii. Evidence</b>	Funds management (4.3) Reporting (4.4)	Funds management (5.3) Reporting (5.4)	Loan terms (6.2) Reporting (6.2)
 <b>iii. External validation</b>	External audit (4.5)	External audit (5.4)	Certification (6.3)

Based on the product type and the financing purpose or asset class, the specific elements are designed to be efficient and results-oriented in line with international market standards (ii and iii may be partially omitted for certain asset classes). Details can be found in chapters [4](#), [5](#) and [6](#).

## 4. Green Loans

Loans to finance investments that serve climate and environmental protection are eligible for funding through *BayernLB Green Loans*. In addition to their explicit contribution to environmentally sustainable goals, they must fulfil other conditions based on the LMA's Green Loan Principles, which are explained in this chapter.

In summary, depending on the asset class, there are different prerequisites and requirements for *BayernLB Green Loans*:

	<b>Project-financing Renewable Energies</b>	<b>Asset financing Mobility</b>	<b>Real estate financing</b>	<b>Corporate financing</b>
<b>Allocation of funds</b>	To be shown in project documentation	To be shown in project documentation	To be shown in project documentation	To be detailed separately incl. reference to environmental goal
<b>Project selection &amp; evaluation</b>	To be shown in project documentation	To be shown in project documentation	To be shown in project documentation	Explanation required
<b>Funds management</b>	Clear traceability to be ensured	Clear traceability to be ensured	Clear traceability to be ensured	Clear traceability to be ensured
<b>Reporting</b>	none	none	annual (energy certificate or similar)	annual
<b>External audit</b>	not required	not required	not required	recommended

In the case of corporate financing, it is advisable to present the above-mentioned prerequisites and requirements as part of the customer's green loan framework.

### 4.1 Allocation of funds

To ensure that investments can be financed or refinanced through *BayernLB Green Loans*, they must serve clearly defined climate and environmental objectives. This must be specified as the purpose of the loan in the loan documents. BayernLB also attaches importance to ensuring that the environmental objectives to be achieved by the investment are clearly identifiable and described as precisely as possible. A quantitative assessment is desirable. If portions of the funds are used for refinancing, customers are to indicate the extent to which funds are used for refinancing projects that have already been implemented.

### Renewable energies

The refinancing/financing of the acquisition, production, transfer, expansion and/or development of renewable energy projects, as well as the manufacture of the necessary equipment and connection to the electricity grid, can be financed through *BayernLB Green Loans*. Eligible renewable energy sources accepted by BayernLB include primarily, but are not limited to:

- photovoltaic and solar thermal systems
- wind farms (onshore and offshore)
- hydropower plants

### Sustainable mobility

*BayernLB Green Loans* can be used to refinance/finance rail vehicles, wagons and infrastructure and to finance local public transport. Furthermore, investments in low-carbon mobility infrastructure for alternative propulsion systems are also suitable projects. Possible projects include:

- production/operation of rail vehicles
- production/operation of wagons
- production/operation of rail infrastructure (e.g. loading terminals or maintenance workshops)
- production/operation of buses with alternative propulsion systems incl. infrastructure

### Green real estate

*BayernLB Green Loans* can be granted for the refinancing/financing of buildings that have excellent energy efficiency and substantiate this through nationally or internationally recognised certificates or by complying with thresholds by means of a corresponding energy certificate at the time of loan approval and throughout the term of the loan. In addition, the financing also qualifies as a green loan if the building is KfW-funded. The exact criteria are explained in [Appendix 2](#).

### Other financing initiatives for companies

Other investments that serve climate and environmental protection and advance the transformation into a sustainable economy are also suitable for *BayernLB Green Loans*. [Appendix 1](#) lists possible topic areas for green projects with environmental objectives for corporate financing.

## 4.2 Selection and evaluation of suitable projects

Suitable projects that can be financed with *BayernLB Green Loans* are selected strictly in accordance with the processes described and with a view to the criteria for the allocation of funds set out in [Chapter 4.1](#). Furthermore, the [Sustainability Standards](#)<sup>2</sup> of BayernLB and the exclusion criteria<sup>3</sup> set out in the document “[Guiding Principles for Transformation](#)” must be observed for certain exposures.

In order to enable the assessment of suitable projects, companies should provide certain information on the projects’ contribution to climate and environmental objectives if this is not directly evident from the projects. This can be done, for example, by appropriately outlining the borrower’s climate and environmental goals and their overarching sustainability strategy.

<sup>2</sup> [https://www.bayernlb.de/internet/en/blb/resp/verantwortung\\_1/unternehmensfuehrung\\_1/nachhaltigkeitsstandards\\_3/sustainability\\_standards.jsp](https://www.bayernlb.de/internet/en/blb/resp/verantwortung_1/unternehmensfuehrung_1/nachhaltigkeitsstandards_3/sustainability_standards.jsp).

<sup>3</sup> Exclusion criteria for the financing of certain investments are defined in BayernLB’s guidance document “Guiding Principles for Transformation”: **Fehler! Linkreferenz ungültig.** [https://www.bayernlb.com/internet/media/en/ir/downloads\\_1/verantwortung\\_1/positionen\\_und\\_richtlinien/2021-12-16\\_final\\_Leitplan-ken\\_der\\_Transformation.pdf](https://www.bayernlb.com/internet/media/en/ir/downloads_1/verantwortung_1/positionen_und_richtlinien/2021-12-16_final_Leitplan-ken_der_Transformation.pdf).

### 4.3 Funds management

Funds to promote environmentally sustainable goals are made available in a current account established for this purpose, unless the allocation of funds is otherwise demonstrated. The amount required is fixed in advance and precisely linked to the allocation of funds. The borrower is required to report to BayernLB on the progress of the disbursement as required for transparent tracing of the funds used for the environmentally sustainable goals defined.

### 4.4 Reporting

BayernLB attaches great importance to transparent reporting on the allocation of funds from *BayernLB Green Loans* as an integrity-enhancing means of achieving climate and environmental goals. For a transparent audit of the allocation of funds in corporate financing, borrowers of *BayernLB Green Loans* report to BayernLB on a regular basis (at least once a year until full disbursement). This may include, for example, a list of green projects financed by means of the awarded funds and their expected contribution to environmental goals. Furthermore, in the case of corporate financing, borrowers generally have to report once a year on the positive contribution the project has so far made to sustainability goals (impact reporting). The expected contribution to climate and environmental goals should be quantified and based on current market standards, if practicable, and evaluated in terms of, for example, greenhouse gas emission savings, renewable energy generation capacity created, or resources saved.

### 4.5 External audit

BayernLB recommends that borrowers of *BayernLB Green Loans* in corporate financing undergo an external appraisal in accordance with the GLP. The aim is to provide independent verification that the projects to be financed are fit for purpose to meet climate and environmental goals and are suitable for sustainable financing. This can take the form of expert assessments, certificates or sustainability ratings, for example. Alternatively, self-certification can be undertaken by customers confirming that the green projects to be financed are eligible under the Green Loan Principles.

## 5. Social Loans

For sustainable investments and projects with predominantly social objectives, BayernLB offers its corporate financing customers *BayernLB Social Loans*. Projects with a clear social purpose are eligible if they meet the following BayernLB requirements in accordance with the LMA's Social Loan Principles. [Appendix 1](#) lists examples of possible financing projects for social loans.

For *BayernLB Social Loans* the following requirements apply analogously to the Social Loan Principles of the LMA.

	Corporate financing
<b>Allocation of funds</b>	To be detailed separately incl. reference to socially sustainable objectives
<b>Project selection and evaluation</b>	Explanation required
<b>Funds management</b>	Clear traceability to be ensured
<b>Reporting</b>	Annual
<b>External audit</b>	Recommended

In the case of corporate financing, it is advisable to present the above-mentioned prerequisites and requirements as part of the customer's social loan framework.

### 5.1 Allocation of funds

To ensure that investments can be financed or refinanced through *BayernLB Social Loans*, they must serve clearly defined social projects or objectives. The granting of *BayernLB Social Loans* is contractually assured by indicating a specific intended use in the loan documents. Furthermore, the social objectives to be achieved by the investment should be described in detail and the contribution to the achievement of the objectives should be assessed quantitatively, if possible. If portions of the funds are used for refinancing, customers are to indicate the extent to which funds are used for refinancing projects that have already been implemented.

Social projects directly aim to address or mitigate a specific social problem and/or promote and achieve positive social outcomes (e.g. education), especially but not exclusively for a specific target group of the population. A social problem in the sense of *BayernLB Social Loans* threatens, impedes or harms the well-being of society or a specific target population. Target populations as beneficiaries of funding may vary depending on the local context, and in some cases target populations may also be reached by addressing the general public. [Appendix 1](#) lists the topic areas for corporate financing with social projects as examples.

Possible target populations could be, for example:

- people living below the poverty line
- excluded or marginalised groups and/or communities

- people with disabilities
- migrants and displaced persons
- educationally disadvantaged people
- unemployed people
- women and/or gender minorities
- aging persons and children
- other vulnerable groups, for example due to natural disasters

## 5.2 Selection and evaluation of suitable projects

Suitable projects that can be financed through *BayernLB Social Loans* are selected strictly in accordance with the criteria for the allocation of funds set out in [Chapter 5.1](#). Furthermore, the [Sustainability Standards](#)<sup>4</sup> of BayernLB and the exclusion criteria<sup>5</sup> set out in the document “[Guiding Principles for Transformation](#)” must be observed for certain exposures. In order to enable an assessment of suitable projects, the borrower must provide certain information on the contribution of the projects to social objectives.

For this purpose, customers should inform BayernLB about their social objectives, describe the process according to which they align their social projects with BayernLB’s social categories and state appropriate selection and exclusion criteria for managing risks arising from social projects. This can be done, for example, by appropriately outlining the company’s social objectives and the projects as well as the customer’s overarching sustainability strategy.

## 5.3 Funds management

Funds to promote social projects are made available in a current account established for this purpose, unless the allocation of funds is otherwise demonstrated. The amount required is fixed in advance and precisely linked to the allocation of funds. The customer must report to BayernLB on the progress of disbursement to ensure transparent tracing of the funds used for the socially sustainable objectives defined.

## 5.4 Reporting

BayernLB attaches great importance to transparent reporting on the allocation of funds from *BayernLB Social Loans* as an integrity-enhancing means of achieving socially sustainable objectives. For a transparent audit of the allocation of funds in corporate financing, borrowers of *BayernLB Social Loans* report to BayernLB on a regular basis (at least once a year until full disbursement). This should include a list of the social projects for which the proceeds of the social loan were used and a brief description of the projects, the amounts allocated and their expected impact. Furthermore, in the case of corporate financing, borrowers generally have to report once a year on the positive contribu-

<sup>4</sup> [https://www.bayernlb.de/internet/en/blb/resp/verantwortung\\_1/unternehmensfuehrung\\_1/nachhaltigkeitsstandards\\_3/sustainability\\_standards.jsp](https://www.bayernlb.de/internet/en/blb/resp/verantwortung_1/unternehmensfuehrung_1/nachhaltigkeitsstandards_3/sustainability_standards.jsp).

<sup>5</sup> Exclusion criteria for the financing of certain investments are defined in BayernLB’s guidance document “Guiding Principles for Transformation”: [https://www.bayernlb.com/internet/media/en/ir/downloads\\_1/verantwortung\\_1/positionen\\_und\\_richtlinien/2021-12-16\\_final\\_Leitplanken\\_der\\_Transformation.pdf](https://www.bayernlb.com/internet/media/en/ir/downloads_1/verantwortung_1/positionen_und_richtlinien/2021-12-16_final_Leitplanken_der_Transformation.pdf).

tion the project has so far made to the social goals (impact reporting). If limited detail can be provided due to confidentiality agreements, competitive considerations or a large number of underlying projects, information may be provided in general terms or based on an aggregate project portfolio.

At BayernLB, transparency is of great importance when it comes to communicating the expected impact of social projects. Thus, in reporting, the use of qualitative performance indicators and, where possible, quantitative performance figures is recommended, including disclosure of the key methodologies and assumptions used in the quantitative measurement.

## 5.5 External audit

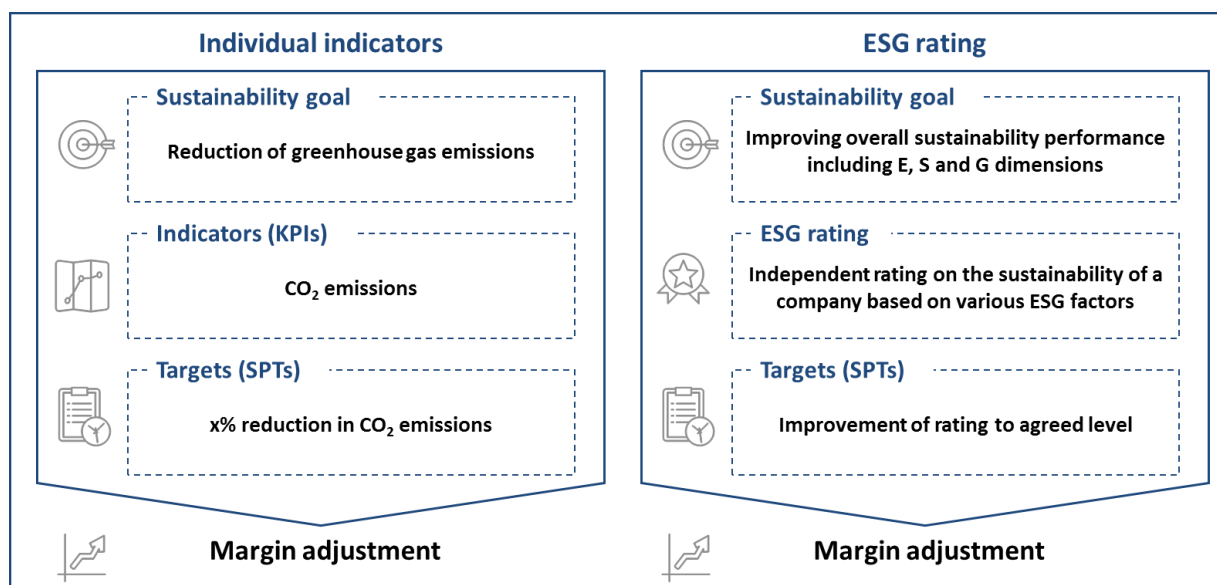
BayernLB recommends that borrowers of *BayernLB Social Loans* undergo an external appraisal in accordance with the SLP. This can take the form of expert assessments, certificates or sustainability ratings, for example. Alternatively, self-certification can be undertaken by customers confirming that the social projects to be financed are eligible under the Social Loan Principles.

## 6. Sustainability-Linked Loans

Sustainability-linked loans are a flexible instrument for sustainable financing, as they are aligned with the companies' sustainability strategies. They are the right sustainable financing option for companies seeking to improve specific components of their value creation in terms of increased sustainability. Unlike Green or Social Loans, the use of the loan amount in the case of *BayernLB Sustainability-Linked Loans* is not tied to a specific purpose and may therefore also be used for general corporate financing.<sup>6</sup> Instead, Sustainability-Linked Loans are linked to the achievement of sustainability goals. The goals set for sustainability improvements can be measured either by a ESG rating improvement or by defined sustainability key performance indicators (KPIs) with targets to be achieved (sustainability performance targets, SPTs), which express the customer's level of ambition.

The loan terms for *BayernLB Sustainability-Linked Loans* are linked to the achievement of sustainability performance targets (SPTs), for example the reduction of greenhouse gas emissions by x% or the improvement of the sustainability rating to an agreed level. The sustainability development is periodically reviewed and leads to margin adjustments when sustainability performance targets (SPTs) are reached or missed. In this way, the borrower is motivated to work dynamically on their targets throughout the entire loan period and ultimately to achieve them.

The following overview illustrates the relationship between sustainability goals, the indicators (KPIs) and targets (SPTs) for individual indicators or concepts based on ESG ratings:



### 6.1 Sustainability goals, indicators and targets<sup>7</sup>

BayernLB's customers can set themselves a wide range of sustainability goals and link these to loan terms for *BayernLB Sustainability-Linked Loans*. In this context, BayernLB customers should explain the reasons for selecting the indicators (KPIs), their motivation for the targets (SPTs) to be achieved,

<sup>6</sup> In some cases, loans may be structured in such a way as to meet the requirements to qualify both as a Green or Social Loan and as a Sustainability-Linked Loan in accordance with the relevant LMA Principles.

<sup>7</sup> [Chapter 6.1](#) corresponds with SLLPs one and two of the LMA on selecting indicators and setting targets.



and how those targets are to be achieved. Customers should also demonstrate how the selected sustainability goals correspond to the company's sustainability strategy.

The achievement of sustainability goals is measured against customer-specific agreed indicators (KPIs) or against their ESG rating. The targets (SPTs) to be achieved for the indicators and specified in the loan documents express the level of ambition of the borrower to improve sustainability aspects. The targets (SPTs) should be set in light of the recent development of the indicators, taking into account the development of the customer, the development of competitors and scientific standards. The targets (SPTs) should be established for the life of the loan as a periodic improvement goal with review and potential margin adjustment.

Indicators (KPIs) and the associated targets (SPTs) should fulfil a number of requirements in the context of *BayernLB Sustainability-Linked Loans*:

- Relevance – indicators should be relevant, central and material to the borrower's overall business and of high strategic importance to the borrower's current and future operations. The goals set should represent a significant improvement in the indicator.
- Measurability – indicators should be based on a consistent methodological foundation and objectively reflect compliance with the defined targets.
- Comparability – indicators should be used to objectively assess the level of ambition of sustainability goals in terms of targets.

Orientation for possible KPIs is provided by [Appendix 1](#) by listing examples of topics for corporate financing. [Appendix 3](#) provides examples of indicators and targets in the relevant ESG dimensions of environmental, social and governance.

## 6.2 Reporting and terms<sup>8</sup>

For the relevant ESG ratings and indicators, the development of sustainability should be included in the client's regular, at least annual reporting, for example in interim, annual or non-financial reports. In addition, separately prepared reports, audited by third parties, can optionally be communicated to BayernLB.

The achievement or failure to achieve the development goals results in a corresponding margin adjustment. In the case of long-term loans, the agreed targets and indicators can also be adjusted during the course of the loan if this is necessary, for example, due to changes in the regulatory environment or changes in the customer's core business.

## 6.3 External certification of indicators and targets<sup>9</sup>

BayernLB recommends that borrowers of *BayernLB Sustainability-Linked Loans* undergo an external appraisal in accordance with the Sustainability-Linked Loan Principles of the LMA. The goal is an independent certification of the development status of the sustainability targets to be achieved for the

<sup>8</sup> [Chapter 6.2](#) corresponds with SLLPs three and four of the LMA on loan terms and reporting.

<sup>9</sup> [Chapter 6.3](#) corresponds with SLLP five of the LMA on external certification of sustainability development.

corresponding key indicators. It is recommended that this assessment be made available to the public.

## **7. Updates and disclaimer**

The *Sustainable Lending Framework of BayernLB* is subject to regular updates and revisions to reflect the latest developments in established market standards and BayernLB's current sustainability strategy.

The *Sustainable Lending Framework of BayernLB* serves exclusively to inform customers about sustainable financing offers. The information on sustainable financing provided in this framework is not intended as an offer or recommendation to potential borrowers.

## Appendix 1: Topics for corporate financing

For corporate financing, the following topics are relevant for BayernLB's sustainable financing activities.

**i.) *BayernLB Green Loans*** are an option for all investments and projects with ecological objectives. The climate and environmental objectives of the EU Taxonomy and the examples in the Annex of the LMA's Green Loan Principles provide guidance.

### Climate change mitigation...

- Investments in renewable energy including its generation, transmission and associated equipment and products;
- Increasing energy efficiency, for example through energy-efficient buildings, energy storage, district heating, smart grids and associated equipment and products;
- Investments in clean transportation – such as electric and hybrid vehicles, public transportation, rail, non-motorised transportation, multi-modal transportation, infrastructure for vehicles using clean energy, and the reduction of pollutant emissions;

**... and climate change adaptation** including information support systems, such as climate monitoring and early warning systems as well as investments in disaster response to mitigate the impact of climate change;

### The sustainable use and protection of water and marine resources ...

- Ecologically sustainable fisheries and aquaculture, conservation and promotion of biodiversity, protection of coastal and marine areas;
- Sustainable water and wastewater management – including sustainable clean water and/or drinking water infrastructure, wastewater treatment, sustainable urban drainage systems and river straightening and other forms of flood control;

**... and transition to a circular economy:** eco-efficient and/or circular economy-adapted products, production technologies and processes – such as the development and introduction of ecologically sustainable products with an eco-label or environmental certification, resource-efficient packaging and distribution;

**Pollution prevention and control...** including air emission reduction, greenhouse gas control, soil remediation, waste prevention, waste reduction, waste recycling and energy/emission-efficient waste utilisation for energy generation;

### ... and the protection and restoration of biodiversity and ecosystems

Ecologically sustainable management of living natural resources and land use, including ecologically sustainable agriculture, ecologically sustainable livestock production, climate-smart inputs such as biological pest management or drip irrigation, ecologically sustainable forestry, including afforestation and reforestation, and conservation or restoration of natural landscapes.

**ii.) *BayernLB Social Loans*** are suitable for financing sustainable investments with primarily social objectives. Based on the ESG target criteria of BayernLB and the exemplary list in the Annex of the LMA's Social Loan Principles, the following investment opportunities can be specified:

#### Research and education

- Expansion/construction & refurbishment of day-care centres, kindergartens and schools (incl. vocational schools)
- Expansion/construction & refurbishment of universities, public and private research facilities

#### Sustainable economy and consumption

- Sustainable tourism
- Provision of affordable housing
- Measures to create jobs and prevent unemployment (SME financing and microfinancing)
- Reduction of income inequality (equal access to and control over assets, services and resources)

#### Nutrition, health and nursing care

- Ensuring nutrition and sustainable food (production of and access to safe and healthy (organic) food, resilient agriculture, prevention of food waste, productivity enhancing measures of small producers)
- Public health care
- Expansion/construction & refurbishment of hospitals
- Expansion of telemedical services and networks
- Extension/construction & refurbishment of nursing care facilities and assisted living environments

#### Government and administration

- Measures to digitalise public administration
- Measures to ensure barrier-free access
- Public services (clean drinking water, sewerage and sanitation, transportation, energy supply, telecommunications)

**iii.) *BayernLB Sustainability Linked Loans*** are suitable for general corporate financing without earmarking if companies wish to link loan terms to the achievement of sustainability goals. In addition to the above-mentioned project examples for *BayernLB Green and Social Loans*, sustainability indicators and targets can also be agreed with a focus on governance.

#### Governance topics

- Improving the management of risks and opportunities in the context of ethical business conduct (e.g. corruption, fraud)
- Improving the expertise of individuals on governance committees (e.g. compliance, internal audit)

## Appendix 2: Criteria for green real estate

Buildings that comply with one or more of the following standards qualify as green loan: 1. A Sustainability Certificate with one of the following ratings is available for the building to be financed:

- DGNB with gold or platinum,
- LEED with gold or platinum,
- BREEAM with Very Good, Excellent or Outstanding,
- HQE with Excellent or Exceptional

2. A energy performance certificate with a end-use energy demand lower than the following limits (if no final energy value is available, the primary energy can be applied) is available for the building to be financed:

Type of building	kWh/(m <sup>2</sup> a)
Residential building	75
Office building without air conditioning	140
Office building with air conditioning	165
Department store, shopping centre, Retail building	155
Hotels up to 3 stars	155
Hotels with 4 or 5 stars	170
Warehouse / logistics building unheated	65
Warehouse / logistics building heated	175
Social/Care Real Estate	185
Data centers	245

3. A confirmed KfW funding with reference to the energy standard of the building (KfW 40, 40 Plus, 55, 70, 85) also qualifies the financing as a green loan.

## Appendix 3: Sustainability goals and indicators

- In accordance with the Sustainability-Linked Loan Principles of the LMA and the recommendations of the Sustainable Finance Committee<sup>10</sup> the following sustainability goals and indicators can be considered for *BayernLB Sustainability-Linked Loans*:

### Environmental and climate protection

- Increasing the energy efficiency of machines and buildings
- Greenhouse gas reduction in relation to production output
- Avoidance of waste disposal relative to production capacity
- Increasing the share of renewable energies in the use/production of energy
- Savings in water use
- Greater use of sustainable materials
- Increasing recycling rates
- Improvement in the sustainability of agriculture (e.g. through appropriate labels)
- Preservation of biodiversity
- Improving the global ESG rating

### Social commitment

- Increase in the proportion of employees covered by collective bargaining agreements and/or full-time staff
- Reduction of occupational accidents
- Improving the relations with the communities in which the company operates
- Provision of affordable housing
- Promotion of data protection
- Improvements in occupational health and safety of employees
- Improvement in the areas of diversity, education and (further) training

### Governance topics

- Improving the management of risks and opportunities in the context of ethical business conduct (e.g. corruption, fraud)
- Enhancing the expertise of individuals on governance committees (e.g. compliance, internal audit, ESG risks)

<sup>10</sup> Report of the Sustainable Finance Committee to the Federal Government: [210319\\_SustainableFinanceCom-miteeRecommendations.pdf](https://www.sustainable-finance-beirat.de/210319_SustainableFinanceCom-miteeRecommendations.pdf) ([sustainable-finance-beirat.de](https://www.sustainable-finance-beirat.de))



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