

Social Bond Framework 2018

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Introduction

With total assets of over EUR 76 billion, Berlin-based DKB is one of Germany's 20 largest banks. The company was set up in 1990 and is a fully-owned subsidiary of BayernLB. DKB is a specialized customer bank whose business focuses on Germany. As such we pass on around 85% of our total assets as loans on to local authorities, SMEs and retail clients.

DKB's approach is based on two pillars. As an online bank, DKB has around 3.8 million retail clients via Internet, making it the second largest online bank in Germany. Above that, as a commercial bank, we provide local authorities and companies in selected industries with financing solutions through our 25 branches across Germany.

A large part of our lending business is carried out with clients and in segments with a social background or which provide corresponding added value. Based on this we have designed our Social Bond Framework, which forms the foundation for DKB's Social Bond Programme.

Both the Social Bond Framework and the programme enable DKB to offer capital market products with social relevance in a variety of formats.

Motivation and objective

The motivation of DKB to launch a Social Bond Programme is manifold.

We follow the discussions about sustainable finance with great interest. The DKB sees itself as a pioneer of this idea and supports the development in different ways: in various associations and initiatives, as an issuer of Green Bonds, within our position paper on the proposals of the High Level Expert Group on Sustainable Finance (HLEG) and last but not least in large parts of our core business. In this role, we welcome the recent proposals of the EU Commission, which intend to work towards an ambitious sustainable transformation of the financial system and we are anxious to anticipate possible future regulatory requirements through a sustainable orientation of DKB. This claim is also expressed in the fact that DKB is currently developing a system which relates the impact of our business to the Sustainable Development Goals of the United Nations (SDGs).

Apart from these overarching political tendencies, we see further advantages in issuing sustainable bonds. They offer us the opportunity to make our business model even more transparent, which also provides benefits to the investors. The latter can gain an even deeper insight into our customer groups and business areas and assess DKB's economic, ecological and social competence. In turn, DKB can use the Social Bond product to diversify both its refinancing options and its investor base, and is able to demonstrate its innovative strength with the novelty of the Social Bond concept.

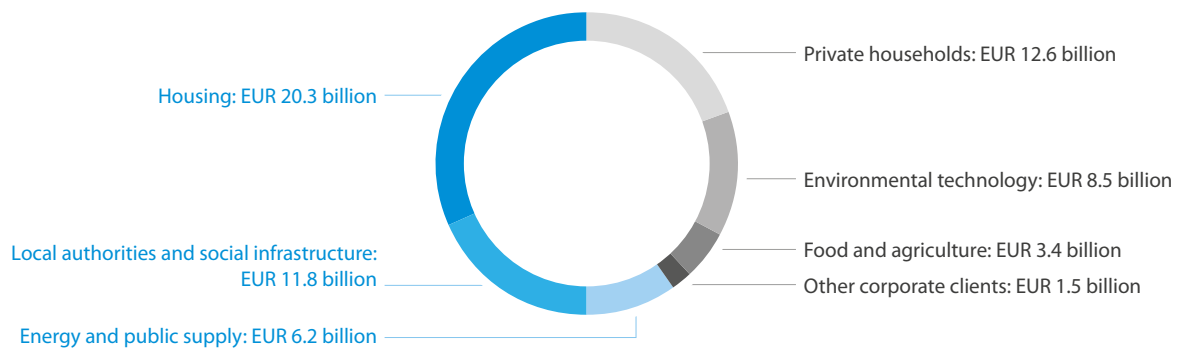
Last but not least, the development of the Social Bond Programme is not only an external signal but also an internal one. Besides a large number of motivated supportive colleagues within DKB itself, who contributed to the realization of the project, the programme emphasises the importance of the underlying lending business. The customer groups and the associated projects are exclusively originated from the client segment of (social) infrastructure and are extremely valuable for DKB from a risk, profit and sustainability point of view.

Basic principles of the Social Bond Framework

In DKB's corporate customer segment, the largest client segment is infrastructure, in which DKB serves the following client categories:

- Local authorities and social infrastructure (bundling of the client segments: local authority clients, health and care, education and research and inclusion)
- Energy and public supply
- Housing

DKB's lending business



These client categories are in turn subdivided into individual client groups that are closely linked to the topics addressed by DKB's Social Bond Programme. All loans chosen in the selection process of the Social Bond Framework derive from the industries mentioned above.

The methodology of the Social Bond Framework

The Social Bond Framework describes the process of creating DKB's Social Bond Programme and for selecting the loans that can be refinanced. It thus creates the basis for issuing DKB Social Bonds in a variety of formats.

The purposes of the loans address both aspects of achieving the United Nations' Sustainable Development Goals (SDGs) as well as the project categories of the Social Bond Principles (SBPs).

Assignment to Sustainable Development Goals (SDGs)

The so-called SDGs of the United Nations form an applicable and comprehensive framework for mapping the effects of sustainable action:



The transfer of the SDGs to the topics addressed by the Social Bonds is carried out by DKB as follows:

DKB category	Sustainable Development Goals
Social housing	Goal 1: No poverty Goal 11: Sustainable cities and communities
Public supply	Goal 3: Good health Goal 6: Clean water and sanitation Goal 9: Innovation and infrastructure Goal 10: Reduced inequalities Goal 11: Sustainable cities and communities Goal 16: Peace, justice and strong institutions Goal 17: Partnerships for the goals
Health and care	Goal 3: Good health Goal 17: Partnerships for the goals
Education and research	Goal 4: Quality education Goal 10: Reduced inequalities Goal 17: Partnerships for the goals
Inclusion	Goal 8: Good jobs and economic growth Goal 10: Reduced inequalities Goal 11: Sustainable cities and communities Goal 12: Responsible consumption Goal 17: Partnerships for the goals

Consideration of the Social Bond Principles (SBP)

The framework is essentially based on the Social Bond Principles (SBPs) of the International Capital Markets Association (ICMA). DKB actively supports their further development as a member of the "Social Bond Principles Working Group".

The assignment of the DKB Social Bond topics to the categories of the SBPs has been made by the DKB as follows:

DKB category	Social Bond Principles categories
Social housing	Affordable housing
Public supply	Affordable basic infrastructure/Access to essential services
Health and care	Access to essential services
Education and research	Access to essential services
Inclusion	Socioeconomic advancement and empowerment

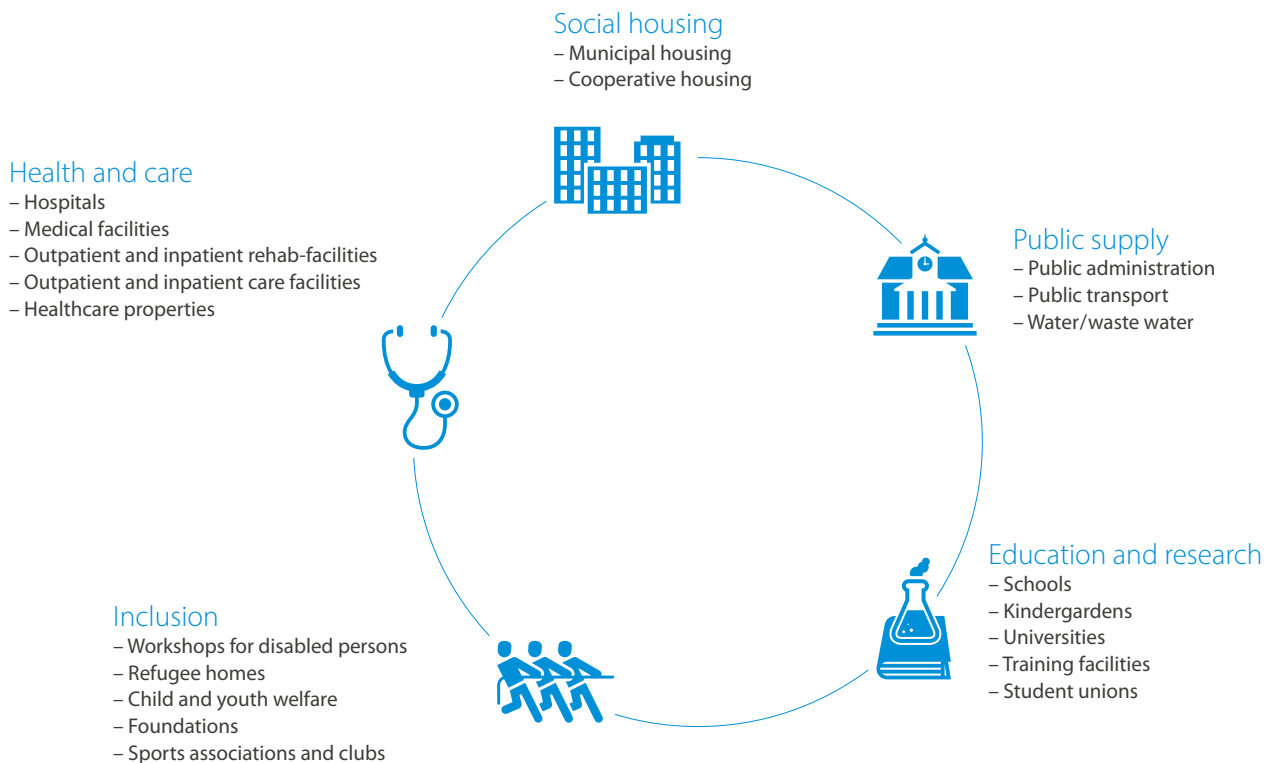
The core components of the SBPs describe the process, management and reporting for the selection of loans that can be refinanced in the following steps:

1. Use of proceeds
2. Project selection and evaluation
3. Management of proceeds
4. Reporting (impact assessment)

1. Use of proceeds

The funds that can be raised via Social Bonds are used to refinance loans with a social added value. The topics addressed by the DKB Framework are social housing, public supply, health and care, education and research and inclusion.

Topics/categories and assigned client groups:



As part of the selection process, certain loans are assigned to the individual topics on the basis of quantitative and qualitative factors.

2. Project evaluation and selection process

Selection criteria

The selection process for loans from client groups in the infrastructure division that can potentially be refinanced with the Social Bond is based on two steps.

1) Quantitative, financial criteria

These characteristics for selecting loans are independent from qualitative factors and apply equally to all loans.

- Exclusion of other refinancing sources: e. g. pass-through loans, global loans, other development/promotional bank refinancing, syndicated loans, etc.
- Loan type (loans only granted by DKB itself)
- Minimum loan amount
- Minimum ratings (depending on categories)
- Minimum residual term of loans

2) Qualitative criteria

The qualitative selection process is carried out based on various aspects:

- Determination of topics/categories to which specific client groups are assigned from the individual client groups:

Social housing

Public supply

Health and care

Education and research

Inclusion

- Selection of client type: Definition of the type of client or the type of lending business stored in the core banking system, which provides precise information on the use of funds.
- Additional criterion 'Economic sector': In some categories, the assigned 'economic sector' is evaluated in addition to the client type. This provides additional information about the intended use of the loan.

3) BBSR indicator "Growing and Shrinking Cities and Communities" in Germany:

The Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR) within the Federal Office for Building and Regional Planning (BBR) executes spatial observations on the location and living conditions in Germany and Europe.

Among other aspects, an analysis of the shrinking and growing communities in Germany is published. In addition to population data, scientists use further socioeconomic indicators for the analysis. These include the total migration balance, job creation and the development of the labor force, the unemployment rate and trade taxation.

The DKB uses this indicator as a characteristic to evaluate exposures in the customer group housing. In our opinion, this score can also serve as an indication which regions in Germany are at risk of marginalization and which are not.

The DKB itself is committed to serve our customers in shrinking communities in terms of equal treatment, too. For this reason, it will be shown in the Social Bond Reporting in which regions the loans of the Social Bond Pool are located.



Loan pool (Social Bond Pool)

Based on the described process, a pool of loans suitable for refinancing via social bonds now as well as in future will be selected.

Participants

The following internal partners are involved in the development of the selection process and the selection of loans:

- DKB's client segments (housing, local authorities and social infrastructure, energy and public supply)
- DKB's sustainability management
- DKB's Treasury department

Overview of the selection process:
categories, client types and economic sectors

Category	Client type	Economic sector
Social housing	Housing – municipal company	
	Housing – cooperative association	
Public supply	Water/waste water	Operation of main sewer system Operation of sewage treatment plants
	Transport	Transport of persons in commuter traffic (excluding taxis) Transport of persons in overland transport
	Municipal clients (PPP)*	
Health and care	Outpatient care	Outpatient social services
	Inpatient care	Nursing homes Hospitals (excluding university clinics)
	Hospitals	University clinics
	Inpatient, outpatient rehabilitation facilities	Prevention and rehabilitation clinics Retirement homes, residential institutions for the elderly and disabled
	Healthcare property segment	Social welfare/youth welfare organisations
	Municipal clients (PPP)*	
Education and research	Schools	
	Day-care centres for children	
	Universities	
	Further education	
	Research	
	Student services	
	Municipal clients (PPP)*	
Inclusion	Foundations	
	Workshops for disabled persons	
	Child/youth welfare services	
	Sports associations and clubs	
	Municipal clients (Refugee homes)	

* Public-Private-Partnerships (PPP)

Assessment of selection results, Second Party Opinion (SPO)

The selection process based on the Social Bond Framework and the loan pool generated from it is verified by the ESG-Research & Ratingagency ISS-oekom in the context of a Second Party Opinion (SPO).

ISS-oekom has defined its own criteria, which take both social and ecological aspects into account, for investigating the sustainable quality of the loans to be refinanced. ISS-oekom has developed and examined specific sets of Key Performance Indicators (KPIs) for the following categories:

- Social housing and housing cooperatives
- Water, wastewater treatment
- Public transportation
- Public administration
- Medical/care facilities and nursing homes
- Education
- Inclusion

In addition to examining these criteria within the SPO, ISS-oekom also carries out a controversies check on all the loans in the Social Bond Pool.

3. Management of proceeds

At the time the Social Bond Framework was created, the volume of the underlying loan pool amounted to approximately EUR 1.5 billion. A detailed schedule of the scope, number and characteristics of the loans can be found in ISS-oekom's SPO.

DKB ensures that when a Social Bond is issued, funds are appropriately allocated in the full amount of the respective issue volume immediately after the transaction is executed. The allocated loans are given a specific marker in the bank's core system.

The Social Bond Pool is reviewed at least once a year and compliance with the defined selection criteria is monitored in particular.

If loans no longer fulfil the defined criteria catalogue, they are removed from the Social Bond Pool and replaced by other loans that meet the selection criteria. In all cases, DKB ensures that a Social Bond Pool is maintained at all times, at least in the amount of the outstanding amount of DKB's social bonds.

4. Reporting (impact assessment)

Once a year, DKB will publish a report on the outstanding Social Bonds and related social aspects. This report will contain qualitative and quantitative data, for example, on the proposals for the 'Harmonized Framework for Impact Reporting for Social Bonds' of the Social Bond Principles.

This implies portfolio-based statements on the categories, allocation information and certain KPIs for the individual sub-categories.

Possible data for allocation and impact assessment*:

Project Category			Target Population	Allocation information					Social Indicators		
SBP Category	Sub-category	SDG Addressed (as relevant)	Target Group (if applicable)	Signed amount	Share of Total Financing	Eligibility of Social Bond	Allocated amount	Portfolio lifetime or budgeted years	Indicator 1 (absolute or relative)	Indicator ...n (absolute or relative)	
a/	b/	c/	d/	e/	f/	g/	h/	i/	j/	j/	
name	name	name	name	currency	%	% of signed amount	currency	in years	number and unit of measure	number and unit of measure	
Affordable basic infrastructure	Water/ sewage										
	Public transport										
	Health and care										
Access to essential services	Education and research										
	Public infrastructure (administration)										
Affordable housing	Social housing										
Socioeconomic advancement and empowerment	Inclusion										

* Source: Social Bond Principles

The report will also include the transition and presentation of the topics addressed in the Social Bond with regard to the SBP categories, the Sustainable Development Goals (SDGs) and the BBSR-indicator.

Third-party assurance

DKB will commission an external provider to yearly verify the sustainable quality of the Social Bond Pool and compliance with the selection criteria in the context of a third-party assurance.

Deutsche Kreditbank AG

Taubenstraße 7–9
10117 Berlin

info@dkb.de

www.dkb.de

Tel.: +49 30 120 300 00