



**DEUTSCHE
PFANDBRIEFBANK**

Green Loan Framework

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Introduction

Deutsche Pfandbriefbank AG (“pbb”) is a specialist bank for commercial real estate finance and public investment finance. Based in Germany, the bank is well established in Germany, France, Great Britain, the Nordics, Spain as well as in the United States. pbb employs over 750 staff to offer financing solutions tailored to its clients' needs. Since 16 July 2015, pbb's shares are listed on the Frankfurt Stock Exchange. pbb is one of the largest issuers in the Pfandbrief market with an outstanding volume of approx. €27 bn as of 30 June 2021.

pbb is an active lender in two segments:

- > Real Estate Finance: pbb offers loans for professional real estate investors to finance commercial real estate assets (mainly office, multifamily, retail and logistic properties). The focus is on lower leverage (portfolio average 51% LtV as of 30 June 2021) lending. As well as existing properties, new constructions and refurbishments are also financed.
- > Public Investment Finance: in this sector pbb provides financing solutions to regional governments, municipalities as well as urban development companies. The structuring of public/private partnerships for investments in new public infrastructure or the refurbishment of existing infrastructure is also part of the product range.

Additionally, through its partnership with other banks, insurance companies and private equity firms, pbb is able to act as an agent / arranger in large syndicated loans in these segments.

This framework sets out the core parameters and determining factors for pbb extending a loan as a green financing. With regard to the ongoing development and refinement of the legislative environment for green and ESG driven financings, this framework is as a matter of course subject to change and further update to accommodate future regulatory requirements as well as the needs of borrowers with regard to green financings.

pbb's Sustainability Strategy

Sustainability is a guiding principle of pbb's business activities. pbb defines sustainability as self-conception and is aware that its own actions provide an essential contribution to secure a lasting future considering the consequences for all stakeholders and the environment (<https://www.pfandbriefbank.com/en/the-company/corporate-responsibility/the-environment.html>). For pbb, the active support of the development process towards sustainability is of special concern, not least because pbb's business activities are strongly intertwined with the real estate and construction sector. Therefore, pbb's sustainability strategy is designed to continuously strengthen and extend sustainability awareness by implementing appropriate measures, as well as embedding sustainability aspects as an integral element within the company. The most relevant aspects are determined via a materiality analysis on a regular basis, i.e. at least annually.

pbb's sustainability strategy follows a wide understanding of sustainability and inter alia incorporates the Sustainable Development Goals (SDGs). Four SDGs were identified for which pbb's activity has a strong direct contribution: “Gender equality” (SDG 5), “Industry, Innovation and Infrastructure” (SDG 9), “Decent work and economic growth” (SDG 8) and “Sustainable cities and communities” (SDG 11).

Against the backdrop of the 2015 Paris Climate Agreement climate protection and mitigation of climate change require adaptation also within the financial sector. At the end of 2019, the European Commission presented the European Green Deal - a growth strategy that aims to make Europe the first climate-neutral continent by 2050. Since the financial sector is being seen as a key lever to allocate financial resources to mitigate climate change and adapt to its consequences, pbb is convinced to be able to make a positive contribution to that goal.

In 2021, pbb bundled its existing activities and set up in a comprehensive "ESG Programme" with Management Board involvement and responsibility, a central programme management and responsibilities defined for all dimensions, i.e. ESG strategy, Environment (including inter alia Sustainable Finance and carbon footprint), Social and Governance as well as ESG Risk, Data Management, Communication & Disclosure. This is framed by a governance structure of relevant committees (e.g. ESG Committee, Green Financing Committee).

For further information, please find pbb's latest Non-financial Report via following link: <https://www.pfandbriefbank.com/en/the-company/corporate-responsibility.html>

pbb Green Loan: Motivation and Objective

pbb is committed to contribute actively to the goals of the Paris Climate Agreement and a more climate-efficient real estate sector, and against this background has defined Sustainable Finance as one key pillar of its ESG strategy. In this respect and in the context of a holistic ESG strategy, pbb is looking at how to support Sustainable Finance in its core lending and funding business. As to pbb's business model, "green" properties are paramount and pbb is systematically collecting sustainability criteria of the financed properties, with the relevant aspects being duly considered in its credit processes.

On this basis, in 2020 pbb laid the groundwork for issuing green bonds – and successfully conducted a first issue in the first quarter of 2021.

Furthermore, as a measure to support market transformation, pbb has been offering green loans as a new credit product since the fourth quarter of 2021. By this the bank enables the transition to a low-carbon economy for real estate investors. Advancing Green Loans is a direct way to reallocate resources towards loans for the construction and re/finance of "Green Buildings" or the modernisation of existing buildings.

pbb Green Loan Framework

pbb's Green Loan Framework is designed to enable pbb to advance Green Loans in accordance with a carefully determined catalogue of criteria for green financing projects, and in consideration of the LMA/APLMA/LSTA Green Loan Principles issued in 2018, as up-dated in 2020 (the Green Loan Principles). They recommend green lending to be based around the following core components:

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

a) Process for Project Evaluation and Selection

General Concept

In absence of an established market standard and in consideration of current market and regulatory developments pbb's Green Loan Framework is based on two elements: a standalone scoring model and the EU Taxonomy. In light of this, a property can be deemed eligible for pbb green financing by either fulfilling the requirements under the pbb scoring model or meeting the conditions under the EU Taxonomy. The pbb scoring model allows for the assessment of real estate using specific criteria; when a real estate property achieves points above a set score it qualifies for green lending. As an alternative, pbb grants green loans to buildings compliant with the EU Taxonomy.

pbb Scoring Model

pbb's scoring model takes into account three sets of criteria: the energy efficiency of a building, building certificates, and further sustainability factors. The latter include factors such as surface sealing or the availability of, and distance to, the public transportation network, as well as the use of recycled materials for construction or the type of heating and use of green electricity.

The scoring model awards a maximum of 100 points, of which 50 points max. are awarded for energy efficiency and up to 20 points for certification. In total, a further 30 points max. can be awarded for the remaining sustainability factors. If a building reaches a total of at least 60 points, investors can obtain a Green Loan from pbb to finance the real estate.

With its Green Loan Framework, pbb deliberately includes more than just the energy efficiency of a building as a prerequisite for a green loan. As a result low energy consumption is also a necessary criterion, but not the only factor.

I. Energy Efficiency

This refers to final energy consumption/demand^{1,2,3} and energy savings through modernization. For each property type (main use by area), corresponding energy consumption/demand benchmarks were defined that must be met.:

- Office, Hotel and Retail⁴: < 160 kWh/(m²·a)
- Residential: < 100 kWh/(m²·a)
- Logistics: < 65 kWh/(m²·a)

The lower the energy consumption/demand, the higher the achievable score. A maximum of 50 points can be achieved for final energy consumption/demand or a maximum 40 points for energy savings of at least 30%.

II. Green Building Certificate

Within this category, various Green Building Certificates are taken into consideration, such as:

- BNB
- BREEAM
- DGNB
- HQE
- LEED

Scores are awarded depending on the certification level, whereby only the two highest categories are awarded. A maximum of 20 points can be achieved.

1 Final energy consumption is the energy consumption of all building needs, including heating, cooling, venting and electricity consumption, expressed in kWh/m² rental/usable area per annum.

2 In case of real estate assets made up of several buildings/components, the final energy consumption is determined as an area-weighted average of final energy consumption of each building/component

3 In case of real estate assets under construction or modernization, the final energy consumption is determined as the expected final energy consumption after construction/modernisation has been completed

4 Food Retailers final energy consumption lower than 250 kWh/(m²·a) due to high energy consumption for cooling

III. Further sustainability factors

This category includes property and location related sustainability criteria such as:

- Surface sealing (green field vs. brown field)
- Type of/distance to Public Transportation
- Local supply
- Materials recycling
- Type of heating
- Consumption of green energy
- Biodiversity
- Existing energy/environmental management

The factors in this category especially take into account of the “Do No Significant Harm” principle of the EU Taxonomy.

A range of scores can be achieved within the various factors. This depends on the level of impact on the object and the location-related degree of sustainability. The more impactful the object- and location-related degree of sustainability, the higher the achievable score. A maximum of 30 points can be achieved.

IV. Project selection within pbb:

Eligibility of a project for pbb green financing is assessed by pbb's Property Analysis & Valuation department as described in this Framework. pbb green loans can generally be extended to the financing or refinancing of assets, for traditional investment financings, financing of modernizations / refurbishment of existing buildings as well as construction financings.

Under pbb's processes, an asset is eligible for pbb green financing if it meets at least one of the following two criteria:

(i) Classification as EU Taxonomy Compliant under the Taxonomy Regulation

A projects / building meets the requirements of the EU regulation on the establishment of a framework to facilitate sustainable investment (the Taxonomy Regulation, and including its delegated acts and technical standards the EU Taxonomy)

or:

(ii) Eligibility under pbb Scoring Model

The project/building achieves the scoring requirements under the pbb scoring model for green financings as described in this framework.

In assessing whether a project/building is eligible for green financing, pbb also takes into account the recent publications of the EU Technical Expert Group on Sustainable Finance (https://ec.europa.eu/info/publications/sustainable-finance-technical-expert-group_en) as well as expert opinions on individual property level as part of the Bank's due diligence process.

In principle excluded projects/buildings for pbb green financing are those where the primary use is the production of weapons, pesticides, nuclear energy, fossil fuels, pornography or sex work, buildings with a concentration of tenants with an unacceptable environmental impact as well as projects/buildings that do not fulfil the "Do Not Significant Harm" criteria under the EU Taxonomy Regulation.

Once a project/building is deemed eligible for pbb green financing, pbb's credit committee considers it for sanctioning using a specifically designed green credit process, and by taking into account all other parameters relevant for pbb's credit risk under the particular loan.

b) Use and management of Proceeds

Use of the loan proceeds for the specified green purpose is the fundamental determinant of pbb's green loan products. Depending on the structure of the transaction, this requires careful documentation of the purpose clause in a green loan agreement to allow a clear allocation of the loan proceeds to the project and to maintain this allocation throughout the term of the loan. Where pbb is lending against both green and non-green assets within a portfolio financing, adequate tranching or other secure means of allocation of the loan proceeds are necessary to sufficiently ensure that green loan proceeds are not misappropriated to non-green projects at the time of drawdown or during the term of the loan.

c) Reporting

pbb's green loan agreements contain obligations of its borrowers to provide pbb with accurate and up to date information to assess and prove the green nature of a property both prior to drawdown of the loan as well as during the term of the loan. This includes – in generic terms or an aggregated project portfolio basis – information on the projects/buildings to which the green loan proceeds have been allocated and a brief description of the projects and the amounts allocated and their expected impact. During the term of a loan the borrower is obliged to ensure that the information delivered to pbb in this regard is accurate and up to date.

d) Maintaining the green nature of the loan

In addition to what is stated in a) to c) above pbb's green loan agreements contain further provisions to ensure that the integrity of the green financing is maintained throughout the term of the loan. Where any of the green financing provisions are breached during the term of the green loan, pbb and its borrower will remove the loan from their respective green loan programs.

Disclaimer

This document does not constitute an offer, or an invitation to offer, or a recommendation to enter into any transaction. Before entering into any transaction any borrower (including any person representing the, or acting for or on behalf of the borrower) or investor should take steps to ensure that it understands the transaction and has made an independent assessment of the appropriateness of the transaction in the light of his or her own objectives and circumstances, including the possible risks and benefits of entering into such transaction. Any potential borrower or investor should also consider seeking advice from her or his own advisers in making this assessment.

No assurance is given by pbb that any of the financings identified by pbb as green will satisfy, whether in whole or in part, any present or future expectations or requirements of a borrower or investor, any criteria or guidelines with which such borrower or investor or her / his investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates.

Furthermore, it should be noted that there is currently no clearly defined definition (legal, regulatory or otherwise) of, nor a market consensus, as to what constitutes a "green" or "sustainable" or an equivalently-labelled project or financing, or as to what precise criteria are required to be complied with for a particular project to be defined as "green" or "sustainable" or such other equivalent label, nor can any assurance be given that such a clear definition or consensus will develop over time and that pbb's green loans will comply with such definition or consensus. Accordingly, no assurance is or can be given to borrowers or investors that any of pbb's green loans and the assets financed by pbb, will meet any or all borrower or investor expectations regarding such "green", "sustainable" or other equivalently-labelled objectives.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any opinion or certification of any third party (whether or not solicited by pbb) which may be made available in connection with the issue of any loans and in particular with any green projects to fulfil any environmental, sustainability, social and/or other criteria. Any such opinion or certification is not, nor should be deemed to be, a recommendation by pbb or any other person to take out or hold any green loan from pbb.

There is no assurance that any project(s) designated as eligible for green financing by pbb will be capable of being implemented in or substantially in such manner and/or accordance with any timing schedule and that accordingly the proceeds under such loans will be fully or partially disbursed for such green projects. Nor can there be any assurance that such green projects will be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by pbb. Any such event or failure by the pbb will not constitute an event of default under the terms and conditions of the respective loan.