

# KOMMUNALKREDIT SOCIAL COVERED BOND FRAMEWORK

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## INTRODUCTION

Kommunalkredit Austria AG (Kommunalkredit) is a specialist bank for infrastructure financing based in Austria. In alignment with its business model, and to advance its longstanding commitment to sustainability, Kommunalkredit is planning to issue a social covered bond to finance social infrastructure projects in the areas of education, healthcare and social housing. The social covered bond will be issued under its Base Prospectus, Kommunalkredit's EUR 800,000,000 Debt Issuance Programme, dated 7 April 2017, which is disclosed on its website.<sup>1</sup>

## FRAMEWORK OVERVIEW

For the purpose of issuing a Social Covered Bond, Kommunalkredit has developed the following Framework, which addresses the four key pillars of ICMA's Social Bond Guidance: Use of proceeds, Project selection process, Management of proceeds, and Reporting.

### 1. Use of Proceeds

Kommunalkredit will allocate 100% of the net proceeds of the Social Covered Bond to finance or refinance existing or new assets that meet the eligibility criteria defined below, and are on Kommunalkredit's balance sheet. Eligible Assets are defined as those assets that meet the eligibility criteria, which focus on financing of construction, maintenance and/or renovation of social infrastructure projects in the area of education, healthcare, and social housing. The refinanced assets are located in Kommunalkredit's 'core' markets, namely in: Austria, Germany, Switzerland, France, the Netherlands, Belgium and the United Kingdom. New assets may also be located in selective markets, such as Western, Southern or Eastern Europe.

#### 1.1 Eligibility Criteria

Kommunalkredit defines eligible assets based on three different criteria against which all loans are assessed:

- Thematic Criteria;
- Exclusionary Criteria;
- Sustainability Criteria.

Eligible Assets will have to comply with all the criteria as described below.

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<sup>1</sup> <https://www.kommunalkredit.at/en/investor-relations/bondholder-information-funding/dip/>

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### 1.1.1 Thematic Criteria

Assets to be financed with proceeds of Kommunalkredit's Social Covered Bond must support projects focusing in the following areas:

#### 1. EDUCATION

**Use of proceeds:** Proceeds of the Social Covered Bond will be used to finance or refinance existing or new projects aimed at develop public schools and universities. As part of the public education system, such projects provide access to educational facilities to youth, including, but not limited to disadvantaged target groups, such as those economically disadvantaged, in Kommunalkredit's European markets. Eligible projects include, but are not limited to:

*Public schools*

- (i) Financing the construction, maintenance or renovation of public schools, including kindergarten, primary and secondary education schools.

*Public universities*

- (i) Financing the construction, maintenance or renovation of public universities.

#### 2. HEALTHCARE

**Use of proceeds:** Proceeds of the Social Covered Bond will be used to finance or refinance existing or new projects to develop public healthcare facilities in Kommunalkredit's European markets. Given their public profile and public healthcare systems in the focus countries, eligible projects will service all citizens, including vulnerable population groups such as the elderly, and physically or mentally dependent persons. Eligible projects include, but are not limited to:

*Public Hospitals*

- (i) Financing the construction, maintenance or renovation of public hospitals.

*Nursing Homes*

- (i) Financing the construction, maintenance or renovation of nursing homes for elderly persons.

*Rehabilitation Centers*

- (i) Financing the construction, maintenance, or renovation of rehabilitations centres for people that are physically or mentally dependent.

*Psychosomatic Centers*

- (i) Financing the construction, maintenance, or renovation of psychosomatic centres.

*Homecare for the Handicapped*

- (i) Financing the construction, maintenance or renovation of homes for the care of handicapped persons.

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### 3. SOCIAL HOUSING

**Use of proceeds:** Proceeds of the Social Covered Bond will be used to refinance existing or finance new projects to develop social housing, targeting vulnerable populations such as the elderly, persons with disabilities, or low-income households in Kommunalkredit's European markets. Eligible projects include, but are not limited to:

#### *Subsidized Housing*

(i) Financing the construction, maintenance or renovation of social housing projects. Eligible projects include housing projects where a portion of the housing is subsidized.

Kommunalkredit is not responsible for operating subsidized housing for the projects financed. However, for all target countries, allocation of social housing to relevant target groups is highly regulated under national laws, and eligible tenants must comply with a set of socio-economic criteria that ensures that social housing will be made available to vulnerable populations. For example, in Austria, where most of the current project portfolio is located, allocation of social housing is made accordingly to Austria's state subsidy law, which considers two selection criteria when selecting recipients of subsidized housing:

- A. Persons must have an urgent housing need and use the flat as principal residence; and
- B. Monthly income is subject to an income ceiling depending on the number of residence in a flat.

#### *Homes for Elderly Care*

(i) Financing the construction, maintenance or renovation of homes for elderly care, such as retirement or pension centres.

#### 1.1.2 Exclusionary criteria

Kommunalkredit has developed a list of nine exclusionary criteria that apply to all projects financed by the bank, including those funded by the proceeds of Kommunalkredit's Social Covered Bond. Kommunalkredit will not knowingly be involved in financing any activities that include an involvement in the following areas:

1. The lending is against law or ethical principles;
2. The lending is for the purpose of constructing a nuclear power plant;
3. The lending is for the purpose of financing the production of weapons;
4. The lending is for the purpose of financing a belligerent state<sup>2</sup>;
5. The lending is for the purpose of financing a customer that did not provide sufficient information to evaluate the customer's creditworthiness;
6. The lending business is unclear/not reasonable;

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<sup>2</sup> Should Kommunalkredit be in a position to finance an asset outside of its core and selective markets than it would follow the policy and country list of Oesterreichische Kontrollbank AG (OeKB), a specialised institution providing Export credit guarantees; <http://www.oekb.at/en/export-services/managing-risks/export-guarantees/country-policy/Pages/List-of-Countries.aspx>.

7. The lending is for the purpose of financing a customer with an unclear shareholder structure;
8. The lending is for the purpose of financing businesses that aim to evade national and/or international legal regulations; and/or
9. The lending is for a business with potential involvement in money laundering (according to an Anti-Money Laundering check developed by Kommunalkredit's Anti-Money Laundering officers based on international guidelines).<sup>3</sup>

### 1.1.3 Sustainability Criteria

In addition, Kommunalkredit will evaluate the projects financed with the proceeds of its Social Covered Bond against Economic, Ecological and Social criteria (refer to *Table 1: Kommunalkredit's sustainability checklist*) during its credit check process. As part of the evaluation process each criterion is evaluated as positive, negative, or neutral, and Kommunalkredit summarizes the results in a chart accompanied by commentary. To be considered an Eligible Asset, the assets must comply with all analysed criteria and achieve a positive social impact as assessed according to the social dimension criteria of the *sustainability checklist*.

**Table 1: Kommunalkredit's sustainability checklist**

<b>Economic Dimension</b>	<ol style="list-style-type: none"> <li>1. Significant impact on economically underdeveloped regions</li> <li>2. Significant impact on the employment rate /number of workplaces</li> <li>3. Significant impact on the level of education /training situation</li> <li>4. Significant impact on infrastructure as productivity factor</li> <li>5. Significant impact on economic efficiency</li> </ol>
<b>Ecological Dimension</b>	<ol style="list-style-type: none"> <li>1. Significant impact on emission of fine dust and other air pollutants</li> <li>2. Significant impact on CO<sub>2</sub> emissions</li> <li>3. Significant impact on the biodiversity</li> <li>4. Significant impact on land and/or water</li> <li>5. Significant impact on reduction of energy consumption</li> </ol>
<b>Social Dimension</b>	<ol style="list-style-type: none"> <li>1. Is the project per se creating social added value?</li> <li>2. Diversity: significant impact on equal opportunities for minorities in society?</li> <li>3. Gender: significant impact on the equal access to services and goods by men and women?</li> <li>4. Significant Impact on the preservation of cultural property and heritage</li> <li>5. Multiplier effect: how can the project be evaluated in terms of a positive social example?</li> </ol>

<sup>3</sup> Such as the Wolfsberg Group Anti-Money Laundering Questionnaire and Know Your Customer (KYC) Checklist, and the Financial Action Task Force (FATF) country risk list.

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## 2. Project Evaluation and Selection Process

Kommunalkredit will evaluate the projects financed with the proceeds of its Social Covered Bond against all three criteria mentioned in section 1 above: Thematic Criteria, Exclusionary Criteria and Sustainability Criteria.

The Sustainability Criteria are defined by Kommunalkredit's Sustainability Team, which consists of representatives from all company divisions. The team includes a large representation of Kommunalkredit Group participants (including Treasury Division, Sales Division, KPC Public Consulting etc.). The criteria are reviewed on a regular basis, and may be adapted in line with new business requirements and/or market best practices.

The project approval process is the responsibility of Account Managers of the Sales Division. Following the initial project approval process implemented to all Kommunalkredit's projects, the Treasury Division together with the Sales Division will screen all approved projects and select those that comply with the eligibility criteria defined in the Framework to be deemed eligible for the use of proceeds of the Social Covered Bond. The Social Infrastructure Account Managers will manage all assets allocated to the bond (referred to as the Social Asset Portfolio).

## 3. Management of Proceeds

Upon issuance of the Social Covered Bond, Kommunalkredit will immediately allocate all proceeds of the bond to refinance projects within its Social Asset Portfolio. *Table 2* includes a summary of Kommunalkredit's current project portfolio. Kommunalkredit will replace approximately 30-50% of existing Eligible Assets that mature or are redeemed before the Social Covered Bond maturity with new Social Assets that meet the Eligibility Criteria granted during the term of the bond. Eligibility Criteria for these new assets must meet as a minimum the standard that is applicable to the assets that are already on the bank's balance sheet at the time of issuance.

Kommunalkredit's Treasury Division will ensure that – at any time during the term of the bond – adequate funding will be made available for new Eligible Assets in order to replace existing Social Assets that mature or are redeemed before the Social Covered Bond maturity.

Kommunalkredit's Sales Division will manage the Social Asset Portfolio. The assets allocated to this portfolio, and to which the proceeds of the Social Covered Bond are allocated will be earmarked in the SAP System by the Sales Division.

Kommunalkredit's external auditor PWC will, on an annual basis, verify the amount of Eligible Social Assets funded by the social covered bond.

**Table 2: Summary of Existing Project Portfolio at Time of Bond Issuance\***

Project Area	Number of Projects	Approximate %
Education	8	27
Healthcare	28	60
Social Housing	59	13
<b>Total</b>	<b>95</b>	<b>100</b>

\*The above table provides a summary of Kommunalkredit's Social Asset Portfolio at the time of the bond issuance. This project portfolio is subject to change throughout the life of the bond.

## 4. Reporting

### *Allocation Reporting*

Kommunalkredit commits to reporting annually, beginning one calendar year after the issuance of the Social Covered Bond:

- the total amount and number of eligible assets within the Social Asset Portfolio;
- a breakdown by thematic eligibility criteria: Education, Healthcare and Social housing;
- new projects that have received allocation.

This information will be externally verified and will be made available on Kommunalkredit's website.<sup>4</sup>

### *Impact Reporting*

Within its annual allocation reporting, Kommunalkredit commits to publishing yearly updates on the social impacts of the projects funded through the proceeds of its Social Covered Bond. When relevant and feasible, Kommunalkredit will report on several Key Performance Indicators (KPIs) in aggregate at the thematic eligibility criteria level for Social Covered Bond projects. Examples of possible KPIs are:

**Table 3: Key Performance Indicators<sup>5</sup>**

<b>Education</b>	<ul style="list-style-type: none"><li>• Number of public education schools (including kindergarten, primary and/or secondary schools and universities) supported; and/or number of individuals benefiting from these schools;</li></ul>
<b>Healthcare</b>	<ul style="list-style-type: none"><li>• Number of hospitals, patients or beds, and/or population of regions where hospital projects are located.</li><li>• Number of nursing homes, patients, or beds, and/or and number of elder</li></ul>

<sup>4</sup> <https://www.kommunalkredit.at/en/investor-relations/informationen-fuer-fremdkapitalgeber-funding/>

<sup>5</sup> Kommunalkredit aims to report on all relevant indicators, however, for some cases the necessary information is not always available. KPI's will be adapted depending on the relevant information available at the time of the reporting.



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	<p>benefiting from these nursing homes.</p> <ul style="list-style-type: none"><li>• Number of rehabilitation centres, patients or beds, and/or number of individuals benefiting from these rehabilitation centres.</li><li>• Number of Psychosomatic centres, patients, or beds, and/or number of individuals benefiting from these psychosomatic centres.</li></ul>
<b>Social Housing</b>	<ul style="list-style-type: none"><li>• Number of vulnerable individuals or families benefiting from subsidized housing or number of dwellings.</li><li>• Number of elderly persons benefiting from projects supporting homecare for elderly persons or number of dwellings.</li></ul>