NORD/LB
Covered Bond Bank
Luxembourg

Green Bond Framework

Lettres de Gage Renewable Energy

Version 1.0

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1. Introduction

Climate change is one of the biggest challenges of our time. Worldwide, the greatest ecological and social consequences of global change, such as population growth, energy supply security, declining biodiversity and inadequate access to safe drinking water and food, are all closely connected to climate change. The transition to a low-carbon economy is of decisive importance in this regard.

By signing the Paris Agreement at the international level, the global community agreed to limit global temperature rise this century to well below 2 degrees Celsius above pre-industrial levels. With the launch of the United Nations' 17 Sustainable Development Goals (SDGs) of the United Nations, the world set itself a global framework with a shared direction and actions to solve global challenges towards 2030. At European level, there are initiatives by the Capital Markets Union as well as the EU Commission Action Plan on Financing Sustainable Growth.

With its Energy Concept, the German government formulated its long-term key strategic goals for German energy and climate policy. Among other measures, the government adopted the following targets: taking 1990 as the base year in each case, harmful greenhouse gas emissions are to be cut 40 per cent by 2020 and 55 per cent by 2030. With its internal guideline to climate change, NORD/LB Group takes into account the importance of climate change for its market partners and for society in general in its business activities and gives guidance to market partners concerning the opportunities and risks of climate change.

Luxembourg's position is also evident in various initiatives including the adherence to the Climate Finance Task Force since 2015 and the Green Exchange since 2016.

1.1 Sustainability Strategy NORD/LB Group

NORD/LB Group – including Norddeutsche Landesbank – Girozentrale – (NORD/LB), NORD/LB Luxembourg S.A. Covered Bond Bank (NORD/LB CBB) and Deutsche Hypothekenbank (Deutsche Hypo) - has been a vocal proponent of the UN Global Compact and its principles for many years and strives to implement these principles within its sphere of influence. Upholding these principles represents a key element for NORD/LB of its responsibility towards customers and employees in the capacity of financial service providers, and towards society as a whole in the capacity of a corporate citizen. For NORD/LB and its subsidiaries, it means that, in line with the ten principles relating to human rights, environmental protection and the fight against corruption, that these issues are firmly entrenched within the guidelines and policies of the Banks and, in doing so, enabled them guide them in their day-to-day activities.

In general, banks have a major impact on the long-term direction of the economy and society because they guide financial flows. At the same time, investors around the world increasingly want to know the specific social and environmental impact of their investments. For example, more and more investors and financial institutions are taking account of ESG considerations when evaluating investments and making investment decisions, minimising the negative impact where possible. This includes refraining

from making investments in certain areas, or curtailing such investments that they have already made, often with the help of sustainability ratings and research.

The NORD/LB Group has had a sustainability strategy to serve as a strategic foundation since 2013. Therefore NORD/LB Group believes that sustainability is first and foremost a question of attitude: it is a part of the Bank's public mandate to support sustainable development directly and indirectly through its own business activities. The NORD/LB Group is convinced that many aspects of global change result in opportunities and risks for its customers and will therefore also affect its business activities.

The Sustainability Strategy addresses the key aspects of global change for the NORD/LB Group and its customers, and shows how opportunities can be realised efficiently and risks managed responsibly.

Under this strategy the Bank pursues the following fundamental directions:

- The customers of the NORD/LB Group must, with varying degrees of intensity and urgency, take account of long-term trends in relation to such issues as climate change, demographic change, the process of urbanisation and raw materials shortages. They must match their traditional business models in a prompt and regular manner to the complex effects of these changes, and create solutions.
- The employees of the NORD/LB Group support their customers to consider the shifts resulting from global change in their decisions, thereby contributing to sustainable development.

The NORD/LB Group pursues a systematic approach to sustainability to ensure that the necessary sustainability aspects are taken into account in its business activities.

- Transactions that clearly violate fundamental principles of sustainable development, such as transactions in connection with controversial weapons or pornography, are identified and rejected using exclusion criteria.
- A framework of sustainability guidelines establishes the link between the individual transaction and the relevant specific sustainability standard from the perspective of the NORD/LB Group. This makes it possible to manage sustainability on an individual basis and in a targeted manner.

ESG risks are risks related to environmental, social or commercial considerations that can arise in connection with controversial business activities or practices. These include, for example, transactions or business practices with negative effects on the natural environment and/or on human and labour rights, including the rights of indigenous peoples, as well as sectors, such as alcohol, embryonic research, fossil fuels, gambling, genetic engineering, palm oil, pornography, tobacco or activities related to the arms and defence industry. Like other risks, these risks are also assessed in the lending process and are considered, as soon as they are identified or emerge, in the overall vote for the business transaction.

In addition to its own ethical understanding, NORD/LB also takes account of the assessment of civil society groups, especially non-governmental organisations (NGOs), and other interest groups of the Bank when evaluating ESG risks.

By taking account of sustainability considerations in strategic decision-making as well as in the investment and credit process, managers can minimise these risks while simultaneously building up the trust of all key stakeholders. Consequently, ESG topics should be taken into account and managed not only for ethical reasons and to generate new business opportunities, but also to prevent risk.

NORD/LB Group has completely excluded the following transactions as part of its sustainability guidelines:

- Companies involved in the production, trading, storage or repair of the following armaments, in defiance of international treaties: In particular, these include:
  - Biological weapons
  - Chemical weapons
  - Anti-personnel mines
  - Cluster bombs and cluster munitions
  - Uranium munitions
  - Weapons that are particularly suited to causing disproportionate injury or harm to civilians
- Business relationships with companies that produce and trade in pornography as well as companies associated with that sector.
- Financing the construction of nuclear plants and conventional coal-fired power plants.
- Financing the construction of dams and hydroelectric power stations in protected areas.
- In addition, NORD/LB does not conduct any transactions in its own name and for its own account on comodity futures markets.

Financing renewable energy projects

NORD/LB Group – through its parent company NORD/LB - has been active as a financier for projects in the renewable energy sector since the mid-1990s and has pioneered finance for wind power. With project financing expertise from a project volume spanning more than 5,000 MW, NORD/LB is now one of the leading financiers in the field of renewable energies. But NORD/LB is not only one of the leading financiers of renewable energies in Germany and Europe, it also offers a variety of new opportunities in this sector: In this way the bank supports its customers in their own future-oriented orientation, realises new opportunities in the core business for its companies and at the same time makes a contribution to a future-oriented energy supply and energy utilisation.

NORD/LB CBB as a competence centre for funding by means of Lettres de Gage publiques and Lettres de Gage Renewable Energy *(Lettres de Gage énergies renouvelables)*, intends to make its contribution to achieving the climate targets set by the German Federal Government and contributes to the transition to a more environmentally friendly and sustainable European Economy. NORD/LB CBB is fully committed to supporting the development of the market for sustainable bonds. We believe that issuing green bonds will help provide the necessary resources to fight climate change.

With subject to United Nations Sustainable Development Goals SDG 7 and SDG 13 , have a strong fit to NORD/LB's lending activity in the renewable energy sector:

SDG goals 7.2, 7.3
Access to affordable, reliable and sustainable energy for all

Funding via NORD/LB CBB increases the share of renewable energies in the global energy mix and serves to improve energy efficiency and to develop new and innovative solutions for energy infrastructure and technologies for storage, transport and transformation.

SDG goal 13.2
Action to combat climate change and its impacts

The development of renewable energies and the associated reduction of greenhouse gas emissions make an active contribution to combating climate change and to reducing the associated climate-related risks.

1.2 Background of the Green Bond Framework

NORD/LB CBB has decided to establish a Green Bond Framework for the issuance of NORD/LB CBB Lettres de Gage Renewable Energy (hereafter referred to as Green Covered Bonds) which is based on the Luxembourg Financial Sector Act on Covered Bonds[1]. The framework is an essential component of the implementation of the sustainability strategy of NORD/LB CBB and aims to take account of the significance of climate change within the framework of business activities and to promote green and sustainable economic developments and projects for alternative energy generation, particularly in the area of renewable energy. Investors can make their positive contribution by investing in Green Covered Bonds of NORD/LB CBB, the proceeds of which are intended to fund renewable energies.

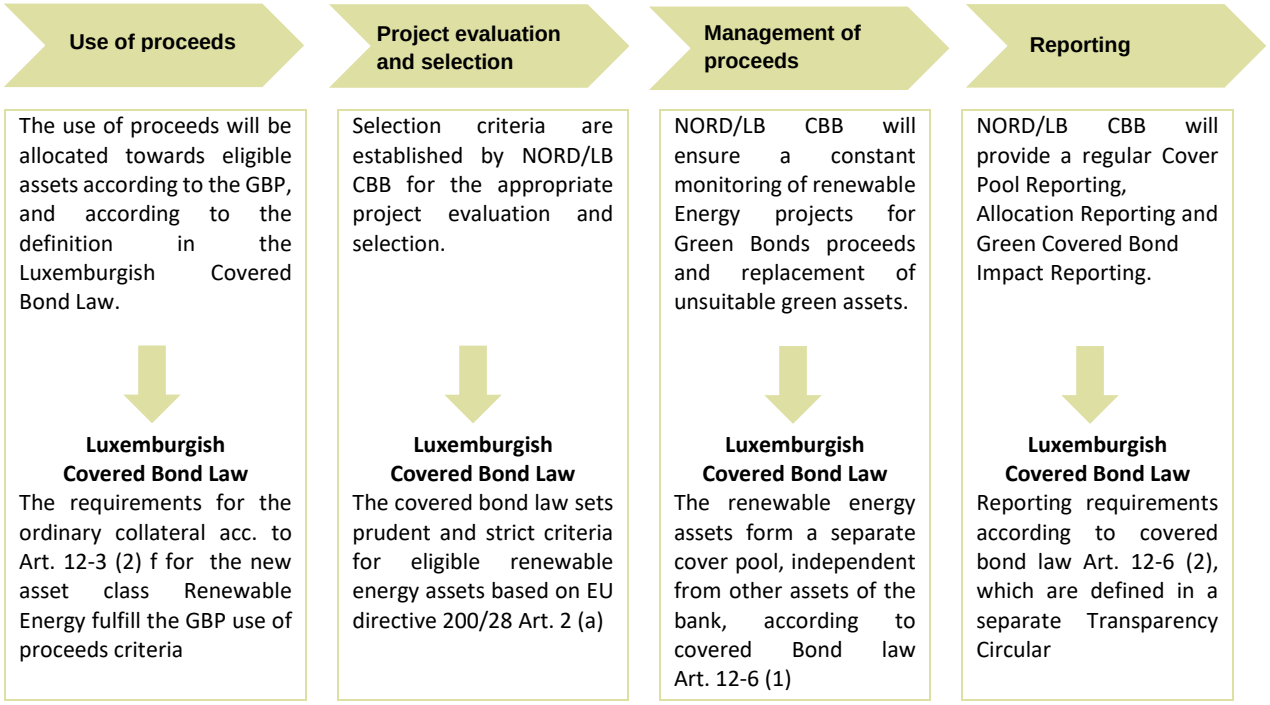
The Green Covered Bonds issued by NORD/LB CBB are issued in accordance with the regulations and provisions of the EUR 10,000,000,000 Programme for the Issuance of Debt Instruments of NORD/LB CBB.

NORD/LB is a member of the Green Bond Principles, of which the secretariat lies with the International Capital Markets Association (ICMA), and both NORD/LB and NORD/LB CBB are explicitly committed to these principles. This framework is aligned with the Green Bond Principles[2]. In line with the core components of the voluntary guidelines of the Green Bond Principles, the Framework will include the following sections: Use of Proceeds, Process for Evaluation and Selection, Management of Proceeds, Reporting and External Review.

[1] Law of 5 April 1993 on the financial sector, as amended, with respect to the introduction of renewable energy covered bonds as of 22 June 2018. Articles without reference to a law relate to the amended legislation covering the financial sector dated 5 April 1993.
[2] Green Bond Principles, June 2018 version

2. Green Bond Framework

This section outlines the approach of NORD/LB CBB on the four core components of the Green Bond Principles and the alignment with the provisions related to renewable energies of the Luxembourg Financial Sector Act.



2.1 Use of proceeds

The net proceeds of the Green Covered Bond(s) issued under this framework will be used to exclusively finance and/or refinance projects within the renewable energy sector ("Eligible Assets"). Eligible Assets are renewable energy projects in EU, EEA, OECD and countries with a high quality rating by recognized rating agencies (Art. 12-3 (2) c second ident) of the following two categories:

1) Financing of the purchase, design, construction, development and/or installation of the generation of renewable energy from the following renewable energy sources:
   - On- and offshore wind power
   - Solar power
2) Financing for the connection, transmission, transformation and storage of renewable energy (Regarding energy storage and transmission equipment: Art. 12-3(2) prescribes that more than 50 per cent of its effective activity is used in connection with renewable energy)

NORD/LB CBB has the option of extending the framework at any time by further categories that comply with the Green Bond Principles and Art. 12-3 (2) f, if deemed necessary by the Green Bond Committee for future issuance(s).

2.2 Process for project evaluation and selection

All project finance transactions comply with the internal Sustainability Guidelines and the ESG Risk Assessment of NORD/LB Group.

On adoption of this framework and thereafter on at least an annual basis, NORD/LB CBB will identify all existing and new financing of Eligible Assets in the wind and solar energy sectors in its core banking systems that correspond with the definition of Eligible Assets in section 2.1, taking into account the additional selection criteria below:

- Exclusion of loans funded by third parties (Art. 12-1 and Art. 12-5)
- Exclusion of non-performing loans (Circular CSSF 18/705 General valuation principles)

The NORD/LB CBB Green Bond Committee checks compliance with the above selection criteria on at least an annual basis until maturity of the bond. A more detailed description of the Green Bond Committee follows below:

Green Bond Committee	
Composition	NORD/LB CBB has implemented a Green Bond Committee as part of the issue of NORD/LB Green Covered Bonds, which is responsible for the implementation of and compliance with this framework. The NORD/LB CBB Green Bond Committee is composed of - the Head of Financial Markets & Loans, - a representative of the Treasury Department, - the Head of Finance or representative of the Trustee Service and - the sustainability officer or representative of NORD/LB CBB as an interface to all ESG-relevant matters.
Function	For each Green Covered Bond, the NORD/LB CBB Green Bond Committee checks compliance with the provisions of the Use of Proceeds and the Management of Proceeds, including the definition of the criteria for project selection. In addition, the NORD/LB CBB Green Bond Committee decides on any necessary changes or adjustments to the present framework.
Meeting frequency	The NORD/LB CBB Green Bond Committee meets as required and on at least an annual basis.

2.3 Management of Proceeds

The green bond proceeds are managed by NORD/LB CBB using a portfolio approach. NORD/LB CBB ensures that the Eligible Assets exceed the outstanding volume of Green Covered Bonds and will replace projects that no longer satisfy the eligibility criteria outlined above. Pursuant to the Luxembourg Financial Sector Act on Covered Bonds, renewable energy assets form a separate cover pool, independent of other assets of the Bank.

Once assigned assets, covering the outstanding volume of green covered bonds, are no longer qualified according to the eligibility criteria set in the Financial Sector Law, NORD/LB CBB will replace such assets in the cover pool immediately by other Eligible Assets.

Temporary investments
In cases where bond proceeds are not fully allocated to the renewable energy project categories mentioned in 2.1 Use of Proceeds, bonds can be used as investments (max. 20% of the cover pool), in compliance with the Luxembourg Financial Sector Act ((Art. 12-1 (2)). These bonds will be green bonds. At least 50% of their net proceeds are financing renewable energy assets.

In addition, substitute assets ((Art. 12-5 (4)) can be used up to a maximum of 20% of the outstanding green covered bonds which need not be necessarily green. These assets have to fulfill specific quality requirements.

NORD/LB CBB intends to make sure that the bond proceeds will always be used to refinance the Eligible Assets.

NORD/LB CBB Green Bond Committee will decide on the allocation of net proceeds issued under the Green Covered Bond(s) to the pool of Eligible Assets on at least an annual basis.

2.4 Reporting

In order to ensure the greatest possible degree of transparency for its investors, NORD/LB CBB will prepare regular reports on the outstanding volume of the issued Green Covered Bonds and their environmental impact.

In addition, NORD/LB publishes an annual Group Sustainability Report containing key information on ecological, social and managerial aspects in accordance with national and international reporting standards.

Both, the covered bond allocation and impact reporting and the Group Sustainability Report will be available at www.nordlb.lu.

2.4.1 Allocation reporting

The cover pool reporting is based on the requirements of "Circular CSSF 18/706 Transparency requirements based on Article 12-6 (2) of the Law of 22 June 2018"[3].

In addition, NORD/LB CBB will inform investors quarterly on a portfolio-based reporting about

- total renewable energy assets financed,
- share of proceeds used for direct financing versus refinancing
- Current volume (total project costs) and financing share NORD/LB CBB (portfolio averages)
- breakdown by wind and solar projects,
- breakdown by country and currency,
- breakdown by credit rating,
- maturities,
- loan-to-value (LTV) ratio and LTV utilisation
- outstanding amount of Green Covered Bonds

2.4.2 Impact reporting

NORD/LB CBB will inform investors annually about the environmental impact of the assets financed with the Green Covered Bond. Where feasible and available, the Green Bond Impact Report contains the following aggregated information on all outstanding Green Covered Bonds:

- Total installed capacity of renewable energy (in MW)
- Annual (expected) production of renewable energy (in MWh)
- Total capacity of renewable energy facilitated trough connection, transmission, transformation and storage (in MW)
- Avoided greenhouse gas emissions from the production and facilitation of renewable energy emissions (annual avoided greenhouse gas emissions in tons of CO_2 equivalents)

The calculation methodology for impact reporting as well as assumptions of core impact metrics and the CO_2 savings are reported. The first impact report follows within 12 months after issuance.

[3] www.cssf.lu/fileadmin/files/Lois_reglements/Circulaires/Hors_blanchiment_terrorisme/cssf18_706eng.pdf

2.5 External review

2.5.1 Second party opinion

NORD/LB CBB will commission an independent provider to review the Green Bond Framework and its alignment with the Green Bond Principles and assess the sustainability of the entire green covered bond programme.

This second party opinion by an independent provider will be published on the NORD/LB CBB website www.nordlb.lu.

2.5.2 Third party verification

During the term of a NORD/LB CBB Green Covered Bond, NORD/LB CBB will have an annual review of the existence of the funded Eligible Assets and the allocation of Green Covered Bond proceeds to the portfolio of Eligible Assets compiled by a suitable independent third party. The purpose of the confirmation is to document a clear quantitative allocation of the issue proceeds generated from a NORD/LB CBB Green Covered Bond to the assets covered by this framework.

3. Appendix

3.1 Financial Sector Act Luxembourg

The Luxembourg Financial Sector Act[4] is the basis for the business model of NORD/LB CBB. Since 22 June 2018, the asset class renewable energies (Art. 12-3 (2) f) has been part of the defined cover pool for the "Lettres de Gage" debt instruments issued by a Covered Bond bank.

The definition of the asset class renewable energies in Luxembourg law is based on EU Directive 2009/28 Art. 2 (a) and includes

- **Energy produced from non-fossil, renewable energy sources**, i.e. wind, solar, aerothermal, geothermal and hydrothermal energy, ocean energy, hydropower, biomass, landfill gas, sewage gas and biogas, and energy from similar energy sources.
- **Generation**,
- **Storage** and
- **Transmission** (including electricity storage facilities, transformers and electrical wiring) (whether under construction or completed) of energy from renewable sources, provided that
  - such equipment is used exclusively in connection with renewable energies, and
  - the storage and transmission equipment is used for storage and transmission related to renewable energy for more than 50 per cent of its actual use.

3.2 Abbreviations

Art.	article
acc.	according
CO_2	carbon dioxide
CSSF	Commission de Surveillance du Secteur Financier
EEA	European Economic Area
EU	European Union
ESG	Environmental, Social and Governance
LTV	loan-to-value
max.	maximum
MW, MWh	megawatt, megawatt hour
NGO	non-governmental organisation
OECD	Organisation for Economic Co-operation and Development
SDG	Sustainable Development Goal

[4] Source: http://www.cssf.lu/fileadmin/files/Lois_reglements/Legislation/Lois/L_050493_lsf_upd160719.pdf

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NORD/LB Luxembourg S.A. Covered Bond Bank
7, rue Lou Hemmer
L-1748 Luxembourg – Findel
R.C.S. Luxembourg B 10405
Telefon: +352 452211-1
Telefax: +352 452211-319
mailto: contact@nordlb.lu
web: http://www.nordlb.lu