IFB FRAMEWORK for Issuance of Social Bonds

To issue social bonds IFB Hamburg developed a social bond framework that aligns with the International Capital Market Association (ICMA)’s Social Bond Principles 2018 (SBP). The SBP address the social impact of the bond proceeds, and address transparency around the selection process, management of proceeds and allocation and impact reporting.

Use of Proceeds
The proceeds of the issues under this framework will be allocated entirely to the refinancing of existing short-term liabilities and subsidies originated under IFB Hamburg’s promotional programmes for social rental apartment housing projects as per the eligibility criteria outlined below.

Eligibility Criteria
To be eligible for loans or subsidies financed through bond proceeds, the projects must be eligible as per the criteria below:
Construction or expansion of existing or new rental apartment buildings that are/will be:
(i) earmarked for use by target groups (see described below) for a minimum of 15 years after the completion of construction; and
(ii) are subject to pre-determined rental prices for target groups (see below).

Promotional Programmes
IFB Hamburg provides loans and subsidies for the construction or expansion of rental apartments eligible as per the criterion defined above through two possible promotional programmes. These two programmes (i) define two different target groups through two different income brackets and (ii) set different levels of pre-determined rental prices for the two defined target groups. See Table 1 for further details on the two programmes. The relevant programmes are provided over a period of at least 15 years, or optionally over 20 or 30 years.

Target Groups
Target groups are those that have an annual household income level that falls within certain income brackets, as defined by the two promotional programmes of IFB Hamburg. These income brackets are based on a fixed-income threshold defined by the Hamburg Housing Promotion Act (Hamburgisches Wohnraumförderungsgesetz (HmbWoFG)) Households earning below this fixed threshold are considered low-income populations by the state of Hamburg. To define the eligibility criteria of the promotional programmes, IFB Hamburg defines two income brackets based on this low-income threshold- one income bracket targets low-income populations, and the second targets medium-income populations. The programme frameworks, including the income brackets, are reviewed and approved by the Senate. Individuals within the income brackets defined under the promotional programmes of the IFB are issued an entitlement certificate by the respective local district administration office.

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In order to rent social housing funded by IFB Hamburg, these target populations have to show the entitlement certificate that demonstrates that their annual household income is within the defined income brackets for the individual programmes. All rental contracts have to specify the eligibility criteria underlying the certification of the respective tenants. Within these target populations priority is given to the following renters: pregnant women, families and households with children including single parents, people older than 60 years of age, and severely handicapped individuals. In addition, the responsible district administration office may also consider the urgency of a request, for example in case of an immediate threat to become homeless. The prioritization of these groups is defined by According to § 16 (5) HmbWoFG.

Pre-determined Rental Prices for Target Groups
Pre-determined rental prices for eligible apartments are set as per the following structure:

1. Hamburg sets an initial level of rent per square metre. The initial rent level per square metre for housing units supported by public funds through the IFB Hamburg is defined annually by the Senate of Hamburg. The initial rent is different for the two target groups defined by the two promotional programmes (see Table 1 for details). The amount for this initial level of rent is below market price for rent in Hamburg.³

2. IFB Hamburg defines a rent increase of 0,30 EUR per square metre that is applied every two years. The application of this rent increase every two years starts only after the apartment is ready for occupancy.

Table 1: Target groups and pre-determined rents defined by IFB Hamburg’s two promotional programmes (e.g. 2018)

<table>
<thead>
<tr>
<th>Type of target group</th>
<th>Promotional Programme (Förderweg) 1</th>
<th>Promotional Programme (Förderweg) 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income brackets for target groups</td>
<td>Low-income</td>
<td>Medium-income</td>
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<td></td>
<td>45% or 50% above the fixed threshold defined by the state in the HmbWoFG</td>
<td>65% above the fixed threshold defined by the state in the HmbWoFG</td>
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<tr>
<td>Pre-determined initial net rent (2018)</td>
<td>6,50 EUR/m²</td>
<td>8,60 EUR/m²</td>
</tr>
<tr>
<td>Pre-determined rent increase (once every two years)</td>
<td>0,30 EUR/m²</td>
<td>0,30 EUR/m²</td>
</tr>
</tbody>
</table>

³ In 2018 the initial rent level for new social housing units is EUR 6,50, per square meter while the free market rent for new units lies at around EUR 9,79 to 17,35, per square meter (Mietenspiegel2017). In 2011 the initial rent was EUR 5,80, per square meter compared to EUR 11,00, to EUR 14,00,.
**Project Evaluation and Selection Process**
Loans financed through proceeds will be evaluated for alignment with the eligibility criterion by the loan department of IFB Hamburg. The loans department selects the number and amount of eligible loans to be financed based on a target by the Senate of Hamburg. IFB Hamburg is set a target by the Senate of Hamburg to develop a certain number of affordable housing units per year.4

**Management of Proceeds**
Allocation of proceeds to eligible projects and loans are tracked in an internal reporting system using an excel spreadsheet. Unallocated proceeds will be temporarily deposited in a cash account will be allocated within 12-18 months, as the development of affordable rental apartments progresses. IFB Hamburg also confirms that eligible liabilities and subsidies will have a commitment period beyond the maturity period of the bond, and that proceeds will be fully allocated to existing financing obligations.

**Reporting**
**Allocation and Impact Reporting**
All promotional loans and subsidies are included in the balance sheet of IFB Hamburg, which is publicly disclosed on its website (www.ifbh.de).
For the proceeds of the social bond IFB Hamburg will publish a separate report on its website specifying all underlying selected loans and liabilities. This report will be published annually, throughout the term of each bond, or until proceeds are fully allocated.
The report will include:
Allocation reporting:
- Amount of allocated proceeds
- Use of issue proceeds by commitment period applicable to the loan (15 or 30 years)
- Amount of unallocated proceeds

Impact reporting:
- Use of issue proceeds by customer groups
- Use of issue proceeds by final year of commitment period
- Projects funded in the different quarters of the city
- Size of units constructed
- Type of construction

4 In 2018 this target is 3,000 publicly financed housing units; https://www.hamburg.de/bsw/wohnungsbaufoerderung/