

# IBB Treasury Sustainability Guideline

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## 1. Management Summary

IBB aims to support ecological and sustainable thinking by integrating it into its refinancing and investment activities. This will further develop the market and promote sustainable activities.

The requirements for the promotional and loan portfolio are set out in the IBB Group's general sustainability guidelines. In order to make IBB's capital market business sustainable, this sustainability guideline provides a framework for the treasury portfolios and trading activities. The treasury business thus contributes to the sustainability of IBB and the financial markets.

The IBB Treasury sustainability approach consists of four elements based on ESG investment styles **Norms Based Screening, Best in Class, Active Ownership** by Engagement and **Thematic Investment** in an integrated approach:

- Implementation of a process to check whether relevant business partners meet current **exclusion criteria** in accordance with the applicable Treasury Sustainability Guideline as well as further norms-based criteria for the public sector.
- Management of the overall portfolio by setting a target for the **average ISS ESG performance score**
- **Engagement calls** conducted with all business partners that have a low ISS ESG performance score
- Ambitious investment target for **dedicated ESG bonds** that must meet relevant standards

Furthermore, IBB aims to issue social bonds on a regular basis. ISS Corporate has confirmed that IBB's Social Bond Framework complies with the ICMA Social Bond Principles and is in line with IBB's sustainability strategy at the time of issuance.

## 2. Preamble

Sustainability has a high priority at IBB and is firmly anchored in our corporate strategy. Our goal is to promote a sustainable Berlin! Our development activities, for example for founders, SMEs, the housing industry, environmental protection, energy saving and renewable energies, are geared towards the sustainable development of Berlin.

As a result, IBB Group and IBB in particular have created various ESG frameworks for the development and lending business, which use ESG questionnaires, ESG scoring, engagement with borrowers, ESG key figures at portfolio level, key figures on energy intensity in the housing loan portfolio and other methods.

IBB Treasury supports these activities by refinancing promotional loans and meeting regulatory liquidity requirements. The main tasks of IBB Treasury are therefore issuing its own debt instruments on the bond markets, managing the repayment of maturing bonds using money markets, interest rate risk management and managing a liquidity portfolio.

As part of this function, IBB Treasury strives to provide the best possible support for the move towards more sustainable money and capital markets.

By using our framework for social bonds and disclosing on the dedicated use of proceeds, investors in sustainable bonds gain transparency on the use of their funds.

### **3. Scope of this guideline**

This guideline applies to all counterparties with a credit line and to all investments in our treasury portfolios (subset of the former). It also applies to derivative counterparties and DCM partners (Debt Capital Markets stands for the service of issuing public bonds).

For the promotional loan portfolio, the general IBB Group sustainability guidelines define the requirements.

### **4. Sustainability approach**

IBB Treasury applies several strategies mentioned below as an integrated approach for all portfolios mentioned in section 3. This approach includes the screening of exclusion criteria, the integration of ESG ratings and the implementation of engagement calls. For the dedicated ESG portfolio, additional measures listed in section 5 apply in addition to those mentioned below.

Management is carried out by means of a monthly review of the exclusion criteria for corporate bonds and the ESG ratings for portfolio holdings. All other ESG management approaches are carried out annually.

The strategies are coordinated with ESG management and the board of directors has approved them.

As part of the selection process for the external ESG rating providers, IBB Treasury checks whether the providers have a high level of data availability and are compliant with IBB's ESG approach. We review the appropriateness of the rating provider on an ongoing basis.

#### **4.1 Exclusion criteria (Norms Based Screening)**

##### **4.1.1 General exclusion criteria of IBB Group**

IBB Group defines its exclusion criteria (controversial business practices and business areas) in its sustainability guidelines. These exclusion criteria apply to the portfolios of the IBB Group's lending, development, guarantee and investment business. The general exclusion criteria of the IBB Group are also applied in IBB Treasury for future new investments in corporate bonds, in the form that the same exclusion criteria of the IBB Group's sustainability guidelines apply if significant parts of the revenue (in total >10%) are generated in these areas. We check exclusion criteria using ISS ESG data.

##### **4.1.2 Exclusion criteria for the public sector**

If the issuer is assigned to the public sector (state, country, region, municipality, city) or the issuer is owned and guaranteed by it, the following criteria are additionally required, all of which must be met:

- The issuer's country of domicile must have ratified the Paris Climate Agreement
- The issuer's country of domicile must have ratified the Convention on Biological Diversity
- Country of domicile has an index score  $\geq 80$  at Freedom House
- Country of domicile is not on the "EU List of non-cooperative tax jurisdictions"

Due to its structure as a supranational organization, the EU and its entities (EFSF, ESM) are not subject to the above criteria, as it works to enforce the above criteria in its member states, but is not a state itself. Due to this special status, the EU is exempt from the above criteria and its bonds are accepted even without an explicit ESG rating.

#### 4.2 ESG Ratings (Best in Class on portfolio level)

IBB Treasury evaluates its liquidity portfolios (bonds, deposits, commercial papers) on a monthly basis.

- The portfolio average for the ISS performance score is set at a minimum of 50 (ISS prime level at the time this guideline was drawn).
- The maximum for non-rated investments is set at 15% of the portfolio volume.

On a yearly basis, IBB Treasury screens all counterparties with a credit line for their current ISS performance score. ISS classifies its buckets for the performance score as follows:

Score	Sustainability	Prime Classification
75 – 100	Excellent	Prime
50 – 75	Good	
25 – 50	Medium	Non-Prime
0 – 25	Poor	

#### 4.3 Engagement Calls (Active ownership)

IBB conducts engagement calls with all counterparties with a credit line and an ISS ESG performance score below the middle of "Medium", i.e. all counterparties with a score below 37.5.

Our objectives for the engagement calls are as follows:

- The first objective is to explain IBB's ESG investment approach and demonstrate the importance of sustainability from an investor perspective.
- The second objective is to identify, whether the issuer is working on the sustainability of their business, shows willingness to change and sufficient commitment for us to believe their sustainability to improve.
- The third objective is to identify issuers with a persistently weak ESG performance. Consequently, IBB reserves the right to reduce or lock their credit line. Existing investments are either sold or run off.

Follow-ups with counterparties with whom engagement calls have been conducted are carried out after two years. The aim is to track developments with regard to a possible improvement in the counterparty's ISS ESG rating and to decide whether to continue the business relationship.

Public sector counterparties such as states, countries, regions, municipalities or cities are excluded from engagement calls. For these government counterparties, the responsibility to initiate a change lies with the electorate and we do not engage governments therefore. However, we refrain from further investments in government counterparties that fall below the engagement threshold. For state-owned companies, however, the normal engagement process applies.

#### **4.4 Outlook**

In the future, we aim to consider further ESG data in order to form our own opinion independent of the ISS ESG rating. However, due to the current dynamics and development of ESG regulation and data availability our sustainability approach is limited to the above-mentioned criteria.

We continuously monitor the further development of the ESG database and adapt our Treasury Sustainability guideline accordingly. Availability of ESG data and KPIs will expectedly increase with the implementation of the CSRD<sup>1</sup>.

#### **4.5 Limitations**

Limited data availability may mean that the above guidelines are not fully applicable to all business partners. On the one hand, we want to promote transparency, which could be problematic when investing in unrated companies or companies with less available data. This problem exists especially for smaller companies. On the other hand, we do not want to discriminate against these smaller companies, which are often important in their local environment. We therefore monitor and control the proportion of companies in our portfolios for which little or no data is available to below 15%, but do not generally exclude investments due to a lack of data.

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<sup>1</sup> Corporate Sustainability Reporting Directive (EU 2022/2464); Start of reporting from 2025 for the financial year from 2024 with increasing scope of application

## 5. Dedicated ESG Portfolio (Thematic investment)

IBB Treasury invests in an ESG sub-portfolio of its liquidity reserves with a target volume of EUR 1.25 billion by the end of 2027 - this is around 25% of the total bond portfolio volume at the time this guideline was drawn up. The portfolio consists of green, social and sustainable bonds. ESG bonds are preferred over conventional bonds in our investment decisions. The current degree of fulfillment of the target volume is regularly published in the Investor Relation presentation on the IBB website. As soon as the current target is reached, IBB intends to further expand the portfolio share of dedicated ESG bonds; the speed of the increase is limited, as IBB mainly acts as a buy-and-hold investor and thus essentially only re-investments can be used.

The conditions for inclusion in the ESG portfolio are as follows:

### 5.1 International Guidelines

Bonds only qualify for the dedicated ESG portfolio if international standards and guidelines such as the ICMA (International Capital Markets Association) Green Bond Principles (GBP), Social Bond Principles (SBP) Sustainability Bond Guidelines (SBG) or the EU Green Bond Standard are met.

Proof or confirmation of compliance with the ICMA principles / guidelines is provided by independent consulting firms or rating companies.

The Second Party Opinion (SPO) for each individual bond must provide this evidence. With the confirmation of the ICMA Principles/Guidelines, we assume the existence of a framework, an appropriate use of the issue proceeds and appropriate reporting.

### 5.2 Second Party Opinion

Each bond in the ESG portfolio must have at least the SPO of an institution known on the market.

The SPO is usually made available for primary market issues during the public offering. Issuers also post the document on their website. In many cases, it can also be downloaded via Bloomberg.

### 5.3 Other requirements

Similar to the overall portfolio, to avoid discrimination against small issuers we accept Green, Social or Sustainable Bond for the dedicated portfolio even if no ISS ESG rating is available. The share for this is limited to 15% of the portfolio.

Additionally, we do not include issuers that are currently part of IBB Treasury's engagement process.

## 6. GHG Reduction Targets

For IBB Treasury, the greenhouse gas emissions of its business partners are recorded in accordance with legal requirements (mainly industrial companies) as part of an IBB Group-wide project to measure its carbon footprint. For this purpose, Data Score 5 data (industry averages) are used in accordance with the PCAF methodology. This corresponds to the current market standard at the time of publication of this guideline. IBB will publish the results in IBB Group's CSRD reporting. Due to the central reporting of CO<sub>2</sub> data and definition of reduction paths, IBB Treasury does not create its own separate reporting.

IBB expects both data availability and quality to improve with the introduction of CSRD reporting in 2025. These improvements are essential in order to determine high quality CO2 footprints for relevant issuers and derive options to manage the portfolio CO2 impact.

## **7. Issuance of Social Bonds**

IBB acts as an extended arm of the State of Berlin and is tasked with implementing relevant measures to meet the state's strong commitment to sustainability. As a development bank, it is in IBB's legislated mandate to contribute to Berlin's sustainable development with its financing. The issuance of Social Bonds therefore matches the nature and mission of IBB, and can help the bank to decrease disparities and harmonize living conditions primarily in Berlin.

IBB Treasury aims to regularly issue social bonds.

## **8. Guideline Review**

We review this guideline annually and on an ad hoc basis and develop it further on a regular basis. This takes place in close cooperation with ESG management and approval by the board of directors.