

KfW IPEX-Bank

Framework for Sustainable Finance Facilities – September 2023

KfW IPEX-Bank plans to grant Green, Social and Sustainability-Linked Loans, to (re)finance various green and social projects and has commissioned imug rating to provide a Second Party Opinion. The findings below are based on our assessment of the Lender and the Lender's Framework for Sustainable

Finance Facilities (August 2023) in accordance with the voluntary process guidelines outlined in the Green Loan Principles (GLP), Social Loan Principles (SLP) and Sustainability-Linked Loan Principles (SLLP) published by the APLMA, LMA and LSTA (2023).



imug rating confirms that the Framework for Sustainable Finance Facilities by KfW IPEX-Bank is in line with the Green Loan Principles (GLP), Social Loan Principles (SLP) and Sustainability-Linked Loan Principles (SLLP) (2023).

FRAMEWORK



- ✓ Green Loan Principles
- ✓ Social Loan Principles
- ✓ Sustainability-Linked Loan Principles

LENDER



- ✓ Sustainability performance/strategy
- ✓ Controversial business activities
- ✓ Controversial business behaviour

OPINION



The Framework issued by KfW IPEX-Bank is fully in line with the Green Loan Principles and Social Loan Principles published by the APLMA, LMA and LSTA (2023). The green and social projects for which loans will be granted are expected to provide positive climate and environmental as well as positive social benefits. It is anticipated that these projects will contribute positively to nine of the United Nations' Sustainable Development Goals (UN SDGs), namely Goal 1, 3, 4, 6, 7, 9, 11, 12 and 13.

The Framework is also formally in line with the Sustainability-Linked Loan Principles published by the APLMA, LMA and LSTA (2023). For loans, the Bank requires from the Borrowers to set the Key Performance Indicators (KPIs) and Sustainable Performance Targets (SPTs). The Borrowers KPI and SPT will be verified at least annually by a qualified third party. Furthermore, the Sustainability-Linked Loan must be in line with the predefined targets following a margin ratchet for the relevant loan.

KfW IPEX-Bank's strategy is consistent towards granting Green Loans, Social Loans and Sustainability-Linked Loans. The Lender is involved in five controversial business activities and two different controversial business practices.

1. BACKGROUND

imug rating has been commissioned to provide an independent Second Party Opinion on the Framework for Sustainable Finance Facilities of KfW IPEX-Bank (hereafter referred to as “KfW-IPEX”, “the Bank” or “the Lender”). The assessment of the Framework was conducted taking into consideration the Green Loan Principles (GLP), Social Loan Principles (SLP) and Sustainability-Linked Loan Principles (SLLP) published by the APLMA, LMA and LSTA (2023).

KfW IPEX-Bank

KfW IPEX-Bank plans to grant Green Loans to (re)finance projects in nine different project categories and Social Loans in various project categories. In addition, the Bank will provide Sustainability-Linked Loans to be used for the general expenses of the Borrower(s).

KfW IPEX-Bank, headquartered in Frankfurt am Main, Germany, is a wholly owned subsidiary of Kreditanstalt für Wiederaufbau (KfW) and has been operating as a legally independent bank under the German Banking Act since 1 January 2008. The focus of KfW IPEX’s activities lies on international projects and export financing. The Bank provides financing to support the German and European economies as well as for environmentally and climate-friendly investments.

KfW IPEX-Bank has developed its Framework for Sustainable Finance Facilities to allow it to grant its Borrowers either a Green Loan, a Social Loan or a Sustainability-Linked Loan, depending on the project type and purpose as well as the Sustainability Performance Targets and Key Performance Indicators of its borrowers.

According to the Bank’s classification system, the borrower/customer is then granted or rejected a loan, based on a review of its sustainability reporting, the sustainability strategy, the climate strategy, and the framework conditions. In addition, an independent review verification of the Borrower’s framework in relation to the LMA/LSTA/APLMA principles by segment or multi-segment frameworks is required.

For Sustainability-Linked Loans, the achievement of the Sustainable Performance Targets set for the Key Performance Indicators is determined by a qualified third party. The achievement of the SPTs, in particular their verification, is part of the reporting obligations to KfW IPEX-Bank.

As part of its lending operations, KfW IPEX-Bank requires the borrowers to use loan funds exclusively to (re)finance project categories defined. In the context of Sustainability-Linked loan lending, the Bank requires that the Borrowers’ sustainability performance in relation to the defined KPIs is improved.

imug rating conducted the assessment from the beginning of July to the beginning of September 2023. KfW IPEX-Bank’s management provided all the relevant documents, and imug rating was in direct contact with the relevant employees. The information we received has allowed us to provide a reasonable opinion on the Framework’s compliance with the above-mentioned guidelines.



2. FRAMEWORK GLP, SLP

2.1. Use of Proceeds

imug rating confirms that the requirements KfW IPEX-Bank places on its Borrowers are clearly defined and the project categories are partially in line with the Green Loan Principles (GLP) and Social Loan Principles (SLP) (2023). (Re)financed green and social projects are expected to provide clear environmental and social benefits which Borrowers quantify. It is anticipated that these projects will contribute positively to nine of the United Nations’ Sustainable Development Goals (UN SDGs), namely Goal 1, 3, 4, 6, 7, 9, 11, 12 and 13.

PROJECT CATEGORIES – GREEN LOAN PRINCIPLES

KfW IPEX-Bank will grant Green Loans to Borrowers to (re)finance projects in the following areas. It is to be noted that the Lender uses its own internal project categories as shown in the Framework (July 2023). The (re)financed projects must comply with the additionally set criteria under the sector guidelines¹ by KfW Group. All granted loans must be externally verified at the Borrower’s level with a separate Second Party Opinion.

PROJECT CATEGORY	PROJECT DESCRIPTION	GOALS AND BENEFITS
Climate change adaptation	<p>Eligible projects include the (re)financing of:</p> <ul style="list-style-type: none"> ▶ Planning and implementing measures that decrease exposure (e.g., climate-sensitive land use planning in cities and municipalities, coastal protection) ▶ Integrating climate change adaptation into policy-making, planning and decision-making processes (e.g. National Adaptation Planning Process (NAP) as part of Nationally Determined Contributions (NDCs) – or in national sustainable development strategies) ▶ Planning and implementing concrete measures to adapt to climate change (e.g., improved irrigation systems for farming, flood protection measures, etc.) that strengthen the adaptive capacity of people and the environment, thereby reducing their vulnerability and increasing resilience 	<p>Climate change adaptation:</p> <ul style="list-style-type: none"> ▶ Reducing the exposure of people and nature to climate change ▶ Decreasing the vulnerability of people and nature to climate variability and the impacts of climate change that have already occurred and which are projected to occur ▶ Maintaining or increasing the resilience of people and nature (climate resilience) by improving the capacity to adapt to or absorb climate-related stresses, shocks and variability ▶ Strengthening capacities to manage risks associated with climate change

¹ <https://www.kfw.de/nachhaltigkeit/Dokumente/KEa4/ENG-Paris-compatible-sector-guidelines-202301.pdf>

	<ul style="list-style-type: none"> ▶ Introducing systems to manage residual risks (such as risk insurance and early warning systems) ▶ Projects that reduce the need to use water from natural sources in water-scarce regions (e.g., drinking water projects, seawater desalination plants) 	
--	--	--

Project category: imug rating confirms that the project category defined by the Lender for the projects to be (re)financed is clearly defined and in line with the Green Loan Principles.

Project description: imug rating confirms that the project description and eligibility criteria defined by the Lender for the projects to be (re)financed are clearly defined.

Goals and benefits: imug rating confirms that the projects to be (re)financed are expected to provide clear environmental benefits which will be quantified at the Borrower level.

PROJECT CATEGORY	PROJECT DESCRIPTION	GOALS AND BENEFITS
Clean transportation	<p>Eligible projects include the (re)financing of:</p> <p>Infrastructure:</p> <ul style="list-style-type: none"> ▶ For public transport projects such as expansion of the rail network, train stations or P+R car parks ▶ For non-motorised traffic such as bicycles and pedestrians ▶ For electric mobility <p>Modes of transport:</p> <ul style="list-style-type: none"> ■ <u>Road and rail transport:</u> ▶ All road- and rail-bound mass transport vehicles in short- and long-haul transport, e.g., trams, underground and suburban trains, freight, and passenger trains as well as carriages and buses qualify for Green Loans if they are electromotive or meet the respective requirements (substantial contribution) of the EU Taxonomy and the EHS Guidelines of the World Bank Group. For all projects with road- and rail-based means of transport that are not or not exclusively electrically motorised, such as bimodal trains, the following also applies: ▶ Proof of absolute or specific energy/CO₂e savings or proof of specific energy/CO₂e emissions savings of at least 20 percent to be provided in a before/after comparison in the case of replacement investments, or ▶ In the case of new investments, proof of an energy/CO₂e emissions savings of at 	<p>Climate change mitigation:</p> <ul style="list-style-type: none"> ▶ Avoidance of CO₂ emissions through (re)financing eligible projects ▶ Reduction of CO₂ emissions through (re)financing eligible projects ▶ Improvement of energy efficiency through (re)financing eligible projects

	<p>least 15 percent compared with the national sector average of the portfolio must be provided.</p> <ul style="list-style-type: none"> ■ <u>Shipping²</u>: <ul style="list-style-type: none"> ▶ Financing for ships including retrofits qualify as “Green Loans – Made by KfW IPEX-Bank” if they comply with the currently valid IMO requirements, and the following also applies: ▶ Proof of absolute energy/CO₂e savings or proof of specific energy/CO₂e emissions savings of at least 20 percent to be provided in a before/after comparison in the case of replacement investments, or ▶ In the case of new investments, proof of an energy/CO₂e emissions savings of at least 15 percent compared with the national sector average of the portfolio must be provided. <p>KfW IPEX-Bank generally excludes financing of projects involving fossil fuel transportation but has a ten percent cap. Financing air transportation projects does not meet the Lender’s standards.</p>	
--	---	--

Project category: imug rating confirms that the project category defined by the Lender for the projects to be (re)financed is clearly defined and in line with the Green Loan Principles.

Project description: imug rating confirms that the project description and eligibility criteria defined by the Lender for the projects to be (re)financed are clearly defined.

Goals and benefits: imug rating confirms that the projects to be (re)financed are expected to provide clear environmental benefits, which will be quantified at the Borrower level.

PROJECT CATEGORY	PROJECT DESCRIPTION	GOALS AND BENEFITS
<p>Manufacture of climate technology³</p>	<p>Eligible projects include the (re)financing of:</p> <ul style="list-style-type: none"> ▶ Financing of capex in line with “Use of Proceeds (GLP)” for manufacturers or manufacturing including R&D e.g., of battery cells for electromobility and renewable energy storage as well as renewable energies in accordance with the following list, including the processes, production facilities and machines used for this purpose, also fulfil the qualification for Green Loans. In 	<p>Climate change mitigation:</p> <ul style="list-style-type: none"> ▶ Avoidance of CO₂ emissions through (re)financing of eligible projects ▶ Reduction of CO₂ emissions through (re)financing of eligible projects

² Depending on the purpose of the shipping (e.g., passenger or freight transport), the Borrower has to comply with additional criteria set under the sector guidelines by KfW Group.

³ The project category defined by KfW IPEX currently does not match one-to-one with a given GLP project category. This category may apply to multiple categories in the GLP.

	<p>this case, the relevant processes, production systems and machines must explicitly serve the purpose of research, development, and manufacture of climate technology. If they serve various purposes (dual use), financing does not fall under this Framework.</p>	
--	---	--

Project category: imug rating confirms that the project category defined by the Lender for the projects to be (re)financed is partially defined and in line with the Green Loan Principles. imug rating recommends specifying the project categories according to the Green Loan Principles (in this case: green technologies or circular economy adapted products, production, technologies, and processes).

Project description: imug rating confirms that the project description and eligibility criteria defined by the Lender for the projects to be (re)financed are partially defined. imug rating recommends specifying the eligibility criteria for renewable energy storages connected to hydrogen power.

Goals and benefits: imug rating confirms that the projects to be (re)financed are expected to provide clear environmental benefits, which will be quantified at the Borrower level.

PROJECT CATEGORY	PROJECT DESCRIPTION	GOALS AND BENEFITS
Renewable energy	<p>Eligible projects include the (re)financing of:</p> <ul style="list-style-type: none"> ■ <u>Electricity generation: Development, operation, and maintenance of facilities for:</u> <ul style="list-style-type: none"> ▶ Wind power (on- and offshore) ▶ Solar power ▶ Biomass or biogas electricity from organic waste (food may not be used as feedstock) – provided that GHGs are reduced by 80 percent compared to conventional fossil fuels (RED II) ▶ Geothermal energy in compliance with the requirements (substantial contribution) of the EU Taxonomy ▶ Hydropower plants (excluding plants with an installed capacity of more than 25MW) ▶ Green hydrogen, i.e., for hydrogen whose production is purely based on renewable energies ▶ Grids that are directly related to the connection of renewable energy ■ <u>Development, operation and maintenance of facilities to produce biogas from waste</u> ■ <u>Heat generation and thermal energy: Development, operation and maintenance of facilities for:</u> 	<p>Climate change mitigation:</p> <ul style="list-style-type: none"> ▶ Avoidance of CO₂ emissions through (re)financing of eligible projects ▶ Reduction of CO₂ emissions through (re)financing of eligible projects

	<ul style="list-style-type: none"> ▶ Thermal use of geothermal, solar or bioenergy from biomass/organic waste ▶ Construction of heat pumps ■ <u>Technologies for renewable energy / energy storage:</u> ▶ Development and/or manufacture of renewable energy technologies, including renewable energy generation equipment (e.g., wind turbines, solar cells) and energy storage equipment (e.g. batteries, capacitors, compressed air storage and flywheels) ■ <u>Financing as part of KfW's promotional programmes for renewables also qualifies as Green Loans.</u> 	
--	---	--

Project category: imug rating confirms that the project category defined by the Lender for the projects to be (re)financed is clearly defined and in line with the Green Loan Principles.

Project description: imug rating confirms that the project description and eligibility criteria defined by the Lender for the projects to be (re)financed are clearly defined.

Goals and benefits: imug rating confirms that the projects to be (re)financed are expected to provide clear environmental benefits, which will be quantified at the Borrower level.

PROJECT CATEGORY	PROJECT DESCRIPTION	GOALS AND BENEFITS
Green buildings	<p>Eligible projects include the (re)financing of:</p> <ul style="list-style-type: none"> ■ <u>Replacement investments:</u> ▶ Proof of absolute energy/CO₂e savings or proof of specific energy/CO₂e emissions savings of at least 20 percent must be provided in a before/after comparison ■ <u>New investments:</u> ▶ Proof of energy/CO₂e emissions savings of at least 15 percent compared with the national sector average of the portfolio ■ <u>Both:</u> ▶ Compliance with (inter)national or regional standards or presentation of corresponding certificates (as per the GLP) 	<p>Climate change mitigation:</p> <ul style="list-style-type: none"> ▶ Avoidance of CO₂ emissions through (re)financing eligible projects ▶ Reduction of CO₂ emissions through (re)financing eligible projects ▶ Improvement of energy efficiency through (re)financing eligible projects

Project category: imug rating confirms that the project category defined by the Lender for the projects to be (re)financed is clearly defined and in line with the Green Loan Principles.

Project description: imug rating confirms that the project description and eligibility criteria defined by the Lender for the projects to be (re)financed are partially defined. imug rating recommends specifying the eligibility criteria according to the EU Taxonomy: Replacement investments should lead to a reduction in primary energy demand (PED) of at least 30 percent in a before/after comparison.

Goals and benefits: imug rating confirms that the projects to be (re)financed are expected to provide clear environmental benefits, which will be quantified at the Borrower level.

PROJECT CATEGORY	PROJECT DESCRIPTION	GOALS AND BENEFITS
Energy efficiency	<p>Eligible projects include the (re)financing of:</p> <ul style="list-style-type: none"> ■ <u>Replacement investments:</u> <ul style="list-style-type: none"> ▶ Proof of absolute energy/CO₂e savings or proof of specific energy/CO₂e emissions savings of at least 20 percent must be provided in a before/after comparison ■ <u>New investments:</u> <ul style="list-style-type: none"> ▶ Proof of energy/CO₂e emissions savings of at least 15 percent compared with the national sector average of the portfolio <p>Examples of these types of investments include investments in energy-efficient production by companies (e.g., new or replacement investments in more energy-efficient production processes and facilities), energy-efficient infrastructure, energy-efficient buildings (rehabilitation) and modernisation of (combined heat) and power plants to increase energy efficiency, as long as they are not powered by fossil fuels.</p> <ul style="list-style-type: none"> ■ <u>Financing as part of KfW's promotional programmes for energy efficiency can also be classified as a Green Loan.</u> <p>KfW IPEX-Bank generally excludes financing projects which include fossil-fuelled power plants or the modernisation of fossil-fuelled power plants.</p>	<p>Climate change mitigation:</p> <ul style="list-style-type: none"> ▶ Avoidance of CO₂ emissions through (re)financing eligible projects ▶ Reduction of CO₂ emissions through (re)financing eligible projects ▶ Improvement of energy efficiency through (re)financing eligible projects

Project category: imug rating confirms that the project category defined by the Lender for the projects to be (re)financed is clearly defined and in line with the Green Loan Principles.

Project description: imug rating confirms that the project description and eligibility criteria defined by the Lender for the projects to be (re)financed are partially defined. imug rating recommends that the thresholds for energy savings be set depending on the (re)financed sectors, as the sufficiency of a 15 to 20 percent improvement depends strongly on the characteristics of the sectors.

Goals and benefits: imug rating confirms that the projects to be (re)financed are expected to provide clear environmental benefits, which will be quantified at the Borrower level.

PROJECT CATEGORY	PROJECT DESCRIPTION	GOALS AND BENEFITS
Production technologies and processes that protect the environment and conserve resources ⁴	Eligible projects include the (re)financing of: <ul style="list-style-type: none"> ▶ This encompasses financing of project-related measures, such as end-of-pipe technologies, including recycling, facilities for the reduction, recycling, and reuse of waste materials (including recycling of plastic waste). It also includes financing that supports projects/investments that conserve resources and thereby contribute to environmental protection as well as financing that helps to improve the quality of resources, air and water if this results in resource savings of at least 15 percent. 	Climate change mitigation: <ul style="list-style-type: none"> ▶ Reduction of natural resource consumption through (re)financing of eligible projects ▶ Improving the quality of natural resources through (re)financing of eligible projects Pollution prevention and control: <ul style="list-style-type: none"> ▶ Reduction of air, water, soil and noise pollution through (re)financing of eligible projects

Project category: imug rating confirms that the project category defined by the Lender for the projects to be (re)financed is partially defined and in line with the Green Loan Principles. imug rating recommends specifying the project categories according to the Green Loan Principles (in this case: green technologies or circular economy adapted products, production, technologies and processes or terrestrial and aquatic biodiversity conservation or environmentally sustainable management of living natural resources and land use).

Project description: imug rating confirms that the project description and eligibility criteria defined by the Lender for the projects to be (re)financed are partially defined. imug rating recommends further specifying eligibility criteria and providing more information on the different types of end-of-pipe technologies and resource-conserving projects.

Goals and benefits: imug rating confirms that the projects to be (re)financed are expected to provide clear environmental benefits, which will be quantified at the Borrower level.

PROJECT CATEGORY	PROJECT DESCRIPTION	GOALS AND BENEFITS
Sustainable water and wastewater management	Eligible projects include the (re)financing of: Water: <ul style="list-style-type: none"> ▶ Products, services and projects that contribute to reducing water scarcity and improving water quality, including minimising and monitoring current water use and increased demand, improving the quality and reliability of the water supply and improving water availability ▶ Infrastructure and technical projects to develop new or rehabilitate existing water and sanitation pipelines, including equipment and technical upgrades for improved water quality and/or water use efficiency 	Water resources conservation: <ul style="list-style-type: none"> ▶ Increasing water savings and water quality through (re)financing of eligible projects ▶ Reduction of wastewater through (re)financing of eligible projects

⁴ The project category defined by KfW IPEX currently does not match one-to-one with a given GLP project category. This category may apply to multiple categories in the GLP.

	<ul style="list-style-type: none"> ▶ Technologies and products to reduce, reuse or recycle water for the purpose of water conservation (smart meters, water-saving devices, rainwater collection systems) <p>Wastewater:</p> <ul style="list-style-type: none"> ▶ Processes that make it significantly easier to treat wastewater, i.e., that go beyond merely meeting legal requirements ▶ Development, manufacture, installation and operation of technologies, systems and facilities that recycle or increase the efficiency of wastewater treatment <p>All (re)financed projects must at least achieve 15 percent of resource savings to be eligible for financing.</p>	
--	--	--

Project category: imug rating confirms that the project category defined by the Lender for the projects to be (re)financed is clearly defined and in line with the Green Loan Principles.

Project description: imug rating confirms that the project description and eligibility criteria defined by the Lender for the projects to be (re)financed are partially defined. imug rating recommends further specifying eligibility criteria and providing more information on water quality thresholds.

Goals and benefits: imug rating confirms that the projects to be (re)financed are expected to provide clear environmental benefits, which will be quantified at the Borrower level.

PROJECT CATEGORY	PROJECT DESCRIPTION	GOALS AND BENEFITS
Pollution prevention and control	<p>Eligible projects include the (re)financing of:</p> <ul style="list-style-type: none"> ▶ Projects that contribute to environmental protection (such as waste prevention, air pollution control, emissions reduction (e.g., sulphur dioxides / nitrogen oxides), and noise protection). This also includes waste incineration plants as power plants that supply energy or heat without fossil raw materials and comply with EU Directive 2008/98/EC on waste within EU territory and with the EHS Guidelines of the World Bank Group worldwide. ▶ Financing of production facilities that reduce the environmental impact or the use of materials and resources by at least 15 percent 	<p>Pollution prevention and control:</p> <ul style="list-style-type: none"> ▶ Reduction of air, water, soil, and noise pollution through (re)financing of eligible projects ▶ Avoiding and reduction of waste through (re)financing of eligible projects

	All (re)financed projects must at least achieve 15 percent of resource savings to be eligible for financing. KfW IPEX-Bank generally excludes financing projects which include fossil-fuelled power plants or the modernisation of fossil-fuelled power plants.	
--	---	--

Project category: imug rating confirms that the project category defined by the Lender for the projects to be (re)financed is clearly defined and in line with the Green Loan Principles.

Project description: imug rating confirms that the project description and eligibility criteria defined by the Lender for the projects to be (re)financed are partially defined. imug rating recommends further specifying eligibility criteria and providing more information on the different types of sub-project categories.

Goals and benefits: imug rating confirms that the projects to be (re)financed are expected to provide clear environmental benefits, which will be quantified at the Borrower level.

PROJECT CATEGORIES – SOCIAL LOAN PRINCIPLES

KfW IPEX-Bank will grant Social Loans to Borrowers to (re)finance projects in the following areas. All granted loans have to be externally verified at the Borrower’s level with a separate Second Party Opinion.

PROJECT CATEGORY	PROJECT DESCRIPTION	GOALS AND BENEFITS
Lending Loans according to Social Loan Principles	<p>Eligible projects include the (re)financing of:</p> <ul style="list-style-type: none"> ▶ Social projects including other related and supporting investments, including for R&D. These social projects should be clearly described by corresponding documents such as a social loan Framework. The positive social effects must be plausible and measurable. ▶ The projects should bring about positive social impacts for their target groups and possibly other groups as well. <p>KfW IPEX-Bank offers the following project categories that are eligible for (re)financing. The listed project categories are only exemplary and not restrictive:</p> <ul style="list-style-type: none"> ▶ Affordable infrastructure (e.g., clean drinking water, water/wastewater supply, transport, energy and telecommunications infrastructure) ▶ Access to basic services (such as education, health, financial systems, public services and administration) 	<p>Due to the insufficient specification of project categories in the Framework (August 2023), it is not possible to conclusively illustrate the social benefits of the projects to be (re)financed.</p> <p>KfW IPEX-Bank will match social benefits in accordance with the indicators defined in the impact management⁵ of KfW Group. Sample indicators can be defined as follows:</p> <ul style="list-style-type: none"> ▶ Improved access to health services through (re)financing of eligible projects ▶ Improved access to educational services through (re)financing of eligible projects

⁵ <https://www.kfw.de/nachhaltigkeit/Dokumente/KEa4/ENG-methodology-paper-impact-management.pdf>

Due to insufficient information in the Framework (August 2023), it is not possible to make a final assessment of the social project categories. imug rating recommends further specifying the project categories, which will later be quantified at the Borrower level, and defining specific target groups according to the project categories.

PROJECT FINANCING

KfW IPEX-Bank has not communicated the share of (re)financing at the Lender level. The share of (re)financing will be defined at the Borrower level at the latest.

The Lender confirms that the maximum look-back period for the (re)financed projects will not exceed 36 months.

Eligible assets or projects are expected to contribute to nine United Nations' Sustainable Development Goals, namely Goal 1 "No poverty", Goal 3 "Good health and well-being", Goal 4 "Quality education", Goal 6 "Clean water and sanitation", Goal 7 "Affordable and clean energy", Goal 9 "Industry, innovation and infrastructure", Goal 11 "Sustainable cities and communities", Goal 12 "Responsible consumption and production" and Goal 13 "Climate action". A precise assignment of the sub-goals for the exemplary social project categories "Affordable basic Infrastructure" and "Access to essential services" to the respective UN SDGs is not possible due to the insufficient specification of the project categories in the Framework (August 2023).

Description of the SDG contribution

UN SDG 1: No poverty



UN SDG 1 aims to end poverty in all its forms everywhere. By 2030, the goals are to:

- ▶ Ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance.

The projects in the project category "Access to essential services", for which KfW IPEX-Bank will grant Social Loans, are expected to contribute to UN SDG 1.

UN SDG 3: Good health and well-being



UN SDG 3 aims to ensure healthy lives and promote well-being for all at all ages. By 2030, the goals are to:

- ▶ Achieve universal health coverage, including financial risk protection, access to quality essential healthcare services as well as access to safe, effective, high-quality and affordable essential medicines and vaccines,
- ▶ Substantially reduce the number of deaths and illnesses.

The projects in the project categories "Access to essential services" and "Environmental protection, resource conservation and the reduction of (environmental) pollution", for which KfW IPEX-Bank will grant Green and Social Loans, are expected to contribute to UN SDG 3.

UN SDG 4: Quality education



UN SDG 4 aims to ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

The projects in the project category "Access to essential services" in the area of "Education", for which KfW IPEX-Bank will grant Social Loans, are expected to contribute to UN SDG 4.

UN SDG 6: Clean water and sanitation



UN SDG 6 aims to ensure availability and sustainable management of water and sanitation for all. By 2030, the goals are to:

- ▶ Improve water quality by reducing pollution, eliminating dumping and minimising release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally,
- ▶ Substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people affected by water scarcity.

The projects in the project categories “Sustainable water and wastewater management” and “Affordable basic infrastructure”, for which KfW IPEX-Bank will grant Green and Social Loans, are expected to contribute to UN SDG 6.

UN SDG 7: Affordable and clean energy



UN SDG 7 aims to ensure access to affordable, reliable, sustainable and modern energy for all. By 2030, the goals are to:

- ▶ Increase the share of renewable energies in the global energy mix and promote investment in energy infrastructure and clean energy technology,
- ▶ Double the global rate of increase in energy efficiency.

The projects in the project categories “Energy efficiency”, “Renewable energy”, “Green buildings” and “Manufacture of climate technology”, for which KfW IPEX-Bank will grant Green Loans, are expected to contribute to UN SDG 7.

UN SDG 9: Industry, innovation and infrastructure



UN SDG 9 aims to build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.

The projects in the project category “Affordable infrastructure” in the area of “Water, energy and telecommunication infrastructure”, for which KfW IPEX-Bank will grant Social Loans, are expected to contribute to UN SDG 9.

UN SDG 11: Sustainable cities and communities



UN SDG 11 aims to make cities and human settlement inclusive, safe, resilient and sustainable. By 2030, the goals are to:

- ▶ Reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality as well as municipal and other waste management,
- ▶ Provide access to safe, affordable, accessible and sustainable transport systems, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and the elderly.

The projects in the project categories “Clean transportation”, “Sustainable water and wastewater management” and “Green buildings”, for which KfW IPEX-Bank will grant Green Loans, are expected to contribute to UN SDG 11.

UN SDG 12: Responsible consumption and production



UN SDG 12 aims to ensure sustainable consumption and production patterns. By 2030, the goals are to:

- ▶ Achieve the sustainable management and efficient use of natural resources,
- ▶ Substantially reduce waste generation through prevention, reduction, recycling and reuse.

The projects in the project categories “Environmental protection, resource conservation and the reduction of (environmental) pollution” and “Production technologies and processes that protect the environment and conserve resources”, for which KfW IPEX-Bank will grant Green Loans, are expected to contribute to UN SDG 12.

UN SDG 13: Climate action



UN SDG 13 aims to take urgent action to combat climate change and its impacts. By 2030, the goals are to:

- ▶ Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries,
- ▶ Improve education, awareness-raising as well as human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.

The projects in the project category “Climate change adaptation”, for which KfW IPEX-Bank will grant Green Loans, are expected to contribute to UN SDG 13.



2.2. Process for Project Evaluation and Selection

imug rating confirms that the process for project evaluation and selection is fully in line with the the Green Loan Principles (GLP) and Social Loan Principles (SLP) (2023).

Granting Green and Social Loans helps KfW IPEX-Bank to achieve its sustainability goals. The Lender has implemented structured processes that allow it to identify suitable projects that have environmental and social benefits. It is communicated how and by which authorities the process is monitored.

Further information on the process for project evaluation and selection must be conducted by the Borrower.

EVALUATION AND SELECTION

To assure the correct disbursement of Green and Social Loans, KfW IPEX-Bank has implemented a process for the selection and evaluation of projects:

The Lender requires the following documents from its Borrowers:

- ▶ Sustainability reporting
- ▶ Sustainability strategy
- ▶ Climate strategy
- ▶ Sustainable customer Frameworks

KfW IPEX-Bank requires an additional Second Party Opinion of the Borrower's Framework to assure the relevant financing purpose for their projects in accordance with the criteria described under the project description section in chapter 2.1. "Use of Proceeds".

The Borrower is required by KfW IPEX-Bank to present its criteria, decision-making process and responsibilities used as the basis for selecting the projects. In addition, the Borrower must clearly define and document the selection and evaluation process as well as selecting a responsible team.

The whole evaluation and selection process on both the Lender and the Borrower side will be monitored by Green Loan Advisor Team of KfW IPEX-Bank.

The Borrower is encouraged to monitor the evaluation and selection process, at least annually, on its own or to appoint a qualified third party (SPO provider or internationally recognised auditing firm) to do so⁶.

⁶ The requirements are described in an internal document of KfW IPEX-Bank and are not part of the Framework. The Borrower will receive further information on the presented matter during the lending process.

ELIGIBILITY CRITERIA

The eligibility criteria set by KfW IPEX-Bank is defined under the project description section in chapter 2.1. “Use of Proceeds” and the sector guideline set by KfW Group. imug rating recommends complying with the criteria set up by the Lender at the Borrower level and additionally defining further eligibility criteria matching the specific characteristics of the projects to be financed, which must be externally verified.

EXCLUSION CRITERIA

KfW IPEX-Bank excludes financing of the following projects. The exclusion list⁷ derives from the groupwide exclusion guidelines set by the parent company KfW Group:

- ▶ Production or trade in any product or activity subject to national or international phase-out or prohibition regulations or to an international ban.
- ▶ Investments, which could be associated with the destruction or significant impairment of areas particularly worthy of protection (without adequate compensation in accordance with the international standard).
- ▶ Production or trade in controversial weapons or critical components.
- ▶ Production or trade in radioactive material (does not apply to the procurement of medical equipment or quality control equipment, for example).
- ▶ Production or trade in unbound asbestos (does not apply to the purchase or use of cement linings with bound asbestos and an asbestos content of less than 20 percent).
- ▶ Destructive fishing methods or drift net fishing in the marine environment using nets in excess of 2.5 kilometres.
- ▶ Nuclear power plants (does not apply to the measures that reduce environmental hazards of existing assets) and mines with uranium as an essential source of extraction.
- ▶ Prospection, exploration and mining of coal, land-based means of transport and related infrastructure essentially used for coal, power plants, heating stations and cogeneration facilities essentially fired with coal as well as associated stub lines.
- ▶ Non-conventional prospection, exploration and extraction of oil from bituminous shale, tar sands or oil sands.

⁷ https://www.kfw.de/PDF/Download-Center/Konzernthemen/Nachhaltigkeit/Ausschlussliste_EN.pdf



2.3. Management of Proceeds

imug rating confirms that the requirements KfW IPEX-Bank places on its Borrowers for managing proceeds are fully in line with the the Green Loan Principles (GLP) and Social Loan Principles (SLP) (2023).

KfW IPEX-Bank has established internal rules that facilitate a transparent allocation process.

TRACKING THE PROCEEDS

In accordance with KfW IPEX-Bank, the responsibility for managing the proceeds lies with the Borrower. It is required that the Borrower establishes a transparent process to ensure the correct allocation and usage of the loan proceeds. The Borrower must report the results back to the Lender and:

- ▶ Establish an adequate process to track the loan proceeds (e.g., separate bank account)
- ▶ Establish an internal process to ensure that the loan proceeds are used exclusively for the selected project categories
- ▶ Periodically disclose the intended placement of unallocated loan proceeds to the Lender
- ▶ Allocate the loan proceeds to the selected projects in a defined period (e.g., within 24 months after receiving the loan proceeds)

imug rating recommends that the Borrower periodically allocates the balance of the net revenues to the projects as long as the loan is pending.

The whole management of proceeds process on both the Lender and the Borrower side will be monitored by the Green Loan Advisor Team of KfW IPEX-Bank.

The Borrower is encouraged to monitor the management of proceeds process, at least annually, on its own or appoint a qualified third party (SPO provider or internationally recognised auditing firm) to do so⁸.

⁸ The requirements are described in an internal document of KfW IPEX-Bank and are not part of the Framework. The Borrower will receive further information on the presented matter during the lending process.



2.4. Reporting

imug rating confirms that the requirement KfW IPEX-Bank places on its Borrowers for the reporting process is fully in line with the Green Loan Principles (GLP) and Social Loan Principles (SLP) (2023).

The Borrower is required to report on both the allocation of proceeds and the environmental and social benefits of the projects. The underlying process for acquiring and consolidating data is not clearly defined.

imug rating considers the Lender's commitment to regularly receive reports of its Borrowers in future on the use of proceeds and the Loans environmental and social benefits to be convincing and reliable.

REPORTING PROCESS

KfW IPEX-Bank requires the Borrower to report the usage of the loan proceeds at least annually in accordance with the Green and Social Loan Principles and the expected climate and environmental effects and/or the positive social effects associated with the financed projects. The Borrower must conduct the report by including the following indicators:

- ▶ Amount of the total proceeds of the issuance
- ▶ Amount allocated
- ▶ Share of refinancing
- ▶ Information on any unallocated proceeds of the issuance
- ▶ Project description
- ▶ Sustainability benefits qualitative and quantitative performance indicators

The Borrower must disclose the key underlying methodology and/or assumptions used to justify the determination of the performance indicators.

The whole reporting process will be monitored by the Green Loan Advisor Team of KfW IPEX-Bank.

The Borrower is encouraged to appoint a qualified third party (SPO provider or internationally recognised auditing firm) to do so⁹.

imug rating recommends the Borrower to provide further information on:

- ▶ Reporting on material changes
- ▶ Reporting on risk management
- ▶ External verification of reporting (Impact Reporting)
- ▶ External verification of reporting (Allocation Reporting)

The Borrower is advised to publicly communicate the report besides reporting to KfW IPEX-Bank (e.g., on the company website). In accordance with the Green and Social Loan Principles, imug rating recommends reporting at least until the loan proceeds are fully allocated.

⁹ The requirements are described in an internal document of KfW IPEX-Bank and are not part of the Framework. The Borrower will receive further information on the presented matter during the lending process.

ENVIRONMENTAL REPORTING INDICATORS

The selected environmental reporting indicators are considered relevant and significant by imug rating. The Lender requests the Borrower to demonstrate the expected positive impact of the financing activity using quantitative output and impact indicators:

PROJECT TYPE	OUTPUT INDICATORS	IMPACT INDICATORS
Renewable energy	<ul style="list-style-type: none"> ▶ Added capacity from renewable energy sources in MW ▶ Annual energy production from renewable energy sources in MWh 	<ul style="list-style-type: none"> ▶ Reduction of CO₂ emissions in tCO₂e
Energy efficiency	<ul style="list-style-type: none"> ▶ N/A 	<ul style="list-style-type: none"> ▶ Reduction of CO₂ emissions in tCO₂e ▶ Annual energy savings in MWh
Environment	<ul style="list-style-type: none"> ▶ Reduction of annual water consumption in m³ ▶ Reduction of annual water quantity in m³ ▶ Reduction of the output of annual emissions (e.g., sulphur dioxides / nitrogen oxides) (SO_x mg/m³e / NO_x mg/m³e) ▶ Reduction of noise pollution in dB 	<ul style="list-style-type: none"> ▶ N/A

imug rating recommends further specifying the environmental reporting indicators and providing more information on the different types of project categories at the Borrower level at latest.

SOCIAL REPORTING INDICATORS

KfW IPEX-Bank has not communicated social reporting indicators. imug rating recommends establishing social reporting indicators and providing more information on the different types of project categories at the Borrower level at latest.



3. FRAMEWORK SLLP

3.1. Assessment of the Sustainability-Linked Components

imug rating confirms that the requirements KfW IPEX-Bank places on its Borrowers are formally in line with the Sustainability-Linked Loan Principles (SLLP) 2023. Due to the nature of the Framework (August 2023), it is not possible to provide a final assessment for individual loans.

The compliance of a loan with the Sustainability-Linked Loan Principles (SLLP) 2023 will be assessed for each Borrower by the submission of a separate Second Party Opinion.

SELECTION OF KPIs

imug rating confirms that the selection of KPIs is formally in line with the Sustainability-Linked Loan Principles. KfW IPEX-Bank sets the requirements in the Framework, that the KPIs of the Borrower shall be relevant, central and material as well as measurable/quantifiable and benchmarkable. The KPIs shall be material to the Borrower's sustainability and business strategy and address relevant ESG challenges of the industry/sector. imug rating recommends further defining the examples of possible KPIs and the SPTs accordingly in one or more areas that KfW IPEX-Bank considers relevant, which will later be quantified by the Borrower.

CALIBRATION OF SPTs

imug rating confirms that the setting of the SPTs is formally in line with the Sustainability-Linked Loan Principles. KfW IPEX-Bank sets the requirements in the Framework that the SPTs of the Borrower shall be ambitious (represent a material improvement and go beyond "business as usual" trajectory), be relevant in a benchmarking according to an external reference, be consistent with the overall strategy of the Borrower and be determined on a predefined timeline. The Lender does not define the preferred benchmark approaches. imug rating recommends further defining the benchmarking approaches that KfW IPEX-Bank considers as sufficient. Possible approaches include the Borrower's own performance over time, the Borrower's peers, reference to academia or a combination of those.

LOAN CHARACTERISTICS

imug rating confirms that the loan characteristics described by KfW IPEX-Bank are formally in line with the Sustainability-Linked Loan Principles. The Lender sets the requirements in the Framework that a margin ratchet is linked to whether the SPTs are met by the Borrower.

REPORTING

imug rating confirms that the reporting process is formally in line with the Sustainability-Linked Loan Principles. The requirements in the Framework (August 2023) stipulate that the Borrower must publish a report at least once a year regarding their target achievement of the SPTs, which must be assessed by a qualified, independent third party.

VERIFICATION

imug rating confirms that the verification process described by KfW IPEX-Bank is formally in line with the Sustainability-Linked Loan Principles (SLLP) 2023. It is required in the Framework to conduct an independent and external verification of the Borrower's performance level against the SPTs for each KPI. imug rating recommends specifying the verification period.



4. LENDER

SUSTAINABILITY PERFORMANCE/STRATEGY

KfW IPEX-Bank is a wholly owned subsidiary of KfW Group. Within KfW Group, KfW IPEX-Bank is responsible for the export and finance business. The granting of Green Loans, Social Loans and Sustainability-Linked Loans is in line with the Green Loan Principles (2023), the Social Loan Principles (2023) as well as the Sustainability-Linked Loan Principles (2023) and contributes to the Lender's sustainable finance strategy to secure the livelihoods and quality of life of future generations.

Sustainable targets of KfW IPEX-Bank

As part of their sustainable finance strategy, KfW Group aims to aid the “transformation of economy and society to improve economic, ecological and social living conditions around the world”. This goal is echoed in the sustainability mission statement of KfW IPEX-Bank, which aspires to “secure the livelihoods and quality of life of future generations” and to incorporate economic, social and ecological considerations during decision-making processes while also supporting the SDGs and the Paris Climate Agreement.

The sustainable finance concept of KfW Group, called “tranSForm”, consists of implementing a groupwide impact management showing the Group's contribution to the SDGs, promoting compatibility with Paris Climate Agreement targets using sector guidelines and GHG accounting, improving ESG risk management and working on the reporting of financial sustainability data. KfW Group is committed to the 1.5°C climate target and aims to have a net-zero emissions loan portfolio by 2050.

Furthermore, KfW IPEX-Bank developed a Sustainability Guideline that provides a framework for the integration of environmental and social standards within financing activities. It is based on the Equator Principles, the IFC Performance Standards, the EHS Guidelines and Safeguard Policies of the World Bank as well as the environmental and social requirements of the OECD Common Approach. Regarding the maritime industries, KfW IPEX-Bank is a member of the Poseidon Principles and is part of the Responsible Ship Recycling Standards.

KfW IPEX-Bank's strategy is consistent towards granting Green Loans, Social Loans and Sustainability-Linked Loans.

ESG RISK MANAGEMENT

imug rating is of the opinion that KfW IPEX-Bank has appropriate policies and processes in place to identify and manage the material ESG risks associated with its activities. KfW IPEX-Bank has implemented a very good risk management system to identify and manage potentially material ESG criteria.

In addition to positive impacts, there are also certain potential ESG risks associated with the projects to be (re)financed. As a financial services company, the strategic as well as process-related integration of ESG risks into the business areas “Proprietary business / Deposit A”, “Lending business” and “Deposit business” is of particular importance.

In addition to the overarching strategic measures and regulations, such as the sustainability policy, the management of ESG risks is considered in the business units as follows:

- ▶ **Proprietary business / Depot A:** As a specialist bank for export and project finance, KfW IPEX's proprietary business serves to secure liquidity and meet regulatory requirements. Its high-quality liquid assets (HQLA) portfolio contains only bonds issued by the parent company KfW.
- ▶ **Lending business:** Sustainability is generally defined as part of the business strategy at KfW IPEX-Bank. Therefore, the sustainability guideline, the exclusion list and corresponding sector guidelines are considered in all lending decisions. In addition, there is a separate guideline for processing Green Loans, which shall be transformed into guidelines for Sustainable Finance Facilities.
- ▶ **Deposit business:** KfW IPEX's long-term refinancing is carried out exclusively through the parent company KfW. In addition, as with the lending business, the sustainability guideline, the exclusion list, sector guidelines and the guideline for processing Green Loans, which shall be transformed into guidelines for Sustainable Finance Facilities, apply.

KfW IPEX-Bank has implemented various measures to address its ESG risks:

- ▶ **Climate measures:** KfW IPEX-Bank is considered a CO₂-neutral bank, which can be attributed to efficient energy measures and the compensation of unavoidable emissions. KfW Group reports its own climate-relevant financing and CO₂ emissions, which have been noticeably reduced since 2018. For example, financing with a focus on climate change and the environment has a volume of EUR 60.5 billion. In addition, KfW Group aims to convert its entire vehicle fleet to electric drive by 2025 and has already installed 150 charging points for this purpose.
- ▶ **Environmental management:** KfW Group adopted a sustainability guideline on in-house environmental protection in 2012 and reports in detail on the development of environmental indicators such as paper and water consumption in its Sustainability Report. With the “Sustainable operations 2030” concept, many individual measures have been planned for the respective locations with the aim of further reducing the environmental indicators.
- ▶ **Circular economy:** KfW Group's reporting covers its consumption and handling of resources. For example, recycling strategies for paper and water are presented and the individual waste quantities are derived. Food waste analyses for waste reduction have been prepared for KfW Group's catering operations. The topic of life cycle analysis is also being integrated more strongly into the financing of real estate projects.

- ▶ **Protection of biodiversity:** Biodiversity and species diversity are strengthened at KfW Banking Group through the expansion of green roofs and wildflower meadows at its locations.
- ▶ **Human rights standards:** In its Human Rights Declaration, KfW Group commits to various internationally recognised human rights standards such as the Universal Declaration of Human Rights or the ILO core labour standards. In addition, KfW Group has committed itself to compliance with the Modern Slavery Act. Safeguarding and realising international human rights is an essential component of the Sustainability Policy.
- ▶ **Labour law standards:** An essential part of the assessment and categorisation of financing are social impact analyses, which address the question of the extent to which legal and institutional Framework conditions meet international labour law requirements. In certain countries, KfW IPEX uses IFC-PS and the Environmental, Health and Safety Guidelines (EHS) as a basis for assessment. The results determined by the KC Environmental and Social Sustainability are a key factor in the financing decision.
- ▶ **Dialogue with local stakeholders:** KfW Group organises an annual Stakeholder Round Table for direct dialogue, whose participants are selected according to the respective topic focus. In addition, the Stakeholder Panel, a tool that systematically involves stakeholders via interviews and online surveys, has been in place since 2018.
- ▶ **Compliance:** The Banking Group has a Code of Conduct that addresses issues such as corruption and data protection. In addition, KfW IPEX-Bank has established a systematic complaints management system that includes thematic training, money laundering prevention processes and an anonymous complaints mechanism.

CONTROVERSIAL BUSINESS ACTIVITIES AND CONTROVERSIAL BUSINESS BEHAVIOUR

imug rating has examined KfW IPEX-Bank in relation to a total of 15 controversial business activities¹⁰ as well as its involvement in controversial business practices.¹¹

CONTROVERSIAL BUSINESS ACTIVITIES

KfW IPEX-Bank is involved in five controversial business activities.

Hazardous chemicals: KfW IPEX-Bank finances manufacturing plants to produce fertilisers.

Fossil fuel industry: KfW IPEX-Bank finances petrochemicals and refineries.

Coal: KfW IPEX-Bank finances coal-fired power plants. For the coal-fired power plants there have been no new financings since 2014; only remaining plants are financed until the end of the term of the contracts, which only represents a small share of the Lender's total portfolio.

Unconventional gas production: In its exclusion list document¹², in the area of gas exploration and production, KfW IPEX-Bank's parent company, KfW Group, ties its direct financial commitment to specific new projects to the following qualitative conditions: Projects for non-conventional prospecting, exploration and extraction of gas will disclose in accordance with international standards, that no material groundwater drawdown or contamination is to be expected, that measures for resource protection (in particular water) and recycling are taken, that suitable technology is used for safe drilling, which includes integrated bore piping and pressure testing.

The Lender, therefore, does not completely exclude gas production, prospecting, exploration and extraction.

Mining: KfW IPEX-Bank provides financing for raw materials and mining projects worldwide.

With respect to these activities, the Lender has disclosed the following:

“The existing cash exposure to these sectors (coal-fired power plants, fertilizers, mining, petrochemicals (including pipelines for oil or gas, recycling, plastics, etc.) has an overall significance of well below 10 percent in the portfolio. Petrochemicals accounts for the largest share, around 5 percent. It also includes financing for recycling (circular economy), processing of natural gas pipelines for future use for (green) hydrogen, and overall financing for (green) hydrogen and other fuels that replace fossil fuels. The mining sector also includes financing, for example, for the processing of rare earths or copper needed for clean transportation or renewable energy.”

CONTROVERSIAL BUSINESS BEHAVIOUR

Up to the reporting date of 09.08.2023, there was information available to suggest that KfW IPEX-Bank was involved in two different controversial business practices.

Environmental damage: Between 2013 and 2022, German banks and financial service providers invested around USD 549.2 million in companies linked to the clearing of the Amazon in Brazil. This was the result of an evaluation by the French research platform Disclose and the

¹⁰ Controversial areas of business are specified in the Methodology section (page 29).

¹¹ Controversial business practices are specified in the Methodology section (page 29).

¹² https://www.kfw.de/PDF/Download-Center/Konzernthemen/Nachhaltigkeit/Ausschlussliste_EN.pdf

non-governmental organisation Repórter Brasil, based on data from the Forest & Finance initiative. According to Forest & Finance, some German banks, including KfW IPEX-Bank, have invested large sums in companies whose business activities are linked to rainforest deforestation. According to Forest & Finance, KfW IPEX-Bank has invested almost USD 17 million between 2013 and 2022 in Bunge, an American company in the agri-food sector. According to reports by Global Witness, indigenous peoples living in Brazil's Cerrado, a savannah bordering the Amazon, are being harassed and threatened by large soy producers to drive them off their land. The savannah has been particularly affected by deforestation. Bunge and other companies are said to have had business relations with some of the affected producers. imug rating classifies the severity of the controversial business behaviour as significant and the Lender's responsiveness as reactive. A KfW spokeswoman confirms: "In the past, KfW IPEX-Bank had direct business relations with Bunge - but these expired at the end of last year (2021) and have not existed since."

Corporate governance: German authorities have fined KfW IPEX-Bank USD 178,000 for providing loans to an Angolan brewery linked to Isabel dos Santos, a daughter of the country's former president. Frankfurt prosecutors claimed a subsidiary of KfW IPEX-Bank had violated German anti-money laundering laws, the Süddeutsche Zeitung reported. In 2015, KfW IPEX had lent around USD 55 million to Angola's state-owned bank Banco de Poupança e Crédito, which then passed the money on to Sodiba, dos Santos' beer company. imug rating classifies the severity of the controversial business behaviour as significant and the Lender's responsiveness as reactive. The latest statement from the Bank can be found on its website and reads as follows: "In May 2020, the police and the public prosecutor's office conducted investigations into this case at the premises of KfW IPEX-Bank. The Bank will not comment on details due to the ongoing investigation. KfW IPEX-Bank is of course cooperating with the investigating authorities."



5. OPINION

Framework GLP, SLP, SLLP

imug rating has analysed and assessed the Framework of KfW IPEX-Bank with regard to alignment with the current Green Loan Principles (GLP), Social Loan Principles (SLP) and Sustainability-Linked Loan Principles (SLLP) 2023. KfW IPEX-Bank has been operating as a legally independent bank since 1 January 2008. The Lender plans to grant Green Loans to (re)finance projects in the categories of climate change adaptation, clean transportation, manufacture of climate technology (this category may apply to multiple categories in the GLP), renewable energy, green buildings, energy efficiency, production technologies and processes that protect the environment and conserve resources (this category may apply to multiple categories in the GLP), sustainable water and wastewater management and pollution prevention and control as well as Social Loans in various project categories. Furthermore, the Bank will provide Sustainability-Linked Loans, which will be used for the general expenses of the Borrower. The bank obliges the Borrower to set the KPIs and to demonstrate their improvement through SPTs. Only Borrowers that have defined KPIs and SPTs and meet the Sustainability-Linked Loan Principles can receive a Sustainability-Linked Loan. The compliance with the SLLP will be assessed for each Borrower by the submission of a separate Second Party Opinion. Furthermore, the Borrowers KPI and SPT will be verified at least annually by a qualified third party. The Sustainability-Linked Loan must be in line with the predefined targets following a margin ratchet for the relevant loan. imug rating recommends further specifying the requirements the KfW IPEX-Bank sets for the quality of the KPIs and for the ambition level of SPTs as well as the relevant benchmarks.

imug rating confirms that the Framework of KfW IPEX-Bank is fully in line with the current Green Loan Principles (GLP) and Social Loan Principles (SLP) and is formally in line with the Sustainability-Linked Loan Principles (SLLP) published by the APLMA, LMA and LSTA (2023).

Sustainability benefits and ESG risk management

The green and social projects for which loans will be granted are expected to provide positive climate and environmental as well as positive social benefits. To this end, the Lender has established relevant eligibility criteria as well as environmental reporting indicators to ensure that projects have a positive environmental impact. KfW IPEX-Bank will match social benefits in accordance with the indicators defined in the impact management of KfW Group. The Lender has implemented a very good risk management system to manage the material ESG risks associated with the projects. The green and social projects for which loans will be granted are expected to provide positive climate and environmental as well as positive social benefits. It is anticipated that these projects will contribute positively to nine of the United Nations' Sustainable Development Goals (UN SDGs), namely Goal 1 "No poverty", Goal 3 "Good health and well-being", Goal 4 "Quality education", Goal 6 "Clean water and sanitation", Goal 7 "Affordable and clean energy", Goal 9 "Industry, innovation and infrastructure", Goal 11 "Sustainable cities and communities", Goal 12 "Responsible consumption and production" and Goal 13 "Climate action".

Sustainability strategy and performance

The Lender's sustainability strategy aims to aid the "transformation of economy and society to improve economic, ecological and social living conditions around the world". KfW IPEX-Bank's strategy is consistent towards granting Green Loans, Social Loans and Sustainability-Linked Loans. Research by imug rating revealed evidence suggesting that the Lender is involved in five controversial business activities and two controversial business practices.



6. METHODOLOGY

The present Second Party Opinion (SPO) was prepared by qualified imug rating analysts. Our sustainability research is carried out exclusively in accordance with recognised and methodically secured procedures. We have defined strict quality standards for all research activities and customer processes. As early as 2002 (updated 2022), imug rating adopted a Code of Conduct, which guarantees the independence, traceability and quality of sustainability assessments. To align its research and work processes even more closely with recognised standards, imug rating underwent an external audit in June 2019 and received certification in accordance with the quality management standard ISO 9001:2015. The initial certifications are reviewed in regular monitoring audits, the last of which took place in April 2022.

Following a detailed examination of the framework, imug rating confirms whether an issuance/lending complies with the Green Bond Principles 2021, Social Bond Principles 2021, the Sustainability Bond Guidelines as well as the Green Loan Principles 2023 and Social Loan Principles 2023 or Sustainability-Linked Loan Principles 2023.

For a positive assessment for the use-of-proceeds financing instruments, the Issuer/Borrower must transparently report on and comprehensibly implement the following points: (1) use of the proceeds, (2) process for project evaluation and selection, (3) management of the proceeds and (4) reporting. In addition to the framework, discussions with relevant employees of the Issuer/Borrower and publicly available information form the information basis for the present SPO. These sources were only used if the information was comprehensible and documented. imug rating bases its analysis on the mandatory and recommended criteria of the relevant standards. In addition, mandatory criteria defined by imug rating are included with consideration of further market standards. For the assessment of ESG risk management in the areas of environmental, social and governance issues, a questionnaire is sent to the Issuer/Borrower. This is evaluated according to the internal analysis. In the SPO, the results of the assessment of the policies and processes (no, some or appropriate) as well as the quality of the risk management system (weak, moderate, good or very good) are presented. Furthermore, imug rating checks whether an issuance/lending is in line with the Issuer's corporate strategy or, in the absence of a strategy, whether suitable sustainability measures are already being implemented.

For a positive assessment of the sustainability-linked financing instruments, the Issuer/Borrower must transparently report on and comprehensibly implement the following points: (1) selection of key performance indicators (KPIs), (2) definition of sustainability performance targets (SPTs), (3) financing instruments' characteristics, (4) reporting and (5) verification.

imug rating examines the Issuer's/Lender's/Borrower's involvement in controversial business activities and practices. Controversial business activities include alcohol, tobacco, cannabis, gambling, pornography, hazardous chemicals, fossil fuel industry, coal, unconventional oil and gas production, mining, nuclear energy, military/armament, civilian firearms, green genetic engineering, animal testing / animal welfare. All controversial business activities are listed regardless of a turnover threshold.

The controversial business practices include violations of internationally recognised sustainability standards such as the UN Global Compact or the ILO core labour standards. The analysis covers environmental damage, society and corporate governance. Only those controversial business practices are listed that are verifiable through reliable and resilient public sources. imug rating categorises controversial business practices according to their severity (severity 1 (low), severity 2 (significant), severity 3 (high) or severity 4 (critical)) and also takes into account the Issuer's/Lender's/Borrower's response.

Transparency & Disclaimer

Disclosure of the relation between imug rating and the Lender: imug rating, in cooperation with Vigeo Eiris (now Moody's ESG Solutions), has carried out a Second Party Opinion for KfW IPEX-Bank in the year 2021. This activity is not related to the present Second Party Opinion. There is no relationship, financial or otherwise, between imug rating and the Lender.

imug rating has prepared this independent Second Party Opinion in accordance with imug rating's methodology and in strict compliance with its Code of Conduct to avoid conflicts of interest and to meet requirements of objectivity and transparency, independence, integrity and professional conduct.

imug rating GmbH ("imug rating") is an independent sustainability rating agency and a wholly owned subsidiary of EthiFinance SAS. imug rating cannot exclude that the parent company may have provided consulting services for the framework of the Lender prior to the preparation of a Second Party Opinion. To avoid any conflict of interest, imug rating and EthiFinance SAS have implemented appropriate policies and effective information barriers to prevent any exchange between the consulting and the auditing organisations and employees. Neither EthiFinance SAS nor any of its employees are informed about the content of the imug rating Second Party Opinion prior to its publication or dissemination.

In providing the external review, imug rating adheres to the ethical and professional principles as well as to transparency standards and independency in line with ICMA's Guidelines for Green, Social, Sustainability and Sustainability-Linked Bonds External Reviews.

In providing its research and rating services, imug rating acts with due skill, care and diligence and undertakes all reasonable efforts to ensure the accuracy of the information provided.

Based on data provided by the Lender, imug rating prepares a Second Party Opinion on the sustainability credentials of the Loan(s). The information contained herein, therefore, is provided "as is", without warranty, either expressed or implied, of any kind, including as to the accuracy, completeness, timeliness, merchantability or fitness for any particular purpose.

The Lender is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and monitoring. The opinion delivered by imug rating neither focuses on the financial performance of the Loan(s), nor on the effective allocation of its proceeds. imug rating is not responsible for the induced consequences when third parties use this opinion either to make investment decisions or any kind of business transaction.

The information contained herein does neither constitute any assessment of the Lender's economic performance or creditworthiness, nor any financial or investment advice, nor any statement about the suitability of an investment for any particular investors or any groups of investors. No results and value judgments provided by imug rating constitute in any way an investment advice or any other purchase or investment recommendations. To the extent permitted by law, imug rating disclaims liability to the client and to any other person or entity for any losses or damages directly or indirectly arising from or related to the use of its research and rating results.

imug rating reserves full rights of, including but not limited to intellectual property rights, on the information, methodologies and opinions contained or reflected herein. The Second Party Opinion is provided to the Lender by imug rating and may be used by the Lender as agreed between the Lender and imug rating. Any further publication, in its entirety or in extracts, or any other disclosure to or by third parties requires the prior written consent of imug rating.

Validity of the Second Party Opinion (SPO)

An update of the SPO is required in the event of significant changes to the Lender's framework conditions and sustainability requirements that have an impact on the SPO as well as in the event of a change to the underlying standard.

imug | rating



imug rating is the leading German provider for strategy and implementation of ESG investments as well as for sustainability assessments. As a partner for the financial market, corporates and the public sector, we have stood for sustainable ESG strategies, data and reporting as well as for credible Second Party Opinions, Sustainability Ratings and expert opinions for over 25 years. imug rating is a data partner of Moody's ESG Solutions¹³, recognised auditor of green bonds and loans according to ICMA and LMA as well as Climate Bonds Approved Verifier. Our quality management is certified according to ISO 9001, which is unique in our industry. We are a signatory of the Principles for Responsible Investments (PRI), a member of the Forum Nachhaltige Geldanlagen (FNG), the Corporate Responsibility Interface Center (CRIC) and the association Kapitalmarkt KMU. imug rating is a wholly owned subsidiary of the European Ethifinance SAS.

imug rating GmbH
Postkamp 14 a
30159 Hanover
Phone: +49 511 121 96-50
E-mail: info@imug-rating.de
Web: www.imug-rating.de/en

Analysts

- ▶ Alexander Dennis Schult
- ▶ Christina Tyca
- ▶ Daria Ezhkova
- ▶ Gökhan Vatansever

¹³ Moody's® is a registered trademark.