

MünchenerHyp

Green

Bond

Framework



With nearly 70,000 members, Münchener Hypothekenbank is one of the biggest cooperatives in Germany. Our Bank's legal format as a cooperative has guided our business policy since the Bank was founded in 1896. We are part of the Cooperative Financial Network and feel especially obligated to observe cooperative values. For this reason the welfare of our members is the primary factor driving our business activities.

Our business policy is focused on the long term. We are committed to being a reliable financing partner, who also maintains sustainable business relationships with his customers. We place special value on relationships based on trust, partnership and mutual respect in our collaborative arrangements with the Volksbanken and Raiffeisenbanken.

We have earned a high reputation as a Pfandbrief issuer, and we want to keep it. At the centre of these efforts are our measures to ensure the high quality of our Pfandbrief and the comprehensive service and support we provide to our investors.

Low-risk, long-term-oriented business model

MünchenerHyp wants to maintain and continually expand its position as a specialist provider of Pfandbrief-funded property financing for private individuals and commercial borrowers inside and outside the Cooperative Financial Network. This applies in particular to our position as a subsidiary financing partner to the cooperative banks. Our business relationships with these banks are central to our identity.

The MünchenerHyp's business strategy is guided by considerations of sustainable business practices. The focus of the strategy is a low-risk business model oriented towards the long-term. This includes social and environmental responsibility. We strive to consistently embed sustainability into our core business. In particular, this involves providing property loans with environmental aspects and refinancing those loans sustainably through the issue of sustainable Pfandbriefe (hereafter, "ESG Pfandbriefe").

Over the past years we expanded our range of financial solutions to include ecologically sustainable offers.

Additionally, MünchenerHyp has excluded business activities relating to certain critical sectors that could have an indirect impact on human rights. These include controversial fields of business such as:

- Gambling
- Pornography
- Military Weapons
- Tobacco
- Alcohol
- Uranium Mining

Embedding sustainability in our core business

Our sustainability management activities are focused on our core business, as it is here that the greatest leverage for the achievement of sustainable development objectives can be found. We see our sustainability activities in relation to our core business as a cycle: we make sustainable property loans on the assets side which in turn are refinanced sustainably on the liabilities side. All of these activities are subject to MünchenerHyp's sustainability management activities.



With our holistic understanding of sustainability in mind, MünchenerHyp has developed various sustainable loans for its private customers which address both environmental and social aspects.

We have implemented the MünchenerHyp Green Loan (formerly Sustainability Loan)¹ for energy efficient residential buildings with preferential conditions. The MünchenerHyp Green Loan can be granted for new buildings as well as purchasing, modernisation and follow-up financing of existing buildings. The environmental benefits of the Green Loan comprise climate protection and the efficient use of energy and resources.

The MünchenerHyp Green Loan can be used to finance any property with low primary energy requirements, meaning that they protect the environment, at low interest rates. This means that the focus with regard to the property to be financed is on ecological aspects.

The MünchenerHyp Green Loan was certified by the renowned sustainability ratings agency ISS-oekom (formerly oekom research) in 2015.



¹ https://www.muenchenerhyp.de/en/company/sustainable_business_policy/sustainability_loan/index.html

Given the environmental focus of the loan, MünchenerHyp has opted to rename the “MünchenerHyp Nachhaltigkeitsdarlehen” (sustainability loan) as “MünchenerHyp Grünes Darlehen” (green loan) in 2018.



We also offer our customers the benefits of the KfW residential housing programmes to finance their own four walls. KfW promotes home ownership, measures to increase the energy efficiency of buildings, modernisation of housing, and the construction of new energy-efficient housing as well as the installation of solar energy systems.

Sustainable Refinancing of Green Assets

In the existing Sustainability Cycle of MünchenerHyp it was a common understanding to refinance our green mortgage portfolio with an ecological ESG Pfandbrief to sharpen the sustainable profile of the bank even further. There are several good reasons for the bank and its stakeholders.

Reasons for the issuer	Reasons for the investor
sustainability as integral part of MünchenerHyp (sustainable values and corporate governance)	investment in sustainable products
investing in the future, the society and climate protection	contribution to climate protection and commitment for the society
protection of competitive advantages	realisation and performance of sustainable mandates
extension of the product range, integral supply	optimisation of the ecological footprint
reputation	complying with regulatory requirements
broadening of the investor base	good secondary market utilisation of assets

The Framework

As part of its continued commitment to sustainable finance, MünchenerHyp has elected to create a Green Bond Framework which is in accordance with the Green Bond Principles 2018², and under which MünchenerHyp can issue ecological ESG Pfandbriefe. MünchenerHyp’s Ecological ESG Pfandbrief will be used to finance and/or refinance loans made through its Sustainable Mortgage Loan Programme (hereafter referred to as MünchenerHyp Green Loans) or for certified sustainable commercial mortgage loans.

For each ecological ESG Pfandbrief issued, MünchenerHyp asserts that it will adopt (1) Use of Proceeds (2) Project Evaluation and Selection (3) Management of Proceeds, (4) Reporting and (5) External Review, as set out in this Framework.

² <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2018/Green-Bond-Principles---June-2018-140618-WEB.pdf>

1. Use of Proceeds

The Use of Proceeds of any MünchenerHyp Ecological ESG Pfandbrief will be applied to new or existing lending³ through MünchenerHyp's Green Mortgage Loan programme or certified environmental loans for commercial mortgages.

In November 2015, MünchenerHyp implemented a green loan for the retail mortgage lending which is distributed via the Cooperative Financial Network within Germany. This loan has been certified by ISS-oekom (formerly oekom research)⁴. The assets for our Ecological ESG Pfandbrief meet the following criteria:

Category	Business are	Criteria
Green loans	Retail mortgage lending	Residential buildings in Germany with a maximum annual energy demand of 70kWh/sqm or Residential buildings that obtained an energy performance certificate with a minimum energy performance labelled "B" (on a scale from H to A+)
Certified environmental loans	Commercial mortgage lending	DGNB (min. Gold or Platinum) BREEAM (min. Very Good, Excellent or Outstanding) LEED (min. Gold or Platinum) HQE (min. Excellent or Exceptional) or Top 15% of national building stock by energy performance

The Use of Proceeds relate to the categories Energy Efficiency and Green Buildings as described in the Green Bond Principles and contribute to the environmental objective of climate change mitigation and the achievement of UN Sustainable Development 7: Affordable Clean Energy For All, specifically:

- *Target 7.3. By 2030, double the global rate of improvement in energy efficiency.*

³ Existing loans refer to loans originated under our green loan programme.

⁴ https://www.muenchenerhyp.de/en/_downloads/framework_nachhaltigkeitsdarlehen/MHB_Framework.pdf

2. Project Selection and Evaluation Process

The internal Project Evaluation and Selection Process will ensure that the proceeds of any MünchenerHyp Ecological ESG Pfandbrief are allocated to new lending or existing loans that meet the criteria set out above.

The process will be led by the Green Bond Working Group (GBWG), a subgroup of the MünchenerHyp sustainability committee. The GBWG will verify the eligibility and data quality of existing loans in regards to potential issuance of a green benchmark. The GBWG consists of members from the following MünchenerHyp departments:

- Treasury
- Sustainability
- Controlling / Risk Management

The GBWG will be chaired by MünchenerHyp's Head of Treasury or a treasury colleague.

On a quarterly basis, the data quality of sustainable retail and commercial loans will be checked by the loan department to verify the clearly defined product category and the aforementioned sustainability performance criteria. Data will be verified by:

- Information from an energy certificate (Energieausweis) with a maximum primary energy demand of 70kWh/m² per year; or
- Confirmation that the building meets the conditions from the respectively applicable KfW programme; or
- The year of construction for new buildings (according to national regulation (German EnEV), minimum energy performance criteria have to be met for new buildings)

Commercial loans will only qualify as certified environmental loans if there is applicable evidence in form of an energy performance certificate or documentation of Green Building certification which meets the minimum requirements stated above.

By the end of every quarter the process will show the balance between eligible loans for the ecological ESG Pfandbrief and MünchenerHyp's green lending book. The sustainability manager will receive the data from the loan department and will inform the sustainability committee accordingly.

Additionally, the controlling department will conduct a quality check of the loan data on an annual basis in order to verify that the green loans (retail and commercial) are compliant with the MünchenerHyp Green Bond Framework. Based on the above evaluation the GBWG will review on at least an annual basis the allocation of the proceeds to the Eligible Use of Proceeds and approves these loans as Eligible Loans. The GBWG is also responsible for future changes to the framework or criteria. These will only be applicable for future issuance and the new version will be published via our website.

3. Management of Proceeds

The Green Loans and Certified Environmental Commercial Loans to which the proceeds of any MünchenerHyp Ecological ESG Pfandbrief will be allocated will fall into a cover pool of MünchenerHyp's loans for residential and commercial real estate. The Pfandbrief Act does not permit a separation of green loans outside the legal cover pool.

The GBWG will decide on the allocation of Eligible Assets to the proceeds of the bond.

As described in the introduction, the MünchenerHyp business model supports a permanent cycle of green loan granting and the issuance of ecological ESG Pfandbriefe. In the event of prepayment of loans, amortisation, sold or otherwise becoming ineligible, MünchenerHyp commits to replace these assets with other Eligible Loans. In the unlikely event of a shortfall in the green loan cover pool section, appropriate investments of the unallocated proceeds in sustainable assets will be made until the volume of green loans will be sufficient again.

The Management of Proceeds is governed by the Treasury department as part of the daily steering of liquidity ratios and all legal regulations involved. Pending allocation, the proceeds of each MünchenerHyp Ecological ESG Pfandbrief will be subject to MünchenerHyp's normal liquidity policy (Treasury Handbuch).

4. Sustainability Reporting

In our annual sustainability report, MünchenerHyp informs in detail about the company's corporate responsibility strategy and presents how sustainability aspects are anchored in the Bank's core business of financing private and commercial property. We are committed to a high degree of transparency.

With the publication of our sustainability report including the GRI disclosures, we inform in detail about activities and results in our four corporate responsibility areas (responsibility towards employees, responsibility for society, responsibility for the environment and responsibility in business activities). Key performance indicators make our non-financial performance transparent. The requirements of the Global Reporting Initiative (GRI) were taken into account when selecting our focus areas and key figures.

In the future the reports will provide further information with regards to Ecological ESG Pfandbriefe:

4.1 Allocation Reporting

On an annual basis, MünchenerHyp will provide information on the allocation of the net proceeds of its Ecological ESG Pfandbrief(e) on our website. Such information will be provided until all the net proceeds have been allocated. The information will contain at least the following details:

- I. Details (e.g number and volume) of green loans financed through MünchenerHyp's Ecological ESG Pfandbrief(e) separated into retail and commercial lending in the cover pool; and
- II. The remaining balance of unallocated proceeds.

4.2 Impact Reporting

MünchenerHyp will provide impact reporting on a portfolio basis using the metrics recommended under the Harmonized Framework for Impact Reporting⁵, namely:

Project Category	Impact Reporting Metrics
Certified Green Buildings	<ul style="list-style-type: none"> • CO₂-emissions avoided • Average energy demand (where available)

5. External Review

MünchenerHyp Bank has obtained a Second Party Review from ISS-oekom to confirm the alignment of this Green Bond Framework with the 2018 Green Bond Principles.

⁵ <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/20151202-0530-FINALRevised-Proposal2.pdf>