



## MünchenerHyp

### **Use of proceeds for ESG Pfandbriefe**

The net proceeds from the issuance of this first ESG Pfandbrief (the “**Proceeds**”) will be used to refinance loans already granted which meet the criteria specified below. The Issuer is planning a future financing programme for housing cooperatives of between €50 million and €100 million per year, which will be based on the same criteria specified below. Accordingly, upon expiry of the five-year term of this first ESG Pfandbrief, funds in the amount of this first ESG Pfandbrief would be reinvested in similar assets.

The use of the Proceeds is intended to meet each of the following four criteria:

The first criteria are intended to ensure that the Proceeds are used or have been used in such a way as to make them eligible for ethical and socially responsible investors, as defined by the oekom research standard set of exclusion criteria.

The second criteria ensure that all lending is subject to the Bank’s internal business and risk strategy as well as to the internal sustainability guidelines.

The third criteria ensure that all lending will meet the financing criteria/lending strategy for our commercial real estate financing.

The fourth criteria are intended to ensure the eligibility with the sustainability criteria of oekom research.

### **Annex**

Münchener Hypothekenbank eG (“MünchenerHyp”) is the partner for the German cooperative banks for providing the full spectrum of residential and commercial property financing requirements.

As one of the biggest cooperative banks in Germany, MünchenerHyp feels particularly committed to pursuing a sustainable business policy. For MünchenerHyp sustainability means acting in an economically responsible way without losing sight of ecological aspects and our responsibility towards society.

### **Tier 1 Criteria**

#### **oekom research's standard set of exclusion criteria**

oekom research has defined a standard set of exclusion criteria to work with, which investors can use for guidance. This is set out below. However, each investor is free to define a customised set of exclusion criteria to work with.

Assets related to the following controversy sectors will be excluded as Eligible Assets:

## **Controversial Business Areas**

- Alcohol (producers of beer/wine and/or high-proof beverages > 5 per cent of net sales)
- Gambling (particularly controversial forms of gambling (e.g. the operation of casinos or betting shops and the production of slot machines) > 0 per cent of net sales and/or other forms of gambling (e.g. prize-winning and guessing shows on the television, radio, which are financed through raised telephone tariffs) > 20 per cent of net sales)
- GMOs (producers of genetically modified plants and animals > 0 per cent of net sales)
- Nuclear Power (producers of nuclear energy and/or the mining of uranium > 0 per cent of net sales and/or assembly of key components for nuclear power stations > 5 per cent of net sales)
- Pornography (producers of pornographic material > 0 per cent of net sales and/or traders of pornographic material > 10 per cent of net sales)
- Military (producers of weapons and/or outlawed weapons > 0 per cent of net sales and/or producers of other armaments > 5 per cent of net sales)
- Tobacco (producers of tobacco products and/or components/accessories > 5 per cent of net sales)

## **Controversial Business Practices**

- Animal Testing (animal testing for end products of consumer goods (e.g. cosmetics, detergents), that are not required by law and involve the risk of inflicting damage on the animals concerned)
- Child Labour (serious violation of the basic principle regarding child labour of the ILO Declaration on Fundamental Principles and Rights at Work by the company itself or by suppliers/subcontractors)
- Controversial Environmental Practices (gross disregard of environmental legislation or generally recognised minimum environmental standards/codes of behaviour by the company itself or by suppliers/subcontractors)
- Business Malpractice (corruption and/or falsification of accounts)
- Human Rights Violations (serious violation of fundamental human rights by the company itself or by suppliers/subcontractors)
- Labour Rights Violations (serious breach of at least one of the four basic principles of the ILO Declaration on Fundamental Principles and Rights at Work (freedom of association and assembly, forced labor, child labor and discrimination) and/or systematic circumvention of minimum employment standards (e.g. in the areas of health and safety, remuneration, working hours) by the company itself or by suppliers/subcontractors)

## **Tier 2 Criteria**

To satisfy the Tier 2 Criteria , Eligible Assets must be in compliance with the Bank's business and risk strategy as well as to the internal sustainability guidelines:

The business and risk strategy defines the parameters of the Bank's business activities. MünchenerHyp's entire Board of Management is responsible for this strategy, as well as for the business and risk strategy. Risk strategy takes legal requirements into account, especially the provisions contained in the latest version of the KWG and MaRisk. In conformity with Article 25a KWG, MünchenerHyp has a proper business organisation, which, among other purposes, includes the control of, and the ability to bear, risks in accordance with the enterprise's risk strategy

Within its business strategy, MünchenerHyp define its business areas as Retail Germany, Retail Switzerland/Austria, Commercial Domestic, Commercial Foreign and Public Sector/Banks. Strategic and operational objectives are set for each business area, which should be achieved within the framework of the mid-term business plan. Based on this, the risk strategy states how MünchenerHyp will, or plans to, deal with the risks associated with these business activities.

MünchenerHyp further developed its sustainability strategy during the past year. The goal is to integrate the economic, ecological and social actions even closer with the cooperative business philosophy.

To achieve this goal MünchenerHyp established a Sustainability Committee, which consists of 14 employees from many of MünchenerHyp's departments. The tasks of the Sustainability Committee are, in particular, to continuously further develop the Bank's sustainability strategy, to develop and implement new sustainability measures, and to manage the entire sustainability process.

## **Tier 3 Criteria**

In principle, the following criteria apply for commercial real estate financing:

- Completed properties with stabilised cash flow (no construction, no development) in good state of maintenance and sufficient useful remaining life.
- Sustainable property income as a result of (i) a good location with positive economic outlook, (ii) a good future letting prospects after the expiration of the current lease agreements and (iii) suitability for third party use of the property.
- Preferably multi-let with low lease roll-over during the term of the loan and appropriate longer-termed lease agreements with creditworthy tenants.
- First-ranking financing of up to € 50 Mio. provided on a single property. Higher loan amounts are available by way of club deals with other partner banks or by syndication of parts of the loan upon full underwriting. For portfolio deals we have the discretionary capacity for loans of more than € 50 Mio. without additional financing partners.
- Comfortable Debt Service Coverage (ISCR/DSCR) based on current and sustainable rental levels and appropriate operating expenses.
- Loan to value (LTV) of up to 75%. Higher LTV's are possible depending on the corresponding mortgage lending value (Beleihungswert) of the property. For properties located in Germany the calculation of both the Market Value as well as the Mortgage Lending Value will be carried out by M-Wert GmbH – a fully-owned

subsidiary of MünchenerHyp. For properties located outside of Germany M-Wert will calculate the Mortgage Lending Value by using the external Market Value Appraisal addressed to the bank.

- Plausible exit scenario based on conservative assumptions.
- Properties to be located in economically strong regions or in locations, which support the economic strength and the dedicated use of the property.

#### **Tier 4 Criteria**

##### **Oekom research second opinion:**

The Sustainable Pfandbrief Framework serves as a structure for verifying the sustainability quality.

The proceeds from the ESG Pfandbrief issuance will be fully used to refinance loans to German housing cooperatives. Housing cooperatives are as a rule non-profit organisations whose aim is the provision of safe, user-friendly and socially sustainable housing. As debtors, the housing cooperatives use these funds to finance property-related projects in Germany.

These include in particular the following categories of projects offering social and/or environmental added value:

- Purchase of plots for social housing/construction of new cooperative housing
- Social housing/construction of new cooperative housing
- Purchase of existing housing for first use as social housing/cooperative housing
- Refurbishment of existing housing to make it more energy-efficient
- Further refurbishment/maintenance work to preserve and improve the social and environmental quality of the residential space in housing cooperative properties
- Funding and support for non-profit-oriented and democratically managed housing organisations in Germany
- Socially responsible rental structures
- Permanent right of residence for the tenants
- Creation/provision of housing
- User-friendly building construction
- Energy efficiency

The listing of the above mentioned criteria is not considered as terminatory and as the case may be additional terms can be amended.