



MünchenerHyp

MünchenerHyp

Green

Bond

Framework

2019



MünchenerHyp

With nearly 67,000 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 businesspractices. 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 issuance of sustainable funding products such as:

- Pfandbriefe (covered bonds)
- Senior Bonds
- Commercial Paper (CP)
- Customer's money

Over the past years we expanded our range of financial solutions to include ecologically sustainable offers. Financing of the assets and refinancing can take place in Euros and foreign currencies.

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:

- Alcohol
- Gambling
- Military Weapons
- Pornography
- Tobacco
- 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



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 sustainable funding products 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 sustainable funding products. All MünchenerHyp's sustainable funding products 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 sustainable funding product 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 sustainable funding product 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 sustainable funding products 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+) Grandfathering for green loans granted since November 2015 ----- From 2020 onwards residential buildings with a maximum annual energy demand of 55kWh/sqm
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) BREEAM NL (min. 40% or better) Energy Performance Certificate (EPC) (min. Level A or better) or Top 15% of national building stock by energy performance

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

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



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The Use of Proceeds relate to the categories Energy Efficiency and Green Buildings as described in the Green Bond Principles. They contribute to the environmental objective of climate change mitigation and the achievement of UN Sustainable Development Goal 11: Sustainable Cities and Communities, and SDG 7: Affordable Clean Energy For All, specifically:



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

2. Project Selection and Evaluation Process

The internal Project Evaluation and Selection Process will ensure that the proceeds of all MünchenerHyp sustainable funding products are allocated to new lending or existing loans that meet the criteria set out above.

The Green Bond Working Group (GBWG), a subgroup of the MünchenerHyp sustainability committee, will lead the process. 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

MünchenerHyp's Head of Treasury or a Treasury colleague will chair the GBWG.

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/sqm per year; or from 2020 onwards with a maximum energy demand of 55kWh/sqm per year
- 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 the proceeds of sustainable funding products and MünchenerHyp's green lending book. The sustainability manager will receive the data from the Transaction Management department and will inform the sustainability committee accordingly.

Additionally, the Risk Controlling department and Transaction Management will conduct a



quality check of the loan data on a regular 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 all MünchenerHyp sustainable funding products 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. Due to this fact MünchenerHyp has decided to implement the following process to clearly identify green and certified environmental loans:

The green loan for retail mortgage lending has a designated new internal product group and new modules have been programmed in the legal system to identify energy efficient loans. These loans are checked on a quarterly basis whether the required proof has been provided or not. In the case of missing evidence reminders will be sent to the intermediary Cooperative Bank. If the proof is still missing within the next quarterly control the loan will lose its classification as a sustainable loan and will not remain in the product group for green loans.

Accordingly, certified commercial loans new modules have been programmed in the legal system reflecting all qualifying certificates matching the criteria within the green bond framework. The competent credit analyst should send the certificate to the sustainability manager after granting the loan. A quality check is run as well during the quarterly reporting. The programmed fields in the legal system allow a clear analysis of certified environmental loans, after which a double check of the completeness and eligibility of all certificates takes place. In case the documentation is still missing, the colleague in charge will be asked to provide the certificate. Any missing certificate will cause the derecognition from the sustainable portfolio within the cover pool.

The non-cover- pool eligible part remains as well on the balance sheet and in will be disclosed separately.

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

As described in the introduction, the MünchenerHyp business model supports a permanent cycle of green loan granting and the issuance of sustainable funding products. 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. Regarding the refinancing of green and sustainable loans, which are not yet booked into the cover pool or its non-cover-pool eligible part, Treasury will use the quarterly reporting as a guidance. The reporting will disclose the volume of loans in the cover pool and the non-cover-pool eligible part versus the volume of issued sustainable funding products.



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 sustainable funding products 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 theBank'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 we will provide further information with regards to sustainable funding products:

4.1 Allocation Reporting

On a quarterly basis, MünchenerHyp will provide information on the allocation of the net proceeds of its sustainable funding products on the website. Such information will be provided until all the net proceeds have been allocated and beyond. The information will contain at least the following details:

- I. Details (e.g number and volume) of green loans financed through MünchenerHyp's sustainable funding products separated into retail and commercial lending in the cover pool; and
- II. The remaining balance of unallocated proceeds.
- III. The reporting will disclose the volume of loans inside and outside of the cover pool versus the volume of all sustainable funding products outstanding. Regarding the sustainable funding of green and sustainable loans not yet in the cover pool or its non-cover-pool eligible part, Treasury will use the quarterly reporting as a guidance.

4.2 Impact Reporting

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

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



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Project Category	Impact Reporting Metrics
Certified Green Buildings and green private real estate	<ul style="list-style-type: none"><li data-bbox="576 376 927 405">□ CO₂-emissions avoided<li data-bbox="576 416 1182 445">□ Average energy demand (where available)

The comprehensive, scientific analysis for the impact reporting will be conducted by an external verifier. The report will be available on the website of MünchenerHyp after publication.

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.