



MünchenerHyp

Green Bond Framework 2021

Update: September 2021 | External Review: SPO ISS ESG till February 2022 | Validity: starting March 2022



Münchener Hypothekenbank

With around 64,400 members, Münchener Hypothekenbank eG (MünchenerHyp) is one of the largest cooperatives in Germany. The cooperative legal form has shaped our business policy since the bank was founded in 1896. We are part of the Genossenschaftliche FinanzGruppe (Cooperative Financial Network) and are particularly committed to cooperative values. In our business activities, we therefore focus primarily on the welfare of our members. Well over 90 percent of our members are or were also customers of MünchenerHyp.

Our business policy is geared to the long term. Our aim is to be a reliable financing partner that maintains a sustainable relationship with its customers. In our cooperation with the Volksbanks and Raiffeisenbanks and other intermediary partners, we attach particular importance to working together as equals in a spirit of trust and partnership.

As an issuer of Pfandbriefe, we enjoy a high reputation, which we aim to maintain. The focus here is on maintaining the high quality of our Pfandbriefe and providing comprehensive support to investors. Furthermore, in addition to the ESG Pfandbrief, we also refinance sustainable green loans with green senior preferred and green senior non-preferred bonds and, in the money market, with green commercial paper and green term money.

Low-risk, long-term-oriented business model

MünchenerHyp intends to continuously expand its position as a specialized provider of real estate financing for private individuals and commercial borrowers within and outside the Genossenschaftliche FinanzGruppe in Germany and abroad based on well-diversified refinancing. This applies in particular to our position as a subsidiary financing partner to the cooperative banks. The business relationships with these banks are of identity-defining importance to us.

MünchenerHyp's business strategy is guided by the idea of sustainable business. The focus is on the risk-conscious and long-term oriented business model. This includes social and ecological responsibility.

Human Rights

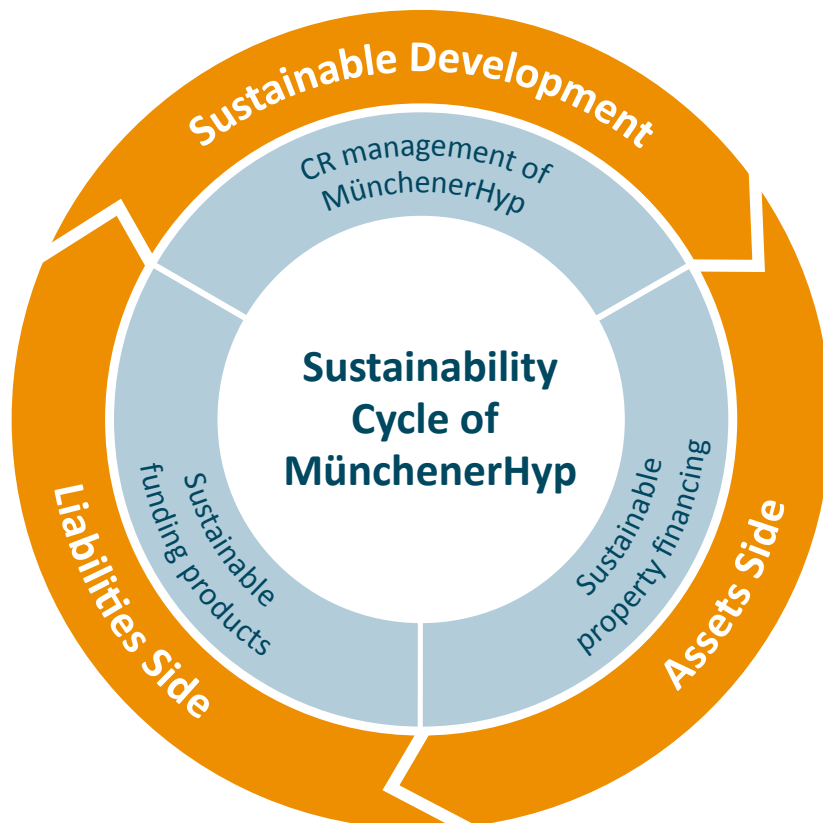
We explicitly recognize our social responsibility to respect human rights beyond compliance with the legal framework. We have expressed this in the guideline „Human Rights and Diversity at MünchenerHyp“.

MünchenerHyp only operates in jurisdictions, where respect for human rights, in particular the principles of diversity, are observed by legislators to a similar extent as in Germany. Furthermore, we explicitly recognize our social responsibility to comply with international human rights standards, particularly the UN Universal Declaration of Human Rights, the Covenant on Economic, Social and Cultural Rights, the Covenant on Civil and Political Rights and the core labour standards of the International Labour Organisation (ILO).



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 grant sustainable property loans on the assets side, which in turn are refinanced sustainably on the liabilities side. This cycle is controlled by MünchenerHyp's sustainability management.



On the lending side, we offer real estate financing that includes environmental and/or social aspects; on the liabilities side, we provide sustainable refinancing for such loans by issuing sustainable refinancing products.

Sustainable real estate financing

MünchenerHyp has developed various sustainability loans for its retail customers that cover both ecological and social aspects in line with our holistic understanding of sustainability.

With the [MünchenerHyp Green Loan](#)¹ (formerly MünchenerHyp Sustainability Loan), all residential properties that have a low primary energy requirement and thus protect the environment and climate can be financed at lower interest rates. 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 was reviewed by the renowned sustainability rating agency ISS ESG (formerly oekom research) in 2020.

¹ Sustainability Loans | MünchenerHyp ([muenchenerhyp.de](https://www.muenchenerhyp.de))



We also offer our customers the benefits of the KfW residential housing programmes for financing. 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.

When granting sustainability loans in the commercial sector, the properties must have a recognized sustainability certificate with additional minimum criteria or meet strict energy efficiency requirements. MünchenerHyp has also defined controversial business areas for the commercial sector. If the borrower, the beneficial owner or the (main) tenant are connected with the following businesses, the granting of a sustainability loan is excluded:

- Coal/fossil energy (companies that generate more than 30% of their revenue from coal extraction or power generation, or from the extraction of oil from oil sands)
- Armaments (companies that produce or trade in controversial weapons (mines/anti-personnel mines, cluster bombs, nuclear/biological/chemical weapons, ammunition containing uranium))
- Tobacco (companies that derive more than 5% of their turnover from tobacco)
- Gambling (companies operating controversial forms of gambling, i.e. casinos, betting shops, gambling halls, manufacturing of gambling machines; state-owned casinos are allowed)
- Red light (companies with revenues from pornography or prostitution)
- Environmental violations (companies related to serious environmental violations)
- Human rights (companies related to human rights violations)

Sustainable Refinancing of Green Assets

The existing sustainability cycle includes sustainable refinancing of sustainable loans.

Sustainable refinancing can draw on the following sustainable capital market and money market products:

- Green AT 1
- Green Tier 2
- ESG Pfandbriefe
- Green Senior Bonds
- Green commercial paper (CP)
- Green customer deposits
- Green term money

The financing and refinancing of the assets can be in euros or foreign currency.



There are many good reasons for the bank and its stakeholders to decide for sustainable finance products.

Reasons for the issuer	Reasons for the investor
Sustainability as integral part of MünchenerHyp's business model	Investment in sustainable products
Investing in the future, the society and climate protection	Contribution to climate protection and commitment to the society
Maintaining competitive advantage	Realisation and performance of sustainable mandates
Extension of the product range	Optimisation of the ecological footprint
Reputation	Complying with regulatory requirements
Broadening of the investor base	Good secondary market utilisation of assets

The Framework

In order to ensure that sustainable financing meets international standards, MünchenerHyp has decided to establish a Green Bond Framework, which is in line with the latest ICMA Green Bond Principles. This framework serves as the basis for both the exact specification of the green assets and the specification of MünchenerHyp's sustainable refinancing products. All sustainable refinancing products are used for refinancing and/or financing green loans as part of our sustainable lending in private real estate financing and for sustainability-certified commercial loans.

For the green portfolio and each sustainable refinancing product, MünchenerHyp confirms that the following aspects of the ICMA Green Bond Principles apply:

- (1) Use of Proceeds,
- (2) Project Evaluation and Selection,
- (3) Management of Proceeds,
- (4) Reporting, and
- (5) External Review.

In addition to reporting on the above points, information on various aspects is regularly made available on our website:

- Allocation Reporting
- ESG Reporting based on S28 Pfandbrief Act
- Impact Reporting



1. Use of Proceeds

The Use of Proceeds of MünchenerHyp sustainable funding products are used to finance new or existing loans² from 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. While introducing this loan, ISS ESG (formerly oekom research) has qualified the loan as sustainable and a reassessment took place with the tightening of the [criteria for energy efficiency](#).³

The assets for our sustainable funding products meet the following criteria:

Residential	Commercial
Green loans	Certified environmental loans
Criteria	
residential buildings in Germany with maximum annual primary energy demand of 70 kWh/sqm (till April 2020) <i>and</i> residential buildings in Germany with maximum annual primary energy demand of 55 kWh/sqm (since May 2020) <i>or</i> old and new KfW promotional programmes for energy-efficient construction <i>or</i> Top 15% of national building stock by energy performance in Switzerland or Minergie Certificate <i>Info:</i> Grandfathering for green loans granted since November 2015	DGNB (min. Gold or Platinum) <i>or</i> BREEAM (min. Very Good, Excellent or Outstanding) <i>or</i> LEED (min. Gold or Platinum) <i>or</i> HQE (min. Excellent or Exceptional) <i>or</i> BREEAM NL (min. 40% or better) <i>or</i> Energy Performance Certificate (EPC) (min. Level A or better) <i>or</i> 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. They contribute to the environmental objective of climate change mitigation and the achievement of UN Sustainable Development Goal 11: Sustainable Cities and Communities.



SDG 7: Affordable Clean Energy For All.
Specifically, contributing to sub-goal 7.3, doubling the global rate of increase in energy efficiency by 2030.

² Existing loans refer to loans originated under our green loan programme.

³ [GrüneDarlehen_Certificate_ISS-ESG_ENG.pdf \(muenchenerhyp.de\)](#)



2. Project Selection and Evaluation Process

The internal Project Evaluation and Selection Process ensures that the issue proceeds of sustainable refinancing products are allocated to new or existing loans that meet the criteria described above. The process for selecting relevant loans is managed by the Green Bond Working Group (GBWG) – a subgroup of MünchenerHyp's Sustainability Committee. The Green Portfolio Working Group reviews the suitability of loans and data quality with regard to possible green bond issuances.

The members of the working group come from the following areas of MünchenerHyp:

- Treasury
- Sustainability
- Controlling/Risk Management

The working group is chaired by the representative of Treasury. The final decision to issue a green bond is the responsibility of Treasury, where the funding requirements, management of the cover pool and implementation of measures to comply with regulatory liquidity ratios are also coordinated.

Each quarter, the data quality of sustainable retail and commercial loans is reviewed by Loan Processing to verify the allowable product category and the specific sustainability criteria included. The data is verified using:

- information from the energy certificate (Energieausweis) with a maximum annual primary energy demand of 70 kWh/sqm until April 2020; or from May 2020 with a maximum annual primary energy demand of 55 kWh/sqm; or
- confirmation that the property meets the conditions of the respective KfW program for energy-efficient construction; or
- the year of construction in the case of new buildings (German EnEV , minimum criteria for energy-efficiency must be achieved in new buildings); or
- the external proof of belonging to the top 15% of the national housing stock

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 and the treasury team will receive the data from the Transaction Management department and will inform the sustainability committee accordingly. Investors can find the information as allocation reporting on our website.

In addition, a review of the data quality of the loan data will be conducted on an annual basis to verify the qualification of the green loans (retail and commercial) for MünchenerHyp's Green Bond Framework. Based on this evaluation, the GBWG will annually review the allocation to eligible use of proceeds and confirm these loans as qualifying loans. The GBWG is also responsible for future changes to the framework or criteria. These adjustments will be published on our website and will only affect future issues.



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 – can be registered up to a maximum of 60% loan-to-value ratio within the 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 percentage above 60% loan-to-value ratio will be monitored within a green portfolio. The non-cover-pool eligible part remains as well on the balance sheet and will be disclosed separately.

The GBWG reports the allocation of qualifying assets to bond issue proceeds at the end of the quarter on a portfolio basis.

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 contrast to green project financing all green assets are part of a dynamic pool of assets. While granting green loans on an ongoing basis the overall situation is providing a buffer of eligible assets versus outstanding sustainable bonds. In the event of prepayment of loans, amortisation, loans sold or otherwise becoming ineligible, MünchenerHyp commits to replace these assets with other eligible loans. In the unlikely event of a shortfall of sustainable/green loans in the green portfolio, appropriate investments will be made in bonds of issuers with good sustainable ratings or a direct investment in green products for unallocated issue proceeds until the volume for green assets is again sufficient.

The management of issue proceeds is the responsibility of MünchenerHyp's Treasury department, as this is also where all requirements for compliance with liquidity ratios and regulatory requirements are implemented in a controlled manner. Consequently, issue proceeds from sustainable refinancing products are also subject to the provisions of MünchenerHyp's liquidity guidelines (set out in the Treasury Handbuch).

4. Sustainability Reporting

With our sustainability reporting, 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 non-financial report, we provide comprehensive information on activities and results in accordance with the legal requirements of the CSR Directive Implementation Act. Accordingly, we disclose information on our business performance and business situation and address the impact of our business on the aspects of environmental, social, and employee concerns, respect for human rights, and the fight against corruption and bribery. The requirements of the Global Reporting Initiative (GRI) were taken into account in the selection of the focal points and indicators.

We are currently providing further information on sustainable refinancing 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 (ESG Pfandbrief quarterly reporting in the style of §28 Pfandbrief Act).



- II. The remaining balance of assets and proceeds. Due to the portfolio approach of the bank a balance of unallocated proceeds is highly unlikely. A pre-issuance and post-issuance review would only show a new amount for green bonds issued because the green loans have been granted in advance due to the business model and strategy.
- III. In the reporting, the volume of loans within and outside the cover pool is disclosed against the volume of all outstanding sustainable refinancing products.

The quarterly [green reporting](#)⁴ and [ESG Pfandbrief reporting](#)⁵ is available on the website.

4.2 Impact Reporting

The Wuppertal Institute prepares an annual impact reporting for MünchenerHyp:

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

The comprehensive, scientific analysis for the [impact reporting](#)⁶ was conducted for the first time in 2019 by an external verifier. The actual report is available on the website of MünchenerHyp.

5. External Review

MünchenerHyp has received a [Second Party Opinion \(SPO\)](#)⁷ from ISS ESG confirming compliance of the Green Bond Framework with the ICMA Green Bond Principles valid at the time of the review.

The following section of the Green Bond Framework was not part of ISS ESG's SPO assessment.

EU Taxonomy

Starting in 2021, a statement regarding the compliance of the green portfolio with the EU taxonomy will also be made by MünchenerHyp on a best-effort basis. MünchenerHyp is permanently monitoring the developments in the market and the new requirements of the EU taxonomy and also uses external analyses to be able to make statements on Technical Screening Criteria, DNSH or Minimum Social Safeguards.

Climate change mitigation

Avoided emissions or increased sequestration

With regard to the environmental targets of the EU Taxonomy, MünchenerHyp's sustainable lending activities contribute to climate change mitigation in the form of emissions avoidance.

Lending Business

MünchenerHyp's private real estate business is confined to Germany, Austria and Switzerland. In commercial real estate financing, we are also mainly active in Germany and the European market (Austria, the Netherlands, Luxembourg, France, Spain and the UK), as well as in the United States. Here we finance existing properties with a focus on residential, office, retail and logistics properties. These markets are already subject to extensive legal

⁴ [green allocation reporting_30_06_2021.pdf \(muenchenerhyp.de\)](#)

⁵ [ecological ESG Pfandbrief quarterly reporting_30_06_2021.pdf \(muenchenerhyp.de\)](#)

⁶ [mhyp_Impact_Reporting_2020_en_02.pdf \(muenchenerhyp.de\)](#)

⁷ [Link SPO](#)



requirements that serve to protect human rights and which we adhere to. For commercial real estate financing, we have also defined controversial business that could have negative human rights impacts. If potential clients are suspected of disregarding human rights, the Bank orders a review and may decline the business. In the case of our own investments, MünchenerHyp's Sustainable Investment Policy regulates the protection of human rights. Under the Policy, the Bank does not invest, for example, in countries that violate human and civil rights according to the Democracy House and Freedom House Index.

EU Taxonomy assessment

We have evaluated mortgage loans for residential buildings in Germany built before 30/12/2020. For these transactions, loans are notarised and the financed building acts as the collateral for the loan. The value of the collateral is based on a calculation defined by law. Residential real estate properties which are sold need to have an Energy Performance Certificate (EPC). The EPC has been mandatory in Germany for the sale and rental of existing real estate assets since 2014. With the introduction of the green loan in November 2015 for private customers the bank started collecting EPC information in the legal system.

Criteria for Climate Change Mitigation

We have assessed the alignment with the mitigation criteria by checking the EPC. According to the EPC in Germany the EPC A or the EnEV 2016 fulfills the threshold of 50 kWh/sqm*a.

ISS ESG has assessed the German housing market for MünchenerHyp quoting EPC A and/or max. 55 kWh per sqm belong to the top 15% of the national real estate market in Germany.⁸

Do No Significant Harm (DNSH) criteria assessment

Not all DNSH criteria could be positively evidenced as the level of information / documentation required for a retail mortgage loan is generally not sufficient in this purpose. However, if certain documented assumptions could be made, we believe mortgage loans labelled A or B could be eligible to be classified for Taxonomy purposes. Following this idea, we consider most of the DNSH criteria to be met based on a qualitative assessment as shown below.

Commercial Real Estate

The data collected via DGNB, BREEAM, LEED or other certification systems is not yet sufficient to be EU Taxonomy aligned.

⁸ *GrüneDarlehen_Certificate_ISS-ESG_ENG.pdf (muenchenerhyp.de)*



EU Taxonomy category			
definition	category	description	assessment
technical screening criteria (TSC)	acquisition and ownership: residential buildings in Germany built before 31/12/2020	minimum EPC A	data is collected via EPC and/or validity of EnEV 2016 with max. 50 kWh/sqm*a
technical screening criteria (TSC)	acquisition and ownership: residential buildings in Germany built before 31/12/2020	within top 15% of the national housing stock	following an assessment of ISS ESG
DNSH	climate change adaptation	Physical climate risks were identified by assessing climate risk and vulnerability. The assessment of these risks and the corresponding countermeasures are proportionate to the scale of the activity and expected lifespan,	A legal construction permit in Germany requires a resilience testing and assessment as part of the procedures to obtain a construction permit
DNSH	sustainable use and protection of water and marine resources	certification of permissible water consumption using product data sheets, building certification or an EU product label	not applicable before 2021 for residential building regarding acquisition and ownership
DNSH	transition to a circular economy	at least 70% (by weight) of non hazardous construction and demolition waste generated on the construction site is prepared for reuse, recycling and other material recovery	EU Construction and Demolition Waste Management Protocol
DNSH	pollution prevention and control	Building components and materials must not contain asbestos or high-risk substances, as identified on the basis of the "Authorization List" of the REACH regulation	EU REACH Regulation; in Germany: ChemVerbotsV, GefStoffV, TRGS 519
DNSH	ecosystems/biodiversity	The new construction must not be built on protected natural areas, such as Natura 2000, UNESCO World Heritage and Key Biodiversity Areas (KBAs), or their equivalent outside the EU as defined by UNESCO and/or the International Union for Conservation of Nature (IUCN), under the following categories: Category 1a – Strict Nature Reserve; Category 1b – Wilderness Area Category II: National Park.	EU biodiversity strategy for 2030; EU LUCAS survey – European Red List IUCN Red List
minimum social safeguards (MSS)	safeguards in the areas of international human and labor rights	The minimum safeguards referred to in point (c) of Article 3 shall be procedures implemented by an undertaking that is carrying out an economic activity to ensure the alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.	MünchenerHyp is committed to the United Nations Universal Declaration of Human Rights and the conventions of the International Labour Organisation (ILO); additionally strict health and labour laws and safety standards in place in Germany; Germany is an OECD member state



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