

## SECOND PARTY OPINION (SPO)

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Sustainability Quality of the Issuer and Green Bond Framework

Münchener Hypothekenbank eG

28. February 2022

### VERIFICATION PARAMETERS

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Type(s) of Instruments contemplated	<ul style="list-style-type: none"><li>• Green Bond Programme</li></ul>
Relevant standards	<ul style="list-style-type: none"><li>• Green Bond Principles (June 2021), as administered by ICMA</li><li>• MünchenerHyp's Green Bond Framework (as of 28.09.2021)</li></ul>
Scope of verification	<ul style="list-style-type: none"><li>• MünchenerHyp's Eligibility Criteria (as of 28.09.2021)</li><li>• MünchenerHyp's Green Portfolio sample (as of 30.06.2021)</li></ul>
Lifecycle	<ul style="list-style-type: none"><li>• Pre-issuance verification</li></ul>
Validity	<ul style="list-style-type: none"><li>• As long as the Green Bond Framework remains unchanged</li></ul>

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## Scope of work

Münchener Hypothekenbank eG (hereafter, “MünchenerHyp” or “the Issuer”) commissioned ISS ESG to assist with its Green Bond Framework by assessing three core elements to determine the sustainability quality of the instrument:

1. Green Bond Framework link to MünchenerHyp’s sustainability strategy – drawing on MünchenerHyp’s overall sustainability profile and issuance-specific Use of Proceeds categories.
2. MünchenerHyp’s Green Bond Framework (as of 28.09.2021) – benchmarked against the International Capital Market Association's (ICMA) Green Bond Principles (GBP) (June 2021).
3. The eligible project categories – whether they contribute positively to the UN SDGs and perform against ISS ESG’s issue-specific key performance indicators (KPIs) (See Annex 2).

## ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION <sup>1</sup>
<b>Part 1:</b>  <b>Green Bond Framework link to issuer's sustainability strategy</b>	<p>According to the ISS ESG Corporate Rating published on 18.12.2020, the Issuer shows a high sustainability performance against the industry peer group on key ESG issues faced by the Mortgage &amp; Public Sector Finance sector. The issuer is rated 8<sup>th</sup> out of 131 companies within its sector. ISS ESG finds that the Use of Proceeds categories financed through the sustainable funding products are consistent with the issuer's sustainability strategy and material ESG topics for the issuer's industry. The rationale for issuing sustainable funding products is clearly described by the issuer.</p>	<b>Consistent with issuer's sustainability strategy</b>
<b>Part 2:</b>  <b>Alignment with GBP</b>	<p>The issuer has defined a formal concept for its Green Bond Framework regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the Green Bond Principles.</p>	<b>Aligned</b>
<b>Part 3:</b>  <b>Sustainability quality of the Selection Criteria</b>	<p>The overall sustainability quality of the selection criteria in terms of sustainability benefits, risk avoidance and minimisation is good based upon the ISS ESG assessment. The sustainable funding products will (re-)finance eligible asset categories which include green buildings.</p> <p>Those use of proceeds categories have a positive contribution to SDGs 11 "Sustainable cities and communities" and 13 "Climate action". The environmental and social risks associated with those use of proceeds categories have been well managed.</p>	<b>Positive</b>

<sup>1</sup> ISS ESG's evaluation is based on MünchenerHyp's Green Bond Framework (as of 28.09.2021), on the analysed selection criteria, on the green portfolio sample, and on the ISS ESG Corporate Rating (last updated on 18.12.2020).

## ISS ESG SPO ASSESSMENT

### PART I: GREEN BOND FRAMEWORK LINK TO THE ISSUER'S SUSTAINABILITY STRATEGY

#### A. ASSESSMENT OF MÜNCHENERHYP'S ESG PERFORMANCE

The ISS ESG Corporate Rating provides material and forward-looking environmental, social and governance (ESG) data and performance assessments.

COMPANY	SECTOR	DECILE RANK	TRANSPARENCY LEVEL
<b>MÜNCHENER HYPOTHEKENBANK eG</b>	<b>MORTGAGE &amp; PUBLIC SECTOR FINANCE</b>	<b>1</b>	<b>VERY HIGH</b>

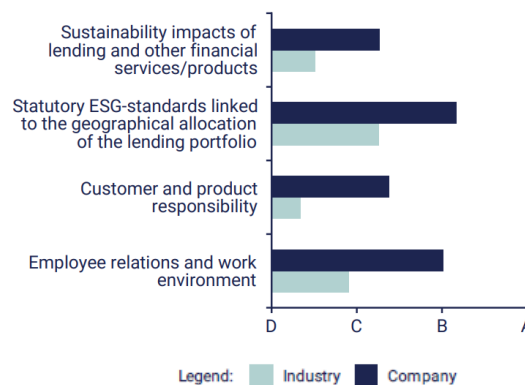
This means that the company currently shows a high sustainability performance against peers on key ESG issues faced by the Mortgage & Public Sector Finance sector and obtains a Decile Rank relative to industry group of 1, which indicates highest relative ESG performance out of 10.

#### *ESG performance*

As of 05.10.2021, this rating places the issuer 8<sup>th</sup> out of 131 companies rated by ISS ESG in the Mortgage & Public Sector Finance sector.

Key challenges faced by companies in terms of sustainability management in this sector are displayed in the chart on the right, as well as the issuer's performance against those key challenges in comparison to the average industry peers' performance.

#### Key Issue Performance



#### *Sustainability Opportunities*

The bank provides financing with a high social value through the issuance of ESG covered bonds which proceeds are used for local housing cooperatives. Furthermore, the bank offers green mortgages and promotional loans on preferential terms to private customers. The loans primarily target energy efficiency construction of new buildings and eco-friendly refurbishments for existing ones. In addition, Münchener Hypothekenbank increasingly finances commercial real estate with green building certificates. Although green and social financing has been growing substantially over the last years, they still do not constitute the majority of the bank's portfolio.

### *Sustainability Risks*

The company's mortgage (and public sector) loan portfolio is located almost entirely in countries with fairly good environmental and social minimum standards, with more than 80 percent of the portfolio to be attributed to Germany. Münchener Hypothekenbank considers some social and environmental factors in the loan origination process (e.g. on resource efficiency) for both its commercial and private client business and has developed capacities to manage these risks, despite the fact that it remains unclear to what extent the requirements are obligatory to its clients. In addition, certain controversial aspects are precluded from commercial loans, including armaments, and the bank has formulated a policy in responsible investments for its own account (largely a liquidity portfolio). Customer-risk issues are adequately addressed through reasonable measures concerning responsible debt repayment and aspects of conscientious marketing. Also, it has taken some steps to maintain responsible sales practices. Staff-related issues are well-managed throughout the company. Münchener Hypothekenbank has comprehensive measures in place for maintaining the work-life balance and health of its employees while having increased its headcount over the last years. With regard to internal governance processes, Münchener Hypothekenbank applies several policies addressing relevant compliance issues, most notably on insider trading, money laundering and issues of corruption. Appropriate implementation is sufficiently secured through trainings, risk assessments and anonymous reporting channels in case of misconduct.







### *Governance opinion*

Münchener Hypothekenbank's governance design ensures separation of managerial and supervisory function and separate persons hold the positions of CEO and chairman of the board of directors, Hermann Starnecker (as of December 9, 2020), which is occupied by independent directors only. The company has established committees on audit, remuneration and nomination affairs, and although their composition is not published, they are deemed independent given the overall independence of directors. The compensation of the executive management team is only published as a combined figure and not split up according to long-term incentives, fixed and variable amounts.

Regarding the company's governance of sustainability, no sustainability committee is disclosed on board level but under the auspices of the executive management. In line with some general lack of transparency regarding management compensation, it remains unclear whether executives are rewarded also upon relevant sustainability objectives. Policies on almost all relevant compliance topics are implemented, with detailed emphasis on issues of insider dealings, conflicts of interest, money laundering, and gifts and favors. Extensive compliance procedures are in place such as employee training, compliance risk assessments and anonymous whistleblowing procedures.

### *Sustainability impact of products and services portfolio*

Using a proprietary methodology, ISS ESG assessed the contribution of MünchenerHyp's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along MünchenerHyp's production process.

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE	DIRECTION OF IMPACT	UN SDGS
<b>Affordable Housing</b>	1%	CONTRIBUTION	 
<b>Contributing to Sustainable Energy Use</b>	4%	CONTRIBUTION	 
<b>Sustainable Buildings</b>	2%	CONTRIBUTION	
<b>Climate Change Mitigation</b>	4%	CONTRIBUTION	
<b>Others</b>	N/A	NO NET IMPACT	N/A

*Breaches of international norms and ESG controversies*

The company is currently not facing any serious controversies.

**B. CONSISTENCY OF SUSTAINABLE FUNDING PRODUCTS WITH MÜNCHENERHYP'S SUSTAINABILITY STRATEGY**

*Key sustainability objectives and priorities defined by the issuer*

With around 64,400 members, Münchener Hypothekenbank eG (MünchenerHyp) is one of the largest cooperatives in Germany. Being part of the Genossenschaftliche FinanzGruppe (Cooperative Financial Network) and committed to cooperative values, the issuer states to pay particular attention to the welfare of its members. Its central aim is to be a reliable financing partner that maintains a sustainable relationship with its customers.

The issuer focusses its sustainability management activities on its core business, where it sees the greatest leverage for the achievement of sustainable development objectives. This is envisaged in form of a cycle: MünchenerHyp grants sustainable property loans on the assets side, which in turn are refinanced sustainably on the liabilities side. On the lending side, the company offers real estate financing that includes environmental and/or social aspects; on the liabilities side, it provides sustainable refinancing for such loans by issuing sustainable refinancing products.



### *Rationale for issuance*

The issuer has developed the MünchenerHyp Green Loan (formerly Sustainability Loan<sup>2</sup>) for energy efficient residential buildings with preferential refinancing 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.

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 its position as a subsidiary financing partner to the cooperative banks.

### *Contribution of Use of Proceeds categories to sustainability objectives and priorities*

ISS ESG mapped the Use of Proceeds categories financed under these Green Bond Framework with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Mortgage & Public Sector Finance sector. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g. Products and services providing environmental benefits. From this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds categories.

<sup>2</sup> <https://www.muenchenerhyp.de/en/company/sustainability/sustainability-loans>



USE OF PROCEEDS CATEGORY	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
<b>Green Buildings</b>	✓	✓	Contribution to a material objective

**Opinion:** *ISS ESG finds that the Use of Proceeds categories financed through the sustainable funding products are consistent with the issuer's sustainability strategy and material ESG topics for the issuer's industry. The rationale for issuing sustainable refinancing products is clearly described by the issuer.*

## PART II: ALIGNMENT WITH GREEN BOND PRINCIPLES (GBP)

### 1. Use of Proceeds

The Use of Proceeds of MünchenerHyp sustainable funding products are used to finance new or existing loans<sup>3</sup> 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. The assets for sustainable funding products meet the following criteria:

Residential	Commercial
Green loans	Certified environmental loans
Criteria	
residential buildings in Germany with maximum annual energy demand of 70kWh/sqm (till April 2020) and residential buildings in Germany with maximum annual energy demand of 55kWh/sqm (from May 2020) or old and new KfW promotional programmes for energy-efficient construction or Top 15% of national building stock by energy performance in Switzerland or Minergie Certificate Info: Grandfathering for green loans granted since November 2015	DGNB (min. Gold or Platinum) or BREEAM (min. Very Good, Excellent or Outstanding) or LEED (min. Gold or Platinum) or HQE (min. Excellent oder Exceptional) or BREEAM NL (min. 40% or better) or Energy Performance Certificate (EPC) (min. Level A or better) or Top 15% of national building stock by energy performance

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

**Opinion:** ISS ESG considers the Use of Proceeds description provided by MünchenerHyp's Green Bond Framework as aligned with the GBP.

### 2. Process for Project Evaluation and Selection

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

<sup>3</sup> Existing loans refer to loans originated under the issuers green loan programme.

- Controlling / Risk Management (as data provider)

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 70kWh/sqm2 until April 2020; or from May 2020 with a maximum annual primary energy demand of 55 kWh/sqm2;
- 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 verification for the top 15% of the national 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 the issuer's 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 the issuers website and will only affect future issues.

**Opinion:** *ISS ESG considers the Process for Project Evaluation and Selection description provided by MünchenerHyp's Green Bond Framework as aligned with the GBP. ISS ESG commends the issuer's transparency with respect to the different departments and individuals involved throughout the process.*

### **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 above, 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. It is the strategy of the bank to generate green assets in advance before issuing a green bond. As a consequence of a green bond issuance the proceeds will be immediately allocated to green assets while substituting regular funding by green proceeds.

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).

**Opinion:** *ISS ESG finds that Management of Proceeds proposed by MünchenerHyp's Green Bond Framework is aligned with the GBP. Further, the issuer also incorporates ESG criteria to temporary investments of unallocated proceeds.*

## **4. Reporting**

In its annual non-financial 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. The issuer is committed to a high degree of transparency. With the publication of the non-financial report, MünchenerHyp provides comprehensive information on activities and results in accordance with the legal requirements of the CSR Directive Implementation Act. Accordingly, it discloses information on business performance and business situation and address the impact of its 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.

### **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:

- 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); and
- The remaining balance of unallocated 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.
- 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 and ESG Pfandbrief reporting is available on the website<sup>4</sup>.

## 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"> <li>• CO2-emissions avoided</li> <li>• Average energy demand (where available)</li> </ul>

The comprehensive, scientific analysis for the impact reporting was conducted for the first time in 2019 by an external verifier. The report is available on the website of MünchenerHyp<sup>5</sup>.

**Opinion:** ISS ESG finds that the reporting proposed by MünchenerHyp’s Green Bond Framework is aligned with the GBP. The company is transparent on the level of reporting, on its frequency, scope, duration and type of information reported.

<sup>4</sup> [green allocation reporting\\_30\\_06\\_2021.pdf \(muenchenerhyp.de\)](#)

<sup>5</sup> [mhyp Impact Reporting 2020 en 02.pdf \(muenchenerhyp.de\)](#)

## PART III: SUSTAINABILITY QUALITY OF THE ISSUANCE






### A. CONTRIBUTION OF THE GREEN BOND FRAMEWORK TO THE UN SDGs

Based on the assessment of the sustainability quality of the Green Bond Framework and using a proprietary methodology, ISS ESG assessed the contribution of MünchenerHyp's Green Bond Framework to the Sustainable Development Goals defined by the United Nations (UN SDGs).

This assessment<sup>6</sup> is displayed on 5-point scale (see Annex 2 for methodology):

<b>Significant Obstruction</b>	<b>Limited Obstruction</b>	<b>No Net Impact</b>	<b>Limited Contribution</b>	<b>Significant Contribution</b>
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Each of the Green Bond Framework' Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<b>Commercial Green Buildings</b> <i>certified with BREEAM, DGNB, HQE, LEED or equivalent</i>	<b>Significant Contribution</b>	
<b>Commercial Green Buildings</b> <i>with an EPC label</i>	<b>Limited Contribution</b>	
<b>Residential Green Buildings</b> <i>Belonging to the top 15% of the national stock in terms of operational primary energy demand &amp; built before 2021</i>	<b>Significant Contribution<sup>7</sup></b>	
	<b>Limited Contribution</b>	
<b>Residential Green Buildings</b> <i>Residential buildings described in the UoP categories and not covered above</i>	<b>Limited Contribution</b>	

<sup>6</sup> The SDG 11 assessment in this tab slightly differs from the ISS ESG SDG Solutions Assessment (SDGA) proprietary methodology designed to assess the impact of an issuer's product and service portfolio on the SDGs. The insight on the project level in the scope of the current SPO allows to take into account more granular information on the project level.

<sup>7</sup> This SDG assessment slightly differs from ISS ESG SDG Assessment Methodology.

## B. MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS ASSOCIATED WITH THE GREEN BOND FRAMEWORK

### Commercial and residential green buildings

As a Use of Proceeds category, commercial green buildings have a limited contribution to SDGs 11 “Sustainable cities and communities”. Residential green buildings have a limited contribution to SDG 11 “Sustainable cities and communities” and a significant contribution to SDG 13 “Climate Action”. The table below presents the findings of an ISS ESG assessment of the selection criteria against ISS ESG KPIs.

#### ASSESSMENT AGAINST ISS ESG KPI

##### Energy Efficiency prerequisites

- ✓ Based on the outlined selection criteria, all assets to be (re-)financed under this Framework undergo an appropriate and detailed selection process that ensures good standards regarding energy efficiency.

##### Site selection

- ✓ The company's environmental lending guidelines cover client-related ecosystem and biodiversity aspects. All assets to be (re-)financed under this Framework are developed in urban areas and excluded from protected areas.
- ✓ 96%<sup>8</sup> of the current assets are located within a maximum of 1km from one or more modalities of public transport.

##### Construction standards

- ✓ The majority of assets to be (re-)financed under this Framework are located in countries where national legislation provides for high labour and health and safety standards concerning construction and maintenance work (e.g. ILO core conventions).

##### Sustainable procurement (for commercial green buildings exclusively)

- No information is available on the sustainable procurement regarding building materials (e.g. recycled materials).

##### Water use minimization in buildings

- ✓ 92%<sup>9</sup> of the current assets provide for measures to reduce water consumption (e.g. water metering, high-efficiency fixtures and fittings, rainwater harvesting).

##### Safety of buildings users

<sup>8</sup> This number is based on an indicative asset pool provided to ISS ESG.

<sup>9</sup> *Ibid.*

- ✓ Based on location, the majority of assets are and will be located in countries where national legislation provides for measures to ensure operational safety (e.g. emergency exits, fire sprinklers, fire alarm systems).

#### **Sustainability labels / Certificates**

- ✓ 92%<sup>10</sup> of the current assets obtained a (or an equivalent of) BREEAM “Very Good”, DGNB “Gold”, LEED “Gold”, HQE “excellent”, BREEAM NL “40%” certificate or better certification.

#### **Responsible treatment of customers with debt repayment problems**

- ✓ For all assets to be (re-)financed under this Framework, pre-emptive actions to prevent client debt repayment problems are in place (e.g. covenants limiting indebtedness, conservative loan-to-value ratios, long-term fixed interest rates).
- ✓ For all assets to be (re-)financed under this Framework, sustainable solutions for customers with debt repayment problems are in place (e.g. debt counselling, foreclosure as a last resort).
- ✓ For all assets to be (re-)financed under this Framework, the creditor excludes the selling of contractually serviced loans (e.g. required customer consent in case of sale).

<sup>10</sup> *Ibid.*



## DISCLAIMER

1. Validity of the SPO: As long as the Green Bond Framework remains unchanged.
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
3. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS ESG in connection with the use of these SPO, the information provided in them and the use thereof shall be excluded. In particular, we point out that the verification of the compliance with the selection criteria is based solely on random samples and documents submitted by the issuer.
4. All statements of opinion and value judgements given by us do not in any way constitute purchase or investment recommendations. In particular, the SPO is no assessment of the economic profitability and credit worthiness of a bond but refers exclusively to the social and environmental criteria mentioned above.
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## ANNEX 1: Methodology

### ISS ESG Green KPIs

The ISS ESG Green Bond KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of MünchenerHyp's Green Bond Framework.

It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the assets can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the assets and which can also be used for reporting. If a majority of assets fulfill the requirement of an indicator, this indicator is then assessed positively. Those indicators may be tailor-made to capture the context-specific environmental and social risks.

### Environmental and social risks assessment methodology

ISS ESG evaluates whether the assets included in the asset pool match the eligible project category and criteria listed in the Green Bond KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment “no or limited information is available” either indicates that no information was made available to ISS ESG or that the information provided did not fulfil the requirements of the ISS ESG Green Bond KPIs.

The evaluation was carried out using information and documents provided to ISS ESG on a confidential basis by MünchenerHyp (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the issuer.

### Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, ISS ESG identifies the extent to which MünchenerHyp's Green Bond Framework contributes to related SDGs.

## ANNEX 2: ISS ESG Corporate Rating Methodology

The following pages contain methodology description of the ISS ESG Corporate Rating.

### Methodology - Overview

The ESG Corporate Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for more than 25 years.

**ESG Corporate Rating** - The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-.

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

**Analyst Opinion** - Qualitative summary and explanation of the central rating results in three dimensions:

- (1) Opportunities - assessment of the quality and the current and future share of sales of a company's products and services, which positively or negatively contribute to the management of principal sustainability challenges.
- (2) Risks - summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, in particular regarding its sector's key issues.
- (3) Governance - overview of the company's governance structures and measures as well as of the quality and efficacy of policies regarding its ethical business conduct.

**Norm-Based Research - Severity Indicator** - The assessment of companies' sustainability performance in the ESG Corporate Rating is informed by a systematic and comprehensive evaluation of companies' ability to prevent and mitigate ESG controversies. ISS ESG conducts research and analysis on corporate involvement in verified or alleged failures to respect recognized standards for responsible business conduct through Norm-Based Research.

Norm-Based Research is based on authoritative standards for responsible business conduct such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the Sustainable Development Goals.

As a stress-test of corporate disclosure, Norm-Based Research assesses the following:

- Companies' ability to address grievances and remediate negative impacts
- Degree of verification of allegations and claims
- Severity of impact on people and the environment, and systematic or systemic nature of malpractices

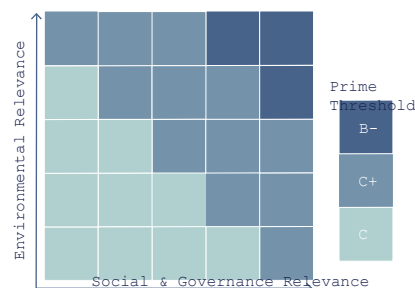
Severity of impact is categorized as Potential, Moderate, Severe, Very severe. This informs the ESG Corporate Rating.

**Decile Rank** - The Decile Rank indicates in which decile (tenth part of total) the individual Corporate Rating ranks within its industry from 1 (best – company's rating is in the first decile within its industry) to 10 (lowest – company's rating is in the tenth decile within its industry). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of companies within an industry cannot be evenly divided by ten, the surplus company ratings are distributed from the top (1 decile) to the bottom. If there are Corporate Ratings with identical absolute scores that span a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of Corporate Ratings in the decile below.

**Distribution of Ratings** - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ESG Corporate Rating universe (company portrayed in this report: dark blue).

**Industry Classification** - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analyzed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ESG Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS ESG Prime Status (Prime threshold) are defined (absolute best-in-class approach).



**Industry Leaders** - List (in alphabetical order) of the top three companies in an industry from the ESG Corporate Rating universe at the time of generation of this report.

**Key Issue Performance** - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

**Performance Score** - The ESG Performance Score allows for cross-industry comparisons using a standardized best-in-class threshold that is valid across all industries. It is the numerical representation of the alphabetic ratings (D- to A+) on a scale of 0 to 100 with 50 representing the prime threshold. All companies with values greater than 50 are Prime, while companies with values less than 50 are Not Prime. As a result, intervals are of varying size depending on the original industry-specific prime thresholds.

**Rating History** - Development of the company's rating over time and comparison to the average rating in the industry.

**Rating Scale** - Companies are rated on a twelve-point scale from A+ to D-:

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

**Sources of Information** - A selection of sources used for this report is illustrated in the annex.

**Status & Prime Threshold** - Companies are categorized as Prime if they achieve/exceed the sustainability performance requirements (Prime threshold) defined by ISS ESG for a specific industry (absolute best-in-class approach) in the ESG Corporate Rating. Prime companies are sustainability leaders in their industry and are better positioned to cope with material ESG challenges and risks, as well as to seize opportunities, than their Not Prime peers. The financial materiality of the Prime Status has been confirmed by performance studies, showing a continuous outperformance of the Prime portfolio when compared to conventional indices over more than 14 years.

**Transparency Level** - The Transparency Level indicates the company's materiality-adjusted disclosure level regarding the environmental and social performance indicators defined in the ESG Corporate Rating. It takes into consideration whether the company has disclosed relevant information regarding a specific indicator, either in its public ESG disclosures or as part of the rating feedback process, as well as the indicator's materiality reflected in its absolute weight in the rating. The calculated percentage is classified in five transparency levels following the scale below.

0% - < 20%: very low

20% - < 40%: low

40% - < 60%: medium

60% - < 80%: high

80% - 100%: very high

For example, if a company discloses information for indicators with a cumulated absolute weight in the rating of 23 percent, then its Transparency Level is "low". A company's failure to disclose, or lack of transparency, will impact a company's ESG performance rating negatively.

## ANNEX 3: Quality management processes

### SCOPE

MünchenerHyp commissioned ISS ESG to compile a Green Bond Framework SPO. The Second Party Opinion process includes verifying whether the Green Bond Framework aligns with the Green Bond Principles (June 2021)) and to assess the sustainability credentials of its Green Bond Framework, as well as the issuer's sustainability strategy.

### CRITERIA

Relevant Standards for this Second Party Opinion

#### ICMA Green Bond Principles (June 2021) **ISSUER'S RESPONSIBILITY**

MünchenerHyp's responsibility was to provide information and documentation on:

- Framework
- Eligibility criteria
- Documentation of ESG risks management at the asset level

### ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Green Bond Framework to be issued by MünchenerHyp based on ISS ESG methodology and in line with the Green Bond Principles (June 2021).

The engagement with MünchenerHyp took place in October 2021 to February 2022.

### ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

## About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For information about SPO services, contact: [SPOsales@isscorporatesolutions.com](mailto:SPOsales@isscorporatesolutions.com)

For Information about this Green Bond Framework SPO, contact: [SPOOperations@iss-esg.com](mailto:SPOOperations@iss-esg.com)

### Project team

#### Project lead

Rafael Heim  
Analyst  
ESG Consultant

#### Project support

Henrik Hopmann  
Analyst  
ESG Consultant

#### Project supervision

Viola Lutz  
Associate Director  
Head of Climate Services