

Sustainable Finance Framework

The European Union (EU) has set itself the goal of becoming climate neutral by 2050. To this end, it has established a comprehensive, cross-sector strategy in the form of the European Green Deal. The financial sector plays a crucial role in the transformation to a climate-neutral economy and thus in achieving the goals of the Paris Agreement, as this requires extensive investment. Private capital must be mobilised for a low-carbon and resource-efficient economy, thereby promoting long-term investment in sustainable economic activities and projects. At the same time, the financial system should become more resilient to sustainability risks. Against this backdrop, the EU has drafted a sustainable finance regulatory framework. This also specifies numerous measures for reducing greenhouse gas emissions in the real estate sector. Sustainable finance means taking ESG aspects, i.e. environmental, social and good corporate governance, into account when making financial decisions. Münchener Hypothekenbank eG (hereafter referred to as "MHB" or "the Bank") is committed to the Paris Agreement and has integrated sustainability into its business strategy, product range, guidelines, policies and work instructions. This document (Sustainable Finance Framework) provides an overview of the implementation of sustainable finance at MHB.

Sustainability in the business strategy

With its business model, MHB aims to make an active contribution to promoting climate protection, adapting to climate change and creating sustainable living and working spaces. Based on the results of the double materiality assessment, the Bank has defined specific fields of action for its strategic direction:

- Climate change mitigation and adaptation
- Own employees
- External stakeholders
- Corporate culture

These were used to develop guiding principles, which are integrated into the business strategy and linked with corresponding targets.

Furthermore, sustainability is of great importance for the Bank's future viability. MHB has therefore integrated the topic into its strategic orientation.

Code of Conduct

The Code of Conduct sets out binding standards for legally compliant, responsible, ethically oriented and sustainable behaviour as a common guideline. It applies to all employees of MHB and its subsidiaries, the members of the Management Board as well as to external business partners. In addition to the Code of Conduct, specific guidelines further define the framework governing activities of employees and members of the executive bodies.

[Link to the Code of Conduct](#)

Respect for human rights

MHB is committed to the United Nations Universal Declaration of Human Rights and the conventions of the International Labour Organisation (ILO). Acting in an ethical and socially responsible manner is a high priority in the Bank's corporate governance. It also attaches great importance to complying with internationally recognised standards on human rights, environmental protection, appropriate working conditions and the prohibition of child labour. Our Code of Conduct and our "Human Rights and Diversity at MHB" policy reflect this stance and define our expectations of our employees, business partners and service providers. We ensure that human rights are respected in our day-to-day business. If we suspect that human rights are being violated, we take appropriate action.

[Link to MHB Human Rights and Diversity Policy \(German only\)](#)

Commercial business

MHB finances commercial real estate in Germany, other Western European countries and the USA. The portfolio assessment is based on various criteria that must be met for loans to be classified as sustainable, such as requirements for building certificates or energy efficiency (see MHB's Green Funding Framework). Loans are not granted to natural or legal persons who generate a significant proportion of their turnover in the following controversial industries or who are involved in violations of environmental or human rights:

- **Coal/fossil fuels** (= companies that generate more than 30% of their turnover from coal mining or coal-fired power generation or from the extraction of oil from oil sands)
- **Arms** (= companies that manufacture controversial weapons (mines/anti-personnel mines, cluster bombs, nuclear/biological/chemical weapons, uranium-containing ammunition) or trade in them)
- **Tobacco** (= companies that generate more than 5% of their turnover from tobacco production)
- **Gambling** (= companies that operate controversial forms of gambling, i.e. casinos, betting shops, amusement arcades, manufacture of slot machines; state-owned casinos are permitted)
- **Red light district** (= companies with revenue from pornography or prostitution)

- **Environmental violations** (= companies associated with serious environmental violations)
- **Human rights** (= companies associated with human rights violations)

MHB Green Loan Commercial

This product was newly developed in 2024 and is a commercial loan for the purchase or follow-up financing of a highly energy-efficient building, meeting clearly defined criteria:

- The property is among the top 15% of the national building stock with regard to its energy efficiency, or
- it has an energy performance certificate (EPC) with a rating of A or better, or
- it has a recognised sustainability certificate (such as DGNB, BREEAM, LEED or HQE) that ranks the commercial property in one of the provider's top categories.
- In addition, controversial business areas are excluded (see above).

[Link to MHB Green Loan Commercial \(German only\)](#)

MHB EnergyEfficiencyLoan

With the MHB EnergyEfficiencyLoan, MHB specifically addresses the promotion of energy-efficient renovations/refurbishments in existing buildings. If energy efficiency is improved by at least 30 %, the Bank grants a corresponding advantage in the form of a reduced interest rate.

The following requirements must be met for an MHB EnergyEfficiencyLoan:

- Existing commercial property
- Business/renovation plan for energy efficiency measures is available, such as for: insulation, window replacement, building services renewal and/or expansion
- Proof of the energy improvement achieved after completion of the energy renovation measures by means of an energy performance certificate
- From €10 million new loan volume, whereby the MHB EnergyEfficiencyLoan may be combined with all MHB financing products

[Link to MHB EnergyEfficiencyLoan \(German only\)](#)

Private customer business

As a real estate financier, MHB offers various sustainable loans as well as special KfW loans that promote energy-efficient construction through various KfW programmes for renovation, conversion or new construction. Loans are granted in a responsible manner, taking into account the customer's financial capabilities.

Green Loan

MHB has been promoting energy-efficient construction in its private customer business for many years with its Green Loan. It is characterised by:

- Lower-interest financing for properties with low primary energy requirements
- An ecological benefit: promotion of climate protection and efficient use of energy
- External review and positive assessment by the rating agency ISS ESG

[Link to Green Loan \(German only\)](#)

Family Loan

MHB offers another sustainable loan with a social focus: the Family Loan.

- A loan programme that offers favourable conditions in the form of a reduced interest rate to families with at least one child and a low or medium income
- Suitable for financing the acquisition, new construction or renovation of a building as well as for follow-up financing
- Considers potential risks, for example in connection with repayment difficulties or adverse environmental effects, such as insufficient energy or resource efficiency
- External review and positive assessment by the rating agency ISS ESG

The Family Loan can also be combined with the Green Loan to form a Green Family Loan.

[Link to Family Loan \(German only\)](#)

Refinancing

MHB issued the world's first ESG Pfandbrief back in September 2014. It is therefore considered a pioneer in sustainable refinancing via Pfandbriefe. Its sustainable product range now includes Green Pfandbriefe, green senior preferred and non-preferred bonds, green Tier 2 bonds as well as green commercial paper and term deposits. The issuance of sustainable refinancing products is regulated by the Green Funding Framework, which serves as the basis for the precise specification of green assets. The Green Funding Framework is aligned with the current ICMA Green Bond Principles. Additionally, Green Pfandbriefe are issued in accordance with the minimum standards for Green Pfandbriefe as defined by the Association of German Pfandbrief Banks (vdp), and which are based on the EU taxonomy.

The Bank pays close attention to responsible and risk-conscious lending as well as long-term refinancing with matching maturities through the issuance of covered bonds, which are rated Aaa by the rating agency Moody's. The business model and core business are low-risk and long-term in nature.

[Link to Green Funding Framework \(German only\)](#)

Own investments (Depot A)

The Bank's own investments (Depot A) are subject to guidelines that set out rules on liquidity, the cover pool and collateral management. The Bank's own investments are subject to strict criteria, including respect for human rights, the existence of democratic structures in the countries concerned, the political participation of citizens in decisions that go beyond mere voting, and the protection of civil rights. Key figures such as the Freedom House Index, which assesses political rights and civil liberties, and the Democracy Index, which measures the degree of democracy in countries, are used to evaluate these criteria. There is also a negative list that includes countries that are classified as high-risk for money laundering, are subject to financial sanctions or are considered undemocratic. Banks that do not meet a minimum rating are also included on this list. To ensure compliance with these criteria, our own investments are reviewed annually.

[Link to General principles on sustainable investments](#)