

# GREEN BOND FRAMEWORK

December 2024

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# INTRODUCTION

## Reason for the revision of the Green Bond Framework

DZ HYP strives to keep the Green Bond Framework as up-to-date as possible in line with market and regulatory developments. For this reason, it is subject to regular review and will be revised when necessary. The current version was further developed in 2024 and, in particular, adapted to the new minimum standards of the Association of German *Pfandbrief*<sup>1)</sup> Banks (vdp), which will apply from 1 January 2025. To a large extent this approaches the EU Taxonomy criteria for substantial contribution to climate protection and increases transparency.

## General Information

DZ HYP is a leading real estate bank and a major *Pfandbrief* issuer in Germany, and a center of competence for public-sector clients within cooperative financial network.

DZ HYP was created in 2018 through the merger of two successful banks with roots in the cooperative sector, DG HYP and WL BANK. DZ HYP is owned by DZ BANK AG (approx. 96 per cent), Stiftung Westfälische Landschaft, as well as cooperative banks. The bank has total assets of EUR 76.5 billion and 892 employees.<sup>2)</sup>

As a subsidiary of DZ BANK AG, DZ HYP is part of the DZ BANK Group and thus of the Cooperative Financial Network. The Network comprises approximately 700 banks and is one of the largest private financial services organizations in Germany.

Within the DZ BANK Group, DZ HYP is the real estate financing specialist for corporate clients and retail customers, as well as a center of competence for public-sector clients. DZ HYP focusses its business activities on the German market and is active at eleven locations there. In addition, it supports German clients in selective foreign markets. In its business activities, DZ HYP targets direct clients and acts as a partner to cooperative banks in Germany, offering a solution-based range of products and services.

<sup>1)</sup> *Pfandbrief* is the German term for German mortgage covered bond.

<sup>2)</sup> As at 30.06.2024

## Background and Motivation

DZ HYP is aware that sustainability is a key topic of our times. The basis of human existence is a healthy and stable environment and a prerequisite for any kind of entrepreneurial activity. In view of the global challenges – such as climate change, scarcity of resources and social inequality – it is crucial that all sectors of the economy make their contribution. The financial system, and banks in particular, play a central role here, as they can significantly influence the development towards a more sustainable economy through their business decisions.

According to the European Commission, the real estate sector is responsible for around 36 per cent of energy-related CO<sub>2</sub> emissions in the EU.<sup>3)</sup> The sustainable transformation of the real estate sector therefore plays a central role in combating climate change. Banks have the opportunity to make a positive environmental impact by promoting energy-efficient and environmentally friendly construction projects in the area of real estate financing.

In its role as a real estate bank, DZ HYP has identified the sustainable transformation of the real estate sector as an important goal of its business activities and aims to support the transition towards a lower-carbon economy.

## Sustainability Approach

DZ HYP is committed to sustainable and responsible business practices, as are all members of the cooperative financial network. This means that the Bank's business activities are based on a long-term approach, that natural resources are used sensitively and efficiently and that risks and opportunities are incorporated into decision-making processes. The Bank pursues a conservative risk strategy and values a trusting and cooperative relationship with its business partners and customers. The combination of ecological, economic and social responsibility has always been an integral part of the Bank's corporate culture and is reflected in DZ HYP's sustainability strategy.<sup>4)</sup>

The sustainability strategy is part of DZ HYP's strategic framework, defines areas of action for the bank and underpins our understanding of sustainability with specific objectives.

As a major real estate bank in Germany, DZ HYP aims to support the sustainable transformation of the real estate sector through its engagement in its core business. In order to meet these objectives, DZ HYP finances energy-efficient real estate and enables church-owned, cooperative and social housebuilding to create affordable housing in Germany.

<sup>3)</sup> [https://ec.europa.eu/commission/presscorner/api/files/document/print/de/ip\\_23\\_6423/IP\\_23\\_6423\\_DE.pdf](https://ec.europa.eu/commission/presscorner/api/files/document/print/de/ip_23_6423/IP_23_6423_DE.pdf)

<sup>4)</sup> DZHYP: Sustainability strategy

As part of its refinancing, DZ HYP uses green *Pfandbriefe*<sup>5)</sup>, which are secured by energy-efficient properties, as an integral part of its strategy. In addition to the transparency regarding the ecological quality of the credit portfolio, DZ HYP offers its Pfandbrief investors the opportunity to invest in the transformation of the real estate sector, and thereby contribute to a lower-carbon economy.

DZ HYP takes various aspects into account when integrating ESG into risk management. In addition to integrating climate and environmental risks into governance and policies, a scorecard for physical and transitional climate change risks has been developed for the lending business and relevant risk indicators have been derived for DZ HYP's reporting. In addition to developing a calculation methodology for financed carbon dioxide emissions (carbon accounting) and an assessment of the real estate portfolio with regard to financed carbon dioxide emissions along established benchmark paths (climate alignment), DZ HYP has defined decarbonisation targets for the real estate portfolio for private and corporate customers. Risk management is subject to continual further development in line with new findings and requirements.

DZ HYP also aims to make its day-to-day operations as resource friendly as possible. The aim is to become climate-neutral by 2045 at the latest, with 65 per cent of greenhouse gases already being saved by 2030, based on the base year 2009.<sup>6)</sup>

DZ HYP's sustainability activities are determined by the current objectives of politics and society. As a participant in the United Nations Global Compact,<sup>7)</sup> DZ HYP is committed to implementing, disclosing and promoting the Ten Principles of the UN Global Compact

Furthermore, DZ HYP is guided by the United Nations' Sustainable Development Goals (SDGs)<sup>8)</sup>, the Paris Agreement on climate protection and the German government's Climate Action Plan 2050, which was adopted in November 2016.<sup>9)</sup>

DZ HYP's annual reporting provides a comprehensive overview of the bank's ESG activities and sustainability-related targets.<sup>10)</sup> In addition, the bank's sustainability performance is acknowledged in the form of good sustainability ratings by independent agencies.<sup>11)</sup>

<sup>5)</sup> Pfandbriefe is the German plural of Pfandbrief.

<sup>6)</sup> [https://dzhyp.de/fileadmin/user\\_upload/Dokumente/Nachhaltigkeit/NHB/DZHYP\\_NHB\\_2023\\_E.pdf](https://dzhyp.de/fileadmin/user_upload/Dokumente/Nachhaltigkeit/NHB/DZHYP_NHB_2023_E.pdf)

<sup>7)</sup> UN Global Compact Netzwerk Deutschland: Homepage

<sup>8)</sup> THE 17 GOALS | Sustainable Development (un.org)

<sup>9)</sup> Climate Action Plan 2050

<sup>10)</sup> DZHYP: Ratings, reports & documents

<sup>11)</sup> DZHYP: Ratings, reports & documents

# GREEN BOND FRAMEWORK (UPDATE 2024)

DZ HYP's Green Bond Framework is based on the ICMA Green Bond Principles (GBP), in the updated version of June 2021 (with June 2022 Appendix I).<sup>12)</sup> Accordingly, the framework is based on the GBP core components and the key recommendations:

- I. Use of Proceeds**
- II. Process for Project Evaluation and Selection**
- III. Management of Proceeds**
- IV. Reporting**
- V. External Reviews**

DZ HYP's Green Bond Framework is also aligned with the "Minimum Standards for Green Pfandbriefe" as defined by the Association of German Pfandbrief Banks.<sup>13)</sup> The standards ensure that the selection criteria for the assets meet the defined requirements of the vdp. The vdp has granted DZ HYP the right to issue its Pfandbriefe under the brand "Grüner Pfandbrief". This makes compliance mandatory with these minimum standards, which are valid in their new version from 1 January 2025. To ensure that the framework remains relevant and up to date, it will be reviewed at regular intervals and updated, if necessary, to meet ongoing requirements and developments.

## I. Use of Proceeds

The proceeds generated by DZ HYP through the issuance of Green Pfandbriefe are used exclusively to finance and refinance assets that have a clear environmental benefit.

These eligible assets are loans for the construction, acquisition or refurbishment of energy-efficient residential and commercial real estate, in accordance with the GBP category 'Green Buildings'.



As part of the update of this framework, the selection criteria for eligible assets will be compliant with the updated vdp minimum standards and further approaching the criteria of the EU taxonomy for a substantial contribution to climate change mitigation.<sup>14)</sup> The implementation of the other requirements of the EU taxonomy with regard to the minimum social safeguards and the 'do no significant harm' principle are likely to be the subject of future revisions of the framework.

<sup>12)</sup> Green Bond Principles » ICMA ([icmagroup.org](https://www.icmagroup.org))

<sup>13)</sup> Grüner Pfandbrief

<sup>14)</sup> [https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities\\_en](https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en)

DZ HYP orients itself upon national and international standards. It applies the following selection criteria, of which at least one must be met:

Contribution to the EU's environmental objectives and economic activities	Use of Proceeds	Criteria for Eligibility for the Green Pfandbrief	Contribution to the UN SDGs	
Economic activities of the EU:  7.1 Construction of new buildings 7.2 Renovation of existing buildings 7.7 Acquisition and ownership of buildings	<b>New construction of commercial and residential buildings</b>	<b>NZEB-10 percent</b> The building's primary energy demand is at least 10 per cent below the threshold values set in the national measures for implementing Directive 2010/31/EU for nearly zero-energy buildings. This is verified by an energy performance certificate.		
	<b>Renovation of commercial and residential buildings</b>	<b>30 per cent reduction in energy demand respectively consumption</b> Renovation/refurbishment will reduce energy demand respectively consumption by at least 30 per cent. The reduction will be demonstrated either by energy performance certificates issued in accordance with the GEG before and after the renovation/refurbishment work or by comparable calculations respectively measurements. The energy demand or consumption after the work must reach a level that is in line with the EU's climate targets.		
	<b>Acquisition and ownership of commercial and residential buildings</b>	that were constructed <b>before 31st December 2020:</b>	<b>EPC energy efficiency class A</b> The building has an energy certificate that corresponds to at least energy efficiency class A.  <b>Top 15-percent</b> The building is among the top 15 per cent of the national or regional building stock in terms of primary energy demand or consumption. The results of the study by Drees and Sommer on the top 15 per cent of the German real estate portfolio, which was commissioned and published by the Association of German Pfandbrief Banks (vdp), are used for the assessment.  <b>DGNB-Certification</b> The building has been certified by the German Sustainable Building Council (DGNB) with either 'Gold' or 'Platinum'.	
		that were constructed <b>after 31st December 2020:</b>	<b>NZEB-10 percent</b> The building's primary energy demand is at least 10 per cent below the threshold values set in the national measures for implementing Directive 2010/31/EU for nearly zero-energy buildings. This is verified by an energy performance certificate.	

The green assets in the mortgage cover pool contribute to the EU environmental objective of 'climate change mitigation' by increasing the carbon efficiency of the real estate sector and thus reducing emissions. In doing so, DZ HYP is further approaching the criteria set out by the EU taxonomy for economic activities 7.1 construction of new buildings, 7.2 renovation of existing buildings and 7.7 acquisition and ownership of buildings. They also contribute to achieving the United Nations' development goals (UN SDGs), with a focus on goals 11: "Sustainable Cities and Communities" and 13: "Climate Action".

## II. Process for Project Evaluation and Selection

In order to contribute to sustainable development in the real estate sector, DZ HYP is increasingly financing energy-efficient buildings. The issuance of green Pfandbriefe serves to refinance sustainable assets that meet the selection criteria defined in this framework and thus meet high ecological standards.

Due to high significance of sustainability, DZ HYP has created a committee structure<sup>15)</sup> that also takes appropriate account of the selection process for green assets.

Overall responsibility for sustainability lies within DZ HYP's Management Board. As part of its control function, the Supervisory Board is regularly informed about sustainability matters. A Sustainability Committee, consisting of the Management Board and the heads of divisions, has been set up to manage and implement sustainability aspects throughout the bank's organisation.

The Sustainable Product Committee (NHP Committee) is responsible for the evaluation and selection process of suitable assets in accordance with the criteria defined in Section I. "Use of Proceeds". The committee consists of decision-makers from the Credit, Treasury, Sustainability and Back Office divisions. Next to monitoring the Green Mortgage Portfolio, the tasks of the NHP committee are to define the Use of Proceeds for eligible assets in accordance with the relevant standards, monitoring the selection criteria and current market developments to ensure they are up-to-date, as well as the future development of sustainable products. The NHP committee meets at regular two-monthly intervals.

DZ HYP is aware that the standards and requirements on the Green Bond markets, and therefore for Green Pfandbriefe, will evolve. The NHP committee will take these developments into account when applying the selection criteria and make adjustments if necessary.

As part of the loan process and the regular review of loans, borrowers are requested to submit the latest EPC and certificates for the financed real estate. The EPC data is entered in the Bank's IT system and systematically assessed for compliance with the currently valid Use of Proceeds eligibility criteria. If the assessment is positive, the property is classified as an eligible asset. The corresponding loan then becomes or remains part of DZ HYP's Green Mortgage Portfolio. Within the portfolio, projects must meet DZ HYP's current selection criteria. Projects that were compliant at the time of their initiation but no longer meet the current criteria will be removed from the Green Mortgage Portfolio.

Loans in the Green Mortgage Portfolio are subject to standards set out in DZ HYP's current risk strategy, as well as internal review processes with regards to money laundering. DZ HYP has implemented the DZ BANK Group's binding exclusion criteria for lending. The exclusion criteria apply to all types of financing.

<sup>15)</sup> [https://dzhyp.de/fileadmin/user\\_upload/Dokumente/Investor\\_Relations/Green\\_Bond/GB-Investorenpraesentation\\_ENG.pdf](https://dzhyp.de/fileadmin/user_upload/Dokumente/Investor_Relations/Green_Bond/GB-Investorenpraesentation_ENG.pdf)



Accordingly, controversial business areas such as the arms trade and weapons manufacturing (mines/anti-personnel mines, nuclear/biological/chemical weapons, ammunition containing uranium/cluster bombs), the pornography and prostitution industry and controversial gambling are excluded from lending. Furthermore, controversial business practices, which may include significant human rights violations and significant environmental violations, are excluded from lending.

In addition, DZ HYP already systematically considers ESG risks in the form of physical climate risks, transition risks of real estate due to the energy efficiency classification and ESG reputation risks in the lending process in order to be able to make a sustainable and climate-conscious financing decision.

Processes are monitored by DZ HYP's internal control system, which ensures compliance with guidelines and processes, while the integration of sustainability into the governance structures across the bank ensures that these principles are consistently applied and lived up to daily business.

### III. Management of Proceeds

Eligible assets are identified and classified in accordance with the criteria and processes described previously. The resulting Green Mortgage Portfolio represents a sub-portfolio of DZ HYP's mortgage cover pool.

DZ HYP manages the proceeds generated by issuing Green *Pfandbriefe* on a portfolio basis. Green *Pfandbriefe* can only be issued if there are sufficient eligible assets in the mortgage cover pool. The currently applicable criteria for selecting assets are decisive and applied to the entire portfolio. The fulfilment of the current criteria is regularly reviewed by the Back Office and the Treasury division. Regular monitoring of the development of the Green Mortgage Portfolio should ensure that the amount of eligible assets in the cover pool at any time exceeds the amount of green mortgage bonds outstanding. This process is also monitored by the Treasury division as part of its management of the cover pool.

In the unlikely event that outstanding Green *Pfandbriefe* exceed the volume of eligible assets, DZ HYP will temporarily invest the liquidity with a credit institution that has a good sustainability rating from a recognized sustainability rating agency.

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## IV. Reporting

As long as DZ HYP's Green *Pfandbriefe* are outstanding, the issuer will provide an annual Green Bond Report on its website.

The report will be updated as of 31 December of each year and published in the first quarter of the following year. DZ HYP bases the design of its reporting on the requirements set out in the ICMA's "Harmonised Framework for Impact Reporting" manual.

Green bond reporting consists of an allocation report and an impact report.

Allocation reporting provides information on an aggregated basis about the composition of the Green Mortgage Portfolio with regard to the following indicators:

- Volume (on an aggregated and anonymized basis) and number of properties classified as green,
- Share of green assets in the total mortgage cover pool,
- Volume of green mortgage bond issues in the reporting year and the total volume of outstanding green mortgage bonds,
- Type of property use,
- Type of proof of energy efficiency,
- Energy efficiency classes,
- Regional distribution of green assets in the mortgage cover pool

Impact reporting presents the effects of the portfolio and provides information on:

- Description of the methodology for calculating CO<sub>2</sub> savings
- Amount of calculated CO<sub>2</sub> savings
- Information on the assessment of the energy efficiency of the green properties
- Conversion of energy demand/consumption into CO<sub>2</sub> emissions

Further information on the Green Bond Framework and DZ HYP's Green *Pfandbriefe* can be found at: **DZHYP: Green Bonds**.

<sup>16)</sup> DZHYP: Green Bonds

<sup>17)</sup> Impact Reporting » ICMA (icmagroup.org)

## V. External Reviews

The content of the Green Bond Framework is verified by ISS Corporate, an independent third-party provider. This provider prepares a Second Party Opinion (SPO) which confirms the accuracy of the information and compliance with the ICMA Green Bond Principles, as well as the positive environmental impact of the framework. The SPO is published on DZ HYP's website.

At a later date, DZ HYP will commission an external provider to verify that its reporting is in line with the Green Bond Framework. The results of this review will be summarized in an annual report and made available to the public on the DZ HYP website.

For more information on sustainability at DZ HYP and DZ BANK Group, please refer to the following links:

- Green Bond Reporting of DZ HYP: **DZHYP: Green Bonds**
- DZ HYP investor presentation: **DZHYP: Investor Presentation**
- Sustainability report of DZ HYP: **DZHYP: Ratings, reports & documents**
- Sustainability ratings of DZ HYP: **DZHYP: Ratings, reports & documents**
- Information on Sustainability at DZ BANK Group: **Overview | DZ BANK Group**
- Sustainability report of DZ BANK Group: **Reports | DZ BANK**

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