

# GREEN BOND FRAMEWORK

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# TABLE OF CONTENTS

## **1 Introduction**

- 1 General
- 1 Background and Rationale

## **3 Green Bond Framework**

- 3 Use of Proceeds
- 5 Process for Project Evaluation and Selection
- 6 Management of Proceeds
- 6 Reporting
- 7 External Reviews

# INTRODUCTION

## General

DZ HYP is a leading real estate bank and a major Pfandbrief issuer in Germany, and a centre of competence for public-sector clients within the 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%), Stiftung Westfälische Landschaft, as well as cooperative banks. The Bank has total assets of €81.9 billion and 819 employees<sup>1</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 800 cooperative banks and is one of the largest financial services organisations 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 centre of competence for public-sector clients. DZ HYP focuses its business activities on the German market. 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-oriented range of products and services.

## Background and Rationale

As with all members of the Cooperative Financial Services Network, DZ HYP is committed to sustainable and responsible business practices. 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 its sustainability strategy, which is in line with DZ HYP's strategic framework. This is also acknowledged in the form of good sustainability ratings by independent agencies. The Sustainability Report, which is published on an annual basis, provides a detailed overview<sup>2</sup>.

<sup>1</sup> As at 31 December 2020

<sup>2</sup> [www.dzhyp.de/en/hauptnavigation/sustainability/downloads/](https://www.dzhyp.de/en/hauptnavigation/sustainability/downloads/)



DZ HYP is convinced that, in view of the ecological and social challenges facing society, it is important to further strengthen the sustainable approach to business. An intact and stable environment is the basis of human existence, and a fundamental precondition for any kind of business activity. For this reason, DZ HYP wants to support the transition towards a lower-carbon economy by playing an important role as a financial institution in the development of a sustainable financial system.

As a major real estate bank in Germany, DZ HYP is active in a business segment that, according to the United Nations Environment Programme report, is responsible for almost 40 per cent of global energy-related CO<sub>2</sub> emissions<sup>3</sup>. This means that the real estate sector has the potential to play a key role in tackling climate change mitigation. DZ HYP aims to actively support this transformation process through its core business activities.

Along this path, the Bank aligns its actions with current declarations of intent from politics and society. As a member of the United Nations Global Compact<sup>4</sup>, DZ HYP is committed to implementing, disclosing and promoting the Ten Principles of the UN Global Compact. DZ HYP also supports the United Nations Sustainable Development Goals (SDGs)<sup>5</sup>, the Paris Climate Agreement, and the German Climate Action Plan 2050 that was adopted in November 2016<sup>6</sup>.

In order to meet these objectives in its core business, DZ HYP finances energy-efficient real estate and enables cooperative, church and social housebuilding to create affordable housing in Germany. In future, DZ HYP intends to generate the necessary funding for financing energy-efficient buildings by issuing Green Pfandbriefe. In addition to creating transparency about the ecological quality of the Bank's loan portfolio, this product enables DZ HYP to offer 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 also aims to make its day-to-day operations as resource-friendly as possible. The goal is to be completely carbon neutral by no later than 2045, with 65 per cent of greenhouse gases already to be cut by 2030.

<sup>3</sup> <https://www.unep.org/news-and-stories/press-release/building-sector-emissions-hit-record-high-low-carbon-pandemic>

<sup>4</sup> <https://www.unglobalcompact.org/>

<sup>5</sup> <https://sdgs.un.org/goals>

<sup>6</sup> [www.bmu.de/en/topics/climate-adaptation/climate-protection/national-climate-policy/climate-action-plan-2050-germanys-long-term-low-greenhouse-gas-emission-development-strategy](http://www.bmu.de/en/topics/climate-adaptation/climate-protection/national-climate-policy/climate-action-plan-2050-germanys-long-term-low-greenhouse-gas-emission-development-strategy)

# GREEN BOND FRAMEWORK

The DZ HYP Green Bond Framework is based on the ICMA Green Bond Principles (GBP), in the updated version of June 2021<sup>7</sup>. Accordingly, the Framework is based on the GBP core components and key recommendations:

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

Furthermore, this framework is based on the minimum standards “Grüner Pfandbrief” (“Green Pfandbrief”<sup>8</sup>) of the Association of German Pfandbrief Banks (vdp). The vdp has granted DZ HYP the right to issue its Pfandbriefe under the brand “Grüner Pfandbrief”.

The DZ HYP Green Bond Framework will be regularly reviewed and, if necessary, updated.

## 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”.

DZ HYP orients itself upon national and international standards for the consistent definition of eligible assets. It applies the following criteria for classification, of which at least one must be met:

<sup>7</sup> <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf>

<sup>8</sup> [https://www.pfandbrief.de/site/en/vdp/sustainable\\_finance0/sustainable\\_pfandbrief/green-pfandbrief.html](https://www.pfandbrief.de/site/en/vdp/sustainable_finance0/sustainable_pfandbrief/green-pfandbrief.html)

### 1. Energy performance certificates (EPCs)<sup>9</sup>

EPCs with a maximum final energy consumption or demand per square metre and year:

» Residential	65 kWh/m <sup>2</sup> heating
» Office	90 kWh/m <sup>2</sup> heating and 70 kWh/m <sup>2</sup> electricity
» Retail	60 kWh/m <sup>2</sup> heating and 75 kWh/m <sup>2</sup> electricity
» Hotels	95 kWh/m <sup>2</sup> heating and 60 kWh/m <sup>2</sup> electricity
» Logistics buildings (storage)	30 kWh/m <sup>2</sup> heating and 35 kWh/m <sup>2</sup> electricity
» Light industrial (production)	105 kWh/m <sup>2</sup> heating and 65 kWh/m <sup>2</sup> electricity

### 2. Certificates

A property that has been certified by an established certification company can also be classified as an eligible asset. In addition to energy performance characteristics, qualitative elements are also taken into account in the assessment methods. The following certificates are accepted:

» DGNB	Gold and platinum
» LEED	Gold and platinum
» BREEAM	Very good or better

### 3. Energy efficiency standard

Real estate that meets the minimum requirements of the German Energy Saving Ordinance of 2016 (EnEV 2016)<sup>10</sup> is also considered an eligible asset. The year of construction stated by the valuer is taken as verification.

Furthermore, co-financing through KfW funding programmes with an underlying energy-efficient house standard of 55 or better is suitable.

By financing these eligible assets, DZ HYP is supporting the SDGs of sustainable cities and communities (SDG 11) and climate action (SDG 13).



In addition, the eligible assets financed through this framework make a significant contribution towards achieving the EU's environmental goals<sup>11</sup> concerning climate change mitigation.

Over the course of time, DZ HYP additionally plans to integrate the technical screening criteria set out in Annex 1 of the Delegated Regulation on the EU Taxonomy for Sustainable Activities<sup>12</sup> into its use of proceeds and selection processes.

<sup>9</sup> German energy performance certificates for commercial buildings do not provide EPC-Levels.

<sup>10</sup> On 1 November 2020, the Energy Conservation Act (EnEG), the Energy Conservation Ordinance (EnEV) and the Renewable Energies Heat Act (EEWärmeG) were replaced by the Building Energy Act (GEG).  
[http://www.bgbl.de/xaver/bgbl/start.xav?startbk=Bundesanzeiger\\_BGBl&jumpTo=bgbl120s1728.pdf](http://www.bgbl.de/xaver/bgbl/start.xav?startbk=Bundesanzeiger_BGBl&jumpTo=bgbl120s1728.pdf)

<sup>11</sup> [https://ec.europa.eu/commission/presscorner/detail/de/ip\\_21\\_1804](https://ec.europa.eu/commission/presscorner/detail/de/ip_21_1804)

<sup>12</sup> [https://ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2021-2800-annex-1\\_en.pdf](https://ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2021-2800-annex-1_en.pdf)

## II. Process for Project Evaluation and Selection

Due to the high significance of sustainability, the overall responsibility lies within DZ HYP's Management Board. The Sustainability Committee, which is formed by the Board of Directors and the divisional managers, creates the optimal framework for the Bank's sustainable approach.

The evaluation and selection process of eligible assets in accordance with the criteria defined in section I. "Use of Proceeds", is carried out by the Sustainable Products Committee (NHP Committee). The committee consists of the relevant decision-makers from the Credit, Treasury, Sustainability and Back Office divisions, and meets monthly. 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 as well as the future development of sustainable products.

DZ HYP is aware that the standards and requirements on the Green Bond market, and therefore for Green Pfandbriefe, will evolve. The NHP Panel 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 building is classified as an eligible asset. The corresponding loan then becomes part of DZ HYP's green mortgage portfolio. In the event of adjustments to the use of proceeds, suitable assets that have already been classified will maintain their initial status.

Loans in the Green Mortgage Portfolio are subject to the standards set out in DZ HYP's current credit risk strategy, as well as internal review processes with regards to money laundering. The DZ BANK Group has also defined binding exclusion criteria for lending that apply throughout the Group. The exclusion criteria apply to all types of financing. Therefore, real estate with high contamination risks and dangerous goods as well as the controversial business activities of arms trading, weapons manufacturing (mines/anti-personnel mines, nuclear/biological/chemical weapons, uranium-containing ammunition/scatter bombs), the pornography and prostitution scene and controversial gambling are all excluded from lending. Furthermore, controversial business practices, which may include significant human rights abuses and significant environmental violations, are excluded from lending.

## III. Management of Proceeds

Eligible assets are identified and classified in accordance with the criteria and processes described earlier. The Green Mortgage Portfolio represents a sub-portfolio of the mortgage cover pool.

DZ HYP manages the proceeds raised by the issuance of Green Pfandbriefe on a portfolio basis.

Green Pfandbriefe can only be issued if there are sufficient eligible assets in the mortgage cover pool. It is to be ensured that the amount of eligible assets in the cover pool always exceeds the outstanding amount of Green Pfandbriefe by regularly monitoring the development of the Green Mortgage portfolio. This process is monitored by the Treasury department.

In the unlikely event that outstanding Green Pfandbriefe exceed the volume of eligible assets, DZ HYP will temporarily invest the liquidity in sustainable bonds and/or hold it in cash.

## IV. Reporting

As long as DZ HYP's Green Pfandbriefe are outstanding, the issuer will provide an annual Green Bond Report on its website<sup>13</sup>.

This report will be updated as at 31 December and published in the first quarter of the following year.

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

The allocation report provides information on the proceeds allocated to the Green Mortgage portfolio, e.g. with regard to the selection criteria, the type of building and the remaining term of the loan. In addition, the report contains information on the development of the portfolio on an aggregated and anonymised basis.

As part of its impact reporting, DZ HYP will report on the calculated CO<sub>2</sub> savings. For this purpose, DZ HYP has appointed an external provider for developing methodology and calculation.

DZ HYP aligns its reporting with the recommendations of the "Handbook of Harmonised Framework for Impact Reporting"<sup>14</sup>.

<sup>13</sup> [www.dzhyp.de/en/green-bonds](http://www.dzhyp.de/en/green-bonds)

<sup>14</sup> <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Handbook-Harmonized-Framework-for-Impact-Reporting-December-2020-151220.pdf>



## V. External Reviews

DZ HYP has commissioned ISS ESG to conduct an external review of its Green Bond Framework. ISS ESG has issued a Second Party Opinion (SPO) confirming the compliance with the GBP and the positive environmental impact of the Framework. The SPO is published on DZ HYP's website.

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