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Green Bond Framework

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1 Introduction

Deutsche Hypothekenbank (Actien-Gesellschaft) (hereinafter “Deutsche Hypo”) views sustainability as an essential part of its business model, which is why it aims to establish a set-up that facilitates profitability on a sustainable basis. This, in turn, will ensure the Bank’s future earnings power and secure jobs for generations to come. With regard to real estate finance, Deutsche Hypo serves as a partner whose financing has an impact on the physical design of many cities. Quality, professionalism and the sustainability of the financing projects are key factors in lending decisions. Deutsche Hypo has identified five sustainability fields of action and has given strategic priorities to them: governance, customers, employees, society and the environment. The sustainability measures are outlined in Deutsche Hypo’s sustainability report.

Besides creating an environmentally sustainable and energy-neutral working environment for its employees, the Bank’s primary aim is to build the business model for commercial real estate finance on an environmentally sustainable basis as part of its field of action for the environment. The financing of energy-efficient buildings represents the core element in the commercial real estate finance business area. By financing green buildings such as these, the Bank intends to make an active contribution towards reducing greenhouse gases. Deutsche Hypo is aware that its actions have an influence on various different stakeholders. By supporting the reduction of CO₂ emissions, the Bank intends to live up to its responsibility towards customers, employees, owners and society.

In addition, funding is structured in an environmentally sustainable manner. By issuing Green Bonds, the Bank also intends to meet the measurably growing demand of investors for investments in environmentally sustainable projects. Through issue of Green Bonds is part of the Bank’s attempts to meet society’s objective of reducing global warming in its role as a financial intermediary.

The Green Bond Framework forms the basis for issuing Green Bonds with the strict additional condition that the Green Bond Principles be fulfilled in line with their latest version. It is intended to provide investors with the desired and necessary degree of transparency with regard to products of this nature.

2 Deutsche Hypo's green bond programme

2.1 Overview of funding products

When issuing Green Bonds, Deutsche Hypo funds itself by issuing bonds (bearer bonds or registered bonds) or loans (Schuldscheindarlehen) whose raised funds are used exclusively to finance energy-efficient (i.e. green) buildings, such as new buildings, replacements of old buildings, project developments, certified portfolio financing and renovation work to improve a building's energy efficiency.

The Bank issues unsecured bonds (senior preferred or senior non-preferred) as well as covered bonds ("Pfandbriefe") as green bonds. The Pfandbriefe it issues fulfil all requirements under the German Pfandbrief Act. Senior preferred and senior non-preferred bonds (bearer bonds, registered bonds or loans) issued as green are pari passu with other bonds or loans of the same asset class, which may include issues in benchmark format as well as smaller volumes (private placements). An adequate volume of suitable Green Buildings is available for the issued bonds. Funding by way of green bonds may only be carried out to the minimum extent that the Bank has Green Buildings in its portfolio. Temporary fractional amounts can be invested on a temporary/adequate basis.

2.2 Implementation of the green bond principles

2.2.1 Use of proceeds

The funds raised through the issue of Green Bonds are used exclusively to finance energy-efficient real estate. The proceeds can be used to finance Green Buildings both in new business and in existing business. Financing is geared towards the construction, project development, acquisition or energy-efficient renovation of buildings. The exact use of the proceeds is defined in the final terms of the respective bond issue.

2.2.2 Process for project evaluation and selection

The energy efficiency of a property to be financed, and therefore its suitability as an asset for a Green Bond, is evaluated in a multi-stage process. The requirements derived from the process in relation to acquisition, loan processing and Treasury are embedded in Deutsche Hypo's guidelines and are therefore binding for all employees.

The suitability of a financing for a Green Bond issue and the related features, such as quantified energy efficiency, are recorded and managed in the Bank's portfolio management system.

The employees in the lending department (Credit Management) record all the necessary data (such as energy passes, certificates, etc.) of the financing in the Bank's IT systems. On the basis of defined criteria, using the four eyes principle, Treasury will then review whether the financed real estate is suitable for inclusion in the real estate portfolio for a Green Bond issue. The applicable criteria are determined by a Green Building Commission which is comprised of members of the sustainability circle that supports the sustainability management team in its tasks. The Green Building Commission defines the Green Bond Minimum Standards (short: GBMS) and ensures in its regular meetings that the minimum standards required in the target markets are at least complied with. An asset is categorised as a Green Building if the applicable GBMS are fulfilled at the time of inclusion of the financing in the Green Bond portfolio. The currently applicable GBMS are as follows:

Energy pass with a maximum final energy demand or consumption (heat) in kWh/(m²*a) by main asset class:

- 60 kWh/(m²*a) for residential properties
- 30 kWh/(m²*a) for logistics buildings
- 70 kWh/(m²*a) for retail buildings (shopping malls, department stores)
- 95 kWh/(m²*a) for other retail buildings
- 95 kWh/(m²*a) for hotel buildings (up to 3 star hotels)
- 105 kWh/(m²*a) for hotel buildings (4 to 5 star hotels)
- 110 kWh/(m²*a) for production and storage buildings (with heating)
- 110 kWh/(m²*a) for office buildings without air conditioning
- 135 kWh/(m²*a) for office buildings with air conditioning

In addition to this Dutch Buildings which are characterized by an energy consumption-level of "A" can be categorised as Green Buildings.

or green building certification:

- LEED Gold or above
- BREEAM Very Good or above
- DGNB Gold or above
- HQE Performant

Furthermore a Green Building-classification without an energy performance certificate or sustainability certificate is possible:

- For project developments, if the aspired energy demand or sustainability specification will be in line with the current Green Bond Mindeststandards.
- For financed buildings without an energy performance certificate or sustainability certificate, which can be compared to Green Buildings which are just part of our Green Bond asset pool. Therefore a detailed statement with an energy demand calculation by a real estate valuer is necessary.

The primary energy demand or consumption (warmth) should be used for valuation if the use of renewable energy reduces the primary energy demand or consumption to below the final energy figure.

In addition, real estate belonging to customers from business areas considered to be controversial may not be financed. This criterion is also a strict additional condition of Deutsche Hypo's business strategy and is embedded in Deutsche Hypo's sustainability programme (www.deutsche-hypo.de).

An additional condition for the use of Green Buildings is that the financed real estate is only leased to uncontroversial main tenants. A main tenant contributes more than 10% to the rental incomes. The property will be excluded from the portfolio of suitable Green Buildings should it become known that a main tenant operates in a controversial business.¹

2.2.3 Management of proceeds

The suitability of green assets in the portfolio for Green Bond issues is reviewed by Treasury employees on a regular basis and flagged in Deutsche Hypo's portfolio system. Unsuitable financings and the underlying assets are replaced by new financings or assets. A financing and its underlying assets are considered unsuitable if it becomes known that a main tenant is involved in an area of business that is considered to be controversial or if the energy pass or sustainability certificate expires.

Deutsche Hypo has set itself the requirement that the real estate suitable for a Green Bond issue must at least correspond to the volume of the green bond that has been issued or is to be issued. If it is not possible to directly use the proceeds from Green Bonds to finance energy-efficient real estate in accordance with this framework, they must be immediately invested with a credit institution with a sufficiently positive rating granted by a recognised sustainability rating agency (e.g. oekom research AG with at least Prime Status) on an interim basis.

¹ Controversial business segments are defined in Deutsche Hypo's "Guidelines for sustainable real estate finance". For a detailed list of all controversial business segments please take a look at the chapter "Sustainability at Deutsche Hypo" in Deutsche Hypo's current Sustainability report.

2.2.4 Reporting on use of proceeds

Each year, Deutsche Hypo publishes a Green Bond report on its website (www.deutsche-hypo.de). The report contains the following information:

- Current volume of the Green Building portfolio
- CO₂ reduction of all Green Buildings compared to the relevant average
- Characterisation of the Green Buildings according to property certifications, location, sustainability aspects, etc.

Deutsche Hypo publishes this data on an aggregated basis. This ensures that the Bank lives up to the requirements of its customers and the Data Protection Act. In addition, Deutsche Hypo reports on outstanding bonds and their volumes on a regular basis and publishes the information on its website.

2.3 External review

Deutsche Hypo assigns an independent provider to review the implementation of the Green Bond principles and the sustainability of the Bank's overall Green Bond programme. This second-party opinion is posted on Deutsche Hypo's website (www.deutsche-hypo.de), and the task is given to an independent sustainability rating agency.

3 Green Loan

In addition to the issuance of Green Bonds the aim of granting Green Loans is to shore up the requisite sustainability aspects in Deutsche Hypo's business activity on the asset side, with a focus on the following objectives:

- Improvement of the portfolio quality
- Completion of the sustainability concept
- Development of a green value chain

An optional margin effect is determined by a Green Loan tool. The Green Loan tool – which is based on the selection criteria of chapter 2.2.2 – is featured by the following criteria:

- Energy consumption
- Year of construction
- Certification
- Distance to public transport connections
- Soil sealing character (Greenfield vs. Brownfield)
- Building stock

Furthermore controversial main tenants must be excluded.

4 Conclusion

Deutsche Hypo is aware of the impact its actions have on the environment and of its responsibility to society and its future. The Green Bond issue programme is an expression of this responsibility. By financing energy-efficient real estate through Green Bond issues, Deutsche Hypo supports project developers, tenants and professional and private investors in its role as a financial intermediary. It measurably promotes the reduction of CO₂ emissions and environmentally conscious behaviour in society.

The Green Bond Framework creates the transparency investors demand when it comes to the issue of sustainable financial products. Deutsche Hypo only issues Green Bonds in accordance with the Green Bond Principles. This is reviewed by an independent sustainability rating agency.