

# City of Munich

## Sustainable Finance Framework – June 2024

The City of Munich (“Landeshauptstadt München”) is planning to issue sustainable financing instruments to (re)finance projects in the areas of Renewable Energy, Clean Transportation, Green Buildings, Affordable Housing and Access to Essential Services. It has commissioned imug rating to provide a Second Party Opinion. The following results are

based on the assessment of the Issuer and the Framework (June 2024) in accordance with the voluntary guidelines of the Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG) of the ICMA as well as the Green Loan Principles (GLP) and Social Loan Principles (SLP) of the LMA, APLMA and LSTA.



imug rating confirms that the Sustainable Finance Framework of the City of Munich is fully compliant with the Green Bond Principles (GBP) 2021, including Annex 1 dated June 2022, Social Bond Principles (SBP) 2023, Sustainability Bond Guidelines (SBG) 2021, Green Loan Principles (GLP) 2023 and Social Loan Principles (SLP) 2023.

### FRAMEWORK



- ✓ Use of Proceeds
- ✓ Process for Project Evaluation and Selection
- ✓ Management of Proceeds
- ✓ Reporting

### ISSUER



- ✓ Sustainability performance/strategy
- ✓ Analysis of controversial business activities
- ✓ Analysis of controversial business behaviour

### OPINION



The Sustainable Finance Framework of the City of Munich is fully aligned with the Green Bond Principles (GBP) 2021, including Annex 1 dated June 2022, Social Bond Principles (SBP) 2023, Sustainability Bond Guidelines (SBG) 2021 of the ICMA as well as the Green Loan Principles (GLP) 2023 and Social Loan Principles (SLP) 2023 of the LMA, APLMA and LSTA. The (re)financed projects in the areas of Renewable Energy, Clean Transportation, Green Buildings, Affordable Housing and Access to Essential Services contribute to climate change mitigation and ensuring the availability of affordable housing and social educational infrastructure. These projects demonstrate a positive impact on sustainability, promoting five of the United Nations Sustainable Development Goals (UN SDGs): Goal 1 “No poverty”, Goal 4 “Quality education”, Goal 7 “Affordable and clean energy”, Goal 9 “Industry, innovation and infrastructure” and Goal 11 “Sustainable cities and communities”.

The issuance of sustainable financing instruments aligns with the Issuer’s strategic sustainability goals: to ensure a climate and environmentally friendly, economically value-adding, socially equitable and culturally diverse use of urban space. A fully owned entity by the Issuer is involved in a controversial business activity.

imug rating  
Hanover, 28 June 2024

[www.imug-rating.de](http://www.imug-rating.de)

## 1. BACKGROUND

imug rating has been commissioned to prepare an independent Second Party Opinion on the Framework and the planned issuance of sustainable financing instruments by the City of Munich (hereinafter also referred to as “the Issuer”). imug assessed the Framework alignment with the Green Bond Principles (GBP) 2021, including Annex 1 dated June 2022, Social Bond Principles (SBP) 2023 and the Sustainability Bond Guidelines (SBG) 2021 of the International Capital Market Association as well as the Green Loan Principles (GLP) 2023 and Social Loan Principles (SLP) 2023 of the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association.

### *The City of Munich*

The City of Munich plans to issue sustainable financing instruments to (re)finance projects in the areas of Renewable Energy, Clean Transportation, Green Buildings, Affordable Housing and Access to Essential Services. With a population of over 1.6 million people, Munich is the third largest city in Germany and remains a growing region. According to a population forecast from the end of 2022, 1.81 million people could be living in the city by 2040. The state capital of Munich employs more than 43,000 people, including trainees and students.

The mission statement of the state capital Munich provides that Munich should be a sustainable city in equilibrium and among other things, secure social peace, educational opportunities and the involvement of all population groups.

The City of Munich is also committed to the public welfare, which means not primarily striving to generate profits. The actions of the state capital are based on the fundamental values of the constitution.

To promote sustainable development, the Munich City Council adopted general sustainability goals in 2003 and signed the German Association of Cities’ resolution “Agenda 2030 for Sustainable Development” in 2016. Specific goals, which are also underpinned by indicators, relate to:

1. Global responsibility
2. Conservation of resources
3. Quality of life
4. Sustainable management
5. Equal opportunities
6. Safe living
7. City for children and families
8. Cultural development
9. Active civil society

As part of the issuance, the City of Munich commits to use the proceeds exclusively to (re)finance projects in the areas of Renewable Energy, Clean Transportation, Green Buildings, Affordable Housing and Access to Essential Services.

imug rating conducted the assessment from mid-April to June 2024. The City of Munich provided all relevant documents. Additionally, imug rating conducted interviews with responsible employees of the City of Munich. The information we received has allowed us to provide a reasonable opinion on the Framework’s alignment with the above-mentioned guidelines.



## 2. FRAMEWORK

### 2.1 Use of Proceeds

imug rating confirms that the project categories are clearly defined and the use of proceeds is fully in line with the Green Bond Principles (GBP) 2021, including Annex 1 dated June 2022, Social Bond Principles (SBP) 2023, Sustainability Bond Guidelines (SBG) 2021 of ICMA as well as the Green Loan Principles (GLP) 2023 and Social Loan Principles (SLP) 2023 of LMA, APLMA and LSTA.

The (re)financed projects in the areas of Renewable Energy, Clean Transportation, Green Buildings, Affordable Housing and Access to Essential Services have clear environmental and social benefits, which are quantified by the Issuer. The projects are expected to make a positive contribution to five United Nations Sustainable Development Goals (UN SDGs): Goal 1 “No poverty”, Goal 4 “Quality education”, Goal 7 “Affordable and clean energy”, Goal 9 “Industry, innovation and infrastructure” and Goal 11 “Sustainable cities and communities”.

### PROJECT FINANCING

- No refinancing
- Refinancing
  - 36 months
  - 24 months
  - 12 months
- Financing

The Issuer will only (re) finance projects for which green and/or social expenditures has been incurred within a maximum of three financial years prior to the issuance or a maximum of one financial year after. The amount of the refinancing share will be specified by the City of Munich in the allocation report.

The net proceeds from sustainable financing are used to (re)finance projects in the following areas:

### GREEN PROJECTS

#### Renewable Energy – Expenditures on the construction and promotion of renewable energy installations

##### Goals and benefits

- Mitigating climate change
- ▶ Avoidance of CO<sub>2</sub> emissions by increasing the installed electricity generation capacity of renewable energy

### **Clean Transportation – Expenditures on improving and promoting sustainable and environmentally friendly transport systems and reducing CO<sub>2</sub> intensity/emissions from vehicles**

#### **Goals and benefits**

- Mitigating climate change
- ▶ Avoidance of CO<sub>2</sub> emissions through expansion, modernisation, maintenance and electrification of the public vehicle fleet and transport infrastructure

### **Green Buildings – Expenditures on buildings (e.g., administrative buildings, schools, day-care centres and other accommodation facilities; funding programmes for buildings)**

#### **Goals and benefits**

- Mitigating climate change
- ▶ Avoidance of CO<sub>2</sub> emissions by reducing the primary energy demand of buildings or the energy savings of energy-modernised buildings

## **SOCIAL PROJECTS**

### **Affordable Housing – Expenditures for the expansion, preservation and promotion of affordable, high-quality and sustainable housing**

#### **Target groups**

- Lower and middle-income groups
- Homeless people
- Young adults
- Small households and family households with children
- Elderly people and people with care needs and disabilities
- Refugees

#### **Goals and benefits**

- Ensuring the availability of affordable housing
- ▶ Expansion, preservation and promotion of affordable, high-quality and sustainable housing in accordance with the City of Munich's action programmes and concepts

### **Access to Essential Services (educational infrastructure) – Expenditures for schools, day-care centres, sports facilities and other educational and care facilities**

#### **Target groups**

- Pupils
- Family households with children and adolescents

#### **Goals and benefits**

- Ensuring equal opportunities and education
- ▶ New construction, expansion and renovation of schools, daycare centres, sports halls and sports facilities

The projects (re)financed through the sustainable financing instruments make a positive contribution to sustainability by helping to mitigate climate change and ensure the availability of affordable housing and social infrastructure. The Issuer is able to quantify the environmental and social benefits.

The projects (re)financed through sustainable financing instruments in the areas of Renewable Energy, Clean Transportation, Green Buildings, Affordable Housing and Access to Essential Services are expected to contribute to five United Nations Sustainable Development Goals (UN SDGs): Goal 1 “No poverty”, Goal 4 “Quality education”, Goal 7 “Affordable and clean energy”, Goal 9 “Industry, innovation and infrastructure” and Goal 11 “Sustainable cities and communities”.

*Contribution to the  
Sustainability  
Goals (SDGs)*

#### UN SDG 1: No poverty



UN SDG 1 aims to end poverty in all its forms everywhere. The following goals, among others, are to be achieved by 2030:

- ▶ Ensure that all men and women, especially the poor and vulnerable, have equal rights to economic resources, access to essential services, ownership and control of land and other forms of property, inheritance, natural resources, appropriate new technologies, and financial services, including microfinance

The Issuer is expected to contribute to UN SDG 1 by using the proceeds from the Sustainable Finance Framework to (re) finance projects in the areas of Affordable Housing and Access to Essential Services.

#### UN SDG 4: Quality education



UN SDG 4 aims to ensure inclusive and equitable quality education and promote lifelong learning opportunities for all. The following goals, among others, are to be achieved by 2030:

- ▶ Eliminate gender disparities in education and ensure equal access to all levels of education and training for the most vulnerable in society, including persons with disabilities, indigenous peoples, and children in vulnerable situations
- ▶ Build and develop educational facilities that are child-, disability- and gender-sensitive and provide a safe, non-violent, inclusive and effective learning environment for all

The Issuer is expected to contribute to UN SDG 4 by using the proceeds from the Sustainable Finance Framework to (re) finance projects in the area of Access to Essential Services.

#### UN SDG 7: Affordable and clean energy



UN SDG 7 aims to ensure access to affordable, reliable, sustainable and modern energy for all. The following goals, among others, are to be achieved by 2030:

- ▶ Increase the share of renewable energy in the global energy mix and promote investment in energy infrastructure and clean energy technologies

- ▶ Double the global rate of improvement in energy efficiency

The Issuer is expected to contribute to UN SDG 7 by using the proceeds from the Sustainable Finance Framework to (re) finance projects in the area of Renewable Energy projects.

### UN SDG 9: Industry, innovation and infrastructure



UN SDG 9 aims to develop a resilient infrastructure, promote broad-based and sustainable industrialisation and support innovation. The following goals, among others, are to be achieved by 2030:

- ▶ Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all
- ▶ Modernise infrastructure and upgrade industry to make it sustainable, with more efficient use of resources and increased use of clean and environmentally friendly technologies and industrial processes, with all countries taking action according to their respective capacities

The Issuer is expected to contribute to UN SDG 9 by using the proceeds from the Sustainable Finance Framework to (re) finance projects in the areas of Renewable Energy and Clean Transportation.

### UN SDG 11: Sustainable cities and communities



UN SDG 11 aims to make cities and communities inclusive, safe, resilient and sustainable. The following goals, among others, are to be achieved by 2030:

- ▶ Ensure access to adequate, safe and affordable housing and basic services for all, and upgrade slums
- ▶ Enable access to safe, affordable, accessible and sustainable transport systems for all, and improve road safety, in particular by expanding public transport, with special attention to the needs of people in vulnerable situations, women, children, people with disabilities and older people
- ▶ Make urbanisation more inclusive and sustainable, and strengthen capacities for participatory, integrated and sustainable settlement planning and governance in all countries
- ▶ Ensure universal access to safe, inclusive and accessible green and public spaces, especially for women and children, older people and people with disabilities

The Issuer is expected to contribute to UN SDG 11 by using the proceeds from the Sustainable Finance Framework to (re)finance projects in the area of Clean Transportation, Green Buildings, Affordable Housing and Access to Essential Services.



## 2.2. Process for Project Evaluation and Selection

imug rating confirms that the process for project evaluation and selection is fully compliant with the Green Bond Principles (GBP) 2021, including Annex 1 dated June 2022, Social Bond Principles (SBP) 2023, Sustainability Bond Guidelines (SBG) 2021 of ICMA as well as the Green Loan Principles (GLP) 2023 and Social Loan Principles (SLP) 2023 of LMA, APLMA and LSTA.

The issuance of sustainable financing instruments supports the achievement of the strategic objectives of the City of Munich. The Issuer has implemented processes that allow to identify eligible projects with clear environmental and social benefits. The underlying process is transparent, structured and divided into several levels of responsibility. Furthermore, the Issuer has a process in place to identify and manage material risks associated with the projects.

### SELECTION AND EVALUATION

To ensure a structured process for project selection and evaluation, the City of Munich has formed the “Sustainable Finance” project group in the debt management department for the issuance of sustainable financing instruments with the following representatives:

- ▶ Head of Financial Management Department
- ▶ Head of Financial Asset and Debt Management
- ▶ Debt management officer

Project selection and evaluation process are supported by the following specialist departments:

- ▶ Office of the head of the city treasury department
- ▶ Budget department; central accounting
- ▶ Representatives from other specialised departments, topic-related working groups, municipal enterprises or companies depending on the project focus

- The process is clearly defined and documented / appropriately structured.
- The evaluation and selection of projects is based on clearly defined responsibilities.
- There is a responsible project group “Sustainable Finance” in the debt management department.
- The verification and traceability of projects is ensured.

As part of a multi-stage selection and coordination process, the specific project selection is determined by the “Sustainable Funding” project group, considering the eligibility in terms of the use of proceeds, the amount of proceeds allocated, contractual obligations, third-party funds raised etc. The project selection is then submitted to the head of the city treasury department for approval. The eligibility of the projects and the allocation to respective sustainable financing instruments are regularly discussed with the head of the City Treasurer’s Office. The process for project selection described above is subject to the internal specifications and guidelines of the City of Munich.

**ELIGIBILITY CRITERIA**

The Issuer has defined eligibility criteria for the selection and evaluation of projects:

**OVERARCHING ELIGIBILITY CRITERIA**

PROJECT CATEGORY	CRITERIA
Overarching eligibility criteria, applicable to each project category to be (re)financed	<p><i>Sustainability criteria</i></p> <ul style="list-style-type: none"> <li>▶ Expenditures need to be attributable to an ICMA project category.</li> <li>▶ Expenditures are only selected if the sustainability impact of the financed projects can be qualitatively described and quantified at the level of the ICMA project categories.</li> <li>▶ The projects financed contribute to at least one of the UN Sustainable Development Goals.</li> <li>▶ The expenditures are in line with the sustainability concepts of the City of Munich.</li> </ul>
	<p><i>Budget criteria</i></p> <ul style="list-style-type: none"> <li>▶ An amount equal to net proceeds raised from sustainable financing instruments is allocated to eligible social and / or green expenditures, considering the principle of overall budget coverage. The expenditures can be quantified as part of the respective annual financial statements.</li> <li>▶ Expenditures for investments and investment promotion measures.</li> <li>▶ Only net expenditures from the state budget of the City of Munich are considered. Third-party funds (e.g. subsidies from the state, federal government, EU) or utilised subsidised loans used for (partial) financing are excluded.</li> <li>▶ Expenditures related to eligible social and green projects are only allocated once to a sustainable financing instrument; double counting is excluded.</li> </ul>



GREEN PROJECTS

PROJECT CATEGORY	CRITERIA
Renewable Energy <sup>1</sup>	<p><i>Expenditures for the construction and promotion of renewable energy plants</i></p> <ul style="list-style-type: none"> <li>▶ Expenditures for photovoltaic systems on municipal buildings, among other things</li> <li>▶ Funding objects from the funding programme for climate-neutral buildings (“Klimaneutrale Gebäude (FKG)”)²</li> </ul>
Clean Transportation <sup>1</sup>	<p><i>Expenditures on improving and promoting sustainable and environmentally friendly transport systems and reducing the CO<sub>2</sub> intensity/emissions of vehicles</i></p> <ul style="list-style-type: none"> <li>▶ Expenditures for the conversion of the municipal vehicle fleet to climate-neutral drives</li> <li>▶ Expenditures on the expansion, modernisation and maintenance of local public transport (e.g., underground and tram networks)</li> <li>▶ Expenditures on the electrification of bus services</li> <li>▶ Expenditures for the expansion and improvement of cycling and walking infrastructure</li> <li>▶ Funding objects from the funding programme for climate-neutral drivetrains (“Klimaneutrale Antriebe”)³</li> <li>▶ Eligible projects from the funding programme for electric taxis (“E-Taxis”)</li> </ul>
Green Buildings	<p><i>Expenditures for buildings (e.g. administration buildings, schools, daycare centers and other accommodation facilities; funding programs buildings)</i></p> <ul style="list-style-type: none"> <li>▶ Expenditures on timber housing construction in Munich</li> <li>▶ Expenditures for the “Prinz-Eugen-Park” model housing estate grant programme</li> <li>▶ Expenditures for the subsidy programme for the use of renewable raw materials in timber construction or timber hybrid construction in rental housing</li> <li>▶ Funding objects from the funding programme for climate-neutral buildings (“Klimaneutrale Gebäude (FKG)”)²</li> </ul> <hr/> <p><i>Criteria for city-owned buildings constructed after 31 December 2020</i></p> <ul style="list-style-type: none"> <li>▶ Buildings with primary energy demand being at least 10% lower than the threshold set for the “nearly zero-energy building standard” (NZEB). Based on the Energy Performance of Buildings Directive (EPBD), the NZEB was implemented in the requirements of the GEG 2020 (Building Energy Act).</li> </ul>

<sup>1</sup> If allocations are made for eligible green projects outside the exemplary expenditure mentioned, imug rating recommends updating the SPO.

<sup>2</sup> Incl. subsidized properties from the previous “Energy Saving” (FES) subsidy program

<sup>3</sup> Incl. subsidized objects from the previous “München emobil” subsidy program

*Criteria for city-owned buildings constructed before 31 December 2020*

- ▶ Buildings with a primary energy performance of at least 10 % below the legal requirements applicable at the time of the building application (EnEV 2016 or GEG 2020)

*Criteria for the renovation of existing city-owned buildings*

- ▶ The building renovation complies with the applicable requirements for major renovations as defined in the Energy Performance of Buildings Directive (EPBD), based on the cost-optional level defined in EnEV 2016.
- ▶ Holistic refurbishment measures lead to a relative improvement in the primary energy demand of the existing building by at least 30 % compared to the primary energy demand before the renovation.

**SOCIAL PROJECTS**

PROJECT CATEGORY	CRITERIA
	<p><i>Eligibility criteria "Housing in Munich (WiM)"</i></p> <ul style="list-style-type: none"> <li>▶ Expenditures on target group-orientated housing</li> <li>▶ Expenditures on land policy and new construction</li> <li>▶ Expenditures on safeguarding and promoting the existing housing stock</li> <li>▶ Expenditures on climate protection and quality</li> </ul>
Affordable Housing	<p><i>Composition of the resident population, protection against displacement</i></p> <ul style="list-style-type: none"> <li>▶ Exercising the right of first refusal or purchase by private treaty of housing stock, including in conservation areas (so-called milieu protection ("Milieuschutz"))</li> <li>▶ Protection against luxury renovation and conversion of rented flats into owner-occupied flats</li> <li>▶ Rent and occupancy control</li> </ul>
	<p><i>Action plan "Global Plan IV"</i></p> <ul style="list-style-type: none"> <li>▶ Expansion and standardisation of emergency accommodation and shelters for overnight protection</li> <li>▶ Measures to help people keep their homes</li> <li>▶ Continuation and development of existing housing for target groups of the Social Affairs Unit</li> <li>▶ Expanding and maintaining the capacity of accommodation facilities for refugees</li> </ul>

Access to Essential Services	<p><i>Expansion criteria for educational infrastructure</i></p> <ul style="list-style-type: none"><li>▶ New construction, extension and renovation of schools</li><li>▶ New construction, extension and renovation of daycare centres for the expansion of childcare places</li><li>▶ New construction, extension and renovation of sports halls and facilities</li></ul>
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**EXCLUSION CRITERIA**

The City of Munich is bound to comply with national legislation and international principles and conventions that require a minimum standard of environmental protection and social norms as part of the administration's legal obligation under Article 20 (3) of the German Basic Law. These principles are considered when budget expenditure is made.

## ESG RISK MANAGEMENT

imug rating is of the opinion that the City of Munich has appropriate policies and processes in place to manage material ESG risks associated with the projects. The Issuer has implemented a solid risk management system to identify and manage potentially material ESG criteria.

In addition to the positive environmental impact, there are also certain ESG (Environmental, Social and Governance) risks associated with the projects to be (re)financed. These include energy management in buildings and transport infrastructure as well as potential risks in connection with climate change and social aspects.

The City of Munich has implemented various measures to address its ESG risks:

- ▶ **Climate measures:** The City of Munich developed a climate protection strategy in 2008 and implemented programmes of measures in this regard. In December 2019, the Munich City Council decided to join the global coalition of cities and countries that have declared a climate emergency. Munich's climate charter aims to achieve climate neutrality of the city by 2035. The city administration aims to become climate-neutral by 2030. Continuous city-wide GHG monitoring in accordance with the BSKO standard has been implemented since 2002. In addition, the city periodically reports on energy consumption and the GHG emissions in accordance with ISO standard 14064.
- ▶ **Environmental management:** The City of Munich is publicly committed to environmental protection which has been systematically implemented by an environmental management system. Some departments have external certification ("ÖKOPROFIT"). In addition, some affiliated companies use the municipal "ÖKOPROFIT" programme.
- ▶ **Circular economy:** The City of Munich has a coordination centre for circular economy (CEKS) since 2022. In the future, the CEKS will develop a city-wide strategy concept to systematically address circular economy. For example, an action plan will be established and an ongoing monitoring will be implemented. The state capital is receiving external support from Deloitte Consulting GmbH and the NGO Circle Economy. Three main product groups have been identified as part of the circular economy strategy: Buildings and infrastructure, bioeconomy and water, and products and trade. Aspects of the circular economy are being implemented for the main product groups identified.
- ▶ **Protection of biodiversity:** To take biodiversity aspects into account, legal regulations such as environmental impact assessments, the Nature Conservation Act and the Building Code must be considered. The Munich Species and Biotope Conservation Programme was adopted in 2005 and its objectives and measures are considered in urban planning. A biodiversity strategy was adopted in 2019. The strategy focusses on 20 fields of action that correspond to the strategies "Conserve", "Develop nature" and "Act nature-consciously". In addition to measures within the direct sphere of influence of the state capital, biodiversity aspects over which the City of Munich has no direct influence (private areas) are implemented by means of targeted advice and special funding programmes.
- ▶ **Human and labour rights standards:** The City of Munich is committed to the Universal Declaration of Human Rights. This is implemented by means of equality and anti-discrimination centres. The aim is to ensure greater participation and equal opportunities for all people living in Munich. Labour law standards, particularly the ILO core labour standards, are covered by the service agreement of the City of Munich.

- ▶ **Occupational health and safety:** The state capital has an occupational health management (“betriebliches Gesundheitsmanagement (BGM)”) system in place. In this context, safety and health aspects are systematically implemented. There are formalised regulations as part of a service agreement. These aspects are implemented by means of defined responsibilities, training, risk analyses and the derivation of specific measures. Employees receive support from central advisory services such as the occupational safety service, the company medical service and psychosocial counselling centres. All departments and in-house operations have organisational units responsible for occupational health and safety. An ISO 45001-compliant occupational health and safety management system is currently being introduced throughout the city administration.
- ▶ **Product safety:** The City of Munich does not manufacture any marketable products as it does not operate a manufacturing business itself. The Issuer rather acts as a service provider for the people of Munich. The safe and correct provision of services is carried out in accordance with legal requirements.
- ▶ **ESG aspects for contractual partners, suppliers and subcontractors:** To minimise ESG risks within procurement, the City of Munich has a comprehensive sustainable procurement policy. In the social area, this is implemented through the commitment to comply with the ILO core labour standards (freedom of association and the right to collective bargaining, elimination of forced labour, abolition of child labour, prohibition of discrimination in employment and occupation, occupational health and safety) as a minimum standard. For procurement contracts in a global context, additional criteria such as fair wages, long-term and stable trade relationships with producers, transparency and traceability along the entire supply chain and respect for traditional production methods are applied based on a self-declaration. For specific product groups, an external label (Fair Trade or equivalent standard) is also mandatory.  

In addition to social criteria, environmental aspects are also considered. Since 2021, public contracting authorities had to implement the EU directive on the promotion of clean and energy-efficient road vehicles and comply with certain minimum quotas. In addition, the Issuer has other environmental criteria such as environmentally friendly packaging and building materials. Furthermore, external labelling is mandatory for specific product groups.
- ▶ **Dialogue with local stakeholder groups:** The Issuer involves external stakeholder groups in dialogue processes on various topics. For example, it has its own platform (“Plan Treff”) to establish dialogue and achieve transparency in planning and projects. The advisory board established in 2022 plays a central role in this regard. Around 50 experts from various subject areas, associations and non-governmental organisations evaluate the results, provide feedback on additions, identify conflicting objectives and point out possible solutions. Other forms of dialogue have also been implemented such as a citizen’s council, online dialogues, youth dialogues and dialogues with the region. With regard to climate and environmental protection issues, the department for climate and environmental protection (“Referat für Klima- und Umweltschutz (RKU)”) uses various communication channels to involve stakeholders in planning processes. The City of Munich has a climate council (“Klimarat”), which includes representatives of civil society, business and science organised for climate protection.
- ▶ **Compliance:** Compliance aspects, in particular anti-corruption, are systematically managed. For example, the City of Munich has an anti-corruption guideline, a central anti-corruption unit and anti-corruption officers. Awareness training, risk analyses and internal audits are carried out by the internal audit department. In addition, there is an anonymous whistleblowing system. To underpin its efforts to fight corruption, the City of Munich is a co-operative member of Transparency International Deutschland e. V.



## 2.3. Management of Proceeds

imug rating confirms that the rules put in place for managing proceeds are fully in line with the Green Bond Principles (GBP) 2021, including Annex 1 dated June 2022, Social Bond Principles (SBP) 2023, Sustainability Bond Guidelines (SBG) 2021 of ICMA as well as the Green Loan Principles (GLP) 2023 and Social Loan Principles (SLP) 2023 of LMA, APLMA and LSTA.

The City of Munich has established internal processes that facilitate a transparent allocation process.

### TRACKING THE PROCEEDS

- Sub-account
- Sub-portfolio
- Is tracked appropriately in another way

The “Sustainable Finance” project group coordinates the allocation of proceeds to green or social projects. This is documented in an internal tabular overview within an Excel file.

- The Issuer has an internal process to ensure that the proceeds are allocated for the selected projects in the areas of Renewable Energy, Clean Transportation, Green Buildings, Affordable Housing and Access to Essential Services.

The internal process is based on section 18 of the KommHV-Doppik (municipal budget ordinance-accrual accounting), which includes the principle of total coverage, according to which all income serves to cover all expenses and all incoming payments serve to cover all outgoing payments. The allocation to green/social expenditure is carried out via the excel spreadsheet as outlined above.

- As long as the sustainable financing instruments are outstanding, the Issuer will periodically allocate the balance of the net proceeds to the projects.

In the event of cancelled projects or projects no longer meeting the requirements of the Framework, to which proceeds have already been allocated, the Issuer will find suitable substitutes as soon as possible – at the latest by the maturity date of the respective sustainable financing instrument.

- The Issuer will disclose the planned (temporary) placement of the balance equal to the unallocated proceeds to investors.

In accordance with the specifications of the general liquidity management of the City of Munich, unallocated proceeds are managed by the liquidity management of the City Treasury. The temporary placement is disclosed by the Issuer in the reporting.

The Issuer will allocate the proceeds to the projects within a defined period. The remaining proceeds are allocated no later than two financial years after the issuance of the corresponding sustainable financing instruments.

- Internal audit (e.g., internal auditing)
- External verification



## 2.4. Reporting

imug rating confirms that the reporting process is fully in line with best market practice in accordance with the Green Bond Principles (GBP) 2021, including Annex 1 dated June 2022, Social Bond Principles (SBP) 2023, Sustainability Bond Guidelines (SBG) 2021 of the ICMA as well as the Green Loan Principles (GLP) 2023 and Social Loan Principles (SLP) 2023 of the LMA, APLMA and LSTA.

The Issuer undertakes to report on the allocation of proceeds and the environmental as well as social benefits of the projects. The underlying process of data collection and consolidation is clearly defined.

imug rating considers the Issuer's commitment to future regular reporting on the use of proceeds and the sustainability benefits of the sustainable financing instruments as meaningful and robust.

### REPORTING LEVEL

- On project portfolio basis
- At project level

### INDICATORS FOR REPORTING

#### Allocation of funds

- Amount of the total proceeds of the issuance
- Amount allocated
- Share of refinancing
- Information on any unallocated proceeds of the issuance
- Project description

#### Sustainability information

- Demonstration of the sustainability benefit (quantitative)
- Demonstration of the sustainability benefit (qualitative)

#### Further information

- Reporting in case of material changes
- Reporting on risk management
- External verification of the reporting (impact reporting)
- External verification of the reporting (allocation reporting)

The City of Munich is committed to report on the amount of proceeds raised through sustainable financing instruments, the projects financed, their sustainability benefits and the corresponding sustainability indicators.

**REPORTING TAKES PLACE VIA**

- Website
- Annual/Sustainability Report
- Internal channels, exclusively to investors

**FREQUENCY**

- Annually
- Biannually
- Otherwise

**REPORTING PERIOD**

- Until proceeds are fully allocated
- As long as the respective sustainable financing instruments are outstanding

**DATA COLLECTION AND CONSOLIDATION PROCESS**

- The underlying process of data collection and consolidation is clearly structured
- Disclosure of methodology and/or assumptions

Where possible, the Issuer will transparently disclose methods and/or assumptions in its Reporting.

- Subject to external control

**ECOLOGICAL REPORTING INDICATORS**

The selected exemplary environmental reporting indicators<sup>4</sup> are considered relevant and meaningful by imug rating. The Issuer will report on the expected positive impact using quantitative output and impact indicators:

PROJECT CATEGORY	OUTPUT INDICATORS	IMPACT INDICATORS
Renewable Energy	<ul style="list-style-type: none"> <li>▶ Number of photovoltaic systems</li> <li>▶ (Planned) output of the photovoltaic systems in kWp</li> <li>▶ Number of subsidy program applications paid-out</li> </ul>	<ul style="list-style-type: none"> <li>▶ (Expected) avoided or reduced CO<sub>2</sub> emissions</li> </ul>

<sup>4</sup> The indicators shown represent a possible set of indicators to be reported. The Issuer states that not all indicators can necessarily be reported on. Second Party Opinion on the Sustainable Finance Framework of the City of Munich – June 2024



Clean Transportation	<ul style="list-style-type: none"> <li>▶ Number of electric vehicles</li> <li>▶ Number of (planned) passengers in new environmentally friendly means of transport</li> <li>▶ Number of measures for the construction and extension of cycle paths</li> <li>▶ Number of subsidy program applications paid-out</li> </ul>	<ul style="list-style-type: none"> <li>▶ (Expected) avoided or reduced CO<sub>2</sub> emissions</li> </ul>
Green Buildings	<ul style="list-style-type: none"> <li>▶ Overview of new buildings, number of m<sup>2</sup></li> <li>▶ Overview of renovated existing buildings, area in m<sup>2</sup></li> <li>▶ Primary energy demand in kWh/m<sup>2</sup></li> <li>▶ Avoidance or reduction of primary energy demand in kWh/m<sup>2</sup></li> <li>▶ Number of subsidy program applications paid-out</li> </ul>	<ul style="list-style-type: none"> <li>▶ (Expected) avoided or reduced CO<sub>2</sub> emissions</li> </ul>

### SOCIAL REPORTING INDICATORS

The selected exemplary social reporting indicators<sup>5</sup> are considered relevant and meaningful by imug rating. The Issuer will report on the expected positive impact using quantitative output indicators:

PROJECT CATEGORY	OUTPUT INDICATORS	IMPACT INDICATORS
Affordable Housing	<ul style="list-style-type: none"> <li>▶ Number of flats or living spaces</li> <li>▶ Number of residents</li> <li>▶ Rent level compared to a comparable rent index</li> <li>▶ Number of new lettings</li> <li>▶ Number of subsidised apartments</li> <li>▶ Number of occupancy commitments</li> </ul>	<ul style="list-style-type: none"> <li>▶ N/A</li> </ul>
Access to Essential Services	<ul style="list-style-type: none"> <li>▶ Number of schools, daycare centres and other facilities</li> <li>▶ Number of pupils, children in care</li> <li>▶ Utilisable space created in m<sup>2</sup></li> <li>▶ School and childcare type</li> <li>▶ Share of all-day care</li> </ul>	<ul style="list-style-type: none"> <li>▶ N/A</li> </ul>

<sup>5</sup> The indicators shown represent a possible set of indicators to be reported. The Issuer states that not all indicators can necessarily be reported on.



### 3. ISSUER

#### SUSTAINABILITY PERFORMANCE/STRATEGY

The issuance of sustainable financing instruments is in line with the Green Bond Principles (GBP) 2021, including Annex 1 dated June 2022, Social Bond Principles (SBP) 2023, Sustainability Bond Guidelines (SBG) 2021 of the ICMA as well as the Green Loan Principles (GLP) 2023 and Social Loan Principles (SLP) 2023 of the LMA, APLMA and LSTA, and contributes to supporting the strategy of the City of Munich and thus the (re)financing of green and/or social expenditures.

#### *Sustainable objectives of the City of Munich*

The sustainability strategy of the City of Munich aims to ensure a climate and environmentally friendly, economically value-adding, socially equitable and culturally diverse use of urban space. With this in mind, the city council of Munich adopted the following general objectives for sustainable development in 2003:

- (1) Global responsibility
- (2) Conservation of resources
- (3) Quality of life
- (4) Sustainable management
- (5) Equal opportunities
- (6) Safe living
- (7) City for children and families
- (8) Cultural development
- (9) Active civil society

In terms of a “city in balance”, the City of Munich operates under the urban development concept “Perspective Munich (PM)”, which defines the strategic approach for the sustainable future of the city. First adopted in 1998, the concept has since been further developed and is now bundled into a large number of concepts, programmes and measures.

In 2016, Munich’s mayor Dieter Reiter signed the resolution of the Association of German Cities “Agenda 2030 for Sustainable Development” to implement the Agenda and respectively the 17 Sustainable Development Goals. In December 2019, the city council of Munich decided to join the global coalition of cities and countries that have declared a climate emergency. The climate charter developed envisages transforming Munich into a climate-neutral city by 2035. The city administration is to be climate-neutral by 2030.

The issuance of sustainable financing instruments is in line with the strategy of the City of Munich.

## CONTROVERSIAL BUSINESS ACTIVITIES AND CONTROVERSIAL BUSINESS BEHAVIOUR

imug rating examined the City of Munich for a total of 15 controversial business activities.<sup>6</sup>

The City of Munich is not active in controversial business activities. A fully owned subsidiary of the Issuer, Stadtwerke München, is involved in a controversial business activity. Stadtwerke München operates a combined heat and power plant (Munich North) whose power plant unit 2 is operated with coal. In the 2024/25 heating period, power plant unit 2 will be converted to natural gas.<sup>7</sup> In the future, natural gas is to be replaced by hydrogen in a further step.<sup>8</sup>

Apart from this, there is no information on the involvement of the City of Munich in controversial business practices as of 28 May 2024.<sup>9</sup>

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<sup>6</sup> The controversial business activities are defined in the methodology section (p. 24).

<sup>7</sup> Originally, a coal phase-out was already planned for the 2022/23 heating period. To ensure a reliable heating supply in the context of the war of aggression by Russia on Ukraine, the planned coal phase-out was postponed. According to the Federal Network Agency, the Nord CHP plant is systemically relevant.

<sup>8</sup> <https://www.swm.de/presse/pressemitteilungen/2024/04-2024/swm-hkw-nord>

<sup>9</sup> The controversial business practices are defined in the methodology section (p. 24).



## 4. OPINION

### *Framework*

imug rating has analysed and assessed the Framework of the City of Munich with regard to compliance with the four core components of the current Green Bond Principles (GBP) 2021, including Annex 1 dated June 2022, Social Bond Principles (SBP) 2023 and the Sustainability Bond Guidelines (SBG) 2021 of the International Capital Market Association as well as the Green Loan Principles (GLP) 2023 and Social Loan Principles (SLP) 2023 of the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association (use of proceeds, project selection and evaluation process, management of proceeds and reporting). The City of Munich plans to (re)finance projects in the categories of Renewable Energy, Clean Transportation, Green Buildings, Affordable Housing and Access to Essential Services. This includes the (re) financing of various expenditures and funding programmes in the project categories presented.

**imug rating confirms that the Framework of the City of Munich is fully compliant with the current Green Bond Principles (GBP) 2021, including Annex 1 dated June 2022, Social Bond Principles (SBP) 2023 and the Sustainability Bond Guidelines (SBG) 2021 of the International Capital Market Association as well as the Green Loan Principles (GLP) 2023 and Social Loan Principles (SLP) 2023 of the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association.**

### *Sustainability benefits and ESG risk management*

The (re)financed projects in the areas of Renewable Energy, Clean Transportation, Green Buildings, Affordable Housing and Access to Essential Services contribute to mitigating climate change and ensuring the availability of affordable housing and social infrastructure through the (re) financing of various expenditures and support programmes in the project categories presented. The Issuer has defined relevant eligibility criteria and indicators for reporting to ensure a positive environmental and social impact of the projects. The Issuer has implemented a solid risk management system to manage material ESG risks associated with the projects. The projects (re)financed by the issuance proceeds are expected to make a positive sustainability contribution to five United Nations Sustainable Development Goals (UN SDGs): Goal 1 “No poverty”, Goal 4 “Quality education”, Goal 7 “Affordable and clean energy”, Goal 9 “Industry, innovation and infrastructure” and Goal 11 “Sustainable cities and communities”.

### *Sustainability strategy/performance*

The Issuer’s sustainability strategy aims to ensure a climate and environmentally friendly, economically value-adding, socially equitable and culturally diverse use of urban space. The issuance of sustainable financing instruments makes a positive contribution to mitigating climate change and ensuring the availability of affordable housing and social infrastructure and is therefore in line with the Issuer’s strategy. Research by imug rating has revealed that a fully owned entity of the Issuer is involved in a controversial business activity.



## 5. METHODOLOGY

This Second Party Opinion (SPO) was prepared by qualified analysts at imug rating. Our sustainability research is conducted exclusively in accordance with recognised and methodologically sound procedures. We have defined strict quality standards for all research activities and client processes. To align these with recognised standards, imug rating has undergone an external audit in accordance with the ISO 9001:2015 quality management standard since 2019. The certification was confirmed in October 2023.

After a thorough review of the Framework, imug rating confirms whether an issuance complies with the Green Bond Principles (GBP) 2021, including Annex 1 dated June 2022, Social Bond Principles (SBP) 2023, the Sustainability Bond Guidelines (SBG) 2021, the Green Loan Principles (GLP) 2023 or the Social Loan Principles (SLP) 2023. For a positive assessment, the following points must be transparently reported and comprehensibly implemented by the Issuer (1) use of proceeds, (2) project selection and evaluation process, (3) management of proceeds and (4) reporting. In addition to the Framework, discussions with employees of the Issuer and publicly available information form the data basis for the SPO. These sources are only used if the information is comprehensible and documented. imug rating bases its analysis on the mandatory and recommended criteria of the relevant standards. In addition, defined mandatory criteria are included with consideration of further market standards. A catalogue of questions is sent to the Issuer for the review of ESG risk management (environmental, social and governance). This is evaluated on the basis of an internal analysis. The results of the assessment of the guidelines and processes (none, isolated or suitable) and the quality of the risk management system (weak, moderate, good or very good) are presented in the SPO. In addition, imug rating examines whether an issuance is in line with the Issuer's sustainability strategy or, in the absence of a strategy, whether suitable measures are being implemented in the area of sustainability.

imug rating reviews the Issuer's involvement in controversial business activities and practices. Controversial business activities include: Alcohol, tobacco, cannabis, gambling, pornography, hazardous chemicals, fossil fuel industry, coal, unconventional oil and gas extraction, mining, nuclear energy, military/armaments, civilian firearms, green genetic engineering, animal testing/protection. All controversial business activities are listed regardless of a turnover threshold.

The controversial business practices include violations of internationally recognised sustainability standards such as the UN Global Compact or the ILO core labour standards. The investigation covers the following areas: Environmental, Social and Corporate Governance. imug rating categorises controversial business practices according to their severity (severity level 1 (low), severity level 2 (significant), severity level 3 (high) or severity level 4 (critical)) and also takes into account the Issuer's response.

#### Transparency and legal information

Disclosure of the relationship between imug rating and the Issuer: imug rating carried out the preparation of a Second Party Opinion in 2019 and the subsequent review of the reporting in 2020. In addition, the sustainability concept for the City of Munich's own and third-party investments was assessed in 2022. This activity is not related to this report. There is no financial or other relationship between imug rating and the Issuer.

This independent Second Party Opinion was prepared in accordance with imug rating's methodology and in strict compliance with imug rating's Code of Conduct to avoid conflicts of interest and to meet the requirements of objectivity, transparency, independence, integrity and professional behaviour.

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In conducting the external review, imug rating is guided by ethical and professional principles as well as transparency and independence principles in accordance with the ICMA's Guidelines for Green, Social, Sustainability and Sustainability-Linked Bonds External Reviews.

When providing research and rating services, imug rating acts with appropriate qualifications and due care and diligence and makes every reasonable effort to ensure the accuracy of the information provided.

Based on the data provided by the Issuer, imug rating prepares a Second Party Opinion on the sustainability performance of the financing instruments. The information contained herein is therefore provided "as is". imug rating makes no warranty, express or implied, as to the accuracy, completeness, timeliness, merchantability or usefulness of this information.

The Issuer is fully responsible for confirming compliance with the obligations set out in its guidelines and for their implementation and monitoring. The opinion prepared by imug rating does not consider the financial performance of the sustainable financing instruments or the effective allocation of their proceeds. imug rating accepts no responsibility for any consequences arising from the use of this Second Party Opinion as a basis for investment decisions or other transactions by third parties.

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#### Validity of the Second Party Opinion (SPO)

This Second Party Opinion is valid after completion of the dating of the document, unless and until changes are made to the Framework. imug rating recommends updating the SPO after two years, as the timeliness and validity of the reviewed content can no longer be guaranteed.

The SPO must also be updated in the event of material changes to the Issuer's Framework and the requirements for the analysis and assessment of sustainability factors relating to the SPO as well as in the event of a change to the underlying standard.

## imug | rating

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<sup>10</sup> Moody's® is a registered trademark.