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# Social Bond Framework

## Hypo Tirol Bank AG

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This document is a translation of the original document in German language. The translation is for convenience purposes only.

# 1 Introduction

## 1.1 Hypo Tirol Bank AG at a glance

As bank of the Austrian federal state of Tyrol, Hypo Tirol Bank AG (“Hypo Tirol” for short) is a universal and regional financial partner for people and businesses. Since the bank’s establishment in 1901, this solidarity is reflected not only by its entrepreneurial focus, but also through its commitments in the areas of education, social affairs, culture and sports. The bank thus ensures the preservation of cultural values and assumes responsibility for social justice. With its experience and expertise, Hypo Tirol realizes sustainable success and provides security in all financial matters.

In its capacity as a shareholder, the state of Tyrol has supported Hypo Tirol as a long-term, solid partner. With a network of 22 branches, the regional bank focuses on its core markets of North, East, and South Tyrol as well as Vienna.

The bank’s business model focuses on retail and corporate clients, private banking and public institutions such as non-profit property developers and local communities. With its extensive range of services, which is aligned with the requirements of its target groups in the best possible manner, Hypo Tirol seeks to fulfill its responsibility in society. A range of financial services are offered from current account to investment products and strategies as well as housing and corporate financing. These offerings are supplemented by the services provided by Hypo Tirol Versicherungs GmbH, Hypo Immobilien Betriebs GmbH and Hypo Tirol Leasing GmbH.

## 1.2 Sustainability at Hypo Tirol

For Hypo Tirol, sustainability means combining economic success, careful handling of natural resources and social responsibility, and ultimately assume responsibility for the future. This classification into environmental and social sustainability is widely known as “ESG criteria” (environmental, social and governance). As defined in our vision, our mission statement and our guiding principles, we strive for sustainable management with our clients, our employees and the natural resources with a view to adding value for all stakeholders. This ambition is embedded in strong internal governance and put into all practice areas and organizational units.

Hypo Tirol explicitly endorses all 17 Sustainable Development Goals of the UN Action Plan<sup>1</sup>.

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<sup>1</sup> Source (retrieved: 2020-06-30): Resolution adopted by the UN General Assembly on September 25, 2015, link: <https://www.un.org/Depts/german/gv-70/band1/ar70001.pdf>

Based on the industry, the market and the clear business model within which Hypo Tirol operates, 9 goals in which Hypo Tirol can and intends to make a stronger contribution were identified in a stakeholder analysis. In the preparation of the analysis for the social bond program, goal number 10 was added: Reduced Inequalities.



In addition, our ethical views have been laid down in our bank's credit guidelines - this prohibits the financing of brothels, pornography, gambling, production/trade of/outlawed weapons, mining of uranium and coal, fracking, nuclear power plants, coal-fired power stations, deep-sea fishing, production of tobacco products and speculative loans (= loans for the purchase of financial investments for speculative purposes).

Hypo Tirol has been assigned an overall rating of C in the ISS ESG Corporate Rating since July 7, 2020, which classifies it as Prime in this methodology. Among other things, the report highlights Hypo Tirol's strong commitment to social housing. Mention is also made of the bank's financial services with green and/or social values. Hypo Tirol integrates sustainability criteria in its investment decisions and ensures responsible handling of clients.

### 1.3 Aspiration and ambition

Hypo Tirol seeks to fulfil its ethical and social responsibility with its products. As a bank owned by the state of Tyrol, it is important to us to make a sustainable contribution to society. Products offered by Hypo Tirol that have a clear social relevance or purpose fall into this category. Hypo Tirol attaches great importance to the further development of these sustainable products. The bank makes funding available to clients driving forward sustainable developments in social areas.

With the issuance of social bonds, Hypo Tirol intends to showcase its contribution to social responsibility, especially vis-à-vis capital market participants. The goal is to address those capital market participants that place a special focus on social aspects in their investment decisions. In non-profit housing — an important target group of Hypo Tirol —, the social component of

affordable housing is realized in conjunction with the achievement of high environmental standards. For instance, Hypo Tirol supports non-profit developers whose projects have been awarded the “klimaaktiv — Gütesiegel” quality label<sup>2</sup>.

## 2 Application of the ICMA Social Bond Principles 2020

Hypo Tirol’s Social Bond Framework forms the basis of its social bond issuance. The framework is based on the ICMA Social Bond Principles (SBP) 2020<sup>3</sup>. They are voluntary process guidelines that recommend transparency and disclosure, promote integrity in the social bond market by providing guidelines for transparency, disclosure and reporting and clarify the approach for the issuance of social bonds. Based on this framework, Hypo Tirol intends to issue social bonds either as Pfandbriefe (covered bonds) or as senior bonds. Hypo Tirol’s Social Bond Framework has the following major components:

1. Use of proceeds
2. Process for project evaluation and selection
3. Management of proceeds
4. Reporting

Taking account of the current framework, these core components are applied in the social bonds issued by Hypo Tirol. Additions to this framework are possible from time to time. The Sustainability Committee, which includes dedicated representatives for the bank’s social bonds, reviews this framework and adopts and manages any future updates. This includes an extension of the list of eligible criteria and implementation monitoring. The committee includes representatives from Hypo Tirol’s Sustainability, Treasury, Credit Risk Management and Public Institutions departments. It classifies the criteria for the selection of eligible assets and confirms the selected portfolio.

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<sup>2</sup> Source (retrieved: 2020-09-29): <https://www.klimaaktiv.at/>

<sup>3</sup> Source (retrieved: 2020-08-18): <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Social-Bond-PrinciplesJune-2020-090620.pdf>

## 2.1 Use of proceeds

Use of proceeds is the cornerstone of a social bond. Proceeds from the issuance of this type of bond exclusively serves the purpose of financing, in whole or in part, an eligible portfolio of social financing. The portfolio contains projects related to „social housing“. The net proceeds are and will be used to refinance both existing and new business. The classified assets may also be held in the public or mortgage cover pool.

The framework comprises investments in the following areas – classification of the SBP categories and SDGs:

Social bond category	Definition/ loans to finance	UN SDG
Affordable housing	<ul style="list-style-type: none"> <li>- Non-profit housing</li> <li>- Housing subsidies and refurbishing with social and family-policy-related objectives</li> <li>- Providing local communities with affordable and high-quality housing</li> </ul>	<p><b>SDG 10 Reduced Inequalities</b> 10.4 Adopt policies, especially fiscal, wage and social protection policies and progressively achieve greater equality</p> <p><b>SDG 11 Sustainable Cities and Communities</b> 11.1 Ensure access to adequate, safe and affordable housing 11.3 By 2030, enhance inclusive and sustainable urbanization</p>

### Affordable housing

One particularly important objective of social and family policy is to make requirements-gearred, affordable and high-quality housing available to the population. Hypo Tirol finances projects of non-profit developers (non-profit housing) and private and corporate clients that create affordable and high-quality housing on the basis of clearly defined conditions and rules. Furthermore, the non-profit developers (non-profit housing associations) are subject to the Austrian Non-Profit Housing Act (Wohnungsgemeinnützigkeitsgesetz, or “WGG” for short)<sup>4</sup>, irrespective of their form of business organization. They have the legal mandate to provide housing according to the cost-cover principle, i.e. not at market prices.

<sup>4</sup> Source (retrieved: 2020-08-18):  
<https://www.ris.bka.gv.at/GeltendeFassung.wxe?Abfrage=Bundesnormen&Gesetzesnummer=10011509>

**Non-profit developers according to the WGG are defined as follows:**

No profit orientation	Activity is directed towards the performance of tasks that have a positive social impact in the area of housing and settlements.
Capital appropriation	The equity capital is to be used for a specific purpose, i.e. the non-profit housing sector.
Business activities	Construction, refurbishing and management of apartments.
Cost coverage	The current rent (cost rent) shall be based on the costs actually incurred: <ul style="list-style-type: none"> <li>▪ Production costs (basic, construction and ancillary costs)</li> <li>▪ Financing costs</li> <li>▪ Current building management costs</li> <li>▪ Maintenance and improvement contribution</li> <li>▪ Contributions to reserves</li> </ul>
Allocation of apartments	Conducted with consideration of housing need, household size and income situation of the prospective tenants.

One important control instrument for the promotion of affordable housing is the support offered in this area by the state of Tyrol. Various promotional options are offered in the form of loans, grants or subsidies to make housing — a basic need — affordable or more easily affordable for the population. When projects in accordance with the Tyrolean Housing Promotion Act of 1991 (Tiroler Wohnbauförderungsgesetz 1991, or “TWFG 1991” for short)<sup>5</sup> are implemented by non-profit developers or private and corporate customers, the housing projects must comply with the Housing Promotion Guideline<sup>6</sup> or Housing Refurbishing Guideline<sup>7</sup> under TWFG 1991. Among other things, these guidelines set income limits and define the permissible household size in relation to usable living space, energy efficiency indicators as well as a fair interest rate for financing.

<sup>5</sup> Source (retrieved: 2020-09-30):

<https://www.ris.bka.gv.at/GeltendeFassung.wxe?Abfrage=LrT&Gesetzesnummer=20000205&FassungVom=2017-09-30>

<sup>6</sup> Source (retrieved: 2020-09-18): [https://www.tirol.gv.at/fileadmin/themen/bauen-wohnen/wohnbaufoerderung/downloads\\_2019/wbf-richtlinie\\_01-09-2020.pdf](https://www.tirol.gv.at/fileadmin/themen/bauen-wohnen/wohnbaufoerderung/downloads_2019/wbf-richtlinie_01-09-2020.pdf)

<sup>7</sup> Source (retrieved: 2020-09-18): [https://www.tirol.gv.at/fileadmin/themen/bauen-wohnen/wohnbaufoerderung/downloads\\_2019/ws-richtlinie\\_01-07-2020.pdf](https://www.tirol.gv.at/fileadmin/themen/bauen-wohnen/wohnbaufoerderung/downloads_2019/ws-richtlinie_01-07-2020.pdf)

To select eligible projects in the social housing category, Hypo Tirol has defined the criteria shown in the table below. The assignment criteria are mapped via the bank's core system considering the classification of the clients and the individual loan transactions.

Category	Assignment criteria
Non-profit housing	Industry Classification under the Tyrolean Housing Promotion Act (TWFG 1991)
Housing promotion and refurbishment with social and family policy goals	Industry Classification under the Tyrolean Housing Promotion Act (TWFG 1991)

## 2.2 Process for project evaluation and selection

Representatives from Hypo Tirol's Sustainability, Treasury, Credit Risk Management and Public Institutions departments identify eligible projects based on their social benefits and select eligible assets for outstanding social bonds or new issues. Hypo Tirol strives to keep the proportion of new loans as high as possible. The eligibility of the assets selected is confirmed at the meetings of the Sustainability Committee.

Projects matching the categories outlined in the "Use of proceeds" section are selected for the social bond portfolio.



The following standards apply to projects complying with TWFG 1991:

Social housing	Standards
Housing construction in accordance with the Housing Promotion Guideline <sup>8</sup>	<ul style="list-style-type: none"> <li>▪ Urgent housing need, personal need</li> <li>▪ Objective housing allocation guidelines</li> <li>▪ Rental control according to costs (non-profit developers)</li> <li>▪ Income caps</li> <li>▪ Defined space caps depending on household size</li> <li>▪ Reasonable land and construction costs</li> <li>▪ Energy efficiency thresholds</li> </ul>
Housing maintenance in accordance with the Housing Refurbishing Guideline <sup>9</sup>	<ul style="list-style-type: none"> <li>▪ Regular housing needs</li> <li>▪ Maximum eligible floor space in relation to household size</li> <li>▪ Eligible refurbishing measures<sup>10</sup></li> <li>▪ Reasonable costs</li> <li>▪ Energy efficiency thresholds</li> </ul>

The selected assets are listed in an allocation overview and tracked accordingly. When selecting projects, Hypo Tirol ensures that national and/or international standards regarding social issues as well as local laws and regulations are met. If controversial projects are identified among the identified assets, the relevant facts are described and communicated in detail.

### 2.3 Management of proceeds

The assets identified in the project evaluation and selection process are not posted in a separate portfolio, but are held as part of the bank's loan portfolio.

The identification of the projects is carried out as part of the loan approval and settlement process, including a review of the guarantee provided by the state of Tyrol in accordance with TWFG 1991. The Credit Risk Management, Financing Service and Public Institutions departments collect the key performance indicators (KPIs) for the respective properties. Once the assets have been selected and confirmed by the Sustainability Committee, the Treasury department is responsible for their ongoing monitoring. An equal amount of eligible assets is allocated to the

<sup>8</sup> Source (retrieved: 2020-11-03): [https://www.tirol.gv.at/fileadmin/themen/bauen-wohnen/wohnbaufoerderung/downloads\\_2019/wbf-richtlinie\\_01-09-2020.pdf](https://www.tirol.gv.at/fileadmin/themen/bauen-wohnen/wohnbaufoerderung/downloads_2019/wbf-richtlinie_01-09-2020.pdf)

<sup>9</sup> Source (2020-11-03): [https://www.tirol.gv.at/fileadmin/themen/bauen-wohnen/wohnbaufoerderung/downloads\\_2019/ws-richtlinie\\_01-07-2020.pdf](https://www.tirol.gv.at/fileadmin/themen/bauen-wohnen/wohnbaufoerderung/downloads_2019/ws-richtlinie_01-07-2020.pdf)

<sup>10</sup> Roof preservation in residential buildings, improvement in sound and heat insulation and moisture protection, energy loss reduction, new installation of missing sanitary facilities, district heating connections, measures fulfilling the special needs of disabled or elderly people, prevention of summer overheating

outstanding social bond proceeds. If funds are temporarily unallocated, they are invested at short term in money-market instruments, cash and/or ESG bonds for a maximum period of 12 months.

## 2.4 Reporting

Hypo Tirol will make information and documents about its social bond activities available on its website ([www.hypotiro.com/investorrelations](http://www.hypotiro.com/investorrelations)). As long as social bonds are outstanding, Hypo Tirol will publish a pertinent annual report. Each annual report will be reviewed and approved by the Sustainability Committee. The report will include allocation reporting, which shows the shares of new and existing loans in the portfolio. In addition, information on A) the volume development of eligible assets held by Hypo Tirol and B) the social benefits of the respective projects financed with the bond issue will be included in the reporting.

### A) Volume development:

- Proceeds of the outstanding social bonds
- Assets allocated to the social portfolio
- Social bond proceeds that cannot be allocated to the social portfolio

### B) Social benefits:

Category	Impact analysis (KPIs, benefit)
Non-profit housing	Number of housing units
Housing subsidies and refurbishing with social and family-policy-related objectives	Number of housing units

In addition, a qualified sustainability rating agency will publish an annual report on compliance with the documented criteria. This report will be published on the bank's website ([www.hypotiro.com/investorrelations](http://www.hypotiro.com/investorrelations)).

## 3 External review

### Second Party Opinion

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Hypo Tirol has commissioned a sustainability rating agency to evaluate its Social Bond Framework. This agency has performed the evaluation on the basis of its methodology. The results have been published in a Second Party Opinion on the bank's website ([www.hypotiro.com/investorrelations](http://www.hypotiro.com/investorrelations)).

## 4 Disclaimer

The information compiled for you in this document is based on publicly accessible sources that we, Hypo Tirol, consider to be reliable at the time the information was obtained.

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