



SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Social Bond Asset Pool

Berlin Hyp AG
23 February 2023

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none">▪ Social Refinancing Instruments
Relevant standards	<ul style="list-style-type: none">▪ Social Bond Principles, as administered by the International Capital Market Association (ICMA) (as of June 2021 with June 2022 Appendix 1)
Scope of verification	<ul style="list-style-type: none">▪ Berlin Hyp Social Bond Framework (as of January 27, 2023)▪ Berlin Hyp's Social Asset Pool (as of December 31, 2022)
Lifecycle	<ul style="list-style-type: none">▪ Post-issuance verification
Validity	<ul style="list-style-type: none">▪ Valid as long as the cited Framework remain unchanged and on the basis of the portfolio analysed as at December 31, 2022

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SCOPE OF WORK

Berlin Hyp AG (“the Issuer” or “Berlin Hyp”) commissioned ISS Corporate Solutions (ICS) to assist with its Social Bonds by assessing three core elements to determine the sustainability quality of the instrument:

1. Berlin Hyp’s Social Bond Framework (as of January 27, 2023) – benchmarked against the International Capital Market Association's (ICMA) Social Bond Principles (SBP).
2. The Asset Pool – whether the project categories contribute positively to the UN SDGs and how they perform against proprietary issuance-specific Key Performance Indicators (KPIs) (See Annex 1).
3. Linking the transaction(s) to Berlin Hyp’s overall ESG profile – drawing on the issuance-specific Use of Proceeds categories.

BERLIN HYP BUSINESS OVERVIEW

Berlin Hyp AG provides real estate financing and banking services. The firm offers financing solutions to professional investors and housing societies. Its products include syndicate business, real estate debentures, real estate evaluation, and mortgages. The company was founded in 1868 and is headquartered in Berlin, Germany. It is classified in the Mortgage & Public Sector Finance, as per ISS ESG’s sector classification

ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ¹
Part 1: Alignment with SBP	The Issuer has defined a formal concept for its Social Bonds regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the ICMA Social Bond Principles.	Aligned
Part 2: Sustainability quality of the Asset Pool	<p>The Asset Pool comprises eligible asset categories which include: Social Housing and Affordable Housing.</p> <p>The use of proceeds categories have a significant contribution to SDG 1 'No poverty', SDG 10 'Reduced inequalities' and SDG 11 'Sustainable cities and communities'.</p> <p>The environmental and social risks associated with those use of proceeds categories are well managed.</p>	Positive
Part 3: Linking the transaction(s) to Berlin Hyp's overall ESG profile	The key sustainability objectives and the rationale for issuing Social Bonds are clearly described by the Issuer. All project categories financed are in line with the sustainability objectives of the Issuer.	Consistent with Issuer's sustainability strategy

¹ The evaluation is based on the Berlin Hyp's Social Bond Framework (January 27, 2023 version), on the analysed Asset Pool as received on the January 23, 2023, and on the ISS ESG Corporate Rating updated on September 15, 2022.

SPO ASSESSMENT

PART I: ALIGNMENT WITH SOCIAL BOND PRINCIPLES

This section evaluates the alignment of the Berlin Hyp's Social Bond Framework (as of January 27, 2023) with the Social Bond Principles.

SOCIAL BOND PRINCIPLES	ALIGNMENT	OPINION
1. Use of Proceeds	✓	<p>The Use of Proceeds description provided by Berlin Hyp's Social Bond Framework is aligned with the Social Bond Principles.</p> <p>The Issuer's social categories align with the project categories as proposed by the Social Bond Principles, Selection Criteria are defined in a clear and transparent manner and social benefits are described.</p>
2. Process for Project Evaluation and Selection	✓	<p>The Process for Project Evaluation and Selection description provided by Berlin Hyp's Social Bond Framework is aligned with the Social Bond Principles.</p> <p>The project selection process is defined and structured in a congruous manner. ESG risks associated with the project categories are identified and managed through an appropriate process. Moreover, the projects selected show alignment with the sustainability strategy of the Issuer.</p> <p>The Issuer has clearly outlined the composition of the Sustainable Finance Commission which includes experts from various relevant departments.</p>
3. Management of Proceeds	✓	<p>The Management of Proceeds proposed by Berlin Hyp's Social Bond Framework is aligned with the Social Bond Principles.</p> <p>The net proceeds collected will be equal to the amount allocated to eligible projects, with no exceptions. The net proceeds are tracked in an appropriate manner. The net proceeds are managed per bond at a portfolio level. Moreover, the Issuer posits that there won't be unallocated proceeds and the aggregated nominal value of all outstanding Social Bonds shall not exceed the aggregated nominal value of Eligible Social Assets at any time.</p>

<p>4. Reporting</p>	<p>✓</p>	<p>The allocation and impact reporting proposed by Berlin Hyp's Social Bond Framework is aligned with the Social Bond Principles.</p> <p>The Issuer commits to disclose the allocation of proceeds transparently and to report in an appropriate frequency. The reporting will be publicly available on the Issuer's website. Berlin Hyp explains the level of expected reporting and the type of information that will be reported. Moreover, the Issuer commits to report annually, until maturity of the last social financing instrument.</p> <p>Furthermore, the Issuer is transparent on the level of impact reporting and the information that will be disclosed in the impact reporting, as well as defines the frequency, scope, and duration of impact reporting.</p>
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PART II: SUSTAINABILITY QUALITY OF THE ISSUANCE

A. CONTRIBUTION OF THE SOCIAL BOND TO THE UN SDGs²



Companies can contribute to the achievement of the SDGs by investing in specific services/products which help address global sustainability challenges, and by being responsible corporate actors, working to minimize negative externalities in their operations along the entire value chain.

The assessment of UoP categories for (re)financing products and services is based on a variety of internal and external sources, such as the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of an Issuer's products or services on the UN SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate Delegated Acts, the ICMA Green and/or Social Bond Principles and other regional taxonomies, standards and sustainability criteria).

The assessment of UoP categories for (re)financing specific products and services is displayed on 5-point scale (see Annex 1 for methodology):

Significant Obstruction	Limited Obstruction	No Net Impact	Limited Contribution	Significant Contribution
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Each of the Social Bonds' Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p>Social Housing</p> <p><i>Financing of social housing provided to underserved communities (e.g. low-income population)</i></p>	Significant contribution	
<p>Affordable Housing</p> <p><i>Financing of or investments in affordable housing to lower medium income communities</i></p>	Limited contribution	

² The description and impact of the UoP categories on UN Social Development Goals is assessed with proprietary methodology and may therefore differ from the Issuer's description in the framework.

B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE FINANCIAL INSTITUTION AND THE ASSET POOL

The table below evaluates the Asset Pool against issuance-specific KPIs. The entirety of the assets are and will be located in Germany and the Netherlands.

ASSESSMENT AGAINST KPIs

ESG guidelines into lending process

The Issuer has an ESG scoring process in place. Since 2021, all new business opportunities are screened and assigned an overall ESG score. Relevant risks are considered both at the company and the property level. In addition, borrowers are requested to provide information on ESG factors and sustainability documentation. ESG factors for borrowers are, as an example, information on the environmental footprint, on human resources and workers rights practices, and on topics such as lobbying and tax compliance. At the property level, the analysis focuses on energy efficiency, vulnerability to climate change, pollution and waste, demographic risk (such as aging population, depopulation), social relevance (e.g. buildings used for healthcare services or social housing). Berlin Hyp plans to extend this ESG Score to all its portfolio in the long term. Borrowers and financed buildings are assessed on a 3-point risk scale. For its portfolio A (own investments), Berlin Hyp uses an external database to monitor controversies on securities and issuers. Topics covered are such as risks related to the destruction of the environment, human rights violations, child labour, forced labour, fraud and corruption. The issuer cannot invest in securities from controversial issuers. Should controversies arise after the investments measures, ranging from engagement to divestment, are to be taken.

Labour, Health and Safety

- ✓ 100% of assets financed are located in Germany and the Netherlands where high health & safety and labour standards are ensured by the relevant national legislation and the European Union mandatory social standards.

Biodiversity and Community dialogue

- ✓ 100% of assets financed are located in Germany and The Netherlands, as such environmental impacts and impacts on the communities have been mitigated and reduced as it aligns to the European Union standards in terms of Environmental and Social Impact Assessment. In addition, the Issuer explicitly excludes financing in certain protected areas (List of Wetlands of International Importance- the Ramsar List, UNESCO World Heritage List within the context of the UNESCO Convention Concerning the Protection of the World Cultural and Natural Heritage, the UNESCO Biosphere Reserves List within the context of the UNESCO programme "Man and the Biosphere (MAB)").

Responsible treatment of customers with debt repayment problems



The Issuer has adopted a policy to deal with borrowers experiencing debt repayment problems based on the 18 good principles proposed by the European Banking Authority³. Based on that, Berlin Hyp has put in place a monthly procedure for the early detection of customers at-risk. Relevant clients are then contacted by the Issuer's sales units. Solution finding is carried out in cooperation with clients. Various options can be offered on a standalone basis or combined: extension of the term of the mortgage, change in the type of mortgage, complete or partial suspension of the instalment payments for a certain period, consolidation of loans, adjustment of the interest rate, capitalisation of default, granting of a deferral of payment, assistance with the voluntary sale of the property. The issuer states that all these options are offered under non-detrimental conditions.

Exclusion criteria

The Issuer has several exclusions in place for all financed properties, debt instruments and strategic investments:

- Trade in wild animals and products made from wild animals that are protected under the Washington Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) as well as activities that impact endangered, threatened, critically endangered and/or protected species.
- Pesticides, GMOs, uncertified palm oil and soy production.
- Coal and nuclear power production, extraction of petroleum and natural gas.
- Production of lignite, hard coal production and uranium mining.
- Facilities for the production of armaments, companies involved in nuclear weapons, biological weapons, chemical weapons, anti-personnel mines, cluster bombs, weapons that are especially designed to cause excessive injury in general and injuries among civilian populations, and depleted uranium munitions.
- Pornography and prostitution.
- Tobacco and alcohol.
- Fur.

Furthermore, Berlin Hyp has created ethical criteria for financing, these are derived from the Bank's compliance requirements and the ten principles of the Global Compact. Finally, the Issuer has a policy in place covering the topic of money laundering.

³ European Banking Authority, "[Opinion of the European Banking Authority on Good Practices for the Treatment of Borrowers in Mortgage Payment Difficulties](#)".

PART III: LINKING THE TRANSACTION(S) TO BERLIN HYP'S ESG PROFILE

A. CONSISTENCY OF SOCIAL FINANCING INSTRUMENTS WITH BERLIN HYP'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the Issuer

- a) Since 2013 Berlin Hyp has incorporated various ESG criteria into their policies and practices in order to create a sustainable management system. Berlin Hyp's also set a Strategic Performance Target (SPT) of expanding its Green Finance Portfolio to 20 percent by year-end 2020 – which was achieved a year ahead of schedule. In 2021 Berlin Hyp extended on its Sustainability Agenda, the so-called 'ESG Target Visions', which is organised in four different dimensions, as shown in the graph below⁴.

The key elements of the ESG Target Vision's sustainable business portfolio dimension are:

1. Reduction of CO₂ intensity in the portfolio and climate-neutral portfolio by 2050 at the latest
2. A portion of 1/3 of loans is designated for energy efficient green buildings (according to the criteria defined in the Berlin Hyp's Green Bond Framework) in Berlin Hyp's loan portfolio by 2025
3. Establishment of 100 percent portfolio transparency by 2023 – prerequisite for a systematic determination of energy performance as well as carbon and climate risks within Berlin Hyp's overall loan portfolio by 2025
4. Enhance advice and financing for customers who seek the transition to energy-efficient properties 40 percent of Berlin Hyp's capital markets funding mix to consist of ESG refinancing instruments by 2025



Source: Berlin Hyp 2023 Social Bond Framework

Berlin Hyp's ESG policy expands beyond the environmental goals. The Bank acknowledges the increasing social significance of the real estate sector and aims to strengthen its relevance in its core lending business.

Berlin Hyp's strategy on social issues is divided into two sections: an internal strategy (horizontal dimension) within the entity level and an external strategy (vertical dimension) related to its impact on society outside of its own entity. The sections can be applied complementary with the goal to address various important social issues.

On an entity-level, Berlin Hyp reports on establishing an internal social policy that includes reliable employment, occupational health and safety in accordance with legal requirements or as regulated by "Betriebsvereinbarung" (an agreement between staff and management representative), investing in employee training and ensuring diversity and equality through policy commitment and measures.

⁴ [Sustainability strategy - Berlin Hyp AG](#)

The external strategy, as stated by the company, addresses its relationship with suppliers, and its investment criteria. Former being conducted in accordance with principles defined by the German Property Federation (ZIA) for the financing sector, while latter ensures avoidance of adverse societal impacts through negative screening based on the ten principles of the Global Compact, other internationally recognized sustainability standards and the Bank's compliance requirements.

Berlin Hyp's climate action plan encompasses the overarching goal to reach climate neutrality by 2050 at the latest. As a member in UNEP-FI they strive to act in alignment with the Paris Agreement, however, do not have verified Science-based targets set out. In order to disclose its targets and track its progress, Berlin Hyp annually publishes an update on their Environmental Statement in which the bank presents the progress within their environmental management.

- b) Berlin Hyp strives to achieve their social action plan through their Social Bonds Program. That program may be used to issue any kind of social refinancing instruments including:
 - 1. Social covered bonds, in particular Social Pfandbriefe ("Social Pfandbriefe")
 - 2. Social senior unsecured debt, in particular Social senior preferred and Social senior non-preferred
 - 3. Social subordinated debt, limited to Social Tier 2
 - 4. Social short term debt, limited to Social Commercial Paper
- c) To ensure effective implementation in line with their roadmap and enable Berlin Hyp to address issues that may arise in the future their ESG Board is the central platform for information and the exchange of knowledge on company-wide ESG issues.
- d) Berlin Hyp publishes in conformity with the systematic structure of the Global Reporting Initiative (GRI) annual reports since 2016. This is an international standard for sustainability reporting which discloses on key management initiatives, measures and performance indicators.
- e) In line with its environmental commitments, as of year-end 2022, Berlin Hyp extended loans for EUR 2792,9 million in non-profit housing associations, cooperative housing associations and private housing associations which offer affordable and social housing.

Rationale for issuance

Berlin Hyp set up of a social bond framework with the aim of providing affordable housing in an environment in which the housing situation has been under pressure for years. By targeting the promotion of affordable and social housing, Berlin Hyp wants to support low- and middle- income households that tend to be decoupled from wage developments and face the risk of spending more than 30 percent of their disposable income for housing.

Opinion: *The key sustainability objectives and the rationale for issuing Social Bonds are clearly described by the Issuer. All project categories financed are in line with the sustainability objectives of the Issuer.*

B. BERLIN HYP'S BUSINESS EXPOSURE TO ESG RISKS

This section aims to provide an overall level of information on the ESG risks to which the Issuer is exposed through its business activities, providing additional context to the issuance assessed in the present report.

ESG risks associated with the Issuer's industry

The Issuer is classified in the Mortgage & Public Sector Finance, as per ISS ESG's sector classification. Key challenges faced by companies in terms of sustainability management in this industry are displayed in the table below. Please note, that this is not a company specific assessment but areas that are of particular relevance for companies within that industry.

ESG KEY ISSUES IN THE INDUSTRY
Statutory ESG-standards linked to the geographical allocation of the lending portfolio
Employee relations and work environment
Sustainability impacts of lending and other financial services/ products
Customer and product responsibility
Sustainable investment criteria


ESG performance of the Issuer

Leveraging ISS ESG's Corporate Rating research, further information about the Issuer's ESG performance can be found on ISS ESG Gateway at: <https://www.issgovernance.com/esg/iss-esg-gateway/>.


Please note that the consistency between the issuance subject to this report and the Issuer's sustainability strategy is further detailed in Part III.B of the report.

Sustainability impact of products and services portfolio

Leveraging ISS ESG's Sustainability Solutions Assessment methodology, the contribution of the Issuer's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs) has been assessed as per the table below. This analysis is limited to the evaluation of final product characteristics and does not include practices along the Issuer's production process.

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE ⁵	DIRECTION OF IMPACT	UN SDGS
Financing of buildings certified to a comprehensive	19.3%	CONTRIBUTION	

⁵ Percentages presented in this table are not cumulative.

sustainable building standard			
Financing of affordable housing (for low- to median-income households)	5.8%	CONTRIBUTION	

Breaches of international norms and ESG controversies

At Issuer level

At the date of publication and leveraging ISS ESG Research, no controversy in which the Issuer would be involved has been identified.

At industry level

Based on a review of controversies over a 2-year period, the top three issues that have been reported against companies within the Mortgage & Public Sector Finance industry are as follows: differentiated treatment of consumers on the grounds of race, failure to pay fair share of taxes, failure to mitigate climate change impacts.

Please note, that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

DISCLAIMER

1. Validity of the Second Party Opinion (“SPO”): Valid as long as the cited Framework remain unchanged and on the basis of the portfolio analysed as at December 31, 2022.
2. ISS Corporate Solutions, Inc. (“ICS”), a wholly-owned subsidiary of Institutional Shareholder Services Inc. (“ISS”), sells/distributes Second Party Opinions which are prepared and issued by ISS ESG, the responsible investment arm of ISS, on the basis of ISS ESG’s proprietary methodology. In doing so, ISS adheres to standardized procedures to ensure consistent quality of responsibility research worldwide. Information on ISS’s methodology is available upon request.
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ANNEX 1: Methodology

Social KPIs

The Social Bond KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of Berlin Hyp’s Social Bond.

It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the assets can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the assets and which can also be used for reporting. If a majority of assets fulfill the requirement of an indicator, this indicator is then assessed positively. Those indicators may be tailor-made to capture the context-specific environmental and social risks.

Environmental and social risks assessment methodology

The Environmental and social risks assessment evaluates whether the assets included in the asset pool match the eligible project category and criteria listed in the Social Bond KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment “no or limited information is available” either indicates that no information was made available or that the information provided did not fulfil the requirements of the Social Bond KPIs.

The evaluation was carried out using information and documents provided on a confidential basis by Berlin Hyp (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the Issuer.

Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, the extent to which Berlin Hyp’s Social Bond contributes to related SDGs has been identified.

ANNEX 2: ISS ESG Corporate Rating Methodology

ISS ESG Corporate Rating provides relevant and forward-looking environmental, social, and governance (ESG) data and performance assessments.

For more information, please visit:

<https://www.issgovernance.com/file/publications/methodology/Corporate-Rating-Methodology.pdf>

ANNEX 3: Quality management processes

SCOPE

Berlin Hyp commissioned ICS to compile a Social Bond SPO. The Second Party Opinion process includes verifying whether the Social Bond Framework aligns with the Social Bond Principles and to assess the sustainability credentials of its Social Bond, as well as the Issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- Social Bond Principles
- Key Performance Indicators relevant for Use of Proceeds categories selected by the Issuer

ISSUER'S RESPONSIBILITY

Berlin Hyp's responsibility was to provide information and documentation on:

- Framework
- Asset pool
- Documentation of ESG risks management at the asset level

ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent Environmental, Social and Governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

This independent Second Party Opinion of the Social Bond to be issued by Berlin Hyp has been conducted based on a proprietary methodology and in line with the ICMA Social Bond Principles.

The engagement with Berlin Hyp took place in January and February 2023.

ISS' BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About this SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the Issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

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