

Social Bond Framework

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Berlin Hyp
Social Bond

Contents

1. Berlin Hyp's Sustainability Strategy	2
1.1. Social Strategy: Horizontal Dimension (entity-level)	3
1.2. Social Strategy: Vertical Dimension (activity-level)	4
2. Rationale for the Social Bond Framework	5
3. Social Bond Program	7
3.1. Social Pfandbrief	7
3.2. Social Senior Bonds (senior preferred and senior non-preferred)	7
3.3. Social Tier 2 Bonds	7
3.4. Social Commercial Paper	7
4. Social Bond Framework	8
4.1. Use of Proceeds	8
4.2. Process of Selection & Evaluation	9
4.3. Management of Proceeds	10
4.4. Reporting	11
4.5. External verification	12
Appendix I	13
Appendix II	16
Disclaimer	17

1. Berlin Hyp's Sustainability Strategy

Berlin Hyp AG ("Berlin Hyp") is a pioneer in terms of sustainable development and has one of the most advanced climate strategies in the European banking landscape. The Bank aims to play an active part in the necessary green transition of the European building sector. Therefore, an extensive ESG (Environmental, Social, Governance) policy has been part of its corporate strategy and business operations for many years.

In 2013, the Bank decided to incorporate its existing policy and practice in a sustainability management system covering numerous ESG criteria. Financing energy-efficient green buildings has been part of Berlin Hyp's ESG activities closest to its core business: commercial real estate lending. Since 2015, when the Bank issued its inaugural Green Pfandbrief, the first green covered bond to be issued worldwide, Berlin Hyp's loans for energy-efficient green buildings are refinanced by issuing green bonds. To enhance its green finance franchise,

the Bank introduced pricing incentives for eligible businesses in 2016. In 2017, the ambition to have a leading position in green finance was included to Berlin Hyp's overall strategic goals. An expansion of its Green Finance Portfolio to 20 percent of its overall loan portfolio was set as a strategic performance target (SPT) by year-end 2020 and was achieved a year ahead of schedule.

The high relevance of the real estate sector and the disruptive nature of new standards such as the EU Taxonomy's buildings and construction criteria are key reasons why Berlin Hyp has not only set another new sustainability target for itself, but also a far-reaching Sustainability Agenda in August 2020. The Sustainability Agenda was extended to Berlin Hyp's ESG Target Vision in October 2021 with four different dimensions, as shown in the figure below.¹

¹ <https://www.berlinhyp.de/files/media/corporate/nachhaltigkeit/strategie/en/bhyp-fl-esg-positionspapier-eng-ew2.pdf>



In accordance with the Paris Agreement, the overarching goal is to reach climate neutrality by 2050 at the latest. This enables Berlin Hyp to proceed with its own ESG transition and to play an important role in its core business sector's necessary ESG transition.

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 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**
- 5. 40 percent of Berlin Hyp's capital markets funding mix to consist of ESG refinancing instruments by 2025**

Furthermore, 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.

Social commitment is a central aspect of Berlin Hyp's corporate strategy. Generally, the business activities conducted in the real estate industry are an important contribution to economic prosperity and social well-being. The infrastructure which the industry develops, builds, and maintains, creates fundamental value for the economy and serves as the basis for commercial and retail activity, as well as the development of the housing market.

Berlin Hyp's strategy on social issues consists of 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. These strategies are complementary and allow Berlin Hyp to cover all aspects of social issues related to its business.

1.1. Social Strategy: Horizontal Dimension (entity-level)

Sustainable business requires a sustainable environment. This simple but striking acknowledgement makes corporate activities for the society essential. As a commercial real estate financier, Berlin Hyp considers its employees as the most important capital. Employees' interaction are conducted in a spirit of appreciation, respect and openness. The Bank is continuously working on various aspects of its internal social policy. Some key internal social policies are as follows:

- **Reliable Employment for All:** The Bank's objective is to offer employees a long-term, attractive workplace with a high degree of autonomy and development potential.
- **Occupational Health and Safety:** Occupational health and safety management at Berlin Hyp is either organized in accordance with legal requirements or regulated as "Betriebsvereinbarung" (an agreement between staff and management representative). The central Health and Safety Committee at our head office in Berlin is responsible for occupational health and safety for all Berlin Hyp's employees in Germany. The Act on the Implementation of Measures of Occupational Safety and Health to Encourage Improvements in the Safety and Health Protection of Workers at Work (ArbSichG) stipulates the duties and composition of the committee.
- **Training and Education:** Digitisation and automation have led to changes in employee skill requirements at Berlin Hyp, which are upgraded through a variety of in-house activities and ongoing external educational opportunities. The "Learning World for Managers" was implemented in 2019 and follows a systematic approach with a focus on organizational learning. The programme is based on the Bank's strategic leadership requirements, the individual needs of managers from the 270° feedback and insights from learning theory. It is designed to provide support during the current process of change through mentored process learning using specific management case studies. The educational programme is intended to strengthen a modern management culture that supports strategic approaches over the long term.

→ Diversity and Equal Opportunity: Berlin Hyp strongly believes that diversity creates advantages through differences. This philosophy was underscored with the signing of the Diversity Charter (Charta der Vielfalt) and the implementation of several measures to ensure gender equal opportunities such as a binding regulation to hire female employees in connection with recruitment by HR consultants in order to identify and promote female potential.

1.2. Social Strategy: Vertical Dimension (activity-level)

Relationship with Suppliers

Berlin Hyp's business activities are conducted in accordance with the principles defined by the German Property Federation (ZIA) for the "Financing" sector cluster as they relate to the given business transaction in each case. Berlin Hyp has also implemented a social assessment for suppliers. In 2019, a sustainability questionnaire was developed for suppliers. This questionnaire is being sent together with the onboarding documentation for new suppliers. Berlin Hyp's biggest service providers include IT service providers and suppliers for IT equipment and office materials.

Investment Criteria

Berlin Hyp's social commitments are essential for its own investments. It has established ethical investment criteria based on the ten principles of the Global Compact, other internationally recognized sustainability standards and the Bank's compliance requirements. The risk filter used by RepRisk AG for the Bank's own investments (Portfolio A) at Berlin Hyp is based on these criteria. It is applied to the Bank's own investment business with the aim of giving equal consideration to the sustainable aspects and the economic objectives of investing in securities. The analysis of Portfolio A and future investment decisions are based on the online database of RepRisk AG for the risk exposure of companies, projects, sectors and countries with regard to ESG issues. RepRisk AG assesses risks related to the destruction of the environment, human rights violations, child labor, forced labor, fraud and corruption that can negatively affect an organization's reputation and financial profitability or lead to compliance issues. If the semi-annual review of Portfolio A by Sustainability Management reveals violations of the filter criteria, the Treasury Department discusses (together with the Sustainability Management Department) the actions to be taken. In 2020, Berlin Hyp began to focus on social criteria with regard to objectives such as the minimum social safeguards criteria of the EU Taxonomy.



² Berlin Hyp, Code of conduct, available here

2. Rationale for the Social Bond Framework

Sustainability is at the heart of Berlin Hyp's corporate strategy. Berlin Hyp has repeatedly demonstrated its pioneering role in this area. In 2015, it was the first bank worldwide to issue a Green Pfandbrief followed by another milestone transaction in 2021, when Berlin Hyp was the first commercial bank to issue a Sustainability-Linked Bond. Since its debut in the green bond market, the Berlin-based lender has consistently been the most active green bond bank issuer with 14 outstanding Green Bonds in benchmark format as at year-end 2021. The Bank seeks to actively contribute to climate protection in general, and to the objectives of the Paris Agreement in particular, which is why Berlin Hyp's targets are increasingly ambitious while defining future-oriented sustainability criteria. In this context, the Bank has recently revised its Green Bond Framework to be aligned with the EU Taxonomy Regulation.

For Berlin Hyp, sustainability in the form of a consistent ESG strategy is not just limited to combating climate change, but it also includes strengthening social cohesion and reducing inequality.

Germany's housing situation has been under pressure for years. The increase in rents over the past decade has outpaced the European average.³ Especially economically strong regions are experiencing tremendous rent increases.⁴ Some of the reasons for this development include the excess demand for housing, which is fuelled by population growth and a decrease in average household sizes.⁵ Despite demographical effects, housing supply is not keeping up with surging demand as construction remains weak, amongst others due to limited new construction sites, a lack of financial and human resources for planning processes and construction projects, as well as lengthy building permit procedures. The overall shortfall in construction of new dwellings is estimated to be around one million units over the last 10 years.⁶

The average rent in 2019 in Germany consisted of up to 30 percent of the household net income.⁷ Furthermore, it is worth noting that approximately 14 percent of the population were overburdened by their housing costs in 2020, that means more than 40 percent of

disposable income was spent on housing.⁸ Increasing rents become especially evident when considering first-time occupancy and re-letting, in many cases even exceeding the average gains in wage levels. These developments are in particular severe for people with low-income that means the lowest 20 percent of the wage scale, as their rent burden has risen disproportionately the last years. To the contrary, the rent burden on those with the highest incomes is decreasing. In consequence, these developments are exacerbating inequality in Germany.⁹ This trend may be explained by Germany's particularly low proportion of social housing, which accounts for only approximately 2.7 percent of the total housing stock and is aggravated by a shortfall of social housing, expected to reach up to 600,000 units for the period 2014 to 2025.¹⁰

The housing situation in the Netherlands is equally under pressure. Especially the provision of housing is regarded as one of the biggest problems on the Dutch housing market. Reasons for this are sluggish expansion of new construction in combination with a strong increase in the number of households.¹¹ The overall housing shortage in 2020 was estimated to be 331.000 dwellings, which equals to around 4.2 percent of the total stock. This explains the sharp increase in rents of 15 percent over the last five years, which has led to an

³ Housing Europe (2021, p. 65). The State of Housing in Europe. [available here](#)

⁴ Bundesinstitut für Bau-, Stadt- und Raumforschung (BBSR) (2021, p. 1). Informationen aus der Forschung des BBSR Nr. 1/2021). [available here](#)

⁵ BBSR (2020, p. 10). Wohnungs- und Immobilienmärkte in Deutschland 2020. [available here](#)

⁶ Housing Europe (2021, p. 65). The State of Housing in Europe. [available here](#)

⁷ Bundesministerium des Innern, für Bau und Heimat (BMI) (2020, p. 15). Vierter Bericht der Bundesregierung über die Wohnungs- und Immobilienwirtschaft in Deutschland und Wohngeld- und Mietenbericht 2020.

⁸ Destatis (29.10.2020). « 14% der Bevölkerung im Jahr 2019 durch Wohnkosten überlastet ». Pressemitteilung Nr. 428. [available here](#)

⁹ Dustmann, C.; Fitzenberger B. und Zimmermann, M. (2018). Housing Expenditures and Income Inequality. [available here](#)

¹⁰ Housing Europe (2021, p. 65-66). The State of Housing in Europe. [available here](#)

¹¹ Housing Europe (2021, p. 82). The State of Housing in Europe. [available here](#)

increase in the net rent quote (net rent as percentage of the disposable income) from 23.8 percent in 2012 to 26.7 percent in 2015. For households at the lower end of the income spectrum (gross income of up to € 34,299), the situation has been even more drastic, with the gross housing expenses reaching almost 40 percent in 2015. This development is a key driver for societal inequalities and spatial segregation.¹²

For governments one approach to tackle this challenge is to provide support to cover housing costs. Further relief may be provided through appropriate funding. Berlin Hyp wishes to support these challenges and acknowledges its social responsibility by promoting the availability of affordable living space. The Social Bond Framework ("the Framework") at hand is a first step towards formalizing this goal and particularly focuses on the project category "affordable housing",¹³ which is one of the key elements referred to in the ICMA Social Bond Principles.¹⁴

By targeting the promotion of affordable housing, Berlin Hyp wants to support low 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.

In principle, municipal housing companies, housing cooperatives, private housing companies as well as developers, offer affordable housing. Due to the different nature of these companies, different assessment criteria are applied to determine eligibility for Berlin Hyp's Social Bonds. These criteria are valid for both financing new and existing properties.

Due to the prevailing social challenges in the housing sector combined with Berlin Hyp's ongoing intention to diversify its ESG products, the Bank is complementing its Green Bond Program and its Sustainability-Linked Bond Program with a Social Bond program. Social Bonds will represent an additional class of refinancing instruments within the Bank's ESG funding mix, thus joining its engagement in the green and sustainability-linked bond markets.

Issuing Social Bonds is an ambitious initiative for Berlin Hyp which underlines the company's targets in terms of social issues and accompanies the step ahead for further social commitments. Berlin Hyp is determined to become a similar frequent issuer of Social Bonds as it is with its Green Bonds.

As a consequence, Berlin Hyp's Social Bond Framework is aligned with the highest standards in the market such as the Social Bond Principles, published in June 2021 by the International Capital Market Association.

The Framework will also highlight the contribution of Berlin Hyp to the Sustainable Development Goals (SDG) published in 2015 by the United Nations as part of the 2030 Agenda for Sustainable Development. Financing reduction of poverty (SDG 1) and inequalities (SDG 10) and supporting the transition towards sustainable cities and communities (SDG 11) is part of the core business of Berlin Hyp.

Anticipating the future of sustainable finance, Berlin Hyp closely follows the latest sustainable finance trends and innovations in the market. As the European Commission is currently working on a European Social Taxonomy, the Platform on Sustainable Finance published a final report on the Social Taxonomy at the end of February 2022.¹⁵ As such, new regulatory developments will be reflected in the future versions of the Framework on a best effort basis. Berlin Hyp will either maintain or improve the current level of reporting and stringency when selecting Eligible Social Assets.



¹² Peter Boelhouwer (2020). The housing market in The Netherlands as a driver for social inequalities: proposals for reform, *International Journal of Housing Policy*, 20:3, 447-456, DOI: 10.1080/19491247.2019.1663056

¹³ Affordable housing includes social housing but is not limited to it. While social housing necessarily includes subsidies by official entities/authorities, affordable housing can be but doesn't need to be subsidized. Social housing tenants need to hold a permit for subsidized housing. Tenants of affordable housing buildings that are not social housing buildings don't need to have such a permit. This framework specifically focuses on affordable housing. We align the definition of affordable housing with the German and Dutch legislations and definitions, which both stipulate that affordable housing is primarily directed at low-income households who cannot afford housing at market prices. These aspects are defined and explained in greater detail in the Use of Proceeds section and the Appendixes.

¹⁴ ICMA (2021, p. 4). Social Bond Principles. Voluntary Process Guidelines for Issuing Social Bonds. [available here](#)

¹⁵ Platform on Sustainable Finance (2022). Final Report by Subgroup 4 : Social Taxonomy. [available here](#)

3. Social Bond Program

As of 31 December 2021, Berlin Hyp has a mortgage loan portfolio with a nominal value of € 25.6bn. A portion with a value of about € 2.1bn meets the bank's eligibility criteria and are labelled Eligible Social Assets (further defined in chapter 4.1) in its loan monitoring system. The nominal value of Eligible Social Assets in Berlin Hyp's mortgage cover pool is € 1.8bn, while another € 0.3bn is not or not yet a part of the mortgage cover pool. The aggregated nominal value of Eligible Social Assets will change over time and is likely to increase as the bank plans to generate new Eligible Social Assets.

Berlin Hyp's Social Bonds Program may be used to issue any kind of social refinancing instruments including:

- Social covered bonds, in particular Social Pfandbriefe ("Social Pfandbriefe")
- Social senior unsecured debt, in particular Social senior preferred and Social senior non-preferred
- Social subordinated debt, limited to Social Tier 2
- Social short term debt, limited to Social Commercial Paper

3.1. Social Pfandbrief

Berlin Hyp's Social Pfandbriefe are mortgage-backed Pfandbriefe ("Mortgage Pfandbriefe") as defined in § 1 para. 1 (1) of the German Pfandbrief Act ("Pfandbrief Act"). All cover assets fulfill the requirements of §§ 13 to 18 Pfandbrief Act. Social Pfandbrief holders rank pari-passu with all other Mortgage Pfandbrief holders. The entire cover pool is liable for timely payment of the interest and principal of Social Pfandbriefe and all other outstanding Mortgage Pfandbriefe in case of the issuer's insolvency.

The cover principle from the Pfandbrief Act is applied by Berlin Hyp to its Social Pfandbriefe. This means that a new Social Pfandbrief can only be issued if the Bank's mortgage cover pool contains sufficient Eligible Social Assets that have not already been allocated to a preceding Berlin Hyp Social Bond. Proceeds thereof are thus always used to refinance Eligible Social Assets in the Bank's mortgage cover pool.

3.2. Social Senior Bonds (senior preferred and senior non-preferred)

Investors in Berlin Hyp's Social Senior Bonds rank pari-passu with investors in other senior unsecured notes of the Bank within the same asset class. That is, holders of Social senior preferred bonds rank pari-passu with those of other Berlin Hyp senior preferred bonds, and holders of Social senior non-preferred rank pari-passu with those of other Berlin Hyp senior non-preferred bonds. A new Social Senior Bond may only be issued if there are sufficient Eligible Social Assets on the Bank's balance sheet that have not been allocated to a Berlin Hyp Social Bond before.

3.3. Social Tier 2 Bonds

Investors in Berlin Hyp's Social Tier 2 Bonds rank pari-passu with investors in other subordinated debt of the Bank within the same asset class (i.e. limited to Tier 2). A new Social Tier 2 Bond may only be issued if there are sufficient Eligible Social Assets on the Bank's balance sheet that have not been allocated to a Berlin Hyp Social Bond before.

3.4. Social Commercial Paper

Since September 2018, the short-term refinancing of Berlin Hyp has been expanded by a Euro Commercial Paper Program. Commercial paper are unsecured bearer bonds with maturities of up to 364 days. New Social Commercial Paper may only be issued if there are sufficient Eligible Social Assets on the Bank's balance sheet that have not been allocated to a Berlin Hyp Social Bond before. Due to the short maturity of commercial paper, the monitoring process of proceeds allocation of Social Commercial Paper is specifically defined in the Section 4.3 related to Management of Proceeds.

4. Social Bond Framework

Berlin Hyp's Social Bond Framework is aligned with the five core components of the Social Bond Principles published by the International Capital Market Association (ICMA) in June 2021 and with the Minimum Standards for Social Pfandbriefe, by The Association of German Pfandbrief Banks (vdp), published in March 2021.

4.1. Use of Proceeds

An amount equal to the proceeds of Berlin Hyp's Social Bonds will be used to (re)finance Eligible Social Assets. Eligible Social Assets are defined

as loans and investments for the (i) acquisition or (ii) construction or (iii) refurbishment of Affordable Housing Buildings as defined below. The mortgages on these Affordable Housing Buildings serve as collateral for loans on Berlin Hyp's balance sheet.

If they are used for Social Pfandbriefe, the loans have to be eligible for and be included in the Bank's mortgage cover pool. Berlin Hyp's criteria for Eligible Social Assets are:

Social Bond Principles category	Eligible Social Assets	SDGs contribution
Affordable Housing	<p>Eligibility criteria: Eligible Social Assets are loans for multi-family buildings owned by specific organizations in the following countries and meeting the following criteria:</p> <p>In Germany (for more information see Appendix I):</p> <ul style="list-style-type: none"> → Non-profit oriented municipal housing companies → Non-profit oriented housing co-operations → Private housing companies and project developers, which are committed publicly to social responsibility and the offering of affordable housing <p>and:</p> <ul style="list-style-type: none"> → To be considered an Affordable Housing Building and for each respective loan to one of the above housing providers to be eligible under this Framework, the underlying housing needs to pass the Housing Benefit Act Test 	
	<p>Target population</p> <ul style="list-style-type: none"> → Lower-income groups and households whose income is above the basic social security level but who, without state support, may spend more than 30 percent of their net income on housing costs <p>In The Netherlands (for more information see Appendix II):</p> <ul style="list-style-type: none"> → Authorized institution ("toegelaten instelling") in the context of the 2015 update of the Dutch Housing Act, further defined as Social Housing Organisation ("SHO") → Private housing companies and project developers, which are committed publicly to social responsibility and the offering of affordable housing <p>and:</p> <ul style="list-style-type: none"> → Rental prices per house or average rental price in case of a multi-family building do not exceed the annually updated social housing (or liberalization) threshold as defined in Article 47 of the Dutch Housing Act (in 2021: € 752.33) 	
	<p>Target population</p> <ul style="list-style-type: none"> → Households that are decoupled from wage development, such as low-income households, the unemployed or pensioners. More information can be found in Appendix II. In specific cases other urgent reasons can be defined by individual municipalities as set out in a municipality-specific housing decree ("Huisvestingsverordening"), which are based on Article 8, Sub 1 in the Housing Act 2014, or later adjustments. Examples are medical reasons or refugees granted asylum 	

Environmental Minimum Safeguards

For Berlin Hyp, climate protection and social compatibility go hand in hand, which is why energetically poor apartments are not eligible assets within this Framework. Only buildings within the energetically best 70 percent of the national residential building stock are eligible, which, as of 2021, translates to a final energy demand of max. 151.1 kWh/m²/a.¹⁶

To avoid any double counting issues, Berlin Hyp's eligible assets must not be part of the Green Finance portfolio.

4.2. Process for Project Evaluation and Selection

Berlin Hyp firmly anchors the Framework in its internal process for evaluating and selecting Eligible Social Assets complying with the criteria described in Section 4.1. within its credit process.

Berlin Hyp has established a Sustainable Finance Commission ("SFC"; previously Green Building Commission¹⁷) which consists of representatives from various divisions of the Bank. Among them are all departments involved in the financing/refinancing value chain: Origination, Portfolio Management, Credit, Appraisal and Treasury. Among others, Risk Controlling and Corporate Strategy are part of the SFC too. In its regular meetings the SFC discusses whether the eligibility criteria described in Section 4.1 are still in line with best market practices and relevant regulation. If not, the SFC will discuss potential changes and decide how to adapt the eligibility criteria. All potential further developments of the Eligibility Criteria are to be targeted at increasing the robustness and level of ambition of the Framework. Further developments might also include the definition of social project categories beyond Affordable Housing Buildings, for instance loans to foundations who exclusively pursue charitable and non-profit making purposes in accordance with the section "Tax-Deductible Purposes" of German tax law (§52 and §53 AO).¹⁸

Berlin Hyp's Process of Evaluation and Selection starts by proving compliance with the eligibility criteria defined in Section 4.1 at the earliest possible stage of loan origination. All Eligible Social Assets which are approved via the procedure set out in the Process of Evaluation and Selection will be included in the Social Finance Portfolio.

As Berlin Hyp considers to set price incentives for Eligible Social Assets compared to loans for non-eligible residential buildings, an analysis of an asset's compliance with the eligibility criteria described in Section 4.1 must be completed prior to pricing.

To identify an asset's compliance with the eligibility criteria, the Bank reviews documents which are regularly provided by the borrowers for the appraisal of the building and the cash flow analysis. Moreover, borrowers are asked to provide energy performance certificates or to disclose energy performance calculations. Borrowers which fall into the category "Private Housing Providers" should also provide relevant documents proving a traceable public commitment to affordable housing. Also, the Bank may ask borrowers to provide relevant additional documents to prove their eligibility for the Bank's Social Finance Portfolio.

To the extent that relevant documents are provided, the experts in the Bank's responsible divisions pre-assess a property's potential alignment with the eligibility criteria described in Section 4.1. The selection process is carried out on the basis of various aspects such as category determination, selection of customer type and characteristics of private housing providers.

To be included in the Bank's Social Finance Portfolio, potential social assets will need a second positive sign-off by the Bank's Treasury department. Only thereafter, loans are classified as social bond eligible in the Bank's loan monitoring system.

Berlin Hyp tries as far as possible to integrate the concept of availability, accessibility,

¹⁶ This threshold was defined in an assessment on the energy-efficiency of the German residential building stock by Drees & Sommer by order of Berlin Hyp in October 2021. Drees & Sommer based their assessment on publicly available Data such as DENA Gebäudereport or the co2online database.

¹⁷ As Berlin Hyp intends to focus more on social aspects of its core business, CRE financing, it has replaced its Green Building Commission by the SFC in 2021. By doing so, it allows the commission to oversee the development of potential future social financing and re-financing products and keeping the respective frameworks in line with current best market practice and relevant regulation.

¹⁸ In the event of a substantial change in eligibility criteria and/or definitions of social projects, Berlin Hyp shall make every effort to update its framework accordingly, have its updated framework assessed by a Second Party Opinion and communicate the changes to the public.

acceptability and quality (AAAQ)¹⁹ presented in the Final report on the Social taxonomy of the Platform on Sustainable Finance in the process of project selection.

To ensure assets comply with the Eligibility Criteria throughout their term, Berlin Hyp's Sustainable Finance Commission reassesses their alignment on the basis of the most recent available data at least once a year. If an asset no longer qualifies with the Eligibility Criteria described in Section 4.1 it is removed from the Bank's Social Finance Portfolio. All data about an asset's social characteristics and energy efficiency are documented in the Berlin Hyp's loan monitoring system even if the asset does not fulfill the Eligibility Criteria described in Section 4.1 for track record purposes. This documentation supports Berlin Hyp to provide information about the development of the portfolio's sustainability.

Berlin Hyp may use the expertise of its own staff or rely on external consultants and their data sources to identify Eligible Social Assets.

Berlin Hyp is constantly working on improving the ESG assessment in its loan origination process and for evaluating the assets' compliance with the eligibility criteria defined in Section 4.1. As a result, Berlin Hyp reserves the right to further develop its process of selection and evaluation at any time to reflect these improvements.

Berlin Hyp has put in place numerous procedures to manage ESG risks, for example:

- Berlin Hyp implemented an ESG Questionnaire enabling the bank to assess its borrowers' ESG quality resulting in an ESG score. Every borrower is asked to complete the questionnaire within the loan origination process. Moreover, it developed an additional questionnaire covering the EU Taxonomy's construction and building criteria, including technical screening criteria and DNSH criteria.
- There is close collaboration with the Data Management department to improve ESG-data generation and management which are used for reporting and classification, measuring ESG-related performance indicators.
- In connection with Berlin Hyp's transformation loan, an assessment of refurbishment potential of the bank's portfolio has been developed.

Another relevant factor includes the bank's extensive staff training on ESG related subjects.

4.3. Management of Proceeds

Berlin Hyp will manage the proceeds of any Social Bond on a portfolio basis. An amount equivalent to each Social Bond's net proceeds will be used exclusively to refinance Eligible Social Assets that are part of the Social Finance Portfolio. Eligible Social Assets have to meet the Eligibility Criteria as set out in Section 4.1 at the date they are flagged as Eligible Social Assets. If the Bank chooses to enhance Eligibility Criteria, these new criteria are not applied retroactively to the existing Eligible Social Assets. Therefore, existing Eligible Social Assets do not lose their status if they do not meet the new Eligibility Criteria.

A new Social Bond can only be issued if there are free Eligible Social Assets with a sufficient aggregated nominal value on the Bank's balance sheet that have not already been used for previous Social Bonds. Eligible Social Assets shall not be allocated to more than one Social Bond of Berlin Hyp. This means that the aggregated nominal value of all outstanding Social Bonds shall not exceed the aggregated nominal value of Eligible Social Assets at any time. Furthermore, the Bank shall ensure a 10 percent excess of Eligible Social Assets at issuance of a new Social Bond. Should, for any reason, any Eligible Social Asset be removed from the Bank's portfolio of Eligible Social Assets, resulting in an excess of Eligible Social Assets lower than 10 percent, Berlin Hyp shall replace it by one or more Eligible Social Assets to meet the aforementioned threshold in a timely manner. Evenso, the proceeds of Social Commercial Paper are allocated to Eligible Social Assets for an aggregated nominal amount of Eligible Social Assets which shall not exceed at any time half of the 10 percent excess of Eligible Social Assets.

In addition, the aggregated nominal value of outstanding Social Pfandbriefe shall not exceed the aggregated Eligible Social Assets in the Bank's mortgage cover pool at any time. If Eligible Social Assets mature or are redeemed before a Social Bond's maturity, they are replaced by other Eligible Social Assets.

¹⁹ Platform on Sustainable Finance (2022). Final Report by Subgroup 4 : Social Taxonomy (p. 42)

4.4. Reporting

As long as Berlin Hyp has Social Bonds outstanding, the Bank will report on both the allocation of proceeds and the social impact of the Eligible Social Assets on an annual basis. Berlin Hyp will provide its annual "Social Bond Report" including an Allocation and Impact reporting on its website either as a separate report or combined with other green and/or Sustainability-Linked Bond Reports.²⁰ Those reports will remain available for investors for future reference on the Bank's website until maturity of the last Social Bond. Constituents of the Bank's annual Social Bond Report are listed below.

Allocation Reporting

→ The development of Eligible Social Assets on Berlin Hyp's balance sheet, including but not limited to:

- Volume and growth of the Social Finance Portfolio
- Breakdown of the Social Finance Portfolio by Eligible Social Asset subcategory and by geography
- Maturity of the social loans per Eligible Social Asset subcategory

→ Progress report on the allocation of an equivalent amount to the net proceeds of the Social Bond to Eligible Social Assets, including:

- Total amount of the net proceeds allocated to the Social Finance Portfolio
- Total volume of outstanding Social Bond instruments
- Maximum amount of outstanding Social Commercial Papers emissions over the period

Impact Reporting

→ Where relevant, the Social Bond Principles' Harmonized Framework for Impact Reporting for Social Bonds²¹ may guide impact reporting. Additional impact indicators may be developed over time when the net proceeds of the Social Bond are allocated to Eligible Social Assets. If there are significant changes with regard to the Social Bond Framework or the Eligible Social Assets that have a significant impact on the sustainable impact of the Social Bonds, Berlin Hyp will adapt the reporting and make it publicly available.

→ For further transparency, Berlin Hyp will publish an Impact Reporting Template, which discloses the indicators below, where feasible:

	Project Category		Target	Social Indicator
Social Bonds Principle Category	Eligible Social Assets subcategory	SDG addressed	Target Population	Social Indicator
Ex. affordable Housing	Ex. non-profit oriented housing co-operations	Ex. reduction of poverty (SDG 1) and inequalities (SDG 10) and supporting the transition toward sustainable cities and communities (SDG 11)	Ex. individuals/Families benefiting from subsidized housing	<ul style="list-style-type: none"> · Number of estimated beneficiaries · Number of housing units · The total number of flats situated in Affordable Housing Buildings · Number of square metres supported or developed · Number of buildings · The expected number of household members based on the concept of Appropriate Living Space · Average Rent level

²⁰ available here

²¹ ICMA (2020). Working towards a Harmonized Framework for Impact Reporting for Social Bonds. available here

4.5. External Verification

Second Party Opinion

Berlin Hyp has appointed ISS-ESG to independently assess the social nature of its Social Bond Framework and its alignment with the Social Bond Principles. ISS-ESG applies its own framework to carry out this assessment. The results are documented in ISS-ESG's Second Party Opinion which is available on the Bank's website. The Second Party Opinion refers to the whole Social Bond Framework and includes every security that is issued under it.

Annual Re-verification

ISS-ESG or any other party appointed by Berlin Hyp later as a successor for ISS-ESG

in the future will issue a report verifying the compliance of all issued bonds with the criteria documented in this program on an annual basis. These reports will reflect the results of the assessment of the social performance of the program and the issued Social Bonds. The reports will be published on the Bank's website.

In the event of material changes in the Social Bond Framework, Berlin Hyp will engage ISS-ESG or any other service provider to provide the appropriate verification.

Appendix I

The German Social Housing Context

Municipal housing companies (MHCs) are housing companies (partially) owned by the respective municipality. The activities of an MHC are often an essential instrument of the housing policy of a municipality. A single municipality can own one or several MHCs, fully or partially. Special targets, arrangements and cooperation's either between the different MHCs a single municipality is involved in or between a MHC and the municipality itself are often defined in a special cooperation agreement (Kooperationsvertrag, KoopV).

MHCs are usually characterized by a strong social commitment and low rents.²² Moreover, MHCs are non-profit oriented and aim to fulfil social compatibility via their pursuit of urban returns.²³

Housing co-operatives (HCOs) are housing companies legally based on the Cooperative Act (Genossenschaftsgesetz, GenG). The members of housing co-operatives are their shareholders and at the same time (at least partly) also the tenants of their flats. The members benefit from a lifelong right of residence. An HCO cannot be sold and its sole interest is to provide housing at an affordable rate to its members while continuously investing in (new) buildings. HCOs are also characterized by their principle of non-profit orientation.

Private providers and project developers are profit oriented suppliers of housing. For housing loans to these companies to be eligible under this framework, the companies must publicly commit to affordable housing and social responsibility. This makes those companies accountable and allows for better comparability of goals and successes.

Housing Benefit Act Test

The rationale of the Housing Benefit Act Test is that under the Housing Benefit Act tenants have a right to receive a Housing Benefit if a) the space of the apartment they live in does not exceed the Appropriate Living Space and if b) their total net income is not higher than the Maximum Income Threshold. At the same time, for calculating the level of subsidies only gross

basic rents²⁴ not higher than the respective Rent Level Regulation in relation to the number of tenants are considered.

The Housing Benefit Act Test is run in several steps:

- a) Determining the city or district the housing building is located.
- b) Collecting the data on the total living space, the total monthly rent payments and the total number of flats of the housing building. Should the rent payments only be available in form of net basic rents they will be multiplied with a factor of 1.15 as a proxy to achieve the gross basic rent. This adjustment is necessary since the Housing Benefit is calculated on the basis of the gross basic rent. The factor 1.15 derives from the average difference between net basic rents and gross basic rents as published in an analysis by the Federal Statistical Office (Statistisches Bundesamt).
- c) Calculating the average living space per flat (in square meters).
- d) Calculating the average rent per flat.
- e) Estimating the average number of tenants per flat, based on the concept of the Appropriate Living Space (see below).
- f) Determining the Rent Level Regulation (Mietstufe, specified in the Housing Benefit Act HBA; Wohngeldgesetz, WoGG; for details see below) for the city or district the housing building is located. The Rent Level Regulation will be adjusted by the Heating Cost Contingency introduced in 2021 in the Housing Benefit Act. The resulting number will be multiplied with a factor of 1.10. This factor derives from Federal Social Court ruling BSG 30.1.2019 – B 14 AS 24/18 R and

²² The median basic rent at the end of 2017 was €5.04 per m² (BBSR 2020, p. 74).

²³ The term urban return does not refer to a business profit from renting or selling a building or land, but attempts to add up ecological, social and societal returns for the city. Examples of these added values are the provision of affordable housing (affordability), the emergence of Third Places in the neighbourhood or the positive urban climatic effects of unsealing.

²⁴ Gross basic rents include utility and service payments. In contrast net basic rents describe rental payments without any additional utilities included.

BSG 3.9.2020 – B 14 AS 34/19 R and aims for adjusting the Rent Level Regulation to the actual market situation.

- g) If the average gross basic rent calculated under d) is not higher than the adjusted Rent Level Regulation calculated under f) the Housing Benefit Act Test is passed and the loan for the housing building is eligible (see formular below).

Eligibility criteria for loans for Affordable Housing Buildings

Gross Basic Rent = Net Basic Rent · 1.15 ≤ Rent Level Regulation¹ – Heating Cost Contingency · 1.1

The Housing Benefit Concept

Eligibility for receiving a Housing Benefit payment (“Wohngeld”) under the Housing Benefit Act is determined by the number of tenants the respective flat provides an Appropriate Living Space for, the difference between gross basic rent and Rent Level Regulation as well as the tenants’ income, which must be below the Maximum Income Threshold.

The concept of an Appropriate Living Space

The Appropriate Living Space per number of tenants is determined by the so called Target Area in the Housing Benefit System (“Richtfläche in der Wohngeldsystematik”). It determines that for a one-person household the Appropriate Living Space is 48 square meters, for a two-person household it is 62 square meters, and for each additional person per household it is 12 square meters.

This classification results in a gap in living space between the individual household sizes. For practical reasons we have therefore added the gap in living space between the individual household sizes to the respective next following larger type of household. As a result, we have used the following classification of Appropriate Living Space when running the Housing Benefit Act Test:

- up to 48m² for a one-person household
- 49-62m² for a two persons household
- 63-74m² for a three persons household
- 75-86m² for a four persons household
- and 12m² for each additional person per household

The Rent Level Regulation

The maximum amounts up to which rents can be subsidized by Housing Benefits are adapted

according to the regional rent level. The specification of the Rent Level Regulation is run in several steps. First, the average gross basic rent including utility and services on a federal level for flats of an Appropriate Living Space for different numbers of household members is specified. In a second step, the average gross basic rent levels of the main tenants receiving Housing Benefits are calculated for each city with more than 10,000 inhabitants as well as for every county and district. The deviations of the local levels from the federal levels are clustered in seven different Rent Level Regulations (Mietstufen), with level I. reflecting those areas with rents below or equal to 85% of the federal average; II. 85% – 94%; III. 95% – 104%; IV. 105% – 114%; V. 115 – 124%; VI. 125% - 134%; and VII. ≥125%. In a final step, the maximum rent level that is considered for calculating the qualification for a Housing Benefit is determined for each Rent Level Regulation and different number of households (see table below).

Based on the Housing Benefit Act, this process is automatically adjusted bi-annually from 1.1.2022.

Maximum gross basic rent in €, by Rent Level Regulations and number of household members, as of 31.12.2021

Number of household members	Rent Level Regulation	I	II	III	IV	V	VI	VII
1		352.40	395.40	440.40	492.40	539.40	589.40	647.40
2		427.60	479.60	534.60	597.60	654.60	715.60	785.60
3		509.20	571.20	636.20	711.20	779.20	852.20	934.20
4		593.80	666.80	741.80	828.80	909.80	993.80	1,090.80
5		678.40	761.40	847.40	947.40	1,039.40	1,135.40	1,246.40
any additional household member		80.6	91.6	102.6	114.6	124.6	142.6	156.6

The Maximum Income Threshold

Only tenants whose total disposable income (§13-15 WoGG) is below the Maximum Income Threshold (§19 WoGG) can apply for a Housing Benefit. The Maximum Income Threshold that applies since 01.01.2021 is depicted in table below.

**Maximum disposable income per household
 (in €), as of 31.12.2021**
 (by number of household members (1-8) vs. the
 Rent Level Regulation (I-VII))

Number of household members	Rent Level Regulation	I	II	III	IV	V	VI	VII
1		961	999	1,035	1,071	1,100	1,128	1,158
2		1,314	1,367	1,417	1,468	1,510	1,550	1,592
3		1,605	1,665	1,721	1,779	1,826	1,871	1,917
4		2,133	2,197	2,255	2,314	2,362	2,406	2,451
5		2,438	2,508	2,572	2,636	2,689	2,738	2,788
6		2,768	2,839	2,902	2,965	3,016	3,066	3,114
7		3,013	3,086	3,153	3,219	3,271	3,326	3,376
8		3,361	3,411	3,515	3,589	3,648	3,712	3,770

Heating Cost Contingency

At the beginning of 2021, the Heating Cost Contingency was introduced in the Housing Benefit Act. The Heating Cost Contingency aims to compensate for increasing heating costs triggered by the introduction of a CO₂ price for e.g. heating oil and gas at the beginning of 2021. The Heating Cost Contingency is calculated on the basis of the Target Area in the Housing Benefit Systemics and counts for € 0.30 per square meter. It is paid in addition to the regular Housing Benefit and already included in the Rent Level Regulation depicted in the table above. In detail, it amounts to a level depicted in the table below.

Heating Cost Contingency, as of 31.12.2021

Number of household members	Contingency in €
1	14.40
2	18.60
Amount for each additional household member	3.60

Appendix II

Dutch Social Housing context:

The 2015 update of the Dutch Housing Act²⁵ stipulates that the minister for housing and spatial planning allows associations with full legal capacity and foundations, whose aim is to operate exclusively in the field of public housing and to use their financial resources solely in the interest of public housing as institutions, to operate solely in the interest of public housing.²⁶ Such an entity is called an authorized institution (“toegelaten instelling”) or Social Housing Organisation (SHO). Private sector rental housing can also be defined as social housing in case rental prices of properties are below the liberalization threshold mentioned below.

Article 47 of the Dutch Housing Act provides that services of general economic interest (SGEI) are entrusted to the authorized institutions. Among other things, this refers to the housing of persons who, due to their income or other circumstances, experience difficulties in finding suitable housing, the construction for that purpose as well as acquiring rental properties with a social rental price not exceeding the liberalization threshold (2021: € 752.33 per month).

Article 48 provides that the authorized institution only enters into rental and lease agreement with regard to at least 90 percent of its homes in the regulated sector if the household income does not exceed the income limit. Article 16 of the Decree on Authorized Institutions for Public Housing 2015²⁷ together with the Regulation on Authorized Institutions

for Public Housing 2015 determine that this income limit is €38,035 (2019) with regard to at least 80 percent of these homes, and €42,436 (2019) with regard to a maximum of 10 percent of these homes, as stated above.

In addition, Article 14 also provides standard income levels (“norminkomen”) depending on the number of people in the household and age of the persons:

- €24,075 for a one person household
- €32,675 for a multiple person household
- €22,987.94 for a one person elderly household
- €30,430.41 for a multiple elderly persons household.

Both the liberalization threshold and income limits are updated on an annual basis per the first of January.

²⁵ Staatsblad 2015, 231 | Overheid.nl > Officiële bekendmakingen ([available here](#))

²⁶ For reference see Article 19:1 of the Dutch Housing Act ([available here](#)) or wetten.nl - Regeling - Besluit toegelaten instellingen volkshuisvesting 2015 - BWBR0036702 ([overheid.nl](#))

²⁷ [available here](#)



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