

Berlin Hyp

Type of Engagement: Sustainability-Linked Bond Annual Review

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Introduction

Berlin Hyp AG (the “Bank” or the “Company”) provides mortgage lending and real estate financing services in metropolitan Germany and other European markets. The Bank was founded in 1868 and is headquartered in Berlin, Germany.

In April 2021, Berlin Hyp issued a sustainability-linked bond whose coupon rate is associated with achieving a sustainability performance target (SPT) on a key performance indicator (KPI) for a material sustainability-related issue for the Company. Non-achievement would trigger a step-up event to increase the bond coupon rate by 25 basis points at the final year of the bond’s term. The final observation date is 31 December 2030 and therefore reporting occurs using values as at 31 December of each year.¹

In January 2023, the Company engaged Sustainalytics to review its progress towards the SPT at the end of 2022 as established in the Berlin Hyp Sustainability-Linked Bond Framework (the “Framework”).² Sustainalytics provided a second-party opinion on that framework in February 2021.³ This is the second such review of Berlin Hyp’s progress on the SPT provided by Sustainalytics, having completed the first in March 2022.

Evaluation Criteria

Sustainalytics analyzed the following elements to evaluate Berlin Hyp’s measurement and reporting on its progress towards achieving its SPT, and adherence to its reporting commitments under the Framework:

1. Calculation and measurement of the KPI;
2. The reporting practice of the issuer on the KPI ; and
3. The reported progress towards achieving the SPT.

Table 1: SPT and KPI Description in the Framework

KPI	KPI Description	SPT 2030	Baseline year ⁴ 2020
KPI: Carbon intensity of loan portfolio	<p>The KPI is defined as the carbon intensity of all buildings financed by the total of all loans granted by Berlin Hyp, forming the bank’s loan portfolio. The carbon intensity of its loan portfolio is expressed in percentage (%) compared to the 2020 baseline.</p> <p>Carbon intensity is calculated as the ratio of the aggregated CO₂ emissions from all commercial real estate financed by Berlin Hyp by total financed areas per year:</p> <ul style="list-style-type: none"> • $CI = \text{kgCO}_2/\text{m}^2/\text{a}$ 	Reduce loan portfolio’s carbon intensity by 40% between 2020 and 2030	35.51 kgCO ₂ /m ²

¹ Berlin Hyp, “Base Prospectus Final Terms”, (2021), at: [base-prospectus-final-terms \(berlinhyp.de\)](https://www.berlinhyp.de/en/investors/sustainability-linked-bonds?file=files/media/corporate/investoren/sustainability-linked-bond/bhyp-gb-sustainability-linkedbond-eng-2020.pdf)

² Berlin Hyp, “Sustainability-Linked Bond Framework”, (2021), at: <https://www.berlinhyp.de/en/investors/sustainability-linked-bonds?file=files/media/corporate/investoren/sustainability-linked-bond/bhyp-gb-sustainability-linkedbond-eng-2020.pdf>

³ Sustainalytics, “Berlin Hyp Sustainability-Linked Bond Framework Second-Party Opinion”, (2021), at: [https://www.sustainalytics.com/corporate-solutions/sustainable-finance-and-lending/published-projects/project/berlin-hyp-ag/berlin-hyp-sustainability-linked-bond-framework-second-party-opinion-\(2021\)/berlin-hyp-sustainability-linked-bond-framework-second-party-opinion](https://www.sustainalytics.com/corporate-solutions/sustainable-finance-and-lending/published-projects/project/berlin-hyp-ag/berlin-hyp-sustainability-linked-bond-framework-second-party-opinion-(2021)/berlin-hyp-sustainability-linked-bond-framework-second-party-opinion)

⁴ Sustainalytics notes the carbon intensity baseline of the loan portfolio has been initially determined in part through energy proxies when actual building consumption data was unavailable. This figure represents the most accurate information as at 31 December 2022.

	<p>Carbon intensity calculation includes Scope 1 and 2 carbon emissions from energy demand for heating and electricity. Carbon emissions are calculated using Berlin Hyp’s Carbon Footprint Assessment Methodology. Berlin Hyp will use collected or estimated data to calculate buildings’ energy demand and energy-sources-specific carbon conversion factors.</p>		
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Issuing Entity’s Responsibility

Berlin Hyp is responsible for providing accurate information and documentation relating to the details of the KPI’s calculation and performance.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted a review of Berlin Hyp’s progress towards the SPT as described in the Framework. The work undertaken as part of this engagement included a collection of documentation from Berlin Hyp employees and a review of documentation to assess conformance with the agreed upon details of the bond.

Sustainalytics has relied on the information and the facts presented by Berlin Hyp with respect to the KPI and SPT. Sustainalytics is not responsible, nor shall it be held liable if any inaccuracies in the opinions, findings, or conclusions herein due to incorrect or incomplete data provided by Berlin Hyp.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Internal Review Committee to provide oversight over the review.

Conclusion

Based on the limited assurance procedures conducted,⁵ nothing has come to Sustainalytics’ attention that causes us to believe that, in all material respects, Berlin Hyp’s measurement of and reporting on its progress toward achieving its SPT do not conform with its commitments in the bond document.

⁵ Sustainalytics’ limited assurance process includes reviewing the documentation relating to the details of the KPIs and SPTs that have been agreed upon, including data on KPI progress, reporting, calculations and verification conducted for the baseline data. The issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Detailed Findings

Table 2: Detailed Findings

Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Sustainability Performance	Review of achieved progress on the KPI to determine if it is aligned with the SPT mentioned in the bond document as outlined in Table 1.	Berlin Hyp has progressed towards the achievement of the SPT by reducing the carbon intensity of its loan portfolio. The Issuer has reported a 9.72% reduction in carbon intensity of its loan portfolio of buildings in 2022 from 2020. Please see Appendix 1 for more details.	None
Reporting	Review of the reporting practices to make and keep readily available up-to-date information relating to the SPT mentioned in the bond document.	Berlin Hyp has confirmed that reporting will be made publicly available on its website from 22 March 2023 and will include any relevant information related to the methodology and date updates to enable investors to monitor the progress towards achieving the SPT.	None
Calculation and measurement of KPI	Review of calculation and methodology used for KPIs.	<p>Berlin Hyp's approach to measuring the KPI is clear and consistent with its pre-defined assessment methodology as outlined in the Framework. Carbon intensity calculation includes scope 1 and 2 carbon emissions from energy demand for heating and electricity. Initially, carbon emissions are estimated using carbon conversion factors based on regional location and multiplied by collected or estimated energy demand data. Energy proxies were initially used when actual energy demand data was unavailable, which is later adjusted when actual data is received and analyzed at the end of each year. The adjusted energy data does not count in the Bank's favour when calculating the KPI. Further adjustments were made to the 2020 baseline value to account for updates on the buildings' data and EPC certificates. Thus, Sustainalytics considers this not to affect Berlin Hyp's level of achievement on the KPI and, as such, does not view it as an error or exception.</p> <p>The calculation and measurement of the KPI are in line with the commitments made in the Framework and within the bond.</p>	None

Appendix 1: Progress towards the Sustainability Performance Target

Berlin Hyp's 2020 carbon intensity baseline has been updated to reflect new conversion factors, EPC labels and changes in its portfolio. The total carbon footprint value update is factored in to avoid improvements that are only based on enhanced transparency.

Reporting indicator	2020 (baseline)	2022
Carbon intensity (kgCO ₂ /m ²)	35.51	32.06
Savings carbon intensity (%)	-	-9.72%
Portfolio area (m ²)	32,046,441	33,137,793
Total CO ₂ emissions (kgCO ₂ /a)	1,237,490,355	1,062,255,651
Total Energy Demand (kWh)	4,707,625,550	4,405,229,040
Average energy demand per m ² (kWh/m ²)	146.90	132.94
Transparency ratio ⁶ (m ²)	26.10%	65.40%

KPI	Baseline 2020	SPT 2030	Performance 2022
KPI: Carbon intensity of loan portfolio (kgCO ₂ /m ²)	35.51	Reduce loan portfolio's carbon intensity by 40% between 2020 and 2030	32.06

⁶ The transparency ratio denotes the percentage of portfolio area that has been covered by EPC data whereas the remaining primary energy demand of the portfolio is estimated through proxies developed in co-operation with an external consultant.

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