



Verification of the Sustainability Quality of the Green Bond Programme of Berlin Hyp AG

22 August 2016

Aim and Scope of this Second Party Opinion

In 2016, Berlin Hyp AG commissioned oekom research to assist with verifying the sustainable added value of Berlin Hyp's Green Bond Programme as well as the asset pool to be refinanced by Green Bonds under this Green Bond Programme (Green Pfandbriefe and Green Seniors). The verification is conducted using the criteria and indicators of a sustainability framework concept.

oekom research's mandate included the following services:

- Evaluation of the Green Bond Programme's formal concept and defined processes.
- Definition of a framework concept containing a clear description of eligible project categories and the social and environmental criteria assigned to each category for evaluating the sustainability-related performance of the projects (re-)financed through the proceeds of bonds under the Green Bond Programme.
- Verification of compliance of the selected projects with the verification framework criteria.
- Verification of the alignment of the Green Bond Programme with the Green Bond Principles.
- Review and classification of Berlin Hyp AG sustainability performance on the basis of the oekom Corporate Rating.

Overall Evaluation of the Green Bond Programme

oekom's overall evaluation of the Green Bond Programme of Berlin Hyp AG is positive:

- The Green Bond Programme's formal concept, defined processes and (announced) disclosures are aligned with the Green Bond Principles (Part I of this Second Party Opinion).
- Berlin Hyp has clearly defined a concept for its Green Bond Programme regarding use of proceeds, process for project evaluation and selection, management of proceeds and disclosure (Part II of this Second Party Opinion).
- The overall sustainability quality of the selected assets for inclusion in the asset pool in terms of sustainability benefits and risk avoidance and minimisation is good (Part III of this Second Party Opinion).¹
- The issuer itself shows a good sustainability performance (Part IV of this Second Party Opinion).

¹ The sustainability performance of the bonds issued may differ from this assessment depending on the assets selected for inclusion in the bonds.

There are some aspects for which more specific selection or performance criteria would be recommended as it could still add to the overall quality of the Green Bond Programme: Firstly, oekom research recommends raising the requirements for some external sustainability certificates, e.g. minimum green building certificate of BREEAM “Very Good” instead of BREEAM “Good”. Additionally, it would be beneficial to complement the existing energy efficiency requirements with minimum environmental requirements regarding site selection and construction.

Annual CO₂ Avoidance by the Buildings in the Asset Pool

Berlin Hyp has started to estimate the carbon avoidance of the buildings in its green asset pool. Therefore, the carbon avoidance only refers to buildings added to the asset pool after the issuance of the first Green Pfandbrief in 2015.²

Berlin Hyp developed a specific methodology in order to report on the carbon avoidance of its green asset pool. Firstly, Berlin Hyp has established two baselines in order to compare the buildings within its green asset pool to existing standards. The first baseline is the average energy performance of European buildings and the second baseline is the German Energy Savings Ordinance (EnEV). Secondly, Berlin Hyp has chosen to provide investors with information on the carbon avoidance that is linked to Berlin Hyp’s initial financing share of the respective buildings as well as on the complete carbon avoidance, i.e. the avoidance caused by the entire building. The figures regarding the complete allocation of CO₂ avoidance provide investors with full transparency on the buildings included, although the avoided emissions cannot be allocated to Berlin Hyp due to Berlin Hyp’s lower financing share.

The respective carbon intensity is based on each country’s energy mix in 2013. The calculations on energy and CO₂ data were carried out by Berlin Hyp. oekom research has carried out a basic plausibility check and data was deemed valid. More information on the calculations is provided by Berlin Hyp at www.green-pfandbrief.com.

The following table represents the results of estimations and calculations on the CO₂ performance of the buildings within the asset pool for the Green Bond Programme (excluding buildings that were in the asset pool at issuance of the initial Green Pfandbrief in 2015).

| Annual CO ₂ avoidance of the buildings in the asset pool | | |
|---|---|---|
| Baseline for CO ₂ avoidance | Proportional allocation to Berlin Hyp initial financing share | Complete allocation to Berlin Hyp financing |
| European average | 15.4 t/mEUR | 26.0 t/mEUR |
| German Energy Saving Ordinance (EnEV) | 4.7 t/mEUR | 7.8 t/mEUR |

² In order to identify the projects included in the asset pool at issuance of the initial Green Pfandbrief in 2015, those added after issuance and those newly added, they are marked accordingly in the Use of proceeds table on page 4.

Part I – Green Bond Principles

1) Use of Proceeds

The proceeds of the Green Bonds (Green Pfandbriefe as well as Green Seniors) to be issued by Berlin Hyp will be exclusively used to finance and refinance the acquisition, construction or refurbishment of Green Buildings. These Green Buildings serve as collateral for loans granted by or to be granted by Berlin Hyp. If they are used for Green Pfandbriefe the loans have to be eligible for and included in or to be included in the bank's mortgage cover pool.

Eligibility criteria:

For buildings to qualify as Green Buildings – as defined by Berlin Hyp – they have to meet the following requirements:

- The annual energy demand does not exceed set limits

| | |
|--------------------------|--|
| 50 KWh/m ² a | for new residential properties |
| 75 KWh/m ² a | for old residential properties |
| 30 KWh/m ² a | for logistics buildings |
| 70 KWh/m ² a | for retail buildings (shopping malls, department stores) |
| 95 KWh/m ² a | for other retail buildings |
| 95 KWh/m ² a | for hotels/ management buildings |
| 110 KWh/m ² a | for production buildings |
| 110 KWh/m ² a | for office buildings without air conditioning |
| 135 KWh/m ² a | for office buildings with air conditioning |

and/or

- External sustainability certificates must fulfil a minimum level

| | |
|--------|--|
| LEED | Silver or above |
| BREEAM | Good or above |
| DGNB | Silver or above (for certificates given after 01.07.2015: Gold or above) |
| HQE | Basic or above |

and

- Eligible assets will also meet other environmental and/or social criteria. They are not used for the production of arms, pesticides, tobacco, pornography, nuclear power, coal, oil and fossil fuels.

Details regarding the projects included in the asset pool are listed in the following table:

| No | Country | Type of building/project | Green building certification | Energy label available | Construction/last renovation | Inclusion in asset pool | Loan (nominal amounts as of 30.06.16, mEUR) | Share of asset pool |
|----|---------|-----------------------------------|------------------------------|------------------------------------|------------------------------|-------------------------|---|---------------------|
| 1 | DE | Office/Retail (financing) | LEED Gold | X | 2013 | First ³ | 19.05 | 1.30% |
| 2 | DE | Management Building (acquisition) | DGNB Silver | X | 2012 | First | 18.44 | 1.26% |
| 3 | DE | Shopping Centre (financing) | X | EnEV ⁴ EPC ⁵ | 1963/2014 | Post | 23.45 | 1.60% |
| 4 | DE | Office/Retail (financing) | X | EnEV EPC | 2003 | Post | 60.72 | 4.13% |
| 5 | DE | Office/Retail (acquisition) | DGNB Platinum | EnEV EPC | 2014 | Post | 41.30 | 2.81% |
| 6 | DE | Office/Retail (financing) | X | EnEV EPC | 1994 | Post | 66.77 | 4.55% |
| 7 | DE | Logistics (financing) | DGNB Silver | EnEV EPC | 2014 | Post | 9.02 | 0.61% |
| 8 | DE | Residential (acquisition) | DGNB Gold | X | 2013 | Post | 11.10 | 0.76% |
| 9 | DE | Management Building (acquisition) | DGNB Silver | EnEV EPC | 2013 | Post | 7.50 | 0.51% |
| 10 | DE | Office/Retail (financing) | DGNB Platinum | EnEV EPC | 2014 | Post | 122.50 | 8.34% |
| 11 | DE | Residential (acquisition) | X | EnEV EPC | 2014 | Post | 15.00 | 1.02% |
| 12 | DE | Office/Retail (acquisition) | X | EnEV EPC | 1972/2001 | Post | 80.00 | 5.45% |
| 13 | DE | Office/Retail (acquisition) | DGNB Silver (pre-cert) | EnEV EPC | 2015 | Post | 26.18 | 1.78% |
| 14 | DE | Office/Retail (financing) | DGNB Bronze | EnEV EPC | 2014 | New | 15.30 | 1.04% |
| 15 | DE | Office/Retail (financing) | X | EnEV EPC | 1988 | New | 21.79 | 1.48% |

³ Abbreviations: First: "Buildings within the asset pool at issuance of the first Green Pfandbrief in 2015"; Post: "Buildings added to the asset pool after issuance of the first Green Pfandbrief in 2015"; New: "Newly added buildings to the asset pool".

⁴ EnEV: German Energy Saving Ordinance Certificate

⁵ EPC: Energy performance certificate

| No | Country | Type of building/project | Green building certification | Energy label available | Construction/last renovation | Inclusion in asset pool | Loan (nominal amounts as of 30.06.16, mEUR) | Share of asset pool |
|----|---------|---------------------------------|------------------------------|------------------------|------------------------------|-------------------------|---|---------------------|
| 16 | DE | Residential (financing) | x | EnEV EPC | 2013 | New | 13.00 | 0.88% |
| 17 | DE | Residential (financing) | x | EnEV EPC | 2011 | New | 11.11 | 0.76% |
| 18 | DE | Management Building (financing) | DGNB Gold | x | 2014 | New | 37.51 | 2.55% |
| 19 | FR | Office/Retail (financing) | BREEAM Good | x | 1974/ 2010 | First | 89.33 | 6,08% |
| 20 | FR | Office/Retail (acquisition) | HQE Basic Level | x | 1890/ 2010 | First | 41.00 | 2.79% |
| 21 | FR | Shopping Centre (acquisition) | HQE High Level | x | 2013 | First | 100.00 | 6.81% |
| 22 | GB | Office/Retail (acquisition) | BREEAM Very Good | x | 2006 | First | 80.89 | 5.51% |
| 23 | GB | Office/Retail (acquisition) | BREEAM Very Good | UK EPC D | 2009 | First | 68.95 | 4.69% |
| 24 | NL | Office/Retail (financing) | x | Dutch EPC A | 2002 | First | 10.17 | 0.69% |
| 25 | NL | Office/Retail (financing) | x | Dutch EPC A | 2012 | First | 8.42 | 0.57% |
| 26 | NL | Office/Retail (financing) | BREEAM excellent | x | 2011 | First | 9.24 | 0.63% |
| 27 | NL | Office/Retail (acquisition) | BREEAM Very Good | x | 2013 | First | 39.27 | 2.67% |
| 28 | NL | Office/Retail (financing) | x | Dutch EPC A | 2013 | First | 11.33 | 0.77% |
| 29 | NL | Office/Retail (acquisition) | BREEAM in use | Dutch EPC A | 2009 | Post | 120.00 | 8.17% |
| 30 | NL | Office/Retail (acquisition) | x | Dutch EPC A | 2004/ 2012 | Post | 33.79 | 2.30% |
| 31 | NL | Office/Retail (financing) | LEED Gold | x | 1994/ 2017 | New | 44.36 | 3.02% |
| 32 | PL | Shopping Centre (financing) | BREEAM Excellent | Polish EPC | 2002/ 2013 | First | 100.00 | 6.81% |

| No | Country | Type of building/project | Green building certification | Energy label available | Construction/last renovation | Inclusion in asset pool | Loan (nominal amounts as of 30.06.16, mEUR) | Share of asset pool |
|--------------|---------|-----------------------------|------------------------------|------------------------|------------------------------|-------------------------|---|---------------------|
| 33 | PL | Office/Retail (acquisition) | X | Polish EPC | 2010 | Post | 32.16 | 2.19% |
| 34 | PL | Office/Retail (acquisition) | BREEAM Very Good | Polish EPC | 2014 | Post | 23.32 | 1.59% |
| 35 | PL | Office/Retail (development) | BREEAM Very Good | X | 2013 | Post | 42.98 | 2.93% |
| 36 | CZ | Office/Retail (financing) | X | Czech EPC A | 2002 | New | 14.00 | 0.95% |
| Total | | | | | | | 1,468.93 | 100% |

2) Process for Project Evaluation and Selection

Berlin Hyp has set up the process of Selection and Evaluation as follows:

Berlin Hyp has established a Green Building Commission (GBC). This consists of one representative from each of the following divisions of the bank: Corporate Development, Origination, Credit, Appraisal and Treasury. In its regular meetings the GBC discusses whether eligibility criteria (see page 3) still meet the current state of what is to be seen as a Green Building. If that is not the case the GBC will discuss possible changes and decide on adaptations of the eligibility criteria. An adaptation can only lead to stricter criteria, which means a lower level of energy demand and/or consumption.

Origination staff have to ask the bank's borrowers for energy performance certificates (EPC) and sustainability certificates during the acquisition process of new business. If these indicate without a doubt that a financed property meets Berlin Hyp's eligibility criteria, origination staff can classify a property as potentially eligible. In cases of uncertainty, originators have to send the documents to the appraisal division. Berlin Hyp's appraisal division is its centre of competence concerning the energy efficiency of buildings.

On the basis of the EPCs, sustainability certificates (if applicable) and additional information on the property, appraisers can then propose to classify the respective loan as an eligible asset.

At the time of financing a Green Building, credit staff enter it as an eligible asset on the bank's IT system.

Depending on these recommendations and other information, Treasury gives final approval to any new business earmarked as eligible asset in the bank's loan monitoring system.

3) Management of Proceeds

Eligible assets are already existent on Berlin Hyp's balance sheet (and in the case of a Green Pfandbrief in its mortgage cover pool) at issuance of a new Green Bond. They are not booked in a separate portfolio but earmarked in the bank's legal loan monitoring system. Thus, they form a sub-portfolio of Berlin Hyp's overall loan book. The bank reports on the development of this sub-portfolio on an annual basis.

Additionally, at issuance of a Green Bond from the Green Bond Programme, Berlin Hyp seeks to ensure that eligible assets within the asset pool exceed the total proceeds of outstanding and to be issued bonds by 10%. Thus, all proceeds will always be allocated and therefore management of unallocated proceeds will not be necessary.

4) Reporting

Berlin Hyp has established a separate website which is exclusively used for providing information on its green bonds, its Green Pfandbriefe and its Green Senior.⁶ Relevant documents and information concerning the bank's green bond activities are published on this green bond website. This also contains the bank's reporting on its green bonds. Berlin Hyp will report on an annual basis.

Use of proceeds reporting:

Berlin Hyp will provide annual reports on the management of flow of funds. Information reported on will be:

- Nominal amounts of loans for eligible assets in the asset pool and of Green Bonds
- Maturity structure of loans for eligible assets in the asset pool and of Green Bonds
- Loans for eligible assets according to:
 - Their amount in tranches,
 - Countries in which the property is located,
 - Property type,
 - Certification level.

In addition, Berlin Hyp AG will report at least annually on new business in eligible assets since the last report and assignment of eligible assets to issued bonds on a loan-by-loan basis.

Impact reporting:

On an annual basis, Berlin Hyp will also provide impact reporting on carbon avoidance measured against one or more appropriate baselines. This impact reporting will be published on the green bond website.

⁶ The German and English version of this website are respectively www.gruener-pfandbrief.de and www.green-pfandbrief.com.

Annual verification by oekom research:

Berlin Hyp and oekom research have agreed that oekom will compile an annual verification every year for the next three years. oekom research will provide the following information within this annual verification which will be published by Berlin Hyp to complement its annual reporting:

- List of all current eligible projects / green assets financed or refinanced through the proceeds of the Green Bonds
- The verification of these projects' sustainability performance based on the sustainability criteria and indicators from the Green Bond Framework (Annex 1).

By August 2016, Berlin Hyp had already reported on its green bonds issued so far. This reporting can be found on its green bond website. Reports will remain available for investors for future reference.

Part II – Evaluation of the Green Bond Programme

As described in Part I – Green Bond Principles – Berlin Hyp will use the proceeds from Green Bonds issued under its Green Bond Programme to (re-)finance the acquisition, construction or refurbishment of Green Buildings. oekom research has assessed the Green Bond Programme's overall concept regarding use of proceeds, process for project evaluation and selection, management of proceeds and disclosure. For this assessment, oekom research has reviewed information and documents provided by Berlin Hyp, partly on a confidential basis.

1) Use of Proceeds

Berlin Hyp will use the proceeds to (re-)finance Green Buildings and has defined eligibility criteria as described in Part I – Green Bond Principles. Green Buildings are beneficial from a sustainability point of view as they contribute to climate protection through optimised energy efficiency. Improved energy efficiency in turn can lead to better air quality, as less energy often generated from fossil fuels is needed. Further, green buildings help to conserve natural resources and reduce environmental impact through the reduction of waste and wastewater. From a social point of view, green buildings can improve occupant health and comfort.

2) Process for Project Evaluation and Selection

Berlin Hyp has documented and disclosed to oekom research its internal project evaluation and selection processes, as described in detail in Part I – Green Bond Principles. These are well documented and seem adequate to identify suitable projects for inclusion in the asset pool.

Furthermore, it should to be noted that Berlin Hyp has defined processes to continuously adapt criteria to ensure criteria reflect the markets demands regarding the standards Green Buildings should fulfil.

3) Management of Proceeds

Berlin Hyp will ensure that eligible assets are earmarked in the bank's legal loan monitoring system, thereby moved to a separate sub-portfolio and therefore easily traceable.

Additionally, Berlin Hyp's processes ensure that eligible assets within the asset pool exceed the total proceeds of outstanding and to be issued bonds by 10%. Hence, management of unallocated proceeds will not be necessary, as proceeds will always be allocated.

4) Reporting

As described in Part I – Green Bond Principles – Berlin Hyp has clearly defined which reporting (potential) investors can expect and has already published its first report on its designated website. Reporting will be on the asset pool and not on the individual Green Bonds issued under the Green Bond Programme.

Part III – Sustainability Quality of the Asset Pool

1) Green Bond Verification Framework

The Green Bond Verification Framework serves as a structure for verifying the sustainability quality – i.e. the social and environmental added value – of the Green Bond asset pool. 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 Green Bond asset pool can be clearly identified and verified.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the Green Bonds and which can be used for comprehensive reporting.

2) Verification of the Projects within the Green Bond Asset Pool

Methods

oekom research has verified whether the projects included in the asset pool match the project categories and criteria listed in the Green Bond Verification Framework. The verification was carried out using information and documents provided to oekom research on a confidential basis by Berlin Hyp (e.g. project-related due diligence reports, building certificates). Further national legislation and standards, depending on the project location, were drawn on to complement the information provided by Berlin Hyp.

Nominal amounts as of 30th June 2016 were used to calculate the share of projects which fulfil an indicator requirement.

Findings

Mortgage loans for green buildings (commercial real estate)

Sustainability Risks and Benefits of the Project Category

Green buildings are beneficial from an environmental point of view as they contribute to climate protection through optimised energy efficiency and air quality. Further, green buildings help to conserve natural resources and reduce environmental impact through the reduction of waste and wastewater. From a social point of view, green buildings can improve occupant health and comfort.

At the same time, there are possible sustainability risks that need to be taken into account. Possible social risks stem from working conditions at construction sites, the integration of new buildings into the social context and the safety of building users. Environmental risks stem from impacts on biodiversity at the planning stage, as well as from poor resource efficiency during construction phase and at the use stage.

All projects selected for the Green Bond are located in highly-regulated and developed countries.

- 1. Involvement of local residents at the planning stage (only applicable for new builds)
 - Regarding the 11 newly constructed buildings in the asset pool, no information is available on the involvement of local residents at the planning stage.
- 2. Environmental standards for site selection (only applicable for new builds)
 - ✓ 10 of the 11 newly constructed buildings, accounting for 97% of the respective asset pool's volume, are inside metropolitan areas.
 - For the one newly constructed building outside metropolitan areas, accounting for 3% of the respective asset pool's volume, no environmental impact assessment is available and it is constructed on a greenfield site.
- 3. Access to public transport
 - ✓ 35 building projects, accounting for 99% of the asset pool, are located within a maximum of 1 km from one or more modalities of public transport. The remaining project, accounting for 1% of the asset pool, is not located within 1 km from one or more modalities of public transport.

- 4. Social standards for construction
 - ✓ 100% of newly constructed or renovated building projects are located in countries where high labour standards are in place for both employees and contractors (i.e. regarding discrimination, working time, wages, freedom of association and collective bargaining).
 - ✓ For 100% of newly constructed or renovated building projects, high standards regarding health and safety for both own employees and contractors are in place (provided for by national legislation).
- 5. Environmental standards for construction
 - For 5 newly constructed or renovated building projects, accounting for 45% of the respective asset pool, measures to reduce water, waste and energy consumption and adequate management of waste streams at construction sites are in place. Regarding one project, accounting for 26% of the respective asset pool, some measures are in place. For the remaining 8 newly constructed or renovated building projects, accounting for 29% of the respective asset pool, no information is available on environmental standards during construction/renovation.
- 6. Sustainable building materials
 - ✓ For 7 newly constructed or renovated building projects, accounting for 67% of the respective asset pool, sustainable procurement measures regarding building materials are in place (e.g. recycled materials, third-party certification of wood based materials). No information on sustainable procurement measures is available on the remaining 7 newly constructed or renovated building projects, accounting for 33% of the respective asset pool.
- 7. Safety of building users
 - ✓ For 16 building projects, accounting for 53% of the asset pool, operational safety is ensured by constructional measures (e.g. fire safety, exit routes, CCTV). For 20 projects, accounting for 47% of the asset pool, no detailed information on safety is available.
- 8. Water use minimisation in buildings
 - ✓ For 17 building projects, accounting for 53% of the asset pool, adequate measures to reduce water use are in place (e.g. greywater recycling, efficient applications). For the remaining 19 projects, accounting for 47% of the asset pool, no adequate measures are in place.
- 9. Energy efficiency in buildings
 - ✓ 35 building projects, accounting for 97% of the asset pool, achieved good scores in the relevant sections of the respective building certificates and/or energy certificates. For the remaining project, accounting for 3% of the asset pool and which is still under construction, detailed information on energy efficiency is not yet available.

- 10. Labels / certificates
 - 16 building projects, accounting for 45% of the asset pool, achieved good scores in green building certificates, i.e. minimum BREEAM “Very Good”, LEED “Gold”, DGNB “Silver / Gold”⁷, or HQE “Excellent”. For one further project, accounting for 3% of the asset pool, the certificate is still pending but expected to be LEED Gold. Of the remaining 19 projects, 15 building certificates are not available or no certificates were issued. These projects account for 35% of the asset pool. The remaining 4 projects, accounting for 17% of the asset pool, do not fulfil the minimum requirements set by oekom research. Nevertheless, they do fulfil the requirements set by Berlin Hyp, i.e. minimum BREEAM “Good”, LEED “Silver”, DGNB “Silver / Gold”⁶ or HQE “Basic”.
- 11. Sustainable use / purpose of buildings
 - ✓ For 100% of building projects, production facilities of armaments, pesticides, tobacco and generation facilities for environmentally controversial energy forms such as nuclear power or fossil fuelled power are excluded by Berlin Hyp.

⁷ With effect from 1 July 2015, DGNB updated its certification scheme, now ranging from “Bronze” to “Platinum”: The “Bronze” certificate will be replaced by “Silver”, “Silver” by “Gold” and “Gold” by “Platinum” for new certifications with immediate effect. “Bronze” will only be used for existing buildings in the future. The evaluation system and the assessment methodology remain unchanged.

Part IV – Assessment of Berlin Hyp AG's Sustainability Performance

In the oekom Corporate Rating with a rating scale from A+ (excellent) to D- (poor), Berlin Hyp AG was awarded a score of C and classified as "Prime". Berlin Hyp's rating result means that the company performed well in terms of sustainability, both compared against others in the industry and in terms of the industry-specific requirements defined by oekom research. In oekom research's view, the securities issued by the company thus all meet the basic requirements for sustainable investments.



As at 19 August 2016, this rating puts Berlin Hyp AG in place 16 out of 60 companies rated by oekom research in the Financials/Mortgage & Public Sector Finance sector.

In this sector, oekom research has identified the following issues as the key challenges facing companies in term of sustainability management:

- Sustainability standards for the lending business
- Statutory ESG-standards linked to the geographical allocation of the lending portfolio
- Consumer and product responsibility
- Employee security and employee wellbeing

In all four key issues, Berlin Hyp AG achieved a rating that was above the average for the sector. A significant outperformance was achieved in "Sustainability standards for the lending business".

In recent years, the company was not involved in any controversies in the areas of controversial business practices or controversial areas of business, and thus does not breach any of the exclusion criteria, which are frequently applied by investors. Overall, the company has only a "minor" controversy level. The industry's average is also "minor".

Details on the rating of the issuer can be found in Annex 2 "oekom Corporate Rating of Berlin Hyp AG".

A handwritten signature in blue ink, appearing to read "A. Geyer", is written over a faint, illegible stamp.

oekom research AG

Munich, 22 August 2016

Disclaimer

1. oekom research AG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
2. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of oekom research AG in connection with the use of these SPO, the information provided in them and the use thereof shall be excluded. In particular, we point out that the verification of the compliance with the selection criteria is based solely on random samples and documents submitted by the issuer.
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About oekom research

oekom research is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries with regard to their environmental and social performance. oekom research has extensive experience as a partner to institutional investors and financial service providers, identifying issuers of securities and bonds which are distinguished by their responsible management of social and environmental issues. More than 100 asset managers and asset owners routinely draw on the rating agency's research in their investment decisionmaking. oekom research's analyses therefore currently influence the management of assets valued at over 600 billion euros.

As part of our Green Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria. We verify the compliance with the criteria in the selection of projects and draw up an independent second party opinion so that investors are as well informed as possible about the quality of the loan from a sustainability point of view.

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Annex

- Annex 1: oekom Green Bond Verification Framework
- Annex 2: oekom Corporate Rating of Berlin Hyp AG

Annex 1: Green Bond Verification Framework

Green Bond Verification Framework

The Green Bond Verification Framework serves as a structure for verifying the sustainability quality – i.e. the social and environmental added value – of the Green Bond asset pool. 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 Green Bond asset pool can be clearly identified and verified.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the Green Bonds and which can be used for comprehensive reporting.

Use of Proceeds

Mortgage loans for green buildings (commercial real estate)

The proceeds of the Green Bonds (Green Pfandbriefe as well as Green Seniors) to be issued by Berlin Hyp will be exclusively used for financing and refinancing Green Buildings. For buildings to qualify as Green Buildings – as defined by Berlin Hyp – they have to meet the following requirements:

- The annual energy consumption does not exceed set limits (e.g. 70 kWh/m²a for retail buildings)
- and / or
- External sustainability certificates must fulfil a minimum level (e.g. BREEAM good or above)
- and
- Sustainable use of the building is ensured (no production facilities of armaments, pesticides, tobacco, pornography and generation facilities for environmentally controversial energy forms such as nuclear power or fossil fuelled power).

Sustainability Criteria and Quantitative Indicators for Use of Proceeds

In order to ensure that the environmental and social risks linked to the (re-)financed projects are prevented and the opportunities clearly fostered, a set of sustainability criteria has been established for the project category. A possible quantitative indicator, allowing for measurement of progress and regular reporting, completes each criterion.

Project category A: Mortgage loans for green buildings (commercial real estate)

A.1. Involvement of local residents at the planning stage (only applicable for new builds)

Possible quantitative indicator:

- Percentage of loans allocated to building projects for which residents are involved at the planning stage (e.g. information of residents, dialogue platforms).

A.2. Environmental standards for site selection (only applicable for new builds)

Possible quantitative indicators:

- Percentage of loans allocated to large-scale building projects (> 5,000 m²) outside metropolitan areas for which an environmental impact assessment is carried out.
- Percentage of loans allocated to building projects that are developed on brownfield sites.

A.3. Access to public transport

Possible quantitative indicator:

- Percentage of loans allocated to building projects that are located within a maximum of 1 km from one or more modalities of public transport.

A.4. Social standards for construction

Possible quantitative indicator:

- Percentage of loans allocated to building projects with high labour and health and safety standards for construction work conducted by own employees and contractors (e.g. ILO core conventions).

A.5. Environmental standards for construction

Possible quantitative indicator:

- Percentage of loans allocated to building projects for which resource efficiency (e.g. water, energy) and adequate management of waste is guaranteed by the implementing construction companies.

A.6. Sustainable building materials

Possible quantitative indicator:

- Percentage of loans allocated to building projects for which sustainable procurement measures regarding building materials are in place (e.g. recycled materials, third-party certification of wood based materials).

A.7. Safety of building users

Possible quantitative indicator:

- Percentage of loans allocated to building projects for which the operational safety is ensured by constructional measures (e.g. fire safety, elevator safety).

A.8. Water use minimisation in buildings

Possible quantitative indicator:

- Percentage of loans allocated to building projects for which measures to reduce water use are in place (e.g. water metering, high-efficiency fixtures and fittings, rainwater harvesting).

A.9. Energy efficiency of buildings

Possible quantitative indicator:

- Percentage of loans allocated to building projects that received good scores in the energy efficiency ratings of the respective buildings certificates (BREEAM, LEED) or that are proven to be part of the top 15% of the local market in terms of energy efficiency.

A.10. Labels / Certificates

Possible quantitative indicator:

- Percentage of loans allocated to building projects that obtained a BREEAM "Very Good", DGNB „Silver / Gold"⁸, LEED "Gold" or HQE „excellent" or better certification.

A.11. Sustainable use / purpose of buildings

Possible quantitative indicator:

- Percentage of building projects for which production facilities of armaments, pesticides, tobacco and generation facilities for environmentally controversial energy forms such as nuclear power or fossil fuelled power can be excluded.

Controversies

- Description of controversial projects (e.g. due to labour rights violations, environmental accidents, adverse biodiversity impacts).

⁸ With effect from 1 July 2015, DGNB updated its certification scheme, now ranging from "Bronze" to "Platinum": The "Bronze" certificate will be replaced by "Silver", "Silver" by "Gold" and "Gold" by "Platinum" for new certifications with immediate effect. "Bronze" will only be used for existing buildings in the future. The evaluation system and the assessment methodology remain unchanged.

Possible impact indicators: Energy consumption and avoidance of CO₂ emissions

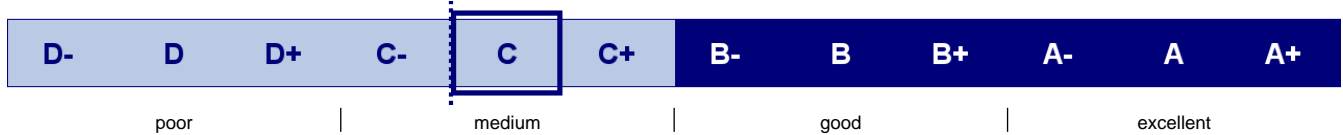
- Average primary energy consumption (in kWh/m²).
- Annual CO₂ emissions (in kg/m²) compared to the local average.

oekom Corporate Rating

Berlin Hyp AG

Industry: Financials/Mortgage & Public Sector Finance
 Country: Germany
 ISIN: DE000A1EWN89
 Bloomberg Ticker: BHH GR Equity

Status **Prime**
 Rating **C**
 Prime Threshold **C**



Competitive Position

Industry Leaders

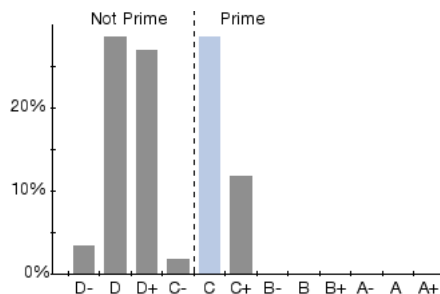
(in alphabetical order)

- Bayerische Landesbodenkreditanstalt (DE) C+
- Deutsche Hypothekbank AG (DE) C+
- Muenchener Hypothekbank eG (DE) C+

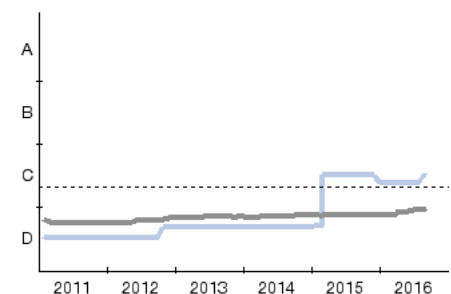
Company Industry

Distribution of Ratings

(60 companies in the industry)

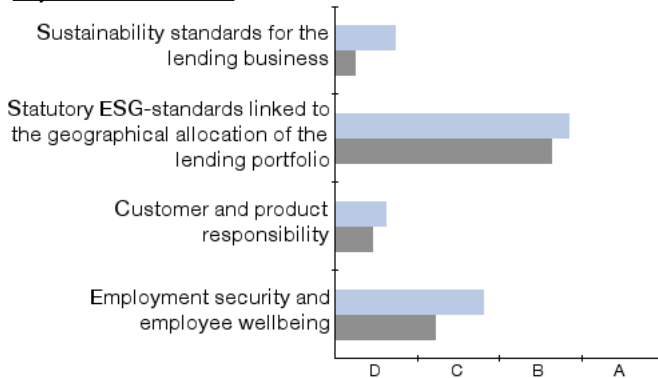


Rating History



Key Issues

Key Issue Performance



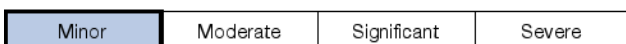
Strengths and Weaknesses

- + almost entire loan portfolio in countries with fairly good environmental and social minimum standards
- + public recognition of the group's responsibility to act on climate change
- + various options to facilitate the work-life balance of employees
- + integration of environmental and social aspects into the company's own investment portfolio
- no strict and comprehensive general social lending guidelines for corporate and public sector customers
- no comprehensive measures regarding responsible treatment of customers with debt repayment problems

Controversy Monitor

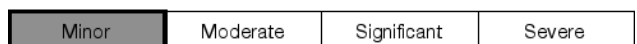
Company

Controversy Score 0
 Controversy Level Minor



Industry

Maximum Controversy Score -6
 Controversy Risk Minor



Disclaimer

- oekom research AG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide.
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Berlin Hyp AG

Methodology - Overview

| | |
|--------------------------|--|
| oekom Corporate Rating | <p>The oekom Universe comprises more than 3,800 companies (mostly companies in important national and international indices, but also small & mid caps drawn from sectors with links to sustainability as well as significant non-listed bond issuers).</p> <p>The assessment of the social and environmental performance of a company is generally carried out with the aid of approx. 100 social and environmental criteria, selected specifically for each industry. All criteria are individually weighted, evaluated and aggregated to yield an overall score (Rating). In case there is no relevant or up-to-date company information available on a certain criterion, it is graded with a D-.</p> <p>In order to generate a comprehensive picture of each company, our analysts collect information relevant to the rating both from the company itself and from independent sources. During the rating process, considerable importance is attached to cooperating extensively with the company under evaluation. Companies are regularly given the opportunity to comment on the results and provide additional information.</p> <p>An external rating committee assists the analysts at oekom research with the content-related design of industry-specific criteria and carries out a final plausibility check of the rating results at the end of the rating process.</p> |
| Controversy Monitor | <p>The oekom Controversy Monitor is a tool for assessing and managing reputational and financial risks associated with companies' negative environmental and social impacts.</p> <p>The controversy score is a measure of the number and extent of the controversies in which a company is currently involved: all controversial business areas and business practices are assigned a negative score, which varies depending on the significance and severity of the controversy. Both the score of the portrayed company and the maximum score obtained in the industry are displayed.</p> <p>For better classification, the scores are assigned to different levels: minor, moderate, significant and severe. The industry level relates to the average controversy score.</p> <p>Only controversies, for which reliable information from trustworthy sources is available, are recorded. It should be noted that large international companies are more often the focus of public and media attention and available information is often more comprehensive than for less prominent companies.</p> |
| Distribution of Ratings | <p>Overview of the distribution of all company ratings of an industry from the oekom Universe (company portrayed in this report: light blue). The industry-specific Prime threshold (vertical dotted line) is also shown.</p> |
| Industry Classification | <p>The social and environmental impacts of industries differ. Therefore, subject to its relevance, each industry analysed is classified in a Sustainability Matrix.</p> <p>Depending on this classification, the two dimensions of the oekom Corporate Rating, i.e. the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the oekom Prime Status (Prime threshold) are defined (absolute best-in-class approach).</p> |
| Industry Leaders | <p>List (in alphabetical order) of the top three companies in an industry from the oekom Universe at the time of generation of this report.</p> |
| Key Issue Performance | <p>Overview of the company's performance with regard to important social and environmental issues that are key to the industry, compared to the industry average.</p> |
| Rating History | <p>Trend in the company's rating over time and comparison to the average rating in the industry.</p> |
| Rating Scale | <p>Companies are rated on a twelve-point scale from A+ to D-: A+: the company shows excellent performance. D-: the company shows poor performance.</p> <p>Overview of the range of scores achieved in the industry (light blue) and display of the industry-specific Prime threshold (vertical dotted line).</p> |
| Sources of Information | <p>Data for the Bloomberg Ticker, Company Name, Country and ISIN was sourced from Bloomberg.</p> |
| Status & Prime Threshold | <p>Companies are categorised as Prime if they achieve/exceed the minimum sustainability performance requirements (Prime threshold) defined by oekom for a specific industry (absolute best-in-class approach) in the oekom Corporate Rating. Prime companies rank among the leaders in that industry.</p> |
| Strengths & Weaknesses | <p>Overview of selected strengths and weaknesses of a company with regard to relevant social and environmental criteria.</p> |

