

Social Bond Framework

March 2024



Berlin Hyp
Social Bond

The Social Bond Framework is regularly revised to adhere to regulatory developments as well as to new requirements and insights from the ESG capital market.

In the interests of sustainable urban development, Berlin Hyp not only aims to provide affordable housing, but also to promote access to basic social services and infrastructure, such as retail outlets, educational facilities and welfare services, as well as to provide space for wider residential purposes (e.g. property management premises). This is now taken into account when assessing the social bond eligibility of a residential property. Properties that consist of a residential share of at least 50 percent as well as spaces for social services and infrastructure are considered to be “residential properties” and therefore fully eligible within this Framework. Residential properties are also fully eligible if, in addition to living space, they also include areas that provide space for wider residential purposes (e.g. property management premises).

Furthermore, the minimum surplus of eligible social assets to be held at issuance of a new social bond over outstanding social bonds plus the new issue is capped at EUR 800 million.

Changes to the Framework are highlighted in colour.



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1. Berlin Hyp's Sustainability Strategy

Berlin Hyp AG ("Berlin Hyp" or the "Bank") is a pioneer in terms of sustainable development and believes that it 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, in particular. Therefore, an extensive ESG (Environmental, Social, Governance) policy has been part of the Bank's 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 have been refinanced by issuing green

bonds. To enhance its green finance franchise, the Bank introduced pricing incentives for eligible businesses in 2016. In 2017, Berlin Hyp included its ambition to have a leading position in green finance among its strategic goals. An expansion of the Bank's 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 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 dimensions, as shown in the graph below.¹

¹ Berlin Hyp, ESG Target Vision. Available [here](#)



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 the ESG transition of its core business sector.

Key elements of the ESG Target Vision's sustainable business portfolio are:

- 1. Reducing the CO₂ intensity of the portfolio and achieving climate-neutrality in the portfolio by 2050 at the latest;**
- 2. designating one-third of loans in the loan portfolio for energy efficient green buildings by 2025;**
- 3. establishing a system for determining the energy performance as well as carbon and climate risks within Berlin Hyp's overall loan portfolio by 2025, whereby Berlin Hyp has already achieved its goal of creating full portfolio transparency by the end of 2023²;**
- 4. providing enhanced advice and financing for customers on their transition to energy-efficient properties; and**
- 5. having 40 percent of Berlin Hyp's capital markets funding mix 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

² The transparency ratio as of 31. December 2023 stands at 94 percent in terms of the area of financed buildings. This translates to 95 percent in terms of the nominal loan volume. The aim of creating complete transparency with regard to the energy requirements of the properties Berlin Hyp finances has therefore been achieved. The remainder is due to individual cases (e.g. if Berlin Hyp's customers do not yet have an energy performance certificate for their property or if Berlin Hyp has not yet completed processing the energy requirement information). Compared to the previous year, properties for which there is no obligation to collect energy data (e.g. listed buildings, undeveloped land or properties under construction) were excluded from the calculation of the transparency ratio for the first time.

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) and an external strategy (vertical dimension) related to its impact on society. 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 (internal strategy)

Berlin Hyp's employees are its 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 organised 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 duties and composition of the committee are established in accordance with 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).
- 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 organisational learning. The programme is based on the Bank's strategic leadership requirements, the individual need 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 (external strategy)

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.³ Berlin Hyp has also implemented a social assessment for suppliers. In 2019, a sustainability questionnaire was developed for suppliers, which is sent together with the onboarding documentation to 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 recognised sustainability standards and the Bank's compliance requirements. The risk filter used by RepRisk AG for the Bank's own investments (Portfolio A) 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 environmental damage, human rights violations, child labor, forced labor, fraud and corruption that can negatively affect an organisation'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 considers 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.



³ 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 Bank believes that it has consistently been the most active green bond bank issuer, with 19 outstanding Green Bonds in benchmark format as of year-end 2023. 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.

For Berlin Hyp, sustainability in the form of a consistent ESG strategy is not just limited to combating climate change, but 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.⁴ Economically strong regions are experiencing tremendous rent increases, in particular.⁵ 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 size.⁶ Despite demographical effects, housing supply is not keeping up with surging demand as construction remains weak, due to, among other factors, 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.⁷

The average rent burden ratio in Germany in 2019 was up to 33 percent of the net disposable household income, with smaller households having a higher average rent burden than larger ones.⁸ Furthermore, approximately 14 percent of the population were overburdened by their housing costs in 2020 (meaning that more than 40 percent of disposable income was spent on housing).⁹ 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 particularly severe for people in the lowest 20 percent of the wage scale, as their rent burden has risen disproportionately over the last years. By contrast, the rent burden on those with the highest incomes is decreasing, which exacerbates inequality in Germany.¹⁰ 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 2014-2025.¹¹

The housing situation in the Netherlands is also 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.¹² The overall housing shortage in 2020 was estimated to be 331,000 dwellings, which equals 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 increase in the net rent ratio (net rent as percentage of disposable income) from 23.8

4 Housing Europe (2021, p. 65). The State of Housing in Europe. Available here

5 Bundesinstitut für Bau-, Stadt- und Raumforschung (BBSR) (2021, p. 1). Informationen aus der Forschung des BBSR Nr. 1/2021). Available here

6 BBSR (2020, p. 10). Wohnungs- und Immobilienmärkte in Deutschland 2020. Available here

7 Housing Europe (2021, p. 65). The State of Housing in Europe. Available here

8 Bundesministerium des Innern, für Bau und Heimat (BMI) (2020, p. 15, 19). Vierter Bericht der Bundesregierung über die Wohnungs- und Immobilienwirtschaft in Deutschland und Wohngeld- und Mietenbericht 2020.

9 Destatis (29.10.2020). « 14% der Bevölkerung im Jahr 2019 durch Wohnkosten überlastet ». Pressemitteilung Nr. 428. Available here

10 Dustmann, C.; Fitzenberger B. und Zimmermann, M. (2018). Housing Expenditures and Income Inequality. Available here

11 Housing Europe (2021, p. 65-66). The State of Housing in Europe. Available here

12 Housing Europe (2021, p. 82). The State of Housing in Europe. Available here

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 euros), 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.¹³

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 formalising this goal and focuses on the project category "affordable housing"¹⁴ in particular, which is one of the key elements referred to in the ICMA Social Bond Principles.¹⁵

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

13 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

14 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 does not 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 do not 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.

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

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 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 2023 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 2022.¹⁶ As such, new regulatory developments will be reflected in the future versions of the Framework on a best-efforts basis. Berlin Hyp will either maintain or improve the current level of reporting and stringency when selecting Eligible Social Assets.

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



3. Social Bond Program

As of **31 December 2023**, Berlin Hyp has a mortgage loan portfolio with a nominal value of **EUR 31.6bn**. A portion with a value of about **EUR 2.9bn** 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 **EUR 2.8bn**, while another **EUR 0.1bn** 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 Bond Program may be used to issue any kind of social refinancing instruments including:

- Social covered bonds, in particular 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

According to Appendix I of the Social Bond Principles, Social Pfandbriefe are to be classified as Secured Social Collateral Bonds and all other social refinancing instruments as Standard Social Use of Proceeds Bonds.¹⁷

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 bonds 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 described in Section 4.3.

¹⁷ ICMA (2022). Social Bond Principles. Available [here](#)

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 2023 and with the Minimum Standards for Social Pfandbriefe, published by The Association of German Pfandbrief Banks (vdp) 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. An overview of Berlin Hyp's criteria for Eligible Social Assets is provided below:

Table 1: Eligibility Criteria for loans for Affordable Housing Buildings

Social Bond Principles category	Eligible Social Assets	SDGs contribution
Affordable Housing ¹⁸	<p>Eligible Social Assets are loans for multi-family buildings owned by specific organisations 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"> → Municipal housing companies → Housing co-operations → Private housing companies and project developers, which are publicly committed 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 established by Berlin Hyp <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 disposable income on housing costs <p>In The Netherlands (for more information see Appendix II):</p> <ul style="list-style-type: none"> → Authorised institution ("toegelaten instelling") in the context of the 2015 Public Housing Decree → Private housing companies and project developers, which are publicly committed to social responsibility and the offering of affordable housing <p>and:</p> <ul style="list-style-type: none"> → Average rental price in case of a multi-family building does not exceed the annually updated social housing (or liberalisation) threshold as defined in Article 13 of the Dutch Housing Benefit Act (in 2024: EUR 879.66) <p>Target population</p> <ul style="list-style-type: none"> → Households that are decoupled from the wage development, such as low-income households, the unemployed or pensioners. More information can be found in Appendix II 	  

¹⁸ Eligible Social Assets in the category Affordable Housing are loans for buildings that must primarily serve a residential purpose (please refer to the definition of "residential property" in the introduction to this Framework). These buildings may also include areas that are directly linked to the residential use (e.g. for property management). In addition, Berlin Hyp wants to facilitate access to basic social services and infrastructural provision through the property (e.g. to medical practices, daycare centers, or stores for daily needs). Affordable Housing buildings may therefore also include areas for such types of use as long as the residential use of the property prevails.

In view of the housing market situation in Germany and the Netherlands (see Chapter 2 of the Framework), the expected benefits via eligible assets are to support access to affordable housing for the aforementioned target populations via loans to institutions mentioned as eligible on the basis of the selection criteria presented in Chapter 4.1 of the Framework. These expected benefits are measured approximately via indicators presented in the annual reporting (see Chapter 4.4).

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 or consumption of max. 151.1 kWh/m²/a.¹⁹

To avoid any double counting issues, Berlin Hyp's Eligible Social Assets must not also 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 Commission²⁰) 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 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 Framework's robustness and level of ambition. 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).²¹

Berlin Hyp's Process of Evaluation and Selection starts by assessing compliance with the eligibility criteria early in the loan origination process. 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.

In 2023, Berlin Hyp established a price incentive for Eligible Social Assets compared to loans for non-eligible residential buildings through its Social Loan product. An analysis of an asset's compliance with the eligibility criteria described in Section 4.1 must therefore 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 demonstrated 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

19 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. For the reason of simplicity, this value is used for German and Dutch properties alike.

20 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.

21 In the event of a substantial change in eligibility criteria and/or definitions of social projects, Berlin Hyp will strive to update its Framework accordingly, have its updated Framework assessed by a Second Party Opinion and communicate the changes to the public.

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 after which they are allocated to the Bank's Social Finance Portfolio.

Berlin Hyp tries as far as possible to integrate the concept of availability, accessibility, acceptability and quality (AAAQ)²² 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 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 constantly works to improve 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.

→ There is close collaboration with the Data Management department to improve ESG-data generation and management which are used for reporting and classification, as well as 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.

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, **to a maximum of EUR 800 million**, 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.

Furthermore, 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

²² Platform on Sustainable Finance (2022, p. 42). Final Report by Subgroup 4: Social Taxonomy.

before a Social Bond's maturity, they are replaced by other Eligible Social Assets.

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.²³ 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 issued over the period

Impact reporting

- Where feasible, the ICMA's "Harmonised Framework for Impact Reporting for Social Bonds (2023)"²⁴ 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.

23 Berlin Hyp. Investor Relations. Available here

24 ICMA (2023). Harmonised Framework for Impact Reporting for Social Bonds. Available here

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

Table 2: Social Impact Indicators

Social Bonds Principle Category	Project Category		Target	Social Indicator
	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 subsidised housing	<ul style="list-style-type: none"> · Number of estimated beneficiaries based on the concept of appropriate living space per million Euro invested · Number of financed eligible housing units per million Euro invested · Number of financed eligible square meters per million Euro invested · Average rent level per square meter · Rent advantage of eligible social assets over regional re-letting rents

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 methodology 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 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, either between the different MHCs in which a single municipality is involved, or between an MHC and the municipality itself, are often defined in a special cooperation agreement (Kooperationsvertrag, KoopV).

MHCs are usually characterised by a strong social commitment and low rents.²⁵ Moreover, profit generation is not a primary objective of MHCs. By their pursuit of urban rents, MHCs rather aim to ensure social compatibility.²⁶

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 characterised 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 and credibly commit to affordable housing and social responsibility. This makes those companies accountable and allows for better comparability of goals and successes.

²⁵ The median basic rent at the end of 2017 was EUR 5.04 per m² (BBSR 2020, p. 74).

²⁶ 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.

Housing Benefit Act Test

The rationale of the Housing Benefit Act Test is that under the Housing Benefit Act households 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 considered income is not higher than the Maximum Income Threshold. At the same time, for calculating the level of subsidies only c) gross basic rents²⁷ not higher than the respective Rent Level Regulation in relation to the number of tenants are considered.

The Housing Benefit Act Test is conducted 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).²⁸
- c) Calculating the average living space per flat (in square metres).
- d) Calculating the average rent per flat.
- e) Estimating the average number of household members per flat, based on the concept of the Appropriate Living Space (see below).
- f) Determining the maximum gross cold rent as specified in the Housing Benefit Act (Wohngeldgesetz, WoGG; see Table I.1), which results from the rent level for the city or district the housing building is located and the number of household members. With the Housing Benefit Plus Act (Wohngeld-Plus Gesetz), which came into force in January 2023, a climate compo-

²⁷ Gross basic rents include utility and service payments. In contrast net basic rents describe rental payments without any additional utilities included.

²⁸ Destatis (2020). Miete und Mietbelastungsquote von Hauptmieterhaushalten. Available [here](#)

ment was introduced which is added to the maximum rent. The amount of the climate component is displayed in Table I.2. 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 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 maximum rent 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 Regulation + climate component) · 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 gross basic rent as well as the households’ disposable income, which must be below the Maximum Income Threshold (Table I.3).

The concept of an Appropriate Living Space

The Appropriate Living Space per number of household members 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.²⁹

This classification results in a gap in living space between the individual household sizes. For practical reasons, the gap in living space between the individual household sizes is added to the respective next following larger type of household. As a result, the following classification of Appropriate Living Space is used 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 subsidised by Housing Benefits are adapted according to the regional rent level. The specification of the Rent Level Regulation is determined 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. ≥135%. 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 I.1).

Each structural reform of the Housing Benefit Act involves a reallocation of cities and districts to the rent levels to reflect on changes in regional rent levels. This is also the case as a result of the Housing Benefit Plus Act.

²⁹ The standard area of the appropriate apartment size is generally defined at state level. Berlin Hyp has based its specification on publications by the German Bundestag on housing benefits. Available here (in German)

The 2020 housing benefit reform introduced a regular adjustment of the underlying gross cold rents to the respective rent and income development (known as dynamisation; § 43 WoGG). This was first applied in January 2022. The next adjustment will take place on January 1, 2025 and then every two years on January 1.

Table I.1: Maximum gross basic rent in EUR, as of 01.01.2022 (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		347	392	438	491	540	591	651
2		420	474	530	595	654	716	788
3		501	564	631	708	778	853	937
4		584	659	736	825	909	995	1,095
5		667	752	841	944	1,038	1,137	1,251
any additional household member		79	90	102	114	124	143	157

Climate Component

The Housing Benefit Plus Act passed in 2022 includes the so-called climate component to reflect on structural rent increases as a result of energy-efficiency measures on buildings. This is a flat-rate approach, i.e. irrespective of the rent level, in the form of a surcharge on the maximum rent amounting to EUR 0.40 per m² of the corresponding appropriate living space.

Table I.2: Climate Component in EUR, as of 01.01.2023

Number of household members	Surcharge in addition to the maximum rent as defined in WoGG § 12 (7) in EUR
1	19.20
2	24.80
3	29.60
4	34.40
5	39.20
any additional household member	4.80

The Maximum Income Threshold

Only households whose total disposable income (§§13-15 WoGG) is below the Maximum Income Threshold can apply for a Housing Benefit. The Maximum Income Threshold that applies since January 1, 2023 is depicted in the table below.

Table I.3: Maximum disposable income per household in EUR, as of 01.01.2023
 (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		1,372	1,405	1,435	1,466	1,492	1,516	1,542
2		1,854	1,896	1,936	1,976	2,009	2,041	2,074
3		2,316	2,365	2,411	2,458	2,497	2,534	2,572
4		3,132	3,197	3,256	3,318	3,370	3,419	3,470
5		3,598	3,668	3,733	3,801	3,857	3,911	3,966
6		4,063	4,137	4,206	4,277	4,336	4,395	4,453
7		4,473	4,550	4,621	4,694	4,753	4,816	4,876
8		4,698	4,769	4,834	4,900	4,953	5,012	5,066

Appendix II

Dutch Social Housing Context

The 2015 update of the Dutch Public Housing Act (“Besluit toegelaten instellingen volkshuisvesting 2015”)³⁰ 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.³¹ Such an entity is called an authorised institution “toegelaten instelling”. Private sector rental housing can also be defined as social housing in case rental prices of properties are below the liberalisation threshold mentioned below.

Article 47 of the Dutch Housing Act (“Woningwet”) provides that services of general economic interest (SGEI) are entrusted to the authorised institutions.³² 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 liberalisation threshold (2024: EUR 879.66 per month), as defined in Article 13 of the Housing Benefit Act (“Wet op de huueslag”).³³ This value refers to the gross cold rent. If the rental payments are only available in the form of net cold rents, these are multiplied by a factor of 1.15, in line to the procedure for German rental properties, to obtain the gross cold rent.

Article 48 of the Dutch Housing Act, together with Article 16 of the Dutch Public Housing Act on authorised institutions, provides that the authorised institution enters into rental agreements with at least 92.5 percent of its homes in the regulated sector in which the household income must not exceed the income limit of EUR 40,765 for a one-person household and

EUR 45,014 for a multiple person household. No more than 7.5 percent may be let to households with an income above those levels.³⁴

In addition, Article 14 of the Housing Benefit Act³⁵ also provides standard income levels (“norminkomen”) depending on the number of people in the household and age of the persons:

EUR 27,725 for a one person household
EUR 37,625 for a multiple person household-
EUR 26,486.12 for a one person elderly household
EUR 35,061.14 for a multiple elderly persons household.

Both, the liberalisation threshold and income limits, are updated on an annual basis.

³⁴ Besluit toegelaten instellingen volkshuisvesting 2015. [Available here](#)

³⁵ Wet op de huurtoeslag, Artikel 14. [Available here](#)

³⁰ Staatsblad van het Koninkrijk der Nederlanden (2015). [Available here](#)

³¹ For reference see Article 19:1 of the Dutch Housing Act. [Available here](#) or Besluit toegelaten instellingen volkshuisvesting 2015. [Available here](#)

³² Woningwet. [Available here](#)

³³ Wet op de huurtoeslag, Artikel 13. [Available here](#)



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