Berlin Hyp

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Introduction

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

In April 2021, Berlin Hyp issued a Sustainability-Linked Bond ("SLB") where the coupon rate of the bond is associated with a Key Performance Indicator ("KPI") tied to a Sustainability Performance Target (the "SPT") which is a material sustainability-related issue of the Company. If the target is not achieved, the step-up event will trigger the bond coupon rate to increase by 25 basis points for the final year. The final observation date is 31 December 2030 and therefore reporting occurs using values as of 31 December of each year.[1]

In March 2022, the Company engaged Sustainalytics to review the progress on the achievement against the SPT at the end of 2021 as established in Berlin Hyp's Sustainability-Linked Bond Framework.[2] Sustainalytics provided a Second-Party Opinion on the Framework in February 2021,[3] in which Sustainalytics conducted an initial assessment on the selected KPIs and determined them to be relevant, core and material to Berlin Hyp's overall business and its sustainability objectives.

Evaluation Criteria

Sustainalytics evaluated Berlin Hyp's measurement of and reporting on its progress toward achieving its SPT and adherence to its reporting commitments with the following elements, as previously stated on the Framework:

1. Calculation and measurement of the KPI;
2. The reporting practice of the Issuer on the KPI ; and
3. The progress toward achieving the SPT mentioned in the Framework.

Table 1 lists the KPI and SPT agreed upon for the SLB.

Table 1: SPT and KPI Description

KPI	KPI Description	SPT 2030	Baseline year[4] 2020
KPI: Carbon intensity of loan portfolio	The KPI is defined as the carbon intensity of all buildings financed by the total of all loans granted by Berlin Hyp, forming the bank's loan portfolio. The carbon intensity of its loan portfolio is expressed in percentage (%) compared to the 2020 baseline. Carbon intensity is calculated as the ratio of the aggregated CO_2 emissions from all commercial	Reduce loan portfolio's carbon intensity by 40% between 2020 and 2030	37.1 $kgCO_2/m^2$

[1] Berlin Hyp, "Base Prospectus Final Terms", (2021), at: base-prospectus-final-terms (berlinhyp.de)
[2] Berlin Hyp, "Sustainability-Linked Bond Framework", (2021), at: https://www.berlinhyp.de/en/investors/sustainability-linked-bonds?file=files/media/corporate/investoren/sustainability-linked-bond/bhyp-gb-sustainability-linkedbond-eng-2020.pdf
[3] Sustainalytics, "Berlin Hyp Sustainability-Linked Bond Framework Second-Party Opinion", (2021), at: https://www.sustainalytics.com/corporate-solutions/sustainable-finance-and-lending/published-projects/project/berlin-hyp-ag/berlin-hyp-sustainability-linked-bond-framework-second-party-opinion-(2021)/berlin-hyp-sustainability-linked-bond-framework-second-party-opinion
[4] Sustainalytics notes the carbon intensity baseline of the loan portfolio has been initially determined, in part, through energy proxies when actual building consumption data was unavailable. This figure represents the most accurate information as of 31 December 2021.

	real estate financed by Berlin Hyp by total financed areas: • CI = $kgCO_2/m^2/a$ Carbon intensity calculation includes Scope 1 and 2 carbon emissions[5] from energy demand for heating and electricity. Carbon emissions are calculated using Berlin Hyp's Carbon Footprint Assessment Methodology. Berlin Hyp will use collected or estimated data to calculate buildings' energy demand and energy-sources-specific carbon conversion factors. For detailed information please refer to Appendix 1: Berlin Hyp Carbon Footprint Assessment Methodology.		

Issuing Entity's Responsibility

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

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of Berlin Hyp's SLB. The work undertaken as part of this engagement included a collection of documentation from Berlin Hyp employees and a review of documentation to confirm the conformance with the agreed upon details of the SLB.

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

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

Conclusion

Based on the limited assurance procedures conducted,[6] nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, Berlin Hyp's measurement of and reporting on its progress toward achieving its SPT do not conform with its commitments in the bond document.

[5] Scope 1: All direct GHG emissions from owned or controlled sources. Scope 2: Indirect GHG emissions from consumption of purchased electricity, heat or steam, GHG Protocol, at: https://ghgprotocol.org/calculationg-tools-faq

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

Detailed Findings

In Table 2, Sustainalytics provides the details of its assessment that formed the foundation of the overall assessment.

Table 2: Detailed Findings

Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Sustainability Performance	Review of achieved performance on the KPI to determine if it is aligned with the SPT mentioned in the bond document as outlined in Table 1.	Berlin Hyp has progressed towards the achievement of the SPT by reducing the carbon intensity of its loan portfolio. The Issuer has reported a 7.6% reduction in carbon intensity of its loan portfolio of buildings in 2021 from 2020. Please see Appendix 2 for more details.	None
Reporting	Review of the reporting practices to make and keep readily available up-to-date information relating to the SPT mentioned in the bond document.	Berlin Hyp has confirmed that reporting will be made publicly available on its website from 30 March 2022 and will include any relevant information related to the methodology and date update to enable investors to monitor the progress toward achieving the SPT.	None
Calculation and measurement of KPI	Review of Calculation and methodology used for KPIs.	Berlin Hyp's approach to measuring the KPI is clear and consistent with its pre-defined assessment methodology as outlined within the Framework and within Appendix 1. Carbon intensity calculation includes Scope 1 and 2 carbon emissions from energy demand for heating and electricity. Initially, carbon emissions are estimated using carbon conversion factors based on regional location and multiplied by collected or estimated energy demand data. Energy proxies were initially used when actual energy demand data was unavailable, which is later adjusted when actual data is received and analyzed at the end of each year. While the Assessment Methodology in Appendix 1 does not necessarily reference this approach, the adjusted energy data does not count in the Issuer's favour when calculating the KPI. Thus, Sustainalytics considers this not to affect Berlin Hyp's level of achievement of the KPI and as such does not view it as an error or exception. The calculation and measurement of the KPI are in line with the commitments made in the Framework and within the SLB.	None

Appendix 1: Berlin Hyp Carbon Footprint Assessment Methodology

The following is a summary excerpt of the carbon footprint assessment methodology used included in Berlin Hyp's Sustainability-Linked Bond Framework:[7]

The assessment of the carbon footprint of Berlin Hyp's loan portfolio is the sum of the portfolio's carbon footprint from energy demand for heating (including all technology sources i.e. coal, electricity, fuel, gas, district heating and renewable) and the portfolio's energy demand for electricity. The assessment is based on line-by-line calculations for each building financed by Berlin Hyp.

1. Assessment of carbon footprint from energy demand for heating, using

- $ED_{Heating}$: The final energy demand for heating for each building in the portfolio in kWh/m^2 per year
- CF: The relevant carbon conversion factor for the building estimated from an external source in gCO_2e/kWh:
  i. CF_F: The carbon conversion factor for fossil fuel when the energy source is fossil fuel (i.e. coal, fuel oil or gas)
  ii. CF_H: The country or location-specific carbon conversion factor for district heating when the building is connected to a district heating network
  iii. CI_E: The country-specific carbon intensity of the electric grid when the building is using electrified heating sources
  iv. CFA: The country-specific average conversion factor when the heating sources is unknown
  v. When the energy source is a type of renewable energy (including biomass), the carbon conversion factor is estimated to be zero

$$Carbon\ Footprint_{Heating}(Building) = ED_{Heating}(Building) \times CF \times Area(Building)$$

2. Assessment of carbon footprint from energy demand for electricity, using

- $ED_{Electricity}$: The final energy demand for electricity usage other than heating for each building in the portfolio in kWh/m^2 per year
- CI_E: The country-specific carbon intensity of the electric grid in gCO_2e/kWh

$$Carbon\ Footprint_{Electricity}(Building) = ED_{Electricity}(Building) \times CI_E \times Area(Building)$$

The portfolio's carbon footprint is given by the sum of both carbon footprints for all buildings in Berlin Hyp's portfolio:

$$Carbon\ Footprint\ (Building) = Carbon\ Footprint_{Heating}(Building) + Carbon\ Footprint_{Electricity}(Building)$$

Carbon conversion factors

Carbon conversion factors designed to calculate the carbon footprint of the energy demand for heating or electricity are documented its Annual Sustainability-Linked Bond Report available on its website. Berlin Hyp commits to estimate these factors using up-to-date publicly available data and to review carbon conversion factors annually.

Carbon conversion factor for Fossil Fuel (CF_F)

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

Appendix 2: Progress towards the Sustainability Performance Target

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

Reporting indictor	2020	2021
Carbon Intensity ($kgCO_2/m^2$)	38.62	34.29
Adjusted carbon intensity ($kgCO_2/m^2$)	37.11	-
Adjusted savings carbon intensity (%)	-	-7.6%
Portfolio area (m^2)	32,046,441	32,420,207
Total CO_2 emissions ($kgCO_2/a$)	1,237,490,355	1,111,635,880
Total Energy Demand (kWh)	4,707,625,550	4,562,184,615
Average energy demand per m^2 (kWh/m^2)	146.9001051	140.7204042
Transparency ratio[8] (m^2)	26.10%	44.40%

KPI	Baseline 2020	SPT 2030	Performance 2021
KPI: Carbon intensity of loan portfolio ($kgCO_2/m^2$)	37.1	Reduce loan portfolio's carbon intensity by 40% between 2020 and 2030	34.3

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

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