

SECOND PARTY OPINION (SPO)

Re-verification of the Sustainability Quality of the Issuer and Green Bond Asset Pool

Berlin Hyp AG
29 April 2019

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ISS-oekom Evaluation of the Green Bond

Berlin Hyp AG (Berlin Hyp) commissioned ISS-oekom to assist with its Green Bond re-verification by assessing three core elements:

1. Berlin Hyp's Green Bond Framework – benchmarked against the ICMA Green Bond Principles (GBPs).
2. The asset pool – whether the projects align with ISS-oekom's issue-specific key performance indicators (KPIs) (See Annex 1).
3. Berlin Hyp's own ESG performance, according to the ISS-oekom Corporate Rating.

ISS-oekom Assessment Summary

SPO	SUMMARY	EVALUATION
Part 1: Performance against the Green Bond Principles	Berlin Hyp has defined a formal concept for its Green Bond regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the International Capital Market Association's (ICMA) Green Bond Principles.	Positive
Part 2: Sustainability quality of the asset pool	The overall sustainability quality of the asset pool in terms of sustainability benefits, risk avoidance and minimisation is positive based upon the ISS-oekom Green Bond KPIs. The Green Bond KPIs contain a clear description of eligible asset categories which consists of Commercial Real Estate exclusively.	Positive
Part 3: Issuer sustainability performance	Berlin Hyp shows a good sustainability performance at the company level with a Corporate Rating of B- on a scale from A+ (excellent) to D- (poor), and has been classified as "Prime". This rating reflects a good management of various ESG issues and outperformance of the peer average in the five key issues of the "Financials/Mortgage & Public Sector Finance" sector. It is rated 2 ^d out of 80 companies within its sector as of 29.04.2019	Status: Prime Rating: B- Prime threshold: C

Annual CO2 Avoidance of the buildings in the Asset Pool

Berlin Hyp established two baselines in order to compare the buildings to existing standards: The first baseline is the average energy performance of European buildings, the second one the German Energy Savings Ordinance (EnEV). Further, Berlin Hyp chose to provide investors with the carbon avoidance that is linked to Berlin Hyp's initial financing share of the respective buildings as well as with the complete carbon avoidance, i.e. the avoidance caused by the complete buildings. More details on the methodology regarding CO2 avoidance can be found in the initial Second Party Opinion from 2016.

The calculations were based on an assessment of the carbon intensity of different energy sources for heating and differentiation of carbon intensity of each country's electricity mix and district heating supply as well as further differentiation of the district heating supply in Germany by region. The calculations on energy and CO2 data were carried out by Berlin Hyp, ISS-oekom carried out a basic plausibility check. More information on the calculations is provided by Berlin Hyp at www.green-pfandbrief.com.

The following table shows 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 cover pool at issuance of the Green Pfandbrief in 2015).

Annual CO₂ avoidance of the buildings in the asset pool (T/mEUR p.y)		
Baseline for CO₂ avoidance	Proportional allocation to Berlin Hyp initial financing share	Complete allocation to Berlin Hyp financing
Against the European average (heating energy only)	12.57 t/mEUR	22.2 t/mEUR
Against current EnEV reference values (heating energy and electricity)	21.57 t/mEUR	38.81 t/mEUR

ISS-oekom SPO Assessment

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 for financing and refinancing 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.

Details regarding the assets included in the Green Bond are listed in the following table (based on loans outstanding):

Green Asset Category	Number of objects	Volume of Green Bond Asset Pool (EUR million)
B Green Buildings: Commercial real estate	122 buildings	3,505.35
TOTAL		3,505.35 (100%)

Opinion: ISS-oekom considers the Use of Proceeds description provided by Berlin Hyp as aligned with the Green Bond Principles.

2. Process for Project Evaluation and Selection

Berlin Hyp has set up a process for project selection and evaluation, which is subject to continuous reviews and updates. Details on the process can be found in the initial Second Party Opinion from 2016.

For buildings to qualify as Green Buildings – as defined by Berlin Hyp – they have to meet certain requirements, which were updated in April 2019.

- Berlin Hyp has defined thresholds for each the annual energy demand for heating and electricity. The total energy demand shall not exceed set limits:

Property type	Energy demand Heating kWh/(m ² *a)	Energy demand Electricity kWh/(m ² *a)	Energy demand Total kWh/(m ² *a)
Residential	60	-	60
Office	100	80	180

Retail	60	75	135
Hotels	95	60	155
Logistics buildings	30	35	65
Light industrial	105	65	170

and/or

External sustainability certificates must fulfil a minimum level¹.

LEED Gold or above

BREEAM Very Good or above

DGNB Gold or above (for certificates given after 30.06.2015: Silver or above)

HQE High Level 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.

Opinion: ISS-oekom considers the Process for Project Evaluation and Selection description provided by Berlin Hyp as aligned with the Green Bond Principles.

3. Management of Proceeds

Eligible assets already exist 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 flagged in the bank's legal loan monitoring system. Thus, they form a sub-portfolio of Berlin Hyp's overall loan book. The bank shall report on the development of this sub-portfolio on an annual basis.

Opinion: ISS-oekom considers the Management of Proceeds proposed by Berlin Hyp as aligned with the Green Bond Principles.

4. Reporting

Berlin Hyp has established a separate website which is exclusively used for providing information about its green bonds (Green Pfandbriefe and Green Senior). The German version of this website is

¹ Buildings financed by Berlin Hyp after issuance of its inaugural Green Pfandbrief on 27 April 2015 have to score at least 50 per cent in the energy efficiency component of the green building certificate if the building does not qualify already by its energy demand or consumption as defined above.

to be found under www.gruener-pfandbrief.de. The English version of the website may be found under www.green-pfandbrief.com².

Relevant documents and information concerning the bank's green bond activities are published on its green bond website. This also contains the bank's reports on its green bonds. As long as Berlin Hyp has green bonds outstanding, the bank will report on an annual basis. Each report will contain details about:

- (i) The development of eligible assets on Berlin Hyp's balance sheet and in its mortgage cover pool on a stratified basis
- (ii) New business in eligible assets since the last report and assignment of eligible assets to issued bonds on a loan-by-loan basis
- (iii) Carbon emissions avoidance (impact reporting) evaluated in comparison to one or more appropriate baselines.

Berlin Hyp started publishing its annual reporting in 2016. All reports can be found on its green bond website. Reports will remain available for investors for future reference

Opinion: *ISS-oekom considers the reporting proposed by Berlin Hyp is in line with the Green Bond Principles.*

External review

Berlin Hyp has commissioned ISS-oekom³ to provide an SPO to verify the sustainability quality of the projects to be financed through the issuance of green debt instruments. This SPO is the fifth provided by ISS-oekom to Berlin Hyp.

² In December 2018, Berlin Hyp transferred their rights concerning the trademarks Grüner Pfandbrief and Green Pfandbrief to the Association of German Pfandbrief Banks (vdp) in order to make them useable by other member banks, too. In 2019, all contents of Berlin Hyp's green bond websites will be integrated into its general company website www.berlinhyp.de, and both internet domains will be transferred to the vdp.

³ Originally founded in 1993 and formerly known as oekom research AG, ISS-oekom has been a member of the ISS family since March 2018.

PART II: SUSTAINABILITY QUALITY OF THE GREEN BOND ASSET POOL

Evaluation of the assets

GREEN BUILDINGS: COMMERCIAL REAL ESTATE



Prerequisite: All the assets underwent an appropriate and detailed selection process that ensures good standards regarding energy efficiency.

All the assets are in line with German Energy Savings Regulation (EnEV) and/or have received sustainability certificates such as LEED (Gold or above), BREEAM (Very Good or above), DGNB (Gold or above), HQE (High Level or above).

1. Environmental standards for site selection



All assets are located in metropolitan areas, avoiding the risk of greenfield construction.



119 assets out of 122, accounting for 98.7% of the asset pool, are located within a maximum of 1 km from one or more modalities of public transport.

2. Construction standards



100% of the assets are located in countries where high labour and health and safety standards are in place for construction and maintenance work (e.g. ILO core conventions).



For more than 50% of assets in the asset pool, sustainable procurement measures regarding building materials are in place (e.g. recycled materials, third-party certification of wood based materials).

3. Water use minimisation in buildings



Information on adequate measures to reduce water use (e.g. greywater recycling, efficient applications), is available for less than 50% of assets in the asset pool.

4. Safety of building users



95 assets out of 122, accounting for 76% of the asset pool, provide for measures to ensure operational safety (e.g. requirements for fire protection, in line with national legislation). No information is available for the other assets.

5. Sustainability labels/ certificates



33 assets out of 122, accounting for 41% of the asset pool, have obtained a (or an equivalent of) BREEAM "Very Good", DGNB "Gold", LEED "Gold", HQE "excellent" certificate or better certification. No information, or lower certification scores have been obtained for the other assets.

Controversy assessment

A controversy assessment on the included projects did not reveal any controversial activities or practices that could be attributed to Berlin Hyp.

PART III: SUSTAINABILITY QUALITY OF THE ISSUER

The ISS-oekom Corporate Rating comprises a rating scale from A+ (excellent) to D- (poor).

COMPANY	RATING	STATUS
Berlin Hyp	B-	PRIME

This rating means that the company performed well in terms of sustainability.

As of 29 April 2019, this rating puts Berlin Hyp in place 2 out of 80 companies rated by ISS-oekom in the Financials/Mortgage & Public Sector Finance sector.

This rating reflects a good management of various ESG issues and outperformance of the peer average with regard to five key issues, including:

- Sustainability impacts of lending and other financial services/products
- Statutory ESG-standards linked to the geographical allocation of the lending portfolio
- Customer and product responsibility
- Employee relations and work environment

A very significant outperformance was achieved in “Sustainability impacts of lending and other financial services/products” and “Employee relations and work environment”.

The company hasn’t been involved in any controversy has a “minor” controversy level, which is the average level of the Financials/Mortgage & Public Sector Finance sector.

Details on the rating of the issuer can be found in Annex 3.



Robert Hassler, Head of ISS-oekom
London/Munich/Rockville/Zurich

DISCLAIMER

1. Validity of the SPO: For Berlin Hyp's Green Bond/ Green Schuldscheindarlehen issuances occurring between April 2019 and April 2020.
2. ISS-oekom 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.
3. 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 ISS-oekom 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.
4. All statements of opinion and value judgements given by us do not in any way constitute purchase or investment recommendations. In particular, the SPO is no assessment of the economic profitability and credit worthiness of a bond but refers exclusively to the social and environmental criteria mentioned above.
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ANNEX 1: ISS-oekom Green Bond KPIs

The ISS-oekom Green Bond KPIs serves as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of Berlin Hyp’s Green Bond.

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 assets can be clearly identified and described.

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

To review the KPIs used in this SPO, please contact Federico Pezzolato (details in Annex 3) who will send them directly to you.

ANNEX 2: Asset evaluation methodology

ISS-oekom evaluates whether the assets included in the asset pool match the eligible project category and criteria listed in the Green Bond KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment “no or limited information is available” either indicates that no information was made available to ISS-oekom or that the information provided did not fulfil the requirements of the ISS-oekom Green Bond KPIs

The evaluation was carried out using information and documents provided to ISS-oekom on a confidential basis by Berlin Hyp (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the issuer.

ANNEX 3: ISS-oekom issuer ESG rating

ISS-oekom is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

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 assess alignment with external principles (e.g. the ICMA Green Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For Information about SPO services, and this Green Bond, contact:

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