

# HAMBURGISCHE INVESTITIONS- UND FÖRDERBANK (IFB HAMBURG) SOCIAL BOND

## FRAMEWORK OVERVIEW AND SECOND OPINION BY SUSTAINALYTICS

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## 1. PREFACE

The Hamburgische Investitions- und Förderbank (IFB Hamburg) intends to issue multiple social bonds and has developed a framework to guide the issuance of such bonds. The social bonds will refinance loans that fund social housing projects supported by IFB Hamburg in the City of Hamburg. IFB Hamburg has engaged Sustainalytics to provide a second opinion on its social bond framework and the bond's social credentials.

As a part of this engagement, Sustainalytics held conversations with members of IFB's treasury and loan team to understand the social impact of their lending, and planned use of proceeds under this social bond framework. Sustainalytics also reviewed relevant public and internal documents which elaborate on the eligibility criteria for the bond proceeds. This document contains two sections: Framework Overview - a summary of the Social Bond framework; and Sustainalytics' Opinion - an opinion on the framework.

## 2. INTRODUCTION

The Hamburgische Investitions- und Förderbank is the Investment and Development Bank of the City of Hamburg<sup>1</sup>. Founded in 1953 as Hamburgische Wohnungsbaukreditanstalt, the organisation expanded its tasks and was renamed Hamburgische Investitions- und Förderbank in 2013. The IFB Hamburg is fully state owned and the City of Hamburg has unlimited responsibility for its financial obligations and liabilities. The City of Hamburg also has direct liability for amounts borrowed by the IFB Hamburg, and for loans directly guaranteed by the IFB Hamburg. Its programmes and activities include fostering and supporting the development and dissemination of housing space, environmental friendly technologies and processes as well as innovation and urban development. In addition to issuing low-interest loans and subsidies, the IFB Hamburg offers advice on public funding opportunities by the City of Hamburg, the Federal German Government and the European Union.

The mandate of the IFB Hamburg is defined based on the political agenda and prioritisation of the State of Hamburg. Loans and subsidies for fostering access to private homes as well as the construction and modernisation of rental apartment buildings form the core of the organisation's business activities. The rental housing market in the City of Hamburg is experiencing pressure due to demographic changes as well as increased demand for smaller housing units<sup>2</sup>. This increases the difficulty for certain groups in the population to find affordable rental space. Based on these needs the Senate has committed to a programme to have a percentage of 30% of newly constructed housing units earmarked as social housing<sup>3</sup>. The IFB Hamburg has the direct mandate to facilitate this target and to support the development of social housing by offering low-interest loans and subsidies (one-off or ongoing) for the construction, expansion, or modernization of new and existing apartment buildings.

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<sup>1</sup> Website Hamburgische Investitions- und Förderbank.

<sup>2</sup> Studie 2015: Wohnungsmärkte in der Metropolregion Hamburg.

<sup>3</sup> Das Bündnis für das Wohnen in Hamburg, <http://www.hamburg.de/bsw/buendnis-fuer-das-wohnen/>.

## 3. FRAMEWORK OVERVIEW

For this social bond issued by IFB Hamburg a framework has been created that aligns with the International Capital Market Association (ICMA)'s 2016 Social Bond Guidance and Green Bond Principles (GBP). Combined, the Social Bond Guidance and the GBP address the social impact of the bond proceeds, and address transparency around the selection process, management of proceeds and allocation and impact reporting.

### 3.1 Use of Proceeds

The proceeds under this social bond framework will be allocated entirely to the refinancing of existing short-term liabilities and subsidies originated under IFB Hamburg's funding programmes for social rental apartment housing projects as per the eligibility criteria outlined below.

#### Eligibility Criteria

To be eligible for loans or subsidies financed through bond proceeds, the projects must be eligible as per the criteria below:

Construction or expansion of existing or new rental apartment buildings that are/will be:

- (i) earmarked for use by target groups for a minimum of 15 years after the completion of construction; and
- (ii) are subject to pre-determined rental prices for target groups.

#### Funding Programmes

IFB Hamburg provides loans and subsidies for the construction or expansion of rental apartments eligible as per the criterion defined above through two possible funding programmes. These two programmes (i) define two different target groups through two different income brackets and (ii) set different levels of pre-determined rental prices for the two defined target groups. See Table 1 for further details on the two programmes. The relevant funding is provided over a period of at least 15 years, or optionally over 20 or 30 years.

#### Target Groups

Target groups are those that have an annual household income level that falls within certain income brackets, as defined by the two funding programmes of IFB Hamburg. These income brackets are based on a fixed-income threshold defined by the Hamburg Housing Promotion Act (Hamburgisches Wohnraumförderungsgesetz (HmbWoFG)) (see Appendix 2: Income Limits defined by the Hamburg Housing Promotion Act). Households earning below this fixed threshold are considered low-income populations by the state of Hamburg. To define the eligibility criteria of the funding programmes, IFB Hamburg defines two income brackets based on this low-income threshold- one income bracket targets low-income populations, and the second targets medium-income populations. The programme frameworks, including the income brackets, are reviewed and approved by the Senate. See Appendix 2 for details on the two income brackets that define low- and medium-income populations as target groups.

Individuals within the income brackets defined under the funding programmes of the IFB are issued an entitlement certificate by the respective local district administration office. In order to rent social housing

funded by IFB Hamburg, these target populations have to show the entitlement certificate that demonstrates that their annual household income is within the defined income brackets for the individual programmes. All rental contracts have to specify the eligibility criteria underlying the certification of the respective tenants.

Within these target populations priority is given to the following renters: pregnant women, families and households with children including single parents, people older than 60 years of age, and severely handicapped individuals. In addition, the responsible district administration office may also consider the urgency of a request, for example in case of an immediate threat to become homeless. The prioritization of these groups is defined by According to § 16 (5) HmbWoFG.

**Pre-determined Rental Prices for Target Groups**

Pre- determined rental prices for eligible apartments are set as per the following structure:

1. Hamburg sets an initial level of rent per square metre. The initial rent level per square metre for housing units supported by public funds through the IFB Hamburg is defined annually by the Senate of Hamburg. The initial rent is different for the two target groups defined by the two funding programmes (see Table 1 for details). The amount for this initial level of rent is below market price for rent in Hamburg.<sup>4</sup>
2. IFB Hamburg defines a rent increase of 0,30 EUR per square metre that is applied every two years. The application of this rent increase every two years starts only after the apartment is ready for occupancy.

**Table 1: Target groups and pre-determined rents defined by IFB Hamburg's two funding programmes**

	<b>Funding Programme (Förderweg) 1</b>	<b>Funding Programme (Förderweg) 2</b>
Type of target group	Low-income	Medium-income
Income brackets for target groups	30% or 50% above the fixed threshold defined by the state in the HmbWoFG	60 % above the fixed threshold defined by the state in the HmbWoFG
Pre-determined initial net rent (2016)	6,30 EUR/m <sup>2</sup>	8,40 EUR/m <sup>2</sup>
Pre-determined rent increase (once every two years)	0,30 EUR/m <sup>2</sup>	0,30 EUR/m <sup>2</sup>

Proceeds from the first social bond issuance of this framework will be allocated to loans from Funding Programme 1.

<sup>4</sup> In 2016 the initial rent level for new social housing units is EUR 6.30,- per square meter while the free market rent for new units lies at around EUR 12.50,- per square meter (Mietspiegel 2015). In 2011 the initial rent was EUR 5.80 ,-per square meter compared to EUR 11.00,- to EUR 14.00,-.

## 3.2 Project Evaluation and Selection Process

Loans financed through proceeds will be evaluated for alignment with the eligibility criterion by the loan department. The loans department selects the number and amount of eligible loans to be financed based on a target by the Senate of Hamburg. IFB Hamburg is set a target by the Senate of Hamburg to develop a certain number of affordable housing units per year.<sup>5</sup>

## 3.3 Management of Proceeds

Allocation of proceeds to eligible projects and loans are tracked in an internal reporting system using an excel spreadsheet. IFB Hamburg has confirmed that unallocated proceeds temporarily deposited in a cash account will be allocated within 12-18 months, as the development of affordable rental apartments progresses. IFB Hamburg has also confirmed that eligible liabilities and subsidies will have a commitment period beyond the maturity period of the bond, and that proceeds will be fully allocated to existing financing obligations.

For the first social bond issuance under this framework, IFB Hamburg has confirmed that a total of 80% of the proceeds will be immediately allocated to refinance existing short-term liabilities and subsidies, and 20% will be temporarily deposited in a cash account.

## 3.4 Reporting

### Allocation and Impact Reporting

All promotional loans and subsidies are included in the balance sheet of IFB Hamburg, which is publicly disclosed on its website ([www.ifbhh.de](http://www.ifbhh.de)).

For the proceeds of the social bond IFB Hamburg will publish a separate report on its website specifying all underlying selected loans and liabilities. This report will be published annually, throughout the term of each bond, or until proceeds are fully allocated.

The report will include:

- Use of issue proceeds by commitment period applicable to the loan (15 or 30 years)
- Use of issue proceeds by customer groups
- Use of issue proceeds by final year of commitment period
- Projects funded in the different quarters of the city
- Size of units constructed
- Type of construction

Given the public nature of the issuer, external verification of allocation of proceeds is not feasible. However, IFB Hamburg has committed to disclose an attestation by management that confirms proceeds are allocated to eligible projects.

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<sup>5</sup> In 2016 this target was 3.000 publicly financed housing units; <http://www.hamburg.de/bsw/wohnungsbau/4029174/wohnungspolitik/>.

## 4 SUSTAINALYTICS' OPINION

### Impact of Use of Proceeds: Importance of Social Housing in Hamburg

The rental market in Hamburg is facing an increasing demand for smaller rental units for one or two person households due to an aging population, and an increasing number of inhabitants<sup>6</sup>. There has also been a marked increase in development costs for housing units over the past years.<sup>7</sup> For example, in Germany, development costs for housing units increased by 4.2% annually between 2003 and 2012<sup>8</sup>. This increasing demand and increase in development costs has led to a substantial increase in rental housing prices in the City of Hamburg, creating a shortage of affordable housing for low and middle income populations<sup>9</sup>.

This increase in housing prices primarily affects low income, as well as increasingly medium-income households, and parties that are affected by hardship to find affordable living space including vulnerable populations, such as families with elderly or disabled people with special requirements. Approximately 50% of the households in Hamburg currently live on income levels within the income brackets defined in the framework, and thus would be eligible for an entitlement certificate to access social housing funded by bond proceeds.

In addition, Germany and the State of Hamburg are faced with growing numbers of asylum seekers adding to concerns regarding shortage of affordable housing. In 2015 a total of 20.987 refugees with immediate need for housing were registered in Hamburg. Between January and October 2016 this number amounted to circa 7.000<sup>10</sup>. IFB Hamburg has already been responding to this need for affordable housing due to an increased number of asylum seekers; of the 3,000 new units funded by IFB Hamburg in 2015, 1,000 units have been earmarked in the short-term for the dedicated programme “Perspektive Wohnen” for refugee housing<sup>11</sup>. IFB Hamburg has confirmed to Sustainalytics that projects selected for the first issuance of the bond also include projects of the refugee housing programme “Perspektive Wohnen”.

On nation-wide level, the gap between the demand for social housing and the market offering has also been confirmed by a study undertaken by the Pestel Institute, which states that 5.6 million social housing units are needed while only 1.6 million were available on the market in 2015<sup>12</sup>. To contribute to this need on a state level, the Senate of Hamburg defined annual targets to increase the number of social housing units funded by 2,000 per year<sup>13</sup>. In 2016 the ambition to further increase the number of social housing units funded by 3,000 units per year has been formulated. Given this context, there is a clear need to create more affordable rental housing space in the City of Hamburg. The social housing units funded by IFB Hamburg that are earmarked for use by target groups aim to fulfill this need.

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<sup>6</sup> In 2015 the population growth amounted to circa 1.4% according to the Statistisches Amt für Hamburg und Schleswig-Holstein.

<sup>7</sup> Studie 2015: Wohnungsmärkte in der Metropolregion Hamburg.

<sup>8</sup> Statistisches Amt für Hamburg und Schleswig-Holstein.

<sup>9</sup> Rental prices increased by over 6,1 % between 2015 and 2013. This makes Hamburg the third most expensive city in Germany (Bundesinstitut für Bau- Stadt- und Raumforschung).

<sup>10</sup> Official Website City of Hamburg <http://www.hamburg.de/fluechtlinge-daten-fakten/>.

<sup>11</sup> Official Website State of Hamburg, <http://www.hamburg.de/pressearchiv-fhh/5198872/2016-02-23-bsw-wohnungsbauforderung-bilanz/>.

<sup>12</sup> Official Website Pestel Institut <http://www.pestel-institut.de/themenbereiche/wohnungsmarkt/>.

<sup>13</sup> Vertrag für Hamburg – Wohnungsneubau.

Based on the context elaborated above as well as the approach implemented by IFB Hamburg, Sustainalytics is of the opinion that IFB Hamburg's Social Bonds will create social impact by increasing affordable rental spaces for low and medium income families, refugees, and other disadvantaged populations in the city of Hamburg. The proceeds from these social bonds will address a critical gap in affordable housing in Hamburg.

## Sustainalytics' Opinion on the Social Bond Framework

Sustainalytics assessed the IFB Hamburg framework that determines eligibility of social housing projects for funding through bond proceeds, and determined its strengths and limitations. Sustainalytics is of the opinion that the IFB Hamburg framework has clear social impact as it provides housing at pre-determined rents to low-income, medium-income, and other disadvantaged/marginalized populations, and addresses a critical gap in affordable housing in Hamburg.

The strength of the IFB Hamburg framework derives from the following three factors:

- (i) IFB Hamburg is addressing a clearly prevalent social need in the city of Hamburg. The social housing rental apartments being funded through bond proceeds are aligned with the priorities of the regional government.
- (ii) Both aspects of the eligibility criterion that defines eligible social housing projects are based on an external standard set by the state of Hamburg. The definition of target populations is based on an income threshold set by the Hamburg Housing Promotion Act (Hamburgisches Wohnraumförderungsgesetz (HmbWoFG)). Similarly, the level of pre-determined rent for newly constructed units under the IFB Hamburg programmes are defined by the Senate. Despite the fact that there is no explicit commitment to establish rent levels below market, evidence of past years shows that this pre-determined rent level for social housing has historically been below the market price for rent in Hamburg<sup>14</sup>. Sustainalytics is of the opinion that basing the eligibility criterion on income and rent level definitions set by a third party ensures that affordable prices and target populations are being defined in a credible manner.
- (iii) Tenant control agreement and the pre-determined rental prices are aligned with the funding period, with a minimum of a 15-year commitment period over which the units are earmarked. Individual units may not be turned into private property during the commitment period. In case an earmarked apartment building is sold during the commitment period, the new owner either has to align with the programme requirements, or at a minimum requirement, commit to a 10 year guarantee of the initial rent. Sustainalytics is of the opinion that this is an important mechanism to ensure that the expected impact of the proceeds (i.e. the availability of affordable housing to target groups) will be realized over a long period.

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<sup>14</sup> Bündnis für das Wohnen in Hamburg; Official Website IFB Hamburg: [www.ifbhh.de/wohnraum/mietwohnungen/neubau/mietwohnungsneubau/](http://www.ifbhh.de/wohnraum/mietwohnungen/neubau/mietwohnungsneubau/); Official Website Mietverein Hamburg [www.mietverein-hamburg.de/de/aktuelles/statistiken-wohnen-hamburg/index.html](http://www.mietverein-hamburg.de/de/aktuelles/statistiken-wohnen-hamburg/index.html). In 2016 the initial rent level for new social housing units is EUR 6.30,- per square meter while the free market rent for new units lies at around EUR 12.50,- per square meter (Mietspiegel 2015). In 2011 the initial rent was EUR 5.80,- per square meter compared to EUR 11.00,- to EUR 14.00,-.

The IFB Hamburg framework also has certain limitations. For example, IFB Hamburg's programmes allow for two income brackets based on the state defined income threshold (as per the Hamburg Housing Promotion Act). The lower limit of these income brackets is the state defined income threshold; the upper limit of these income brackets is a deviation of 30-60% above the state defined income threshold.

While the first bond issued under this framework will fund projects from Funding Programme 1 (where the upper limit of the income bracket is defined as 30% above the state defined income threshold), IFB Hamburg has confirmed to Sustainalytics that future issuances under this framework could fund projects under both programmes.

Sustainalytics recognizes that a deviation of 60% above the defined income threshold could be considered relatively high. However, considering the fact that the programmes are targeting low as well as middle-income households, and given the context where both income groups are affected by the lack of affordable housing, Sustainalytics is of the opinion that targeting this income bracket is impactful, in line with IFB Hamburg's mission.

#### ***Description of tenant control process to maintain access to affordable housing for target groups***

The responsibility to monitor and review compliance with tenant and rent control agreements, and so to ensure that affordable housing is rented to target groups throughout the commitment period of the loan, rests with local administration offices. IFB Hamburg is thus not able to disclose data regarding the income level or demographics of target groups benefitting from the social housing units. Sustainalytics recognizes that this results in limited direct monitoring of eligible apartments. For example, since the eligibility for an entitlement certificate is assessed one time only at the beginning of the process, there is no monitoring of change in income (and thus 'targeted') status.

However, IFB Hamburg has confirmed to Sustainalytics that it has the contractual right to request information on the applicable rent level, the use of loans, and an overview of inhabitants at all times during the commitment period (although this is not done on a structural basis for all properties). IFB Hamburg has also assured Sustainalytics that all rental contracts have to specify the underlying eligibility of the respective tenants. When issuing the entitlement certifications local authorities will already consider and specify the applicable programme and conditions the applicant is eligible for based on their income level<sup>15</sup>. Sustainalytics has viewed an example of the certificate and is of the opinion that this process and the information sought of prospective tenants is comprehensive.

Additionally, marketing and renting of the property during the commitment period to non eligible populations (in violation of the eligibility criterion) could result in a withdrawal of loans and subsidies, and termination of rental agreements and legal fines. Sustainalytics is of the opinion that IFB-Hamburg's contractual right to request information on an ongoing basis, the detailed process for issuing entitlement certificates, the ability to withdraw funding and terminate contracts, and the risk of incurring fines is a sufficient deterrent to ensure that apartments are rented to target populations in accordance with the eligibility criterion throughout the commitment period of the loan.

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<sup>15</sup> Informationsblatt über öffentlich geförderte Mietwohnungen, Wohnberechtigungsschein und Dringlichkeitsschein

## Alignment with Social Bond Guidance and Green Bond Principles 2016

Sustainalytics is of the opinion that IFB Hamburg's social bond is well aligned with the 2016 Social Bond Guidance, due to (a) the nature of the social projects described in the eligibility criteria, and (b) the targeted nature of the populations served. Given the clear need for affordable housing in Hamburg, the targeted nature of IFB Hamburg's eligibility criterion ensures the inclusion of disadvantaged and marginalized groups. In addition, Sustainalytics is of the opinion that IFB Hamburg's social bond follows the guidance provided by the Green Bond Principles 2016 with respect to transparency around the project selection process, management of proceeds, and reporting. See Appendix 4 for details. Overall, Sustainalytics considers that proceeds from IFB Hamburg's social bond can be expected to provide a high level of social impact to underserved communities by providing them with access to affordable housing.

## APPENDICES

### Appendix 1: Requirements for receiving loans and guidelines for construction

#### Requirements for parties receiving loans/subsidies

Parties eligible for requesting relevant loans and subsidies are investors with suitable property or the license to develop a property that meet the required financial framework conditions (creditworthiness and collateralization). The relevant funding is provided over a period of at least 15 years, or optionally over 20 or 30 years. Parties receiving loans and subsidies are not allowed to market or sell the property or individual units during the commitment period.

#### Guidelines on construction and modernisation

Loans and subsidies are structured around the following modules:

- Basic modules which are mandatory for all projects; and
- Voluntary supplementary modules including standards for sustainable buildings, constructions featuring energy saving technology and additional facilities for old or handicapped tenants.

Guidelines and requirements under the basic modules define the percentage of the of housing units for 1, 2, 3, or 4+ person households as well as size of the units and technical requirements (including energetic standards, ventilation systems, environmentally friendly building materials). In addition, a ration between possible financing under the two different programmes is defined.

For the supplementary modules energy efficient constructions beyond legal requirements as well as the use of sustainable insulation materials and barrier free building are addressed amongst others. Furthermore, efforts such as achieving the highest quality assessment level of selected sustainability certification standards<sup>16</sup> are eligible for additional one-off subsidies.

### Appendix 2: Income Limits defined by the Hamburg Housing Promotion Act

According to § 8 of the Hamburg Housing Promotion Act (Hamburgischen Wohnraumförderungsgesetz = HmbWoFG), the current income limits amount to:

1. For a one-person household EUR 12.000,- p.a.,
2. For a two-person household EUR 18.000,- p.a.,

plus EUR 4.100,- Euro for any further person living in the household. The limit is elevated by EUR 1.000,- per child.

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<sup>16</sup> The selected standards are: Deutsche Gesellschaft für Nachhaltiges Bauen (DGNB) (platinum level) and Umweltzeichen der Hafencity Hamburg GmbH (gold level).

### Appendix 3: Documents Reviewed

Sustainalytics reviewed the following documents for the purposes of writing this report

Number	Document Name
1	Gesetz über die Wohnraumförderung in der Freien und Hansestadt Hamburg (Hamburgisches Wohnraumförderungsgesetz - HmbWoFG)
2	Hamburger Mietenspiegel 2015
3	Hamburgerisches Weltwirtschaftsinstitut, Studie 2015: Wohnungsmärkte in der Metropolregion Hamburg
4	Neubau von Mietwohnungen 1. Förderweg
7	Neubau von Mietwohnungen 2. Förderweg
6	Bündnis für das Wohnen in Hamburg
5	Internal prospectus IFB Social Bond Framework
6	Vertrag für Hamburg – Wohnungsneubau
7	Informationsblatt über öffentlich geförderte Mietwohnungen, Wohnberechtigungsschein und Dringlichkeitsschein

## Appendix 4: External Review Form

### Green Bond/Green Bond Programme External Review Form

#### Green Bond / Green Bond Programme External Review Form

##### Section 1. Basic Information

**Issuer name:** Hamburgische Investitions- und Förderbank (IFB Hamburg)

**Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:**

**Review provider's name:** Sustainalytics

**Completion date of this form:** November 21<sup>st</sup>, 2016

**Publication date of review publication:**

##### Section 2. Review overview

###### SCOPE OF REVIEW

*The following may be used or adapted, where appropriate, to summarise the scope of the review.*

The review assessed the following elements and confirmed their alignment with the GBPs:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

###### ROLE(S) OF REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):                       |  |

###### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

### Section 3. Detailed review

#### 1. USE OF PROCEEDS

**Overall comment on section (if applicable):**  
This bond framework is aligned with the Social Bond Guidance, and Green Bond Principles (GB) . Combined, the Social Bond Guidance and GBP speak to the social impact of the bond proceeds and to transparency around the selection process, management of proceeds and allocation and impact reporting.

Sustainalytics is of the opinion that the use of proceeds from IFB-Hamburg’s social bond is aligned with the 2016 Social Bond Guidance, due to (a) the nature of the social projects described in the eligibility criteria, and (b) the targeted nature of the populations served. Additionally, Sustainalytics is of the opinion that basing the eligibility criterion on income and rent level definitions set by a third party ensures that affordable prices and target populations are being defined in a credible manner.

Given the clear need for affordable housing in Hamburg, the targeted nature of IFB Hamburg’s eligibility criterion ensures the inclusion of disadvantaged and marginalized groups. Sustainalytics is of the opinion that IFB Hamburg’s bond will have clear social impact as it addresses a critical gap in affordable housing in Hamburg.

**Use of proceeds categories as per GBP:**

- |  |   |
|--|---|
| <input type="checkbox"/> Renewable energy  | <input type="checkbox"/> Energy efficiency  |
| <input type="checkbox"/> Pollution prevention and control  | <input type="checkbox"/> Sustainable management of living natural resources       |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation   | <input type="checkbox"/> Clean transportation                                     |
| <input type="checkbox"/> Sustainable water management  | <input type="checkbox"/> Climate change adaptation                                |
| <input type="checkbox"/> Eco-efficient products, production technologies and processes   | <input checked="" type="checkbox"/> Other (please specify):<br>Affordable Housing |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs |   |

If applicable please specify the environmental taxonomy, if other than GBPs:

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

**Overall comment on section (if applicable):**

Loans financed through proceeds will be evaluated for alignment with the eligibility criterion by the loan department. The loan department selects the number and amount of eligible loans to be financed based on a target IFB Hamburg is set a by the Senate of Hamburg to develop a certain number of affordable housing units per year. Sustainalytics is of the opinion that the process to select this building for use of green bond proceeds is robust.

### Evaluation and selection

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available       | <input type="checkbox"/> Other (please specify):  |

### Information on Responsibilities and Accountability

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify):   |  |

## 3. MANAGEMENT OF PROCEEDS

**Overall comment on section (if applicable):**

Sustainalytics is of the opinion that the IFB Hamburg has sufficient oversight over the management of proceeds, and there is a formal and detailed process to earmark and track disbursement of proceeds to eligible loans/projects.

### Tracking of proceeds:

- |   |
|---|
| <input checked="" type="checkbox"/> Green Bond proceeds segregated or tracked by the issuer in a systematic manner            |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (please specify):  |

**Additional disclosure:**

- |  |   |
|--|---|
| <input type="checkbox"/> Allocations to future investments only                  | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements                  | <input checked="" type="checkbox"/> Allocation to a portfolio of disbursements          |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other ( <i>please specify</i> ):                               |

**4. REPORTING**

**Overall comment on section (*if applicable*):**

IFB Hamburg will publish a separate report on its website specifying all underlying selected loans and liabilities. The reporting will also include details on projects funded, including type of construction, size, number of years the project is earmarked for targeted groups (i.e. commitment period of loan). Given the state owned nature of IFB-Hamburg, external verification of allocation of proceeds is not feasible. However, IFB-Hamburg has committed to disclosing an attestation by management that confirms proceeds are allocated to eligible projects. Given that IFB-Hamburg does not have consistent access to underlying data on renters of project funded, Sustainalytics is of the opinion that information disclosed on the number of housing units funded and their size is a sufficient proxy to understand the impact of use of proceeds.

**Use of proceeds reporting:**

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Project-by-project | <input type="checkbox"/> On a project portfolio basis     |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other ( <i>please specify</i> ): |

**Information reported:**

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Allocated amounts                | <input type="checkbox"/> GB financed share of total investment |
| <input checked="" type="checkbox"/> Other ( <i>please specify</i> ): |  |

*Funded types of apartment units; overview by units funded in city quarters*

**Frequency:**

- |   |                                      |
|---|--------------------------------------|
| <input checked="" type="checkbox"/> Annual                | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other ( <i>please specify</i> ): |                                      |

**Impact reporting:**

- |  |   |
|--|---|
| <input type="checkbox"/> Project-by-project            | <input checked="" type="checkbox"/> On a project portfolio basis  |
| <input type="checkbox"/> Linkage to individual bond(s) | <input checked="" type="checkbox"/> Other ( <i>please specify</i> ): number and size of social housing units funded |

**Frequency:**

- |   |                                      |
|---|--------------------------------------|
| <input checked="" type="checkbox"/> Annual                | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other ( <i>please specify</i> ): |                                      |

**Information reported (expected or ex-post):**

- |  |   |
|--|---|
| <input type="checkbox"/> GHG Emissions / Savings                         | <input type="checkbox"/> Energy Savings |
| <input type="checkbox"/> Other ESG indicators ( <i>please specify</i> ): |   |

**Means of Disclosure**

- |  |   |
|--|---|
| <input type="checkbox"/> Information published in financial report   | <input type="checkbox"/> Information published in sustainability report   |
| <input type="checkbox"/> Information published in ad hoc documents   | <input checked="" type="checkbox"/> Other ( <i>please specify</i> ): Dedicated social bond reporting on website |
| <input type="checkbox"/> Reporting reviewed ( <i>if yes, please specify which parts of the reporting are subject to external review</i> ): |   |

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS** (*e.g. to review provider methodology or credentials, to issuer's documentation, etc.*)

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**

**Type(s) of Review provided:**

- |  |  |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit                        | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):            |  |

**Review provider(s):**

**Date of publication:**

## **ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP**

- (i) **Consultant Review:** An issuer can seek advice from consultants and/or institutions with recognized expertise in environmental sustainability or other aspects of the issuance of a Green Bond, such as the establishment/review of an issuer's Green Bond framework. "Second opinions" may fall into this category.
- (ii) **Verification:** An issuer can have its Green Bond, associated Green Bond framework, or underlying assets independently verified by qualified parties, such as auditors. In contrast to certification, verification may focus on alignment with internal standards or claims made by the issuer. Evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria.
- (iii) **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against an external green assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties / certifiers.
- (iv) Rating:** An issuer can have its Green Bond or associated Green Bond framework rated by qualified third parties, such as specialised research providers or rating agencies. Green Bond ratings are separate from an issuer's ESG rating as they typically apply to individual securities or Green Bond frameworks / programmes.

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# SUSTAINALYTICS

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Sustainalytics is headed by seasoned professionals in the field of business, finance, and sustainability, with a wealth of experience in the Responsible Investment area. After more than 20 years of local experience and expertise in the Responsible Investment (RI) market Sustainalytics has developed a comprehensive understanding of trends and best practices and a solid process to assist organisations in integrating ESG considerations into their policies and strategies. We have worked with some of the world's financial institutions including pension plans, investment managers and banks providing customised support to help them achieve their RI objectives. Clients include ABN AMRO, APG, BBVA, BNP Paribas, Deutsche Bank, ING Bank, Lombard Odier, Lloyds Bank, Triodos Bank, UBS and over 250 other financial institutions and organisations.

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4,500 Issuers
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4,000 Issuers
- Global Compact Research  
20,000+ Issuers
- Product Involvement  
40,000 Issuers
- Controversial Weapons Radar  
40,000 Issuers
- Sector Research  
42 Peer Groups

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