

# Vonovia SE

## PRE-ISSUANCE VERIFICATION LETTER

### LOW CARBON BUILDINGS CRITERIA OF THE CLIMATE BONDS STANDARD

**Type of engagement:** Assurance Engagement

**Period engagement was carried out:** January - February 2021

**Approved verifier:** Sustainalytics

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### Scope and Objectives

Vonovia SE (“Vonovia” or the “Company”) is a residential real estate company founded in 2015 with headquarters in Bochum, Germany. Vonovia owns and/ or manages approximately 490,000 residential units with a total value of around €56 billion across 400 locations in German, Swedish and Austrian cities, providing homes for over one million people. Vonovia intends to issue green bonds and use the proceeds to finance and/or refinance the eligible portion of its German residential real estate portfolio.

Vonovia has engaged Sustainalytics to review and verify that Vonovia’s green bond meets the requirements under the Low Carbon Buildings criteria of the Climate Bonds Standard<sup>1</sup>.

### Climate Bonds Standard Criteria

Pre-issuance requirements under Version 3.0<sup>2</sup>:

- Low Carbon Buildings
  - Residential buildings
    - Germany: Energieausweis (EPC) rating of B and above

### Issuing Entity’s Responsibility

Vonovia was responsible for providing information and documents relating to:

- The details concerning the selection process for the Nominated Projects
- The details of the Nominated Projects
- The management systems for internal processes and controls for Nominated Projects, including: tracking of proceeds, managing unallocated proceeds and Earmarking funds to Nominated Projects
- The details of commitments for reporting prior to issuance, including: investment areas, management of unallocated proceeds and frequency of periodic Assurance Engagements

### Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of Vonovia’s green bond, issued to finance residential buildings, and provided an independent opinion informing Vonovia as to the conformance of the green bond with the Pre-Issuance requirements and Low Carbon Buildings criteria of the Climate Bonds Standard.

Sustainalytics has relied on the information and the facts presented by Vonovia. Sustainalytics is not responsible if any aspect of the Nominated Projects referred to in this opinion including estimates, findings, opinions, or conclusions are incorrect. Thus, Sustainalytics shall not be held liable if any of the information or data provided by Vonovia’s management and used as a basis for this assessment were not correct or complete.

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<sup>1</sup> Buildings Criteria under the Climate Bonds Standard. See more, at: <https://www.climatebonds.net/standard/buildings>

<sup>2</sup> Climate Bonds Initiative, Climate Bonds Standard Version 3.0. See more, at: [https://www.climatebonds.net/files/files/Climate%20Bonds\\_Standard\\_Version%203\\_0\\_December%202017.pdf](https://www.climatebonds.net/files/files/Climate%20Bonds_Standard_Version%203_0_December%202017.pdf)

Sustainalytics makes all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the bond.

### **Verifier's Responsibility**

The work undertaken as part of this engagement included conversations with relevant Vonovia employees and review of relevant documentation to confirm the green bond's conformance with the Climate Bonds Certification Pre-Issuance Requirements, which include:

- Conformance of Vonovia's green bond with the Climate Bonds Standard Version 3.0;
- Conformance with the Low Carbon Buildings Technical Criteria;
- Conformance with the Internal Processes & Controls requirements;
- Conformance with Reporting Prior to Issuance requirements

### **Basis of the Opinion**

Sustainalytics conducted the verification in accordance with the Climate Bonds Standard Version 3.0 and with International Standard on Assurance Engagements 3000 – Assurance Engagements other than Audits or Reviews of Historical Information.

Sustainalytics planned and performed the verification by obtaining evidence and other information and explanations that Sustainalytics considers necessary to give limited assurance that Vonovia's green bond meets the requirements of the Climate Bonds Standard. Upon reviewing evidence and other information, Sustainalytics is of the opinion that Vonovia will ensure compliance with Climate Bonds Standards requirements.

### **Conclusion**

Vonovia intends to issue green bonds and use the proceeds to finance and/or refinance the eligible portion of its German residential real estate portfolio, and has engaged Sustainalytics to review and verify that Vonovia's green bond meets the requirements under the Low Carbon Buildings criteria of the Climate Bonds Standard.

Based on the limited assurance procedures conducted of Vonovia's green bond under the Low Carbon Buildings criteria of the Climate Bonds Standard, nothing has come to Sustainalytics' attention that causes us to believe that, in all material aspects, Vonovia's green bond is not in conformance with the Low Carbon Buildings of the Climate Bonds Standard's Pre-Issuance Requirements.

## Schedule 1: Detailed Overview of Nominated Projects and Assets

An overview of the portfolio of Nominated Projects is provided below:

Vonovia will reduce the value of eligible projects by an amount equal to outstanding loans from multilateral agencies, national or supranational entities such as the European Investment Bank (EIB) or Kreditanstalt für Wiederaufbau (KfW) relating to such projects, which are known to refinance their operations by issuance of green or sustainable financing instruments, in order to avoid double-counting of green assets.<sup>3</sup>

<b>EPC Level</b>	<b>Number of Properties</b>	<b>Gross Portfolio Value (EUR)</b>	<b>Net Portfolio Value (EUR)</b>
A+	2	1,491,368	1,375,823
A	8	40,465,909	33,428,165
B	680	815,695,883	692,828,597
<b>Total</b>	<b>690</b>	<b>857,653,160</b>	<b>727,632,585</b>

<sup>3</sup> Mortgage lending banks are not allowed to use the mortgage for any green instrument refinancing as contractually defined in Vonovia's lending agreements.

## Schedule 2A: Pre-Issuance General Requirements

<p>1. Use of Proceeds</p>	<p>1.1 The Issuer shall document the Nominated Projects &amp; Assets which are proposed to be associated with the Bond and which have been assessed as likely to be Eligible Projects &amp; Assets. The Issuer shall establish a list of Nominated Projects &amp; Assets which can be kept up-to-date during the term of the Bond.</p> <p>1.2 The expected Net Proceeds of the Bond shall be no greater than the Issuer’s total investment exposure to the proposed Nominated Projects &amp; Assets, or the relevant proportion of the total Market Value of the proposed Nominated Projects &amp; Assets which are owned or funded by the Issuer.</p> <p>1.3 Nominated Projects &amp; Assets shall not be nominated to other Certified Climate Bonds, Certified Climate Loans, Certified Climate Debt Instruments, green bonds, green loans or other labelled instruments (such as social bonds or SDG bonds) unless it is demonstrated by the Issuer that:</p> <p>1.3.1 distinct portions of the Nominated Projects &amp; Assets are being funded by different Certified Climate Bonds, Certified Climate Loans, Certified Climate Debt Instruments, green bonds , green loans or other labelled instruments; or,</p> <p>1.3.2 the existing Certified Climate Bond, Certified Climate Loan or Certified Climate Debt Instrument is being refinanced via another Certified Climate Bond, Certified Climate Loan or Certified Climate Debt Instrument.</p>
<p>2. Process for Evaluation and Selection of Projects &amp; Assets</p>	<p>2.1 The Issuer shall establish, document and maintain a decision-making process which it uses to determine the eligibility of the Nominated Projects &amp; Assets. The decision-making process shall include, without limitation:</p> <p>2.1.1 A statement on the climate-related objectives of the Bond;</p> <p>2.1.2 How the climate-related objectives of the Bond are positioned within the context of the Issuer’s overarching objectives, strategy, policy and/or processes relating to environmental sustainability;</p> <p>2.1.3 The Issuer’s rationale for issuing the Bond;</p> <p>2.1.4 A process to determine whether the Nominated Projects &amp; Assets meet the eligibility requirements specified in Part C of the Climate Bonds Standard.</p> <p><i>Note to 2.1: A wide variety of climate-related objectives are possible. These can vary from increasing the installed capacity of low carbon assets, such as solar power facilities, to having a specific objective focused on the operations or indirect effects of the projects &amp; assets, such as emissions reductions.</i></p> <p><i>The climate-related objectives of the Bond, as stated by the Issuer, have implications for the reporting requirements under the Climate Bonds Standard. See Clauses 2.3, 5.2, 5.8, 6.1.1 and 8.4.</i></p> <p>2.2 The Issuer should include under Clause 2.1 further aspects of the decision-making process, including:</p> <p>2.2.1 related eligibility criteria, including, if applicable, exclusion criteria or any other process, applied to identify and manage potentially material</p>

	<p>environmental, social or governance risks associated with the Nominated Projects &amp; Assets;</p> <p>2.2.2 any green standards or certifications referenced in the selection of Nominated Projects &amp; Assets.</p> <p>2.3 The Issuer shall assess that all proposed Nominated Projects &amp; Assets to be associated with the Bond meet the documented objectives as stated under Clause 2.1.1 and are likely to conform to the relevant eligibility requirements under Part C of the Climate Bonds Standard.</p>
<p>3. Management of Proceeds</p>	<p>3.1 The systems, policies and processes to be used for management of the Net Proceeds shall be documented by the Issuer and disclosed to the Verifier, and shall include arrangements for the following activities:</p> <p>3.1.1 Tracking of proceeds: The Net Proceeds of the Bond can be credited to a sub-account, moved to a sub-portfolio, or otherwise tracked by the Issuer in an appropriate manner and documented.</p> <p>3.1.2 Managing unallocated proceeds: The balance of unallocated Net Proceeds can be managed as per the requirements in Clause 7.3.</p> <p>3.1.3 Earmarking funds to Nominated Projects &amp; Assets: An earmarking process can be used to manage and account for funding to the Nominated Projects &amp; Assets and enables estimation of the share of the Net Proceeds being used for financing and refinancing.</p>
<p>4. Reporting</p>	<p>4.1 The Issuer shall prepare a Green Bond Framework and make it publicly available prior to Issuance or at the time of Issuance. The Green Bond Framework shall include, without limitation:</p> <p>4.1.1 Confirmation that the Bonds issued under the Green Bond Framework are aligned with the Climate Bonds Standard. This may include statements of alignment with other applicable standards, such as the EU Green Bond Standard, the ASEAN Green Bond Standard, Chinese domestic regulations, Japanese Green Bond Guidelines, etc.;</p> <p>4.1.2 A summary of the expected use of proceeds, as defined under Clause 1.1, and the expected contribution of the relevant sectors or sub-sectors to the rapid transition required to achieve the goals of the Paris Climate Agreement;</p> <p>4.1.3 A description of the decision-making process, as defined under Clause 2.1, with particular reference to the requirements in Clause 2.1.2;</p> <p>4.1.4 Information on the methodology and assumptions to be used for: confirming, where required by relevant Sector Eligibility Criteria, the characteristics or performance of Nominated Projects &amp; Assets required to conform to the relevant eligibility requirements under Part C of the Climate Bonds Standard; and any other additional impact metrics that the issuer will define.</p> <p>4.1.5 A summary of the approach to the management of unallocated Net Proceeds in accordance with Clause 3.1;</p> <p>4.1.6 The intended approach to providing Update Reports to reaffirm conformance with the Climate Bonds Standard while the Bond remains outstanding;</p> <p>4.1.7 The list of proposed Nominated Projects &amp; Assets associated with the Bond and the investment areas, as provided in Clause 9.1, into which the Nominated Projects &amp; Assets fall. Where there are limits on the amount of detail that can be made available about specific Nominated Projects &amp; Assets, information shall be presented on the investment areas which the Nominated Projects &amp; Assets fall into, as provided in</p>

	<p>Clause 9.1, and the Issuer shall provide an explanation of why detail on Nominated Projects &amp; Assets is limited;</p> <p>4.1.8 Where a proportion of the Net Proceeds are used for refinancing, an estimate of the share of the Net Proceeds used for financing and refinancing, and the relevant Nominated Projects &amp; Assets or investment areas which may be refinanced. This may also include the expected look-back period for refinanced Nominated Projects &amp; Assets.</p> <p><i>Note: Issuers are encouraged to disclose as much information as possible with respect to Nominated Projects &amp; Assets. However, in many cases it is not possible for the Issuer to disclose detailed information about specific projects &amp; assets prior to the issuance of the Bond. This limitation may be due to confidentiality arrangements with owners of projects &amp; assets, the dynamic nature of the project portfolio, competitive considerations, or other legal provisions which limit the disclosure of detailed information.</i></p> <p>4.2 The Issuer shall include in the Disclosure Documentation:</p> <p>4.2.1 The investment areas, as provided in Clause 9.1, into which the Nominated Projects &amp; Assets fall;</p> <p>4.2.2 The intended types of temporary investment instruments for the management of unallocated Net Proceeds in accordance with Clause 7.3;</p> <p>4.2.3 The Verifier engaged by the Issuer for the mandatory verification engagements;</p> <p>4.2.4 The intended approach to providing Update Reports to reaffirm conformance with the Climate Bonds Standard while the Bond remains outstanding, including the location of the published documents;</p> <p>4.2.5 The Climate Bonds Initiative Disclaimer provided in the Certification Agreement.</p> <p><i>Note to 4.2.4: Issuers are encouraged to provide their Update Reports through existing reporting channels for the bond markets, such as the Electronic Municipal Market Access (EMMA) website for the US Municipality sector.</i></p>
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## Schedule 2B: Conformance to the Pre-Issuance Requirements

Procedure Performed	Factual Findings	Error or Exceptions Identified
1. Use of Proceeds	<p>1.1 Vonovia has developed a list of proposed Nominated Projects &amp; Assets which comply with the Low Carbon Buildings sector criteria of the Climate Bonds Standard. Vonovia intends to keep this list updated with all the financed projects that fall within the scope of Vonovia's green bond program and Framework. The proposed Nominated Projects and Assets include:</p> <ul style="list-style-type: none"> <li>• A portfolio of residential buildings in Germany, compliant with the approved proxy (EPC B and above)</li> </ul> <p>1.2 Vonovia's management confirms that the net proceeds of the future bond will not be greater than the total investment exposure to the proposed Nominated Projects &amp; Assets.</p> <p>1.3 Vonovia's management confirms that the Nominated Projects &amp; Assets will not be nominated to other Certified Climate Bonds, Certified Climate Loans, Certified Climate Debt Instrument, green bonds, green loans or other labelled instruments unless it is demonstrated by Vonovia that distinct portions of the Nominated Projects &amp; Assets are being funded by different instruments or that the existing instrument is being refinanced via another labelled instrument.</p>	None
2. Process for Evaluation and Selection of Projects & Assets	<p>2.1.1. The Vonovia Green Bond Framework states that the intention of the green bonds is to finance or refinance a portfolio of energy-efficient residential properties.</p> <p>2.1.2. Vonovia's environmental objectives are summarized in the Vonovia Green Bond Framework.</p> <p>2.1.3. Vonovia's rationale for issuing green bonds is defined in the Framework as to support Vonovia's sustainability strategy and the transition towards a sustainable society .</p> <p>2.1.4. The Vonovia Green Bond Framework includes a process for project evaluation and selection, establishing a Green Finance Committee.</p> <p>2.2.1. Vonovia has sufficient measures in place to manage and mitigate environmental and social risks that are commonly associated with the eligible category.</p> <p>2.2.2. The Vonovia Green Bond Framework references Energy Performance Certificates (EPCs).</p> <p>2.2.3. Vonovia's Green Finance Committee will verify that all proposed Nominated Projects &amp; Assets conform to the Climate Bonds Taxonomy and Low Carbon Buildings sector criteria.</p>	None
3. Management of Proceeds	3.1.1 The Vonovia Green Bond Framework outlines a process by which proceeds will be tracked.	None

	<p>3.1.2 Issuer will manage unallocated net proceeds in its liquidity portfolio in cash, cash equivalents, and/ or in other short-term liquid marketable instruments.</p> <p>3.1.3 The Vonovia Green Bond Framework details the process Vonovia will use to allocate and manage green bonds proceeds. This will enable the estimation of the share of the Net Proceeds being used for financing and refinancing.</p>	
<p>Reporting Prior to Issuance</p>	<p>4.1.1. Bonds issued under the Vonovia Green Bond Framework are intended to align with the Climate Bonds Standard.</p> <p>4.1.2. The Vonovia Green Bond Framework indicates that green bond proceeds will be used, as defined under Clause 1.1, and the expected contribution of the relevant sectors or sub-sectors to the rapid transition required to achieve the goals of the Paris Climate Agreement.</p> <p>4.1.3. The Vonovia Green Bond Framework provides detail on its decision-making process, which is overseen by the Green Finance Committee.</p> <p>4.1.4. Vonovia’s Nominated Projects &amp; Assets will conform with the Low Carbon Buildings sector criteria. Vonovia may report on the following impact metrics: Level of certification by building, Energy performance (kWh/m<sup>2</sup> per year), and Annual greenhouse gas emission reduced/ avoided (tCO<sub>2</sub> equivalent) relative to an established baseline</p> <p>4.1.5. Vonovia will manage unallocated net proceeds in accordance with Clause 3.1</p> <p>4.1.6. Vonovia will make a Green Bond Investor Report available on its website.</p> <p>4.1.7. Vonovia’s Nominated Projects &amp; Assets fall under Low Carbon Buildings sector criteria. Vonovia will report on the amount of financing allocated to eligible projects as well as a description of the selected projects financed portfolio.</p> <p>4.1.8. Vonovia will report on the split between financing and refinancing of assets.</p> <p>4.2.1. Vonovia’s Nominated Projects &amp; Assets will conform with the Low Carbon Buildings sector criteria.</p> <p>4.2.2. The intended types of temporary investment instruments for the management of unallocated Net Proceeds are in accordance with Clause 7.3 of the Climate Bonds Standard.</p> <p>4.2.3. The Vonovia has confirmed that an approved third party verifier will conduct periodic assurance within a year to reaffirm conformance of the bond with the Low Carbon Buildings criteria of the Climate Bonds Standard.</p> <p>4.2.4. Vonovia will make a Green Bond Investor Report available on its website.</p> <p>4.2.5. Sustainalytics notes that under the terms of its certification, Vonovia must include the CBI Disclaimer provided in the Certification Agreement in disclosure documentation.</p>	<p>None</p>



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