



# Deutsche Pfandbriefbank AG (pbb) External Review of 2021 Green Bond Reporting

January 27, 2022

CICERO Green has reviewed Deutsche Pfandbriefbank AG's (pbb) 2021 Green Bond Report. We review project allocation against framework criteria and impact metrics for relevance and transparency.

**CICERO Green finds no discrepancies in our review of the reporting against pbb's Green Bond Framework. We particularly welcome that all projects that have environmental certifications also satisfy the Green Bond Framework's energy performance criteria. pbb reports avoided emissions, which is a relevant impact indicator for green buildings and pbb has shown commitment to transparency by detailing its methodology and pro-rating impacts per EUR 1 million of green bond proceeds.**

## Project allocation

pbb reports on its green bond portfolio as at November 2021.

We assigned an overall shading of Light Green to pbb's Green Bond Framework in our Second Opinion dated April 28, 2020.<sup>1</sup> Green buildings was the only project category included in pbb's Green Bond Framework – specifically, proceeds would finance or re-finance loans extended in respect of green buildings (green loans). This project category also received a Light Green shading, and all proceeds have been allocated to this category (see Figure 1). For a more detailed review of pbb's allocation, see Table 1.

pbb's Green Bond Report satisfies the commitments in respect of allocation reporting contained in its Green Bond Framework. The Green Bond Report sets out the following, for example:

- that the outstanding value of green bonds at 30 November 2021 was EUR 1 billion
- furthermore, that as of 30 November 2021, pbb's green bond portfolio consisted of approximately EUR 1.3 billion of eligible green loans, exceeding the amount of the bonds
- list of properties in the portfolio
- information on the construction year and energy use (in kWh/m<sup>2</sup> p.a) of the properties in the portfolio

The largest loan pbb includes in its list of properties is for a residential portfolio, for which pbb provides the range of construction years and final energy consumption, as well as the different heating systems in place. pbb informed us these properties were not listed individually because they consist of large number of comparatively low value loans, though it confirmed that each individual building satisfied the Green Bond Framework criteria. pbb's approach to these residential properties provides less transparency than for the rest of the portfolio, for example investors cannot calculate the share of residential buildings with a certain heating type.

pbb states that buildings were only selected based on energy use and not on environmental certifications. This is in accordance with pbb's statement during the SPO process that it would likely screen out buildings with environmental certifications but high energy consumption, and we welcome that pbb has implemented the Green Bond Framework in this way. Nonetheless, pbb may in the future consider including a breakdown of environmental certifications as this may add value for investors.

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<sup>1</sup> [https://pub.cicero.oslo.no/cicero-xmli/bitstream/handle/11250/2720290/Cicero\\_Second\\_Opinion\\_for\\_pbb.pdf](https://pub.cicero.oslo.no/cicero-xmli/bitstream/handle/11250/2720290/Cicero_Second_Opinion_for_pbb.pdf)

During the SPO process, pbb informed us it would report on the share of the buildings’ individual heating types. This has also been included in the Green Bond Report, which states whether buildings have ‘natural gas’, ‘electricity’ or ‘near and long distance’<sup>2</sup> heating respectively. pbb has separately confirmed that no buildings with oil heating systems are included in the portfolio, in accordance with the commitment it made in this respect during the SPO process.

pbb informs us that the selection process was carried out as described in its Green Bond Framework and no property has had to be retroactively removed from the portfolio.

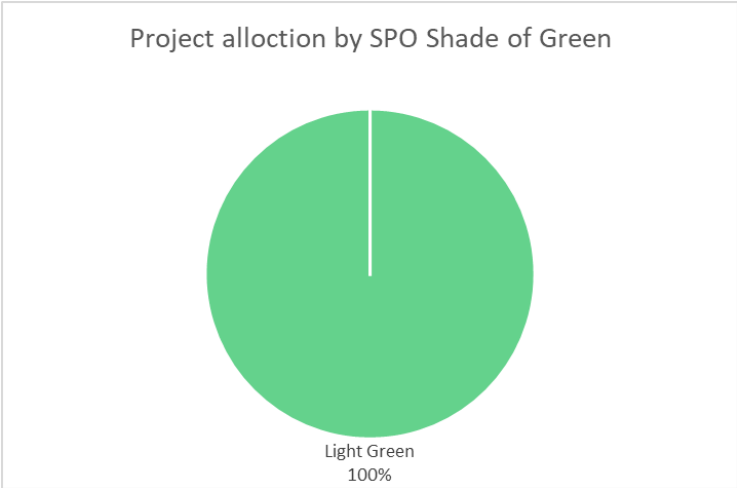


Figure 1: Allocation by SPO Shade of Green. Allocation by SPO Shade of Green. Shading is based on evaluation at time of issuance and does not reflect ex-post project verification.

**Impact metrics**

Impacts are reported on the green bond portfolio as at November 2021, and pbb sets out estimated impact for a one year period.

In its Green Bond Report, pbb reports estimated annual reduced/avoided GHG emissions in tons CO<sub>2</sub>e – this is an example indicator given in its Green Bond Framework and commonly used for green buildings. This is reported on a portfolio level, though pbb calculates this on a line-by-line basis. pbb has furthermore pro-rated the impacts: firstly by pbb’s overall financing share, and secondly by calculating the impact per EUR 1 million of green bond proceeds.

While annual reduced/avoided emissions is a relevant metric, there is always uncertainty around emissions data and especially avoided emissions where there are less developed guidelines. To this end, we welcome that pbb sets out in detail its methodology for calculating reduced/avoided emissions, including information on benchmarks. The use of local baselines is welcome given the different jurisdictions and types of buildings within the portfolio. Nonetheless, investors should be aware of the uncertainty in all such calculations.

The inclusion of metrics commonly used for green bond reporting allows investors to better compare across issuances in the same sectors. Investors should, however, use caution when making these comparisons as methodologies, assumptions and baselines are typically not uniform.

<sup>2</sup> i.e. district heating.

### **Alignment with principles for impact reporting**

CICERO Green reviews the impact report against the ICMA Handbook, Harmonized Framework for Impact Reporting (the Handbook).<sup>3</sup> We find that the report is aligned with these guidelines and the recommendations relevant to it. For example, pbb is transparent on the period for including projects in the portfolio and the value of the assets allocated green bond portfolio. In respect of impacts, pbb uses an indicator contained in the Handbook and follows the Handbook's recommendation of pro-rating portfolio impacts.

### **Terms**

CICERO Shades of Green provides a review of pbb's annual reporting based on documentation provided by pbb and information gathered during teleconferences and e-mail correspondence with pbb. pbb is solely responsible for providing accurate information. All financial aspects of the sustainable finance reporting - including the financial performance of the bond and the value of any investments in the bond - are outside of our scope, as are general governance issues such as corruption and misuse of funds. CICERO Shades of Green does not validate nor certify the existence of the projects financed and does not validate nor certify the climate effects of the projects. Our objective has been to provide an assessment of the extent to which the bond has met the allocation and reporting criteria established in pbb's 2020 Green Bond Framework. The review is intended to inform pbb management, investors and other interested stakeholders and has been made based on the information provided to us. CICERO Shades of Green cannot be held liable if estimates, findings, opinions or conclusions are incorrect. Our review does not follow verification or assurance standards and we can therefore not provide assurance that the information presented does not contain material discrepancies.

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<sup>3</sup> <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Handbook-Harmonised-Framework-for-Impact-Reporting-June-2021-100621.pdf>



### Detailed Review

| Category        | Description   | Review against framework criteria  | Impact Metrics  | Relevance of metrics  | Transparency considerations  |
|-----------------|---|--|---|---|--|
| Green Buildings | Investments in buildings which achieve certain environmental certifications (BREEAM Very Good or above, LEED Gold or above, etc) or achieve a certain energy performance, as set out in the Green Bond Framework. | <p><b>No discrepancies identified</b></p> <ul style="list-style-type: none"> <li>According to information provided by pbb, all buildings have energy performance below the allowed level (whether or not they also have an environmental certification). This is in accordance with pbb’s statement during the SPO process that it would likely screen out buildings with certifications but high energy consumption, and we welcome that pbb has implemented the Green Bond Framework in this way.</li> <li>During the SPO process, pbb informed us that around 80-85% of proceeds were expected to re-finance existing loans and around 15-20% were expected to be used for new loans. This has been the case, according to pbb.</li> <li>According to pbb, only existing buildings have been financed, rather than refurbishments or new developments.</li> </ul> | <ul style="list-style-type: none"> <li>Estimated ex-ante annual reduced/avoided GHG emissions in tons CO<sub>2</sub>e.</li> </ul> | <ul style="list-style-type: none"> <li>✓ Metric provides a good indication of the environmental impact of the investment.</li> <li>✓ The metric is commonly used in green bond reporting and is in line with core indicators in the ICMA Handbook.</li> </ul> | <ul style="list-style-type: none"> <li>✓ As noted in our SPO, the ambition of each building depends on its performance compared to the regulatory requirements in the jurisdiction. By using local benchmarks, pbb ensures impacts more accurately reflects the level of ambition.</li> <li>✓ pbb is transparent on its overarching methodology, though as it reports on a portfolio basis it does not set out line by line calculations or individual benchmarks explicitly. In the future it may consider disclosing its line-by-line calculations or some prominent examples.</li> <li>✓ Ex-ante reporting relies on estimates and assumptions. pbb may in the future consider verifying impacts ex-post</li> </ul> |

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for a sample of buildings,  
to ensure accuracy.

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## Appendix 1: About CICERO Shades of Green

CICERO Green is a subsidiary of the climate research institute CICERO. CICERO is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international cooperation. CICERO has garnered attention for its work on the effects of manmade emissions on the climate and has played an active role in the UN's IPCC since 1995. CICERO staff provide quality control and methodological development for CICERO Green.

CICERO Green provides second opinions on institutions' frameworks and guidance for assessing and selecting eligible projects for green bond investments. CICERO Green is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO Green is independent of the entity issuing the bond, its directors, senior management and advisers, and is remunerated in a way that prevents any conflicts of interests arising as a result of the fee structure. CICERO Green operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

We work with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions (ENSO). Led by CICERO Green, ENSO contributes expertise to the second opinions, and is comprised of a network of trusted, independent research institutions and reputable experts on climate change and other environmental issues, including the Basque Center for Climate Change (BC3), the Stockholm Environment Institute, the Institute of Energy, Environment and Economy at Tsinghua University, the International Institute for Sustainable Development (IISD) and the School for Environment and Sustainability (SEAS) at the University of Michigan.

