

# Berlin Hyp

**Type of Engagement:** Sustainability Linked Bond Annual Review

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**Engagement Team:**

Akshay Chandrakapure, [akshay.chandrakapure@morningstar.com](mailto:akshay.chandrakapure@morningstar.com)

Nachiket Goli, [nachiket.goli@morningstar.com](mailto:nachiket.goli@morningstar.com)

## Introduction

Berlin Hyp (“Berlin Hyp” or the “Bank”) is engaged in mortgage lending and real estate financing services in metropolitan Germany and other markets in Europe. The Bank was founded in 1868 and is headquartered in Berlin, Germany.

In 2021, Berlin Hyp issued a sustainability-linked bond (SLB) whose coupon rate is associated with achieving a sustainability performance target (SPT) on a key performance indicator (KPI), which is a material sustainability-related issue for the Bank. Non-achievement would trigger a step-up event to increase the bond coupon rate by 25 basis points at the final year of the bond’s term. The final observation date is 31 December 2030 and therefore reporting occurs using values as at 31 December of each year.

In February 2024, the Bank engaged Sustainalytics to review its progress towards the SPT at the end of 2023 as established in the Berlin Hyp Sustainability-Linked Bond Framework (the “Framework”).<sup>1</sup> Sustainalytics provided a Second-Party Opinion on the Framework in February 2021.<sup>2</sup> This is Sustainalytics’ third annual review of Berlin Hyp’s progress on the SPT, with the previous annual reviews provided in March 2022 and February 2023.

## Evaluation Criteria

Sustainalytics evaluated Berlin Hyp’s measurement and reporting on its progress towards the SPT, and adherence to its reporting commitments in the Framework:

1. The progress towards achieving the SPT
2. Calculation and measurement of the KPI
3. The issuer’s reporting practice on the KPI

**Table 1: SPTs and KPIs**

KPI	KPI Description	SPT 2030	Baseline Year 2020 <sup>3</sup>
KPI: Carbon intensity of loan portfolio	<p>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.</p> <p>Carbon intensity is calculated as the ratio of the aggregated CO<sub>2</sub> emissions from all commercial real estate financed by Berlin Hyp by total financed areas:</p> <p>i. <math>CI = \text{kgCO}_2/\text{m}^2/\text{a}</math></p> <p>Carbon intensity calculation includes scope 1 and 2 carbon emissions from energy demand for</p>	Reduce loan portfolio’s carbon intensity by 40% between 2020 and 2030	33.81 kgCO <sub>2</sub> /m <sup>2</sup>

<sup>1</sup> 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>

<sup>2</sup> Sustainalytics, “Second Party-Opinion Berlin Hyp Sustainability-Linked Bond Framework”, (2021), at: [https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/berlin-hyp-sustainability-linked-bond-framework-second-party-opinion.pdf?sfvrsn=59d257ce\\_1](https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/berlin-hyp-sustainability-linked-bond-framework-second-party-opinion.pdf?sfvrsn=59d257ce_1)

<sup>3</sup> Sustainalytics notes that the carbon intensity baseline of the loan portfolio was initially determined in part through energy proxies where actual building consumption data was unavailable. This figure represents the most accurate information as at 31 December 2023.

	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.		
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## Issuing Entity's Responsibility

Berlin Hyp is responsible for providing accurate information and documentation relating to its progress towards the SPT, KPI calculation and reporting practices.

## 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 collection of documentation from Berlin Hyp and review of said documentation to assess conformance with the SLB.

Sustainalytics has relied on the information and the facts presented by Berlin Hyp. Sustainalytics is not responsible, nor shall it be held liable for any inaccuracies in the opinions, findings or conclusions 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 review.

## Conclusion

Based on the limited assurance procedures conducted,<sup>4</sup> nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, Berlin Hyp measurement of and reporting on its progress towards achieving the SPT do not conform with its commitments in the Framework.

## Detailed Findings

Table 2: Detailed Findings

Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
<b>Sustainability Performance</b>	Review of achieved progress on the KPI to determine if it is aligned with the SPT as per the Framework.	Berlin Hyp has progressed towards the achievement of the SPT by reducing the carbon intensity of its loan portfolio. The Issuer has reported a 7.36% reduction in carbon intensity of its loan portfolio of buildings between 31 December 2022 and 31.12.2023.	None
<b>Calculation and measurement of KPI</b>	Review of calculation and methodology used for KPIs.	The calculation and measurement of the KPI are in line with the commitments made in the Framework. Please see Appendix 2 for more details on the calculation methodology for the KPI.	None

<sup>4</sup> Sustainalytics' limited assurance process includes reviewing the documentation relating to the details of the KPIs and SPTs, including data on KPI progress, reporting, calculations and verification conducted for the baseline data, all as provided by the issuing entity, which is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

<b>Reporting</b>	Review of the reporting practices to make and keep readily available up-to-date information relating to the SPT as mentioned in the Framework.	Berlin Hyp has confirmed that reporting will be made publicly available on its website on 26 March 2024, and will include any relevant information related to the methodology updates to enable investors to monitor the progress towards achieving the SPT.	None
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## Appendix 1: Progress Towards the Sustainability Performance Target

Berlin Hyp's 2020 carbon intensity baseline has been updated to reflect new conversion factors, EPCs 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 indicator	2020 (baseline)	2023
Carbon intensity (kgCO <sub>2</sub> /m <sup>2</sup> )	33.81	31.32
Change in carbon intensity (%)	-	-7.36%
Total CO <sub>2</sub> emissions (kgCO <sub>2</sub> /a)	1,237,490,355	1,019,496,051
Portfolio area (m <sup>2</sup> )	32,046,441	32,552,251
Total Energy Demand (kWh)	4,707,625,550	4,213,187,444
Average energy demand per m <sup>2</sup>	146.9	129.4
Transparency ratio <sup>5</sup> (m <sup>2</sup> )	26.1%	94.1%

KPI	Baseline (2020)	SPT (2030)	Performance (up to 2023)
KPI: Carbon intensity of loan portfolio (kgCO <sub>2</sub> /m <sup>2</sup> )	33.81	Reduce loan portfolio's carbon intensity by 40%	31.32

<sup>5</sup> The transparency ratio denotes the percentage of portfolio area that has EPC data whereas the remaining primary energy demand of the portfolio is estimated through proxies developed in co-operation with an external consultant

## Appendix 2: Berlin Hyp Carbon Footprint Assessment Methodology

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
  - a.  $ED_{\text{Heating}}$ : The final energy demand for heating for each building in the portfolio in kWh/m<sup>2</sup> per year
  - b. CF: The relevant carbon conversion factor for the building estimated from an external source in gCO<sub>2</sub>e/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.  $Cl_E$ : 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 estimate
2. Assessment of carbon footprint from energy demand for electricity, using
  - a.  $ED_{\text{Electricity}}$ : The final energy demand for electricity usage other than heating for each building in the portfolio in kWh/m<sup>2</sup> per year
  - b.  $Cl_E$ : The country-specific carbon intensity of the electric grid in gCO<sub>2</sub>e/kWh

$$\text{Carbon Footprint}_{\text{Electricity}}(\text{Building}) = ED_{\text{Electricity}}(\text{Building}) * Cl_E * \text{Area}(\text{Building})$$

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

- a.  $\text{Carbon Footprint}(\text{Building}) = \text{Carbon Footprint}_{\text{Heating}}(\text{Building}) + \text{Carbon Footprint}_{\text{Electricity}}(\text{Building})$

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