DZ BANK AG
“Financial Market Instruments for Sustainable Finance – Developments in Germany”
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Rome; 5 October 2018
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Agenda

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1. The Role of the Fixed Income Market in Sustainable Finance
The road towards a sustainable economy is unthinkable without the participation of the capital markets.

- The OECD estimates global infrastructure investment needs of 6.3 trillion US Dollar per year to be in line with the Paris Agreement.
- Moreover, according to the UN achieving the Sustainable Development Goals by 2030 will require a rough estimate of 5-7 trillion US Dollar of annual investment across sectors and industries.

➢ Those financing needs are too vast to go through a “central pot”. Public investment alone is not nearly enough. The sustainable funding gap can only be met by significantly increasing private sector participation with the help of the capital markets.
Sustainable Finance
The Role of the Capital Markets

The global fixed income market plays a key role in the transformation process.

- With an estimated volume of more than 100 trillion US Dollar, the global fixed income market bears huge potential for facilitating the transition to a sustainable future.
- From our point of view, one of the most promising investment vehicles to support the transition towards a sustainable economy are Sustainable Bonds. They have the potential to be game changer to enable the transition into a sustainable future helping to close the sustainable financing gap.
In November 2017 Green Bond issues hit the USD 100bn mark for the first time. Total global issuance reached USD 155.5bn in 2017.

Source: CBI (2018)
Sustainable Finance
The Green Bond Market 2017


Source: CBI (2018)
Sustainable Finance
The German Green Bond Market

KfW is the largest issuer in Germany accounting for 58% of all issuance to date.

Source: CBI (2018)
80% of cumulative proceeds went to renewable energy. Buildings accounted for 14%, followed by water (3%).

Source: CBI (2018)
In 2018 Green Bond volumes have broken through the USD 100bn mark two months earlier than in 2017.

Source: CBI, DZ BANK (2018)
Sustainable Finance
Sustainable Bonds: Drivers & Trends

- Sovereign issuance is likely to grow
- SSAs remain guarantors for quality
- Germany as innovation driver (Green Pfandbrief, ESG Pfandbrief, Green Schuldschein…)
- High potential of the corporate Sustainable Bond market
- Harmonisation of definitions and standards / Finding a „common language“
- Green Bonds are serving as a bridge to achieving the SDGs
- „Green goes rainbow“
- Thematic Bonds
Sustainable Finance
„Green goes rainbow“: Sustainable Bond Classification

Sustainable Bond Market
- Green Bonds
- Social Bonds / SDG Bonds
- ESG / Sustainability Bonds
- Thematic Bonds

Source: DZ BANK (2018)
Sustainable Finance
Social Bonds

Since 2014 Social Bond issuance has grown more than 17x.
Sustainable Finance
Sustainable Development Goals (SDGs)

The Sustainable Development Goals as investment case

Source: UN (2018)
Sustainable Finance
Challenges of the Sustainable Bond market

Quotations from the market:

– “There is still not enough diversification of issuers, and there is too much demand chasing too little supply”.

– “We do not have dedicated Green / Sustainable Bond strategies / stand-alone Sustainable / Green Bonds allocation. If a bond is attractive we will invest in it regardless of it being a green bond”.
Sustainable Finance
Challenges of the Sustainable Bond market

Quotations from the market:

– “Are sustainable bonds prompting the carrying out of additional projects or is the issue of sustainable bonds only financing the kind of projects which would have been realised anyway, because they are already profitable?”

– “The next hurdle is the time frame of the investments which is often greater than five years. Either more of shorter maturity sustainable bonds must be issued, or a liquid secondary market be created for investors like us to offload their purchases if and when they require.”
Due to the complex interrelationships of global economic processes, innovative and skilled forces from among financial institutions, investor groups, politicians and members of the public must be enabled to cooperate in a network-like structure.

The Green and Sustainable Finance Cluster Germany (GSFCG) brings together the activities of the various stakeholders, thus mobilising synergies that shape this transformation process in an efficient and cost-reducing manner.
"In order to stop climate change – the effects of which have long since been noticeable – enormous investments are needed. This is why we are embracing the idea of private capital also being invested according to the principles of sustainability. The Cluster aims at further promoting this movement."

Hessischer Wirtschaftsminister, Tarek Al-Wazir
Sustainable Finance
Sustainable Investing

“Sustainable investing, defined as “improving quality of life without borrowing from the future”, is the single largest investment opportunity in history. Sustainable Investing has the magnitude of the industrial revolution but the speed of the digital revolution.”

Source: Al Gore (2018)
3. Sustainable Finance at DZ BANK AG
Sustainable Finance at DZ BANK AG
Key element of our core business

“The finance industry plays a pivotal role to mobilise capital for the sustainable transformation of our economy and society – both as lender and investor as well as capital market intermediary.

Therefore, sustainable finance is a key element in our core business.”

Wolfgang Köhler
Member of the Board of Managing Directors
DZ BANK AG

Source: DZ BANK AG (2018)
Sustainable Finance at DZ BANK AG
Sustainable Financial Products

Approx. €5 billion
worth of project financing deals in the renewables sector in 2017

€11.1 billion
worth of ‘green’ projects realized through DZ BANK development loan brokerage

One of the leading underwriters
for sustainable bond issues in Europe

Source: DZ BANK AG (2018)
Underwriter for Sustainable Bond issues in Europe

In 2017, the total volume of bond issues with environmental, social, and/or sustainable objectives that were supported by DZ BANK as the lead underwriter amounted to €3.75 billion.

Based on issues from financial institutions, development banks, and other public organizations only, DZ BANK is the leading player in this segment in Germany and ranks fifth at European level.
Sustainable Finance at DZ BANK AG
Sustainable Financial Products

Project finance: Focus on renewable energies

Our focus in the project finance segment is on the renewable energies sector in Germany.

In 2017, the volume of project finance credit limits approved by DZ BANK for wind, solar, and biogas/biomass came to around €4.8 billion. Of these, wind power remains the most important renewable energy source.
Sustainable Finance at DZ BANK AG
Sustainable Financial Products

Development lending

In 2017, DZ BANK’s development lending amounted to EUR 11.1 billion. This was primarily due to strong demand for affordable finance for private house-building.

The volume of new business generated by DZ BANK and the cooperative banks for development loans from Germany’s KfW development bank came to EUR 8.1 billion. With a share of 22% of all loans made by KfW, DZ BANK was again the development bank’s biggest single customer.

Measured by volume with KfW, DZ BANK has a 16.9% market share of the commercial environmental sector and a 28.8% share of the retail sector.
Sustainable Finance at DZ BANK AG
Sustainable Financial Products

Our unique “EESG” analysis and rating methodology
MULTI-STAGE, INTEGRATED ANALYSIS PROCESS

Source: DZ BANK Sustainable Investment Research (2016)
Sustainable Finance at DZ BANK AG
Sustainable Financial Products

Our unique “EESG” analysis and rating methodology

- **Integrated:** „EESG“ instead of ESG
  - Linking financial performance and ESG performance
- **Materiality:** Focusing on the core business of an issuer
- **Impact:** Impact of products and services from an economic, environmental and social perspective
- **No rigidity:** Continuous analysis and monitoring allow capital market-oriented decisions and action
Sustainable Finance at DZ BANK AG
Sustainable Financial Products

Our unique “EESG” analysis and rating methodology

- Sustainable Stock Picking
- Sustainable Bond Picking
- Sustainable Portfolio Construction
- EESG Screening
- Depot A EESG Screening (own account investing)
Sustainable Finance at DZ BANK AG

Our first own Green Bond

At the end of September 2018, DZ BANK placed the very first issue of its own green bond.

- The total volume of the placement was EUR 250 million.
- The design of the bond complies with the Green Bond Principles of the International Capital Markets Association (ICMA) and was given the highest overall score of E1 in a ‘green evaluation’ conducted by sustainability experts from Standard & Poor’s Global Ratings (S&P).
- The capital raised by the placement will be used to finance onshore wind power projects in Germany. A pool of 60 projects in need of funding is linked to the green bond.
- These projects will reduce harmful CO2 emissions by around 790,000 kilograms per year.
Sustainable Finance at DZ BANK AG
Our first own Green Bond

DZ BANK’s Rationale behind the Green Bond Issue

- Strengthening DZ BANK’s sustainability profile on the liabilities side
- Completing DZ BANK’s sustainable value chain
- Inaugural Green Bond issue as part of DZ BANK’s enhanced value proposition ‘WerteWelt’
- Expanding and diversifying DZ BANK’s investor base by green and sustainable investors
- Enhancing DZ BANK’s sustainable credibility in capital markets
Sustainable Finance at DZ BANK AG

Our first own Green Bond
Sustainable Finance at DZ BANK AG
Our first own Green Bond

7 Affordable and Clean Energy
13 Climate Action
Sustainable Finance at DZ BANK AG
Our sustainability ratings

oekom research assigns prime status (C+) to DZ BANK Group

- Since 2011 Prime Status
- Rating assignment (C+) as of 1 February, 2018
- Above-average commitment to environmental and social issues

Further sustainability ratings

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<th>Uncovered Bonds</th>
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<td>Public Sector Covered Bonds</td>
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<td>MSCI</td>
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<td>DZ BANK far above sector average</td>
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<td>sustainalytics</td>
<td>74 points</td>
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<td>Leader in the area 'social', Outperformer in the areas 'environment' and 'governance'</td>
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3. DZ BANK AG: Sustainable Finance
Main contacts
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