DZ BANK AG
Sustainability in the banking system

Frankfurt, 2 June 2020, Dr. Nicole Schmidt

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Sustainability has become a mega trend in banking

THE WALL STREET JOURNAL.

25.03.2020

Coronavirus Pandemic Could Elevate ESG Factors

14.01.2020

"A fundamental reshaping of finance"

FT FINANCIAL TIMES

16.09.2019

Credit rating agencies join battle for ESG supremacy

17.06.2019

S&P Global Ratings publishes its first ESG Evaluation

ri responsible investor

17.04.2020

"We need a CFO for the Paris Agreement"

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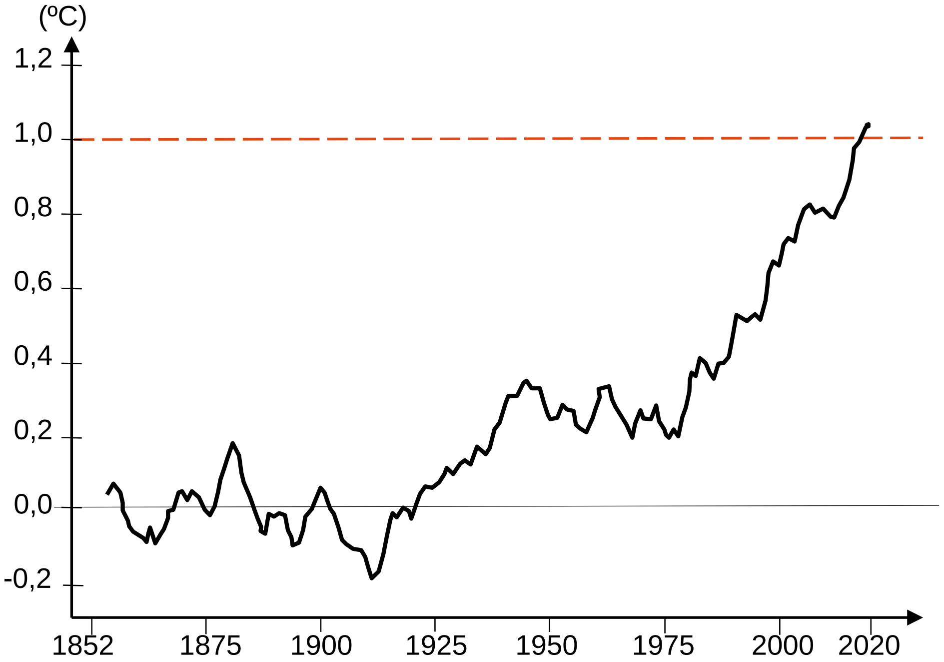
The IPCC has estimated that human activities have already caused approximately 1.0°C of global warming



Increase in mean temperature, which will be two to three times higher in the **Arctic**

Sea-level rise and ice melting

Increases in frequency, intensity and amount of **precipitation** and **droughts**

Loss of **biodiversity**, **ecosystems** & **species**
of tax arrangements from transition period

Increase of **extreme weather** events (hurricanes, heatwaves, floods, wildfires)
arrangements from transition period

Sources: 1. Met Office; 2. World Meteorological Organization; 3. IPCC

Sustainability is in need of a coordinated global approach and activities have increased at all levels

2015

- **UN Summit for Sustainable Development in New York** – The **2030 Agenda for Sustainable Development** and adoption of the **17 Sustainable Development Goals** (SDGs)
- **Paris Agreement** – Adopted by 196 parties with the aim to lower global temperature increase to **well below 2 degrees**, using the instrument of Nationally Determined Contributions (NDCs)

2018

- **EU Action Plan on Sustainable Finance** – The Commission adopted a policy package as part of a strategy to **integrate environmental, social and governance considerations** into its financial policy framework and mobilize finance for sustainable growth

2019

- **Political agreement on the EU Taxonomy Regulation for Sustainable Investments** – Establishment of an EU classification system for sustainable activities and development of a “green list“ of economic activities
- **BaFin Guidance Note** – coupled with the call to engage with arising **sustainability risks** and ways to integrate them into strategy, corporate management, business organization and risk management
- **European Green Deal** – The 2019 European Green Deal envisions the transformation of the European Union from a high-carbon bloc to a carbon neutral continent by 2050, and calls for transformational change in several particularly carbon-intensive sectors

2020

- **EBA** “Pilot Sensitivity Exercise on Climate Risk” started in March 2020
- A number of **consultations** are currently being held, e.g. on the **Renewed Sustainable Finance Strategy**
- **DZ BANK AG** singed **the Principles of Responsible Banking**

Regulation and politics in the area of ESG: Overview

International

Politics

United Nations – Sustainable Development Goals (SDGs) 2015

United Nations Framework Convention on Climate Change – Paris Agreement 2015

NGFS – Recommendations for central banks and supervisors (2019)

Products

ICMA International Capital Market Association – Green/ Social/ Sustainability Bond/ Loan Principles (updated in 2018)

Climate Bonds Initiative – Climate Bonds Initiative for Climate Bonds Standard (updated in 2018)

Voluntary Commitments

Equator Principles – Equator principles (updated in 2020)

UNEP Finance Initiative – Principles for Responsible Investment (2006); Principles for Responsible Banking (2019); Principles for Responsible Insurance (2012)

Science Based Targets (Driving ambitious corporate climate action) – Emission targets for greenhouse gases developed in cooperation with the UN Global Compact, WWF, WRI

Reporting Standards

TCFD – Recommendations to enhance disclosure of climate-related information (2015)

GRI / The Global Compact – Global Reporting Initiative (recommended for UN Global Compact members)

SASB – Sustainability Accounting Standards (2018) for 77 branches, i.a. banks, insurers and asset manager

EU

European Commission – EU Action plan (2018) on sustainable finance

Implementation through different regulations, e.g-.:

- Taxonomy (2020)
- Disclosure Regulation (2019)
- EU Green Bond Standard (tbd)
- EU Eco Labels (tbd)
- MiFID II Adjustment (tbd)
- Low-Carbon-Benchmark-Directive (2019)
- CRR II and CRD V (2019)
- NFR-D Supplement (2019)

… as well as technical standards of EBA, ESMA and EOPIA

- EBA Draft Guidelines on loan origination and monitoring (2020)
- EBA Action Plan on Sustainable Finance (2019)
- ESMA Strategy on Sustainable Finance (2020)
- Voluntary bank stress test for climate risks (2020)

European Commission – The European Green Deal Investment Plan and Just Transition Mechanism (2020)

National

Bank of England Prudential Regulation Authority – Integration of climate-related issues in stress-testing for insurers in 2019; climate stress tests for banks in 2021

BaFin – Guidance Notice on Dealing with Sustainability Risks (2019)

Interim Report of the Sustainable Finance Committee of the German Federal Government (2020)

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Financial institutions are asked to promote and mobilize more ambitious climate actions

Political actors have **identified the private sector as a transformative force** to deliver on a more sustainable future (Paris Agreement, EU Action Plan on Sustainable Finance)

Customers increasingly **understand sustainability as a competitive factor – ESG-criteria & -Ratings** become a decisive factor in the choice of **investments** and banking partners

The banking sector dedicates increasing **resources to** the topic of **sustainable finance,** setting up **own initiatives** (such as the Task Force on Climate Related Financial Disclosure) as well as **own business activities** (such as the issuance of Green & Social Bonds)

The **EU Commission estimates** that there is a **financing gap of roughly 180 billion € per year**[1] to finance the transition to a **low-carbon economy**. This offers asset managers, insurances and banks the **opportunity** to position themselves as **financial intermediaries** in these enormous investment sums

1 Source: EU Action Plan Financing Sustainable Growth Factsheet

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Sustainability activities
DZ BANK AG

Bank on Germany

Our **understanding of sustainability** has its roots in the cooperative principles and our organization's values.

We act purposive and foresighted at any time, always with a view on the impact of our actions.

Financing of renewable energies
With a financing volume of about € 5,4 bn. in 2019, DZ BANK AG is one of Germany's largest renewable energy financiers.

Sustainable Investments
2019 DZ BANK AG led 16 green-, social- and sustainability bond emissions with a volume of more than € 10 bn and is therefore one of Germany's top 3 syndicate banks with regards to the sustainable bond market.

Promotional loans focussing on climate matters
DZ BANK AG is the largest intermediary company of sustainable promotional loans in Germany with a portfolio of € 25 bn. in 2019.

Sustainable investment research
DZ BANK's sustainability research gives cooperative banks the possibility to screen their own investments for ESG-matters. The research is based on an analysis model comprising classical sustainability aspects and economic dimensions.

DZ BANK rating overview – sustainability ratings

ISS-ESG assigns prime status (C+) to DZ BANK Group

- Since 2011 Prime Status
- Rating assignment (C+) as of 13 December 2019
- Above-average commitment to environmental and social issues

Further sustainability ratings

imug	positive (B)	Sustainability Rating
MSCI	AA	DZ BANK far above sector average
Sustainalytics	77/100 points	Leader in the area ‘social’ outperformer Outperformer in the area ‘governance’

There are opportunities and risks – as well as challenges ahead

Opportunities

- **$6 trillion per year** until 2030 in order to deliver on the SDGs[1]
- **$3,5 trillion yearly investments** until 2050 according to the International Energy Agency (IEA) in order to limit global temperature rise to 2°C[2]
- European Green Deal approximately needs **1 trillion € in public and private investments over the next decade**[3]
- **Green financial products** show extraordinary growth, for instance **up to 80% growth** in terms of Green Bond issuance volumes in 2019[4]

Risks

- **$2.5 trillion of global financial assets at risk**, according to the IIF study "*Sustainable Finance in Focus. Climate change: a core financial stability risk*"[5]
- **$1 trillion at risk due to the impacts of climate change,** with the majority impacted over the next 5 years (according to 215 of the biggest global corporates)[6]
- **$520 billion of consumption** per year could be lost, with around **26 million people** being directly affected by the impacts of extreme events and natural disasters, and subsequent poverty[7]

Some Challenges…

- **Assessment of suitable sustainable investments** using a „sustainability classification" scheme
  - Specification and implementation of **uniform** ESG criteria across the banking institution at hand (and across the system as such)
  - Obtaining and processing **suitable ESG data** of corporates and products
- **Integration of sustainability risks in governance, strategy and risik management**, for instance
  - Integration of ESG criteria in credit review processes, rating processes etc.
  - Integration of ESG criteria and data in risk management, (credit)-risk strategies, portfolio analysis etc.

Sources: 1. UN; 2. Climate News, 3. EU Commission; 4. S&P;5. IIF – Institute of International Finance; 6. CDP – Carbon Disclosure Project; 7. World Bank

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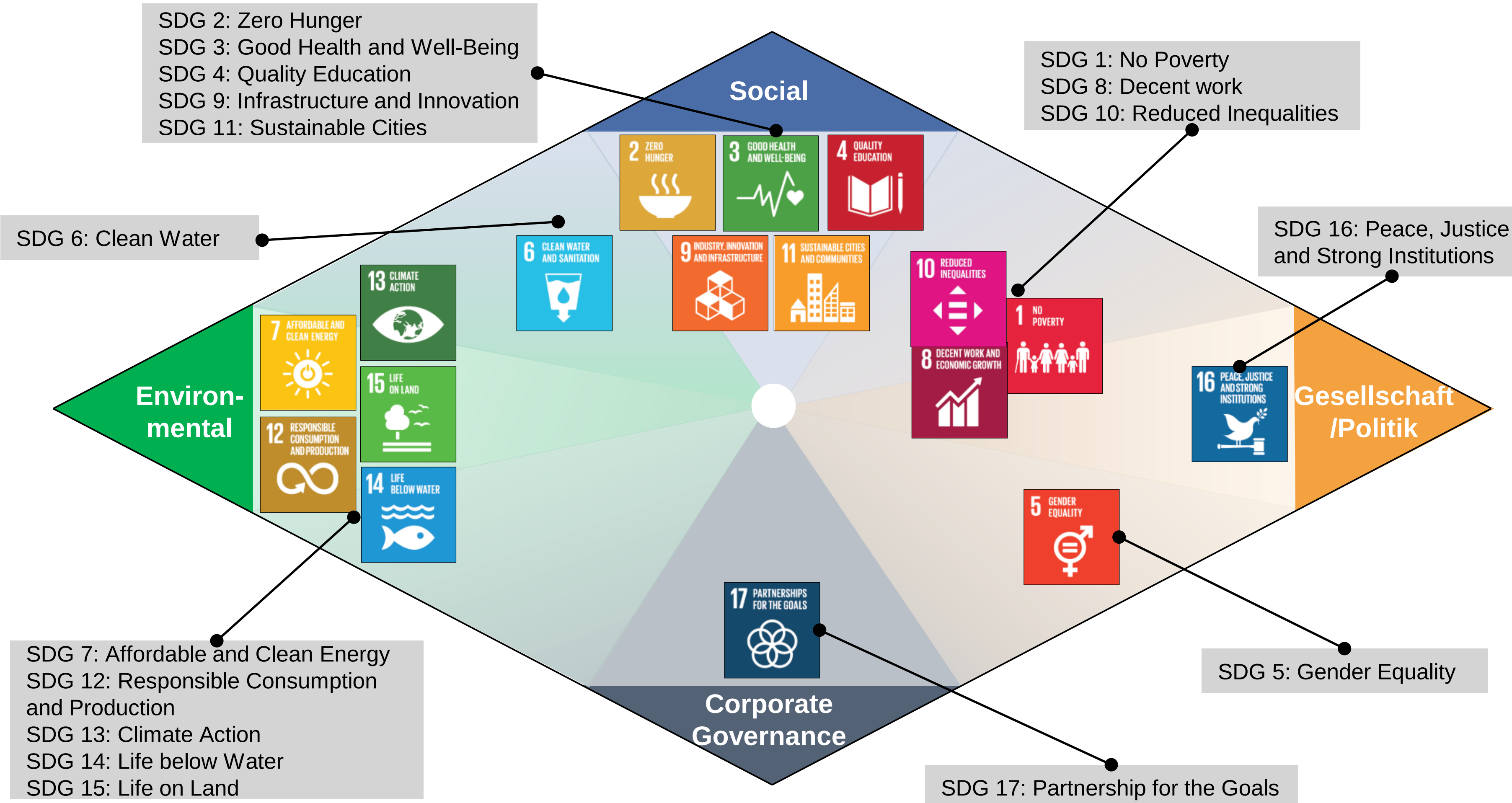
Translating the UN Sustainable Developments Goals



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Example: credit portfolio of DZ BANK AG using NACE codes as the point of departure for a classification

Credit portfolio using NACE codes

Note: colors are not indicative of a certain sustainability level

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DZ BANK AG uses four different methodological approaches for its sustainability classification

current status

Point of departure

A **combination of multiples classification approaches** is **necessary** in order to deliver on well thought-out and encompassing sustainability classification. Different classification schemes offer different degrees of **coverage, controllability and implementation cost**.

sustainability classification target goal

Combination of approaches to cover **the full spectrum of regulatory approaches (present and future** as well as leave room for adaptability and **further development**

Four approaches:

1. SDG indicators

2. EU Taxonomy

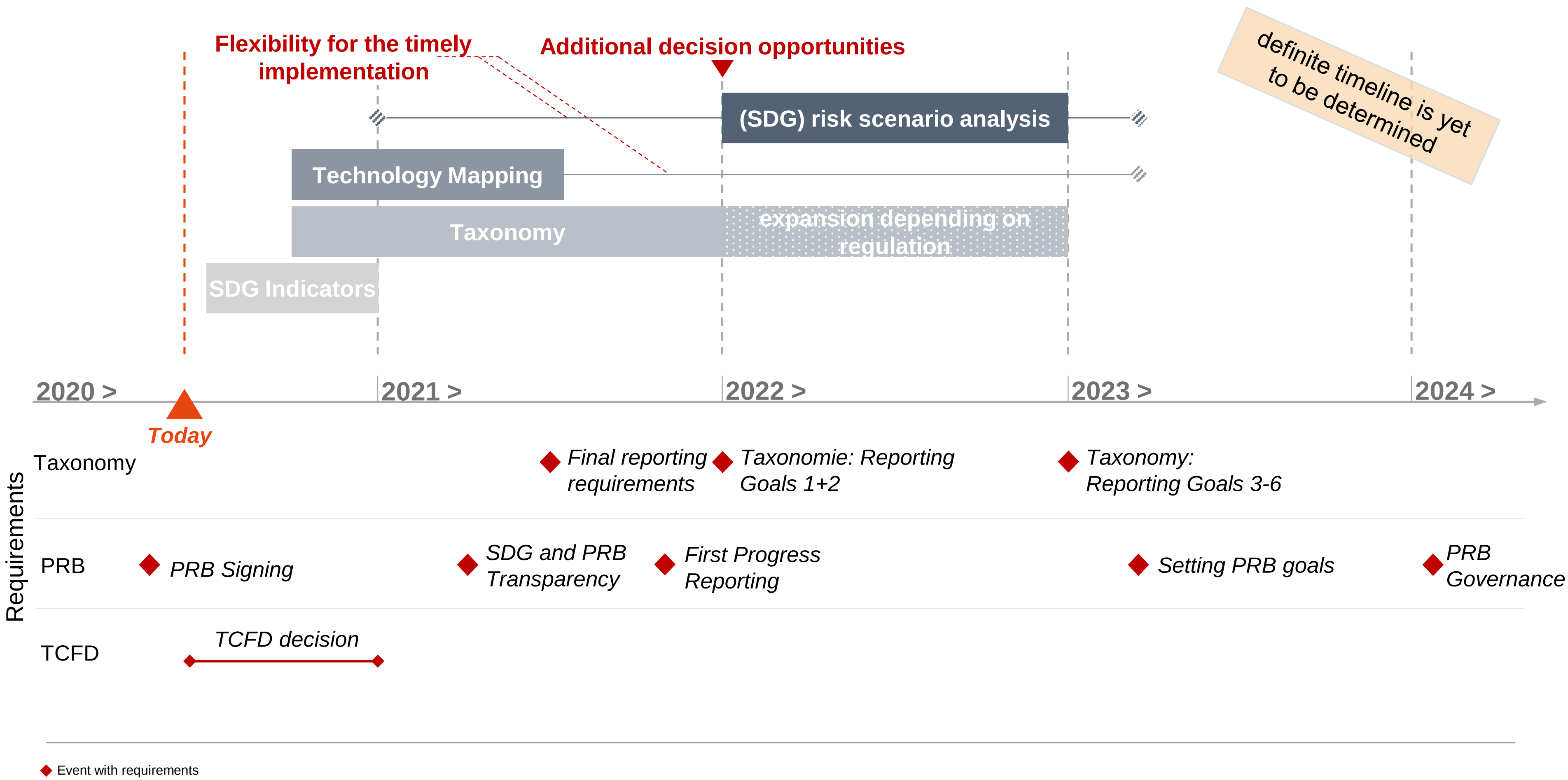
3. Technology Mapping

4. Qualitative sustainability risk scenario analysis (SDGs)

DZ BANK AG's target is to implement the classification scheme sequentially over the next years

current status

Time line to implement sustainability classification



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Integration of sustainability across all business units

Sustainability impacts a bank along its entire value chain

Overall

- Strategy
- Organization
- Governance
- Communication / Reputation

Business portfolio of DZ BANK

- (Asset Management)
- Bank
- (Insurance)

Business processes

- Product management & Sales
- Risk management & Steerage

Business management

- Employees
- Business ecology
- Outsourcing
- Societal engagements

Development of an overall plan for each business unit

Further developments in 2020

- Establishment of a central sustainability unit (strategy rather than communication division)
- Signing of further voluntary initiatives such as the Task Force on Climate-related Financial Disclosures and where possible, harmonization of reporting
- Integration of sustainability as a priority topic
- Development of a sustainability classification scheme
- Quantification of ambition level

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Key Take Aways

Sustainability will continue to be relevant, perhaps ever more so in a post-COVID-19 world. Setting the banking system en route to a **more sustainable future** is a **paramount task** and **requires**, e.g.:

- Reevaluation of the topic in light of the growing focus
- Integration of sustainability across all business units
- Establishment of a uniform understanding and industry standards

The Way Forward

Discussion

What will be the role of banks in the context of sustainability in the upcoming decade?

Thank you!

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