



# DZ BANK AG

## Sustainability in the banking system



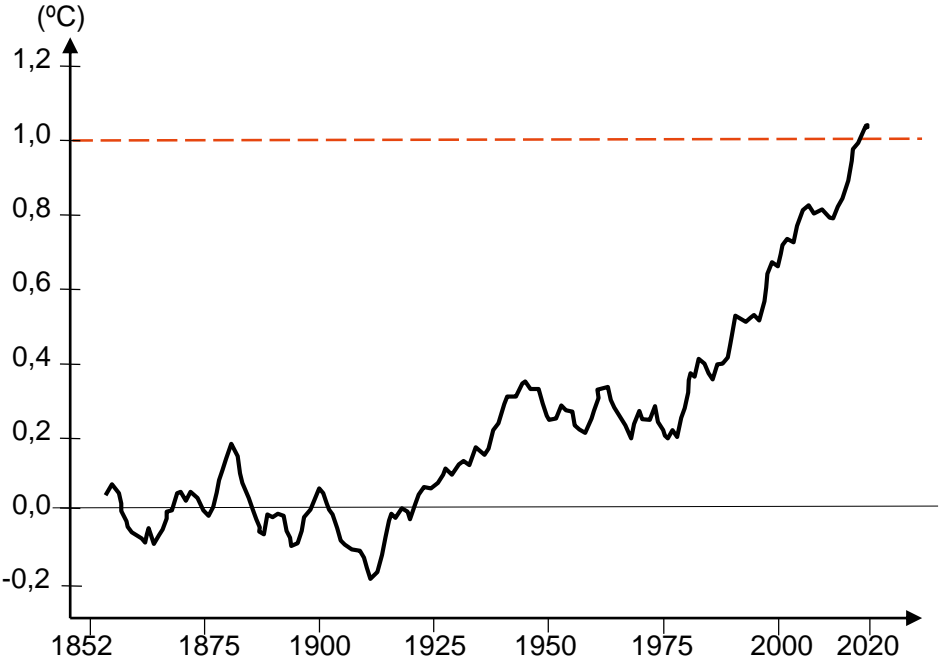
Frankfurt, 2 June 2020, Dr. Nicole Schmidt



# Sustainability has become a mega trend in banking



# 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



# Regulation and politics in the area of ESG: Overview

<p><b>International</b></p>	<p><b>Politics</b></p> <p> <b>United Nations</b> Sustainable Development Goals (SDGs) 2015</p> <p> <b>United Nations Framework Convention on Climate Change</b> Paris Agreement 2015</p> <p> <b>NGFS</b> Recommendations for central banks and supervisors (2019)</p> <hr/> <p><b>Products</b></p> <p> <b>ICMA</b> International Capital Market Association Green/ Social/ Sustainability Bond/ Loan Principles (updated in 2018)</p> <p> <b>Climate Bonds</b> Climate Bonds Initiative for Climate Bonds Standard (updated in 2018)</p>	<p><b>Voluntary Commitments</b></p> <p> <b>EQUATOR PRINCIPLES</b> Equator principles (updated in 2020)</p> <p> <b>FINANCE INITIATIVE</b> Principles for Responsible Investment (2006) Principles for Responsible Banking (2019) Principles for Responsible Insurance (2012)</p> <p> <b>SCIENCE BASED TARGETS</b> Emission targets for greenhouse gases developed in cooperation with the UN Global Compact, WWF, WRI</p>	<p><b>Reporting Standards</b></p> <p> <b>TCFD</b> Recommendations to enhance disclosure of climate-related information (2015)</p> <p> <b>GRI</b> Global Reporting Initiative (recommended for UN Global Compact members)</p> <p> <b>SASB</b> Sustainability Accounting Standards (2018) for 77 branches, i.a. banks, insurers and asset manager</p>
<p><b>EU</b></p>	<p> <b>European Commission</b></p> <p>EU Action plan (2018) on sustainable finance</p> <p>Implementation through different regulations, e.g.-:</p> <ul style="list-style-type: none"> <li>• Taxonomy (2020)</li> <li>• Disclosure Regulation (2019)</li> <li>• EU Green Bond Standard (tbd)</li> <li>• EU Eco Labels (tbd)</li> <li>• MiFID II Adjustment (tbd)</li> <li>• Low-Carbon-Benchmark-Directive (2019)</li> <li>• CRR II and CRD V (2019)</li> <li>• NFR-D Supplement (2019)</li> </ul>	<p>... as well as technical standards of EBA, ESMA and EOPIA</p> <ul style="list-style-type: none"> <li>• EBA Draft Guidelines on loan origination and monitoring (2020)</li> <li>• EBA Action Plan on Sustainable Finance (2019)</li> <li>• ESMA Strategy on Sustainable Finance (2020)</li> <li>• Voluntary bank stress test for climate risks (2020)</li> </ul>	<p> <b>European Commission</b></p> <p>The European Green Deal Investment Plan and Just Transition Mechanism (2020)</p>
<p><b>National</b></p>	<p> <b>BANK OF ENGLAND PRUDENTIAL REGULATION AUTHORITY</b></p> <p>Integration of climate-related issues in stress-testing for insurers in 2019; climate stress tests for banks in 2021</p>	<p> <b>BaFin</b></p> <p>Guidance Notice on Dealing with Sustainability Risks (2019)</p>	<p> <b>Interim Report of the Sustainable Finance Committee of the German Federal Government (2020)</b></p>



# 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<sup>1</sup>** 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

<sup>1</sup> Source: EU Action Plan Financing Sustainable Growth Factsheet

# Sustainability activities

DZ BANK AG



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

## Risks

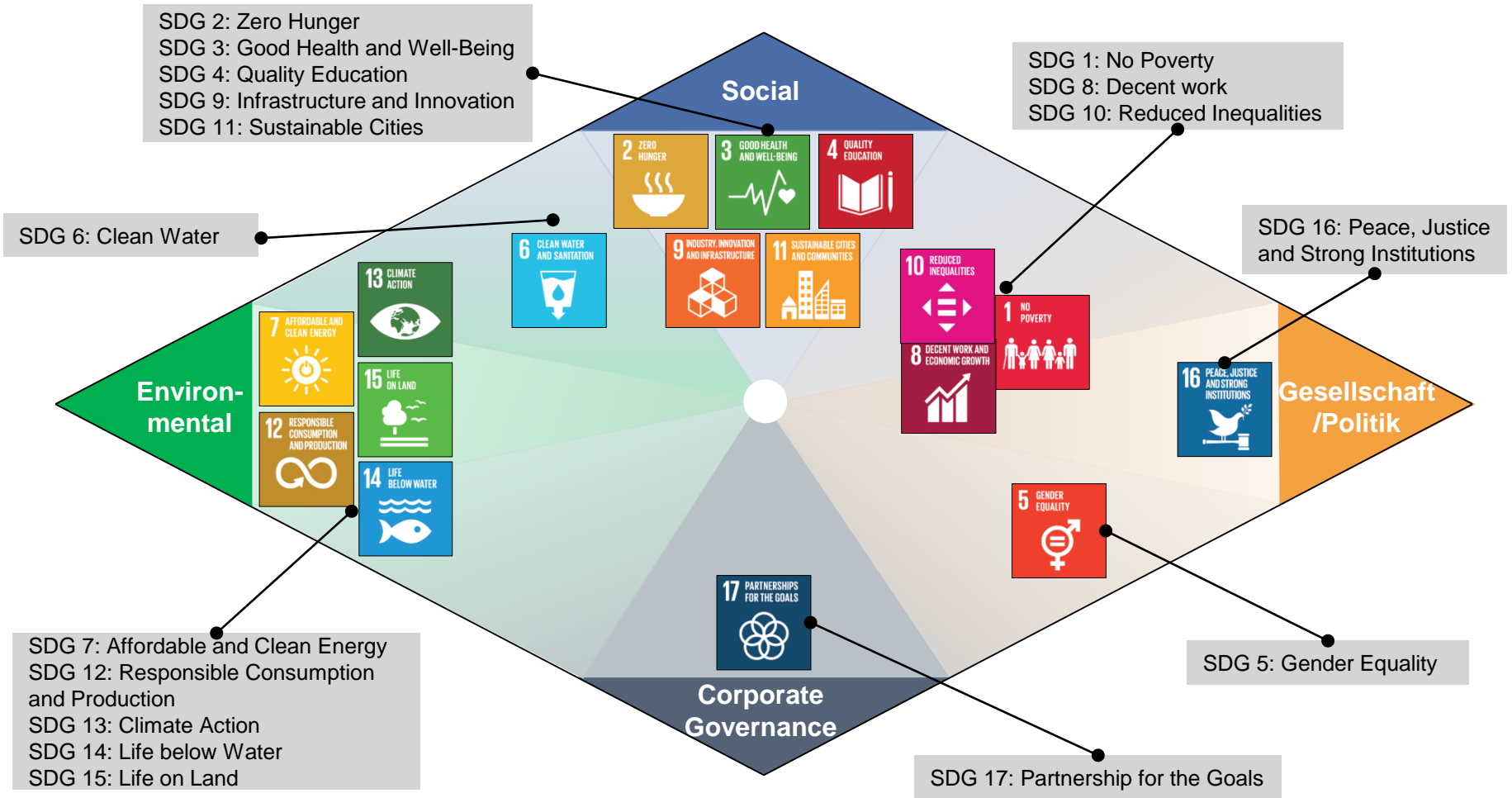
- **\$2.5 trillion of global financial assets at risk**, according to the IIF study “*Sustainable Finance in Focus. Climate change: a core financial stability risk*”<sup>5</sup>
- **\$1 trillion at risk due to the impacts of climate change**, with the majority impacted over the next 5 years (according to 215 of the biggest global corporates)<sup>6</sup>
- **\$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<sup>7</sup>

## 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 risk 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](#)

# Translating the UN Sustainable Developments Goals



# 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

# 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**

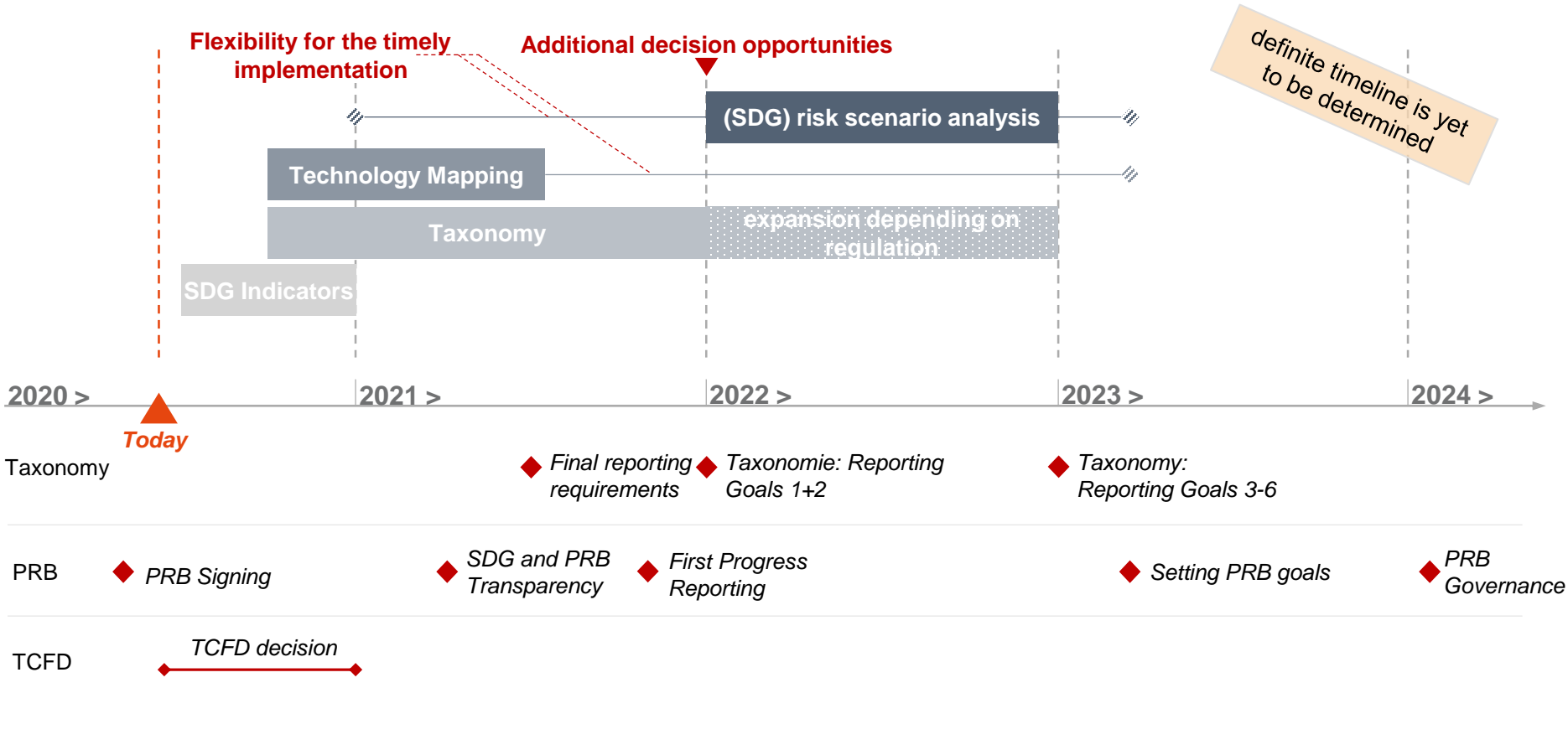
## **Four approaches:**

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

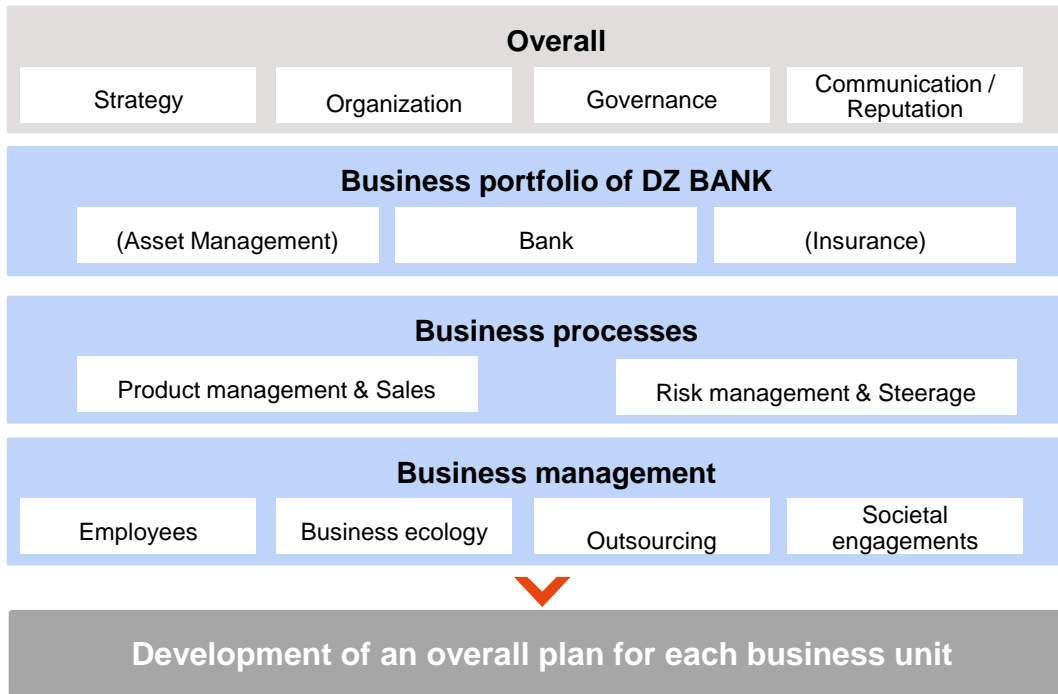
## Time line to implement sustainability classification



◆ Event with requirements

# Integration of sustainability across all business units

## Sustainability impacts a bank along its entire value chain



## 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



# 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!

[nicole.monika.schmidt@dzbank.de](mailto:nicole.monika.schmidt@dzbank.de)

