

DZ BANK AG €250 Million Fixed-Rate Nonpreferred Senior Notes

Green Finance Framework Overview

DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main (DZ BANK) is the second-largest commercial bank in Germany and the central institution of the Cooperative Banking Sector Germany. The group's main sustainability focus area is on climate change mitigation, particularly via renewable energy. Moreover, its strategy broadly mirrors the objectives of the green bond principles (GBP) to promote integrity in the green bond market through transparency, disclosure, and reporting. In our view, DZ BANK's green bond framework is aligned with the four components of the GBP.

Transaction Overview

DZ BANK has issued €250 million of fixed-rate nonpreferred senior notes due December 2027 as part of its ongoing debt issuance program (ISIN: DE000DFK0GB1). The issuance is DZ BANK's second green bond after its first in 2018.

DZ BANK has allocated the issuance proceeds to a portfolio of loans originated for operational onshore wind power projects in the U.S. and Canada. The portfolio currently consists of 13 projects across four states in the U.S. and two provinces in Canada, with a total installed capacity of about 1,990 megawatts (MW). DZ BANK's total credit exposure to the portfolio is currently about €307 million by way of nonrecourse project finance loans to these projects.

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Green Finance Framework

Publication date: Dec. 10, 2020

Transaction

Financing value: €250 million

Amount evaluated: 100%

Evaluation date: Nov. 11, 2020

Green Evaluation Overview

Transaction's transparency

- Use of proceeds reporting
- Reporting comprehensiveness

88

Transaction's governance

- Management of proceeds
- Impact assessment structure

85

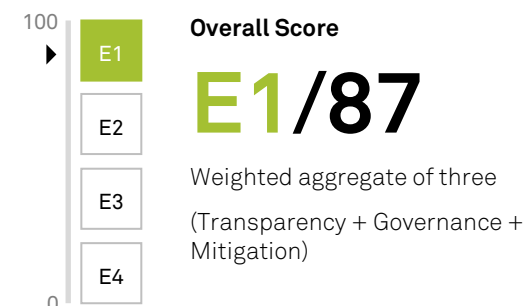
Mitigation

Sector	→	Net benefit ranking	→	Hierarchy adjustments	
Renewable Electricity		Onshore Wind Power		Carbon	88

88

Adaptation

NA



Green Evaluation On Transaction

Project description

DZ BANK has allocated the issuance proceeds to a portfolio of project-financed onshore wind assets. The existing project finance loans remain in place following the notes' issuance. The net cash proceeds from the notes will therefore support DZ BANK's general corporate cash and treasury operations. By allocating (tagging) the specific project finance loans (or portions thereof) to the issuance, those loan assets will no longer be available for allocation toward other bonds that DZ BANK may issue in the future, thereby avoiding the potential for double-counting their associated environmental benefit. Consequently, DZ BANK would need to originate new qualifying loans or allocate other loans on its balance sheet before any further green bond issuance, thereby supporting the overall growth of sustainable finance in its portfolio.

DZ BANK is an experienced lender to onshore wind projects, having been involved in the sector since the early 1990s. The bank's green loan portfolio allocated to this green bond issue currently includes about 916 wind turbines. Their installed capacity ranges from 10 MW to about 300 MW.

DZ BANK's project finance loans will be repaid according to the amortization schedules of the respective financing documentation. Without including any prepayments, defaults, or other restructuring measures, we expect DZ BANK's green loan exposure to the portfolio to reduce below €250 million outstanding green bond value at latest during 2021. In line with DZ BANK's Green Bond Framework, we expect the issuer to add additional green assets to the portfolio proactively in anticipation of contractual maturities. We also expect DZ BANK to timely add loans to the portfolio in the case of repayments, defaults or restructuring of green loans during the lifetime of the green bond. DZ BANK may select for replacement further green loans related to onshore wind energy generation and, if necessary, hydro energy or solar energy generation projects located in the US and Canada. In the case DZ BANK will be unable to provide adequate green loans in these locations, DZ BANK can expand the green asset pool by selecting green loans for energy projects located within the European Economic Area (EEA) as well as Switzerland, Iceland, and the U.K. We expect that by adding green assets to the portfolio, DZ BANK will ensure that its tagged credit exposure, to which the notes are allocated, exceeds the outstanding amount of the notes, at least until one year before the maturity date of the green bond.

We understand that the onshore wind energy assets have been designed to be resilient over their expected lifetime to a range of climate-related hazards, including increased average and extreme temperatures and precipitation and flooding. The issuer has taken

proactive steps to reduce risk from these hazards so that the assets can supply electricity under a range of scenarios. In addition, the underlying assets pertaining to this transaction are geographically diverse, which we believe may hedge the portfolio against localized climate risks. This view does not impact the Green Evaluation score.

Scoring summary

This transaction achieves an overall Green Evaluation score of 87 or E1 on our scale of E1 (highest) to E4 (lowest). We determined the E1/87 score by taking a weighted aggregate of the transaction's excellent Transparency (88) and solid Governance (85) scores, as well as the very strong Mitigation score (88). The transaction's excellent Mitigation score is a reflection of onshore wind's position at the top of our carbon hierarchy, because we view onshore wind as a long-term sustainable energy solution that is critical to climate change mitigation.

In our opinion, this transaction is aligned with the GBP.

Rationale

- The very strong Mitigation score reflects the significant positive environmental impact of the onshore wind assets being financed, which are located in the U.S. and Canada. We assess the weighted average grid carbon intensity of the U.S. and Canada as medium-high, which is in the middle of our range of low to extremely high.
- The strong Governance scores primarily reflect DZ BANK's established governance process for evaluating, selecting, and monitoring the portfolio of assets eligible for financing with green bonds.
- Further, the excellent Transparency score is derived from the issuer's commitment to report annually on the allocation of proceeds and on the portfolio's environmental impact, which will include the estimated avoided greenhouse gas (GHG) emissions caused by the displacement of fossil-fuel-fired electricity generation assets with renewable energy assets.

Key strengths and weaknesses

We expect the renewable electricity generated by the portfolio of wind assets to have significant positive environmental impacts by way of avoided GHG emissions. In our view, the capacity factor of onshore wind relative to other renewable technologies, combined with the medium-high carbon intensity of the grid mix in the U.S. and Canada, result in a net benefit score of 53. This score is increased to reflect the

positive contribution of renewables to systemic decarbonization of the economy, resulting in a Mitigation score of 88. The avoided GHG emissions estimate included in DZ BANK's reporting will be based on an established external party methodology for calculation of emissions factors. DZ BANK will publicly disclose calculation methodology, which, we believe, enhances the transparency and comparability of the transaction.

We also positively assess the specific requirements set out in the use of proceeds clause in the issuance documentation. DZ BANK will monitor the allocation of net proceeds to the green asset pool through its internal information systems. Although the framework does not specify a legally segregated account, we believe the tracking mechanism effectively matches the green proceeds to green assets, ensuring the proceeds are always used for green purposes. Accordingly, we view favorably DZ BANK's intention to track and make sure green proceeds are fully disbursed or matched against eligible green assets, at least until one year before green bond maturity.

Additionally, the bank has an internal process, including a green bond steering committee tasked by the bank's board of directors with evaluating and reviewing the underlying portfolio of eligible green assets. The steering committee may only select loan assets for

inclusion in the green asset pool based on the selection criteria in DZ BANK's green bond framework, which we evaluate below.

Second-party opinion on GBP alignment

Based on our Transparency score of 88 and Governance score of 85, and that 100% of proceeds have or will be allocated to green projects, we expect this bond to meet the basics of the four pillars of the voluntary GBP, given the issuer has committed to:

- Allocating the full amount of the net proceeds of bonds to eligible green projects as defined by the issuer;
- Using clear "green" criteria (as defined by the issuer) to select projects for funding;
- Managing and tracking proceeds (potentially using subaccounts); and
- Committing to regular reporting of environmental impact and use of proceeds.

A Green Evaluation is a point in time assessment and is not monitored.

Sector-Level Scores

Sector	Location	Technology	Use of proceeds (mil. €)	Use of proceeds treatment	Net benefit ranking
Renewable Energy	U.S., Nebraska	Onshore Wind Power	19	Actual	59
Renewable Energy	U.S., Texas	Onshore Wind Power	10	Actual	50
Renewable Energy	U.S., California	Onshore Wind Power	41	Actual	30
Renewable Energy	U.S., Michigan	Onshore Wind Power	15	Actual	50
Renewable Energy	Canada	Onshore Wind Power	165	Actual	58

250

Carbon

Green Evaluation Process

88

Transparency

85

Governance

88

Mitigation

Weighted aggregate of three:
(Transparency + Governance + Mitigation)

E1/87

Overall Score

Technology	Baseline carbon intensity	Net benefit ranking	→ Carbon hierarchy adjustment	Environmental impact score	Proceeds (mil. €250)
	<p>Medium-high</p> <p>USA, Canada</p>				
Wind power		53			
Solar power					
Small hydro					
Large hydro (excluding tropical areas)					
Energy management and control					
Unspecified					
Green transport without fossil fuel combustion					
Green buildings – new build					
Unspecified					
Energy-efficient projects (industrial and appliance efficiencies)					
Green transport with fossil fuel combustion					
Green buildings refurbishment					
Unspecified					
Nuclear					
Large hydro in tropical areas					
Unspecified					
Coal to natural gas					
Cleaner fuel production					
Cleaner use of coal					
Fossil fuel-based cogeneration					
Unspecified					
			Systemic decarbonization	88	250
			Significant decarbonization in sectors already aligned with a green economy		
			Alleviating emissions of existing carbon-intensive industries		
			Decarbonization technologies with significant environmental hazards		
			Improvement of fossil-fueled activities' environmental efficiency		

Increasing decarbonization impact

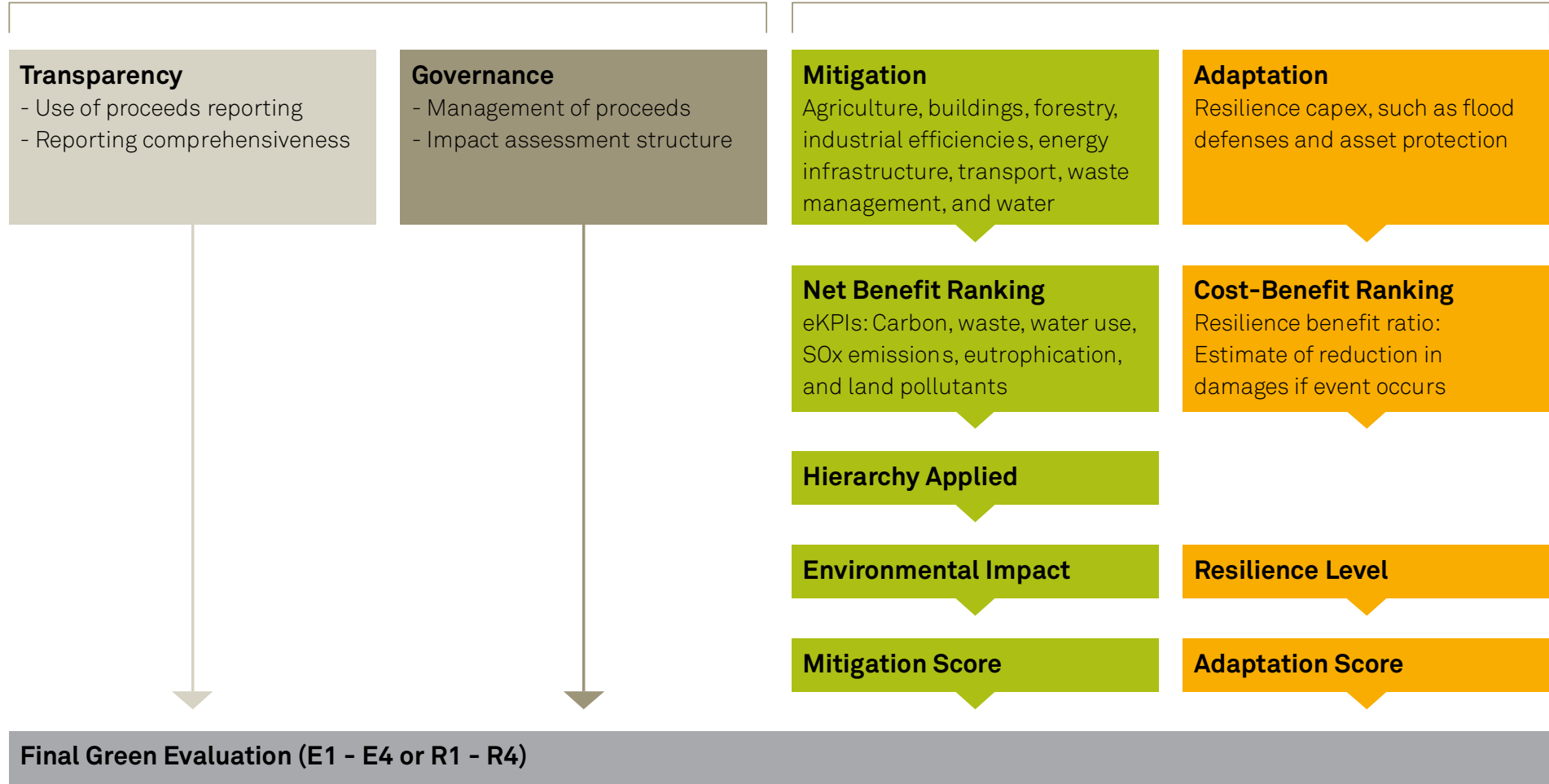
Our Green Evaluation Approach

Weighted aggregate of three:



Common approach among opinion providers

Unique to S&P Global Ratings



Capex--Capital expenditure. eKPI--Environmental key performance indicator. SOx--Sulfur oxides.

Framework Alignment Overview



1. Use of proceeds

DZ BANK commits to allocate the net proceeds of green bonds issued under its green bond framework to eligible green projects that fit into its self-determined eligible category of renewable energy, seeking to contribute to the climate change mitigation environmental objective. Accordingly, in our view, DZ BANK's green bond framework is aligned with the first component of the GBP.



2. Process for project evaluation and selection

The green bond framework outlines selection criteria for eligible projects that comply with DZ BANK's sustainability strategy. The process for project evaluation and selection is set by the selection criteria, as defined in the green bond framework. An internal qualified green bond steering committee reviews and validates the pool of green projects to ensure that they fit in the eligible categories. Accordingly, in our view, DZ BANK's green bond framework is aligned with the second component of the GBP.



3. Management of proceeds

The net proceeds of the green bond will be utilized by means of a full allocation to the green asset pool. This allocation will be made transparent by an earmarking of the identified eligible green assets. The bank will monitor the allocation of net proceeds from green bonds issued under its green bond framework via its internal information systems. Accordingly, in our view, DZ BANK's green bond framework is aligned with the third component of the GBP.



4. Reporting

DZ BANK intends to report the allocation of proceeds until fully disbursed following its annual reporting cycle, which is available on the company's website. The company commits to report on all of its outstanding green bonds on an aggregate level. In addition, the bank will provide reports on the impact of the portfolio, including impact details both by bond and at aggregates level. Accordingly, in our view, DZ BANK's green bond framework is aligned with the fourth component of the GBP.

Framework description

1. Use of proceeds

The GBP stipulates that a seeker of finance should commit the net proceeds of an issuance exclusively to eligible green projects. According to the GBP, eligible projects will seek to achieve at least one of five environmental objectives, including: 1) climate change mitigation; 2) climate change adaptation; 3) natural resource conservation; 4) biodiversity conservation; and 5) pollution prevention and control.

DZ BANK commits to use net proceeds of the green bond by primarily allocating such net proceeds to a green asset pool, consisting of green

loans and in exceptional cases market green bonds. DZ BANK has identified, initially on the issue day of the green bond, loans for the purpose of financing onshore wind energy generation located in the U.S. or Canada as eligible green assets for the green bond. The focus regarding the eligible green assets is exclusively aimed at achieving a positive environmental impact.

In our view, the eligible category stated in DZ BANK's green bond framework--renewable energy--meets one of the environmental objectives listed in the GBP, climate change mitigation. As such, we regard DZ BANK's green bond framework as aligned with the first component of the GBP.

2. Process for project evaluation and selection

To align with the second component of the GBP, a seeker of finance must explain the process by which eligible projects are selected, the related eligibility criteria applied to select those projects, including exclusionary criteria, if applicable, and the overall sustainability objectives that underpin the selection process.

DZ BANK's commitment to climate protection and renewable energy shapes its process for determining eligible green assets. The bank's project selection process achieves this overarching aim through what we view as a transparent project identification and selection system. The company has an established green bond steering committee that is responsible for the complete green bond process including evaluation, selection, and monitoring of the eligible green assets. The committee is comprised of representatives from various departments, including corporate treasury, structured finance, strategy and group development, and investor relations.

In outlining each of the steps for selecting eligible projects, DZ BANK demonstrates what we observe to be a high level of transparency, and, in our view, shows alignment with the second component of the GBP.

3. Management of proceeds

To be aligned with the third component of the GBP, a seeker of finance must monitor the net proceeds of all outstanding green bond transactions, which includes tracking the proceeds appropriately and adjusting the balance of net proceeds to match allocations to eligible green projects. Similarly, to be aligned with the GBP, a seeker of finance must also disclose to investors the intended types of temporary placement it intends to use for unallocated proceeds.

In its green bond framework, DZ BANK commits to monitor the allocation of proceeds from its green bond issuances through an internal information system, and to substitute any redeemed or terminated loans with new eligible loans, at least until one year before the maturity date of the green bond. In case additional green loans for onshore wind energy generation located in the U.S. or Canada are not possible, DZ BANK will include additional green loans that support the generation of solar energy or hydro energy in the U.S. or Canada. If the latter option is also not available, then DZ BANK reserves the right to expand its group of eligible project types to include onshore wind, solar photovoltaic or hydro energy with the location of the respective financing project in the EEA, Switzerland, Iceland, or the U.K. Finally, if these project types are not available, DZ BANK will include market green bonds from third-party issuers.

Because the green bond framework details how DZ BANK plans to monitor the net proceeds of all outstanding green bond transactions, we regard it as aligned with the third component of the GBP.

4. Reporting

The GBP stipulates that the seeker of finance should report on the use of proceeds on an annual basis until full allocation. Information presented in the annual report must include a list of the projects that receive financing, a description of each project, including the amount allocated to each project, and their expected environmental impact.

DZ BANK, in our view, meets these aspects necessary for alignment with the GBP by stating in its green bond framework that it will report annually on the allocation of proceeds and on the environmental impact of eligible green projects during the lifetime of the green bond.

DZ BANK's green bond framework states that allocation reporting will include the total amount of investments, total amount and number of green loans and green bonds, and allocation and utilization ratios. Furthermore, DZ BANK will also annually provide investors with information on the environmental impact of the projects financed by its green issuances. This report will include indicators such as installed capacity, annual renewable energy generation, total impacts of the green assets, as well as an estimate of the GHG emissions avoided. As the green bond framework outlines how its annual reports will cover all of the required aspects stipulated in the GBP, we regard this green bond framework as aligned with the fourth component of the GBP.

Issuer Sustainability Objectives

The sustainability strategy articulated in DZ BANK's green bond framework is shaped by the 10 principles for responsible action in the United Nations Global Compact. In addition, as a signatory of the Principles for Responsible Banking, DZ BANK has committed to integrating its six principles into its core business areas. These include the respect of human rights and labor rights, the commitment to environmental protection, and the avoidance of corruption and bribery.

Building on the bank's public sustainability commitments, DZ BANK is currently developing a system to classify its business activities based on their contribution to the bank's sustainability goals. In addition, its green bond framework lays out its GHG emission targets, which include an 80% reduction in CO₂ emissions by 2050 across the group, relative to 2009. This supports the goals of United Nations Sustainable Development goal (SDG) 7 "Affordable and Clean Energy" and SDG13 "Climate Action."

To meet these climate goals, DZ BANK considers renewable energy as an important area of growth, as it has done for about two decades. In terms of DZ BANK-approved financing volumes, wind energy is the most significant renewable energy source.

Additional Features Of The Framework

We observe that DZ BANK's green bond framework follows the majority of the voluntary guidelines provided by the GBP, i.e., those in addition to those required for an alignment opinion. In our view the key strengths of DZ BANK's green bond framework include the following points:

- The green bond framework clearly outlines the rationale for the selection of projects that it deems eligible for financing with the proceeds of green bonds. In doing so, we believe that the green bond framework follows the recommendation of the GBP to provide a clear process and disclosure to investors.
- Though not mandatory, the GBP recommends that issuers adopt qualitative performance indicators and quantitative performance measures, which DZ BANK does. Quantitative performance measures include GHG emissions and electricity generation. DZ BANK has commissioned an external party to determine the annual GHG emissions savings relative to a baseline (metric tons of CO2 equivalent). DZ BANK will make the key underlying methodology used to derive these values transparent. We believe that these efforts enable investors to evaluate the environmental impact of their green bond investments, which we view as a positive feature.
- DZ BANK will, as far as possible, ensure that the composition of the green asset pool, to which the green bond refers, is aligned with the environmental goals of climate protection and adaptation to climate change, as defined by the EU Taxonomy.

Though this green bond framework, in our view, is aligned with the four components of the GBP and delivers on many of the recommendations, the framework has some limitations, including:

- The GBP recommends an external review for the process of project evaluation and selection and management of proceeds. DZ BANK's green bond framework does not foresee an external revision of the process of project selection and management of proceeds and, in our view, does not meet these recommendations.
- The GBP also recommends that if an amount issued under the framework will be for refinancing, the issuer is to provide an estimate of the share of financing versus refinancing and clarification as to which projects will receive refinancing. DZ BANK does not commit to disclose this information.

Conclusion

Based on our assessment of the contents of DZ BANK's green bond framework, we regard this framework as being aligned with the four components of the GBP, given that the seeker of finance has committed to:

- Allocate the full amount of the net proceeds of loans/bonds to eligible green projects, as defined by the seeker of finance;
- Use clear "green" criteria (as defined by the seeker of finance) to select projects for funding;
- Manage and track proceeds; and
- Commit to regular reporting of the environmental impact and use of proceeds.

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