

Green Transaction Evaluation

DZ BANK AG's €300 Million Fixed-Rate Nonpreferred Senior Notes

Nov. 17, 2021

DZ BANK AG Deutsche Zentral-Genossenschaftsbank (DZ Bank) is part of Germany's cooperative banking sector and parent company of DZ Bank Group, which is by total assets, one of the largest private financial services institutions in the country. As part of its ongoing debt issuance program, DZ Bank has issued €300 million of fixed-rate nonpreferred senior notes maturing in November 2028. At issuance, the net proceeds were allocated to a portfolio of green loans with primarily focusing on offshore wind projects, consistent with DZ Bank's focus on renewable energy and its broader sustainability strategy. This was DZ Bank's third green bond issuance (ISIN: DE000DFK0RN3). We assessed the full amount of the net proceeds in this Green Transaction Evaluation.

In our view, DZ Bank's Green Bond Framework is aligned with:

- Green Bond Principles, ICMA, 2021

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Environmental benefit score



Governance and reporting opinion



Transaction Evaluation

86/100
Strong

A higher score indicates greater environmental benefit

Project Description

DZ Bank allocated the issuance proceeds to a portfolio of existing project-financed renewable energy projects that comprise 12 offshore wind power plants with a total installed capacity of 7,209 megawatts (MW). The projects are located in the U.K., Germany, Netherlands, and France. Renewable energy projects, including offshore wind, are ranked in the top tiers of S&P Global Ratings Environmental Contribution Hierarchy, given their systemic importance to decarbonization.

Outstanding project finance loans will remain in place following the notes' issuance. The net cash proceeds from the notes support DZ Bank's general corporate cash and treasury operations. By allocating (tagging) the specific project finance loans (or portions thereof) to the bond issuance, those loan assets are no longer available for allocation to other bonds that DZ Bank may issue in the future, thereby avoiding the potential for double counting their associated environmental benefit. Consequently, DZ Bank will need to originate new qualifying loans or allocate other loans (not already earmarked) on its balance sheet before any further green bond issuance, thereby supporting the overall growth of sustainable finance in its portfolio.

The portfolio will help avoid about 789,959 tonnes of carbon dioxide equivalent (CO₂e) over its lifetime or about 115,489 tonnes a year, as calculated by S&P Trucost Ltd. The annualized avoidance ratio is 385 tonnes CO₂ per €1 million invested. None of the projects have a lifetime carbon intensity higher than 100 tonnes of CO₂e per gigawatt hour.

At this stage, we are unable to provide an opinion on the resilience of the projects to extreme weather and climate change.

Summary of environmental benefit score

Location	Environmental sector	Environmental project type	KPI	Benefit ranking	Hierarchy score and tier	Benefit score	Use of proceeds (mil. €)
U.K.	Green energy	Offshore wind	Carbon intensity	33	Score: 100 Tier: 2	83	128
Netherlands	Green energy	Offshore wind	Carbon intensity	70	Score: 100 Tier 2	92	50
Germany	Green energy	Offshore wind	Carbon intensity	61	Score: 100 Tier 2	90	72
France	Green energy	Offshore wind	Carbon intensity	24	Score: 100 Tier 2	81	50
Weighted average benefit score and total use of proceeds						86	300

Note: To disaggregate the score breakdown, please refer to "[Analytical Approach: Sustainable Financing Opinions](#)," published Aug. 25, 2021.

Transaction Evaluation Summary

Environmental benefit

Score **86/100**

A primary driver of the high environmental benefit score of 86 was the transaction proceeds allocation to offshore wind projects, which supports the displacement of carbon-intensive fossil fuel energy and thereby facilitates economy-wide decarbonization. Under our methodology, the net benefit ranking reflects the carbon intensity of the national electricity grids where the projects are located. Since the offshore wind projects are domiciled in countries including the U.K., France, Germany, and Netherlands, where the national electricity grids have a lower carbon intensity, this attracts a lower benefit ranking than similar projects in countries where the carbon intensity of the national electricity grids is higher, such as in China or Poland.

Use of proceeds

Alignment 

Commitments score

Weak

Satisfactory

Strong

Advanced

DZ Bank allocated the net proceeds of green bonds issued under its green bond framework to eligible green assets that include green loans granted for the purpose of financing the generation of offshore wind energy, onshore wind energy, or solar energy. DZ Bank's framework is aligned with this component of the Green Bond Principles (GBP) because the issuer commits to allocating net proceeds of financing exclusively to fund renewable energy projects, which is in line with the GBP's climate mitigation objectives.

Process for project evaluation and selection

Alignment 

Commitments score

Weak

Satisfactory

Strong

Advanced

As outlined in its green bond framework, DZ Bank has a dedicated Green Bond Steering Committee (GBSC) who are responsible for the evaluation, selection, and monitoring of eligible green assets. Selection of eligible green assets needs to be in accordance with the green selection criteria as defined in the green bond framework. The GBSC must follow a defined green selection strategy under which it is obliged not to use any green loans for this green bond if these green loans have already been reserved for a green asset pool of another DZ Bank bond.

Management of proceeds

Alignment 

The net proceeds of green bonds were utilized by means of full allocation to the green asset pool at the time of issuance. This allocation is made transparent by earmarking the identified eligible green assets that constitute the green asset pool. DZ Bank will monitor the allocation of net proceeds from green bonds issued under its framework via its internal information systems.

Reporting

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Alignment



Disclosure score

Weak

Satisfactory

Strong

Advanced

DZ Bank will provide an annual Green Bond Investor Report, which will include reporting on the allocation of proceeds and the environmental impact of the green asset pool. Quantitative measures in the environmental impact report include the installed capacity in megawatts (MW) of the green asset pool, annual renewable energy generation (in megawatt hours; MWh) and annual global greenhouse gas (GHG) emissions avoided (in thousand CO₂; tCO₂e). DZ BANK will engage a third party to calculate the annual GHG savings (tCO₂e).

Transaction Evaluation Assessment

Environmental benefit

The environmental benefit score provides a relative ranking of the environmental benefits of projects financed by a given financial transaction. The score is a weighted average of the project's benefit ranking based on project type and location, and the project's placement within our environmental contribution hierarchy.

Score **86/100**

In our view, the financed projects contribute to systemic decarbonization, which attracts the highest hierarchy score in our environmental contribution hierarchy. The benefit ranking indicates the relative net environmental benefit of a project compared with a baseline scenario. For renewable energy projects, we estimate the net benefit compared with production from the existing grid considering the carbon emissions, waste creation, and water usage associated with the supply chain, operation, and decommissioning.

Under our analysis, the location of the projects financed is a primary driver of the net benefit ranking. The net proceeds at issuance are financing offshore wind projects in the U.K., France, Germany, and the Netherlands. The U.K. and France, in particular, have largely decarbonized their national electricity grids. This means that the added benefit of new green energy infrastructure is less than in countries where the carbon intensity of the national grid is higher due to their greater reliance on fossil fuels.

Use of proceeds

Our alignment opinion focuses on the commitments and clarity on how the proceeds are used. We provide an opinion on the level of commitment made in the documentation as weak, satisfactory, strong, or advanced.



DZ Bank's green bond framework is aligned with this component of the Green Bond Principles.

Commitments score

Weak

Satisfactory

Strong

Advanced

We consider DZ Bank's overall use of proceeds commitments to be strong.

We believe DZ Bank's framework aligns with the GBP because it commits to allocating all net proceeds to refinancing eligible green projects, namely, renewable energy. The projects listed in the framework will contribute to environmental objectives and are in line with the eligible categories of the Principles, including climate change mitigation. The bank has identified the positive environmental impact of the eligible project category, through mapping to the United Nations' sustainable development goals (SDGs), affordable clean energy, and climate action. As defined in the framework, eligible green assets that comprise the green asset pool include green loans of DZ Bank and, in exceptional cases and on a temporary basis, market green bonds, being bonds of other issuers that comply with the framework's selection and evaluation criteria. Green

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loans are defined in the framework as loans granted by DZ Bank with the purpose of fully or partly financing existing or future financing projects for the generation of offshore wind, onshore wind, or solar energy in accordance with the green selection criteria and the green selection strategy.

If the amount of the green asset pool is not sufficient to meet the amount of net proceeds of green bonds issued under the framework in the future, additional green loans will be added to the green asset pool in accordance with the green selection criteria and green selection strategy. Under the framework, at bond issuance, the amount of green loans exceeded the amount of green bonds issued to provide a buffer to balance maturity mismatches between the green asset pool and the green bond.

At bond issuance, the green asset pool was allocated to existing loans of only offshore wind projects. The bank has specified a refinancing look-back period, which we view as a strength of the framework. At issuance, at least two-thirds of green loans had a closing date between 2018 and 2021, and the remaining loans no earlier than 2013. During the lifetime of the green bond, green loans will be selected, on a best-effort basis, based on the most recent closing date of the green loan.

Process for project selection and evaluation

Our alignment opinion focuses on the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance. We provide an opinion on the level of commitment made in the documentation as weak, satisfactory, strong, or advanced.

 DZ Bank's green bond framework is aligned with this component of the Green Bond Principles.

Commitments score

Weak

Satisfactory

Strong

Advanced

We consider DZ Bank's overall process for project selection and evaluation to be strong.


DZ Bank's green bond framework provides a description of the process for project selection and evaluation as per the principles' requirements. DZ Bank has clearly defined green loan eligibility criteria and green selection strategy in its framework, and its GBSC is an established committee that is responsible for the evaluation, selection, and monitoring of eligible green assets that comprise the green asset pool. The GBSC is made up of representatives from the various divisions of DZ Bank, including treasury, structured finance, strategy and group development, and investor relations.

The GBSC will monitor the green asset pool and ensure--as far as possible--that there are sufficient eligible green assets in the green asset pool and, hence, meet the amount of the net proceeds of green bonds issued under the framework. This applies at least until one year before the maturity date of the green bond.

The evaluation and selection process takes into account the relevant environmental and social risks, as well as the respective risk management of the financing projects. The process also incorporates clear eligibility criteria that includes the EU taxonomy for the eligible project categories, which we view as an advanced practice.

Management of proceeds

Our opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will continue to be dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

 DZ Bank's green bond framework is aligned with this component of the Green Bond Principles.

The net proceeds of the green bond were fully allocated used to the green asset pool at bond issuance. This allocation is made transparent by earmarking identified eligible green assets in internal systems, and substituting any redeemed or terminated loans with new eligible loans, at least until one year before the maturity date of the green bond. As per the green selection strategy, no green loans can be allocated to this green bond issuance if they have been already been


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reserved for the green asset pool of another DZ Bank bond. If the amount of the green asset pool is not sufficient to meet the amount of the net proceeds of the green bond in the future, additional green loans will be selected in accordance with the green selection criteria and green selection strategy. The respective selection process is expected to be completed within two weeks.

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.

Reporting

Our opinion focuses on how clearly the financing documentation describes the issuer's level of disclosure and reporting practices. We provide an opinion on the level of commitment made in the documentation as weak, satisfactory, strong, or advanced.

 DZ Bank's green bond framework is aligned with this component of the Green Bond Principles.

Disclosure score

Weak

Satisfactory

Strong

Advanced

We consider DZ Bank's overall reporting practices to be satisfactory.

DZ Bank will provide on an annual basis a Green Bond Investor Report, which includes reporting on the allocation of proceeds and the environmental impact of the green asset pool. The allocation reporting will include, on a best-effort basis, the total amount of the green asset pool, the total amounts of green asset loans and green market bonds (if any) and the total number of green loans and green market bonds (if any). The environmental impact reporting will detail the environmental impact of the green asset pool. Quantitative measures in the environmental impact report include the installed capacity (MW) of the green asset pool, annual renewable energy generation (MWh), and estimated annual global GHG emissions avoided (tCO₂e). DZ Bank will engage a third party to calculate the estimated annual GHG savings (tCO₂e). Each Green Bond Investor Report will be made available on DZ Bank's website until the redemption of the green bond.

Tempering our assessment is that DZ Bank does not commit to having an external revision of the process of project selection and management of proceeds or independent third-party verification or audit of its impact reporting after issuance. In addition, the issuer does not disclose the key underlying methodology used to calculate the quantitative performance measures.

Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), set up by the United Nations (U.N.) in 2015, form an agenda for achieving sustainable development by 2030.

We use the International Capital Market Association's (ICMA) SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list that of SDGs and ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

DZ Bank's green bond framework intends to contribute to the following SDGs:

Use of proceeds	SDGs
Renewable energy	  7. Affordable and clean energy* 13. Climate action

*The eligible project categories link to these SDGs in the ICMA mapping.

Carbon Contribution Hierarchy

	Project
Tier 2: Systematic decarbonization	<p>Green energy: Wind power</p> <p>Green energy: Solar power</p> <p>Green energy: Small hydro</p> <p>Green energy: Large hydro (excluding tropical areas)</p> <p>Energy efficiency: Energy management and control</p>
Tier 3: Significant decarbonization of key sectors through low-carbon solutions	<p>Green transport without fossil fuel combustion</p> <p>Green buildings – new build</p>
Tier 4: Decarbonization by alleviating emissions in intensive industries	<p>Energy efficient projects (industrial efficiencies and energy star products)</p> <p>Green transport with fossil fuel combustion</p> <p>Green buildings refurbishment</p>
Tier 8: Decarbonization technologies with significant environmental hazards	<p>Nuclear power</p> <p>Green energy: Large hydro in tropical areas</p>
Tier 9: Improvement of fossil fuel-based activities' environmental efficiency and impact	<p>Fossil fuel power plants: Coal to natural gas</p> <p>Fossil fuel power plants: Cleaner fuel production</p> <p>Fossil fuel power plants: Cleaner use of coal</p>

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