

## Second Party Opinion

# DZ BANK AG Green Bond Framework

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. Within the network, DZ Bank acts as the central institution and central bank to the local cooperative banks. Renewable energy is an important focus of DZ Bank and forms part of its efforts in supporting a sustainable value chain from financing to funding. DZ Bank has developed a Green Bond Framework to define and select eligible projects that meet its sustainability objectives.

In our view, DZ Bank's Green Bond Framework, published on Oct. 29, 2021, is aligned with:

 Green Bond Principles, ICMA, 2021

## Issuer's Sustainability Objectives

DZ Bank's main sustainability objectives currently focus on aligning its lending business with its sustainability criteria and measurable targets. Key areas of contribution identified are phasing out direct financing of coal and tightening of criteria for weaponry and mining.

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 respect for human rights and labor rights, a commitment to environmental protection, and avoidance of corruption and bribery.

In September, the bank revised its groupwide climate strategy. It proposes to cut the group's aggregate carbon dioxide equivalent (CO<sub>2</sub>e) emissions by 65% by 2030 (compared with the base year 2009) and achieve climate neutrality by 2045. To meet these climate goals, DZ Bank is considering renewable energy as an important area of growth, as it has done for about two decades. In terms of DZ Bank's-approved financing volumes, wind energy is the most significant renewable energy source.

DZ Bank's green bond framework and the baseline analysis for the bank's corporate lending business are key building blocks of its sustainability strategy and the alignment of its funding strategy with its sustainability objectives, including climate mitigation.

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## Second Party Opinion Summary


### Use of proceeds

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

**Score** Not aligned Satisfactory **Strong** Advanced

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

**Score** Not aligned Satisfactory **Strong** Advanced


DZ Bank has a dedicated Green Bond Steering Committee (GBSC), which is 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 clearly defined green selection strategy in its selection of green assets under the framework.

### Management of proceeds

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

The net proceeds of green bonds are 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

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


**Score** Not aligned **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 CO<sub>2</sub>; tCO<sub>2</sub>e). DZ Bank will engage a third party to calculate the annual GHG savings (tCO<sub>2</sub>e).

# Framework Assessment

## Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as satisfactory, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

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

## Commitments score

Not aligned

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 all net proceeds have been allocated 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 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 under the framework 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 evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as satisfactory, strong, or advanced. For our process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

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

## Commitments score

Not aligned

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

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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

The Principles require disclosure of the issuer's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will remain 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 used through full allocation 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 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

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as satisfactory, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

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

### Disclosure score

Not aligned

**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 (tCO<sub>2</sub>e). DZ Bank will engage a third party to

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calculate the estimated annual GHG savings (tCO<sub>2</sub>e). 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.

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