

Sustainable Finance Bulletin

02



DZ BANK Spotlight:

Sustainable Bond market – Off to new heights

The success story of the Sustainable Bond market continues into 2019. For the third time in the history of this still relatively young market, the volume of Green Bond issuance surpassed the USD 100 billion mark. For the first time this threshold was already exceeded in the first half of the year (2017: November; 2018: September).

On 17 September 2019, according to statistics of the Climate Bonds Initiative (CBI), the volume of new Green Bonds issues reached USD 173.2 billion, exceeding the total volume from the previous year of USD 167.3 billion. On 21 October 2019, for the very first time, the volume of new Green Bond issues surpassed the USD 200 billion mark we had forecast at the beginning of the year.

In addition, the diversification of the market, described by us as the „Green goes rainbow“ trend, continues in the current year. ESG/Sustainability/SDG bonds in particular are enjoying increasing popularity. The largest issue in this segment to date in 2019 is the fifth Sustainability Bond issued by the State of NRW in March 2019 with a volume of EUR 2.25 billion. The Blue Social Pfandbrief recently issued by Deutsche Kreditbank (DKB) represents an innovation in the social bond market. This Pfandbrief issued on the basis of DKB's Social Bond Framework combines green and social purposes and focuses in particular on UN SDG 6 („Clean Water and Sanitation“). The funds raised, amounting to EUR 500 million, will be used to finance water supply and sewerage.

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Dear Reader,

Welcome to the latest
edition of our Sustainable
Finance Bulletin.

The role of the financial sector in transforming our economy and society towards sustainability had been overlooked for too long. Fortunately, capital markets have started to take the right path to support this transformation. Some years ago, sustainable finance used to be a small niche. But today it is becoming a transformational force.

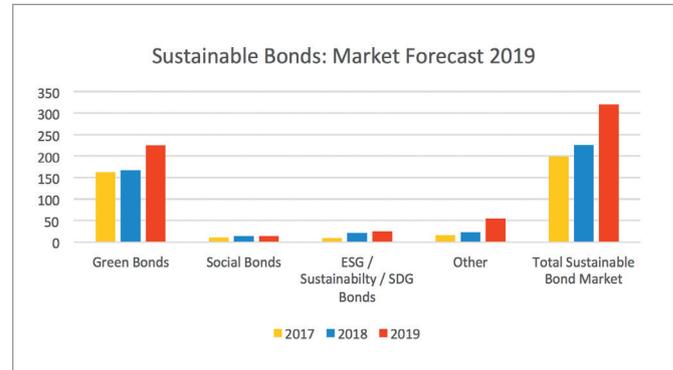
Enjoy reading!

Marcus Pratsch

Head of Sustainable Bonds & Finance

Based on the recent developments in the Green Bond market in the first nine months and the steady growth in the Social Bond and ESG/Sustainability/SDG bond markets, we stick to our forecast that the Sustainable Bond market will exceed the USD 300 billion mark by the end of the year. In our opinion, the USD 1 trillion mark should come within sight in around 2 to 3 years.

Following the attainment of the USD 200 billion mark forecasted by us at the beginning of the year, we have now raised our forecast for Green Bond issuance. The market for Green Bonds should grow at least by around a third by the end of the year, hence exceeding USD 225 billion.



CBI, DZ BANK (2019)

Guest Commentary:

Innovation in the money market



Claudia Bärldges-Koch
Head of Debt Investor Relations
& Client Acquisition

Sustainability within MünchenerHyp is strictly combined with the fact that you are never allowed to rest on the bank's laurels and you have to strive for improvement and innovation. There is no doubt about the match of product and business model, but there is unexpected potential in nearly every area of the bank.

MünchenerHyp has successfully launched its ecological ESG Pfandbrief in the capital market in October 2018. Green loans to retail customers and certified environmental commercial loans – both with a focus on energy efficiency – are the eligible loan categories in the cover pool. Nearly all green refinancing products focus on medium to longterm funding at the capital markets. There is a lack of green investment possibilities in the money market for investors. The situation has been confirmed in the dialogue with our sustainable investor base. A clear signal regarding the demand to follow up with our new product idea.

MünchenerHyp is using the money market product commercial paper (CP) for quite some time and therefore the bank has a legal framework in place for the issuance of CP: the commercial paper programme. The commercial paper is a short term, unsecured bearer bond tradeable in the secondary market. It is a discount instrument which is issued with a discount to the nominal value to raise short term money up to 364 days. The interest rate results in the difference between issuance value and repayment amount.

The product is well established in the market, but the introduction of a green commercial paper is going the extra mile. MünchenerHyp is offering a green reporting as an extra service to our sustainable

Pfandbrief investors to demonstrate the growth of our green portfolio within the cover pool. The quota for green assets not in the cover pool is completing the report: the space of time between payment and cover pool eligibility takes some months and loans with a loan to value above 60% can only be used in the german Pfandbrief pool up to that limit even though the total sustainable engagement is bigger. This is exactly where the commercial paper comes into consideration. It can be used as a bridge financing for the describe period of time or the sustainable non cover pool eligible part of the loan.

Due to the quarterly reporting the investor will have the proof that the proceeds of green commercial papers from MünchenerHyp are used to refinance green assets on an unsecured basis. This aspect has been fixed in the actualized Commercial Paper Programme under the topic use of proceeds. MünchenerHyp is limited with the issuance of ecological ESG Pfandbriefe to energy efficient and sustainable loans in the cover pool and regarding green commercial paper limited to the available volume of green loan portfolio of the bank.



The green commercial paper was launched as a new product mid of August. One important aspect was due in July. The MünchenerHyp's Commercial Paper Programme is updated every year to achieve the STEP LABEL. The abbreviation STEP is the Initiative for Short Term

European Paper. The STEP Initiative insists on high market standards and practices. The integration of use of proceeds for green commercial papers are uncharted waters for both STEP initiative and MünchenerHyp. The programme has achieved the STEP Label, so that Green Commercial Paper from MünchenerHyp will be ECB eligible.

The other important aspect is the update of the MünchenerHyp Green Bond Framework. The Framework has been broadened by additional sustainable funding product as the Green CP. We have asked ISS-oekom to review our Framework and to provide an

actual second party opinion. The ISS-oekom SPO is available on the website of MünchenerHyp.

An overview about the green portfolio of MünchenerHyp is accessible via the following link:

https://www.muenchenerhyp.de/sites/default/files/downloads/2019-11/green%20reporting_30_09_2019.pdf

Further reports about sustainable funding can be found here:

<https://www.muenchenerhyp.de/en/investors/reports-and-presentations>

Review:

Third Sustainable Finance Summit Germany

On 16 October 2019, the Green and Sustainable Finance Cluster Germany (GSFCG) hosted the third Sustainable Finance Summit Germany.



Sustainable Finance

In the context of the event, the Sustainable Finance Advisory Board, which took up its work in June of this year, presented first cornerstones of its work including several theses. DZ BANK was also appointed to the board.

https://gsfc-germany.com/wp-content/uploads/2019/10/Sustainable-Finance-Beirat_Thesen_final_EN.pdf

The key objective of the board, which is organised in four working groups (Sustainable Finance Strategy & Communication, Financial Market Stability & Risk Management, Disclosure & Transparency, End Users: Retail & Institutional) is to advise the German government as it establishes a national sustainable finance strategy and to develop specific recommendations to boost Germany's attractiveness to business and finance in the long term.

The level of ambition of the sustainable finance strategy recommendations of the Sustainable Finance Advisory Board to the Federal Government is based on the aspiration to establish Germany as a

leading location for sustainable finance. Leadership in this context means that financial market players and governments worldwide recognize the German sustainable finance strategy as pro-active, ambitious in its goals, successful in achieving them as well as relevant to their own decisions.

The objective is therefore to provide the Federal Government with concrete and practicable recommendations in shaping the necessary transformation in the real and financial economy.

The sustainable finance strategy recommendations intend to help 1) achieve the internationally agreed sustainability and emission reduction targets as specifically the Sustainable Development Goals (SDGs) and the CO₂ reduction targets agreed at the Paris climate negotiations and within the EU; 2) secure competitiveness and employment in Germany as an economic and industrial centre in the long term and thereby secure prosperity within an environment and society worth living in, 3) prepare the German financial system for the future and enable it to efficiently fund the necessary transformation of the real economy without endangering financial market stability.

The theses in the position paper need to be quickly translated into recommendations for action to implement them in a timely manner.

Review:

Sustainable Finance – A Transformational Force

On 28 August 2019, the international event „Sustainable Finance – A Transformational Force“ organised by DZ BANK, the Green and Sustainable Finance Cluster Germany (GSFCG) and OMFIF took place at the Frankfurt School of Finance & Management.

More than 100 participants from over 15 countries attended the high calibre discussion rounds. International speakers included amongst others Julie Becker (Member of the Executive Committee of Luxembourg Stock Exchange, Founder of Luxembourg Green Exchange), Manal Bernoussi (Strategy, Marketing & Comm. Director, Casablanca Finance City), Slavka Eley (Head of Unit Banking Markets, Innovation and Products, EBA), Masamichi Kono (Deputy Secretary General, OECD), Jonathan Maes (Senior Dealer, Dutch State Treasury Agency) and Professor Yao Wang (Director General of International Institute of Green Finance).

Our blue planet faces long-term challenges; enormous challenges whose economic effects are far more significant than many issues reported in our daily news.

And time is running out. Climate change is happening faster than the world's leading scientists ever predicted. And the world is not on track to achieve most of the UN Sustainable Development Goals (SDGs).

In order to close the sustainable financing gap, the capital market must be brought on board, because public capital is far from sufficient to finance the sustainability agenda.

Investors and issuers have recognised the signs of the times and we have moved into a new era of financing. For too long, the financial sector has been the missing link on the sustainability agenda. Yet the transformation of our economy and society towards greater sustainability requires the mobilisation of private capital. Fortunately, the race for the necessary billions has long since begun!

The global fixed income market with a volume of more than USD 100 trillion is of particular importance. Sustainable bonds are an effective vehicle for mobilising capital for sustainable investments.

There are also signs of promising potential for a new asset class, the so-called transformation bonds / transition bonds. A sustainable world cannot be achieved by focusing exclusively on industries and companies that are already sustainable. Critical industries also have products, technologies and innovations that make a positive contribution to the sustainability agenda and help make these industries more sustainable in the future. The financing of these products,

technologies and innovations could be promoted by a separate market segment.

Innovative thinking is also required. As sustainability and innovation go hand in hand. Fintechs can also help in the Sustainable Finance market, allocating the required capital for a sustainable transformation of our economy and society into the right projects through innovative one-stop solutions.



LEGAL REFERENCES

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