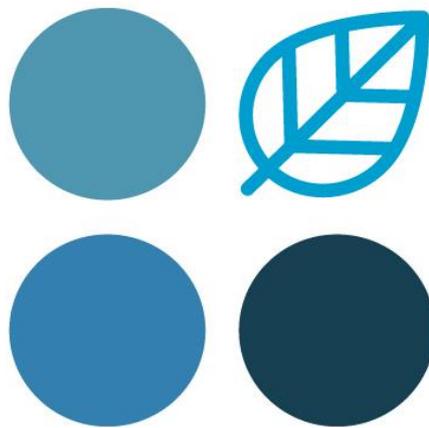


Sustainability Strategy

Stuttgart financial centre, Baden-Wuerttemberg



April 20th 2021

Stuttgart, Germany.



Strategy paper for the Stuttgart financial centre

Content

| | |
|--|---|
| Content | Fehler! Textmarke nicht definiert. |
| 1 Starting point & goal | 3 |
| 2 Sustainability reference points for the Stuttgart financial centre | 3 |
| 3 Policy and measures | 7 |
| 4 Conclusion..... | 11 |

1 Starting point & goal

1.1 Starting Point

The Stuttgart financial centre is known for its stability. With its diversity of stakeholders — banks, insurance companies, building societies and the stock exchange — it functions as a driver of innovation for business, science and education alike within Baden-Wuerttemberg.

Stuttgart Financial has analysed the importance of sustainable finance for the Stuttgart financial centre against this background. Compared to other national and European financial centres, there is a high potential to position the Stuttgart financial centre as a leading German centre for sustainability and sustainable finance, especially in relation to those financial centres that are closest in geographical terms — Liechtenstein, Frankfurt and Zurich.

1.2 Goal

The goal of Stuttgart Financial is to position Stuttgart as one of Germany's leading financial centres in the sphere of sustainability and sustainable finance with a long-term financial centre strategy.

The Paris Climate Agreement, the UN 2030 Agenda for Sustainable Development and the EU "Financing Sustainable Growth" action plan define the framework within which the finance sector operates. This is made more concrete through the introduction of regulatory measures and standards, which are now largely determined by the legal requirements of the EU. The strategic orientation of Stuttgart as a financial centre should include both those stakeholders directly concerned in the finance sector (stock exchange, banks, insurance companies, building societies, etc.) and stakeholders in the real economy (small and medium-sized enterprises (SMEs, industry, etc.) as well as representatives of civil society (educational and research institutions, environmental associations, investor representatives, etc.) and also the public sector.

The strategic positioning and long-term transformation will be expressed in a declaration of intent signed by the participants. The transformation process is kept open and transparent through a clear structure of governance. The aim is to become a member of the UN FC4S network¹, an association of international financial centers that work together to achieve the sustainable development goals of the Paris Agreement², as well as inclusion in the Global Green Finance Index, a worldwide index that measures the sustainable development of financial centres based on the depth and quality of green financial products.³

2 Sustainability reference points for the Stuttgart financial centre

2.1 Global framework/global initiatives

In September 2015, the United Nations General Assembly adopted the 2030 Agenda for Sustainable Development, a global framework covering economic, social and environmental dimensions. The transition to a low-carbon,

¹ Five fields of action of the FC4S: 1) Strengthening strategic involvement, 2) Strengthening market integrity, 3) Building capacity, 4) Promoting innovation, 5) Supporting the real economy

²The FC4S emerged from the Italian G7 Presidency in 2017, where Green Finance was a key item on the agenda, including the question, "How can financial centres contribute to achieving the Sustainable Development Goals and the Paris Agreement?"

³www.longfinance.net/programmes/financial-centre-futures/global-green-finance-index/

resource-efficient circular economy in line with the 17 Sustainable Development Goals (SDGs) is necessary to ensure the long-term preservation of an intact, liveable environment as the basis for human existence.

In the wake of the United Nations Framework Convention on Climate Change in general and global warming, the Paris Agreement was concluded in December 2015 in order to take joint action against climate change. One of the objectives of the Agreement is to bring financial flows in line with low-emission and climate-smart development in terms of greenhouse gases (cf. Art. 2 Annex to the Paris Agreement). The global goal is to limit the increase in average global temperature to well below 2° C, and if possible, under 1.5° C above pre-industrial levels, in order to reduce the risks and impacts of climate change.

The publications by the Task Force on Climate-related Financial Disclosures (TCFD) not only provided an important impetus for the establishment of an international standardised framework for the categorisation and disclosure of climate-related financial disclosures; they also created a cross-sectoral basis for determining the financial impact of climate risks. The regulatory considerations of the European Commission and the supervisory authorities are also guided by the publications from the TCFD.

Another important initiative that can be mentioned here as an example are the Principles for Responsible Investment (PRI). By signing up to them, investors contribute to the development of a more sustainable financial system.

2.2 EU Level

Based on the recommendations of a High-Level Expert Group (HLEG), the European Commission published the Action Plan "Financing Sustainable Growth" in March 2018, which developed a comprehensive strategy for sustainable financing. The aim of this action plan is to redirect capital flows towards sustainable investments in order to create sustainable and inclusive growth. In addition, sustainability should be taken into account in risk management and transparency and a long-term perspective should be promoted. The EU Action Plan comprises ten measures to achieve these goals, which essentially cover the following four thematic areas:

- Classification of sustainable economic activities and labels for environmentally friendly financial products,
- Financial market regulation to protect the investor,
- Inclusion of sustainability in supervisory law and
- Disclosure & longevity.

In implementing and specifying the measures, the European Commission is developing new regulations and standards or adapting existing legal norms. The focus of the EU Action Plan is on taxonomy regulation, a uniform EU-wide classification system that should regulate which economic activities are to be understood as sustainable. The taxonomy is already relatively well developed; now, a positive list of green sectors, specific activities and limit values is to be gradually created through delegated regulations. The European Commission has already submitted drafts for two of the six environmental goals named in the taxonomy. In addition, work has begun on a social taxonomy. The design of the Taxonomy Ordinance and the ordinance that also sets transparency requirements for financial products (Disclosure Ordinance) are important milestones for a more sustainable financial system. The EBA Action

Plan for Sustainable Finance is also derived from the EU Action Plan and is intended to be the basis for future regulatory requirements for financial institutions in the area of sustainable finance.

As part of the European Green Deal, the new growth strategy for Europe, the European Commission announced a renewed strategy for sustainable financing. This is to provide the policy tools to ensure that the financial system is conducive to business transformation. The EU Action Plan supports the Green Deal and contributes to the objectives of the European Green Deal Investment Plan, in particular to create a favourable framework for sustainable investment by private investors and the public sector.

2.3 National Level

Sustainable development is the guiding principle of political action. In Germany, the strategic framework for implementation is the German Sustainability Strategy, which was first adopted in 2002, and the overall enhancement of which was published in March 2021. This integrates the 17 SDGs as political guidelines and specifies measures by the Federal Government for their implementation. It thus lays the foundation for the necessary boosting of the sustainability policy. Due to the federal structure of the Federal Republic of Germany, the states play an important role in the implementation of the German Sustainability Strategy.

With the alignment towards the 2030 Agenda, the German Sustainability Strategy has been internationalised. The German government implements this multilateral action with binding agreements under international law, strategic alliances and within the framework of international organisations. The Council for Sustainable Development advises the Federal Government in questions of sustainability. In 2011, it published a voluntary standard for reporting sustainability aspects, the German Sustainability Code (DNK).

A Sustainable Finance Advisory Board was convened to establish a dialogue between the federal government and the financial sector, the real economy, civil society and science. Based on the SDGs and the Paris Agreement, it issued recommendations for action to the Federal Government. These recommendations form the basis of their sustainable finance strategy. Of the 31 recommendations made in the current final report from February 2021, the following recommendations are relevant in essential terms: Public offerings (Recommendation 1), Public investments (Recommendation 2), Loan guarantees (recommendation 3), Data infrastructure/ESG raw data (Recommendation 12), Education campaign (Recommendation 15), Products (Recommendations 19-25) and Real estate/energy certificates database (Recommendation 30).

2.4 State Level

2.4.1 General

The state's sustainability strategy aims to make sustainability the central decision-making criterion for government and administrative action in Baden-Wuerttemberg. With the formulation of a total of 17 guiding principles for sustainable development in Baden-Wuerttemberg, the state government has committed itself to the principle of sustainable development at an early stage and anchored a broad and comprehensive understanding of sustainability in its work. After the global sustainability goals were adopted in 2016, the state government, together with the state government's advisory board for sustainable development, subjected these existing sustainability goals to a comprehensive review. This showed that almost all the relevant dimensions of the global sustainability goals were

reflected in Baden-Wuerttemberg's goals and that only selective adjustments to the guiding principles and goals needed to be made.

Within the framework of the sustainability strategy, it is the task of the ministries to formulate specific goals and measures for implementing the guiding principles, to align their activities accordingly and to report regularly on their progress. In addition to the state government's sustainability reporting, the indicator report with its status indicators also documents the current state of sustainable development in Baden-Wuerttemberg.

In the course of the regulatory projects at EU and national level, the state government has, in line with its claim, vigorously advocated that sustainability also becomes a natural part of financial market regulation on the financial markets. With the Taxonomy Ordinance and the Disclosure Ordinance, a good foundation has been laid beyond the CSR Directive, which needs to be enhanced and then brought to life within the framework of the delegated ordinances currently in progress and further legal acts such as the Green Bond Standard.

In addition, at state level, the course has also been set operationally towards sustainability, for example through the issue of a taxonomy-based Green Bond, extensive funding programmes by L-Bank or green emissions by EnBW. Within the framework of the sustainability business initiative, the state supports sustainably committed companies with the WIN Charter⁴ and the climate protection strategy „Unternehmen machen Klimaschutz“ (Klimabündnis BW) ("companies do climate protection" (BW climate alliance)).

2.4.2 The role played by financial market participants in BW

By educating and advising clients on sustainable investment options and aligning their own business models with ESG factors, financial market players in Baden-Wuerttemberg are making a significant contribution to shaping the financial centre in a sustainable way. The individually formulated guidelines of the universal banks aim in particular at supporting and guiding customers and the real economy in transformation processes towards sustainable economic activity. Likewise, great importance is attached to the sustainable development of one's own company. As the state bank for Baden-Wuerttemberg, L-Bank is committed to the common good and the statutory development mandate forms the basis for its actions. Business activities are geared towards the sustainable development of the bank and the state of Baden-Wuerttemberg. The private banks and public banks (savings banks and cooperative banks) in Baden-Wuerttemberg pay special attention to sustainable investment decisions in portfolio management. These active contributions by the stakeholders in the domestic financial industry facilitate the development and implementation of a regional sustainability agenda according to the motto "produce locally and buy locally".

⁴ The WIN Charter of the State of Baden-Wuerttemberg is a sustainability management system specifically for small and medium-sized enterprises, which represents a voluntary commitment to sustainability. By signing the WIN Charter, companies make a clear commitment to their economic, ecological and social responsibility.

3 Policy and measures

3.1 Developing the SF policy for the Stuttgart FC and coordinate it with the state/municipalities

3.1.1 Determining the roles and responsibilities of financial market participants

Baden-Wuerttemberg, and in particular the Stuttgart region, is first and foremost a location for industry and technology, paired with excellent university facilities. The traditional and very successful automotive and mechanical engineering industries are primarily undergoing a transformation towards resource-saving manufacturing techniques and secondly low-emission products. At the same time, however, companies in innovative sectors have also developed successfully in recent years—not least as a result of the Covid 19 pandemic, for instance, in the field of biotechnology. In addition, Baden-Wuerttemberg companies also play an important role in the field of renewable energies and energy-efficient construction. At the same time, Baden-Wuerttemberg is also a rural state with not insignificant agricultural and forestry operations. Apart from the large car manufacturers and a few corporations from the mechanical and electrical engineering sectors, Baden-Wuerttemberg is also known for its proliferation of small to medium-sized enterprises.

Unlike Frankfurt/Hesse or Munich/Bavaria, the Stuttgart financial centre is, with a few exceptions, characterised by participants in the financial market of a more medium-sized character that also see their tasks in mainly providing finance and insurance products to small and medium-sized industrial and service companies. This is expressed through savings banks and cooperative banks (Volksbank and Raiffeisenbank) in the larger cities, but also in the countryside; furthermore, through a regional state bank, a development bank and regionally anchored private banks. The building societies, which currently have the largest market share in Germany, also play an important role for the financial centre. A similar picture emerges in the insurance sector, with a strong public insurer, successful private insurers and also Europe's largest life insurer, one of the 10 largest private health insurers and individual niche providers. In addition, Stuttgart Stock Exchange is the third largest stock exchange in Germany and the leading trading venue for private investors.

3.1.2 Starting point for Stuttgart Financial to act as a driving force at state level

Against the backdrop of the real and fiscal structures described above, the Stuttgart financial centre and its financial market players would like to make an effective "impact" upon/positive contribution to climate protection and the other five EU environmental goals, also in distinction to other neighbouring financial centres. From time to time, the financial centre focuses on the regional economy with its sustainable finance strategy and supports it in its transformation towards a comprehensive range of resource-saving and innovative products and services. The participants in the financial market in the Stuttgart financial centre advise and support the development of local industry in its transformation and shape the future of the financial sector through processes that are increasingly adapted to internal ESG requirements. At the same time, they can offer special products that help companies adapt to climate change.

3.1.3 Coordination with key stakeholders in the Stuttgart financial center

This strategy can also be applied to financial market participants whose customers are also or predominantly private individuals. This refers, for example, to financiers of construction projects, who can offer their customers not only

separate products for energy-efficient construction and refurbishment, but also specific advisory services in this context. Financial market participants who look after retail clients in the context of asset management can, for example, structure special "regional sustainability portfolios".

3.2 Fields of action (comparison with FC4S fields of actions)

In long-term financial centre strategy measures, the Stuttgart financial centre orients itself towards the five fields of action of the FC4S.

3.2.1 Field of action 1: Strengthening strategic involvement

In essence, the field of action selected supports Recommendation 1 of the Sustainable Finance Advisory Board.

Recommendation 1 — Public flotations:

- The public sector specifically issues green/social bonds or green/social debenture bonds. The inflows can also be used to fund infrastructure projects to harness the technologies developed by local companies. For example, this could include: Infrastructure for charging stations for e-cars; expansion of (state) research institutions.
- Role of the financial market participants:
 - Subscription to these bonds/debenture bonds and hence direct financing of these projects
 - Marketing/resale of the bonds and debenture bonds to third parties
 - Provision of a trading platform for green/social debt instruments
 - Inclusion of green/social bonds in asset management portfolios

The Stuttgart financial centre is taking the following measures in line with Field of action 1:

- Reduction of the carbon footprint according to the science-based climate targets put forward by the Science Based Targets Initiative (SBTI) or a comparably ambitious framework.
- Qualification for the Global Green Finance Index
- Qualification for the UN FC4S cluster
- Regular roundtable for exchange

3.2.2 Field of action 2: Strengthening market integrity

In essence, the field of action selected supports Recommendation 12 and 15 of the Sustainable Finance Advisory Board.

Recommendation 2 — Public investments:

- The public sector invests part of its surplus liquidity in green/social bonds issued by local companies and by doing so helps to finance green/social projects.
- Role of the financial market participants
 - Advising companies on issuing green/social bonds, especially with regard to the taxonomy compliance of offerings
 - Where applicable, hedging of said green/social bonds so that they comply with the state's and municipalities' investment guidelines

Recommendation 15 — Education offensive:

- Skills and knowledge in relation to a sustainable financial system, but also in general in relation to a sustainable economic system, are essential for a sustainable economic structure. The sustainable finance strategy developed by the Stuttgart financial centre should launch a targeted, multi-year, open education offensive in cooperation with the universities and other educational institutions.
- Role of the financial market participants and other organisations/institutions:
 - Development of educational materials and offerings
 - Expansion of inclusive development and transformation partnerships between social stakeholder groups (business, civil society, academia) to create democratic, consensus-based social structures. These aim at a fair balance of interests between economic, ecological and social aspects in order to support finding the solution to global challenges from a local perspective (financial literacy programmes, coaching on energy efficiency and resource conservation, long-term value, social activism, etc.).

The Stuttgart financial centre is taking the following measures in line with Field of action 2:

- Further training opportunities through a sustainability academy programme
- Cooperation with universities and colleges
- Raising public awareness through campaigns and events
- Promotion of transparency through regular exchange

3.2.3 Field of action 3: Building capacity

In essence, the field of action selected supports Recommendation 12 of the Sustainable Finance Advisory Board.

Recommendation 12 — Data infrastructure/raw data:

- One of the main challenges for financial market participants in appropriately managing opportunities and risks in the field of sustainable finance and in the interest of the community is the availability of the requisite

data (reliable data on climate scenarios and other environmental scenarios and on the taxonomy compliance of clients' economic activities). This data must be readily available.

- Role of the financial market participants:
 - Establishment of a qualitative database for information materials
 - Operation of such a database

The Stuttgart financial centre is taking the following measures in line with Field of action 3:

- Local information platform
- Promotion of skills through a sustainability academy programme
- Ambassador certification programme

3.2.4 Field of action 4: Promoting innovation

In essence, the field of action selected supports Recommendation 3 of the Sustainable Finance Advisory Board.

Recommendation 3 — Loan guarantees:

- Development of specific guarantee schemes for investments in green/social projects.
- Role of the financial market participants:
 - Further development of existing guarantee schemes
 - Redesign of such guarantee schemes
 - Assumption of guarantees

The Stuttgart financial centre is taking the following measures in line with Field of action 4:

- Building an innovation network
- Establishment of a FinTech initiative in the financial center
- Evaluation of the need for a microfinance offering

3.2.5 Field of action 5: Support for the real economy

In essence, the field of action selected supports Recommendation 19-25 of the Sustainable Finance Advisory Board.

Recommendation 19-25 — Products:

From the perspective of the Stuttgart financial centre, which sustainable products would specifically be suitable? For example, Recommendation 21: impact products to promote the energy-efficient and climate-friendly modernisation of existing buildings.

- The conceptual basis for green/socio-financial market products is or will be provided in the future by the EU taxonomy, the EU Green Bond Standard and other EU labels and recognised private sector standards. Based on these standards, specific products need be developed, especially for the Stuttgart financial centre, taking into account the "companion function" (see above).
- Role of the financial market participants:
 - Within the framework of the implementation of the strategy/policy, appropriate products and services are to be developed together with industry and SMEs in line with the needs of industry and the public welfare interest of the population. A task force is to be established for this purpose (Stuttgart Financial; all finance sectors)
 - The following represent initial strategic considerations for possible, location-specific/"state-specific" green and social products
 - Further development of building society savings in the direction of green building loan contracts
 - Social property development loans
 - Microfinance to promote organic agriculture and biodiversity
 - Green insurance for the use of e-cars etc.
 - ESG-related "sustainable finance" financing methods for SMEs
 - Tradability and investment opportunities in sustainable financial products for private investors, e.g. green bonds

The Stuttgart financial centre is taking the following measures in line with Field of action 5:

- Regular dialogue — Round table
- Exchange on real economic initiatives
- Annual Green Growth Forum
- Supraregional representation and positioning of the FC

4 Conclusion

The strategy paper from the Stuttgart financial centre presents the foundation for the long-term planned developments to promote sustainability and sustainable finance in the Stuttgart financial centre and Baden-Wuerttemberg.

The financial center and its stakeholders recognise the need to act and are committed to regular exchange and joint projects in the fields of action (Sec. 3.2).

The signatories express their will to promote, support and advise on the developments in the financial centre within the scope of the individually given possibilities in order to achieve the common goal of becoming a leading sustainable financial centre.

About the initiator

Stuttgart Financial was founded in 2007 by the Vereinigung Baden-Wuerttembergische Wertpapierbörse e.V., the Ministry of Economic Affairs Baden Wuerttemberg and the "Stiftung Kreditwirtschaft" (credit industry foundation) at the University of Hohenheim. The goal of the financial centre initiative is to boost Stuttgart as a financial centre and to increase its visibility as a location for financial services in Germany. The promotion of the location for the benefit of Baden-Wuerttemberg's citizens and economy is firmly anchored in the association's statutes.



About the supporter, advisor and moderator organisation

The contents of the "Stuttgart Strategy Paper" were developed in close cooperation with Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (EY). EY acts as an overarching supporter, advisor and moderator in the project constellation, and provides intensive support to the financial centre stakeholders in the emerging issues and key topics to be defined.



About the financial centre

The following stakeholders have made a significant contribution to the strategy paper and have expressed their support for the sustainability reference points and the measures identified in the strategy paper:

- Allianz Lebensversicherungs-AG

- Bankenverband Baden-Württemberg e.V.
- Bankhaus Ellwanger und Geiger AG
- Bausparkasse Schwäbisch Hall AG
- Börse Stuttgart GmbH
- BW Albatross Invest GmbH
- CreditPlus Bank AG
- Deutsche Bank AG
- Stuttgart Technology University of Applied Sciences
- HypoVereinsbank
- L-Bank Baden-Württemberg
- LBBW Landesbank Baden-Württemberg
- LBS Landesbausparkasse Südwest
- Sparda-Bank Baden-Württemberg eG
- Stuttgarter Lebensversicherung a.G.
- SV Sparkassen Versicherung Holding AG
- Volksbank Stuttgart eG
- VPV LEBENSVERSICHERUNGS-AG
- Wüstenrot & Württembergische AG
- WGV Württembergische Gemeinde-Versicherung a.G.

Allianz 

bankenverband
Baden-Württemberg


ELLWANGER.GEIGER
PRIVATBANKHAUS SEIT 1912


Schwäbisch Hall
Auf diese Steine können Sie bauen

Börse
Stuttgart


BW ALBATROSS INVEST
CORPORATE FINANCE | M&A

CreditPlus



Hochschule
für Technik
Stuttgart

 HypoVereinsbank
Unternehmer Bank
Member of  UniCredit

 L-BANK
Staatsbank für Baden-Württemberg

LB \equiv BW


LBS
Bausparkasse der Sparkassen

Sparda-Bank
sparda-bw.de

 Die Stuttgarter
Der Vorsorgeversicherer

 SV Sparkassen
Versicherung


Volksbank
Stuttgart eG

VPV
Der Vorsorgeberater seit 1827

 w&w
gruppe


GUT VERSICHERT.
UND GUT IST.

About the state as a proponent of the desired sustainability strategy

The state of Baden-Wuerttemberg welcomes the sustainability strategy aspired to for the Stuttgart financial centre and the resulting "Stuttgart Strategy Paper". The state government supports the project within the framework of the available budgetary and human resources and remains accessible to advise the financial centre stakeholders on its implementation and further development.

