

Eligibility Reporting 2021

.Deka



Reporting within the framework of Article 8 of the Taxonomy Regulation: Eligibility Reporting 2021

In order to achieve greenhouse gas neutrality by 2050, the EU Commission is counting on the support of the finance industry, among others. The finance industry has the central function of channelling capital flows into sustainable investments and ensuring a high level of market transparency.

For this reason, the EU Commission has created an EU-wide classification system with Regulation (EU) 2020/852 (hereinafter "Taxonomy Regulation"). According to this Taxonomy Regulation, around 100 economic activities along 13 sectors are to be evaluated in terms of their impact on the climate and the environment.

The Regulation entered into force in July 2020. On 10 December 2021, the European Commission published a delegated act (EU) 2021/2178 in the Official Journal of the European Union, which specifies the reporting obligations of the various players in the financial market, including those of credit institutions. Reporting obligations according to the Taxonomy Regulation apply to all (non-)financial undertakings that are obliged to submit a non-financial statement according to the Accounting Directive 2013/34/EU.

Under Article 8 of the Taxonomy Regulation, the Deka Group is also required to classify relevant business using certain assessment criteria. For the 2021 year under review, the Deka Group's business was therefore analysed for the first time with regard to its taxonomy eligibility. This indicates the proportion of the business volume in the above-mentioned economic activities and sectors that is, in principle, to be subject to a future taxonomy compliance review.

A taxonomy-eligible economic activity is an economic activity that is described in the delegated acts ("Climate Delegated Act" Annex I and II), irrespective of whether this economic activity fulfils all technical test criteria. A taxonomy-aligned economic activity is an economic activity that fulfils the requirements set out in the Taxonomy Regulation by ...:

1. ...making a significant contribution to at least one of the six environmental goals
2. ...not causing significant adverse effects on the other environmental goals (DNSH criteria)
3. ...being able to be evaluated in a scientifically sound manner and
4. ...fulfilling the minimum social safeguards

(CF. Background: DEVELOPMENTS IN THE EU ACTION PLAN FOR FINANCING SUSTAINABLE GROWTH – THE EU TAXONOMY)

The taxonomy eligibility analysis carried out is therefore to be understood, on the one hand, as an intermediate step in the reporting; on the other hand, it corresponds to full compliance with the current regulatory requirements under Article 8 of the delegated act until the full requirements under Article 10 of the same act enter into force.

From the 2023 year under review and when the full scope of reporting comes into force, the Deka Group is required to publish the Green Asset Ratio (hereinafter also referred to as "GAR"). This key figure indicates the ratio of taxonomy-aligned business to a defined part of the assets (so-called "Covered Assets"; for details, see below) of the bank. Only when the Green Asset Ratio is published can a statement be made as to whether the business can be described as sustainable within the meaning of the EU Taxonomy Regulation.

Neither the specific calculation methods nor the reporting format are currently fully specified for the information or ratios (hereinafter also referred to as "key performance indicators" or "KPIs") that must be disclosed as of 31 December 2021. The key performance indicators to be published are determined against the backdrop of an initial reporting requirement of taxonomy eligibility for companies as of 31 December 2021 and are based on the Annexes for credit institutions V, VI and XI of the Delegated Act (EU) 2021/2178 in the EU Official Journal in conjunction with the FAQs (Frequently Asked Questions) published by the EU on 20 December 2021 and concretized on 02 February 2022.

According to Article 10(2) of the Delegated Act, seven Key Performance Indicators (KPIs) are to be disclosed by the financial undertakings for the years under review 2021 and 2022. In total, these key performance indicators are set in relation to total assets. Therefore, the "Total Assets" (= balance sheet total) should be used as reference value in the denominator. The calculation of the relevant key performance indicators is based on the regulatory Financial Reporting (hereinafter "FinRep") as on 31 December 2021 and the regulatory scope of consolidation. From the 2023 year under review, the "Covered Assets", which provide for an exclusion of the exposures to "Central Governments, Central Banks and Supranationals" as well as of the "Trading portfolios", should be used as reference value for determining the GAR. According to FAQ 21 dated 02 February 2022, additional reporting of the KPIs as per the aforementioned Covered Assets is also allowed. DekaBank uses this option for KPI 1 and KPI 2 in order to facilitate comparability of the ratios in the course of time for the GAR under consideration of the qualitative details for calculating the key performance indicators.

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The following table should be read with particular reference to the Deka Group's integrated business model as Wertpapierhaus for the savings banks. With its activities in asset management and in the banking business, the Deka Group is a service provider for the investment, administration and management of assets and supports savings banks, savings bank customers and institutional investors along the entire investment and advisory process, with a focus on securities business. Financing, particularly taxonomy-eligible financing within the EU, accounts for a relatively small share in the Deka Group's total assets. For example, private residential construction business, which is generally classified as taxonomy-eligible, is not part of the Deka Group's business model.

KPI No.	Description	Share in % With reference to Total Assets	Share in % With reference to Covered Assets
1	<u>Taxonomy-eligible assets</u> Total assets	3.0	4.8
2	<u>Non-taxonomy-eligible assets</u> Total assets	21.1	34.1
3	<u>Risk positions against central states + central banks + supranational issuers</u> Total assets	21.1	
4	<u>Derivatives (banking book and trading book)</u> Total assets	7.1	
5	<u>Risk positions against entities not subject to NFRD</u> Total assets	28.4	
6	<u>Trading portfolio</u> Total assets	18.7	
7	<u>Short-term interbank loans</u> Total assets	2.9	

KPI No. 1 represents the essential key performance indicator as on the reporting date of 31 December 2021. It shows the share of risk positions (gross book values) and is to be subjected to a taxonomy conformity review from the year under review 2023.

For KPI No. 1, loans, debt securities and equity instruments to NFRD-obligated entities (both financial entities, non-financial entities and other financial entities subject to the Non-Financial Reporting Directive) as well as households and local authorities (municipalities and districts, whose purpose is the financing of public housing or special financing) are to be examined for taxonomy eligibility.

The decisive factor for taxonomy eligibility is the economic activity of the respective financing. To examine the taxonomy eligibility of the relevant risk positions, the financings were first examined for directly derivable economic activities. These are present in 3.7 percent of the total assets. Of this position, 0.7 percent have a non-taxonomy-eligible economic activity and

are therefore assigned to KPI No. 2. With reference to the aforementioned Covered Assets, KPI No. 1 increases from around 3.0 percent to around 4.8 percent and KPI No. 2 to around 34.1 percent.

Risk positions without directly attributable economic activity are generally to be recognised in the amount of the taxonomy eligibility ratio published by the respective companies. At the time the report was prepared, corresponding information was not yet available from the respective companies or had not yet been published. The Deka Group has therefore classified these risk positions entirely as non-taxonomy-eligible and also allocated them to KPI No. 2. This affects 20.4 percent of the positions of the total assets.

The examination of taxonomy eligibility does not include positions that are exempt from the so-called NFRD obligation. On the one hand, these are customers, who have their registered office outside the European Union. This restriction leads to a non-inclusion of 17.1 percent of the total assets. On the other hand, the assessment of the NFRD obligation was determined on the basis of a negative delimitation to small or medium-sized enterprises (SMEs). This can, for example, also involve financing of so-called special purpose vehicles (SPVs), although their purpose would be classified as taxonomy-eligible and they have their registered office in the European Union. The negative delimitation based on SMEs leads to an additional non-inclusion of 11.3 percent of total assets. The two aforementioned positions are reported in KPI No. 5 as a total of 28.4 percent of total assets.

Other risk positions that cannot be classified as taxonomy-eligible by definition are assigned to KPIs No. 3, No. 4, No. 6 and No. 7. They are not in line with the product and customer groups relevant for the taxonomy. This approach has excluded a further significant proportion of the Deka Group's total assets for inclusion in KPI No. 1 and KPI No. 2.

Due to double counting and overlaps, especially in trading book derivatives (included in KPI No. 4 and No. 6), as well as the exclusion of regional and local authorities (not included in KPI No. 3), the sum of the above ratios deviates from 100 percent.

Qualitative disclosures on compliance with Regulation (EU) No. 2020/852 in the business strategy, product design processes and cooperation with customers and counterparties

The Deka Group aligns its sustainability strategy with the global challenges of climate change and sustainable development and the associated political, regulatory, social and customer-related requirements. Regulatory requirements are implemented from the joint perspective of the customer and the regulator. The EU Taxonomy Regulation also results in corresponding requirements that are coordinated and implemented

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within the Deka Group. At the moment, the focus is on the impact of climate change on business activities and the associated risks, as well as on expanding the sustainable product range.

The governance concept was revised in the year under review to reflect the Deka Group's holistic approach to sustainability, taking into account new regulatory requirements. The focus is on the topics of organisation and responsibilities as well as co-ordination and control processes. The governance target is to be finally implemented in 2022. The first measures were already initiated in 2021. For example, the new function of Strategic ESG Management was implemented in the Strategy & Human Resources division, which will take on a coordinating role, among other things. The goal is to create better transparency about regulatory requirements, to link already existing information with each other and to centrally manage the integration of data on the taxonomy. The implementation of the respective requirements will continue to be carried out in the relevant departments. **CF. CHAPTER 2.2.3.**

Sustainability is a high management priority for the Deka Group and is to be established as a central cornerstone of the business model and actively promoted further. The Deka Group sees this as both an attitude and an opportunity for growth and future profitability. It can be assumed that with the full implementation of the taxonomy, expanded information will be available that will significantly increase transparency regarding the sustainability of business partners and their activities. Impulses generated from this will be continuously taken up and considered in the further development of the business model.

Through the implementation of the EU Taxonomy Regulation within the Deka Group, taxonomy-aligned products and product strategies are already available today. The market-driven expansion of the sustainable range of ESG products in line with the taxonomy, the expansion of sustainable product concepts and the addition of further services relating to impact funds are just one example of future developments¹. But also the support of financing that enables sustainable and climate-friendly growth through targeted lending pays off. Through its diverse activities across different business divisions, the Deka Group contributes to the presentation of sustainable business activities in the EU as well as their transparency and comparability.

¹ It should be noted that for "green" or "sustainable" products mentioned in this report, there is currently no European market consensus on what exactly constitutes such a product. The definitions and contents of the products declared here as "green" or "sustainable" may differ from those in Articles 8 and 9 SFDR (Sustainable Finance Disclosure Regulation 2019/2088, which came into force on 10 March

2021) and those in the EU Taxonomy Regulation 2020/852 of 22 June 2020. However, as far as possible, the Deka Group as a whole is guided by the aforementioned regulatory definition criteria applicable to the reporting period. For editorial reasons, however, the terms are not consistently used accordingly for this report.