Eligibility Reporting 2022

Reporting within the framework of Article 8 of the Taxonomy Regulation: Eligibility Reporting 2022

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 is assigned the central function by politicians and regulators to steer capital flows into sustainable investments and to ensure a high level of market transparency. In order to create clarity and legal certainty as to what constitutes a sustainable investment, the EU Commission created an EU-wide classification system of sustainable economic activities with Regulation (EU) 2020/852 (hereinafter referred to as the "Taxonomy Regulation"). According to this Taxonomy Regulation, around 100 economic activities in 13 sectors are to be evaluated in terms of their impact on the climate and the environment. In particular, the EU taxonomy also includes a catalogue of concrete technical requirements that an economic activity must fulfil in order to be classified as compliant with the taxonomy.

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 EU, which specifies the reporting obligations of the various actors in the financial market, including those of financial 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.

With the Delegated Regulation (EU) 2022/1214 ("delegated act on nuclear and gas") of 22 March 2022, the economic activities defined in the Taxonomy Regulation were also expanded for the first time by six new economic activities in the areas of nuclear and gas energy, in order to ensure a high level of transparency on investments in nuclear and gas energy. The legal act entered into force in August 2022 and is also taken into account in the following explanations.

Under Article 8 of the Taxonomy Regulation, the Deka Group is also required to classify relevant business using defined assessment criteria. For the 2022 year under review, the Deka Group's business was therefore analysed with regard to its taxonomy eligibility. This indicates the proportion of the business volume in relevant economic activities and sectors that is, in principle, to be subject to a future taxonomy compliance review.

The key figures in TABLE 34, which were determined within the framework of the requirements of the Regulation, are particularly important taking into account

I. the Deka Group's integrated business model as the Wertpapierhaus for the savings banks, with its focus on asset management business and the
II. geographical as well as systemic limits of the EU Taxonomy Regulation.

The Deka Group's business model as an end-to-end solutions provider is designed to address the needs of savings banks and their customers and to provide all the necessary asset management and banking services for the securities business of the savings banks and their customers. As a partner, the Deka Group also provides targeted sales support.

The core business consists of the provision of customer-oriented securities and real estate investments (CF. **CHAPTER 4.1.1.** Sustainability in capital investment). In this context, financing is to be classified as a complementary service along the entire value chain of asset investment and management (CF. **CHAPTER 4.1.2.** Sustainability in lending).

Through the Financing business division, which focuses on special and real estate finance, the Deka Group supports the savings banks in refinancing. Furthermore, new business activities focus on loans that can be placed and serve as an attractive investment for institutional investors. The Financing business division is equally weighted alongside Strategic Investments in Treasury as the long-term component of the Deka Group's asset side and is therefore the investment vehicle for business activities on the liabilities side. Financing is both transferred to the bank's own balance sheet in the banking book and passed on as investment products in the form of club deals, syndications or fund units. In addition, participation in loans arranged by third parties is possible.

The Special Finance sub-division focuses on financing energy, grid, utility, transport and social infrastructure projects (infrastructure financing and renewable energy financing), aircraft, ships and rail transport (transport financing), financing covered by export credit agencies (ECA) and public sector financing.

The Real Estate Financing sub-division offers financing for commercial real estate in the office, logistics, retail and hotel sectors. The focus is on marketable properties in relevant markets due to their size, transparency and liquidity.

The Taxonomy Regulation aims to define environmentally sustainable activities by providing companies, the financial sector and policy makers with the definitions as to which economic activities can be considered environmentally sustainable.

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The delegated acts ("Climate Delegated Act" Annex I and II) of the Taxonomy Regulation describetaxonomy eligible economic activities. However, these include property financing for private individuals (private construction financing or retail business), which is not part of the Deka Group's business model.

Furthermore, according to the regulation, no special and real estate financing outside the European Economic Area (EEA) may be included, even if the economic activity (intended use) can be considered environmentally sustainable. This also applies to the same extent to so-called special purpose vehicles (SPVs) inside and outside the EEA, regardless of the location and taxonomy eligibility of the financing object. In the sub-business area of real estate financing, Europe, the United Kingdom and North America are the preferred markets. However, financings outside the EEA, i.e. the United Kingdom and North America, may not be reported in KPI No. 1, irrespective of their taxonomy eligibility within the meaning of the EU Regulation. Aircraft financing is generally not considered taxonomy eligible.

An environmentally sustainable or taxonomy-compliant economic activity is an economic activity that fulfils the requirements laid down in Article 3 of the Taxonomy Regulation by

- making a significant contribution to at least one of the six environmental objectives (Art. 3a, Taxonomy Regulation),
- not causing significant harm to the other environmental objectives (Do no significant harm (DNSH) criteria) (Art. 3b, Taxonomy Regulation) and
- meeting the minimum social safeguards (Art. 3c, Taxonomy Regulation).

The basis for the application are the delegated acts for the supplementary definition of the technical assessment criteria, which the EU Commission has adopted pursuant to Article 23 of the Taxonomy Regulation (Annex I for environmental objective 1 and Annex II for environmental objective 2) or will adopt (environmental objectives 3 to 6) (Art. 3d, Taxonomy Regulation).

The analysis of the taxonomy eligibility carried out is therefore to be understood on the one hand as an intermediate step in the reporting, and on the other hand it corresponds to full compliance with the current regulatory requirements pursuant to Article 8 of the delegated act until the full requirements pursuant to 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-compliant transactions to a defined portion of the bank's assets (so-called "covered assets", see below for details). Only with the publication of the Green Asset Ratio can a statement be made as to whether the transactions can be described as sustainable in the sense of the EU Taxonomy Regulation.

At the time of reporting, neither the specific calculation methods nor the reporting format have been fully specified for the information and ratios that must be disclosed as of 31 December 2022 (hereinafter also referred to as "key performance indicators" or "KPIs"). In determining the key performance indicators to be published, DekaBank has therefore used 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 specified on 2 February 2022.

Pursuant to Article 10 (2) of the delegated act, seven KPIs are to be disclosed by financial institutions for the year under reviews 2021 and 2022. The calculation of the relevant key figures is based on the regulatory financial reporting and the regulatory scope of consolidation. In total, these ratios are set in relation to the total assets. “Total assets" (= balance sheet total) are therefore used as the denominator. As of the 2023 year under review, the "covered assets" are to be used as the reference value for determining the GAR, which provides for the exclusion of exposures to central states, central banks and supranational issuers as well as the trading portfolio. In accordance with FAQ 21 dated 2 February 2022, additional reporting of the KPIs according to the above-mentioned covered assets is permitted. The Deka Group exercises this option for KPI No. 1 and KPI No. 2 in order to enable comparability of the ratios over time to the GAR, taking into account the qualitative information used to calculate the ratios.

within the framework of Article 8 of the Taxonomy Regulation

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KPIs ACCORDING TO ARTICLE 8 OF THE EU TAXONOMY (TABLE 34)

KPI No.	Description	31 Dec 2021		31 Dec 2022	
		Share in % in relation to total assets	Share in % in relation to covered assets	Share in % in relation to total assets	Share in % in relation to covered assets
1	a) Share of taxonomy eligible assets – revenue-based	3.0	4.8	7.4	11.5
1	b) Share of taxonomy eligible assets – CapEx[26]-based			7.9	12.2
2	a) Share of non-taxonomy eligible assets – revenue-based	21.1	34.1	25.3	39.1
2	b) Share of non-taxonomy eligible assets – CapEx-based			24.9	38.5
3	Share of risk positions against central states, central banks and supranational issuers	21.1		20.2	
4	Share of derivative positions	7.1		9.1	
5	Proportion of risk positions against entities not subject to NFRD	28.4		24.0	
6	Share of the trading portfolio	18.7		16.6	
7	Share of short-term interbank loans	2.9		2.9	

KPI No. 1 represents the key performance indicator as of the reporting date of 31 December 2022. It shows the share of taxonomy eligible risk positions (gross carrying amounts) that are to be subjected to an audit for taxonomy compliance as of the year under review 2023.

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

The decisive factor for taxonomy eligibility is the economic activity of the respective financing. To check the taxonomy eligibility of the relevant risk positions, the financings were first analysed for directly derivable economic activities. If a non-taxonomy eligible economic activity exists, it is recorded in KPI No. 2.

Risk positions without directly attributable economic activity, i.e. without intended use, were included in KPI No. 1 for the first time as of the year under review in the amount of the taxonomy eligibility ratio published by the respective companies. In the previous year, corresponding information from companies was not yet available and was therefore reported in KPI No. 2. Comparability with the previous year's data is therefore limited.

For non-financial companies, the taxonomy eligibility ratios were used for the first time on the basis of both sales revenue (turnover) and capital expenditure (CapEx). If information from the companies is not yet available or not yet published as of the reporting date, the Deka Group has classified these risk positions entirely as non-taxonomy eligible, as in the previous year, and allocated them to KPI No. 2 together with the non-taxonomy eligible portions of the gross exposures.

As of the reporting date, the Deka Group did not finance any taxonomy eligible economic activities in the area of nuclear energy. Taxonomy eligible activities in connection with the construction or operation of facilities for the generation of electricity or heat from fossil gaseous fuels were taken into account in the amount of 0.01 percent in relation to total assets in KPI No. 1. Exposures to companies that are not subject to NFRD are excluded from the taxonomy eligibility test and are reported in KPI No. 5 (24.0 percent of total assets, 2021: 28.4 percent). Companies are not subject to the NFRD obligation if they do not have their legal seat in the EEA or are exempt from the obligation to prepare non-financial reporting due to their size. The assessment of the NFRD obligation was determined on the basis of a negative delimitation to small or medium-sized enterprises (SMEs).

Other risk positions that cannot be classified as taxonomy eligible by definition are assigned to KPI No. 3, No. 4, No. 6 and No. 7. They are not in line with the product and customer groups relevant for the taxonomy and can therefore not be included in KPI No. 1 and KPI No. 2. Their share in total assets is 48.8 percent (2021: 49.8 percent).

26 Capital Expenditures (CapEx)

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KPI No. 3 records the share of exposures to central states, central banks and supranational issuers. KPI No. 4 shows the share of assets from derivatives. Since KPI No. 3 and KPI No. 4 each also include trading book positions, which are also recorded in KPI No. 6, the sum of the KPIs deviates from 100 percent.

Supplementary voluntary quantitative data

For the mandatory reporting of the share of taxonomy eligible assets (KPI No. 1), only risk positions against customers that are obligated to non-financial reporting (NFRD obligation) were taken into account. The assessment of the NFRD obligation for customers domiciled in the EEA was determined on the basis of a negative differentiation from small and medium-sized enterprises (SMEs). This can, for example, also involve financing of so-called special purpose vehicles (SPVs), the purpose of which is to be classified as taxonomy eligible. If the taxonomy eligible exposures of these customers were taken into account in KPI No. 1, this turnover-based KPI No. 1a would increase by 4.1 percentage points (in relation to total assets) to 11.5 percent or by 6.4 percentage points in relation to covered assets to 17.9 percent. CapEx-based KPI No. 1b would increase to 12.0 percent (based on total assets) and 18.6 percent (based on covered assets), while KPI No. 5 would decrease accordingly to 20 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. It is one of the first signatories of the "Self-commitment by German Savings Banks to climate-friendly and sustainable business practices" and thus manifests its stance in the form of a corporate assumption of responsibility for society in achieving global climate targets. In this context, the realisation of regulatory requirements is carried out from the joint perspective of customer and regulator. (CF. **CHAPTER 2.2.**) The Taxonomy Regulation also results in corresponding requirements that are coordinated and implemented within the Deka Group.

Through its diverse activities across different business divisions, the Deka Group contributes to the promotion of sustainable business activities in the EU as well as their transparency and comparability. Taxonomy-compliant products and product strategies are already available today. The market-driven expansion of the range of products with sustainability features during the year under review and the efforts in lending business to support customers in future, who incorporate climate risks into their business model and contribute to the implementation of the goals of the Paris Climate Agreement ("transformation financing") are just two examples of the ongoing development of the product and service range. This also includes initiatives to support the strategy of the parties involved (particularly the operators of the financed assets) on the path to increasing sustainability in the areas of ecology, social affairs and corporate governance. As an active investor, the Deka Group consistently engages in dialogue with investors, companies and issuers in order to support them closely in the steps they take to achieve their sustainability goals, in coordination with its own guard rails. (CF. **CHAPTER 4.1.**)

This is supported by the ongoing development of internal governance structures and processes. In order to meet the Deka Group's holistic focus on sustainability while taking into account new regulatory requirements, the ESG governance target, which encompasses the entire Deka Group, has been established at organisational and instrumental level since 2022. (CF. **CHAPTER 2.2.3.**) The successive integration of ESG issues into line processes ensures that relevant information can be incorporated into the business model on an ongoing basis.

It can be assumed that with the full implementation of the taxonomy, expanded information will be available that will significantly increase the transparency of 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.

In addition to the Taxonomy Regulation, the Disclosure Regulation 2019/2088, which came into force on 10 March 2021, is also an essential measure within the framework of the EU Action Plan on Financing Sustainable Growth. The Disclosure Regulation transposes the requirements of the European Sustainable Finance Disclosure Regulation (SFDR) into national law. This regulates the disclosure obligations of financial service providers with regard to the consideration of sustainability issues in their strategies, processes and products. The Deka Group's implementation of the requirements of the Disclosure Regulation can be found on the Deka Group's website. (CF. www.deka.de/deka-gruppe/unsere-verantwortung/wie-wir-nachhaltigkeit-leben/nachhaltigkeitsbezogene-offenlegung)