

# Climate Aligned Credit Framework

**.Deka**

# Contents

	<b>Page</b>
<b>1. Preamble</b>	<b>3</b>
<b>2. Climate-related financing principles</b>	<b>3</b>
2.1. Sustainability at DekaBank	3
2.2. Positive list	3
2.3. Negative list	4
<b>3. Climate-related financing process</b>	<b>4</b>
3.1. Basics of climate-related classification of financing	4
3.2. Sector-based decarbonisation pathways	5
3.3. Classification process	5
<b>4. Requirements for climate-aligned financing</b>	<b>6</b>
4.1. Real estate	6
4.2. Infrastructure	6
4.2.1. Energy infrastructure	6
4.2.2. Transport infrastructure	7
4.2.3. Social infrastructure	7
4.3. Air transport	7
4.4. Rail transport	7
4.5. Marine transport	8
<b>5. Reporting</b>	<b>8</b>
5.1. Internal reporting	8
5.2. External reporting	8

# Climate Aligned Credit Framework

## 1. Preamble

As part of the Sparkassen-Finanzgruppe, DekaBank contributes to achieving the climate targets defined in the Paris Climate Agreement by actively supporting the transition of companies towards climate-friendly business practices. The financing provided by DekaBank is particularly important in this context, as it enables investment in the innovative technologies and processes required to decarbonise the economy.

As part of its credit process, DekaBank comprehensively assesses the environmental, social, and governance (ESG) performance and risks of the key project participants, in particular the borrowers. This Climate Aligned Credit Framework sets out the key principles, criteria, and processes for taking climate criteria into account in the financing business. It thus serves as a framework for financing decisions and for managing the loan portfolio. DekaBank assesses each financing transaction and the underlying financing object in its overall context, taking into account not only climate and other ESG aspects, but also the risk of financing, the quality of the business relationship, and other parameters relevant to the decision.

The focus of this framework is on defining specific criteria that financing objects in sectors relevant to DekaBank must meet in order to be classified as "climate-aligned". The central reference point here is the sector-specific decarbonisation pathways shown in the Deka Group's climate transition plan. Reliable data and quantifiable progress are decisive for financing decisions and thus for managing our loan portfolio in terms of greenhouse gas emissions (GHG emissions). The aim is to gradually advance the decarbonisation of the loan portfolio in order to strengthen its resilience to climate risks and support the achievement of our own climate targets.

When assessing the climate alignment of its financing activities, DekaBank follows regulatory requirements and recognised market standards. These include climate and sustainability-related regulatory frameworks of the European Union, in particular the EU taxonomy for sustainable activities, as well as proven market standards, such as sustainability-related certifications for real estate. Where guidelines are still being developed or where there are no uniform definitions yet, DekaBank develops comprehensible guidelines, makes cautious assumptions, and documents discretionary decisions. Wherever possible, we base our decisions on up-to-date and quality-assured data.

## 2. Climate-related financing principles

### 2.1. Sustainability at DekaBank

Since 2015, sustainability issues and therefore climate strategy aspects have been an integral part of DekaBank's business strategy. The key points of the strategic sustainability orientation are formulated in 14 sustainability principles, which underscore that DekaBank understands sustainability as an ongoing process for the holistic integration of ESG criteria into its business model. The goals and measures defined in the principles include targeted lending for financing that enables sustainable and thus climate-friendly growth, as well as reducing the GHG footprint in our own business operations and in our business activities.

To achieve these goals, DekaBank has formulated binding internal guidelines for taking climate aspects into account in financing. These include, in particular, the positive list as part of the business strategy and the negative list, which efficiently addresses climate and environmental risks as part of the credit risk strategy.<sup>1</sup>

### 2.2. Positive list

The positive list defines investment areas in which DekaBank would like to expand its lending activities. In particular, it aims to focus its financing portfolio more strongly on transactions that offer the best energy efficiency in their respective sectors in the context of the technological framework conditions (best-in-class approach). Financing is primarily granted to projects that enable sustainable growth and support customers in transforming their business models. Financing must be economically viable and compatible with DekaBank's strategic guidelines and decarbonisation targets in principle.

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<sup>1</sup> See [Deka Group Climate Transition Plan 2024](#), chapter 7.1.

# Climate Aligned Credit Framework

## 2.3. Negative list

At the same time, DekaBank's negative list excludes companies and projects whose activities or implementation have a negative impact on the climate and the environment, as well as other sustainability aspects that are important to DekaBank. The negative list also includes a number of industrial sectors in which DekaBank does not engage at all or only under certain conditions. These include nuclear energy, mining and related infrastructure, oil extraction using methods that are particularly harmful to the climate, such as fracking, forestry, and coal mining and power generation. In addition, there are sectors in which DekaBank does not provide financing in line with its fundamental business policy, e.g., fishing and aquaculture, agriculture, and the pulp and paper industry. Finally, entities and transactions with the worst ESG ratings are excluded as a matter of principle.

The climate strategy of the financing business division is based on the Paris Climate Agreement and takes into account technological advances in the sectors financed, which are drivers of GHG reductions in the real economy. For example, renewable energies and the associated infrastructure play a key role in the decarbonisation of industrial processes, while alternative, more climate-friendly fuels are becoming increasingly important in the transport sector. Due to the average medium-term loan maturities, these technological developments can be easily taken into account in new business. DekaBank's target formulation for selected GHG-intensive sectors is generally aligned with a 1.5-degree target and is based on sector-specific modified Net Zero 2050 climate pathways from the International Energy Agency (IEA).<sup>2</sup>

## 3. Climate-related financing process

### 3.1. Basics of climate-related classification of financing

The Deka Group's business strategy defines the fundamental guidelines and approaches that DekaBank pursues in order to offer its customers innovative and future-oriented solutions. A central component of this strategy is the promotion of sustainable financing.

Against this backdrop, this framework specifies the conditions that a loan granted by the Financing business division must meet in order to be classified as "climate-aligned" and therefore in line with the defined sector-specific decarbonisation pathways (see section 3.2). When making credit decisions on new business, GHG emissions and their impact on the sector targets and portfolio are taken into account. Care is always taken to strike a balance between the returns and risks of the financing and to ensure compatibility with strategic guidelines and decarbonisation targets.

The core of the framework consists of the criteria defined in Chapter 4 for each sector relevant to the financing business area, which are directly incorporated into the business initiation processes. The EU taxonomy for sustainable activities mentioned above is of particular importance here. For all financing to borrowers based in the European Economic Area, taxonomy eligibility and compliance are assessed on the basis of the Taxonomy Regulation (EU 2020/852). Classification as "taxonomy-compliant" can only be achieved if all three criteria relevant in this context are met – the technical assessment criteria, the Do No Significant Harm (DNSH) criteria, and the minimum social standards.<sup>3</sup> If physical intensities need to be determined in connection with the definition of climate-related criteria, DekaBank refers to regulations issued by recognised external organisations such as the Partnership for Carbon Accounting Financials (PCAF).

The framework is reviewed at least once a year, adjusted as necessary during the year, and approved by the DekaBank Board of Management. Possible reasons for adjusting or further developing the framework include new scientific findings and technological advances, market developments, and regulatory changes. This ensures that lending contributes reliably and efficiently to the climate-friendly transition of the real economy.

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<sup>2</sup> See [Deka Group Climate Transition Plan 2024](#), chapter 3.1.1.

<sup>3</sup> See [Deka Group Annual Report 2024](#), p. 182ff.

# Climate Aligned Credit Framework

## 3.2. Sector-based decarbonisation pathways

The key reference point for classifying financing as “climate-aligned” are the decarbonisation pathways that DekaBank has defined in the course of implementing regulatory requirements for setting its climate targets for sectors relevant to its management and published in its climate transition plan. For the financing business area, the sector-specific decarbonisation pathways for the real estate, infrastructure, air transport, rail, and marine transport sectors are relevant.

DekaBank uses the corresponding IEA pathway as a reference for its own decarbonisation pathway. DekaBank regularly determines the gap between its own pathway and the IEA pathways, i.e., whether it is above or below the specified target values, in order to meet the regulatory requirements for external reporting on the respective decarbonisation status. To derive steering impulses, DekaBank uses sector-specific and individualised reduction paths that consider the unique characteristics of each sector.

Classification as climate-compliant financing generally takes place at the time the loan is granted. In addition, the criteria are reviewed on an ad hoc basis during the term of the loan in order to be able to reflect relevant changes in a timely manner. When financing a new construction project, e.g. a new real estate or ship, if no consumption and thus no emission values are available at the time of completion, DekaBank will use values from energy performance certificates or comparative values from similar properties already in operation, depending on availability. The same applies when purchasing an existing property.

## 3.3. Classification process

Various parameters are taken into account along a decision tree to ensure consistent and transparent classification of financing as potentially climate-aligned across all sectors. The following criteria must be checked for each relevant financing:

- a) Compliance with the requirements of the EU taxonomy
- b) Distance from the sector-specific decarbonisation path defined by DekaBank

In rail transport and transport infrastructure, no additional decarbonisation path is used due to the design of the EU taxonomy, as the taxonomy criteria generally already cover the path requirements. In real estate financing, the following two criteria, which are based on the certification of a property by recognised external agencies, are also taken into account:

- c) Valid energy performance certificate (EPC label)
- d) Valid sustainability certificate

Figure 1 provides an overview of the regular process for classifying the climate alignment of individual financing transactions.

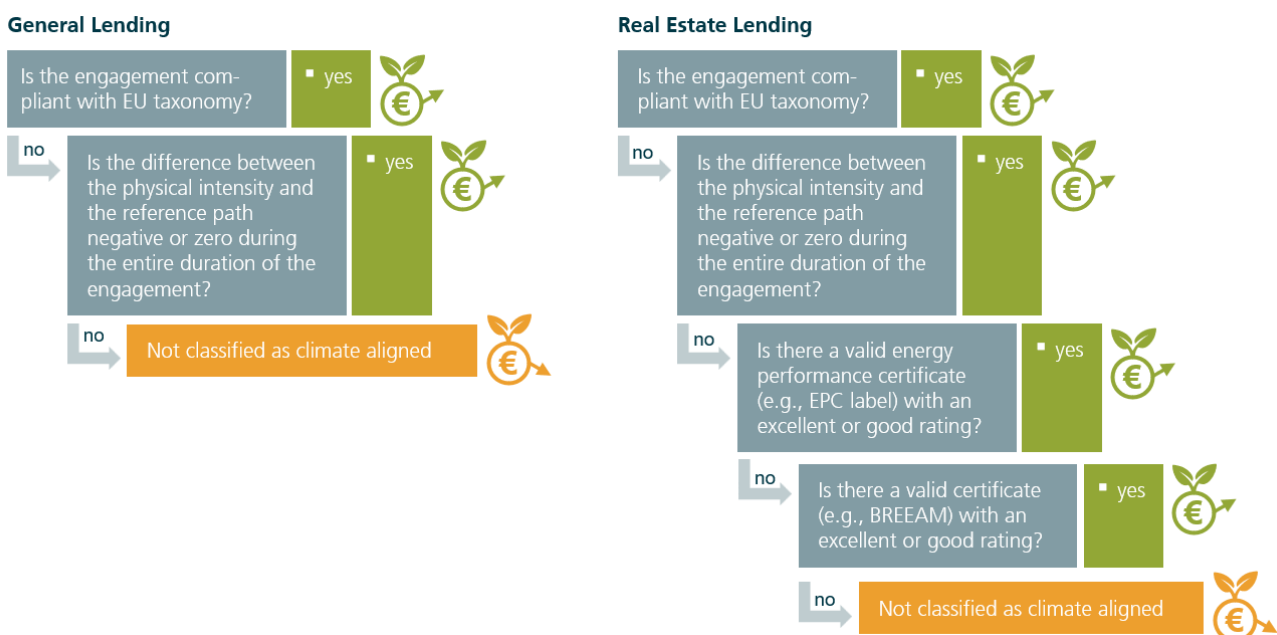


Figure 1: Decision tree for classifying the climate alignment of individual financing transactions

# Climate Aligned Credit Framework

## 4. Requirements for climate-aligned financing

### 4.1. Real estate

DekaBank is exclusively involved in real estate financing for existing commercial properties and does not currently finance any project construction. Classification as "climate-aligned" is considered on a country-specific basis. Climate-aligned real estate financing must meet at least one of the following criteria:

1. The financed property meets the criteria of the EU taxonomy under section 7.7 (acquisition and ownership of buildings) and is classified as "taxonomy-compliant" on this basis.
2. The GHG emissions of the property – measured in terms of physical intensity – are below the sector-specific target path defined by DekaBank throughout the entire term of the loan.
3. a) The property to be financed has a (provisional) energy performance certificate with one of the following characteristics; the markets in which DekaBank is active in real estate financing are taken into account:
  - Germany: Energy-efficient commercial properties that meet or exceed the primary energy requirements of the Building Energy Act (Gebäudeenergiegesetz, GEG)
  - France: DPE "B" and better
  - United Kingdom: EPC "B" and better
  - Ireland: BER "B3" and better
  - North America: Energy Star > 70 pointsb) The property to be financed has a (provisional) energy performance certificate with a rating that places it in the top 15% of the national or regional building stock. The relevant reference values here are the EPC label or primary energy consumption.
4. The property to be financed has a sustainability certificate with one of the following ratings:
  - BOMA BEST: "Gold" and better
  - BREEAM: "Excellent" and better
  - DGNB: "Gold" and better
  - Green Globe: "Three Green Globes" and better
  - HQE: "Excellent" and better
  - LEED: "Gold" and better
  - NYC Building Energy Efficiency Rating: "B" and better

### 4.2. Infrastructure

#### 4.2.1. Energy infrastructure

In order to supply the entire economy with low-GHG energy, it is necessary not only to generate electricity from renewable energies, but also to expand networks, store energy, and use control instruments such as smart meters. In sectors that cannot be electrified, DekaBank supports the establishment and expansion of the hydrogen economy.

In principle, the following economic activities in the EU taxonomy are to be labeled as "climate-aligned" if they are classified as "taxonomy-compliant" on the basis of the EU taxonomy assessment:

- Electricity generation using solar photovoltaic technology (EU taxonomy 4.1)
- Electricity generation from wind power (EU taxonomy 4.3)
- Electricity generation from hydropower (EU taxonomy 4.5)
- Transmission and distribution of electricity (EU taxonomy 4.9)
- Control technology for buildings (smart meters; EU taxonomy 7.5)

# Climate Aligned Credit Framework

In addition, project financing is classified as climate-aligned if its intended use covers the following areas:

- Equipment and instruments for creating "smart grids"
- Energy storage facilities (battery storage, compressed air storage, pumped storage power plants, flywheels, heat storage, hydrogen storage)
- Production facility for the production of biofuels and synthetic fuels such as e-fuels and sustainable aviation fuels
- Plants for the production and transport of green, blue, and white (natural) hydrogen
- District heating systems
- Geothermal plants
- Use of biomass or biogas
- GHG capture and storage technologies (CCUS)
- GHG transport networks, insofar as these serve the subsequent storage or use of GHG
- Hydrogen networks

## 4.2.2. Transport infrastructure

All financing of infrastructure projects that contribute to the decarbonisation of the transport sector is climate-aligned. This includes, for example:

- Infrastructure for rail transport (EU taxonomy 6.14)
- Electricity charging and hydrogen refueling infrastructure (EU taxonomy 6.15)
- Terminals for changing batteries for electric mobility (EU taxonomy 6.15)

## 4.2.3. Social infrastructure

The same criteria apply to the energy efficiency of social infrastructure buildings, such as research facilities and hospitals, as to real estate financing (see section 4.1).

## 4.3. Air transport

DekaBank focuses on financing lower-emission aircraft with improved aerodynamics that can use sustainable aviation fuels (SAF). Climate-aligned aircraft financing meets at least one of the following criteria:

1. The aircraft to be financed meets the criteria of the EU taxonomy under section 3.21 (manufacturing of aircraft), 6.18 (leasing of aircraft) or 6.19 (passenger and freight air transport) and is classified as "taxonomy-compliant" on this basis.
2. The aircraft's GHG emissions – measured in terms of physical intensity – are below the sector-specific target path defined by DekaBank throughout the entire term of the loan.

## 4.4. Rail transport

DekaBank focuses on financing electric trains and modern, lower-emission rail vehicles. Climate-aligned rail vehicle financing meets the following criterion:

1. The rail vehicle to be financed meets the criteria of the EU taxonomy under section 6.1 (passenger interurban rail transport), 6.2 (freight rail transport) or 6.3 (urban, suburban and road passenger transport) and is classified as "taxonomy-compliant" on this basis. Examples of climate-aligned vehicles are:
  - Public transport, e.g., trams
  - Rail vehicles, e.g., locomotives, passenger cars, multi-coupled trains, wagons

# Climate Aligned Credit Framework

## 4.5. Marine transport

DekaBank focuses on financing modern, lower-emission ships with energy-efficient designs. Climate-aligned ship financing meets at least one of the following criteria:

1. The ship to be financed meets the criteria of the EU taxonomy under section 6.10 (sea and coastal freight water transport, vessels for port operations and auxiliary activities) or 6.12 (retrofitting of sea and coastal freight and passenger water transport) and is classified as "taxonomy-compliant" on this basis.
2. The GHG emissions of the ship – measured in terms of physical intensity – remain below the sector-specific target path defined by DekaBank throughout the entire term of the loan.

## 5. Reporting

### 5.1. Internal reporting

The Board of Management is informed regularly and in a structured manner about ESG issues, with particular emphasis on the internal ESG dashboard. This is prepared every six months and informs the management body about the status, target achievement, measures and current developments in ESG-specific areas and ESG-related key performance indicators (KPIs). Climate-related developments and key figures are taken into account.

Internal risk reporting focuses on the relevant aspects of ESG risks and includes ESG-related key risk indicators (KRIs), among other things. Here, too, climate-related developments and the resulting risks are reflected.

Finally, detailed information on individual financing projects is contained in the decision documents, which inform the Board of Management about, among other things, the ESG score, taxonomy eligibility/compliance, and the classification of the projects' climate alignment.

In addition to the Board of Management, the Administrative Board and its committees are also regularly informed about ESG and climate-related developments. Among other things, this is done by means of the risk report, which is discussed in detail by the Risk and Credit Committee.

### 5.2. External reporting

External reporting on sustainability and thus also on climate aspects is determined on the one hand by various legal and regulatory requirements. These include the Corporate Sustainability Reporting Directive (CSRD), which requires the publication of a sustainability report as part of the group management report in the annual report, and the Capital Requirements Regulation (CRR) with the CRR disclosure report. In its climate transition plan, the Deka Group reports on targets and measures for decarbonising its business activities and defines sector-specific decarbonisation pathways.

On the other hand, as part of voluntary climate-related memberships and voluntary commitments, DekaBank has agreed to report regularly on the progress made in implementing the associated measures.<sup>4</sup> These include, for example, the Poseidon Principles (PP), whose members are expected to report annually on the GHG efficiency of their ship financing portfolios in the form of the distance to the PP's "striving" path. In addition, DekaBank reports annually to the Equator Principles Association (EPA) on financing that falls within the scope of the Equator Principles (EP). This information is published on the DekaBank website and on the EPA website.

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<sup>4</sup> See [Deka Group Sustainability Initiatives Memberships](#)



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