

Background paper on the Paris-aligned sector guidelines of KfW Group

Version 09/2026

1. Steering in line with the Paris Agreement

In view of accelerating climate change, it is key to promote a comprehensive global transformation towards a climate-neutral society. The basis is provided by the Paris Agreement with the aim of restricting the increase in the global average temperature to well below 2°C and pursuing efforts to limit the temperature increase to 1.5°C. As a digital transformation and promotional bank, KfW Group takes particular responsibility for a greenhouse gas-neutral future and is committed to the 1.5°C climate target with its sector guidelines. It is important to support customers and partners in their transformation process in a targeted manner to capitalize on the opportunities of this far-reaching structural change, both in terms of economy and society.

2. Advancing Paris-alignment

Against this background, KfW Group introduced Paris-aligned sector guidelines for selected emission-intensive sectors for the first time in mid-2021. Within their scope, the sector guidelines serve to shape new commitments in accordance with the temperature target of the Paris Agreement and to systematically strengthen the group-wide contribution to the transformation. This underlines KfW Groups commitment to a greenhouse gas-neutral future and provides an effective instrument for implementing German climate policy. At the same time, KfW Group ensures that existing obligations remain unaffected and that higher-level decisions on funding policy remain possible. Based on superior considerations, the Federal Government of Germany can commission the implementation of Paris-incompatible programmes. To monitor the effectiveness of the sector guidelines and to ensure transparency regarding greenhouse gas emissions associated with the financing portfolio, KfW has established a Group-wide greenhouse gas accounting system.

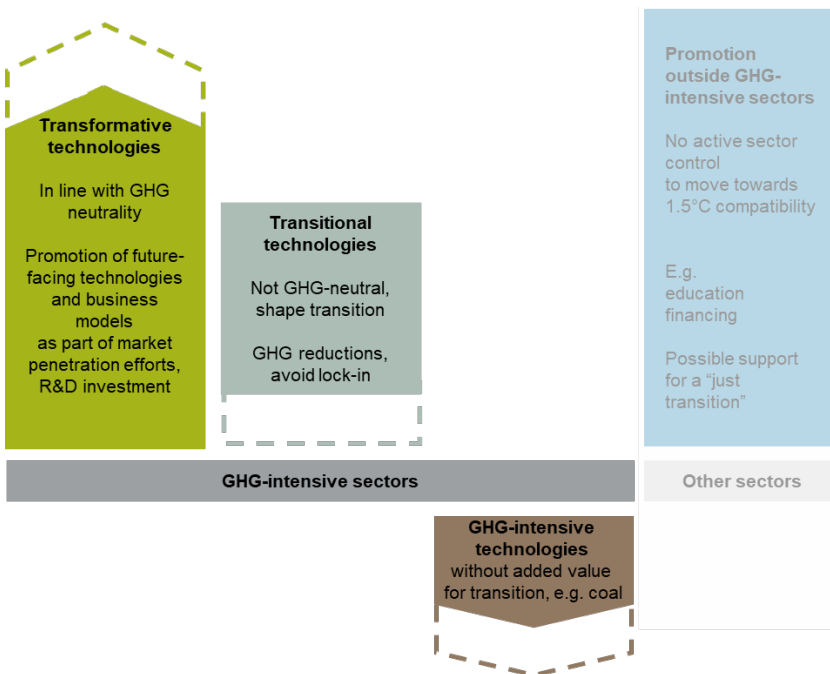
3. Shaping transformation and transition

Within the scope of application, the sector guidelines are Paris-aligned because their defined minimum requirements ensure compliance with the decarbonisation pathways mapped out in Paris-aligned climate scenarios. As a result, the sector guidelines illustrate the mix of transformation and transition technologies that can shape the structural change process in line with the Paris Agreement:

- ➔ KfW Group will increasingly promote transformative technologies that contribute directly to the strived greenhouse gas neutrality. In addition to investments in research and development, this includes greenhouse gas-neutral technologies and business models that are already marketable and need suitable financing for further market penetration. This applies to renewable energies and green hydrogen, for example.
- ➔ KfW Group will temporarily continue to finance transitional technologies. Even though transitional technologies cause greenhouse gas emissions, they play an important role with view to shaping the transition phase in a climate-friendly and successful manner. In terms of Paris-alignment, it is crucial to limit the financing volumes for these technologies in accordance with the Paris-aligned decarbonisation pathways, to continuously rely on the best available technologies and to avoid long-term carbon lock-in effects.

- ➔ Greenhouse gas-intensive technologies that are neither consistent with long-term greenhouse gas neutrality nor required for the transition phase, will be excluded.
- ➔ Financing activities outside of emission-intensive sectors are generally not subject to KfW's Group Paris-aligned steering system, because they are only of minor relevance for achieving the Paris climate targets.

Figure 1: Paris-aligned development of new business in support of transformation and transition phase – Increase the level of ambition through alignment with the 1.5 °C target



4. Focus and steering system

The Paris-aligned sector guidelines of KfW Group focus on sectors which are characterised by high greenhouse gas emissions, and which constitute significant financing volumes regarding group-wide new commitments. This configuration enables KfW Group to target the new financing arrangements with the highest potential for effectively promoting the transformation and to reduce KfW Group's greenhouse gas footprint as much as possible. Due to these considerations, the Paris-aligned sector guidelines are covering (1) automotive sector, (2) iron and steel production, (3) building sector, (4) power generation, (5) aviation and (6) shipping. In addition, a sector guideline for the oil and natural gas sector (7) was published in December 2023. Some sector guidelines are designed to cover all new commitments in a certain sector, while others focus on particularly emission-intensive areas within a sector. As part of the regular reviews, KfW Group will consider expanding its Paris-aligned steering system to include additional emission-intensive sectors and areas.

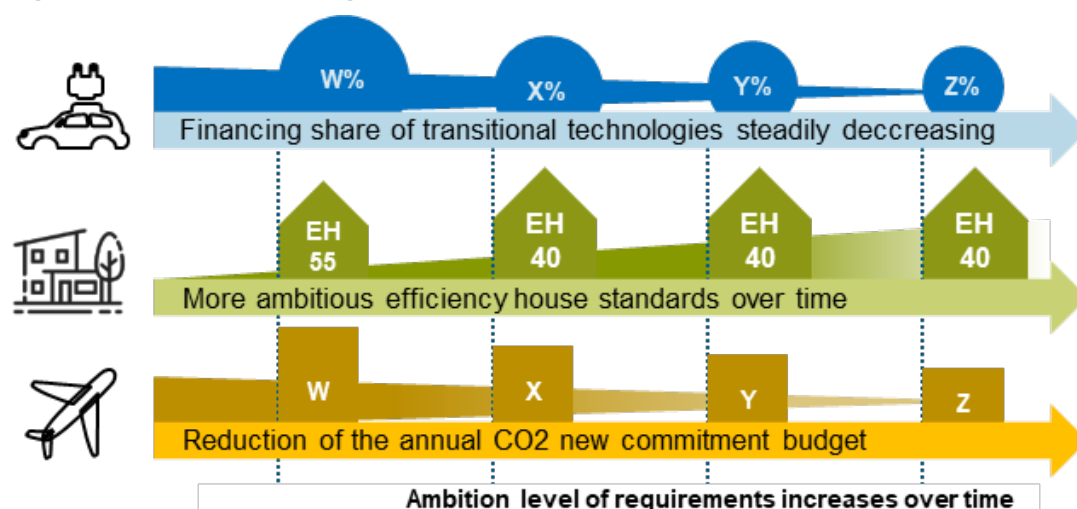
With view to the function of the Paris-aligned sector guidelines, it should be noted that they are not a "manual" for the design of climate protection projects. Instead, they set sector-wide minimum requirements for financed investments in order to avoid harming the climate. With the support of PwC and the Fraunhofer Institute for Systems and Innovation Research ISI, KfW derived these minimum requirements from recognized climate scenarios in a scientific manner. Since then, Fraunhofer ISI has been serving as a scientific advisor to KfW in the further development of the sector guidelines.

Initially the Sustainable Development Scenario (SDS) of the International Energy Agency (IEA), which corresponds to limiting the temperature rise to 1.65°C was used to derive the sector guidelines. In the spirit of climate protection, the KfW Group has focused on the further development of the sector guidelines in 2022 and revised them with regard to the 1.5°C target. This results in a significant increase in the ambition level. For the sectors automotive, iron and steel production, buildings, power generation, aviation and oil and natural gas the minimum requirements were derived from the IEA's "Net Zero by 2050" scenario. For the shipping sector, a steering system was developed that complements the previous technology-based approach based on the SDS. The shipping portfolio will now be additionally steered towards 1.5°C

using real emissions data that KfW IPEX-Bank will receive from shipowners after the Bank joined the Poseidon Principles in September 2022.

At the same time, broad-based transformation support can only be achieved through requirements that remain feasible for customers and partners. Otherwise, the manifold funding and financing offers would not generate impact due to insufficient demand. That is why KfW Group intends to raise the sector guidelines' level of ambition gradually over time, taking into account sectoral technology and market developments. The minimum requirements defined in the sector guidelines are in line with the Paris-aligned decarbonisation pathways of the above-mentioned climate scenarios, which project how the speed of decarbonisation will vary depending on each sector. Consequently, where greenhouse gas-neutral technologies are already marketable, the Paris-aligned sector guidelines define more ambitious minimum requirements than in sectors that are just starting to develop greenhouse gas-neutral solutions. Taking into account KfW Group's role as a digital transformation and promotional bank, this sectoral differentiation helps to particularly advance those sectors in the transformation process that have so far only achieved minor greenhouse gas reductions and are therefore of crucial importance with regard to achieving the Paris climate goals. As the following overview shows, this leads to appropriately adapted and insofar also diverse approaches in the individual sectors, ranging from technology lists and technology quotas to efficiency thresholds and greenhouse gas budgets.

Figure 2: Increase in Paris-aligned minimum requirements over time



To ensure Paris-alignment, the sector guidelines also take into account that the climate impact of financed systems, power plants, buildings etc. does not end with the repayment of the associated loans, because these assets are generally used beyond the loan term. That is why KfW Group has defined the minimum requirements of its Paris-aligned sector guidelines under consideration of the expected technical lifetime of the investments in accordance with the Paris-aligned decarbonisation pathways.

Transformation processes are characterized by increasing intensity and dynamics. This is why KfW Group attaches great importance to the further development and updating of its Paris-aligned sector guidelines. To ensure effectiveness and efficiency, KfW Group regularly evaluates changing framework parameters in a structured manner. If necessary, the sector guidelines are adjusted accordingly. In addition to climate policy objectives, other aspects such as climate science findings, new technological possibilities, market developments and regulatory requirements are also analyzed in this process.

A more detailed description of the sector-specific minimum requirements can be found in the customer version of the Paris-aligned sector guidelines.

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