

# FRAMEWORK EXTERNAL REVIEW SUSTAINABLE FINANCE FRAMEWORK SECOND PARTY OPINION (SPO)

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IKB Deutsche Industriebank AG

16 March 2023

## VERIFICATION PARAMETERS

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<b>Type of Instruments</b>	<ul style="list-style-type: none"><li>Green and Social loans, ESG public program loans, ESG KPI-linked loans</li></ul>
<b>Type of Framework</b>	<ul style="list-style-type: none"><li>Sustainable Finance Framework</li></ul>
<b>Scope of verification</b>	<ul style="list-style-type: none"><li>IKB's Sustainable Finance Framework (as of March, 1 2023)</li><li>IKB's Sustainable financing classification system (as of March, 1 2023))</li><li>IKB Eligibility criteria (as of January 16, 2023)</li></ul>
<b>Validity</b>	<ul style="list-style-type: none"><li>Valid as long as the Framework remains unchanged</li></ul>

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## SCOPE OF WORK

IKB Deutsche Industriebank AG ('IKB' or the 'Bank') commissioned ISS Corporate Solutions ('ICS') to assist with its Sustainable Finance Framework ('SFF' or 'the Framework') by assessing four core elements to determine the quality of its classification system<sup>1</sup> for identifying sustainable lending activities and the sustainability quality of the eligibility criteria:

- Sustainable Finance Framework - benchmarked against market practices and guidelines<sup>2</sup> for loan markets contributing to environmental and social sustainability (see Annex 1)
- IKB's sustainable financing classification system - the soundness of the eligibility parameters to identify eligible sustainable finance activities and the sustainability quality of the eligibility criteria - whether the eligible green and social categories contribute positively to the UN SDGs (see Annex 1)
- ESG Risk Management - assessment of IKB's overarching risk management procedures considered relevant in the context of the Bank's sustainable finance activities (see Annex 1)
- The Sustainable Finance Framework and IKB's overall ESG profile - drawing on the Bank's overall ESG profile and financing activities integrating ESG considerations (see Annex 2)

IKB's Sustainable Finance Framework aims to set forth a methodology for eligible products to classify, track and monitor the Bank's sustainable financing transactions. The Bank commits to originate, facilitate and govern a variety of products within the scope of IKB's product-specific positioning in the field of sustainability including but not limited to Green and Social loans and Sustainability-linked loans.

## IKB Deutsche Industriebank AG

IKB Deutsche Industriebank AG (IKB) is a private commercial bank that focuses on medium-sized companies in Germany and selectively in Europe. Since its foundation, IKB has been closely associated with German companies and entrepreneurs. IKB offers lending and capital market products as well as advisory services for corporate clients. The focus is on long-term financing, with IKB offering a high level of structuring expertise and efficient handling of complex financial situations.

IKB Deutsche Industriebank AG is a holding company, which operates as a specialist bank. The firm provides loans, risk management solutions, capital market and consulting services, leasing and structured solutions, asset management, merger and acquisition, as well as public program loan advisory and corporate structured finance. It operates through the following segments: Public Programme Loans, Corporate Bank, and Corporate Centre. The Public Programme Loans segment includes income and expenses from development loans granted to mid-cap customers as well as consulting services for obtaining and applying for development loans. The Corporate Bank segment comprises of the services provided in connection with internally financed corporate banking business.

<sup>1</sup> The methodology of external reviews provided for sustainable financing, lending, and investment strategies has been developed based on our expertise in assessing a range of sustainable finance-related instruments and frameworks. In general, these types of external reviews are not to be treated as a "pass or fail" assessment of the sustainability quality of sustainable financing, lending, or investment strategies but rather as an overall assessment. Thus, obtaining an external review of an overarching financing framework does not imply a detailed assessment of the sustainability quality of each underlying transaction. A qualitative assessment of sampled eligible ESG products is not in scope of the verification procedures.

<sup>2</sup> The assessment is based on current market practices for sustainable capital markets referring to different market standards and voluntary guidelines including but not limited to the Loan Market Association's (LMA) [Green Loan Principles](#), [Social Loan Principles](#), [Sustainability-Linked Loan Principles](#), the [UNEP-FI PRB](#), and the [Climate Bonds Initiative Standard Version 3.0](#) (version December 2019), [Guidelines proposed by the European Banking Authority \(EBA\) with respect to environmentally-sustainable lending](#).

The Corporate Centre segment consists of the income and expense items from funding and asset liability management and the investment portfolio. The company was founded on September 30, 1924 and is headquartered in Dusseldorf, Germany.

## ASSESSMENT SUMMARY

SECTION	EVALUATION SUMMARY
<p><b>Part I:</b></p> <p><b>Review of IKB's Sustainable Finance Framework</b></p>	<p><b>The Sustainable Finance Framework reflects market practices. IKB has set forth a formal methodology for defining and classifying financing transactions as sustainable, applying a set of environmental, social, and governance criteria. The Framework may be further developed by promoting publicly available policies and implementation processes that ensure systematically the identification and governance of material environmental and social risks associated with the project categories. Beneficiaries of dedicated purpose financings, and where proceeds are not fully drawn immediately, report on proceeds allocation and expected impacts. Post-signing verifications of the borrower's performance level against each SPT for each KPI on an annual basis are required for Sustainability-linked transactions to comply with market standards.</b></p> <p>IKB has set forth a formal concept and proposes clear parameters for sustainable financing, structuring, and arranging transactions under its Sustainable Finance Framework. Eligible types of financing include dedicated purpose and Sustainability-linked or 'ESG-KPI linked' financing. IKB sets forth a quantitative target in a specific timeframe enabling the Bank to monitor the progress against its commitment.</p> <p>The Bank defines transactions under the 'ESG public program loans' parameter, e.g., promoted by the Credit Institute for Reconstruction (Kreditanstalt für Wiederaufbau (KfW<sup>3</sup>), among other promotional banks. In addition, the Bank set forth a clear definition of eligible green and social categories, using an internally developed SDG contribution methodology. Further, the Bank considers EU Taxonomy-aligned activities in its classification methodology. A detailed assessment of eligibility parameters and of the sustainability quality of the eligible categories for 'SDG contributing activities' can be found in Part II A and II B of this report. For 'ESG-KPI linked' transactions, the Bank sets forth an internal methodology. IKB as a lender respectively the arranger encourages its borrowers to obtain an external review on a deal-by-deal basis assessing the borrower's performance level against each SPT for each KPI, in line with market practices.</p> <p>Internal selection and evaluation procedures are considered appropriate, documented, and transparent. Responsibilities and accountabilities are defined, and duties are segregated. The Framework may be further developed with regard to the development of an internal classification system enabling the categories assessment against the EU Taxonomy (Climate Delegated Act of June 2021), the alignment with the Technical Screening Criteria (TSC) and compliance with the Do No Significantly Harm (DNSH), and the Minimum Safeguards (MS) criteria.</p> <p>For its dedicated purpose financing transactions, the use of proceeds nature and the transactions' initial setup aim to ensure that transactions classified as sustainable remain in line with the eligibility criteria for sustainable lending throughout their lifecycle. Where proceeds are not drawn fully immediately borrowers communicate on the use of proceeds and expected impacts of the projects until fully drawn or in the event of material developments.</p> <p>Relevant reporting is conducted frequently and partially made publicly available. As data availability in terms of impact metrics improves IKB will be able to further develop tracking mechanisms and disclosure of the expected and achieved impact of dedicated sustainable financing activities on environmental and social objectives.</p>

<sup>3</sup> Kreditanstalt für Wiederaufbau (KfW), <https://www.kfw.de/About-KfW/>

**Part II:** **The Bank’s sustainable financing decision tree reflects market practice. Pre-signing reviews are recommended by market standards. For Sustainability-linked transactions, information about the overarching sustainability-related business objectives of the borrowers may be collected.**

**Assessment of IKB’s sustainable financing classification system**

IKB has put forth three sets of eligibility criteria for loan transactions to be classified as sustainable:

- 1. Parameter 1 (Dedicated purpose financing):** where the use of proceeds satisfies the criteria set forth in ‘ESG public program loans’ promoted e.g., by the Credit Institute for Reconstruction (Kreditanstalt für Wiederaufbau (KfW))<sup>4</sup> among other promotional banks, EU Taxonomy aligned activities<sup>5</sup> or satisfies green or social eligibility criteria ‘SDG contributing activities’.

Per definition, promotional banks are ‘legal entities carrying out financial activities on a professional basis which are given a mandate by a Member State or a Member State’s entity at central, regional or local level, to carry out development or promotional activities’. Through their promotional loans, which are earmarked for a specific purpose, promotional banks can contribute to specific environmental and social benefits. E.g., Public loan programs promoted by the KfW cover areas such as energy-efficient buildings or construction investments for electricity or heat from renewable energy sources or investment activities in production facilities in Germany and EU member states that meet the requirements of the EU Taxonomy.

99% of the green and social eligibility criteria (counted as number project categories) have either a limited or a significant contribution to the Sustainable Development Goals (SDGs 3,4,6,7,11,12,13,14). A comprehensive assessment of the sustainability quality of the eligibility criteria for ‘SDG contributing activities’ defined under the Framework can be found in Part II B.

- 2. Parameter 2 (General purpose financing):** Sustainability-linked financing ‘ESG KPI linked’ transactions that meet proprietary eligibility methodology.

**PART III:** **ESG risks relevant in the context of the Bank’s sustainable lending activities are considered to be well managed.**

**Assessment of IKB’s ESG Risk Management procedures**

The Bank has a policy in place under which it systematically conducts a verification process to analyze ESG risks. IKB has defined ESG risk assessment processes applicable at the group level. The vast majority of borrowers to whom IKB offers its financing or arranging services are located in Germany. The Bank relates to national/ European legislation to monitor various ESG risks. The Bank will address measuring financed of emissions in line with regulatory requirements. The majority of IKB’s loan portfolio is reported to be composed

<sup>4</sup> The eligible categories set forth are considered to have a net positive impact on environmental and/or social factors. Public program loans were already included in the IKB Green Loan Framework developed in 2022 verified and positively assessed by an independent third party. ‘ESG public program loans’ representing the majority of IKB’s loan portfolio, are originated by Kreditanstalt für Wiederaufbau (KfW), North Rhine-Westphalia (NRW.Bank), Förderbank für die Agrarwirtschaft und den ländlichen Raum (LRB), Förderbank Baden-Württemberg (L-Bank), Förderbank Bayern (LfA) More information of the respective public program loans can be found on the following websites: [KfW](#) and [NRW.Bank](#)

<sup>5</sup> At the publication date of this Framework, IKB is still in the preparatory phase and fully implements the sustainability assessment according to the EU Taxonomy regulation at latest in 2023.

by KfW funding programs, where environmental and social standards need to be met and which are individually assessed. Furthermore, for all 'ESG financing transactions' the Bank runs manually an individual preliminary ESG checklist.

**PART IV:**

**The Sustainable Finance Framework is consistent with IKB's group sustainability strategy.**

**The Sustainable Finance Framework's link to IKB's overall ESG profile**

The Sustainable Finance Framework is considered consistent with the Bank's sustainability strategy. The rationale for developing a Sustainable Finance Framework is described by IKB.

At the date of publication and leveraging ISS ESG Research, no controversies in which the Bank would be involved have been identified.

## FRAMEWORK EXTERNAL REVIEW ASSESSMENT

### PART I: REVIEW OF IKB'S SUSTAINABLE FINANCE FRAMEWORK

In its Sustainable Finance Framework, IKB defines its methodology for classifying eligible transactions as sustainable for the purpose of tracking and disclosing its performance. IKB has set forth a formal concept and proposes parameters for sustainable financing, structuring and arranging transactions under its Framework.

These processes are reviewed against current market practices for sustainable loan markets derived from market standards and voluntary guidelines. The assessment is therefore based on derived key principles for transparency, disclosure and non-contamination of sustainable labelled-products, e.g., from the Loan Market Association (LMA) Green and Social Loan Principles (GLP and SLP) and Sustainability-Linked Loans Principles (SLLP), the TEG final report on the EU Taxonomy and Technical Annex.

CRITERIA	OPINION
<b>0. Targets, Objectives &amp; Progress</b>	<p>In its Sustainable Finance Framework, IKB puts forth a definition of the sustainability objectives aligned with the group's sustainability strategy. The Sustainable Finance Framework expands the existing Green Loan Framework to include own-funded corporate loans, thus providing a holistic view of IKB's sustainable product positioning. Further, the Bank outlines memberships such as to the United Nations Environmental Finance Initiative (UNEP FI) and commits to the United Nations Principles for Responsible Banking (UNP-PRB). In 2021, IKB committed to and signed the German "Charta der Vielfalt"<sup>6</sup>. The Framework applies at IKB group level. IKB pursues a strategic, regulatory, and product-driven agenda-setting in the ESG context. IKB has set itself the ambitious milestone of mobilizing 3-4 billion euros in sustainable products by the end of 2025.</p> <p><b>Opinion:</b> <i>The sustainability strategy and objectives defined by IKB at group level and its financing, structuring, and arranging activities integrating ESG considerations are relevant to its sector and business model (as outlined in Part IV.B of this report). IKB sets forth a quantitative target in a specific timeframe enabling the Bank to monitor the progress against its commitment. In its voluntary non-financial annual report, the Bank provides transparency on the share of EU Taxonomy-compliant assets.<sup>7</sup></i></p>
<b>1. Definition of sustainable financing activities</b>	<p>In its Sustainable Finance Framework IKB sets out types of eligible financing integrating ESG considerations, which include:</p> <ul style="list-style-type: none"> <li>▪ <b>Dedicated purpose Financing</b> where the use of proceeds satisfies the 'ESG public program loans' promoted e.g., by the Credit Institute for Reconstruction (Kreditanstalt für Wiederaufbau (KfW)) among other promotional banks, EU Taxonomy aligned activities or satisfies either green or social eligibility criteria 'SDG contributing activities' set forth in the underlying Framework.</li> </ul>

<sup>6</sup> German "Charta der Vielfalt", <https://www.charta-der-vielfalt.de/en/>

<sup>7</sup> IKB - Summarized separate non-financial report 2021, <https://www.ikb.de/GetDocument?publicationGuid=c8187c7d-5828-499f-81c8-ce314ceabe28&filename=220429+Nichtfinanzieller+Bericht+IKB+2021.pdf>



- **General purpose Financing (Sustainability-linked Financing)** which meets proprietary 'ESG KPI linked' eligibility methodology

IKB's eligibility parameters are reviewed in Part II of this report.

The Bank is including new facilities and refinancing of existing facilities. For its Social, Green, and Sustainability-linked transactions, the Bank provides a set of eligibility parameters. The product offering includes:

PRODUCT	DESCRIPTION	CRITERIA
<b>Green, Social Loans</b>	Eligible to 'ESG public programs' and use of proceeds loans complying with green or social eligibility criteria ('SDG contributing activities') and EU Taxonomy aligned activities	<ul style="list-style-type: none"> <li>▪ LMA Green and Social Loan Principles</li> <li>▪ IKB Eligibility criteria</li> <li>▪ EU Taxonomy</li> </ul>
<b>Sustainability-linked Loans</b>	Dynamic and flexible instruments following an internal methodology and based on predefined 'ESG KPIs'	<ul style="list-style-type: none"> <li>▪ LMA Sustainability-Linked Loan Principles</li> <li>▪ IKB Framework criteria</li> </ul>

*Table 1 IKB's Sustainable Product Scope*

IKB is still in the preparatory phase and fully implements the sustainability assessment according to the EU Taxonomy regulation following its development, at the latest in 2023. Thereby, the Bank commits to fully implement all aspects (Technical Screening Criteria (TSC), Do No Significant Harm (DNSH), and Minimum Safeguards (MS)) in a comprehensive manner. When established, the classification criteria EU Taxonomy aligned activity will be integrated into the standardized classification process outlined in section 4 of the Framework.

With respect to the outlined exclusions, IKB is committed at group level<sup>8</sup>. Separate exclusion criteria in the context of its Framework have not been defined. IKB targets to be the financier, structurer or arranger for its clients' sustainable transition rather than e.g., to exclude emission-intensive sectors from financial means.

**Opinion:** *IKB presents a clear definition of what it considers sustainable financing and refers to relevant market principles as developed by the Loan Market Association (LMA). Eligibility criteria have been defined to classify transactions as sustainable, including 'SDG contributing activities' if the use of proceeds is dedicated to satisfying green or social categories, beneficiaries satisfying 'ESG public program'*

<sup>8</sup> As outlined in section 3.2 in the underlying Framework, business activities that violate certain legal and value standards are generally not permitted. This includes, among others, support/ promotion of criminal activities/ business practices such as drug and human trafficking, money laundering, bribery, corruption, tax evasion, and speculation on basic foodstuffs, scarce raw materials, and comparable elementary products.

eligible programs, EU-Taxonomy aligned activities, or sustainability-linked or 'ESG KPI linked' financing that meet IKB's proprietary methodology. The Bank has set forth a pre-defined KPI set, reflecting market practices. The Framework and product scope may be further developed with regard to the implementation of a structured process for the application of the EU Taxonomy and the classification of EU Taxonomy aligned lending transactions, where beneficiaries are required to disclose the necessary information to meet the TSC, DNSH and MS. A detailed assessment of the eligible parameters and of the sustainability quality of the eligibility criteria 'SDG contributing activities' can be found in Part II A and B of this report.

## 2. Evaluation & Selection Process

The Bank has set forth a formal process for the evaluation and selection process:

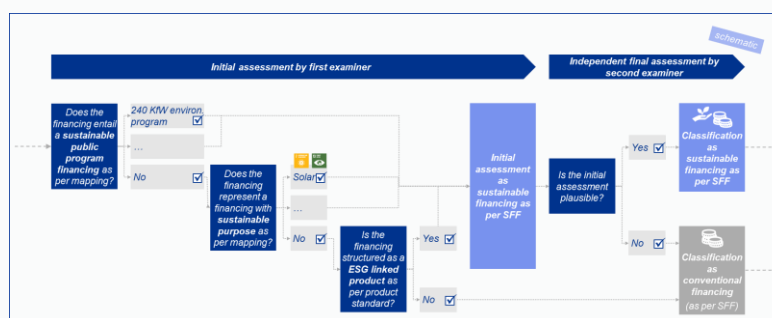


Figure 1 IKB simplified illustration of the sustainability assessment process

The assessment takes place within the credit process in two separate stages. In order to ensure objective assessments, the four-eye principle is followed by involving two separate teams as first and second examiners. IKB ensures the comprehensive documentation of (final) results and the assessment process within existing IKB structures.

For 'ESG KPI linked' transaction IKB uses four steps to choose and implement adequate KPIs: (1) KPI selection, (2) KPI definition, (3) setting of sustainability performance targets (SPTs) as well as (4) the linkage to loan characteristics. For example, when selecting a sustainability KPI, attention must be paid to the materiality of the indicator for ESG aspects (effective leverage) as well as the measurability of this aspect. The SPTs to be defined should express the ambition level of the borrower. The classification criteria 'dedicated purpose financing transactions' can be examined in the standardized tool while criterion 'ESG KPI linked' financing is not yet included due to unavailability of client data/ information. It shall be integrated into the standardized sustainability assessment as soon as possible.

**Opinion:** The process for eligible products' evaluation and selection is described. Responsibilities are defined and duties are segregated. The selection process is documented and accountabilities for verifying each transaction's eligibility are disclosed. Where feasible, the Framework may be further improved with regard to 'ESG KPI linked' loans, where information about sustainability-related business objectives of the borrowers may be collected. The Framework may be further developed by promoting publicly available policies and implementation processes that ensure systematically the identification and governance of material environmental and social risks associated with the project categories.

### 3. Governance & Monitoring

All eligible transactions are subject to the Bank's overarching sustainability criteria considering the groups' ESG risk management processes and are reviewed on an annual basis.

The allocation of funds subject to its sustainable finance classification to eligible activities, proceeds tracking is monitored at borrower's level. For its 'ESG public program' loans, a dedicated monitoring process ensures wheatear financial means are effectively allocated to the defined purpose. With regard to other types of dedicated purpose financing transactions, IKB will consider individually how the client provides verification of the use of the funds.

The use of the proceed for 'ESG KPI linked' transactions is not tied to a specific purpose and may therefore be used for general purpose financing. Due to the general fungible nature of financing flows, the general-purpose financing may indirectly benefit sectors and activities that are not defined as sustainable. The monitoring for 'ESG KPI linked' loans will be conducted on an annual basis, observing the actual performance of the predefined ESG KPI(s).

**Opinion:** *With respect to dedicated purpose financings, the sustainability assessment is based on the purpose of the transactions, regulated in the loan documents (e.g., how the eligibility criteria defined in the loan documentation align with the eligibility criteria defined in the Framework). These preliminary controls aim to ensure that the products classified as sustainable remain in line with the criteria for sustainable lending transactions throughout their lifecycle. Further, for 'ESG public program loans', a dedicated monitoring process ensures the financial means are effectively spent for the eligible categories. For its dedicated purpose financing transactions, the use of proceeds nature and the transactions' initial setup aim to ensure that transactions classified as sustainable remain in line with the eligibility criteria for sustainable lending throughout their lifecycle. Where proceeds are not fully drawn immediately, borrowers should communicate on the use of proceeds and expected impacts of the projects until fully drawn or in the event of material developments. For 'ESG KPI linked' transactions post-signing, in case of any material change to parameters/ KPI methodology/SPT(s) calibration, borrowers are encouraged to engage external reviewers to assess any of these changes. Annual reporting on the performance of the SPTs should be made available to the lender enabling the evaluation of the borrower's performance. For its dedicated purpose financing transactions, the Framework could be improved outlining the process to monitor the expected and actual impact on environmental and social objectives, as data availability improves.*

### 4. Reporting

The volume defined as sustainable financing based on the classification method outlined in the Sustainable Finance Framework is published annually in the Bank's non-financial report<sup>9</sup>. In the case of 'ESG KPI linked' loans the borrower is required to report on an annual basis on the actual performance of the predefined ESG KPI(s).

**Opinion:** *Reporting occurs on a regular basis and is made publicly available partially being included in IKB's publicly available non-financial annual reporting. Beneficiaries of Green and Social loan transactions, where proceeds are not fully drawn immediately or in the event of material developments or until the loan*

<sup>9</sup> IKB's annual reports can be found at: <https://www.ikb.de/ueber-uns/investor-relations>

	<p><i>maturity in the case of an revolving credit facility, where feasible should be encouraged to monitor and report on expected and achieved impacts using qualitative performance indicators and, where feasible, quantitative performance measures. Further, for 'ESG KPI linked' loans, SLLP recommends to externally review the recurrent reporting on Key Performance Indicator's performance, being core to the effectiveness with regard to sustainability improvements (post-signing verifications).</i></p>
<p><b>5. Verification</b></p>	<p>The Framework will be reviewed at least once a year and updated if necessary. The timing and scope depend on strategic and regulatory developments (e.g., EU Taxonomy).</p> <p><b>Opinion:</b> <i>IKB commissioned ICS to review its Sustainable Finance Framework against market practices and guidelines. The external review will be made available to relevant stakeholders.</i></p>

## PART II: ASSESSMENT OF IKB'S SUSTAINABLE Finance CLASSIFICATION SYSTEM

### A. ASSESSMENT OF THE CRITERIA OUTLINED IN IKB'S SUSTAINABLE FINANCING CLASSIFICATION SYSTEM

To provide an opinion on the sustainability credentials of each of the key sets of criteria defined by IKB, we evaluate the prevalence and robustness of the selection parameters, taking into account market practices across different sustainable finance asset classes.

IKB has set forth the following sets of eligibility criteria for transactions considering ESG integration to be classified as sustainable:

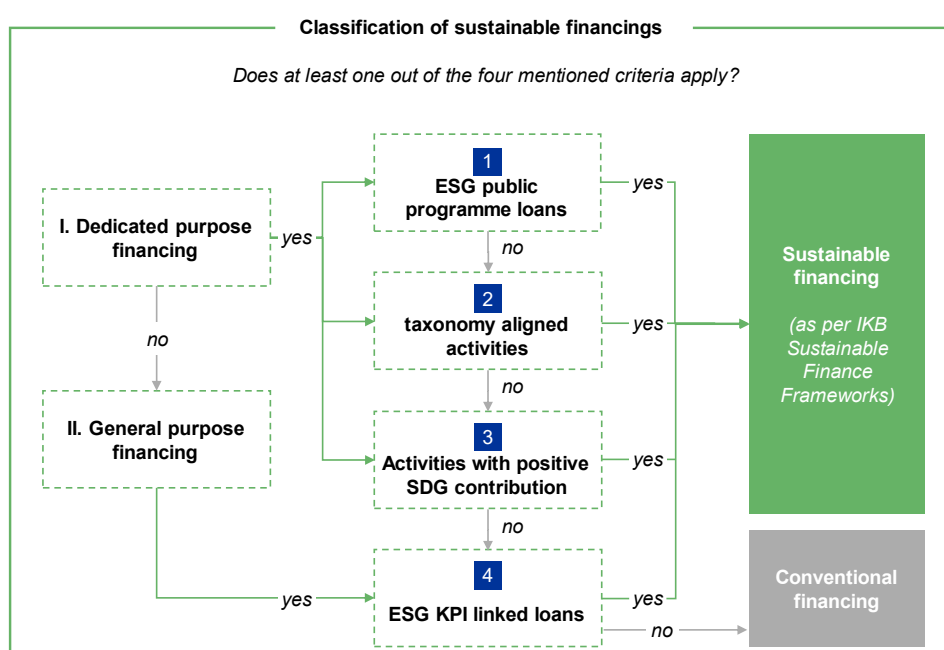


Figure 2 IKB Classification of Sustainable Financing

In the below table, each parameter outlined in IKB's Sustainable Finance Framework split into different financing approaches is assessed. The evaluation is based on criteria derived from market practices<sup>10</sup>.

PARAMETER	CRITERIA	ASSESSMENT
<b>Dedicated Purpose Financing (standard approach)</b>	Dedicated Purpose Financing contributes to sustainability objectives if proceeds are exclusively allocated to activities that are subject to specific and credible ESG-related eligibility criteria.	IKB sets forth a list of eligible categories. The first category covers public program loans, e.g., KfW loan programs, among other promotional banks. A dedicated monitoring process is in place, whether the financial means are effectively spent for the defined purpose. For the third category IKB will consider individually how the client provides verification of the use of the funds allocated to eligible green and social categories 'SDG contributing activities' as presented in

<sup>10</sup> These include, but are not limited to the GLP and SLP, and SLLP, as administered by the LMA; the UNEP FI PRB and the EBA LOaM guidelines for environmentally sustainable lending.

the underlying Framework. A detailed SDG assessment of the eligibility criteria can be found in Part II B of this report.

At the publication date of this Framework, IKB is in the preparatory phase and fully implements the assessment according to the EU Taxonomy regulation at the latest in 2023, integrating EU Taxonomy aligned activities in the sustainable financing scheme outlined as category 2.

Eligible categories under the KfW public program loans are originated by the German Credit Institute for Reconstruction (KfW), one of the world's leading promotional banks and are defined as sustainable if they are linked to a positive social or environmental impact. Public loan programs promoted by the KfW<sup>11</sup> covers areas such as energy-efficient buildings or construction investments for electricity or heat from renewable energy sources, investment activities in production facilities in Germany and EU member states that meet the requirements of the EU Taxonomy. KfW's environmental share of financing or share of promotional loans achieved 53% in 2021, a total business volume of EUR 107 billion.<sup>12</sup> KfW is an institution under public law, 80% of which is owned by the German Federal Government, with the remaining 20% owned by the German Federal States.

As the development bank for North Rhine-Westphalia, NRW.BANK supports its owner and guarantor, the State of North Rhine-Westphalia, in fulfilling its structural and economic policy tasks as well as efficiently structuring development in North Rhine-Westphalia. NRW.BANK's promotional loan activity is thematically oriented. This is reflected in the subdivision into the promotion fields 'Economy', 'Housing' and 'Infrastructure/Municipalities'.<sup>13</sup> IKB as an arranger considers loan programs e.g. in the field of investments in energy generation, storage and distribution facilities or efficiency loans supporting companies in the implementation of energy- and resource-saving measures, and in investments in non-residential buildings that contribute to substantial energy savings and significant reductions in CO<sub>2</sub> emissions.

**Promotional banks have been defined as "legal entities carrying out financial activities on a professional basis which are given a mandate by a Member State or a Member State's entity at central,**

<sup>11</sup> More information of the respective public program loans can be found on the following websites: [KfW](#) and [NRW.Bank](#)

<sup>12</sup> KfW 2021 Sustainability Report 'Data according to GRI, HGB and TCFD' <https://www.kfw.de/PDF/Download-Center/Konzernthemen/Nachhaltigkeit/englisch/Sustainability-Report-2021.pdf>

<sup>13</sup> NRW.BANK Annual Report, [https://www.nrwbank.de/export/\\_galleries/downloads/Info-und-Service/Finanzberichte/NRWBANK\\_Geschaeftsbericht\\_2021.pdf](https://www.nrwbank.de/export/_galleries/downloads/Info-und-Service/Finanzberichte/NRWBANK_Geschaeftsbericht_2021.pdf)

		<p>regional or local level, to carry out development or promotional activities"<sup>14</sup>. Through their promotional loans, which are earmarked for a specific purpose, promotional banks can contribute to specific environmental and social benefits. IKB selected a few promotional loan programs (integrating ESG factors in the lending guidelines) such as the 270 KfW Renewable Energies Standard<sup>15</sup>, which focus on construction investments for the generation of electricity or heat from renewable energy sources at home and abroad. While we have not provided a detailed SDG assessment of each project that might be financed under the promotional loan programs selected by IKB<sup>16</sup>, we recognize that considering a specific list of promotional loans as sustainable is a credible approach and in line with market practices.</p> <p>Based on our proprietary SDG Solutions Assessment (SDGA) methodology, 100% (above 90%<sup>17</sup>) of the eligible 'SDG contributing criteria' have either a limited, or a significant contribution to the Sustainable Development Goals.</p> <p>To further improve the Framework, depending on the loan's materiality<sup>18</sup>, an independent pre-signing third-party verification on deal-by-deal basis might be considered to enable the evaluation of the transaction and the alignment of the transaction with the EU Taxonomy, if applicable.</p>
<p><b>General Purpose Financing (Sustainability-linked financing)</b></p>	<p>Sustainability-linked financing contributes to sustainable objectives if the associated KPIs<sup>19</sup> are material, core, and relevant to the borrower's business model and the associated targets are ambitious. Further, it is considered as best market practice those transactions are subject to an external review, providing verification of the alignment against LMA core principles,</p>	<p>For Sustainability-linked loans, IKB refers to the core components of the LMA Sustainability-Linked Loan Principles (SLLP) and criteria set forth in IKBs Framework. IKB presents a non-exhaustive list of ESG KPIs that can serve as indicators for an 'ESG KPI linked' transaction (Appendix I of the Framework). IKB uses four steps to choose and implement adequate KPIs for an 'ESG KPI linked loan': (1) KPI selection, (2) KPI definition, (3) setting of SPTs as well as (4) the linkage to loan characteristics. Borrowers are incentivized to improve their sustainability performance and thus supported in achieving their transformation goals. The KPI performance is reviewed periodically on an annual basis and, if necessary, leads to margin adjustments</p>

<sup>14</sup> European Parliament, 2016, New financial instruments and the role of national promotional banks, [New financial instruments and the role of national promotional banks \(europa.eu\)](https://www.europa.eu)

<sup>15</sup> KfW 270, [https://www.kfw.de/inlandsfoerderung/Privatpersonen/Bestandsimmobilie/F%C3%B6rderprodukte/Eneuerbare-Energien-Standard-\(270\)/](https://www.kfw.de/inlandsfoerderung/Privatpersonen/Bestandsimmobilie/F%C3%B6rderprodukte/Eneuerbare-Energien-Standard-(270)/)

<sup>16</sup> The promotional loan programs cover a non-exhaustive list of projects on which we would need further details to be able to run a detailed SDG assessment. Using an ISS ESG proprietary methodology, some projects financed under those programs might be considered as having no net impact on UN SDGs.

<sup>17</sup> It is noted that at least 90% of the eligible categories considered under the underlying Framework (i.e., 100% that are classified as sustainable) should contribute positively to the SDGs, in conformity with the ISS ESG SDGA methodology.

<sup>18</sup> Linked to the volume and/or type of transaction.

<sup>19</sup> Key Performance Indicators, which can be external or internal and fit into the sustainability strategy of the borrower should be relevant, measurable, externally verifiable, and able to be benchmarked.

	<p>the aforementioned dimensions, and, in particular, the ambition of the selected SPTs<sup>20</sup>.</p>	<p>through premiums or discounts if the predefined SPTs are reached or not reached.</p> <p><b>We favorably note the reference to the relevant market standards for sustainability-linked financing. A preliminary external review of the selection and ESG effectiveness of the defined KPI and set-up might limit the risk of financing provided to entities that have not set adequate sustainability goals and/or credible action plans to reach sustainability objectives. Due to the general fungible nature of financing flows, general-purpose financing may indirectly benefit financing of economic activities, that are not considered as sustainable. Where applicable, information about sustainability-related business objectives of the borrowers should be collected. Further, to comply with the SLLP promoted by the LMA, borrowers are required to obtain post-signing external verifications of the performance level against each SPT for each KPI at least once a year.</b></p>
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<sup>20</sup> Sustainability Performance Targets, which should be ambitious, represent a material improvement in the respective KPIs, where possible be compared to a benchmark, be consistent with the borrowers' overall ESG strategy and be determined on a predefined timeline.



## B. CONTRIBUTION OF ELIGIBLE CATEGORIES TO THE UN SDGs

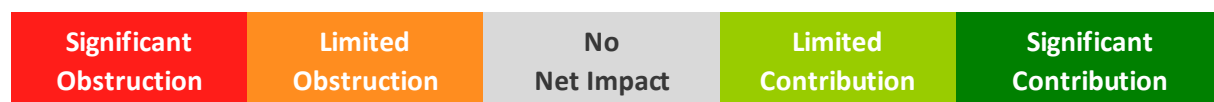
Financial Institutions can contribute to the achievement of the SDGs by financing and arranging eligible services/products/activities addressing global sustainability challenges, and by being responsible actors, working to minimize negative externalities in their operations along the entire value chain. The aim of this section is to assess the SDG impact of the eligible categories in two different ways, depending on whether the proceeds are used to (re)finance:

- products/services,
- improvements of operational performance.

### Products and services


The assessment of eligible categories for (re)financing products and services is based on a variety of internal and external sources, such as the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of a borrower’s products or services on the UN SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate Delegated Act, the ICMA Green and/or Social Bond Principles and other regional taxonomies, standards and sustainability criteria).

The assessment of the eligible categories for (re)financing is displayed on 5-point scale (see Annex 1 for methodology):









Each of the dedicated purpose financing transactions use of proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

### **GREEN CATEGORIES<sup>21</sup>**

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p><b>Solar Energy, Wind power, Ocean Energy, Hydropower small-scale (&lt; 10MW), Geothermal Energy, Hydrogen production from wind and solar energy</b></p> <ul style="list-style-type: none"> <li>▪ Development or production of components for the generation and storage of renewable energies</li> <li>▪ Renewable energy project developers</li> <li>▪ Operation and maintenance of renewable energy projects</li> </ul>	<p><b>Significant Contribution</b></p>	

<sup>21</sup> For Green eligibility criteria that strictly align with the full EU Taxonomy Technical Screening Criteria for a substantial contribution to climate change mitigation, a significant contribution to SDG 13 is provided.




<p><b>Battery storage from a renewable energy source, thermal energy, and green hydrogen storage</b></p>	<p><b>Significant Contribution<sup>22</sup></b></p>	
<p><b>Hydropower - Medium to large scale: (+10 to 1,000MW)</b></p> <ul style="list-style-type: none"> <li>Development or production of components for the generation and storage of renewable energies</li> <li>Renewable energy project developers</li> <li>Operation and maintenance of renewable energy projects</li> </ul>	<p><b>Limited Contribution</b></p>	
<p><b>Power transmission and distribution grids for renewable energy sources</b></p>	<p><b>Limited Contribution<sup>23</sup></b></p>	
<p><b>Charging stations for electric vehicles and electric infrastructure for public transport</b></p>	<p><b>Limited Contribution</b></p>	
<p><b>Bioenergy - Production of 2nd generation biofuel<sup>24</sup></b></p> <ul style="list-style-type: none"> <li>Development or production of components for the generation and storage of renewable energies</li> <li>Renewable energy project developers</li> <li>Operation and maintenance of renewable energy projects</li> </ul>	<p><b>Limited Contribution</b></p>	
<p><b>Bioenergy - Production of 3rd generation biofuels (irrespective of certification)</b></p> <ul style="list-style-type: none"> <li>Development or production of components for the generation and storage of renewable energies</li> <li>Renewable energy project developers</li> <li>Operation and maintenance of renewable energy projects</li> </ul>	<p><b>Limited Contribution<sup>25</sup></b></p>	

<sup>22</sup> Please note that this assessment is based on the fact that these products are stemmed from energy source of wind power and solar energy.

<sup>23</sup> Please note that this assessment is based on the fact that these infrastructures are dedicated for renewable energy sources, however the renewable energy sources have not been identified.

<sup>24</sup> Please note that IKB confirmed that it will exclude wood-based biomass as biofuel in this category.

<sup>25</sup> Please note that this assessment is based on the fact that the plants are not grown on purpose for biomass that contributes to the biofuels.

<p><b>Smart grid technologies</b></p>	<p><b>Significant Contribution<sup>26</sup></b></p>	
<p><b>Real estate and green building</b></p> <p>LEED Gold, BREEAM Excellent, DGNB Gold, HQE Excellent</p>		
<p><b>Real estate and green building</b></p> <ul style="list-style-type: none"> <li>▪ EPC Level A</li> <li>▪ Construction, acquisition, and ownership of highly energy-efficient buildings being in line with the following aspects of the Technical Screening Criteria (TSC) 7.7 of the EU Taxonomy regulation:             <ul style="list-style-type: none"> <li>▪ The primary energy demand is within the best 15% of the local stock or complies with local energy efficiency regulations</li> </ul> </li> <li>▪ Renovation measures of existing buildings need to be in line with the following aspects of the TSC 7.2 of the EU Taxonomy regulation:             <ul style="list-style-type: none"> <li>▪ Renovation achieves energy savings of <math>\geq 30\%</math> or the primary energy demand after renovation is within the best 15% of the local stock or complies with local energy efficiency regulations<sup>27</sup></li> </ul> </li> <li>▪ Renovation measures of existing buildings need to be in line with the following aspects of the TSC 7.3 of the EU Taxonomy regulation:             <ul style="list-style-type: none"> <li>▪ Measures that increase the energy efficiency of buildings and/or enable the use/generation of renewable energy and energy-efficient technologies, e.g. installation of LED lighting systems, etc.</li> </ul> </li> </ul>	<p><b>Limited Contribution</b></p>	

<sup>26</sup> Please note that this assessment is based on Smart grid technologies from renewable energy sources of wind power and solar energy

<sup>27</sup> IKB has stated that the energy saving will be measured through comparing EPC level before and after the renovation.

**Real estate and green building**

Renovation measures of existing buildings need to be in line with the following aspects of the TSC 7.3 of the EU Taxonomy regulation:

- Measures that increase the energy efficiency of buildings and/or enable the use/generation of renewable energy and energy-efficient technologies, e.g. installation of energy management systems.

Limited Contribution



**Real estate and green building**

Renovation measures of existing buildings need to be in line with the following aspects of the TSC 7.3 of the EU Taxonomy regulation:

- Measures that increase the energy efficiency of buildings and/or enable the use/generation of renewable energy and energy-efficient technologies, e.g. installation of photovoltaic systems, replacement of doors and windows with energy-efficient options.

Significant Contribution



**Water**








- Front-to-end water collection, treatment and supply systems with high energy efficiency<sup>28</sup> in terms of water consumption per cubic meter
- Activities (mechanical, chemical, biological) that improve quality of wastewater before discharging into the public sewage system
- Activities that directly address resource conservation in the manufacturing process (fresh water, process water and wastewater)
- Water-saving conversion of cleaning and pre-treatment processes<sup>29</sup>

Significant Contribution



<sup>28</sup> IKB has confirmed that the energy efficiency will be certified by water-efficiency standard i.e. ISO 46001.

<sup>29</sup> This category is targeted to finance activities that involves treatment of wastewater.

<p><b>Water</b></p> <ul style="list-style-type: none"> <li>Water-saving conversion of cleaning and pre-treatment processes<sup>30</sup></li> </ul>	<p>Limited Contribution</p>	
<p><b>Water</b></p> <ul style="list-style-type: none"> <li>Protection and restoration of aquatic ecosystems<sup>31</sup></li> </ul>	<p>Significant Contribution</p>	
<p><b>Circular Economy</b></p> <ul style="list-style-type: none"> <li>Reuse and recycling of waste to secondary raw materials such as recycling of Gas, Metals (Aluminium, steel etc.), Paper, Wood, Glass, synthetic material (i.e. plastics mineral), building materials, Textiles, batteries, other waste</li> <li>Products / Services with a clear reusability focus and Re-useable packaging products</li> </ul>	<p>Limited Contribution</p>	
<p><b>Circular Economy</b></p> <ul style="list-style-type: none"> <li>Recycling Services, Recycling facilities (recycling plants, sludge treatment plants, waste treatment plants)</li> </ul>	<p>Significant Contribution</p>	
<p><b>Circular economy</b></p> <ul style="list-style-type: none"> <li>Expansion of take-back systems for recycled materials from the end-consumer sector</li> </ul>	<p>Limited Contribution</p>	
<p><b>Circular economy</b></p> <ul style="list-style-type: none"> <li>Anaerobic digestion plants for the production of biogas and digestate from biowaste</li> </ul>	<p>Limited Contribution</p>	
<p><b>Transport and storage</b></p> <ul style="list-style-type: none"> <li>Electric vehicles without direct emissions and direct components (such as batteries)</li> </ul>	<p>Limited Contribution</p>	

<sup>30</sup> This category is targeted to finance activities that involves purification and disinfectant use for drinking water.

<sup>31</sup> This category is targeted to finance activities that will protect and restore aquatic ecosystem(s) that are not previously being detrimental.

**Transport and storage**

Infrastructure for freight transport, in line with one of the following vehicle-specific thresholds outlined in the EU taxonomy (TSC):

- Freight rail transport (6.2)
- Vehicles with direct emissions below 50 g CO2e/km (6.5)
- Freight transport services by road (6.6)
- Inland freight water transport (6.8)
- Retrofitting of inland water freight transport (6.9)
- Sea and coastal freight water transport, vessels for port operations and auxiliary activities (6.10)
- Retrofitting of sea and coastal freight water transport (6.12)
- Infrastructure for personal mobility, cycle logistics (6.13 TSC EU Taxonomy, if and to the extent applicable)
- Necessary infrastructure for direct zero-emission and low-carbon transport, as outlined in the TSC of the EU Taxonomy (6.14 – 6.16), if and to the extent applicable:
  - Infrastructure enabling low-carbon road transport and public transport (6.15)
  - Infrastructure enabling low-carbon water transport (6.16)

**Significant Contribution**



**Limited Contribution**



**Information and communication technology**

- Greenhouse gas emissions (GHG) monitoring technology, e.g., data-driven solutions for GHG emissions reductions (as specified in 8.2 EU Taxonomy (TSC), if and to the extent applicable)

**Significant Contribution**



**Limited Contribution**



**Information and communication technology:**

Data centers that have

**Limited Contribution**












- Power Usage Effectiveness (PUE) of 1.5x or lower, OR
- Source 100% of renewable energy

**Cement, Aluminium and Iron and Steel production in line with the EU taxonomy TSC (respectively 3.7, 3.8 and 3.9)**

**Significant Contribution**



SOCIAL CATEGORIES

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<b>Affordable basic infrastructure</b> <ul style="list-style-type: none"> <li>Clean drinking water</li> </ul>	Limited Contribution	 
<b>Affordable basic infrastructure</b> <ul style="list-style-type: none"> <li>Sanitation infrastructure</li> </ul>	Limited Contribution	
<b>Affordable basic infrastructure</b> <ul style="list-style-type: none"> <li>Transport infrastructure (e.g., improving rural transport systems, equal regional access as prerequisite for economic activities and trade)</li> </ul>	Limited Contribution	
<b>Affordable basic infrastructure</b> <ul style="list-style-type: none"> <li>Energy infrastructure (e.g., improving sustainable energy infrastructure to link regions with low power connection)</li> </ul>	Limited Contribution	 
<b>Access to essential services</b> <ul style="list-style-type: none"> <li>Health services - investments in increased and equal access to and/or increased quality of healthcare services<sup>32</sup>, medicine<sup>33</sup>, and medical equipment<sup>34</sup></li> </ul>	Limited Contribution	
<b>Access to essential services</b> <ul style="list-style-type: none"> <li>Health services (investments in increased and equal access to and/ or increased quality of medicines)<sup>35</sup></li> </ul>	Significant Contribution	
<b>Access to essential services</b> <ul style="list-style-type: none"> <li>Education and vocational training: Support for institutions/provision of</li> </ul>	Significant Contribution	



<sup>32</sup> This category targets financing of healthcare services that include hospital management service, clinical nutrition, laundry services for clinics, software that supports healthcare/diagnostic facilities in management and organizational process.

<sup>33</sup> This category targets the financing of non-prescription drugs.

<sup>34</sup> This category targets financing of medical equipment that covers: Products required for medical treatment at a professional facility (at the hospital) or by a professional (a doctor), e.g. devices for taking/handling samples (syringes, special devices for storage/transportation), simple OTC-like supplies (e.g. band aids), Personal protective equipment, over-the-counter medical supplies, sun protection products, oral health products, household insecticides and repellents, diapers for underweight babies (premature), medical nutrition (for people diagnosed with certain medical conditions).

<sup>35</sup> This category targets the financing of prescription drugs.



<p>educational grants for low-income students</p> <p><b>Employment generation/ prevention of unemployment</b></p> <ul style="list-style-type: none"> <li>Financing of measures with the dedicated purpose to sustain/ educate the existing workforce<sup>36</sup></li> </ul>	<p><b>Limited Contribution</b></p>	
<p><b>Access to essential services</b></p> <ul style="list-style-type: none"> <li>Education and vocational training: Construction/maintenance of educational institutions and the equipment</li> </ul>		
<p><b>Real estate with a focus on Health</b></p> <ul style="list-style-type: none"> <li>Construction/Maintenance care facilities and housing for elderly (among others with focus on health)</li> <li>Construction/Maintenance of care facilities and housing for the elderly</li> </ul>	<p><b>Limited Contribution</b></p>	




<sup>36</sup> Please note that this category assessment is not relevant for the following activities: Human resources training programs (e.g., code of conduct trainings), product-related inductions (e.g. safety trainings for products that are also sold by the company, usage training for such products)

## 2. Improvements of operational performance (processes)

The below assessment aims at qualifying the direction of change (or “operational impact improvement”) resulting from the operational performance projects (re)financed by the eligible categories, as well as related UN SDGs impacted. The assessment displays how the eligible categories are mitigating the exposure to the negative externalities relevant to the business model and the sector of the Bank.

IKB finances and arranges financing for operations/processes in a variety of third-party sectors. For clarity, ISS ESG does not display the exposure to negative externalities linked to the sectors of the operations/processes financed.

The table below aims at displaying the direction of change resulting from the operational performance improvement projects. The outcome displayed does not correspond to an absolute or net assessment of the operational performance.

USE OF PROCEEDS (PROCESSES)	OPERATIONAL IMPROVEMENT 37	SUSTAINABLE DEVELOPMENT GOALS
<p><b>Solar Energy, Wind power, Ocean Energy, Hydropower small-scale (&lt; 10MW), Hydropower medium to large scale (+10 to 1000MW), Geothermal Energy, Hydrogen production from wind and solar energy</b></p> <ul style="list-style-type: none"> <li>Operation and maintenance of renewable energy projects</li> </ul>	✓	
<p><b>Bioenergy - Production of 2nd generation biofuel</b></p> <ul style="list-style-type: none"> <li>Operation and maintenance of renewable energy projects</li> </ul>	✓	
<p><b>Bioenergy - Production of 3rd generation biofuels (irrespective of certification)</b></p> <ul style="list-style-type: none"> <li>Operation and maintenance of renewable energy projects</li> </ul>	✓	
<p><b>Financing improvements to production processes to reduce energy consumption</b></p> <ul style="list-style-type: none"> <li>Products/services that enable energy efficiency/savings with a high impact (insulating materials, battery technology that allows improvements in the field of renewable storage, enabling technologies (that significantly increase the energy efficiency of other sectors/products) including consulting and /or installation services on energy efficiency</li> </ul>	✓	
<p><b>Other measures to improve the efficient use of energy and avoid system losses</b></p> <ul style="list-style-type: none"> <li>Products/ Services e.g. for installation, maintenance and repair of façade and roofing elements with a solar</li> </ul>	✓	

<sup>37</sup> Limited information is available on the scale of the improvement as no threshold is provided. Only the direction of change is displayed.

shading or solar control function, including those that support the growing of vegetation

**Real Estate & Green Building**

Renovation measures of existing buildings need to be in line with the following aspects of the TSC 7.2 of the EU Taxonomy regulation:

- Renovation achieves energy savings of  $\geq 30\%$  or the primary energy demand after renovation is within the best 15% of the local stock or complies with local energy efficiency regulations<sup>38</sup>



**Renovation measures of existing buildings need to be in line with the following aspects of the TSC 7.3 of the EU Taxonomy regulation:**

- Measures that increase the energy efficiency of buildings and/or enable the use/generation of renewable energy and energy-efficient technologies, e.g., installation of LED lighting systems and installation of photovoltaic systems.

**Real estate and green building**

Renovation measures of existing buildings need to be in line with the following aspects of the TSC 7.3 of the EU Taxonomy regulation:

- Measures that increase the energy efficiency of buildings and/or enable the use/generation of renewable energy and energy-efficient technologies, e.g., installation of energy management systems.



**Water**

- Front-to-end water collection, treatment and supply systems with high energy efficiency in terms of water consumption per cubic meter
- Activities (mechanical, chemical, biological) that improve quality of wastewater before discharging into the public sewage system
- Activities that directly address resource conservation in the manufacturing process (fresh water, process water and wastewater)
- Water-saving conversion of cleaning and pre-treatment processes<sup>39</sup>



<sup>38</sup> IKB has stated that the energy saving will be measured through comparing EPC level before and after the renovation.

<sup>39</sup> Please note that this category finances the process of waste-water treatment.

**Water**

- Water-saving conversion of cleaning and pre-treatment processes<sup>40</sup>



**Circular Economy**

- Reuse and recycling of waste to secondary raw materials such as recycling of Gas, Metals (Aluminium, steel etc.), Paper, Wood, Glass, and synthetic material (i.e. plastics mineral), building materials, Textiles, other waste
- Use of biobased, biodegradable and compostable plastics to reduce plastics from fossil raw materials
- Use of CO<sub>2</sub> as an extract from industrial production and to reuse it in other processes to close the material cycle (e.g. methanol synthesis)
- Reduction of packaging material and increase in the share of recyclable material
- Expansion of take-back systems for recycled materials from the end-consumer sector



**Circular economy**

- Anaerobic digestion plants for the production of biogas and digestate from biowaste



**Transport and Storage**

- Retrofitting of sea and coastal freight water transport (6.12)



**Information and communication technology:**

Data centers that have:

- Power Usage Effectiveness (PUE) of 1.5x or lower, OR
- source 100% of renewable energy



**Affordable housing**

- Maintenance of care facilities and housing for the elderly



**Employment generation/ prevention of unemployment**

- Financing of measures with the dedicated purpose to sustain/ educate the existing workforce



<sup>40</sup> Please note that this category finances the processes of purification and disinfectant use for drinking water.

## PART III: ASSESSMENT OF IKB'S ESG RISK MANAGEMENT PROCEDURES

The table below evaluates IKB's ESG-specific risk management measures and policies that are considered relevant in the context of a Bank's sustainable activities. The KPIs emphasize sustainability-related risks considered relevant to the Banks' operations. The KPIs are derived leveraging the ISS ESG Corporate Rating to identify the relevant topics based on its industry; these KPIs are then further integrated with additional elements derived from market principles such as the task force on Climate-Related Financial Disclosure<sup>41</sup>. The minimum requirements for a positive assessment are based on the number of sub-indicators (specific to each KPI) that are satisfied as part of any KPI.

### ASSESSMENT AGAINST ISS ESG KPI

#### ESG guidelines into financing process

The business model of IKB Deutsche Industriebank AG is focused on the German upper midmarket.<sup>42</sup> Due to this particular focus, the vast majority of IKB customers is located in Germany<sup>43</sup>.

IKB has established an ESG project in 2022, pursuing a strategic, regulatory and product-driven agenda setting in the ESG, strengthening ESG considerations within the organization. As part of the project, the handling of ESG in the lending and arranging process will be further developed. Likewise, it is planned to establish a centralized ESG data household to collect and store ESG information on transactions/ counterparties in a central facility. The IKB Sustainable Finance Framework is intended to support these efforts concerning ESG due diligence and to support the systematic, procedural recording of ESG in the new business. ESG is currently considered in IKB's risk management framework, e.g., with respect to the elevation of ESG risks in the risk inventory, presentation of ESG risks in the risk strategy and risk management manual. In addition, ESG is specifically considered as part of the analysis of counterparty risks, which views IKB as the main gateway for ESG risks: Consideration of ESG risks in sector analyses and sector limits, no exclusion of specific sectors or regions, instead best-in-class approach within sectors, consideration of ESG risks in the lending and loan processing process (currently: case-by-case and qualitative).

In line with BaFin's<sup>44</sup> assessment, ESG risks are not seen as an independent material type of risk. Rather, ESG risks have an impact on the established risk types and are therefore presented in the risk strategy as partial aspects of individual risk types (especially credit risk, and reputational risk). Correspondingly, ESG risks are considered as part of existing risk analyses. In addition to transaction-related reputational risks, reputational risks as a result of operational, non-financial risks or sustainability risks, ESG risks are taken into account by explicitly presenting such issues in the non-financial risk quarterly reports. The integration of ESG risks into the risk management cycle is being further developed and expanded as part of IKB's comprehensive ESG project. IKB is a credit boutique with a comparatively low number of new business transactions. The credit assessment process is always a manual, individual process. This applies to all credit products. The analysis of ESG risks is performed as part of the existing risk analyses for all new businesses on an individual basis.

<sup>41</sup> Taskforce on Climate-related Financial Disclosures, 2022 Status report, <https://assets.bbhub.io/company/sites/60/2022/10/2022-TCFD-Status-Report.pdf>

<sup>42</sup> IKB has three main business segments: (i) The Public Program Loans segment includes income and expenses from development loans granted to mid-cap customers as well as consulting services for obtaining and applying for development loans; (ii) The Corporate Bank segment is composed of the services provided in connection with internally financed corporate Banking business. In addition to financing and advisory services in traditional lending business, this also includes supporting customers in capital market activities; (iii) The income and expense items from Funding & Asset Liability Management and the investment portfolio are reported in the Corporate Centre. Non-attributable costs of other central functions are also allocated to this segment.

<sup>43</sup> As of December 31, 2021, the share of loans outside Germany in the loan book was 11%.

<sup>44</sup> Federal Financial Supervisory Authority (German: Bundesanstalt für Finanzdienstleistungsaufsicht).

### Carbon-related financing

- The Bank does not have policies in place to scale down/phase out fossil fuel-related financing activities. Although sustainability aspects and ESG risks are considered when assessing individual sectors, the Bank does not generally exclude supposedly "brown" sectors. In this respect, IKB aims to fully support its clients in the transition toward a greener and more sustainable future. Nevertheless, there are sectors in which the Bank only conducts new business on a very selective basis. The Bank's individual credit risk guidelines provide guidance on how to deal with fossil-fuel-related financing activities.

### Financed emissions

- IKB does currently not measure its financed emissions in line with relevant methodologies. IKB will address measuring financed emissions in line with regulatory requirements.

### Labour, Health, and Safety

- ✓ According to the client, projects financed under this Framework<sup>45</sup> are located or are expected to be located in countries, which are signatory partners of the ten ILO core labor conventions, thus entering an obligation under international law to transpose the ILO standards into national law<sup>46</sup> or Equator Principles designated countries<sup>47</sup> or EU member countries with high LHS standards IKB acknowledges that for these countries, strong labor, health, and safety standards are in place. Further, the majority of IKB's loan portfolio is composed of promotional bank programs, where environmental and social standards need to be met and which are individually assessed. The Bank has a policy in place under which it systematically conducts verification of borrowers' labor, health, and safety standards. The Bank runs manually an individual preliminary ESG checklist including Labor, Health, and Safety criteria, in line with the Bank's internal ESG Risk policy. This ESG checklist is shared with the Credit Committee that is providing the final approval to grant financings under this Framework. Limited information is available on how the ESG checklist is operationalized. IKB has established a comprehensive Code of Conduct which defines its standards, ethical and moral values, and principles of behavior. The Code of Conduct is the binding framework for guidance in respect of its corporate and risk culture and forms the basis for the specific regulations in the business and risk strategy and written rules of procedure of IKB.

### Biodiversity

- ✓ According to the client, projects financed under this Framework are located in Equator Principles designated countries.<sup>48</sup> IKB expects that biodiversity aspects (e.g., protection of critically endangered species) are covered by national/ European legislation. Further, the majority of IKB's loan portfolio is composed of promotional bank programs, where environmental and social standards need to be met and which are individually assessed.<sup>49</sup> The Bank runs manually an individual preliminary ESG checklist including Biodiversity criteria, in line with the Bank's internal ESG Risk policy. This ESG checklist is shared with the Credit Committee that is providing the final approval to grant financings under this Framework. Limited information is available on how the ESG checklist is operationalized.

<sup>45</sup> The majority of IKB lenders are located in Germany. Non-German customers are mainly located in Western Europe and the European Union.

<sup>46</sup> ILO Core Conventions, <https://www.humanrights.ch/de/ipf/grundlagen/rechtsquellen-instrumente/uno/ilo-konventionen/>

<sup>47</sup> Equator Principles Designated Countries (as of 13 February 2023), <https://equator-principles.com/about-the-equator-principles/>

<sup>48</sup> Equator Principles Designated Countries (as of 13 February 2023), <https://equator-principles.com/about-the-equator-principles/>

<sup>49</sup> KfW bases the project assessment on the regulations that apply in the country in which the project is to be implemented. These regulations must be consistent with international environmental, social, health, safety, and labor standards. These include the standards set by the EU and leading OECD countries, the Performance Standards of the International Finance Corporation (IFC), and the Environmental, Health, and Safety (EHS) Guidelines of the World Bank Group, <https://www.kfw.de/nachhaltigkeit/About-KfW/Sustainability/Strategie-Management/Umwelt-Sozialvertr%C3%A4glichkeitspr%C3%BCfungen/>

### Community Dialogue



According to the client, projects financed under this Framework are located in Equator Principles designated countries.<sup>48</sup> IKB expects that community dialogue aspects are covered by national/European legislation. Further, the majority of IKB's loan portfolio is composed of promotional bank programs, where environmental and social standards need to be met and which are individually assessed.<sup>49</sup> The Bank runs manually an individual preliminary ESG checklist including Biodiversity criteria, in line with the Bank's internal ESG Risk policy. This ESG checklist is shared with the Credit Committee that is providing the final approval to grant financings under this Framework. Limited information is available on how the ESG checklist is operationalized.

### Inclusion



The Bank does not provide information on policies implemented to ensure access to a targeted population if applicable or universal access for eligible social project categories under this Framework, e.g., health care services and quality of medicines.

### Exclusion Criteria

IKB's group compliance rules lead to mandatory exclusion from financing if certain reasons are given. IKB supports national and international anti-money laundering measures to protect the financial system from organized crime and to prevent the financing of terrorist acts.

Existing reasons for considering an exclusion at group level are sanction/embargo notices (e.g., high-risk countries, terrorist financing), industry reference with high AML risk (e.g., arms trade, gambling), domicile of the contractual partner outside the EU (third countries), EU states with high risk (e.g., Malta, Cyprus) and third-party beneficiary structures (e.g., foundations, trusts, funds).

## PART IV: THE SUSTAINABLE FINANCE FRAMEWORK'S LINK TO IKB'S OVERALL ESG PROFILE

### A. CONSISTENCY OF SUSTAINABLE FINANCE FRAMEWORK WITH IKB'S SUSTAINABILITY STRATEGY

#### *Key sustainability objectives and priorities defined by the Bank*

IKB has a sustainability focus encompassing the 3 areas: Environmental, Social, and Governance topics. There is a ESG steering Committee with the participation of the entire Board of Managing Directors to address and monitor ESG issues, risks and opportunities.

IKB states that helping customers to transit into climate neutrality is one of its major focuses and is committed to address climate change and promote the transition to a low-carbon economy and a more responsible society with relevant financial solutions.

IKB is a signatory member of the United Nations Environmental Program Finance Initiative (UNEP FI)<sup>50</sup> to illustrate the Bank's commitment to climate protection and sustainable actions by integrating environmental aspects into its lending solutions. IKB is also a member of Germany signatory "Charta der Vielfalt"<sup>51</sup>, a corporate initiative to promote diversity in companies and institutions, to illustrate the Bank's commitment to diversity. Lastly, IKB is also a member of the Association for Environmental Management and Sustainability in Financial Institutions (VfU)<sup>52</sup> which enables the Bank to report operational ecological footprint through available survey tools such as energy, water, waste, paper, mobility, and GHG emissions.

#### *Rationale for Sustainable Finance Framework*

In 2022, IKB released a Green Loan Framework designated for public program loans. This current Sustainable Finance Framework encompasses 4 categories: 'ESG public program' loans, EU Taxonomy-aligned activities, activities with a positive contribution to the SDGs, and 'ESG KPI linked' loans. This Sustainable Finance Framework is an expansion of the existing Green Loan Framework to include own-funded corporate loans and will assist IKB's customers in transitioning to a more environmentally and socially sustainable future through the Bank's sustainable financing solutions.

**Opinion:** *The Sustainable Finance Framework is consistent with the Bank's sustainability strategy. The rationale for establishing a Sustainable Finance Framework is clearly described by the Bank.*

<sup>50</sup> United Nations Environment Programme Finance Initiative, <https://www.unepfi.org/>

<sup>51</sup> Charta der Vielfalt, <https://www.charta-der-vielfalt.de/>

<sup>52</sup> Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten e.V., <https://vfue.de/>



## B. IKB'S BUSINESS EXPOSURE TO ESG RISKS

This section aims to provide an overall level of information on the ESG risks to which the IKB is exposed through its business activities, providing additional context to the Sustainable Finance Framework assessed in the present report.

### ESG risks associated with the Bank's industry

The Bank classified in the Commercial Banks & Capital Markets, as per ISS ESG's sector classification. Key challenges faced by companies in terms of sustainability management in this industry are displayed in the table below. Please note, that this is not a company-specific assessment but areas that are of particular relevance for companies within that industry.

ESG KEY ISSUES IN THE INDUSTRY
<b>Business ethics</b>
<b>Labor standards and working conditions</b>
<b>Sustainable investment criteria</b>
<b>Customer and product responsibility</b>
<b>Sustainability impacts of lending and other financial services/ products</b>

### ESG performance of the Bank

Leveraging ISS ESG's Corporate Rating research, further information about the IKB's ESG performance can be found on ISS ESG Gateway at: <https://www.issgovernance.com/esg/iss-esg-gateway/>.

Please note that the consistency between the Sustainable Finance Framework proposed in this report and the IKB's sustainability strategy is further detailed in Part III.B of the report.

### Sustainability impact of products and services portfolio

Using a proprietary methodology, ISS ESG assessed the contribution of IKB's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along the financial institution's production process.

ISS ESG determined that, based on the information provided by the financial institution, its overall business model has no net impact (contribution and/or obstruction) to the UN SDGs.

## Breaches of international norms and ESG controversies

### At Bank level

At the date of publication and leveraging ISS ESG Research, no severe controversy in which the Bank would be involved has been identified.

### At industry level

Based on a review of controversies over a 2-year period, the top three issues that have been reported against companies within the Commercial Banks & Capital Markets industry are as follows: Failure to prevent money laundering, failure to mitigate climate change impacts, and failure to prevent deforestation/illegal logging.

Please note, that this is not a company-specific assessment but areas that can be of particular relevance for companies within that industry.

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## ANNEX 1: Methodology

### PART I: REVIEW OF THE SUSTAINABLE FINANCE FRAMEWORK

We consider relevant market guidelines in the assessment of the governance procedures for sustainable lending strategies. The analysis included criteria from a set of different market standards and voluntary guidelines and best practices e.g, the Loan Market Association’s Green Loan Principles, Social Loan Principles, Sustainability-Linked Loan Principles, the UNEP-FI PRB, Guidelines proposed by the European Banking Authority with respect to environmentally-sustainable lending. To promote integrity in the development of the green, social or sustainability-linked loan market the application of the LMA principles, comprising voluntary guidelines is limited to the assessment of the characteristics of a specific transaction.

SECTION	ASSESSMENT CRITERIA
<b>0. Objectives, Targets &amp; Progress</b>	For a lending strategy to be classified as sustainable, Banks should embed these within the context of their overarching sustainability objectives. The institutions should further include relevant qualitative and, where feasible, quantitative targets to measure the progress on its commitments. Banks provide transparency on how to increase positive impacts, reduce negative impacts, and mitigate ESG risks. The sustainability strategy is expressed by referring to alliances such as the UN Sustainable Development Goals, the Paris Climate Agreement, or national or regional frameworks.
<b>1. Definition of Sustainable Lending Activities</b>	The sustainable lending strategy should define clearly and comprehensively what lending transactions are deemed as sustainable based on precise parameters. Ideally, banks should provide an exhaustive list of eligibility criteria. Those criteria should ensure a positive contribution to relevant sustainability objectives and be sufficiently precise to ensure a minimum level of contribution to those objectives (e.g., clear definition, quantified threshold, or impact indicators) while referring when needed to other parties that provide complementary definitions, standards, and taxonomies for determining the environmental or social sustainability of projects and while ensuring that other objectives are not harmed.
<b>2. Evaluation &amp; Selection Process</b>	Banks should have a comprehensive and documented process in place to ensure that the funded projects align with the eligibility criteria for sustainable financing transactions and collect relevant information from borrowers. Moreover, where applicable, information about sustainability-related business objectives of the borrowers should be collected. For lenders to incentivize the sustainability performance of its borrower(s), they should ensure collecting from their borrower(s) the rationale of KPI/SPT selection, any standards or certification schemes that the borrower holds, documentation on materiality and ambitiousness of the KPIs and SPTs. The lender has processes in place for evaluation of the borrower’s SPT performance and linking the loans characteristics to the latter. The lender may opt to limit or exclude certain sectors. Lenders should encourage its borrowers to obtain an external review on a deal-by-deal transaction basis.

<p><b>3. Governance &amp; Monitoring</b></p>	<p>Clear governance mechanisms should be in place to ensure that the products classified as sustainable remain in line with the criteria for sustainable lending transactions throughout their lifecycle. This should include a process to deal with products that cease to meet the eligibility criteria. Monitoring systems and clear accountability should be established. With respect to borrowers and dedicated financing transactions, banks should ensure that they diligently monitor the allocation of proceeds toward sustainable projects and activities.</p>
<p><b>4. Reporting</b></p>	<p>Relevant reporting should be conducted frequently and, where feasible, made publicly available to communicate the classified sustainable transactions, as well as the impact and progress of the sustainable lending strategy. Elements to be reported on should be communicated clearly at the inception of the strategy and capture the most significant areas of impact on environmental and social topics. Until the loan is fully drawn or until the loan maturity in the case of a revolving credit facility, the bank ensures, that its borrowers make and keep readily available up-to-date information on the use of proceeds and a brief description of the projects, and their expected impact using qualitative performance indicators and, where feasible, quantitative performance measures. Information need only be provided to those institutions participating in the loan. Lenders should be enabled to monitor the performance of the SPTs and to determine that the SPTs remain ambitious and relevant to the borrower’s business.</p>
<p><b>5. Verification</b></p>	<p>It is recommended that the sustainable lending strategy for specific transactions should be reviewed by an external independent third party. The external review should be made available to the respective stakeholders involved.</p>

## PART II: ASSESSMENT OF IKB’S SUSTAINABLE FINANCING CLASSIFICATION SYSTEM

This section examines the sustainability quality of each of the parameters included in IKB’s sustainable finance classification system and discusses the sustainability quality of the products complying with those. To corroborate this assessment and using a proprietary methodology, we identify the extent to which IKB’s eligibility criteria contribute to the UN SDGs.

### Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, the extent to which IKB’s eligible categories contribute to related SDGs has been identified.

## PART III: ESG RISK MANAGEMENT ASSESSMENT

### ESG Risk Management KPIs

The ESG risk Management KPIs serve as a structure for evaluating the sustainability quality - i.e., the social and environmental added value – of the proposed selection criteria as well as the bank’s overall financing operations.

It comprises firstly the definition of the selection criteria offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance can be clearly identified and described.

If a majority of the criteria fulfill the requirement of an indicator, this indicator is then assessed positively. Those indicators may be tailor-made to capture the context-specific environmental and social risks.

In addition, the KPIs assess sustainability-related risks considered relevant to the financing transactions of the bank. The evaluation was carried out based on information and documents provided on a confidential basis by the bank (e.g., Due Diligence procedures).

#### **PART IV: SUSTAINABLE FINANCE FRAMEWORK'S LINK TO IKB'S SUSTAINABILITY STRATEGY**

This section provides an assessment of the sustainability quality of the Group and how the underlying Sustainable Finance Framework contributes to its sustainability strategy. Drawing on the ISS ESG Corporate Rating, a focus is put on the Group's overarching sustainability policies as well as the management of related ESG risks.

## ANNEX 2: ISS ESG Corporate Rating Methodology

ISS ESG Corporate Rating provides relevant and forward-looking environmental, social, and governance (ESG) data and performance assessments.

For more information, please visit:

<https://www.issgovernance.com/file/publications/methodology/Corporate-Rating-Methodology.pdf>

## ANNEX 3: Quality management processes

### SCOPE

IKB commissioned ISS Corporate Solutions to compile a Sustainable Finance Framework External Review. The External Review process includes verifying whether the Sustainable Finance Framework aligns with market practices for sustainable finance and assessing its sustainability credentials, as well as the credibility of the Bank's sustainable financing classification system

### CRITERIA

Relevant Standards for this External Review stem from key principles for transparency and non-contamination of sustainable labelled products, including:

- Loan Market Association's [Green Loan Principles](#), [Social Loan Principles](#), [Sustainability Linked Loan Principles](#)
- [UNEP-FI PRB](#)
- [Guidelines proposed by the European Banking Authority \(EBA\) with respect to environmentally sustainable lending](#)

### CLIENT'S RESPONSIBILITY

IKB's responsibility was to provide information and documentation on:

- Sustainable Finance Framework
- ESG Impact and Risk Management
- Governance procedures

### ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social, and governance (ESG) research, analysis, and rating houses. The company has been actively involved in sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly reputed thought leader in the green and social bond market and has become one of the first CBI-approved verifiers.

ISS ESG has conducted this independent External Review of the Sustainable Finance Framework by IKB based on a proprietary methodology and in line with market practices and relevant market standards for sustainable finance.

The engagement with IKB took place from starting November 2022 to February 2023.

### ISS'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements for integrity, transparency, professional competence and due care, professional behavior, and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.



## About ISS ESG

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and financing frameworks and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent External Review so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

ISS ESG provides external review services for sustainable financing and responsible investment strategies by assessing the robustness of our client's frameworks.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

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