

# Combined Non-Financial Report

## 2017/2018

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## **1. Introduction**

### **1.1. Business model**

IKB Deutsche Industriebank supports medium-sized companies with loans and capital market and advisory services. Since its formation in 1924, IKB has enjoyed a close relationship with German companies and entrepreneurs. The Bank's business model is built upon long-standing customer relationships and a pronounced understanding of the topics that matter to medium-sized companies. The business model is described in "chapter 1. Basic information on the Group" of the combined management report in IKB's 2017/18 annual report.

With this combined non-financial report for the financial year 2017/18, IKB is publishing a non-financial Group statement in accordance with section 340i (5) in conjunction with section 315b of the German Commercial Code (HGB) for the first time. This statement has been combined with the non-financial statement of the parent company in accordance with section 340a (1a) in conjunction with section 289 HGB. A framework was not used on account of the scope and first-time nature of the report.

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, was engaged to review the combined non-financial statement for the period from 1 April 2017 to 31 March 2018 under a limited assurance engagement. This review related solely to the figures for the 2017/18 reporting year; the prior-year figures were not included in the review.

Unless noted otherwise, the following statements apply to both the Group (IKB) and IKB AG.

### **1.2. Importance of sustainability for IKB**

Sustainability has been a topic of key strategic importance to IKB since its formation in 1924. The Bank developed the area of long-term credit financing for German companies. Expertise and mutual trust are the fundamental values underpinning customer relationships that often go far beyond the term of the respective loans. Sustainable customer relationships, often spanning several generations, create the foundations for the Bank's economic success.

IKB's business model is geared towards generating sustainably positive earnings. In this way, the Bank creates value for its stakeholders, and particularly its customers, shareholders, investors and employees and their families. In order to ensure its economic sustainability, IKB is committed to maintaining a solid equity base, safeguarding its liquidity, designing its new business and pricing policy in a risk-conscious manner, and ensuring that its processes and structures are efficient.

IKB's business activities and sustainability are centred around the customer relationship, which forms the basis for the Bank's sustainable economic development. For IKB, a responsible, conservation-oriented approach to the environment goes without saying. Ensuring that business partners, customers and the public have confidence in the responsible and legally compliant behaviour of all IKB employees is very important to the Bank's reputation.

### **1.3. Determination of material topics**

Responsibility for the process of determining the key sustainability topics for IKB lies with Corporate Communication. To identify the relevant sustainability topics, responsible representatives were appointed in the areas of Finance, Legal, Compliance, Human Resources/Facility Management, Credit Products/Public Programme Loans and Corporate Development. The available sustainability-related data and facts along the entire value chain were structured and the relevant topics identified in a continuous dialogue with the affect-

ed areas. The materiality of these topics in terms of IKB's business activities and their impact on the sustainability aspects of the German CSR Directive Implementation Act (CSR-RUG) were determined in coordination with the Board of Managing Directors. The topics identified as material within the meaning of CSR-RUG are those that are relevant to an understanding of IKB's business development, results and position and in which business activities also have a significant impact on sustainability aspects (environmental concerns, employee concerns, combating corruption and bribery, upholding human rights and social concerns). The material topics for IKB identified in this manner are public programme loans, employee qualification, and combating corruption and bribery.

### **1.4. Risk assessment**

The topics identified as material in chapter 1.3 are also taken into account in the management of non-financial risks. For the purposes of non-financial reporting, no material risks within the meaning of CSR-RUG were identified with an extremely high probability of having a negative impact on the aspects of environmental, employee and social concerns, human rights or the prevention of corruption and bribery.

## **2. Topics included in reporting**

### **2.1. Public programme loans – environmental and social concerns**

IKB's innovative, high-growth customers in the high-end midmarket create numerous jobs and play an important role in the success of the German economy, not least in the context of the global marketplace. IKB intends for its service range to strengthen and secure the position of its customers for the long term.

IKB is focused on the benefit to the customer. All advisory services and products are geared towards customer needs and continuously developed. IKB supports its customers' strategic and long-term investments with sustainable solutions. This support includes a strategic dialogue on business plan sustainability. IKB contributes to safeguarding the future of Germany's medium-sized companies with its comprehensive advisory services and tailored financing concepts.

The Bank sees considerable potential in the use of public programme loans for investments in environmental protection and other sustainability aspects on the part of its customers in the industrial midmarket. IKB intends to take advantage of these opportunities for the purposes of economic, social and ecological sustainability. The public programme loans are extended by the development banks of the German federal and state governments and the European development agencies. IKB's most important refinancing partner among the development banks is KfW Bankengruppe (KfW), and in particular the programmes offered by KfW-Mittelstandsbank.

Public programme loans are used to support medium-sized companies in general or with regard to specific investment objectives, such as R&D activities, digitalisation and environmental goals. The programmes are intended to facilitate the financing and realisation of investments and enable improved access to financing. Public programme loans can significantly lower the interest burden of investments requiring long-term financing, as well as reducing the financing cost through public subsidies in many cases.

These programmes perform a stabilising function for companies in times when they have only limited access to debt finance, thereby evening out cyclical fluctuations on the financial markets and ensuring that the German midmarket can rely on secure financing for its key investment projects in the long term.

The focal points of public programme loans are ultimately determined at a political level and implemented by the responsible ministries, particularly the German Federal Ministry of Economics and Technology (digitali-

sation and energy efficiency programmes) and the German Federal Ministry of the Environment, Nature Conservation and Nuclear Safety (environmental programmes). In line with the political agenda, programmes are created, made more or less attractive (incentivisation) and cancelled where appropriate by the development banks, namely KfW. The resulting public programme loans are offered to all KfW-accredited on-lending banks in the same form and at the same conditions.

At present, the major funding targets are innovation and – in light of CO<sub>2</sub> reduction targets – energy efficiency. For example, KfW has recently expanded its innovation funding programme to include “Industry 4.0” and “Digitalisation”, which are key topics for the future of the midmarket. The new programme is also available for the digitalisation of products, production and techniques, including support for measures aimed at aligning corporate strategies and organisations.

The innovation funding programme assists with the financing requirements of digitalisation and innovation projects as well as the overall financing requirements of innovative companies. For the purposes of the ERP digitalisation and innovation funding programme, an innovative company is defined as a company that conducts an innovation or digitalisation project or meets at least one of the following criteria:

- Average revenue or workforce growth of more than 20% p.a. over the past three years
- At least 10% of operating costs attributable to research and development in each of the past three years
- EU innovation award in the past 24 months or
- Innovation funding provided by the government or the EU in the past 36 months.

Environmental funding programmes support all investments aimed at reducing CO<sub>2</sub> emissions and protecting soil, water, and air, promoting environmentally friendly transportation, saving energy and encouraging the use of renewable energies.

IKB primarily advises on funding programmes for midmarket companies, for environmental protection and energy efficiency, and for renewable energies, innovation and communal infrastructure investment projects.

IKB's lending process is defined in detail in the business process management regulations. Potential customers are identified and addressed on the basis of the target groups defined in conjunction with the Board of Managing Directors. Disbursement volume targets are determined in line with the planning developed together with the Board of Managing Directors. In discussions with potential customers, the suitable financing solution for the respective investment project is selected using an end-to-end analysis of the financing requirements. This typically also includes an examination of whether public programme loans can be employed. IKB's public programme loan advisory specialists examine the available funding options at an early stage in the investment planning process and develop financing concepts on this basis. The financing solution must offer benefits to the customer and be sustainably economically viable for IKB. The Board of Managing Directors is also involved in the pricing process.

Like all other lending by IKB, public programme loans are subject to a defined credit process. Any special requirements arising from KfW's programme conditions are included in the process description and documented accordingly.

KfW regularly reviews compliance with all of the funding requirements concerning applications, lending, the observation of drawdown requirements, controlling the use of funds, and portfolio and collateral management. The last such review was conducted in September 2017 and concluded without giving rise to any findings.

The Board of Managing Directors receives a monthly report on new public programme loans.

The current focal points are supporting innovation via ERP digitalisation and innovation loans and environmental protection via the KfW energy efficiency programme. IKB passed on a total of € 1.1 billion in public programme loans in the financial year 2017/18. This corresponds to a good 30% of IKB AG's total new lending business.

### 2.2. Professional qualification – employee concerns

The search for qualified managers and specialists on the competitive employment markets has become more challenging. This makes it all the more important for IKB to continuously identify high-potential employees and successfully develop them. The Bank's traditional staff development activities are supported by the following factors:

Flat hierarchies, an open communication culture and constructive cooperation with the Works Council mean that employees' ideas and suggestions can be taken into account quickly and in a targeted manner. Information about current developments at the Bank is provided on the intranet on a daily basis. The Board of Managing Directors also provides information on the Bank's position at regular employee events and is available for an open dialogue.

Furthermore, IKB promotes an open, cooperative and innovative corporate culture that is enshrined in its Code of Conduct. Managers appreciate and encourage an open dialogue with regard to the opportunities and risks of transactions. All employees have the right to fair, polite and respectful treatment by managers, employees and colleagues. No one should be harassed, discriminated or disadvantaged on account of their gender, origin, skin colour, nationality, religion or beliefs, sexual orientation, age, physical condition, union membership, family status or appearance.

All employees must confirm that they acknowledge the principles of the German General Equal Treatment Act. To ensure this, online training in accordance with the German General Equal Treatment Act is mandatory for all employees. This addresses topics such as gender equality and direct and indirect discrimination, e.g. with respect to female part-time employees.

Committed, well trained, responsible employees are essential for IKB. In particular, they help to support sustainable customer relationships and hence IKB's sustainable business development. Accordingly, the Bank pursues a policy of sustainable staff development aimed at ensuring the professional and personal qualification of its employees and improving IKB's attractiveness as an employer.

IKB's staff development strategy is derived from its corporate strategy and applies on a Group-wide basis. Employee expertise is a vital factor in IKB's success. In light of the dynamic markets, employee training is extremely important to the Bank. IKB's business success is based on the commitment and motivation of its employees and their creativity, qualifications and willingness to learn. The Bank's corporate policy also aims to create a framework for ensuring that employees are happy and successful with IKB.

IKB offers a wide range of measures to support its employees. The available training is concentrated around needs-oriented professional seminars. There were around 2,300 participations group-wide in 75 different professional training programmes in financial year 2017/18. In addition to classroom-based seminars, an e-learning database has developed into a second pillar that is growing all the time. Seminars are also offered in areas such as work techniques, foreign languages and management skills.

Working life at IKB is increasingly characterised by extensive project work in many areas and business segments. The success of a project depends to a large extent on professional management and motivational leadership. With the IKB project manager development programme, the Bank systematically prepares talented young employees for the tasks and demands of project management.

As part of its promotion of young talents, the Bank employs trainees on a needs-oriented basis.

For the purposes of its initial professional training concept, IKB employs talented young people in a three-year programme comprising training at IKB and a course of studies at FOM University of Applied Sciences for Economics and Management in Düsseldorf. Unlike a traditional banking apprenticeship, this provides young employees with a more detailed and specific insight into the particular challenges and tasks of a special-purpose bank like IKB. Training at IKB offers a comprehensive, practically oriented insight into the strategy, business segments and central functions of the Bank.

IKB AG provides its employees with numerous options for achieving a better work-life balance, as this forms the basis for a satisfied and motivated workforce. These include family-friendly offers, effective health promotion and flexible working conditions.

Employees of IKB AG participated in around 3,000 qualification measures in the financial year 2017/18. At an average of over three measures per employee, this means that IKB achieved its target for the professional qualification of its workforce.

Since 2006, IKB has participated in the “audit berufundfamilie” developed by the non-profit Hertie Foundation as a strategic management instrument. As part of this audit of work-life balance, relevant areas of human resources policy are analysed and areas for action are identified with the aim of promoting a family-friendly policy. Following its successful re-audit in 2017, the Bank remains committed to promoting a family-friendly human resources policy in future.

### **2.3. Combating corruption and bribery**

Ensuring that business partners, customers, the banking supervisory authorities and the public have confidence in the responsible and legally compliant behaviour of all IKB employees is extremely important to the Bank's reputation. Preventing corruption and bribery is one of IKB's key compliance goals and applies on a Group-wide basis. In accordance with section 25h of the German Banking Act, responsibility for combating criminal acts is assigned to a central office within the Governance & Compliance function.

IKB has issued a written Code of Conduct. The Code of Conduct sets out binding values and principles of conduct for all activities and contains guidance on handling gratuities. The binding conduct requirements and process guidelines for the Bank and its employees are documented in writing in the Compliance function. The principles and values set out in the IKB Code of Conduct include requirements for the conduct of all employees at all locations of the Group.

A system of instructions serves to define the various employee conduct requirements arising from the Code of Conduct in greater detail. These requirements are documented either in organisational instructions or in process management. The system of instructions contains clear rules on handling gratuities such as gifts, invitations, donations and hospitality. This includes descriptions of the value limits and approval procedures for the acceptance and granting of gratuities. The rules also describe the procedure for reporting gratuities to the central office as soon as they reach a defined threshold. Certain types of gratuity, e.g. invitations to holders of public office or the acceptance or granting of monetary benefits, are prohibited.

There are clear rules for procurement measures, e.g. commissioning external consultants, particularly with regard to the involvement of Group procurement, obtaining comparative offers and conducting tenders.

There are also unequivocal and transparent rules for the reporting and approval of employees' ancillary activities.

The potential risks arising in connection with corruption and bribery are continuously identified by the central office and analysed as required, and in any case at least once a year as part of the Group-wide risk analy-

sis. Safeguards, e.g. controls and awareness measures, are derived and implemented in order to reduce risk. The annual report by the central office describes the key events, the findings of the audit measures conducted and the measures taken as a result. The risk analysis and the annual report are acknowledged and approved by the entire Board of Managing Directors. The Bank primarily pursues a preventive approach in which the risk of corruption and bribery is minimised through adequate employee awareness.

Task fulfilment by the central office is regularly reviewed by Internal Audit and the auditor of the annual financial statements. To date, this has not given rise to any findings concerning the prevention of corruption and bribery.

In addition to regular risk analysis and reporting and employee awareness, IKB controls the gratuities granted and received by employees as well as certain expense entries. Potential breaches of instructions are clearly identified and responded to consistently. If breaches of the law are identified, these are pursued systematically and punished with the filing of criminal charges and the imposition of measures under employment law.

IKB has a whistleblower system that is available to all employees. Employees can turn to the central office in person, by telephone or in writing in order to report breaches of statutory, supervisory or other legal requirements. If requested by the employee, all such notifications are treated in confidence to the extent permitted by law. Notifications may also be submitted entirely anonymously. No notifications were received in the period under review.

Existing business relations with suppliers and service providers are checked against lists of sanctions and politically exposed persons (PeP). This has not resulted in any findings to date. In addition, the central office is included in service provider management and the risk analysis of material outsourced activities.

To ensure that employees are fully aware of the relevant requirements and regulatory developments, mandatory training is provided and the necessary individual measures and workflows are documented in the written rules. Awareness measures, such as the publication of news on the intranet, are performed in order to provide information on current legal developments concerning the prevention of corruption and bribery. In the current calendar year, employees from certain divisions, particularly sales, will receive separate classroom-based awareness training. The content on the topic of "Giving and receiving gratuities" has been agreed and prepared. Training for the first branch is scheduled for June 2018.

The fulfilment of regulatory requirements is ensured by way of a three-level organisational structure that is described in detail in "chapter 3. Risk report – section: Risk management organisation" of the combined management report in IKB's 2017/18 annual report.

The money laundering officer and the central office report to the Board of Managing Directors and indirectly to the Chairman of the Supervisory Board at least once yearly and as required. This reporting also addresses the topics of bribery and corruption in connection with other criminal acts. Group Audit then performs a subsequent process-independent audit of the propriety and economic efficiency of the principles, tools and procedures. The safeguards applied within the Bank are appropriate and adequate. The money laundering officer performed the tasks assigned to him.

There were no cases of corruption for IKB in the period under review.

There are no fines against IKB or its employees in connection with money laundering, the financing of terrorism, other criminal acts or financial sanctions.

Düsseldorf, 29 May 2018

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## Independent Auditor's Limited Assurance Report

*The assurance engagement performed by Ernst & Young (EY) relates exclusively to the German PDF version of the combined non-financial statement 2017/2018 of IKB Deutsche Industriebank AG. The following text is a translation of the original German Independent Assurance Report.*

To IKB Deutsche Industriebank AG, Düsseldorf

We have performed a limited assurance engagement on the group non-financial statement of IKB Deutsche Industriebank AG according to § 315b HGB ("Handelsgesetzbuch": German Commercial Code), which is combined with the non-financial statement of the parent company according to § 289b HGB, consisting of the disclosures in the combined non-financial report 2017/2018 and the chapters "Basic information on the group" and "Risk report – section: Risk management organisation" in the group management report being incorporated by reference (hereafter combined non-financial statement), for the reporting period from 1 April 2017 to 31 March 2018. Our engagement did not include any disclosures for prior years.

### Management's responsibility

The legal representatives of the Company are responsible for the preparation of the combined non-financial statement in accordance with §§ 315c in conjunction with 289c to 289e HGB.

This responsibility includes the selection and application of appropriate methods to prepare the combined non-financial statement as well as making assumptions and estimates related to individual disclosures, which are reasonable in the circumstances. Furthermore, the legal representatives are responsible for such internal controls that they have considered necessary to enable the preparation of a combined non-financial statement that is free from material misstatement, whether due to fraud or error.

### Auditor's declaration relating to independence and quality control

We are independent from the entity in accordance with the provisions under German commercial law and professional requirements, and we have fulfilled our other professional responsibilities in accordance with these requirements.

Our audit firm applies the national statutory regulations and professional pronouncements for quality control, in particular the by-laws regulating the rights and duties of Wirtschaftsprüfer and vereidigte Buchprüfer in the exercise of their profession [Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer] as well as the IDW Standard on Quality Control 1: Requirements for Quality Control in audit firms [IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis (IDW QS 1)].

### Auditor's responsibility

Our responsibility is to express a limited assurance conclusion on the combined non-financial statement based on the assurance engagement we have performed.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board (IAASB). This Standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether the combined non-financial statement of the Company has been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB. In a limited assurance engagement the assurance procedures are less in extent than for a

reasonable assurance engagement and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the auditor's professional judgment.

Within the scope of our assurance engagement, which has been conducted between April 2018 and May 2018, we performed amongst others the following assurance and other procedures:

- ▶ Inquiries of employees regarding the selection of topics for the combined non-financial statement, the risk assessment and the concepts of IKB Deutsche Industriebank AG for the topics that have been identified as material,
- ▶ Inquiries of employees responsible for data capture and consolidation as well as the preparation of the combined non-financial statement, to evaluate the reporting processes, the data capture and compilation methods as well as internal controls to the extent relevant for the assurance of the combined non-financial statement,
- ▶ Inspection of relevant documentation of the systems and processes for compiling, analyzing and aggregating data in the relevant areas, e.g. environment and employees in the reporting period and testing such documentation on a sample basis,
- ▶ Inquiries and inspection of documents on a sample basis relating to the collection and reporting of selected data,
- ▶ Analytical procedures at group level regarding the quality of the reported data,
- ▶ Evaluation of the presentation of disclosures in the combined non-financial statement.

#### Assurance conclusion

Based on our assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the combined non-financial statement of IKB Deutsche Industriebank AG for the period from 1 April 2017 to 31 March 2018 has not been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

#### Intended use of the assurance report

We issue this report on the basis of the engagement agreed with IKB Deutsche Industriebank AG. The assurance engagement has been performed for the purposes of the Company and the report is solely intended to inform the Company as to the results of the assurance engagement and must not be used for purposes other than those intended. The report is not intended to provide third parties with support in making (financial) decisions.

#### Engagement terms and liability

The "General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms]" dated 1 January 2017 are applicable to this engagement and also govern our relations with third parties in the context of this engagement ([see attachment](#)). In addition, please refer to the liability provisions contained there in no. 9 and to the exclusion of liability towards third parties. We assume no responsibility, liability or other obligations towards third parties unless we have concluded a written agreement to the contrary with the respective third party or liability cannot effectively be precluded.

We make express reference to the fact that we do not update the assurance report to reflect events or circumstances arising after it was issued unless required to do so by law. It is the sole responsibility of anyone taking note of the result of our assurance engagement summarized in this assurance report to decide whether and in what way this result is useful or suitable for their purposes and to supplement, verify or update it by means of their own review procedures.

Munich, May 30, 2018

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