

IKB 

Deutsche Industriebank



Sustainability-related Lending standards of IKB Deutsche Industriebank AG

Table of contents

1. IKB's self-image	2
2. Sustainability-related business strategy	3
3. Sustainability-related risk strategy	3
4. General environmental guidelines	4
5. General social guidelines	5
6. Sustainability-related lending standards for selected sectors	7
Energy industry	7
Dams and hydropower	8
Coal-fired power plants	8
Nuclear energy	9
Oil and gas	9
Wood, pulp and paper	10
Mining	10
Agriculture and forestry	11
7. Process for monitoring sustainability-related lending standards	12

1. IKB's self-image

As a supra-regional bank, IKB shares responsibility for achieving the environmental targets set out in the EU Taxonomy Regulation and the goals of the 2015 Paris Climate Agreement and considers environmental and social factors to be part of its responsible corporate behaviour. The bank's business model is sustainable, long-term oriented and focussed on financing medium-sized companies in Germany. With its financing solutions, the bank is helping to promote the transition to a "greener" economy and a more socially responsible society.

IKB takes the responsibility associated with its role as a bank very seriously and endeavours to minimise sustainability risks arising from financing in the environmental, social and governance dimensions. IKB has therefore developed general and also sector-specific sustainability criteria for lending that apply throughout the Group and are integrated into the existing risk management system. Corresponding processes for monitoring the lending standards have been created.

The standards are reviewed at least once a year and updated if necessary. This emphasises IKB's commitment to communicating its financing purposes and the underlying sustainability-related principles of its lending decisions clearly and openly.



2. Sustainability-related business strategy

IKB aims to become one of the relevant sustainable financiers in Germany and is aware of the environmental impact of its business activities. It aims to play an active role in the "green" transformation and to continuously expand its range of sustainable products and services. In doing so, IKB aims to make a significant contribution to the transition to a green economy through a broad range of sustainable product initiatives and the focus of its lending and investment activities.

IKB developed a Green Loan Framework at the beginning of 2022, initially positioning itself in the area of sustainable financing and providing its customers with transparency with regard to its own assessment standards and its understanding of sustainability. With the IKB Sustainable Finance Framework presented in March 2023, IKB has further developed the Green Loan Framework and thus further defined its sustainable product positioning. IKB has set itself the ambitious target of mobilising a total of € 3 to 4 billion in sustainable new business volume in line with the Sustainable Finance Framework by the end of 2025. IKB's many years of expertise in development finance and its high market share, particularly in development finance programmes that also aim to reduce CO₂ emissions, play a key role in this. Sustainable action is a key component of the corporate strategy. Business activities are scrutinised for ESG

aspects and successively aligned accordingly. IKB has defined measures both at company level and in its core business to achieve its economic, environmental and social goals.

Structures and processes were created within the existing organisation in order to drive the transformation and implement the measures associated with ESG. The bank is pursuing an approach based on the three pillars of i) strategy, ii) regulation and iii) products. Developments in the described areas of action are managed by an ESG Steering Committee under the responsibility of the entire Management Board.

3. Sustainability-related risk strategy

The generally increased importance of sustainability and ESG aspects (not only) for banks and IKB's strategic business objective of becoming one of the most important sustainable financiers in Germany requires an intensive and professional approach to the associated risks.

IKB does not view ESG risks as a separate risk type, but rather as risk drivers that (can) impact the Bank's established risk types. This categorisation is in line with the perspective of the supervisory authority and the requirements of the Minimum Requirements for Risk Management (MaRisk).



In a risk driver analysis, the Bank has analysed in detail the extent to which various risk drivers from the environmental, social and governance dimensions (may) affect the Bank's material risk types. Due to its business model, IKB is primarily affected by sustainability risks in its lending business. This is primarily an indirect impact from both physical and transitory risk drivers via the Bank's customers.

In order to prevent any negative effects of the Bank's business activities on the environment and society as far as possible and to avoid or minimise any risks that may arise as a result, approaches have been developed as part of a bank-wide project to identify (ESG risk driver analysis), evaluation (quantitative and qualitative assessment of materiality, stress tests), management (sustainability-related KPIs are currently being developed) and reporting (integration of sustainability risks into the existing risk reports). As part of individual lending decisions, relevant sustainability information is obtained using a sustainability checklist and ESG aspects are systematically taken into account. The introduction of an ESG scoring system and the consideration of ESG in the pricing of loans is currently in preparation. Where relevant, environmental, social and governance aspects are also taken into account when setting sector limits. The Bank's aim and objective is to support economically sound companies, regardless of sector, with a forward-looking strategic orientation in their transition to greater sustainability. Details can be found in the following general and sector-specific environmental and social guidelines (sections 4-6).

4. General environmental guidelines

By signing the "UN Principles for Responsible Banking" of the United Nations, IKB has committed itself to the Paris climate goals of 2015 and to greater sustainability and takes into account the responsible, sustainable and careful treatment of the environment in its business activities. The financing of or participation in activities, transactions or

projects that cause significant and lasting damage to the environment (e.g. destruction of the rainforest, processing of nuclear fuels, pollution of land, air or water) is not in line with the corporate strategy.

Firstly, this relates to the management of environmental pollution caused directly by the Bank and the calculation and publication of operational environmental indicators, such as the Bank's own operational ecological footprint in accordance with recognised standards. IKB has already significantly reduced its CO₂ emissions in recent years and is aiming for a further reduction in the coming years.

However, due to its business model, the Bank's exposure to credit customers is the main indirect gateway for physical and transitory environmental risks. In accordance with the Minimum Requirements for Risk Management (MaRisk), IKB has analysed in detail which ESG risk drivers affect the Bank as part of the risk inventory. This represents the starting point for the integration of sustainability into the existing risk management processes.

As part of the appropriate management of these risks, which is also expected by BaFin, the following information, among others, is systematically collected as part of the lending process and taken into account in the lending decision:

- Indications that the customer or its supply chain (production facilities, infrastructure, suppliers) is more likely to be affected by physical environmental risks such as extreme weather events, natural disasters or coastal erosion
- Customer's exposure to transitory environmental risks such as high dependence on the CO₂ price due to high CO₂ emissions, high or rising energy consumption or consumption of other resources, high or rising disposal costs
- Business model-related legal and reputational risks as well as dependencies on the demand behaviour of customers

- Impact of the client's activities on biodiversity
- Level of development with regard to the most comprehensive circular economy possible and the efficient use of resources

The aim is to recognise environmental risks as early as the lending process and then during the term of the loan as part of the annual portfolio decisions and to reduce or avoid any negative effects being passed on from the real economy to the bank's balance sheet. IKB does not exclusively finance "green" customers, but also generally supports customers who are undergoing a credible and documented transformation process towards a more sustainable business model or are preparing to do so. In this way, the Bank contributes to redirecting capital flows towards sustainable uses.

5. General social guidelines

Responsible consideration of social aspects is one of IKB's basic principles, as is compliance with the legal and cultural framework. IKB is committed to respecting human rights and aims to contribute to their promotion and protection within the scope of its influence, for example in its dealings with employees and customers.

A family- and life-phase-orientated HR policy and a health management system are important and value-creating aspects of IKB's corporate culture. IKB promotes the compatibility of work and family life with a wide range of programmes and is certified accordingly in accordance with the "berufund-familie" auditing process of the non-profit Hertie Foundation.

IKB also promotes a culture of diversity at management and specialist levels and is a member of the "Diversity Charter".

The high standards of the bank's own social behaviour are also reflected in the expectations regarding the corresponding behaviour of customers and business partners. In addition to basic requirements such as compliance with human and labour rights, the following information is systematically collected as part of the lending process and taken into account in the lending decision:

- Evidence of discrimination or unequal treatment, e.g. due to skin colour, gender or religion
- Customers' commitment to the minimum social requirements in accordance with the EU Taxonomy Regulation



- Effects of demographic and social changes on the business model
 - Operating a health management system and ensuring safety in the workplace
 - Compliance with data protection regulations and consumer protection
 - Evidence of corruption, bribery, extortion, money laundering, terrorist financing, violation of a trade embargo, market manipulation, tax evasion
- IKB excludes knowingly financing projects if they could cause serious social damage. Financing of business activities or borrowers that are not justifiable for moral reasons or could damage IKB's reputation is also excluded. These include, for example
- Support / promotion of criminal or morally unacceptable activities / business practices, such as drug and human trafficking, prostitution, money laundering, bribery, corruption, tax evasion
 - Speculation with basic foodstuffs, scarce raw materials and comparable elementary products
 - Business activities that violate human rights or fundamental labour standards, e.g. child labour
 - Business with companies whose headquarters or business activities are located in controversial areas (e.g. dictatorships, civil war zones, countries at high risk of corruption)
 - Business activities in connection with countries against which, for example, the United Nations and the European Union have imposed comprehensive sanctions or similar measures
 - For reasons of business policy, IKB AG avoids financing with a connection (utilisation of funds) to Afghanistan, Iran, Cuba, Myanmar, North Korea, Sudan, South Sudan, Syria, Venezuela and the regions of Crimea/Sevastopol, Zaporizhia, Kherson, Donetsk and Luhansk



6. Sustainability-related lending standards for selected sectors

In addition to the general environmental and social requirements, sector-specific requirements must be taken into account when granting loans, which are discussed below.

The combination of general and specific requirements is an expression of IKB's forward-looking sustainability-related risk acceptance.

Energy industry

- The outlook for the energy sector is generally seen as positive and the bank plans to expand its exposure accordingly
- Clear focus on the support of energy and environmental policy and therefore usually also state-subsidised investments, often in the area of renewable energies and energy efficiency measures
- Further details can be found in the presentations of the sub-sectors "Dams and hydropower", "Coal-fired power plants", "Nuclear energy" and "Oil and gas" of the energy industry



Dams and hydropower

- The future economic development of the sector is seen as positive
- Any borrowers from the "water supply and hydropower" sector are expected to provide a project-related assessment of the ecological (e.g. impact on biodiversity, ecosystems, erosion, water quality) and social (e.g. impact on communities and livelihoods) risks
- The Bank does not participate in the financing of hydropower projects in protected areas



Coal-fired power plants

- The decarbonisation of the energy sector in Germany has been initiated with the staggered phase-out of coal
- Rising CO₂ costs (and thus transitory risks) will initially affect lignite-fired power plants and then hard coal-fired power plants, as the generation of electricity from lignite emits the most CO₂, followed by the generation of electricity from hard coal. With rising CO₂ costs, lignite and hard coal-fired power plants could become uneconomical even earlier than planned and some could be shut down before 2038
- Decommissioning of lignite and hard coal-fired power plants will take place with extensive state financial aid
- The Bank would only participate in the financing of new coal-fired power plants or the upgrading of decommissioned coal-fired power plants in the event of a macroeconomic emergency due to energy bottlenecks, provided that corresponding political decisions were taken
- IKB would only support the modernisation of existing coal-fired power plants in exceptional cases and on the condition that modernisation measures demonstrably achieve significant efficiency gains or higher efficiencies or noticeably and demonstrably reduce climate-damaging emissions

Nuclear energy

- The last conventional, base-load-capable nuclear power plant capacities in Germany were taken off the grid in April 2023
- The Bank would only participate in the financing of new nuclear power plants or the upgrading of decommissioned nuclear power plants in the event of a macroeconomic emergency due to energy bottlenecks, subject to corresponding political decisions
- Financing of corporate clients whose main business activity (share > 50%) is in the production, trading and marketing of nuclear energy and/or the reprocessing of nuclear fuels, uranium enrichment plants or uranium mining is not excluded, but is not part of the Bank's strategic business focus

Oil and gas

- Oil and gas production is associated with environmental impacts and often utilises controversial extraction methods (e.g. tar sands, oil sands, Arctic drilling, deep sea drilling, fracking). This sector is not part of the Bank's strategic business focus, particularly in the context of decarbonisation
- However, highly selective new business with large, diversified companies with a good global cost position cannot be ruled out in principle in this sector
- The bank ensures that any financing to maintain existing or create new transport infrastructures supports the desired transition of the industry. For example, the infrastructure should be able to transport biogases or hydrogen in addition to natural gas
- Appropriate ecosystem and biodiversity management is expected from any borrowers in this sector



Wood, pulp and paper

- Borrowers from the "paper and wood industry" sector are expected to have sustainable management, including aspects such as raw material resources, energy efficiency, handling of chemicals and air and noise emissions
- Climate-related procurement risks must be assessed in detail when granting loans
- The Bank does not knowingly participate in the financing of companies that engage in controversial practices, such as the procurement of

timber from unknown sources or the processing of endangered or protected tree species

- In addition, demonstrable compliance with the relevant requirements and regulations on supply chains and the EU regulation against deforestation is a prerequisite for participation in financing

Mining

- The fundamentally high ESG risks of the "mining" sector are analysed in detail in the lending process



- Appropriate ecosystem and biodiversity management is expected from any borrowers in this sector
- Due to the sustainability issue and the global coal phase-out, the bank does not participate in the financing of "coal mining" (= producers with a coal share > 50%), with the exception of dismantling and renaturalisation as well as support for the transformation of the business model, e.g. by financing investments in renewable energies

Agriculture and forestry

- The Bank is not currently directly involved in the "agriculture and forestry" sector and this sector will not be a strategic business focus of the Bank in the future either. However, new business is not ruled out in principle
- Any borrowers from the "agriculture and forestry" sector are expected to have sustainability-related certification
- The Bank does not knowingly participate in the financing of controversial practices such as the conversion of areas of high conservation value, the deforestation of endangered, threatened and/or protected tree species or the use of hazardous chemicals
- In addition, demonstrable compliance with the requirements of the EU regulation against deforestation is a prerequisite for participation in financing

Fisheries and aquaculture

- The Bank is not currently involved in the "fisheries and aquaculture" sector and this sector will not be the focus of the Bank's business strategy in the future either. However, new business is not ruled out in principle
- Any borrowers from the "fisheries and aquaculture" sector are expected, among other things, to avoid polluting water bodies and to treat ecosystems and biodiversity responsibly
- The Bank does not knowingly participate in the financing of controversial practices such as bottom trawling and driftnet fishing, fishing in marine protected areas, conversion of areas of high conservation value to aquaculture or fishing for endangered, threatened and protected species
- In addition, sustainability-related certification is a prerequisite for participation in a financing programme

7. Process for monitoring sustainability-related lending standards

Compliance with the sustainability-related lending standards is checked procedurally and by means of suitable controls. The initial assessment of compliance by the market is reviewed by the back office in the course of the further credit decision process. The sustainability standards are part of the strategic risk requirements and are therefore highly binding.

