

Sustainable Finance Framework

March 2023

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1. Background information on 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 in 1924, 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's business model is based on a strong understanding of financing techniques, markets, competitive situations and the processes of medium-sized companies. IKB's typical corporate clients are profitable, high-growth, internationally oriented companies that occupy leading positions in global markets with innovative products. They are often world market leaders in their field and achieve group external sales of over EUR 100 million. IKB attaches great importance to long-term relationships with its clients through regional support, in-depth industry knowledge

and close personal contact, among other things. Corporate clients benefit from continuous support by a relationship manager, who in turn works closely with industry and product experts.

In its product mix, IKB distinguishes between development bank-financed and self-financed corporate loans. Due to its historically grown relationships with the major German development banks, IKB has a significant market share in public programme loans, which offer companies long-term financing at favourable conditions. The utilisation of these loans is dependent on certain criteria, which are regularly reviewed by the development banks. In this context, public programme loans (PPL) have played an important role among IKB's corporate clients in recent years. Due to its sector expertise in selected industrial groups, among other things, IKB is in a leading position to provide tailored financing for investment projects aimed at reducing greenhouse gas emissions.

2. Sustainability at IKB

IKB's business model is geared towards achieving sustainable positive results. In this way, the Bank creates value for its stakeholders, in particular customers, shareholders, investors as well as employees and their families. The trust of IKB's customers and business partners as well as the public results in particular from the solution and result orientation as well as the responsible and compliant behaviour of all IKB employees. This trust is of great importance for the Bank's reputation. The values "professional", "committed" and "reliable" shape our conduct in all internal and external business activities as well as towards supervisory authorities. IKB's Code of Conduct sensitises IKB's employees to these standards and the associated ethical and moral values and principles of behaviour. The Code of Conduct forms the binding orientation framework for IKB's corporate and risk culture and forms the basis for the more specific regulations in the business and risk strategy as well as in IKB's written regulations.

2.1. Overarching ESG objectives of IKB

IKB is successively implementing the topic of ESG and sustainability at all levels of the bank and has firmly anchored its level of ambition in the business strategy. Accordingly, IKB aims to become one of the relevant green SME financiers in Germany. Internally, IKB breaks sustainability down into three pillars: Environmental, Social and Governance (ESG). Due to the thematic interdisciplinarity of ESG, large parts of IKB are affected by the topic – therefore, organisational structures have been created to deal with ESG holistically: Overall, IKB pursues a strategic, regulatory and product-driven agenda setting in the ESG context. The developments of these three issues are monitored and controlled by an ESG Steering Committee with the participation of the entire Board of Managing Directors.

IKB sees one of its main tasks in supporting its customers in the necessary transition to climate neutrality in the coming years. Against the backdrop of ESG regulation at EU and national level, banks are

required to make a substantial contribution to achieving the politically driven Net Zero targets (e.g. EU Action Plan or German Federal Climate Protection Act) through their financing activities.

In terms of the portfolio, IKB is committed to its responsibility to address climate change and makes a relevant contribution to promoting the transition to a low-carbon economy and a more responsible society with smart financial solutions. The Bank considers environmental and social aspects as part of responsible corporate behaviour and systematically incorporates them into its financial solutions for German companies.

In this respect, IKB has established a significant share of its core business in advising corporate clients on the benefits of public programme loans for sustainable investments. In the promotional lending business for sustainable investments, IKB is one of the leading German banks and has a high market share, particularly in complex KfW loan programmes aimed at reducing carbon dioxide emissions.

2.2. Commitments and memberships

IKB is a member of the United Nations Environmental Programme Finance Initiative (UNEP FI). The aim of the UNEP FI is to integrate environmental aspects into the services of the financial sector. Building on this, IKB has committed to the principles of the United Nations Principles for Responsible Banking (UNPRBs) as of December 2022. The UNPRBs provide signatory financial institutions with a framework for aligning banking strategies and business practices with the vision of a society in line with the Sustainable Development Goals (SDGs) and the Paris Climate Agreement. As a signatory to the UNPRBs and with the associated membership of UNEP FI, IKB is clearly committed to climate protection and sustainable action.

In 2021 IKB has also committed to and signed the German "Charta der Vielfalt", a corporate initiative to promote diversity in companies and institutions. The Bank is convinced that with diverse teams and mixed management-structures, better decisions are made in

the company in the long term. Different ideas and perspectives help to drive innovation, manage risks and operate the business model successfully in the long term. Signing the Diversity Charter is IKB's commitment to diversity.

2.3. Operational ecology at IKB

IKB is committed to the sustainable design of its own operational ecology: With regard to environmental and climate protection, IKB takes into account the responsible, sustainable and careful treatment of the environment within the scope of its business activities. IKB therefore aims to create transparency with regard to its operational CO₂ emissions. To this end, it has become a member of the Association for Environmental Management and Sustainability in Financial Institutions ("Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten e.V." = VfU). With the VfU carbon indicator tool, the bank will in future apply an established standard for the accounting of environmental indicators for financial service providers. The survey tool covers the dimensions of energy, water, waste, paper, mobility and GHG emissions and thus supports IKB in creating transparency in its operational ecological footprint.

In addition to complying with environmental laws and regulations, IKB strives to take the aspect of sustainability into account in its business decisions, particularly when evaluating potential business approaches and in the management of infrastructure. With regard to the social aspect of business ecology, IKB welcomes its employees' involvement in the community. IKB itself supports organisations and institutions with humanitarian, social, charitable, scientific or cultural objectives and encourages such commitment on the part of its employees.

3. IKB Sustainable Finance Framework

Sustainability is already anchored within IKBs product offering. For example, IKB developed a Green Loan Framework early 2022. IKB has thus initially positioned itself in the area of sustainable financing and provided

its customers with transparency with regard to its own assessment standards and its understanding of sustainability. Through its range of sustainable financing products, IKB aims to support its customers in the transition to a more environmentally and/or socially sustainable future. In order to do this even better in the future, this 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. IKB has set itself the ambitious milestone of mobilising 3 - 4 billion euros in sustainable products by the end of 2025. The overarching goal is to provide a solid and transparent method for assessing sustainability in the lending process and to present IKB's product-specific positioning in the field of sustainability.

For the IKB Sustainable Finance Framework, both the Sustainable Development Goals (SDGs) of the United Nations and the European EU Taxonomy Regulation for sustainable activities were taken into account.

IKB's Sustainable Finance Framework is based on various guidelines in the context of ESG products of the Loan Market Association (LMA). In particular, the Green Loan Principles (GLP) and the Sustainability-Linked Loan Principles (SLLP) were used as a basis for this document.

Figure 1: Illustration of the Sustainable Development Goals (SDGs)



Source: United Nations

3.1. Classification of sustainable financing

Depending on financing needs, IKB offers tailor-made products for sustainable financing and plays an active

role as a financing partner in the sustainable transition of the German economy.

In order to be transparent about which financing activities IKB classifies as sustainable, the bank has developed the Sustainable Finance Framework, a system for assessing sustainable financing.

Thereby, financings with positive environmental and/or social impacts are defined as sustainable based on the methodology of the IKB framework. Financed activities that do not have a clear positive ESG contribution are classified as neutral and are considered conventional financing/products.

IKB offers both dedicated and general purpose financings. Both can be classified as sustainable, if they satisfy certain criteria (below). Criteria 1, 2 and 3 apply to dedicated purpose financings, whereas criterion 4 applies to general purpose financings. For classification as sustainable financing, the fulfilment of at least one of the following criteria is sufficient:

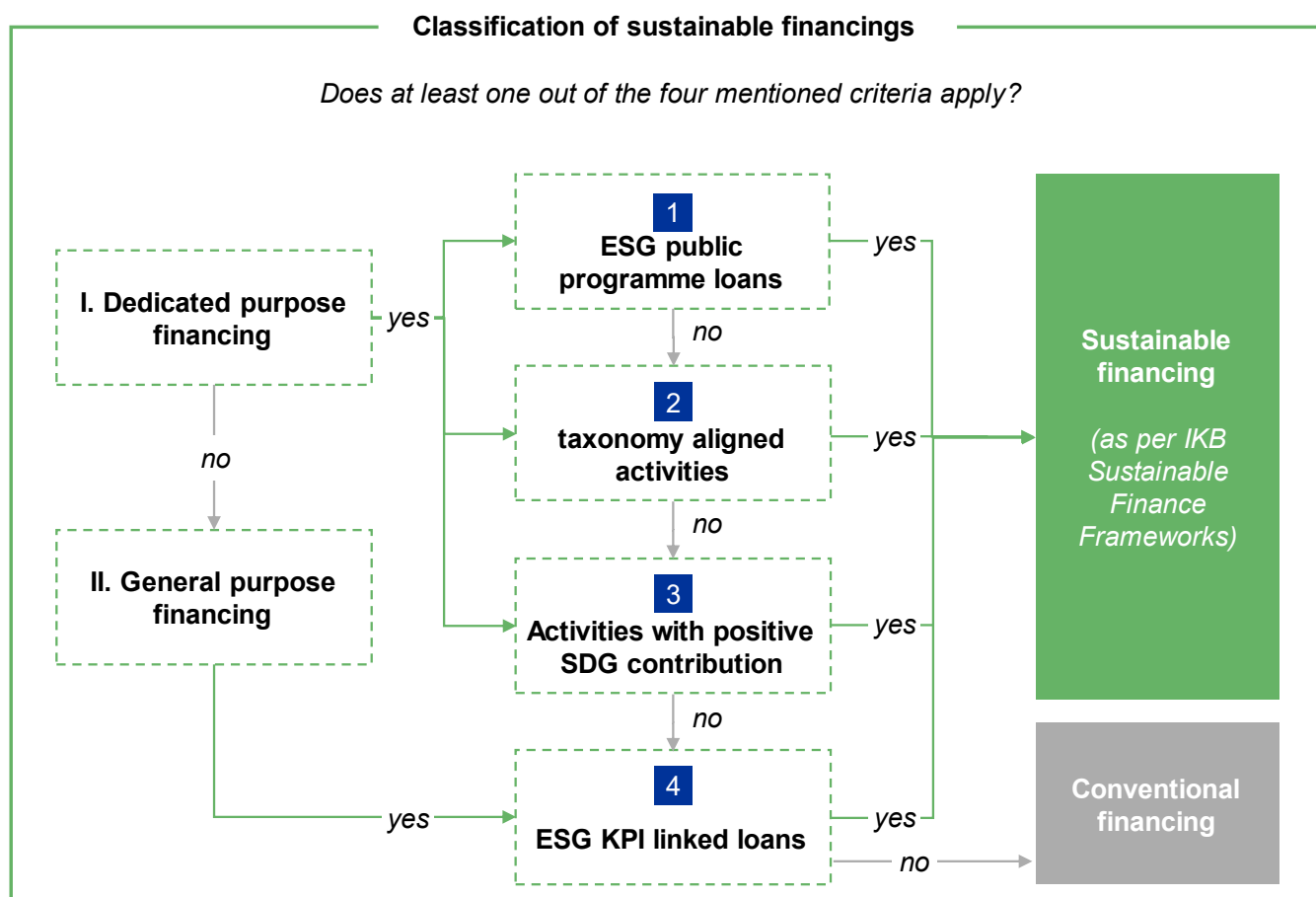
- 1 ESG public programme loans (Chapter 3.1.1)**
- 2 Taxonomy-aligned activities (Chapter 3.1.2)**
- 3 Activities with a positive contribution to the SDGs (Chapter 3.1.3)**
- 4 ESG KPI linked loans (chapter 3.1.4)**

In order to ensure a transparent process of selection, evaluation and monitoring, IKB has integrated additional processes into the existing credit approval and monitoring processes as well as made use of existing procedures.¹



¹ A detailed description of the evaluation, selection and monitoring processes is outlined in chapter 4.1 and 4.2 of this framework.

Figure 2: Schematic representation of the classification approach for identifying sustainable financing at IKB



Source: IKB

3.1.1. ESG public programme loans

ESG public programme loans have a long tradition in IKB's product offering. The historically grown partnership between IKB and the German development banks is reflected in the large share of public programme loans in the IKB portfolio.

Public programme loans were already included in the IKB Green Loan Framework developed in 2022. Various public programme loans from the IKB product portfolio were defined as sustainable in the sense of the Green

Loan Framework if they are clearly linked with positive social or environmental impacts. This view of public programme loans is adopted for the present Sustainable Finance Framework.

The following public programme loans (including any combination of these and the arranging of syndicated loans only comprising these public programme loans) are thus to be classified as "ESG public programme loans" and hence as sustainable²:

² More information of the respective public programme loans can be found on the following websites: [KfW](#) and [NRW.Bank](#)

Programme	Description/Explanation
240 KfW Environmental Programme	<ul style="list-style-type: none"> Support of investments in environmental protection and sustainability
261/263/264 Federal funding for energy-efficient buildings	<ul style="list-style-type: none"> Investments in the construction of energy-efficient buildings or the energy-efficient refurbishment of existing buildings in Germany. The programmes are generally based on the so-called KfW efficiency house standards
270 KfW Renewable Energies Standard	<ul style="list-style-type: none"> Construction investments for the generation of electricity or heat from renewable energy sources at home and abroad
291 KfW syndicated loan Sustainable transformation	<ul style="list-style-type: none"> The KfW syndicated loan Sustainable Transformation offers commercial, medium-sized and large companies flexible financing for ambitious, sustainable and transformative measures based on the technical criteria of the EU taxonomy. In this way, SMEs contribute to reducing, avoiding and eliminating greenhouse gas emissions
292 KfW Energy Efficiency of Production Facilities	<ul style="list-style-type: none"> Investments in production facilities at home and abroad that lead to an energy efficiency improvement of at least 10% on the part of the investor Financing energy efficiency measures of commercial enterprises. The KfW Energy Efficiency Programme supports energy efficiency measures in the area of production facilities/processes of commercial enterprises with low-interest loans
293 KfW Climate Protection Offensive for SMEs	<ul style="list-style-type: none"> Investments in production facilities in Germany or EU member states that meet the requirements of the EU taxonomy Financing of climate-friendly economic activities of commercial enterprises based on technical criteria of the EU taxonomy for sustainable economic activity
295 KfW Federal funding for energy and resource efficiency in the economy	<ul style="list-style-type: none"> Financing of projects to increase energy and resource efficiency and the use of renewable heat technologies in the economy
297/298/299 KfW Climate-friendly new building	<ul style="list-style-type: none"> Investments in the construction of energy efficient buildings. The aim of the realigned subsidy for new buildings is to reduce greenhouse gas emissions in the life cycle, to reduce primary energy demand in the operating phase and to increase the use of renewable energy while adhering to sustainable building principles
268/269 KfW Sustainable mobility investment loan	<ul style="list-style-type: none"> Investments in sustainable and climate-friendly mobility
NRW.BANK.Energy Infrastructure Loan	<ul style="list-style-type: none"> Investments in energy generation, storage and distribution facilities in North Rhine-Westphalia - including wind turbines and community wind farms
NRW.Bank Efficiency Loan	<ul style="list-style-type: none"> The programme supports the achievement of the climate and environmental policy goals of the state government of North Rhine-Westphalia. It supports companies in the implementation of energy- and resource-saving measures, in the implementation of noise protection and air pollution control measures, and in investments in non-residential buildings that contribute to substantial energy savings and significant reductions in CO2 emissions

3.1.2. Taxonomy-aligned activities

The EU taxonomy defines sustainability criteria for economic activities and investments. For an economic activity and the investment in it to be considered sustainable in the sense of the EU taxonomy, the following three criteria need to be met cumulatively:

- Substantial contribution to one of the six EU environmental objectives
- Do no significant harm (DNSH) to any of the other EU environmental objectives
- Compliance with minimum requirements in the areas of governance, human and labour rights (minimum social safeguards, MSS), as well as compliance with the technical screening criteria (TSC), which relate to the six environmental objectives

Figure 3: Illustration of the six environmental objectives of the EU Taxonomy Regulation

1	Climate change mitigation
2	Climate change adaption
3	Sustainable use of water and marine sources
4	Circular economy
5	Pollution prevention
6	Healthy ecosystem

Source: German Federal Ministry for Economic Affairs and Climate Protection

All financings that are taxonomy aligned according to the current status of EU regulation are qualified as sustainable within the meaning of the IKB Sustainable Finance Framework.

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 as soon as the regulation is clearly defined, at latest in 2023. Thereby, all aspects mentioned above (TSC, DNSH and MSS) will be implemented in a comprehensive manner. When established, the classification criteria EU Taxonomy aligned activity will be integrated into the standardized classification process outlined in chapter 4 of this framework.

While the practical use of the EU taxonomy is still largely under development (TSC for the environmental objectives 3 – 6 are still under development), the long-term goal of the EU taxonomy is to provide a standardised sustainability classification beyond banks' internal frameworks. Therefore, this criterion will gain importance in the context of the IKB Sustainable Finance Framework in the future.


















3.1.3. Activity with positive contribution to the SDGs

IKB aims at financing or arranging the financing of activities that pursue social and/or environmental goals and have a positive impact on social and/or environmental aspects. The following list of activities are classified as environmentally or socially sustainable activities according to IKB's present Sustainable Finance Framework:










Use Of Proceeds		Sustainable Development Goals
Solar Energy, Wind power, Ocean Energy, Hydropower small-scale (< 10MW), Geothermal Energy, Hydrogen production from wind and solar energy	<ul style="list-style-type: none"> Development or production of components for the generation and storage of renewable energies Renewable energy project developers Operation and maintenance of renewable energy projects 	 
Battery storage from renewable energy source, thermal energy and green hydrogen storage		 
Hydropower medium to large scale (+10 to 1,000MW)	<ul style="list-style-type: none"> Development or production of components for the generation and storage of renewable energies Renewable energy project developers Operation and maintenance of renewable energy projects 	 
Power transmission and distribution grids for renewable energy sources		 
Charging stations for electric vehicles and electric infrastructure for public transport		 
Bioenergy – Production of 2nd generation biofuel³	<ul style="list-style-type: none"> Development or production of components for the generation and storage of renewable energies Renewable energy project developers Operation and maintenance of renewable energy projects 	
Bioenergy – Production of 3rd generation biofuels (irrespective of certification)	<ul style="list-style-type: none"> Development or production of components for the generation and storage of renewable energies Renewable energy project developers Operation and maintenance of renewable energy projects 	 
Financing improvements to production processes to reduce energy consumption	<ul style="list-style-type: none"> 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 	 
Other measures to improve the efficient use of energy and avoid system losses	<ul style="list-style-type: none"> Products/ Services e.g. for installation, maintenance and repair of façade and roofing elements with a solar shading or solar control function, including those that support the growing of vegetation 	
Smart grid technologies		 
Real estate and green building	<ul style="list-style-type: none"> LEED Gold, BREEAM Excellent, DGNB Gold, HQE Excellent 	  

³ In addition, with regard to wood-based biomass as biofuel evidence of compliance with the requirements of relevant standards such as or at least equivalent to FSC, PEFC, Blue Angel is a pre-condition for qualification as sustainable financing.

Use Of Proceeds	Sustainable Development Goals
Real estate and green building	<ul style="list-style-type: none"> EPC Level A 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"> The primary energy demand is within the best 15% of the local stock or complies with local energy efficiency regulations 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"> Renovation achieves energy savings of ≥ 30 % or the primary energy demand after renovation is within the best 15 % of the local stock or complies with local energy efficiency regulations 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"> 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.  
Real estate and green building	<ul style="list-style-type: none"> 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"> 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 
Real estate and green building	<ul style="list-style-type: none"> 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"> 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  
Water	<ul style="list-style-type: none"> 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 
	<ul style="list-style-type: none"> Water-saving conversion of cleaning and pre-treatment processes  
	<ul style="list-style-type: none"> Protection and restoration of aquatic ecosystems 

Use Of Proceeds	Sustainable Development Goals
Circular Economy	<ul style="list-style-type: none"> 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 Products / Services with a clear reusability focus and Re-useable packaging products Recycling Services, Recycling facilities (recycling plants, sludge treatment plants, waste treatment plants) Expansion of take-back systems for recycled materials from the end-consumer sector Use of biobased, biodegradable and compostable plastics to reduce plastics from fossil raw materials Use of CO₂ 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 
Circular economy	<ul style="list-style-type: none"> Anaerobic digestion plants for the production of biogas and digestate from biowaste  
Transport and storage	<ul style="list-style-type: none"> Electric vehicles without direct emissions and direct components (such as batteries)  
Transport and storage	<ul style="list-style-type: none"> Infrastructure for freight transport, in line with one of the following vehicle-specific thresholds outlined in the EU taxonomy (TSC): <ul style="list-style-type: none"> 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, 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)  
Information and communication technology	<ul style="list-style-type: none"> 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)  
Information and communication technology	<ul style="list-style-type: none"> Data centers that have <ul style="list-style-type: none"> a Power Usage Effectiveness (PUE) of 1.5x or lower, or source 100% of renewable energy during the whole life of the financing  
Cement, Aluminium and Iron and Steel production in line with the EU taxonomy TSC (respectively 3.7, 3.8 and 3.9)	

Financing and/or its arranging with a positive social impact is considered sustainable financing on the methodological basis of the IKB Sustainable Finance Framework. For investments to be financed or refinanced by IKB social loans or the arranging of the same, they must serve clearly defined social projects or objectives. The definition of social activities as part of IKB Sustainable Finance Framework, is adapted from ICMA Social Bond Principles as well as market best practices:

Use Of Proceeds		Sustainable Development Goals
Affordable basic infrastructure	▪ Clean drinking water	 
	▪ Sanitation infrastructure	
	▪ Transport infrastructure (e.g., improving rural transport systems, equal regional access as prerequisite for economic activities and trade)	
	▪ Energy infrastructure (e.g., improving sustainable energy infrastructure to link regions with low power connection)	 
Access to essential services	▪ Health services: investments in increased and equal access to and/or increased quality of healthcare services, medicine, and medical equipment	
	▪ Health services (investments in increased and equal access to and/or increased quality of medicines)	
	▪ Education and vocational training: support for institutions/provision of educational grants for low-income students	
	▪ Education and vocational training: Construction/maintenance of educational institutions and the equipment	
Real estate with focus on Health	Employment generation/ prevention of unemployment	
	▪ Financing of measures with the dedicated purpose to sustain/ educate the existing workforce	
	▪ Construction/Maintenance care facilities and housing for elderly (among other with focus on health)	
	▪ Construction/Maintenance of care facilities and housing for the elderly	

3.1.4. ESG KPI linked loans

An ESG KPI linked loan is a dynamic and flexible instrument for sustainable financing that is based on predefined sustainability indicators. The loan conditions of an ESG KPI linked loan are dynamically adjusted over the course of the loan term based on the performance of predefined sustainability indicators (key performance indicators, KPIs). In this way, borrowers are incentivised to improve their sustainability performance and thus supported in achieving their transformation goals. In order to provide some guidance, IKB has defined a non-exhaustive list of ESG KPIs that can serve as indicators for an ESG KPI linked loan (Appendix I).

In contrast to classification criteria 1 – 3 (see overview on page 7), the use of the loan amount for ESG KPI linked loans is not tied to a specific purpose and may therefore be used primarily for general purpose financing. Consequently, the loan monitoring for ESG KPI linked loans will be conducted on an annual basis, observing the actual performance of the predefined ESG KPI(s).⁴

When applicable, IKB refers to the Sustainability Linked Loan Principles (SLLP) of the LMA when designing its ESG KPI linked loans. These define specific requirements for the selection of sustainability KPIs, the

⁴ More details are mentioned under chapter 4.1 and 4.2.

definition of target values, the characteristics of the loans, reporting and the verification process. In that sense, 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 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. In addition, the parameters "normal market performance" with regard to the respective KPI as well as scientific research results on the topic of the KPI should also be taken into account. With respect to the initial set-up of an ESG KPI linked loan, the SLLPs recommends an external review of the selection and ESG effectiveness of the defined KPI and set-up to ensure an actual sustainability lever of the financing (pre-signing external review).⁵

The KPI performance is reviewed periodically on an annual basis and, if necessary, leads to margin adjustments through premiums or discounts if the predefined SPTs are reached or not reached. In order to be able to make a comprehensible decision on any margin adjustments, the borrower must submit an annual report on the KPI performance. For this purpose, the borrower is contractually obliged to provide information on the respective predefined KPI(s). In addition, the calculation methodology for each KPI and any changes to it should be reported. At the same time, borrowers might be asked to provide information on climate and sustainability-related business objectives, if applicable.⁶

The following overview illustrates the development process with regard to ESG KPI linked loans theoretically and visualised by two examples:

⁵ Aspects of KPI selection and target definition are based on the SLLPs of the LMA, when applicable. For details on the development process of an ESG KPI linked loan, compare figure 4 as well as chapter 4.1.

⁶ The comments on the annual borrower reporting are based on the SLLPs of the LMA.

Figure 4: Schematic illustration of development process for ESG KPI linked loan

	Explanations	Examples	
1 KPI selection	<i>Identification of KPI that is (among others) relevant, core and material to the borrower's business, strategically significant and measurable</i>	GHG emissions	ESG rating
2 KPI definition	<i>Clear definition of selected KPI(s) as well as calculation methodology and baseline</i>	GHG emissions, calculated by defined standard and baseline	Borrower's ESG rating at a selected (independent) rating agency, incl. defined baseline rating
3 SPT setting	<i>Definition of SPTs that should be significantly ambitious, entailing a material improvement and be consistent with borrower's ESG strategy</i>	Reduction of GHG emissions of borrower's production processes by defined amount of CO ₂ until end of financing	Improvement of ESG rating grade at defined rating agency to agreed target level
4 Linkage to loan characteristics	<i>Periodical adjustment of margins, premiums, or discounts depending on the SPT performance</i>	Adjustment of margins, if target path (GHG reduction) is missed by defined percentage	Adjustment of margins, if target path (rating improvement) is missed by defined percentage

Source: IKB

3.2. Exclusions

With respect to the below outlined exclusions, IKB is committed on bank level. Separate exclusion criteria in the context of this framework have not been defined. This is particular because IKB targets to be the financier for its clients' sustainable transition rather than e.g., to exclude emission-incentive sectors from financial means.

IKB supports national and international efforts for anti-money laundering and against terrorist financing to protect the financial system from organised crime. Beyond that, IKB has implemented appropriate measures to be compliant with relevant sanctions and embargo provisions.

IKB's compliance rules lead to a mandatory exclusion from financing if certain reasons are given. In order to ensure that the products and services offered by IKB are not misused for the purpose of money laundering or terrorist financing, etc., and to enable the bank to achieve sustainable corporate success, 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,
- Business activities related to cluster bombs and mines and comparable products with special burdens for civilians,
- Speculation on basic foodstuffs, scarce raw materials, comparable elementary products,
- Business activities in violation of human rights or fundamental labor standards, e.g. child labor,
- Business with betting providers,
- Business activities related to countries against which, for example, the United Nations and the European Union have imposed comprehensive sanctions or similar measures.

IKB does not exclude energy-intensive and/or "brown" sectors: IKB sees one of its most important tasks as providing adequate financing to these companies so that they become climate-neutral in the coming years. However, new coal-fired power plants and refurbishment of decommissioned coal-fired power plants are not eligible for financing under this Framework.

4. Reporting, verification and review

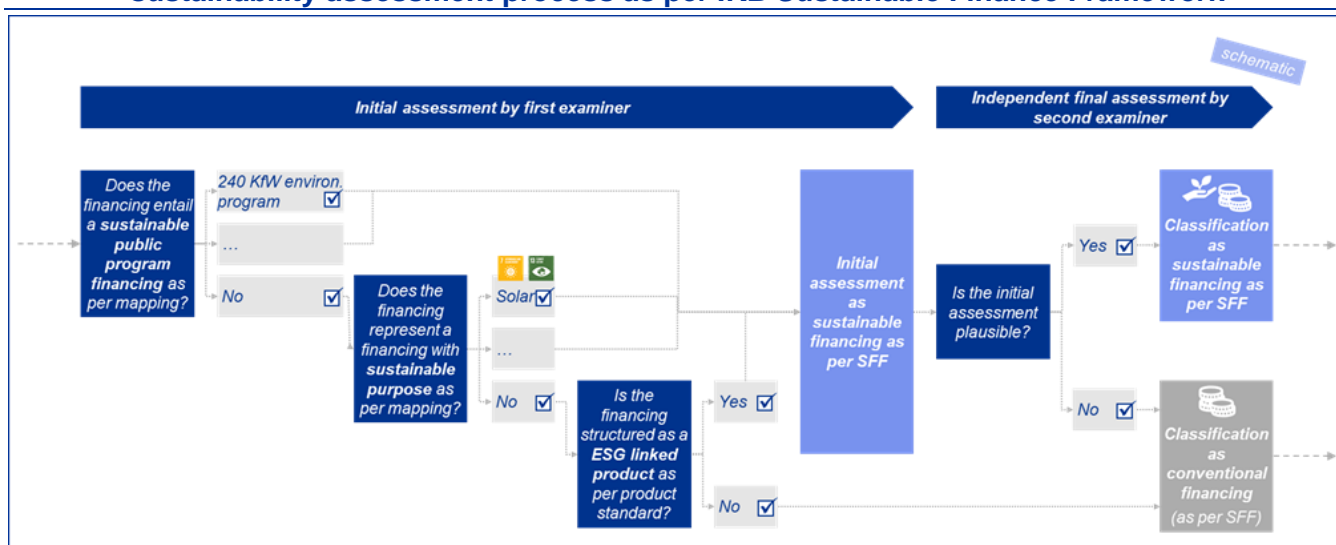
The volume defined as sustainable based on the classification method outlined in the Sustainable Finance Framework is published annually in the bank's non-financial report. The reporting is published at <https://www.ikb.de/ueber-uns/investor-relations>.

Information on the methodology of the Sustainable Finance Framework is also made available on the IKB website.

4.1. Assessment and selection process for individual financings

The IKB sustainability assessment is structured in order to identify sustainable financings objectively and transparently. Therefore, IKB developed a specific decision-making tool with standardised guidelines for the examiners. 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.

Figure 5: Simplified illustration of the sustainability assessment process as per IKB Sustainable Finance Framework



Source: IKB

The classification criteria 1, 3 and 4 can be examined in the standardised tool, criterion 2 is not yet included due to unavailability of client data/ information. It shall be integrated into the standardised sustainability assessment as soon as possible.

4.2. Monitoring process during financing period

As mentioned above, IKB distinguishes between dedicated and general purpose financings. This differentiation is reflected in the monitoring process during the lifecycle of a sustainable financing as per IKB Sustainable Finance Framework.

With respect to dedicated purpose financings of criteria 1 – 3, the sustainability assessment is based on the

purpose outlined in the credit documents. Focusing on public program loans, there is a dedicated monitoring process in place, whether the financial means are effectively spent for the defined purpose. With regard to other types of financing, IKB will consider individually how the client provides verification of the use of the funds. For example, it can be an external expert opinion or invoices for the expenses incurred for the project.

In the case of general purpose financings – the ESG KPI linked loans – the borrower is obliged to report on an annual basis on the actual performance of the predefined ESG KPI(s). The SLLP highly recommend to externally review this reporting on KPI performance (post-signing external review), as this is core to the effectiveness with regard to sustainability improvements.⁷



⁷ As “a necessary element of the SLLP”, a post-signing external verification of the borrower's KPI performance reporting is strongly recommended.

4.3. Review of the Sustainable Finance Framework

This 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). The development of sustainable financing in the portfolio is regularly communicated internally.

This Sustainable Finance Framework has been reviewed by the external ESG certifier ISS ESG. The results of this review are documented in a Second Party Opinion and published on IKB's website (<https://www.ikb.de/esg>). The external certification is valid until further notice and will be updated as necessary if there are significant changes to it.



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5. Annex I: Exemplary ESG KPI list

Category	ESG KPI
Energy efficiency	<ul style="list-style-type: none"> Improvements in the energy efficiency rating of buildings and/or machinery owned or leased by the borrower
Greenhouse gas emissions	<ul style="list-style-type: none"> Reductions in greenhouse gas emissions in relation to products manufactured or sold by the borrower or to the production or manufacturing cycle
Waste disposal	<ul style="list-style-type: none"> Reductions in liquid and solid waste disposals in relation to products manufactured by the borrower or to the production or manufacturing cycle
Renewable energy	<ul style="list-style-type: none"> Increases in the amount of renewable energy generated or used by the borrower
Water consumption	<ul style="list-style-type: none"> Water savings made by the borrower
Sustainable sourcing	<ul style="list-style-type: none"> Increases in the use of verified sustainable raw materials/supplies
Circular economy	<ul style="list-style-type: none"> Increases in recycling rates or use of recycled raw materials/ supplies Achievement of zero waste in production plants
Sustainable farming and food	<ul style="list-style-type: none"> Improvements in sourcing/producing sustainable products and/or quality products (using appropriate labels or certifications)
Biodiversity	<ul style="list-style-type: none"> Improvements in conservation and protection of biodiversity, and contribution to biodiversity
ESG rating	<ul style="list-style-type: none"> Improvements in the borrower's ESG rating and/or achievement of a recognised ESG certification
Employee training	<ul style="list-style-type: none"> Increase training hours for employees
Building strong corporate governance & transparency	<ul style="list-style-type: none"> Improvements in expertise of individuals sitting on the borrower's governance committees, e.g. audit committee, compensation committee, compliance committee and so forth



6. Annex II: ESG glossary

AML	Anti Money Laundering
BEG	Federal funding for efficient buildings
BMWI	Federal Ministry of Economics and Climate Protection of the Federal Republic of Germany
BREEAM	Building Research Establishment Environmental Assessment Methodology
DGNB	Deutsches Gütesiegel nachhaltiges Bauen (German seal of quality for sustainable building)
ERP	European Recovery Programme
ESG	Environmental, Social, Governance
FSC	Forest Stewardship Council
HQE	Haute Qualité Environnementale
IKU	Investment loan for municipal and social enterprises
ISCC	International Sustainability and Carbon Certification
ISS	Institutional Shareholder Services Inc.
KfW	Kreditanstalt für Wiederaufbau
SME	Small and medium-sized enterprises
KPI	Key Performance Indicator
KRI	Key Risk Indicator
LEED	Leadership in Energy and Environmental Design
LMA	Loan Market Association
LRB	Landwirtschaftliche Rentenbank
RSPO	Roundtable on Sustainable Palm Oil
SDG	Sustainable Development Goals
SLLP	Sustainability-Linked Loan Principles
SPT	Sustainability Performance Targets
GHG	Greenhouse gas emissions
TSC	Technical Screening Criteria
UNEP FI	United Nations Environment Programme Finance Initiative
UNPRB	UN Principles for Responsible Banking
VfU	Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten e.V.
WHO	World Health Organization

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