

Combined Separate Non-Financial Report

2018/2019

Contents

- 1. Introduction.....3**
 - 1.1. Business model.....3
 - 1.2. Importance of sustainability for IKB3
 - 1.3. Determination of material topics3
 - 1.4. Risk assessment.....4
- 2. Topics included in reporting4**
 - 2.1. Public programme loans – environmental and social aspects4
 - 2.2. Professional qualification – employee aspects6
 - 2.3. Combating corruption and bribery7

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 "section 1. Basic information on the Group" of the combined management report in IKB's 2018/19 annual report.

IKB's combined separate non-financial report for the financial year 2018/19 combines the non-financial Group statement in accordance with section 340i (5) in conjunction with section 315b of the German Commercial Code (HGB) and 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 of the report and the size of the Group.

The combined non-financial statement for the period from 1 April 2018 to 31 March 2019 was not subject to a voluntary external audit.

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 extremely 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, Governance & 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 affected 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 section 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 aspects

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 and enhanced. IKB supports its customers' strategic long-term investments with sustainable solutions. This includes a strategic dialogue on the sustainability of business plans. 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 for Economic Affairs and Energy (digitalisation 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, pro-

programmes are created, made more or less attractive (incentivisation) and cancelled 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 CO₂ reduction targets – energy efficiency. For example, KfW has expanded its innovation funding programme to include “Industry 4.0” and “Digitalisation”, which are key topics for the future of the midmarket. The new programmes are 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 defined criteria.

Environmental funding programmes support investments aimed at reducing CO₂ emissions in line with the turnaround in energy policy, 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. The present values to be realised are determined as part of 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. If required 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 € 1.3 billion in public programme loans in the financial year 2018/19. This corresponds to 37% of IKB AG's total new lending business.

2.2. Professional qualification – employee aspects

The search for qualified managers and specialists on the competitive employment markets remains 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 continuously and in a timely manner. The Board of Managing Directors also reports 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. In the period under review, the enhancement of the corporate values as the cornerstone of IKB's corporate culture was the subject of Bank-wide workshops aimed at developing a common understanding of how the relationship with IKB's customers and relations within the Bank can be shaped in the future.

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. Seminars are also offered in areas such as work techniques, foreign languages and management skills. In the financial year 2018/19, there were over 300 qualification measures with a total of 2,594 participations.

The working environment at IKB is increasingly characterised by new challenges and rising demands accompanied by increasingly limited resources and means. This requires forms of organisation that can permanently adapt to new conditions and employees and processes that are able to implement this change in a very short space of time.

As such, organisation management has become a key function. Day-to-day practice shows that banking success depends to an ever greater extent on the systematic optimisation of the organisational and operational structure and is increasingly becoming a key strategic competitive advantage. At IKB, this is based on

the task-specific qualification of employees. Targeted process management training is used to communicate the necessary expertise to the responsible employees.

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 extensive 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' health, well-being, job satisfaction and ability to perform is closely related to, and helps to ensure competitiveness. The Bank has supported in-house sports like tennis, badminton, gymnastics and football for a number of years. Pre-employment medical examinations, health checks, flu vaccinations and occupational medical care are health care services offered by IKB to its employees. Some of these services are voluntary and some arise from regulations relating to occupational health care.

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 (KWG), 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 regulations. 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 in order to prevent conflicts of interest.

The 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 analysis. 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.

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. Breaches of instructions are clearly identified and responded to appropriately. If criminal breaches are identified, these are systematically investigated, pursued and punished with measures under employment law and, where applicable, the filing of criminal charges.

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, politically exposed persons (PeP) and crimes. To date, this has not given rise to any findings. In addition, the central office is included in the service provider management and 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 past financial year, all of IKB's sales departments received awareness training on the topic of granting and receiving gratuities.

The fulfilment of regulatory requirements is ensured by way of a three-level organisational structure that is described in detail in "section 3. Risk report – Risk management organisation" of the combined management report in IKB's 2018/19 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.

IKB Combined Separate Non-Financial Report 2018/2019

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

No fines were imposed on IKB or its employees in connection with money laundering, the financing of terrorism, other criminal acts or financial sanctions.

Düsseldorf, 27 May 2019

IKB Deutsche Industriebank AG
Communications – COM
Wilhelm-Bötzkens-Straße 1
40474 Düsseldorf
Germany
Tel +49 211 8221-4511
Fax +49 211 8221-2511
E-mail: investor.relations@ikb.de