

**Combined Separate  
Non-Financial Report 2020**  
(1 April – 31 December 2020)

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## 1. Introduction

### 1.1. Business model

The business model of IKB Deutsche Industriebank AG is focused on the German upper midmarket, mainly comprising companies with annual revenues of more than €100 million. German corporate customers in the upper midmarket are among IKB's preferred target groups due to what in some cases are their outstanding market position, their strong equity base and liquidity resources and, resulting from this, their particularly low default rates. The Bank is characterised by long-standing and stable customer relationships and a close understanding of the concerns of mid-cap companies.

IKB has clearly defined its business segments. The Public Programme Loans segment includes income and expenses from development loans granted to mid-cap clients as well as advisory services for obtaining and applying for public programme loans. The Corporate Bank segment comprises the services related to internally financed corporate banking business. In addition to financing and advisory services in traditional lending business, this also includes supporting customers in their capital market activities. The income and expense items from Funding & Asset Liability Management and the investment portfolio are reported in the Corporate Centre segment.

As of 31 December 2020, IKB employed around 581 people and, with six locations, has a sales network covering all regions of Germany. Its integrated business approach comprising regional sales, industry groups and product groups aims to ensure solution-oriented, high-quality support for customers. IKB's customer business focuses on lending and structuring advice (including capital market products). The key factors here are a disciplined loan pricing policy and an appropriate risk-return profile. Each loan must be profitable in its own right. The Bank also arranges financing solutions for its customers outside its own balance sheet. This includes assisting companies in accessing the capital market, for example the issuance of promissory note loans or bonds. As a specialist, IKB offers its customers access to public loan programs.

As of 31 December 2020, IKB had a share of 3.2% in the market for long-term corporate loans to the German manufacturing sector. At the same time, its share of the market for loans under the development loan programmes offered by KfW Bankengruppe (KfW) relevant for IKB stood at 8.4%. IKB's competitors are large universal banks as well as a number of larger institutions from the public-sector banking sector.

The business model is described in detail in "Section 1. Basic information on the Group" of the combined management report in IKB's 2020 annual report.

Previously, the IKB's financial year ended on 31 March of any given year; it has been changed to end on 31 December. This means that the 2020 financial year comprises nine months and can be compared to the 2019/20 financial year only to a limited extent. IKB's combined separate non-financial report for the shortened financial year 2020 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 size of the Group.

The combined non-financial statement for the period from 1 April 2020 to 31 December 2020 was not subject to a voluntary external audit.

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

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

IKB's business strategy is geared towards sustainability. This means adopting a considerate, conservation-oriented approach to the environment, ensuring responsible, legally compliant and future-oriented behaviour on the part of IKB, its managers and employees. In this context, IKB supports its customers in investment projects in particular through public loan programmes of KfW and other development banks, providing tailored financing solutions aimed at sustainable economic development in accordance with the criteria for the environment, social responsibility and corporate governance. In addition, the Bank focuses on the professional qualification of its employees and on combating corruption and bribery. This also reflects IKB's programme of values, under which social awareness is optimally strengthened on the basis of the values "professional", "committed" and "reliable", including with a view to sustainability.

IKB's business model is aligned 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. Expertise and mutual trust are the fundamental values underpinning customer relationships that often go far beyond the duration of the respective loans. Sustainable customer relationships, often spanning several generations, create the basis for the Bank's economic success. 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. Process for the 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, designated representatives were appointed for the divisions/staff departments of Finance, Legal, Governance & Compliance, Human Resources, Credit Products/Public Programme Loans, Corporate Development and Investor Relations/M&A. The sustainability-related data and facts available for the key elements of the value chain were structured and the relevant topics identified in a continuous dialogue with the respective representatives (See "2. Topics included in reporting"). The materiality of these topics in terms of IKB's business activities and their impact on the sustainability aspects were determined in coordination with the Board of Managing Directors. The topics identified as material within the meaning of CSR-RUG (German CSR Directive Implementation Act) 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 are public programme loans, employee qualification, and combating corruption and bribery.

### **1.4. Sustainability risks management**

As a financial institution, IKB shares in the responsibility to combat climate change and makes a relevant contribution to supporting the transition to a low-CO<sub>2</sub> economy and a more social society with its financing solutions.

The Bank sees ecological and social factors as an element of responsible business activity and takes these factors into account systematically when developing traditional financing solutions. They are reflected in its advice to corporate customers on the benefits of public programme loans for sustainable investments (see

also Section 2.1 “Public programme loans – environmental and social aspects”) and are taken into account when internally funded loans are granted.

On the basis of the criteria described in international and national regulatory publications, the Bank’s loan portfolio and business activities were analysed for sustainability risks (in the sense of ESG – environmental, social, governance – risks).

IKB’s business model means that its lending business is primarily subject to indirect physical and transitory risks through its customers. Physical risks may result from isolated extreme weather events and their consequences as well as long-term changes in climate and ecological conditions. Transitory risks result from the fundamental transition to a low-carbon economy. For example, climate events like low water levels or long periods of drought, rethinking at a political or regulatory level due to climate change, disruptive technologies and business models or changed preferences in markets and in society as a whole could lead to a deterioration in production and sales conditions. This could have an adverse effect on the net assets and results of operations of IKB’s customers, and ultimately on their capital service capability. The impact on the real economy could spread to IKB’s balance sheet and lead to a deterioration in its risk indicators.

To prevent or reduce the negative consequences from the Bank’s business activities for the environment and society and the risks arising as a result, approaches for identifying, evaluating, controlling and mitigating sustainability risks have been developed and are taken into account in lending and investment decisions. In line with the BaFin guidance notice on dealing with sustainability risks, IKB does not classify sustainability risks as a separate risk type. Instead, sustainability risks have an impact on the established risk types (for IKB, this primarily means counterparty default risks, but also market price risks and non-financial risks) and are included in risk controlling for these risk types. In this way, sustainability risks are analysed when taking individual lending decisions and taken into account when determining industry limits. With regard to its target customers in the upper midmarket segment, industry diversification is also significant. In setting its limits, the Bank is guided both by the significance of the industry for the German economy and an analysis of the expected outlook for the industry. IKB does not fundamentally exclude any sectors from its lending business. Rather, it adopts a “best-in-class” approach and focuses on (potential) borrowers in a sector with solid business foundations and a sustainable and future-oriented strategic alignment. Environmental, climate, social and governance aspects are particularly taken into account in the sector analyses and for the purpose of specific lending decisions in the development loan business.

Sustainability risks are currently only included in the internal rating systems indirectly (e.g., via qualitative rating questions). As sustainability risks are a comparatively new risk factor, there is currently insufficient historical data to empirically demonstrate an influence on the probability of borrower default for IKB.

## 2. Topics included in reporting

### 2.1. Public programme loans – environmental and social aspects

IKB’s innovative, high-growth customers in the high-end German 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 mid-cap companies with its comprehensive advisory services and tailored financing concepts. IKB is unique in its public programme loan expertise: Every corporate customer advisor has the knowledge needed to provide professional advice to companies

in the upper midmarket concerning appropriate development loan solutions, supported by a highly specialised development loan product team.

The spring and summer of 2020 were strongly impacted by the coronavirus pandemic. In some cases, this led to companies postponing or rescheduling their investment projects. In other cases, it was not only in the Bank's interest, but also met the security needs of many customers to use the special KfW coronavirus programmes to refinance not only current liquidity requirements but also investments as a way to benefit from the associated assumption of risk by the German federal government. Investments that, in normal circumstances, would have been refinanced through environmental and energy efficiency programmes were instead diverted through development bank channels. As a result, the share of the IKB's total pass-through business accounted for by environmental and energy efficiency programmes decreased in the shortened financial year 2020. In sectors on which the coronavirus pandemic had little impact, IKB continued to pass on regular environmental and energy efficiency programmes.

Since the economic situation has stabilised in many sectors despite the continuing pandemic, the regular business has also picked up. In addition to funding innovation, climate protection has since been accorded the highest priority. As part of its Climate Action Programme 2030, the German federal government defined a range of measures for achieving its climate targets as well as numerous funding programmes whose implementation will involve various lead partners, particularly KfW. In this context, KfW has also been launching its own funding programmes like the "Climate protection campaign for SMEs" in order to support small and medium-sized companies to achieve the taxonomy criteria, i.e., the requirement that the measures being financed must be aligned to the EU-wide definition of economically sustainable business activity.

Environmental funding programmes support investments aimed at reducing CO<sub>2</sub> 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 has a leading position in funding programmes, especially for investment projects aimed at increasing energy efficiency. The innovation funding programme assists with the financing requirements of digitalisation and innovation projects as well as the overall financing requirements of innovative companies. In the meaning 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.

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. 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 – like all other development banks whose programmes are passed on by IKB – 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 Board of Managing Directors receives a monthly report on new public programme loans.

By taking this approach to business, IKB makes a considerable contribution to reaching climate targets, with a special focus on the established mid-market. Business performance in the shortened financial year (April through December 2020) was particularly impacted by the ongoing coronavirus pandemic. With its good position in public programme loans, IKB was able to support its customers with the special KfW loan programmes. Together with the rather subdued demand for internally funded loans, this resulted in total new business of approximately €1.5 billion in the 9-month period of the shortened financial year (12 months of financial year 2019/20: €2.8 billion: public programme loans €1.2 billion, corporate loans €1.6 billion), of which €1.1 billion resulted from the public programme loan business and €0.4 billion from the corporate loan business. As a result, the share in the total volume accounted for by the public programme loan business widened by 31 percentage points, to 74%, compared to the 12-month period of the previous year.

### 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 further. 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 a cooperative and innovative corporate culture that is enshrined in its Code of Conduct. IKB's values ("professional", "committed" and "reliable") serve to guide its actions. They provide orientation internally while also positioning the Bank's actions externally with regard to customers. A Bank-wide snap survey was conducted in the period under review to establish how and with what emphasis the results of the values workshops were implemented in their teams. Other questions were aimed at finding out how cooperation and management have changed under the specific circumstances of the coronavirus period, and what challenges and requirements have arisen.

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. IKB's aim is for employees to continue to identify with IKB, its values and its strategic orientation. 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. Methodological and behavioural training, foreign language courses and management seminars are also offered, for example. In response to the coronavirus crisis, most further training measures were switched to digital formats. In the financial year 2020, there were approximately 300 qualification measures with a total of 2,800 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.

For the purposes of its initial professional training concept, IKB employs talented young people in a three-and-a-half-year programme comprising training at IKB and a course of studies at FOM University of Applied Sciences for Economics and Management in Düsseldorf. Employees at the Frankfurt location can study at the Frankfurt School of Management and Finance alongside their work. 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.

As part of its promotion of young talents, the Bank also employs trainees on a needs-oriented basis. 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 (football, badminton, yoga) and massages at work 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. The Fürstenberg Institute, which has worked in the areas of external employee consulting and work-life service for more than 25 years, supports IKB in dealing with the consequences of demographic change, complex change processes and increasing requirements for employees and management. On the basis of information and advice and qualified mediation offerings provided by the work-life service, IKB employees can seek help and get support in all phases of their lives and careers.

Some of these services are voluntary and some arise from regulations relating to occupational health care. To provide lasting protection for employees in the event of a pandemic, the Bank had already established a comprehensive pandemic concept in recent years, allowing it to take suitable measures to protect its employees' health and preserve business processes at short notice. Due to the coronavirus crisis, the Group created the option of employees working from home as far as possible. In addition, greater flexibility was provided for the working time framework. The Bank does not currently see elevated personnel risks in this respect. There is no increased danger of staff leaving. The Group's stable IT systems mean all employees can work from home. As a result of flexible working hour regulations, working in non-core times is possible so that staff with children can ensure adequate 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. The Bank has an ongoing commitment to promoting a family-friendly human resources policy. For this

reason, IKB was re-audited in another dialogue process with berufundfamilie in June 2020 and passed successfully.

IKB's social responsibility for the community is centred on direct financial support for local aid organisations.

### 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 staff department.

IKB has compiled a Code of Conduct and documented the binding conduct requirements and process guidelines for employees in writing in its regulations. The Code of Conduct sets out binding values and principles of conduct for all activities by 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 analysed as required, and in any case at least once a year as part of the Group-wide risk analysis by the central office. 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 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. 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.

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Existing business relations with suppliers and service providers are checked against lists of sanctions, politically exposed persons (PeP) and crimes. For the shortened fiscal year 2020, 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.

To meet regulatory requirements, IKB's risk management is based on the "three lines of defence" principle, with each individual unit (front office, back office, as well as central divisions and staff departments) forming the first line of defence as part of its operational responsibility. The second line of defence controls and monitors the risk management functions of the first line of defence. The third line of defence in IKB's risk management is Internal Audit, Further details can be found in "Section 3. Risk report – Risk management organisation" in the combined management report of IKB's 2020 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 the prevention of 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 Bank-specific risk situation has been identified and the safeguards taken by the Bank to protect against fraud and prevent losses are appropriate and effective.

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.

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