°CICERO Shades of Green

IKB Deutsche Industriebank AG (IKB) Green Loan Second Opinion

December 7, 2021

IKB Deutsche Industriebank AG (IKB) is a German private bank, focusing on large and medium-sized companies in Germany (German MidCaps). IKB provides credit, capital market products, and advisory services to corporate clients. The innovative industrial and automotive, and consumer and retail sectors account for around two-thirds of its client base.

The loan programs covered by this green loan framework are KfW promotional loan programs, and the vast majority of IKB's promotional loans are refinanced by KfW. IKB estimates that it will allocate around 85% of its green loan portfolio under energy efficiency programs, 11% under the environmental and climate protection program, 3% under green building programs, and 3% under renewable energy programs. Certain programs can include investments outside of Germany, through loans to German companies or their subsidiaries operating abroad.

IKB focuses on supporting German MidCaps to improve energy and resource efficiency and the range of projects that can be financed is large, and most projects are likely to be shaded Light Green. Efficiency improvements in emission intensive industries are positive from a climate perspective. However, this will also depend on specifics, for example the risk of locking-in emission intensive practices or the closeness to industries with transition risk e.g., the automotive sector. Program 292 has a 10% energy efficiency improvement threshold, but this is not the case for the other eligible programs. Projects and equipment directly linked to coal or oil are explicitly excluded in all categories (though natural gas in district heating can be supported). Program 293, regarding climate and environmental investments in production facilities, requires alignment with the EU Taxonomy's substantial contribution to climate change mitigation criteria. Such projects should also cover Light Green projects, but this again relies on IKB's implementation to avoid non-green projects. Not currently requiring alignment with the EU Taxonomy's Do-No-Significant-Harm-criteria increases the risk of other environmental harms, such as biodiversity loss, under this program.

IKB does not have concrete environmental targets but is currently developing its sustainability strategy. The selection process is closely linked to the relevant loan program's approval criteria. These criteria are detailed, however we encourage IKB to consider establishing additional criteria on top of these, for example enhanced screening for projects which can lock in emission intensive practices for lesser efficiency improvements. IKB includes ESG-risks in its standard risk assessments processes and sustainability risks, including climate risks, are identified and analyzed when taking lending decisions. Overall, we find the governance procedures in IKB's framework to be **Good**.

SHADES OF GREEN

An overall shading of the framework has not been carried out, however a shading or shading indication of each eligible category is included in Table 1. This review constitutes a review of an internal framework not dedicated for issuing financial instruments, and compliance with the Green Loan Principles is therefore not assessed.

CICERO Shades of Green finds the governance procedures in IKB's framework to be **Good**.

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Contents

1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the client's framework dated September 2021**.** This second opinion remains relevant to all green loans issued under this framework for the duration of three years from publication of this second opinion, as long as the framework remains unchanged. Any amendments or updates to the framework require a revised second opinion. CICERO Green encourages the client to make this second opinion publicly available. If any part of the second opinion is quoted, the full report must be made available.

The second opinion is based on a review of the framework and documentation of the client's policies and processes, as well as information gathered during meetings, teleconferences and email correspondence.

Expressing concerns with 'Shades of Green'

CICERO Green second opinions are graded dark green, medium green or light green, reflecting a broad, qualitative review of the climate and environmental risks and ambitions. The shading methodology aims to provide transparency to investors that seek to understand and act upon potential exposure to climate risks and impacts. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The shades are intended to communicate the following:

CICERO Shades of Green	Examples
Dark green is allocated to projects and solutions that correspond to the long-term vision of a low carbon and climate resilient future. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Ideally, exposure to transitional and physical climate risk is considered or mitigated.	Wind energy projects with a strong governance structure that integrates environmental concerns
Medium green is allocated to projects and solutions that represent steps towards the long-term vision, but are not quite there yet. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Physical and transition climate risks might be considered.	Bridging technologies such as plug-in hybrid buses
Light green is allocated to projects and solutions that are climate friendly but do not represent or contribute to the long-term vision. These represent necessary and potentially significant short-term GHG emission reductions, but need to be managed to avoid extension of equipment lifetime that can lock-in fossil fuel elements. Projects may be exposed to the physical and transitional climate risk without appropriate strategies in place to protect them.	Efficiency investments for fossil fuel technologies where clean alternatives are not available

Sound governance and transparency processes facilitate delivery of the client's climate and environmental ambitions laid out in the framework. Hence, key governance aspects that can influence the implementation of the green loan are carefully considered and reflected in the overall shading. CICERO Green considers four factors in its review of the client's governance processes: 1) the policies and goals of relevance to the green loan framework; 2) the selection process used to identify and approve eligible projects under the framework, 3) the management of proceeds and 4) the reporting on the projects to investors. Based on these factors, we assign an overall governance grade: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

2 Brief description of IKB's green loan framework and related policies

IKB Deutsche Industriebank AG (IKB) is a German private bank, focusing on large and medium-sized companies in Germany (German MidCaps), founded in 1924. IKB provides credit, capital market products, and advisory services to corporate clients. IKB focuses on long term financing, providing a high level of structuring expertise and efficient execution to complex financial situations. The innovative industrial and automotive, and consumer and retail sectors account for around two-thirds of its client base. Other sectors include consumer and retail, healthcare and chemicals, energy and utilities, and real-estate. IKB operates in Germany, but some of IKB's German clients may have activities outside of Germany.

IKB has a long relationship with major German development banks and a significant market share in public program loans (PPL) and advises clients on the benefits of public subsidies for sustainable investments. An example of PPL-funding is long-term investments or specialty funding particularly in environmental sustainability and energy. The bank distinguishes between corporate loans funded by development banks and those funded by IKB.

As of December 31, 2020, IKB's loan book amounted to approximately EUR 9.4 billion and consisted of approximately EUR 4 billion of IKB' own loans and approximately EUR 5.4 billion of third-party (promotional loans) refinanced loans. The vast majority of the promotional loans, which include eligible loans under this green loan framework, are refinanced by KfW, which regularly reviews compliance with all of the funding requirements.

Environmental Strategies and Policies

IKB recognizes its responsibility to combat climate change and promote solutions supporting the transition to a low-carbon economy. The aim is to ensure that its customers have access to financing that helps them to manage the necessary transition. IKB does not yet have any concrete environmental or climate targets but is currently developing its sustainability strategy. IKB does not report on its own or its portfolio's greenhouse gas (GHG) emissions.

IKB's main GHG-emissions and environmental and climate risks are related to its loan portfolio. IKB has analyzed its portfolio (environmental, climate, social, governance) to identify physical and transitory risks among its customers that could have an adverse effect on the net assets and results of operations of IKB's customers. Furthermore, the bank has established processes to identify, evaluate, control, and mitigate sustainability risks and these are included in lending and investment decisions. Sustainability risks are included among established risk types and included in risk controlling. In this way, sustainability risks are analyzed when taking individual lending decisions and considered when determining industry limits. The results of the ESG/climate risk assessment are presented in the loan decision document. Systematic climate risk assessments are not yet carried out, but the bank informs us that it is in the process of receiving data for detailed climate risks assessment ant that this will be a part of the adaptation to the EU Taxonomy requirements. IKB does not report according to the TCFD-guidelines.

Industry diversification, the significance of the industry for the German economy, the expected outlook for the industry and sustainability aspects are considered when providing loans to its targets customers in the upper midmarket segment. However, IKB does not fundamentally exclude any sectors from its lending business. To the degree IKB supports emissions intensive clients, IKB supports these customers in their transition to a low carbon

entity. According to IKB, its corporate customer advisors receive thorough training to provide professional advice to companies on issues also related to environment and climate change, and the transition to low carbon production.

The public program loans (PPLs) pursue different funding purposes, among others “Energy and environment”. "Energy and Environment" includes investments in energy efficient, environmentally friendly, or otherwise sustainable production facilities as well as energy-efficient buildings. IKB’s public programs represent the largest share of the current IKB promotional loan portfolio with approximately EUR 2.8 billion or about 50%. It corresponds to an original committed volume (before repayments) of approximately EUR 4.5 billion, which is currently distributed across 410 loans.

IKB aims to accommodate the EU Taxonomy in the future development of the framework.

Use of proceeds

IKB’s portfolio of public program loans is a key component of the banks activities towards sustainable finance. Green loans will be used to fund activities that focus on the reduction of greenhouse gas emissions, including programs relating to energy efficiency, decarbonization and environmental protection.

KfW and other comparable institutions provide promotional loans, and provide repayment bonuses/subsidies on behalf of several German Ministries like the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) and the Federal Ministry for Economic Affairs and Energy (BMWi). These can be applied either in addition to a promotional loan (repayment bonus) or separately (grant). Details of the volume of subsidies are provided in the EU Transparency Register.[1] Information on PPLs is taken from KfW-statistics.

Programs supported are presented under Use of Proceeds. According to IKB, the overall targets of all programs listed in the green loan framework are either to decarbonize industry and energy utilities, to reduce GHG emissions for the building sector or to improve the sustainability of production facilities in terms of resource efficiency or cleaner production. PPLs not as closely linked to the IKBs green goals (e.g. digitalization or innovation), which IKB does also offer, are not included in the green loan framework.

IKB does not currently exclude certain sectors, however products or borrowers that are not justifiable on moral grounds or could damage IKB's reputation are excluded (e.g. arms trading). IKB does not exclude energy intensive sectors, but sees it as one of its most important functions to provide adequate funding to these companies to achieve carbon neutrality in the next years. New coal fired powerplants will nevertheless not be considered for financing in line with KfW’s exclusion list.[2]

IKB expects 10,8% of its public loan portfolio to be used for energy efficient buildings (€ 0,6bn, 6,6 % of the IKB market share), and 30,0% to be used within energy/resource-efficient production (€1,6bn, 21,2% of IKB market share). For energy efficient production this corresponds to around 85% of the green loan portfolio, environmental and climate protection around 11%, green buildings 3% and renewable energy 2%.

[1] Transparency Register (europa.eu)
[2] Ausschlussliste_EN.pdf (kfw.de)

Programs related to energy efficiency (receives around 85% of the green loans):

The IKU-Energetische Stadtsanierung program (Energetic urban district development) (program 202[3]) is dedicated to investments in linked or shared infrastructure within an area – like nearby buildings in a neighborhood, districts within a city etc. Borrowing is limited to certain types of borrowers such as communal/municipal companies, nonprofits, municipal institutions, and PPPs. The following are examples of projects that can be supported;

- ✓ Heating and cooling (incl. systems for the use of industrial waste heat, electric or thermal power heating and cooling coupling systems, e.g. based on natural or bio gas.) Coal and oil are excluded.
- ✓ Energy efficient water supply and wastewater disposal (combined heat and power systems; CHP),
- ✓ Climate friendly transport (including e.g. parking spaces for alternative vehicles, redesign of public spaces to be car free or car reduced quarters, storage of district electricity for EVs). For PPLs on-lended by IKB combustion engines and hybrids are excluded.
- ✓ Investments in green and open spaces (including e.g. upgrading soils, green roofs and energy efficient irrigation systems.

The Energy efficiency of production facilities programs (program 292[4] in Germany or abroad and 295[5] in Germany) are dedicated to companies of all sizes that wish to invest in energy efficiency. The program currently covers four areas:

- ✓ Energy efficient measures for industrial enterprises (energy efficient technologies, focusing on the use of highly efficient equipment e.g. electric motors, pumps, fans, heat exchangers).
- ✓ Heat from renewable sources, for example solar systems, biomass plants and CHP based on renewable energy.
- ✓ Measurement, control, and regulation technology.
- ✓ Energy and resource optimization, for example process and procedure changes that lead to energy savings, measures to use waste heat, avoidance of energy and resource losses.

The program supports new acquisitions as well as modernization measures:

- ✓ Heavy emitting industries (such as smelters, paper producers, glass producers, and chemical plants) subject to the EU ETS[6] are the major focus of the current decarbonization campaign and are supported by IKB.
- ✓ Projects that rely only on fossil energy sources (i.e. coal or oil) would not be eligible to a PPL and would not be financed by IKB. This exclusion also applies to energy infrastructure that relies on oil, coal or atomic energy.
- ✓ Under program 292, investments must lead to an energy efficiency improvement of at least 10%. For both programs larger improvements are incentivized by offering a repayment bonus and larger subsidies and lower interest rates.

Environmental innovation programs (together with program 293, these program receive around 11% of the green loans):

BMU/KfW Environmental innovation programs (program 230[7] in Germany and program 240[8] outside of Germany) are dedicated to innovative investments with positive environmental effects. The 230-program supports the following projects:

- ✓ BMU funds among others industrial-scale pilot projects in sectors such as climate protection and resource efficiency. Examples are:

[3] IKU – Energetische Stadtsanierung – Quartiersversorgung (202) (kfw.de)
[4] KfW-Energieeffizienzprogramm - Produktionsanlagen/-prozesse (292)
[5] Bundesförderung für Energieeffizienz in der Wirtschaft (295) (kfw.de)
[6] EU Emissions Trading System (EU ETS) (europa.eu)
[7] BMU-Umweltinnovationsprogramm (230) (kfw.de)
[8] KfW-Umweltprogramm (KfW-Produktnummer 240) | Fördernavigator Wirtschaft Brandenburg (foerdernavigator-brandenburg.de)

- Sewage treatment / hydraulic engineering
- Avoidance, recycling and disposal of waste
- Rehabilitation of old deposits
- Soil protection
- Air pollution control and reduction of odors
- Reduction of noise and vibrations
- Climate protection: energy saving, energy efficiency, use of renewable energies as well as environmentally friendly energy supply and distribution
- Resource efficiency / material saving

✓ Heavy emitting industries (such as smelting works, paper producers, glass producers, and chemical plants) subject to the ETS are the major focus of the current decarbonization campaign and supported by IKB.
✓ Projects that rely only on fossil energy sources (i.e. coal or oil) would not be eligible to a PPL and would not be financed by IKB. This exclusion applies to energy infrastructure that relies on oil, coal or atomic energy.

KfW funds 1) investments abroad which will have direct environmental effects on Germany (e.g., projects which can directly and measurably reduce pollution in boundary waters, or air pollution in border regions) and 2) measures against global climate change. Examples are:
✓ Increasing resource efficiency/material savings
✓ Reduction/prevention of air pollution, noise and vibration, such as procurement of commercially used vehicles with electric and hybrid drives and fuel cell vehicles as well as construction of charging stations for e-vehicles and refueling stations for hydrogen
✓ Waste prevention/treatment and recycling
✓ The improvement of wastewater treatment
✓ Wastewater reduction and prevention
✓ Efficient energy generation and use
✓ Soil and groundwater protection
✓ Remediation of contaminated sites/areas as a prerequisite for operational investments as well as expenses for planning and implementation support

Climate protection offensive for Small and Medium sized Enterprises (SMEs) (program 293[9]) (together with programs 230/240, these programs receive around 11% of the green loans):

Investments in production facilities in Germany or EU member states that are in line with the EU Taxonomy's substantial contribution to climate change mitigation criteria. This KfW program provides funding for climate protection in SME-businesses, promotes ambitious investments in climate protection by SMEs via loans and subsidies and addresses producers of green products and technologies (Enabler) for the first time. The program supports investments in the construction, acquisition and modernization of systems related to:
✓ Manufacture of climate-friendly technologies, products and key components
✓ Climate-friendly production processes
✓ Generation of electricity, heat and cool from renewable energies
✓ Electricity distribution networks and generation of electricity, heat and cold from waste heat and gas. Natural gas is excluded as this is currently not part of the EU Taxonomy.
✓ Distribution networks of waste heat utilization and district heating / cooling
✓ Energy storage
✓ Production of biomass, biogas and biofuels
✓ Water, sewage and waste management
✓ Carbon dioxide transport / storage

[9] https://www.kfw.de/inlandsfoerderung/Unternehmen/Energie-Umwelt/F%C3%B6rderprodukte/Klimaschutzoffensive-f%C3%BCr-den-Mittelstand-(293)/

✓ Sustainable mobility

Funding is relevant for commercial companies, municipal companies, sole proprietors or freelancers. For projects in other EU countries outside of Germany commercial companies, sole proprietorships or freelancers based in Germany, subsidiaries of German companies and joint ventures with significant German participation are relevant for funding. IKB informed us that the EU Taxonomy Do-No-Significant-Harm-criteria will not yet be considered. However, KfW will conduct due diligence on possible projects and will restrain certain projects from financing. Examples are projects associated with coal and tar sand.[10]

Green buildings (receives around 3% of the green loans):

Federal funding for energy-efficient buildings (KfW programs 261-264[11]), dedicated to energy efficient construction and refurbishment of residential and commercial properties. The following can be supported:

✓ Renovation, the new construction or the purchase of a new or freshly renovated property and individual energy measures for existing properties.
✓ Construction and purchase of new properties.

Under programs 261-264, new constructions must be built to the KfW efficiency house ('Effizeinzhaus') standards 55, 55(EE), 55(NH), 40, 40(EE), 40(NH), or 40(plus).[12] Germany will stop supporting the 55 standard from February 1, 2022. Under German regulation, KfW efficiency house 75 represents the minimum requirement to achieve a building permit. A KfW efficiency house 55 is around 26% better than regulation and a KfW efficiency house 40 around 46% better than regulation. To be able to apply for a subsidy, every building project must be audited by an energy adviser accredited to KfW. Subsidies for refurbishment projects are significantly higher than for new building projects, and following renovation a building must achieve the energy standard of a KfW efficiency house 100. Examples of individual energy efficiency measures include insulation and more energy efficient windows and doors. Closeness to public transport is not required to be allocated a subsidy. Additional funding can be provided for use of an energy efficiency expert and the sustainability certification of a new building if an efficiency house level with sustainability class is reached.

Renewable energy (estimated to receive around 2% of the green loans):

Renewable energy programs (programs 271 and 281[13]), dedicated to

✓ Large solar collector systems
✓ Large plants for the combustion of solid biomass
✓ Heating and cooling networks that are fed from renewable energies. Coal and oil will be excluded in the heating and cooling networks will be excluded, but natural gas is still allowed.
✓ Biogas lines for untreated biogas
✓ Heating and cooling, and systems for combined electricity and heat generation (CHP)

[10] Ausschlussliste.pdf (kfw.de)
[11] Wohngebäude – Kredit (261, 262) (kfw.de)
[12] Effizienzhaus standards reflect the energy efficiency of buildings compared to a reference building as determined under the German Building Energy Act. The number of the Effizienzhaus standard reflects the percentage of a building's primary energy demand compared to the reference building e.g. under Effizienzhaus 55, a building's primary energy demand cannot exceed 55% of the reference building's primary energy demand. Each Effizienzhaus standard also has requirements in respect of transmission heat loss e.g. under Effizienzhaus 55, a building's transmission heat loss cannot exceed 70% of the reference building's transmission heat loss. To comply with an 'EE' Effizienzhaus standard, it is an additional requirement that 55% of a buildings energy requirements are met by an installed renewable energy heating system. To comply with an 'NH' Effizienzhaus standard, a building must be issued with a separate sustainability certificate.
[13] Erneuerbare Energien – Premium | gefördert von KfW und BMWi

Sourcing requirements for biomass used in most PPLs refer to the Biomass Decree (Biomasseverordnung), which includes requirements in line with the EU RED II.[14] A screening for the need for an Environmental Impact Assessment (EIA) is required for projects with significant environmental impacts.

Relevant for funding are: Companies, individuals and freelancers, farmers, municipalities, local authorities and associations of municipalities, non-profit applicants and cooperatives and contractors (energy service providers).

Selection

The selection process is a key governance factor to consider in CICERO Green's assessment. CICERO Green typically looks at how climate and environmental considerations are considered when evaluating whether projects can qualify for green finance funding. The broader the project categories, the more importance CICERO Green places on the governance process.

Around 50% of the green loans will be used to refinance programs that have expired. The remaining green loans will be allocated to the energy and environment funding priority areas and have been approved by IKB for its borrowers. Projects/programs already selected for green loans followed the same selection as described in the green loan framework. Due to the European State Aid Laws only future effects for projects not started at the time of application may be considered. Thus, there is no look back period.

Development banks define both the application requirements and the requirements for the eligible projects in detail. These must be checked and confirmed by the applying on-lending bank (IKB). The on-lending bank is responsible to provide evidence on request, that all checks and procedures have been undertaken according to the then current requirements of the program at least ten years after approval.

IKB does not have a green loan selection committee. The bank's experts for green loans includes ESG-competence and are always involved in the selection process. Environmental/climate expert do not have a veto right. ESG-risk is analyzed and evaluated as part of the credit decision process.

In the case of programs related to "Federal funding for energy-efficient buildings" and "Federal promotion of energy efficiency in the economy", additional external assessments by independent third parties are required as part of the application process. Programs are checked by IKB, but in most cases also by the approving institution (such as KfW). Projects not fulfilling the criteria will not be pursued for finance. The third parties are usually technical experts in their relevant fields, that need to qualify to be able to offer energy audits for PPLs or subsidy programs. For the program "BMU Environmental Innovation Program" the technical assessment is carried out by experts from the BMU.

Management of proceeds

The recipient of any type of subsidy must provide proofs of use after implementation of the project end and all funds provided must be earmarked to a specific investment project. At a minimum, the proofs of use confirm that the funded project has been implemented in accordance with the application and provide evidence of the actual investment costs incurred. The deadline for submitting this proof of use is usually two years after approval, but varies depending on the program. The respective PPL program defines if the loan awarded may be used otherwise as long as it is not allocated to a specific project. All PPL loans are earmarked to the project awarded and may not be used for other purposes. Loans not allocated cannot be used for activities related to fossil fuels.

[14] Renewable Energy – Recast to 2030 (RED II) | EU Science Hub (europa.eu)

The information provided by the recipient must be checked for plausibility and confirmed by the on-lending bank. KfW specifies the form in which this check is to be carried out by the on-lending bank for each specific program. All development banks carry out so-called house bank audits at regular intervals during which they randomly check the information provided when applications are submitted, the proper keeping of the proofs of use and other relevant processes of the on-lending banks. In case a program loan proofs not to be compliant to the requirements defined, the program loan respectively the subsidy has to be withdrawn. In the (rare) case that a PPL is not used for the project it was approved for, the loan will be cancelled and repaid to the development bank. If the loan was already paid out, the borrower will need to pay a breakup fee to cover the refinancing and margin damage. In case of willful abuse, the applicant is subject to criminal prosecutions.

Reporting

Transparency, reporting, and verification of impacts are key to enable investors to follow the implementation of green finance programs. Procedures for reporting and disclosure of green finance investments are also vital to build confidence that green finance is contributing towards a sustainable and climate-friendly future, both among investors and in society.

IKB will update the financed activities within the areas defined in the green loan framework on an annual basis. The reporting will also show IKB's progress in achieving the targets set out in the framework. Reporting is published on the bank's website.

IKB will keep records on every project financed by public program loans at least for 10 years, which includes the sustainability effect achieved by the project, the financing provided, the corresponding terms and conditions of the loan, as well as the proof of use. Reporting will be carried out by IKB's controlling unit. Reporting will not be linked to individual loans, and the bank has informed us that banking secrecy and non-disclosure agreements will prevent IKB from publishing project lists. A summary of loans on-lended by IKB (number, total volume) in specific programs could be made available by IKB's controlling unit. Reporting will not be externally verified.

KPIs suggested are:

Energy efficiency:

- % energy reduced in comparison to the average building standard and CO_2 savings[15] in tons per year

BMU/KfW Environmental program:

- Reduction of water consumption, waste or emissions with an innovative character[16]

Green buildings

- % energy reduced in comparison to the average standard building

Renewable energy

- Use of funds limited to renewable energy investments

Climate protection offensive for SME

- Matching of EU taxonomy criteria

[15] IKB informed us that the programs will define the grid or conversion factors to be used. In the case of CO_2 equivalents, programs will usually refer to information provided by the environmental authorities (Umweltbundesamt).
[16] The applicant is a first-time user of a newly developed production technique in his respective industry in Germany.

3 Assessment of IKB's green loan framework and policies

The framework and procedures for IKB's green loan investments are assessed and their strengths and weaknesses are discussed in this section. The strengths of an investment framework with respect to environmental impact are areas where it clearly supports low-carbon projects; weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where IKB should be aware of potential macro-level impacts of investment projects.

Eligible projects under the IKB's green loan framework

At the basic level, the selection of eligible project categories is the primary mechanism to ensure that projects deliver environmental benefits. Through selection of project categories with clear environmental benefits, green loans aim to provide investors with certainty that their investments deliver environmental returns as well as financial returns. The Green Loans Principles (GLP) state that the "overall environmental profile" of a project should be assessed and that the selection process should be "well defined".

More information on the project categories is given under Use of Proceeds.

Category	Eligible project types	Green Shading and some concerns
Energy efficiency 	IKU-Energetische Stadtsanierung (Energetic urban district development) (program 202) • Investments in energy-efficient supply systems, especially for heating and cooling, neighborhood mobility and green infrastructure by municipal applicants in Germany. Energy efficiency of production facilities (program 292) • Investments in production facilities at home or abroad that lead to an energy efficiency improvement of at least 10% on the part of the investor.	**Light Green, however, there is a risk that projects could be included that are not green**, e.g., where lock-in risks are high or where investments in fossil fuel related assets lead to no substantial reduction in overall life cycle emissions or lead to broader environmental impacts. ✓ According to IKB, around 85% of IKB's green loan portfolio will be allocated to energy and resource efficient production. ✓ The sorts of investments envisaged under this category in respect of energy efficiency are positive from a climate perspective and is allocated a Light Green shading. This depends, however, on the specifics of the investment and the borrower, for example the risk of locking-in emission intensive practices. This can be mitigated by e.g. by an in-depth scrutiny of the projects supported. Other types of investments focusing on climate change adaptation and renewable energy could fall into a Dark Green space. ✓ Program 292 has a 10% energy efficiency improvement threshold. Larger improvements

	Federal promotion of energy efficiency in the economy (program 295) • Similar to program 292, but for particularly demanding energy efficiency improvements, for which an additional grant is awarded. The investment must take place in Germany.	are for both programs incentivized by larger subsidies and lower interest rates. ✓ For PPLs on-lended by IKB, combustion engines and hybrids are excluded. ✓ Heavy emitting industries (such as smelting works, paper producers, glass producers, and chemical plants) subject to the EU ETS are supported by IKB. ✓ For programs 292 and 295, both new acquisitions and modernizations can be supported. ✓ Projects directly related to fossil fuels, such as greenfield as well as brownfield modernizations of coal operated plants are excluded. However, the use of natural gas is included in district heating systems for all programs in this category. ✓ Personnel and operating costs, research and development projects are excluded in all project categories.
BMU/KfW Environmental innovation programme Environmental & Climate protection	BMU Environmental innovation programme • Investment in innovative production technology in Germany that has positive environmental effects (program 230). KfW Environmental innovation programme (program 240) • As program 230, but without innovation claim and also usable for investments abroad.[17]	**Light Green, however, there is a risk that projects could be included that are not green**, e.g., where lock-in risks are high or where investments in fossil fuel related assets lead to no substantial reduction in overall life cycle emissions or lead to broader environmental impacts. ✓ According to IKB, around 11% of IKB's green loan portfolio will be allocated within the environmental & climate protection category. ✓ IKB has informed us that only projects with positive environmental effects that have a "lighthouse character" and use innovative techniques that have not been used before in their specific industry in Germany are applicable under program 230. ✓ Heavy emitting industries (such as smelting works, paper producers, glass producers, chemical plants) subject to the EU ETS are supported by IKB. ✓ Projects that rely only on fossil energy sources (i.e. coal or oil) would not be eligible for a PPL and would not be financed by IKB. This exclusion also applies to energy infrastructure that relies on oil, coal or atomic energy.

[17] Environmental Innovation Programme for Projects Abroad | BMU

Climate protection offensive for SME (program 293) Environmental & Climate protection 	Investments in production facilities in Germany or EU member states that are in line with EU taxonomy requirements.	**Light Green** ✓ According to IKB 11% of IKB's green loan portfolio will be allocated within the environmental & climate protection category. One example is manufacture of climate-friendly technologies. ✓ Projects aligned with the climate mitigation criteria in the EU Taxonomy are expected to have positive environmental benefits. ✓ The bank informs that the EU Taxonomy Do-No-Significant-Harm-criteria will not yet be considered. However, KfW will conduct due diligence on possible projects and will exclude e.g., projects associated with fossil fuels in line with KfW's exclusion list. However, the investor should be aware that this might result in funding of projects which contribute to climate mitigation, but that could cause harm within other environmental areas such as biodiversity. ✓ Natural gas will not be supported under this program, as is it currently not included under the EU Taxonomy. This might change, as there are ongoing discussions on whether natural gas should be included in the taxonomy.
Green buildings 	Federal funding for energy-efficient buildings (until 30.06.21 Energy-efficient construction and refurbishment) (KfW programs 261-264) reference house. Investment in the construction of energy efficient buildings or the energy efficient refurbishment of existing buildings in Germany. The program is generally based on the so-called KfW efficiency house standards.	**Light to Medium Green** ✓ According to IKB, around 3% of IKB's green loan portfolio will be allocated to energy efficiency buildings. ✓ We understand that oil heating systems, and gas systems without a renewable ready component as a single measure, are excluded under the programs. We understand that a renewable ready gas system is a gas condensing boiler which is prepared for later use as a hybrid. Some fossil fuel heating can therefore be financed. ✓ According to the bank, continuation of oil or coal heating in renovation projects will not be supported. ✓ New buildings under the Effizienzhaus 55 standards are around 26% more energy efficient than German regulation and new buildings under the Effizienzhaus 40 standards are around 46% more energy efficient than German regulation. These are significant energy savings. Germany will stop supporting the 55 standard from February 1, 2022. ✓ The program also supports individual measures related to e.g. renewable energy, with no

		efficiency threshold, however such measure can help reduce energy use with little risk.
Renewable energy  	Renewable energies (programs 271 ff./281 ff.) • Investments in construction for the generation of electricity or heat from renewable energy sources in Germany and abroad.	**Dark Green** ✓ Renewable energy is key to a low-carbon transition. IKB expects around 2% of the green loan portfolio to be allocated to the renewable energy project category. ✓ Projects focus on solar energy, bio-energy and heating and cooling. ✓ Renewable energy projects can have adverse local environmental impacts and impacts on local communities. Sourcing requirements for biomass used in most PPLs refer to the Biomass Decree (Biomasseverordnung), which includes requirements in line with the EU RED II.

Table 1. Eligible project categories

Background

Germany's long-term emission development strategy, as defined in its Climate Action Plan 2050[18], aims to become "extensively greenhouse gas-neutral by 2050" and to cut GHG emissions by at least 55% by 2030 compared to 1990 levels. According to the Climate Action Plan 2050, the German Energiewende (energy transition) is supposed to expand renewable energies in Germany to 35% by 2020 and 65% by 2030 compared to 1990. For the building sector, the government intends to reduce emissions by 66-67% by 2030 compared to 1990. The energy efficiency targets are to reduce primary energy consumption by 20% by 2020 and 50% by 2050, both compared with 2008.

IKB's is among others targeting the German Mittelstand, the small and medium sized (SME) German companies. According to the German Federal Association of Small and Medium Enterprises, SMEs make up for 99.5 % of all enterprises on the German market, and will benefit from a green transition – e.g., due to high energy costs.[19]

A part of IKB's green loan portfolio is linked to energy efficiency projects. IEA's "Net zero by 2050"-report[20] concludes that energy efficiency makes a critical contribution to the net-zero target as many efficiency measures in the industry, buildings and transportation can be put into effect and scaled up very quickly.

In 2021, in place for nearly a decade, the Energiewende continues to be a major plan for transforming the country's energy system to make it more efficient and supplied mainly by renewable sources. The Energiewende is clearly visible in electricity generation, where it has increased the share of renewables. More than 46% of the country's power consumption was covered by renewables in 2020, exceeding the target of 35% for that year[21].

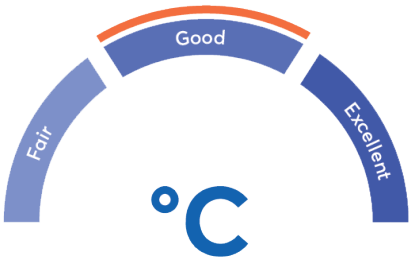
[18] https://www.bmu.de/en/topics/climate-energy/climate/national-climate-policy/greenhouse-gas-neutral-germany-2050/
[19] Innovating the German 'Mittelstand', Chances for Transformation (centurionlgplus.com)
[20] Net Zero by 2050 - A Roadmap for the Global Energy Sector (windows.net)
[21] Germany's greenhouse gas emissions and energy transition targets | Clean Energy Wire

To strengthen the work on energy efficiency, the BMWi established the "National Action Plan on Energy Efficiency" (NAPE) in 2014. The NAPE includes new and further developed policy measures to increase energy efficiency in i.a. buildings and the industry. While the NAPE has contributed to reducing total primary energy consumption by more than 10% since 2008 in 2018, Germany is not on track to meet its energy efficiency targets set out in the 2010 Energy Concept. The government needs to make further progress by developing more specific energy efficiency policies and regulatory frameworks for all sectors.[22]

Governance Assessment

Four aspects are studied when assessing the IKB's governance procedures: 1) the policies and goals of relevance to the green loan framework; 2) the selection process used to identify eligible projects under the framework; 3) the management of proceeds; and 4) the reporting on the projects to investors. Based on these aspects, an overall grading is given on governance strength falling into one of three classes: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

IKB does not have concrete environmental targets but is currently developing its sustainability strategy. It includes ESG-risks in its standard risk assessments processes and sustainability risks, including climate risks, are identified and analyzed when taking lending decisions. However, climate risk assessments are not yet carried out systematically, and IKB does not report according to the TCFD-recommendations. The selection process is closely linked to the approval criteria given for the different KfW-programs supported, and as such there is no additional selection process if the loans fulfill these criteria. However, this process seems thorough, and projects not fulfilling the criteria will not be pursued for finance. Even though these criteria are detailed, we encourage IKB to consider establishing additional criteria on top of the KfW-program criteria, e.g., by introducing minimum energy efficiency thresholds. Reporting on energy efficiency is limited, and reporting will not be externally verified.



The overall assessment of IKB's governance structure and processes gives it a rating of **Good**.

Strengths

IKB's focus on supporting German MidCaps in their efforts towards decarbonization and their work to improve energy and recourse efficiency is considered a strength. According to the IEA, improving the resource and material efficiency in industrial processes is crucial for the green transition. Only certain programs have a minimum percentage improvement threshold, but larger improvements are incentivized by larger subsidies and lower interest rates.

The process of obtaining a promotional loan is thorough and includes many steps of scrutiny, and projects not fulfilling the criteria will not be pursued for finance. Projects and equipment directly linked to coal and oil are explicitly excluded across all categories, and that the framework may finance technologies replacing fossil fuels in sectors where cleaner technologies are not yet widely in use. However, the framework supports the use of natural gas in district heating systems.

[22] Germany 2020 – Analysis - IEA

Weaknesses

Within both the energy efficiency and the environmental and climate protection categories a wide range of projects can be supported, including both Light Green projects supporting energy efficiency measures in emissions intensive sectors and Dark Green projects focusing on climate change adaptation and renewable energy. Given the breadth of possible energy efficiency investments, and the type of industry typically targeted by IKB, there is a risk that loans under the framework could be extended to projects which would not qualify for a Light Green shading. This could be mitigated by the introduction of additional energy efficiency thresholds and stringent screening for borderline cases. It is for IKB to ensure it does not invest in projects which are business as usual or in opposition to the long-term vision, and to consider the climate risks related to investments.

Pitfalls

Even though projects directly related to fossil fuels are excluded, the IKB/KfW-programs support emission intensive industries like steel that still relies on fossil fuels in its production. Energy efficiency measures are positive from a climate perspective, but there might also be a risk of lock in if the loans do not include considerations of ambitious strategies related to a change in business model away from the use of fossil fuel inputs. This will also be the case for automotive factories strongly present in the German MidCap, that is still strongly linked to vehicles using internal combustion engines. Supporting energy efficiency in this sector is positive but might lead to a lock in of emissions intensive transportation solutions.

IKB is including ESG-risks in its lending processes, but the systematic climate risk assessments are not yet carried out. The bank however informs us that it is in the process of receiving data for detailed climate risks assessment ant that this will be a part of the adaptation to the EU Taxonomy requirements. IKB does not report according to the TCFD-guidelines.

It is positive that IKB is supporting projects that are aligned with the technical screening criteria in the EU Taxonomy (program 293). However, this program supports projects with potential harmful effects on, e.g., biodiversity and pollution, like electricity distribution networks, renewable energy generation from biomass and waste management. Even if KfW will conduct due diligence on possible projects, there is a risk that projects with potentially harmful effects on other environmental areas like biodiversity may receive green loans.

IKB does not have a green loan selection committee. The bank's experts for green loans includes ESG-competence and are always involved in the selection process. However, environmental/climate expert do not have a veto right.

The framework opens for use of natural gas, e.g. in district heating systems.

Appendix 1:
Referenced Documents List

Document Number	Document Name	Description
1	Green Loan Framework, dated September 2021.	Green Loan Framework.
2	Investor presentation, dated 19-08-2021.	Presents first half year results for 2021.
3	IKB Annual report 2020, dated March 2021.	Summarizing IKB group figures in the period 1 April – 31 December 2020.
4	IKB Combined Separate Non-Financial Report 2020 (1 April – 31 December 2020), dated 29-04-2021.	Summarizing IKB's non-financial reporting.

°CICERO
Shades of
Green

Appendix 2:
About CICERO Shades of Green

CICERO Green is a subsidiary of the climate research institute CICERO. CICERO is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international cooperation. CICERO has garnered attention for its work on the effects of manmade emissions on the climate and has played an active role in the UN's IPCC since 1995. CICERO staff provide quality control and methodological development for CICERO Green.

CICERO Green provides second opinions on institutions' frameworks and guidance for assessing and selecting eligible projects for green bond investments. CICERO Green is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO Green is independent of the entity issuing the bond, its directors, senior management and advisers, and is remunerated in a way that prevents any conflicts of interests arising as a result of the fee structure. CICERO Green operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

We work with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions (ENSO). Led by CICERO Green, ENSO contributes expertise to the second opinions, and is comprised of a network of trusted, independent research institutions and reputable experts on climate change and other environmental issues, including the Basque Center for Climate Change (BC3), the Stockholm Environment Institute, the Institute of Energy, Environment and Economy at Tsinghua University, the International Institute for Sustainable Development (IISD) and the School for Environment and Sustainability (SEAS) at the University of Michigan.