

# Sustainability Practices at Landesbank Baden-Württemberg.

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# 01 Introduction

We live in a time of upheaval. Advancing digitalization, ecological challenges and political turbulence demand agility and foresight at the same time. As a medium-sized universal bank, we want to actively contribute to positively shaping the future for the people and companies in our region. Thinking and acting sustainably is the foundation for achieving this and is firmly enshrined in our values.

This document provides a high-level view of the key sustainability practices at Landesbank Baden-Württemberg.

# 02 Management and review of sustainability aspects.

## 2.1 Sustainability at LBBW Group

The sustainability policy establishes the ground rules for the sustainability targets and thus for all sustainability activities within LBBW Group in the form of overarching principles. The principles and guidelines based on the sustainability policy act as a guide for all employees in daily business and ensure a responsible approach to people, the environment and nature.

LBBW's sustainability policy is based on the six Principles for Responsible Banking (PRB) of the UNEP FI (UN Environmental Program – Finance Initiative). In 2019, LBBW became the first German universal bank to sign the Principles for Responsible Banking, a voluntary contribution to responsible banking.

The PRB provide a uniform framework for integrating sustainability in all areas of business. In this way, banks can systematically incorporate social responsibility goals, such as the Paris Agreement on climate change and the international Sustainable Development Goals (SDG).

Unconditional compliance with all statutory provisions and internal rules as well as the integrity of each individual employee constitute the foundations of sustainable corporate governance. We have adopted a code of conduct as an overarching guideline for this purpose → **LBBW Code of Conduct**.

Various committees and departments coordinate the strategic exploration of sustainability issues as well as the operational management and specific execution of sustainability activities. Organizational structure → **LBBW Sustainability Report 2021** starting on page 22.

The respective departments play a key role in the sustainability management system. This is because integrating environmental and social criteria into the relevant business areas is the only way to put sustainability into practice. Based on the “Principles and guidelines for implementing LBBW's sustainability policy and goals”, the departments responsible at LBBW and at subsidiaries establish specific measures for the sustainability program. The Sustainability team has an advisory role in this context. At the end of each year, we document whether the projects have been completed successfully. The Board of Managing Directors is updated on project progress once a year as part of the management review.

In LBBW sustainability report, we comprehensively report on all sustainability practices and activities each year. The report complies with Global Reporting Initiative (GRI G4) requirements and is audited by an external environmental auditor.

→ **LBBW Sustainability Report 2021**

## 2.2 Guiding principles for risk management

In line with the business strategy, LBBW draws up risk strategies as part of suitable and effective risk management. LBBW defines risk management as the use of a professional, continuously enhanced toolkit for the controlled management of risks. As well as the strategies, the toolkit includes internal control processes and safeguarding risk-bearing capacity at all times.

The risk strategies define the organizational and process-related framework for properly handling risks and effectively limit risk-taking. The risk strategies comprise a multi-risk portion (Group Risk Strategy) and specific portions on individual risk types that the bank has identified as material as part of an annual process (risk inventory).

The Board of Managing Directors limits risk-taking using qualitative and quantitative requirements in the risk strategies, known as risk tolerance. Risk principles are a key component of the qualitative requirements and must be observed by all LBBW employees at all times. The guidelines set out the main principles used when considering risks and opportunities within LBBW Group and drive how its goals are consistently understood in relation to risk management throughout the Group.

Examples of this are (as at: January 2022):

1. LBBW Group aims to act in the best long-term interests of its customers and stakeholders.
2. Transactions that are liable to jeopardize the Bank's reputation on a sustained basis should be avoided. The sustainability policy of LBBW Group must be observed.
3. Sustainability is our strategic cornerstone; for customer financing as well, we ensure that sustainability criteria are met. We want to support our clients in the transformation towards more sustainable business models.
4. As part of a climate agreement with other stakeholders in the German financial sector, LBBW has agreed to enable and assist the required economic transformation toward climate neutrality by 2050 at the latest. To this end, LBBW will measure the climate impact of its credit and investment portfolios and manage them in accordance with the national and international climate goals. In this context, the financing of fossil fuels will also be reduced and eventually phased out.
5. LBBW Group considers ethical aspects, such as human rights, environmental protection, working conditions and anti-corruption, when granting loans and making investments. It goes without saying that the Bank does not support any unlawful acts, such as tax evasion or actions in violation of tax compliance and criminal activities.
6. Financing or hedging of deliveries of arms, defense or goods to other countries and other critical sustainability issues are subject to restrictions defined in the Bank's internal rules. We generally do not support projects that will clearly cause large-scale environmental destruction without providing any added environmental value.

# 03 International standards and compliance in the core business.

The guidelines and operating procedures at LBBW are modeled not only on laws, rules and regulations, but also on internationally recognized standards and voluntary commitments. They include the UN Global Compact, the core labor standards of the International Labor Organization (ILO) (see section 4.1.3), the OECD Guidelines (Organization for Economic Co-operation and Development) for Multinational Enterprises, and the Performance Standards of the International Finance Corporation (IFC).

## 3.1 UN Global Compact

The United Nations Global Compact (UNGC) is the world's largest initiative for responsible corporate governance. As an open forum, it aims to initiate change processes leading to a sustainable global economy that benefits all people, communities and markets, and to provide a platform for sharing ideas. We signed the UN Global Compact in December 2017. As part of this, we have committed to integrating the Ten Principles of the UN Global Compact into corporate strategy, corporate culture and daily operations (including in the investment and lending business and in its own investments) and to participate in cooperation projects that promote the general goals of the United Nations, especially the Sustainable Development Goals.

Further information on the German Global Compact network can be found at → [www.globalcompact.de](http://www.globalcompact.de)

## 3.2 OECD Guidelines for Multinational Enterprises

Our internal guidelines and operating procedures are modeled not only on laws, rules and regulations, but also on internationally recognized standards and voluntary commitments. As well as the UN Global Compact and the core labor standards of the International Labour Organization, these also include the OECD Guidelines for Multinational Enterprises. This code of conduct for responsible corporate governance includes joint recommendations made to industry by the member countries of the Organization for Economic Co-operation and Development (OECD) on issues such as human rights, the environment, corruption and transparency.

For example, multinational enterprises should publicly report on all key aspects of their business activities, including compliance with environmental and social standards and foreseeable risk factors associated with their business activities. They should implement an efficient environmental management system and use the precautionary approach. They should also generally compete fairly with other companies and follow fair business practices in dealings with consumers.

## 3.3 IFC Performance Standards

LBBW's internal guidelines and operating procedures are modeled not only on laws, rules and regulations, but also on internationally recognized standards and voluntary commitments. As well as the UN Global Compact, these include the Guidelines of the Organization for Economic Co-operation and Development (OECD) for Multinational Enterprises and the Performance Standards of the International Finance Corporation (IFC). The IFC standards were developed by the World Bank Group in order to ensure globally financed projects and programs meet minimum social and environmental standards.

### 3.4 Review process in the lending business

We are well aware of our corporate responsibility in all financing projects. This is why we ensure through mandatory in-house review processes and a comprehensive set of rules that reputation and sustainability risks relating to the environment, society or ethics are identified, analyzed, and assessed early in the process of deciding on extending credit such as export financing, corporate loans or project financing. This can result in LBBW rejecting such transactions or terminating business relationship.

Our “Principles and guidelines for implementing LBBWs sustainability policy and goals” and the “Guidelines for the lending business” included in these form the basis for financing sustainability standards.

#### **Review process for corporate and project financing:**

Client advisors also check loan inquiries against internal lending rules for compliance and sustainability risks. In unclear cases or cases involving issues not yet covered by binding regulations and screening criteria, an opinion can be requested from Group Compliance and/or the Sustainability team. A standardized opinion request form is used to capture data such as all involved parties, the type and purpose of the business relationship, past research findings, any red flags with respect to compliance risks (including money laundering, fraud) or sustainability risks (including arms, genetic engineering, nuclear power, environmental degradation, protection of species and biological diversity, climate change, workers' rights and human rights). In addition to the voluntary request for a statement by Compliance and LBBWs sustainability team, binding criteria were also established on requesting a statement. Once the compliance and/or sustainability experts have made their assessment, the appropriate client advisor decides whether to pursue the transaction. There is also a standardized request process in place here. If the decision is affirmative, the compliance/sustainability assessments are added to the loan inquiry and considered in the loan decision-making process. Databases of prestigious sustainability agencies such as imug rating and ISS ESG, as well as the ESG due diligence information service RepRisk, are used to help the sustainability team assess sustainability aspects.

#### **Traffic light review process:**

A standardized sustainability review of loan customers by the front office was introduced in the corporate clients business at the start of 2019 (except for export and project financing, which have specific review processes). The review criteria are based on the ten principles of the UN Global Compact as a framework for socially and ecologically responsible corporate governance. Each question is given a green, yellow or red rating based on a traffic light system. If the sum of all ratings is red (negative) due to massive violations of the requirements of socially and ecologically responsible corporate governance or a violation of human rights, no business can be conducted with the company in question. For investment projects outside the DACH region (Germany, Austria, Switzerland), the review process also stipulates using the Protected Planet database ([www.protectedplanet.net](http://www.protectedplanet.net)) to check whether the project is located in a protected area (e.g. UNESCO<sup>1</sup> World Heritage Site, Ramsar site (Ramsar Convention; international treaty on wetlands), UNESCO “Man and the Biosphere” program (MAB), IUCN (International Union for Conservation of Nature) protected area category Ia, b or II). The Sustainability team must be consulted whenever a protected area is involved.

<sup>1</sup> UNESCO is the United Nations Educational, Scientific and Cultural Organization.

## ESG checklist

The “EBA guidelines for lending and monitoring” issued by the European Banking Authority (EBA) requires ESG risks to be assessed as part of lending (ESG = environment, social, governance). As a result, LBBW introduced an ESG checklist for all divisions on 1 July 2021. It is divided into climate physical, climate transitory, social and governance. Within these areas, the potential ESG risk is rated on a scale of 1 (very low risk) to 5 (very high risk) on the basis of qualitative questions. The result of the individual areas and the overall evaluation are added to the loan application and assessed as part of the lending process. We initially applied the ESG checklist to new lending business for new and existing companies at the group of connected customers level over a certain loan volume. The checklist must be filled out for each individual transaction, which ensures constant monitoring. Starting on 1 July 2022, the ESG checklist will also be apply to existing transactions where a change is made.

## 3.5 Own investments

We are convinced that socially and environmentally responsible practices are the best guarantee for long-term success.

LBBW is committed to sustainable business. This commitment means that sustainability is integrated into all the Group’s divisions. Investments in companies in the form of capital market investments are a key part of LBBW’s core business. For this reason, LBBW also sets clear minimum requirements for investments in companies in the case of capital market investments and takes account of a number of ESG factors when making investment decisions.

### 3.5.1 General principles

#### 3.5.1.1 Internationally recognized standards and voluntary commitments

The guidelines and operating procedures at LBBW are modeled not only on laws, rules and regulations, but also on internationally recognized standards and voluntary commitments. These include:

- a) The UN Global Compact
- b) The core labor standards of the International Labour Organization (ILO)
- c) The OECD Guidelines (Organisation for Economic Cooperation and Development) for Multinational Enterprises
- d) The Performance Standards of the International Finance Corporation (IFC)
- e) The German Sustainability Code
- f) The “Wohlverhaltensregeln” (rules of conduct) of the BVI (German Fund Association)
- g) The BVI’s Analysis Guidelines for Shareholder Meetings (ALHV)
- h) The German Corporate Governance Code

In addition, LBBW also signed the United Nations’ “Principles for Responsible Investment” (PRI) in 2009 with the objective of contributing to the development of a more solid and more sustainable financial system.

#### 3.5.1.2 Other obligations

Where compatible with our customer responsibility, we have also committed to the following:

- a) We actively promote sustainable investments. In customer business, we offer sustainable investment products for all customer groups and in all asset classes, provided that investment opportunities are available. The goal is to increase the share of sustainable investments.
- b) In the financial sector, we advocate greater acceptance and implementation of the “Principles for Responsible Investment” (PRI) of the United Nations.

We also expect all our business partners to respect environmental and social criteria and minimum corporate governance standards. The international minimum standards and principles used to measure these are listed in LBBW’s sustainability practices → *See sustainability practices page 6, section 3.*



### 3.5.2 Scope

In addition to the general principles, there are specific requirements for capital market investments for LBBW's own investments. These are described in these investment guidelines and must be reviewed prior to an investment.<sup>2</sup>

### 3.5.3 Guidelines for responsible investment

#### 3.5.3.1. Exclusion criteria

Exclusion criteria both for countries and for companies have proven to be an effective way of assessing sustainability and minimizing risks resulting from sustainability issues. Accordingly, LBBW Group does not invest in countries that meet the following exclusion criteria:<sup>3</sup>

- a) States in the bottom 20% of states in Transparency International's Corruption Perceptions Index
- b) States that have not ratified the Treaty on the Non-Proliferation of Nuclear Weapons
- c) States that have not signed the Convention on Biological Diversity
- d) States that have not ratified the Paris Agreement
- e) States that have not ratified the Biological Weapons Convention (1972)
- f) States that have not ratified the Chemical Weapons Convention (1992)

It does not invest in companies with serious child labor violations or massive violations of recognized labor law (ILO core labor standards) or human rights (UN Universal Declaration of Human Rights).

Additional exclusion criteria and ESG review criteria apply for specific sectors, which are listed in section 4.2 of LBBW's sustainability practices.

#### 3.5.4 Transparency and reporting

We take transparency very seriously. As a signatory to the UN PRI, we report on our ESG activities in the annual PRI Transparency Report. In this report, we describe our ESG approach and current developments relating to our strategy and approach. In addition, LBBW Group's annual sustainability report (including the environmental declaration) provides information on sustainable business practices and Group-wide strategies and campaigns.

<sup>2</sup> This does not include products that are not under the control of LBBW Group, e.g. index products and ETFs.

<sup>3</sup> The exclusion criteria b), e) and f) described below do not apply to the state of Israel.

### 3.6 Asset management

LBBW Asset Management Investmentgesellschaft mbH is a wholly owned subsidiary of LBBW and the central provider of investment solutions within LBBW Group. We strive to align our investment activities with the principles for responsible investment with regard to the mandates and investment products under our management.

These principles also include non-financial criteria relating to the observance of environmental, social and corporate governance (ESG) criteria. We aim to achieve long-term success. LBBW Asset Management Investmentgesellschaft mbH includes ESG criteria for analysis and decision-making processes in its investment activities and, in keeping with our fiduciary duties, does so while giving full consideration to our investors' requirements and objectives. In addition, more and more assets under our management are affected by engagement and the active exercise of shareholder rights via proxy voting.

Implementation guideposts include internationally recognized standards such as the UN Global Compact, the United Nations Principles for Responsible Investment (UN PRI), the "Wohlverhaltensregeln" (rules of conduct) of the Bundesverband Investment und Asset Management e. V. (BVI) and the German Corporate Governance Code.

The following exclusion criteria apply to all mandates and investment products of LBBW Asset Management Investmentgesellschaft mbH:

- Investments in companies that manufacture anti-personnel mines and cluster munitions.  
This is based on the two corresponding UN conventions.  
(See also section 4.2.5 Armament: Exclusion for LBBW Group)
- Exclusion of investments in agricultural commodities

#### Coal policy

LBBW Asset Management Investmentgesellschaft mbH also approved a policy relating to coal mining and energy generation from coal, which came into effect on 15 January 2022. This policy applies to all mutual funds managed by LBBW Asset Management Investmentgesellschaft mbH. It is working towards applying the guidelines to mutual funds with external advisers. In addition, in the case of special funds and direct mandates classified in accordance with Article 8 of the Disclosure Regulation, LBBW Asset Management Investmentgesellschaft mbH will work towards approval by the investors/customers in question to apply the policy. In accordance with this policy, LBBW Asset Management Investmentgesellschaft mbH excludes companies where coal accounts for more than 30% of annual revenues from mining or electricity generation.

By signing the PRI, LBBW Asset Management Investmentgesellschaft mbH wishes to contribute to the development of a more solid and more sustainable financial system.

More information on the guidelines for responsible investment of LBBW Asset Management mbH:  
→ <https://www.lbbw-am.de/unser-ansatz/leitlinien>

# 04 Management of environmental and social risks and of governance aspects.

## 4.1 General guidelines

Our top priority is to be honest in our approach and respectful in our treatment of customers, employees and direct and indirect business partners. The Group Compliance division drives compliance with all internal and external rules, regulations and laws and prevents undesirable things such as crime and corruption.

It is important to us that our customer companies in investment and lending business integrate environmental, social and governance criteria into their operating guidelines. Examples of these include provisions on climate protection and anti-corruption, as well as compliance with human rights, labor rights and tax regulations. The same applies to gender-specific and women's rights criteria. We also expect our customer companies to include enforcement of these clauses in their contracts with subcontractors and suppliers. We require large companies and multinational enterprises to publish a sustainability report in line with the Global Reporting Initiative (GRI) standards.

### 4.1.1 LBBW climate strategy

LBBW has committed to further reducing its CO<sub>2</sub> emissions as part of its climate strategy. As a result, we apply ambitious benchmarks to our use of resources.

- We are reducing our energy consumption by continuously optimizing the building technology and IT hardware in data centers and at work.
- By expanding our use of video and telephone conference technologies, we aim to further reduce the amount of business travel. We are also actively working on lowering the average fuel consumption of our fleet vehicles.
- We take account of environmental impact, fair remuneration systems and regional origin when selecting products and services. To ensure compliance with our procurement standard's sustainability criteria, we undertake to make our suppliers, product origin, manufacturing process and materials used transparent. We also reserve the right of termination without notice if key social or environmental standards are not met. All suppliers must accept this.

### 4.1.2 Biodiversity principles and protection of species

All companies directly or indirectly use services that affect biodiversity. It is our policy not to support projects that clearly cause large-scale destruction of biodiversity without simultaneously adding environmental value.

This is particularly true of projects in internationally recognized protected areas (e.g., High Conservation Value Areas (HCVA), IUCN protected areas, UNESCO World Heritage Sites, wetlands according to the Ramsar Convention) and endangered species (e.g., the Washington Convention (CITES)). Protected areas are essential to sustainable development and play a major role in meeting the "Life Below Water" (SDG 14) and "Life on Land" (SDG 15) Sustainable Development Goals:

Regarding the protection of animals and species, we require our customers and their suppliers to avoid any adverse impacts on the populations or number of plants and animals included on the IUCN Red List of Threatened Species. LBBW also rejects trading in endangered animals and species of plants placed on the CITES lists.

Living genetically modified organisms should only be produced or traded if the importing country has given its permission and all the requirements of the Cartagena Protocol have been met. LBBW also deems it important for activities relating to genetic material and genetic engineering to take place only if they meet the approval and processing requirements described in the UN Convention on Biological Diversity and the related Bonn Guidelines or Nagoya Protocol.

#### **4.1.3 Human rights and workers' rights**

All LBBW Group's employees are covered by the International Labor Organization's (ILO) eight core labor standards (conventions) governing equitable working conditions ([www.ilo.org](http://www.ilo.org)). Where these have been ratified in the relevant country, they have the status of international legal instruments:

- Forced Labor Convention
- Freedom of Association and Protection of the Right to Organize Convention
- Right to Organize and Collective Bargaining Convention
- Equal Remuneration Convention
- Abolition of Forced Labor Convention
- Discrimination (Employment and Occupation) Convention
- Minimum Age Convention
- Worst Forms of Child Labor Convention

We also expect our suppliers and their subcontractors to respect these human and workers' rights.

LBBW espouses the view that the rights of children should be respected without exception and supports the elimination of child labor. LBBW also expects this of its customers, employees, suppliers and other partners with whom it cooperates.

All business we conduct with our suppliers is based on supplier registration. To become an approved LBBW supplier, companies must answer multiple questions, including several relating to sustainability issues, on LBBW's supplier portal. The questions concern issues such as environmental and social management systems, employee environmental training, waste disposal plans, and the publication of environmental or sustainability reports.

Every supplier is additionally required to acknowledge the "Sustainability Agreement for LBBW Suppliers" when registering with LBBW and sign it when entering into a contract. This agreement compels our suppliers to meet social and environmental criteria that we consider essential. For example, we expect our suppliers to ensure fair working conditions. Any supplier violating the social or environmental standards contained in the Sustainability Agreement (e.g., prohibition against human rights abuses, such as child labor) must accept this violation as grounds for termination of the Agreement without notice.

We expect our suppliers to commit to taking responsibility for environmental, economic, social, and community issues in all areas of their business activities to the same degree as LBBW. The sustainability rules and ethical responsibility documented in our Code of Conduct are the guiding principles for all of our business relationships and transactions.

#### 4.1.4 Indigenous peoples

We recognize the need to protect indigenous peoples and their connection to ancestral lands. For this reason, we pay particular attention to the protection of indigenous peoples and their cultural heritage in project financing. If transactions have an impact on indigenous peoples, LBBW considers factors such as respect for human rights, regional ecological impacts and land rights.

If resettlements are unavoidable, we expect our customer companies to abide by national laws and regulations and – where applicable – the International Finance Corporation’s (IFC) Performance Standard PS 5 (“Land Acquisition and Involuntary Resettlement”).

Wherever project and export financing has the potential to affect indigenous peoples, we expect our customer companies to abide by the goals and requirements set out in IFC Performance Standard PS 7 (“Indigenous Peoples”). We require them to obtain free, prior and informed consent (FPIC) from the affected groups and to actively involve these groups in their decision-making and implementation processes. This is particularly true for land, natural resources and the environment (territory), equal legal treatment including the right to culturally adapted education and health care, political participation and self-administration. LBBW considers it important for companies not to undertake or support settlements in occupied territories that violate humanitarian law.

#### 4.1.5 Compliance and corruption prevention

We comply with all applicable laws and regulations. Our internal rules and Code of Conduct inform every individual’s responsible actions at LBBW in compliance with the legal requirements and ethical and societal standards. Our effective compliance management organization primarily monitors compliance with financial sanctions and data protection requirements and prevents crimes such as money laundering, terrorism financing, fraud, corruption, and insider trading.

Unconditional compliance with all statutory provisions and internal rules as well as the integrity of each individual employee constitute the foundations of sustainable corporate governance. We have adopted a code of conduct as an overarching guideline for this purpose. This code applies to LBBW and its subsidiaries. → **LBBW Code of Conduct**

Special compliance functions (including MaRisk Compliance and Capital Market Compliance<sup>4</sup>) monitor the adoption and satisfaction of minimum requirements defined by regulators regarding risk management (MaRisk) and the compliance function (MaComp), among other things, and also monitor security systems and controls aimed at preventing money laundering and the financing of terrorism. Further information on LBBW compliance management:

→ **LBBW Sustainability Report 2021** starting on page 72

Fraud prevention at LBBW aims to prevent crimes that could harm LBBW Group’s reputation or present a risk of loss to LBBW’s or its customers’ assets. It analyzes risks, tracks leading indicators, and implements security systems and controls for customers and transactions. The annual risk analysis includes the identification and assessment of all internal and external risks relating to crimes relevant to the Bank and the Group. Preventive measures are then developed based on this information. More generally, LBBW is also guided by the OECD Guidelines for Multinational Enterprises, which also provide anti-corruption recommendations (see section 3.2).

<sup>4</sup> Minimum Requirements for Risk Management (MaRisk) and Minimum Requirements for the Compliance Function and Additional Requirements Governing Rules of Conduct, Organization and Transparency (MaComp).

The regulatory framework for combating crimes that applies to the Bank and the Group includes primarily the Fraud and Corruption Prevention Guidelines for the bank and the Group. These guidelines represent the general framework for appropriate risk management and suitable fraud and corruption prevention processes and procedures from LBBW's perspective (e.g. organization of fraud and corruption prevention at the bank and in the Group, responsibilities of the Central Office [suspicious activity reporting, points of contact] and the main preventive measures). The aim of the fraud and corruption prevention guidelines is to identify risks and early indications of other criminal offenses at an early stage in order to prevent damage to LBBW, its employees and its customers. These standards have been incorporated into the guideline for giving and receiving benefits (gifts, meals, events). Employees can also report concerns and suspicious activity anonymously to an external ombudsman. This option is available at all branches and subsidiaries throughout LBBW Group. The ombudsman is also available for external third parties (e.g. LBBW customers, business partners and suppliers).

#### 4.1.6 Donations

Donations are integral to our being a good corporate citizen. We mainly donate to social, cultural and scientific projects. Having strong regional roots, we generally support recipients in relevant regional core markets. LBBW has a policy of not donating to politicians, political parties or governments.

#### 4.1.7 Complaints management

We want to ensure that customer complaints are handled properly and quickly and so LBBW has met the legal requirements regarding a central complaints management function. Incoming complaints are analyzed to correct recurring issues or mistakes. This is essential for maintaining a high level of customer satisfaction and long-term customer loyalty.

LBBW's complaint procedure states that all customers, employees and stakeholders can contact LBBW by phone, mail, an online contact form or by via LBBW branch or BW Bank branch to discuss their concerns. LBBW responds to these complaints orally or in writing within a reasonable period with a view to finding a solution.

Unfortunately, we are occasionally unable to find a satisfying solution. Consumers can contact the consumer arbitration body of the Association of German Public-Sector Banks (VÖB) to settle disputes with the Bank. Non-consumers (business clients) can contact the arbitration body as well to handle disputes regarding payment services and electronic money. All further details are covered by the arbitration rules of the consumer arbitration body, which can be made available on request. The Bank participates in dispute resolution procedures before this recognized consumer arbitration body.

If the dispute relates to a contract concluded online, consumers can alternatively use the online platform at <http://ec.europa.eu/odr>.

Customers can also file a complaint with the Federal Financial Supervisory Authority (BaFin), if their complaint pertains to an alleged violation of regulations monitored by the BaFin, or seek recourse through the courts.

In the case of disputes with the bank that are subject to the requirements of the Swiss Financial Services Act (FIDLEG), customers in Switzerland can contact the "ombuds office for financial service providers (OFD)" as the arbitrator.

#### 4.1.8 Tax compliance

LBBW does business and pays taxes mainly in Germany. It is committed to meeting all of its tax obligations in and outside Germany. LBBW receives no benefits whatsoever from tax authorities. LBBW, as an institution under public law, views itself as a highly responsible taxpayer and has therefore developed a tax strategy that requires compliance with tax regulations and rejects aggressive tax avoidance strategies.

Given these provisions, as a matter of principle LBBW does not advise customers to create international structures with the goal of evading taxes. The bank and its subsidiaries eschew any involvement in transactions with international structures that are obviously designed to evade taxes.

The following information is published (country-by-country reporting under section 26a of the Banking Act) pursuant to the Banking Act (section 26a (1) sentence 2 et seq.), broken down by EU Member States and third countries, for companies consolidated in LBBW's consolidated financial statements, including if they maintain a branch or headquarters abroad:

- Name of company, type of business and geographical location of branches
- Revenues
- Number of wage and salary earners in full-time equivalents
- Pre-tax profit or loss
- Taxes on profit or loss
- Public-sector aid received

Further information can be found here: → [LBBW tax strategy](#)

## 4.2 Sector-specific principles

### 4.2.1 Review process for industry/country risks relating to wood/paper, mining, crude oil/natural gas and bioenergy

In order to identify, analyze and assess sustainability risks in international financing projects, LBBW conducts sustainability reviews of certain loan inquiries in highly relevant industries (i.e. wood/paper, mining, petroleum/natural gas and bioenergy) in certain countries deeply affected by these industries.

Financing for foreign companies in critical industry-country combinations involving raw materials extraction, import/export, or primary processing has to complete a careful process aimed at weighing the risks. This process does not extend to financing backed by the German government or another government export credit agency in an OECD member state since it will have already passed an environmental/social review. The review process also does not apply to documentary bulk operations (e.g. letters of credit, guarantees and surety bonds) in which the Bank acts merely as an intermediary between the importer and exporter.

Issues reviewed for the above sectors include:

Wood/paper	Mining	Crude oil/natural gas	Bioenergy
<ul style="list-style-type: none"> <li>• Illegal logging/deforestation of virgin forests</li> <li>• Activities in protected areas<sup>5</sup></li> <li>• Endangerment of biodiversity<sup>6</sup></li> <li>• Waste management</li> <li>• Rehabilitation/restoration</li> <li>• Human rights</li> <li>• Existing land use rights</li> <li>• Environmentally friendly production processes (e.g. soil conservation, erosion control)</li> <li>• Fair working conditions (ILO core labor standards)</li> </ul>	<ul style="list-style-type: none"> <li>• Accident prevention</li> <li>• Land consumption (in surface mining)</li> <li>• Waste management</li> <li>• Decommissioning of production sites</li> <li>• Activities in protected areas<sup>5</sup></li> <li>• Mountaintop removal<sup>7</sup></li> <li>• Human rights</li> <li>• Existing land use rights</li> <li>• Fair working conditions (ILO core labor standards)</li> <li>• Adherence to ICMM<sup>8</sup> principles</li> </ul>	<ul style="list-style-type: none"> <li>• Accident prevention</li> <li>• Waste management</li> <li>• Decommissioning of production sites</li> <li>• Especially in Canada: Extraction of tar sands in the province of Alberta (surface mining)</li> <li>• Activities in protected areas<sup>5</sup></li> <li>• Human rights</li> <li>• Existing land use rights</li> <li>• Fair working conditions (ILO core labor standards)</li> </ul>	<ul style="list-style-type: none"> <li>• Direct or indirect change in land use of primary forests and wetlands (e.g. displacement for food production)</li> <li>• Activities in protected areas<sup>5</sup></li> <li>• Endangerment of biodiversity<sup>6</sup></li> <li>• Handling of chemicals</li> <li>• Use of genetically modified plants</li> <li>• Waste management</li> <li>• Human rights</li> <li>• Existing land use rights</li> <li>• Fair working conditions (ILO core labor standards)</li> </ul>

Outside Germany, LBBW provides project financing primarily in Europe and North America, where particularly strict statutory environmental and social standards also apply.

In Germany, the licensing authority reviews the following aspects for investments for which the law requires an environmental impact assessment:

- Impact on individual people and on the population
- Impact on flora and fauna
- Land usage
- Change in organic matter and soil erosion, sealing and compaction
- Hydromorphological changes, changes to the quantity or quality of water
- Changes in the climate, e.g. due to greenhouse gas emissions, change in the microclimate at the location
- Impact on historically, architecturally or archaeologically important places and buildings and on cultural landscapes

We do not disburse loans until a project has been approved and compliance with environmental standards is assured. Moreover, we extend loans with environmental conditions attached if necessary, such as a contractual obligation to decommission equipment. Compliance with IFC standards is mandatory for projects in developing and emerging countries that are funded by entities such as the (IBRD, the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA) or the IFC development bank.

<sup>5</sup> E.g. IUCN protected areas (International Union for Conservation of Nature), UNESCO World Heritage Site (United Nations Educational, Scientific and Cultural Organization), wetlands according to the Ramsar Convention (international treaty on wetlands).

<sup>6</sup> E.g. endangered animals and species of plants pursuant to the Washington Convention, CITES

<sup>7</sup> Coal mining method that uses explosives to remove mountaintops

<sup>8</sup> International Council on Mining and Metals



## 4.2.2 Energy

### 4.2.2.1 Energy efficiency in construction

LBBW Immobilien Development GmbH is a member of Deutsche Gesellschaft für Nachhaltiges Bauen (DGNB – German Sustainable Building Council). It prioritizes the construction and certification of sustainable office, administrative, and residential buildings according to DGNB standards. In cases where DGNB certification is not explicitly planned, the internal “LBBW Immobilien Development GmbH Standard for New Construction of Sustainable Office and Administrative Buildings” and “LBBW Immobilien Development GmbH Standard for New Construction of Sustainable Office, Administrative, and Residential Buildings” are applicable. These internal standards are aligned with selected DGNB criteria and ensure the use of sustainably sourced wood and healthy indoor climates in residential buildings. Sustainability aspects are also taken into account in tenders and when awarding contracts.

Tenders by LBBW Corporate Real Estate Management GmbH for properties to be used by the Bank include extensive stipulations concerning the construction materials and their health and ecological safety. To ensure compliance with these criteria, LBBW’S general clause for construction and supply contracts is enclosed with the tenders and orders.

### 4.2.2.2 Bioenergy

Financing in the bioenergy sector is subject to the existing provisions on critical sector-country combinations, see 4.2.1.

### 4.2.2.3 Coal mining and coal-fired power plants

The enormous scale of the consumption of fossil fuels such as coal, oil and gas is a major cause of climate change. Burning coal is one of the biggest sources of CO<sub>2</sub> emissions that contribute to global warming. Therefore, special guidelines apply to the financing of coal mining and coal-based energy supply. These were tightened in 2021.

The following restrictions apply to the financing of coal mining and energy supply:

#### **Absolute thresholds:**

- No financing to energy suppliers which an annual coal mining volume of more than 70 million metric tons (more than 50 million metric tons from 2025)
- No financing to energy suppliers with coal-fired power plant capacity of more than 15 GW

#### **Phase out:**

- All existing contractual obligations will be honored until maturity. Financing that does not meet the criteria set out in the rules will not be extended.
- For all new financing, companies must provide a transformation plan for successfully phasing out coal (by 2038 for companies based in Germany and by approx. 2040 for those based abroad).

All financing in the area of renewable energy that supports the transformation of a customer’s existing business model is exempt from these thresholds and the following regulations.

We provide general company financing that helps electric utility companies in order to drive the energy transition to renewable energies.

LBBW does not allow general company financing for energy suppliers in the following cases:

- Energy suppliers that build new coal-fired power plants.
- For energy suppliers taken on as new customers, where coal makes up more than 20% of electricity production or sales.<sup>9</sup>
- For energy suppliers that are existing customers based in Germany, where coal makes up more than 35% of electricity production or sales (to decrease to 30% from 2025 and 25% from 2030).<sup>9</sup>
- For energy suppliers that are existing customers based outside Germany, where coal makes up more than 20% of electricity production or sales.<sup>9</sup>
- Companies that directly engage in “mountaintop removal mining”.<sup>10</sup>

Existing general corporate financing, including refinancing, is still permitted with a term until 2030, regardless of the thresholds.

LBBW finances no projects in or outside Germany that, as far as we know, are run by

- energy suppliers for the purpose of
  - building new coal-fired power plants of any type
  - expanding the capacities of coal-fired power plants (unless this improves their efficiency or fuel consumption or reduces emissions)
  - other investment in coal-fired power plants
- mining companies for the purpose of
  - the construction of new coal mines or the expansion of existing coal mines of any type (unless this involves technical upgrades that improve local environmental or social conditions)
  - particularly destructive mining techniques such as mountaintop removal activities (MTR)<sup>10</sup>.

LBBW does not provide export financing for deliveries or services or other financing in/for coal mines (open pit mining or underground mining) or coal-fired power plants.

Export financing in connection with particularly destructive mining methods such as mountaintop removal mining<sup>10</sup> are – to the extent they are identifiable – excluded in every case.

All existing contractual obligations will be honored until maturity.

The following guidelines apply to LBBW Asset Management Investmentgesellschaft mbH’s investment business in relation to coal mining and energy generation from coal:

LBBW Asset Management Investmentgesellschaft mbH does not invest in companies where coal accounts for more than 30% of annual revenues from mining or electricity generation.

These guidelines apply to all mutual funds managed by LBBW Asset Management Investmentgesellschaft mbH (since 15 January 2022). It is working towards applying the guidelines to mutual funds with external advisers. In addition, in the case of special funds and direct mandates classified in accordance with Article 8 of the Disclosure Regulation, LBBW Asset Management Investmentgesellschaft mbH will work towards approval by the investors/customers in question to apply the guidelines.

<sup>9</sup> Whichever figure is higher.

<sup>10</sup> “Mountaintop Removal Mining” (MTR) is a special type of surface mining which uses explosives to blast away mountaintops. The process is used to mine coal; blasting away the mountaintops provides access to the coal seams beneath. Blasting is cheaper than mining the coal underground – but it also destroys the environment and ecosystems in the area. Other harmful consequences of this type of mining are the accumulation of huge volumes of overburden and the release of heavy metals which may pollute rivers and groundwater. It also produces dust emissions that are classified as potentially carcinogenic.

#### 4.2.2.4 Nuclear power

Nuclear power is extremely risky due to the incalculable health risks of radiation, especially following accidents, and the unresolved problem of how to permanently dispose of radioactive waste. LBBW's business practices are aligned with the prevailing political view on the use of nuclear power as a bridge technology. In Germany, the decision to stop using nuclear power put a halt to the construction of new nuclear power plants. Rules regarding this scenario are therefore not needed. LBBW does not support projects identifiably related to the construction of new nuclear power plants or expansion of existing nuclear capacity in other countries.

As a consequence:

- General corporate financing is not provided to energy suppliers that operate nuclear power plants abroad if nuclear power accounts for more than 25% of the total legally attributable plant output.
- No financing is provided for specific projects by energy suppliers that promote the construction of new nuclear power plants or expansion of existing nuclear capacity in other countries.
- No financing or security for supplies or services is provided for nuclear power plants outside of Germany if certain thresholds regarding the total investment amount or nominal volume are exceeded.

There are no limits on financing for nuclear power plant decommissioning projects or investments intended to ensure safety (technical modernization projects).

#### 4.2.2.5 Agriculture and forestry

At LBBW, we are aware of the role we play as a bank in capital allocation in the European and global economy. This role makes us a key player when it comes to environmental sustainability. To do justice to this role and help ensure a sustainable future, we have specific lending guidelines for agriculture and forestry.

	New customers	Existing customers
Soya	<p><i>New customers</i> involved in soya production must be a member of the <b>Round Table on Responsible Soy Association (RTRS)</b> or meet comparable, acceptable standards.</p> <p>In addition, the customer's key production sites must be certified by the RTRS.</p>	<p>To enter into <i>new lending business with existing customers</i> who are involved in soya production, membership of the <b>Round Table on Responsible Soy Association (RTRS)</b> must have been agreed or they must meet comparable, acceptable standards.</p> <p>In addition, certification of the key production sites by the RTRS must have been agreed.</p> <p>Membership and certification must be complete by no later than 2025. If membership and certification are not complete by this time and there is no prospect of this changing, no new business or extensions are approved.</p>
Palm oil	<p><i>New customers</i> involved in palm oil production must be a member of the <b>Round Table on Sustainable Palm Oil (RSPO)</b> or meet comparable, acceptable standards. In addition, the customer's key production sites must be certified by the RSPO.</p>	<p>To enter into <i>new lending business with existing customers</i> who are involved in palm oil production, membership of the <b>Round Table on Sustainable Palm Oil (RSPO)</b> must have been agreed or they must meet comparable, acceptable standards.</p> <p>In addition, certification of the key production sites by the RSPO must have been agreed.</p> <p>Membership and certification must be complete by no later than 2025. If membership and certification are not complete by this time and there is no prospect of this changing, no new business or extensions are approved.</p>
Cotton	<p>We expect <i>new customers</i> involved in the production of cotton to comply with the <b>Better Cotton Initiative</b>.</p>	<p>In order to enter into <i>new lending business with existing customers</i> involved in cotton production, we expect them to comply with initiatives such as the <b>Better Cotton Initiative</b>.</p>
Logging	<p><i>New customers</i> involved in timber production in high-risk countries<sup>11</sup> must be certified by the <b>Forest Stewardship Council (FSC)</b> or the program for the Endorsement of Forest Certification (PEFC) or meet comparable, acceptable standards. High-risk countries within the meaning of these guidelines refer to all timber-producing countries included in the International Tropical Timber Organization (ITTO).</p> <p>National legislation is sufficient for all other countries.</p>	<p>In order to enter into <i>new lending business with existing customers</i> involved in timber production in high-risk countries<sup>11</sup>, certification by the <b>Forest Stewardship Council (FSC)</b> or the program for the Endorsement of Forest Certification (PEFC) must have been agreed or they must meet comparable, acceptable standards.</p> <p>Membership must be complete by no later than 2025. If membership is not complete by this time and there is no prospect of this changing, no new business or extensions are approved.</p>

<sup>11</sup> High-risk countries within the meaning of these guidelines refer to all timber-producing countries included in the International Tropical Timber Organization (ITTO). National legislation is sufficient for all other countries.

### 4.2.3 Mining

The existing provisions on critical sector-country combinations in mining apply to the mining sector in general (see section 4.2.1).

In considering project financing for mining operations, LBBW generally considers

- how the company operates the mine (e.g. environmental pollution from discharging toxic chemicals, further processing of overburden),
- protection of designated High Conservation Value Areas and/or UNESCO World Heritage Sites,
- respect for human rights, especially the rights of local communities and indigenous people,
- observance of minimum occupational health standards and working conditions pursuant to the standards of the International Labor Organization (ILO),
- performance of mine reclamation.

#### 4.2.3.1 Uranium mining

Uranium mining for nuclear power plants, nuclear weapons or medical purposes entails significant radiation exposure and therefore endangers the health of people living near the mines and seriously pollutes the environment of the entire region. LBBW rejects uranium mining activities without sufficient health protection, environmental and safety standards and therefore refrains from engaging in business activities that it identifies as directly involving uranium mining. Furthermore, export finance is not provided to suppliers of uranium mining companies that fail to meet health, environmental and safety standards.

This means the following:

- General corporate financing is not provided to companies that engage in uranium mining, generate at least 1% of their revenue from such activities and do not provide proof of compliance with health and safety standards (e.g. ISO 14001, OHSAS (Occupational Health and Safety Assessment Series) 18001, ICMM (International Council on Mining and Metals), UN Global Compact, ILO core labor standards, IFC Safety Guidelines, Voluntary Principles on Security and Human Rights).
- No financing is provided for specific uranium mining projects if no proof of compliance with health and safety standards is submitted (see above).
- No financing or security is provided for supplies or services used in uranium mining that exceed a certain nominal volume if no proof of compliance with health and safety standards is submitted (see above).

#### 4.2.3.2 Responsible Gold

Under the Responsible Gold banner, BW-Bank offers its customers sustainably produced gold that comes solely from certified mines in the Nevada desert. Production is subject to strict guidelines: Mining is required to involve the sparing use of chemicals such as mercury and minimal CO<sub>2</sub> emissions. A special environmental impact system ensures that water quality is not endangered, among other things. The miners work under conditions that comply with all human rights requirements and international regulations (e.g. those issued by the UN). They are paid union wages. The gold bars are produced by the Swiss precious metal smelter Valcambi and distributed by the German precious metals dealer ESG Edelmetall-Service. The sales price contains a small markup to cover the more costly production and monitoring of manufacturing by the independent UK auditor ALS Inspection UK.

#### 4.2.4 Crude oil/natural gas

LBBW does not participate in project financing in connection with the extraction and production of oil and gas (upstream). This also means it does not engage in controversial oil production practices such as Arctic drilling, oil and tar sands mining, deep sea drilling, oil drilling in the Amazon rainforest, and fracking (crude oil and natural gas drilling under high pressure, e.g. to extract shale gas).

Furthermore, the extraction of tar sands in the province of Alberta (Canada) is defined as a critical industry-country combination for domestic and foreign company financing (see section 4.2.1).

#### 4.2.5 Arms

LBBW does not enter into any business relationships with companies involved in the production of cluster munitions and/or anti-personnel mines, which are prohibited by international conventions. To accomplish this, LBBW (Bank) and all subsidiaries majority-owned by LBBW use a Group-wide company exclusion list that is also integrated in the Bank's automated embargo monitoring system. The exclusion list is updated regularly on the basis of ISS ESG's Controversial Weapons Research, the sustainability ratings department of Institutional Shareholder Services (ISS). This screening covers the development, maintenance, production, storage, testing and transport of these controversial weapon systems.

The supply of weapons of war (pursuant to the annex to the German Weapons of War Control Act (KrWaffKontrG), e.g. warships, tanks, bombs) to foreign countries and exports of other military equipment (that is not covered by the German Weapons of War Control Act, in accordance with German Federal Office for Economic Affairs and Export Control (BAFA) export lists, e.g. guns, munition) are subject to strict requirements and restrictions.

Nuclear, biological and chemical weapons, also known as weapons of mass destruction (WMDs), are banned internationally because they pose a significant threat to the civilian population and environment. We do not enter into any transactions relating to the production of these weapons systems with companies whom we determine to be involved in the production of WMDs, key components (e.g. plutonium, highly enriched uranium, mustard gas) or enrichment facilities. This means the following:

- No general corporate financing for companies involved in producing biological or chemical weapons
- General corporate financing is not provided to companies generating 5% or more of their revenue from nuclear weapons.
- No financing is provided for specific projects connected with the production of WMDs, key components or enrichment facilities.

LBBW helps finance or secure<sup>12</sup> exports of weapons of war and arms only if the following requirements are met:

The state being supplied has BAFA export approval and the state is not included in the list of non-permitted arms and weapons of war export countries. These include:

- Countries with a fragile state
- Countries that seriously breach human rights
- Countries that are subject to a UN or relevant multilateral arms embargo over the danger of weapons being used for serious violations of human rights or international law

#### 4.2.6 Pornography

LBBW does not provide financing relating to the production and sale of pornographic products, the operation of brothels, providers of sex tourism, phone sex hotlines and the like.

#### 4.2.7 Gambling

LBBW refuses to provide financing for controversial forms of gambling.

<sup>12</sup> Security including assuming guarantee commitments in connection with deliveries and services.

# 05 Equal opportunity and diversity, pay.

A company that wishes to benefit from the knowledge and skills of its employees must create a working environment that is free of prejudice. All employees should feel valued regardless of their gender, nationality, ethnic origin, religion or worldview, disability, age, sexual orientation, or identity.

Our sustainable human resources management helps all employees to further develop their professional and social skills throughout their career.

Investing in young talent and prospective managers is particularly important to us. To do so, we have developed various talent programs for particularly committed and high-performing employees with high potential. Various development opportunities are aimed specifically at female employees in order to create a leadership culture that is free of discrimination. Another mentoring program is designed for women who can take up leadership responsibility only on a part-time basis, for example due to family commitments.

Any form of bias or discrimination at LBBW or in relations with employees, customers, business partners, suppliers, or other individuals will not be accepted. LBBW has a zero-tolerance policy for any kind of gender discrimination, including verbal, physical and sexual harassment. This is backed up by our “Service Agreement on Protection against Discrimination and Fair Conduct at the Workplace” and our Code of Conduct. All employees are required to take online training on the German General Anti-Discrimination Act (AGG).

For more information on the human resources policy: → [LBBW Sustainability Report 2021](#) starting on page 144

We provide an appropriate remuneration package, the salary components of which can be made flexible. Good social benefits are a reflection of the appreciation we have for our employees. For the Board of Managing Directors and non-pay-scale employees alike, LBBW Group’s performance is evaluated on the basis of four strategic cornerstones: sustainability, business focus, digitalization and agility. This means the topic of sustainability plays a key role when it comes to performance-based variable remuneration.

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