

LB  BW

Breaking new ground

Tax strategy

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Tax strategy

For Landesbank Baden-Württemberg (LBBW), the existence of a tax strategy is a necessary component of a functioning tax compliance management system. The tax strategy is embedded in the business strategy and in LBBW's overall risk strategy. The Board of Managing Directors of LBBW is committed to comply with the statutory tax provisions and the internal guidelines and pushes their observance in the Bank. The regulations of the tax strategy apply to all of LBBW's domestic and foreign locations and address managers and employees in all divisions and departments. They also apply to subsidiaries.

The tax strategy forms the foundation for the implementation of statutory requirements and the payment of all types of domestic and foreign taxes, as well as the submission of tax returns, tax filings and the fulfilment of other statutory tax obligations. It is therefore a binding guideline for the companies within the LBBW Group. It strives to avoid operational and reputational risks.

These principles are also applied upon the assessment of existing and new banking products, in planned business transactions and the strategic planning of business activities.

LBBW's tax strategy is reviewed regularly with regard to any need for adjustment resulting from internal or external factors and is further developed in line with the business strategy. It is then approved by the Board of Managing Directors of LBBW and published on www.lbbw.de.

01

„tone from the top“

„tone from the top“

„We believe in the rule of law.“

Guiding principle of LBBW.

LBBW's Code of Conduct describes the guiding principle of LBBW with the overriding sentence: „We believe in the rule of law“. Employees are directly instructed to act in accordance with existing legal regulations, guidelines and local framework conditions. At the very beginning of the Code of Conduct, it is explicitly stated that „all employees will face consequences under labor law and disciplinary measures in the event of a violation“. Accordingly, all executives of LBBW and the corporate group also personally commit to the company's tax strategy on an annual basis.

As a public-law institution, LBBW sees itself as a particularly responsible taxpayer. Taxes guarantee the efficiency of a functioning constitutional state and thus form the basis for a successful economic activity within the framework of the state-secured market. Although taxes and levies are costs in business management terms, their social and societal significance and legitimacy for a public-sector enterprise result in the goal of a low tax risk.

The reputation connected with the taxation is also a value-creating factor for the LBBW brand. It is impossible to avoid the fact that the complexity of tax law leaves residual risks that result from the breadth and diversity of the business activities of a mittelstand-minded universal bank. LBBW considers taxes to be a necessity for society as a whole and a consequence of the profits generated.

The Bank therefore clearly rejects offensive tax avoidance strategies or the economic exploitation of its own tax position. Nevertheless, in the context of economic competition, the avoidance of tax disadvantages is an important point of orientation in the cooperation with our clients. Within the framework of what is legally permissible, tax advantages such as fiscal options are certainly usable. In addition, the pursuit of legal tax positions is legitimate and covered by LBBW's tax strategy.

02

Governance structures and
tax compliance

Governance structures and tax compliance

The described guidelines are ensured by numerous tax and organizational framework instructions for the fulfilment of tax obligations, for clear assignments of responsibilities and for monitoring within the framework of the bank-wide control system, as well as by the organizational facilities of the audit and the tax compliance organization, including an effective internal control system for taxes. Tax monitoring in the LBBW Group is carried out – in addition to the basic obligation of involving the tax department in tax matters – also through regular discussions with the subsidiaries. IDW's practice guidelines (Institute of Public Auditors in Germany) are also observed. Furthermore, LBBW has implemented the „three lines of defense model“.

Tax-qualified employees and the involvement of renowned tax attorneys and tax consultants are prerequisites for the correct tax handling of the Bank's business. The regulations prescribe advanced training and the further development of tax expertise. External consultants are regularly involved in reviewing the tax compliance management system, thus ensuring that the existing organizational structures are up to date and appropriate. Furthermore, LBBW has given employees and third parties the opportunity to report legal violations anonymously and in a protected manner. The organizational structure of the whistleblowing office is based on the involvement of an experienced external lawyer who assists whistleblowers and who is obliged to maintain confidentiality.

These guiding principles are implemented through numerous written regulations and procedures for the fulfillment of tax obligations with clear assignments of responsibilities. The guideline for LBBW's tax compliance management system, which describes and specifies all key requirements for compliance with tax laws as well as the monitoring and control functions, plays thereby a central role. This guideline provides specific instructions and requirements for employees on how to comply with LBBW's tax requirements. Accordingly, the following procedures, among others, are inadmissible:

- Supporting transactions that result in tax evasion
- Remuneration depending on tax savings of customers or business partners
- Involvement in transactions with the purpose of anonymous participation in offshore companies in violation of notification regulations
- Collaboration with a customer for the purpose of abusive exploitation of foreign jurisdictions
- Any form of dividend arbitrage transactions

Compliance with tax regulations is further ensured by an internal control system.

03

Tax planning

Tax planning



LBBW's tax planning does not include any specific requirements for the reduction of income taxes nor are there any specific planning figures in this context. In contrast, the consideration of the tax effects of individual business transactions and the assessment of deferred taxes are part of the standards currently applicable to the banking business and the business areas of the group companies.

LBBW structures its legal relationships based on commercial and economic profit-making and not with the main aim of generating economic benefits through tax savings. The contract-forming activity is legitimized by economic reasons. Tax incentives and exemptions provided by law may be realized in the process. The relevant tax laws shall be interpreted and applied in a reasonable manner. In the area of the Bank's involvement as a tax fiduciary, for example in the case of capital gains tax or payroll tax, a close interpretation of administrative opinions is aimed at.

04

Relations to tax authorities

Relations to tax authorities

LBBW cooperates with tax authorities regarding tax assessments, tax audit procedures and other tax proceedings. The Bank and the group companies are committed to the principle of transparency in their relationship with the authorities. The aim is to establish a good working relationship, whereby – in case of doubt – binding rulings are agreed.



In addition, LBBW generally works towards a trusting and respectful cooperation with all German and foreign tax authorities as well as other public institutions and corporations.

05

Tax evasion

Tax evasion



Employees are prohibited from aiding or abetting tax evasion by third parties as well as from tax evasion for the benefit of the Bank. The corresponding written rules and guidelines are clear in this respect. Even negligent violations of tax requirements trigger consequences under any applicable labor law.

In addition to the basic instructions described above, the Board of Managing Directors of LBBW provides employees with specific guidance and examples in the work instructions on how to avoid problematic tax cases, as it can be very difficult to assess tax issues in individual cases. These instructions do not claim to be exhaustive; they are intended to raise employees' awareness of the problem by means of exemplary instructions and to accelerate the bank-wide communication of identified cases of doubt.

06

Sustainability and international
business

Sustainability and international business

LBBW is committed to the basic principle that a company's profits should be taxed where the value is created. The Bank is also responsible for the communities in which it does business – it supports the national and local economy through taxes, customs duties and levies. Business relations with local foreign entities are structured at *arm's-length* and in accordance with the rules of international and local tax law.



If additional requirements are imposed on tax compliance according to national foreign tax law, these provisions shall be applied with priority.

LBBW does not use any artificial tax arrangements without substance or business basis, neither in Germany nor in its foreign subsidiaries, branches, and representative offices.

Furthermore, according to this guideline, arrangements in connection with countries that have been classified as non-cooperating jurisdictions by the EU or by the Organization for Economic Cooperation and Development (OECD), as well as by circulars issued by BaFin, are avoided. Business relationships with business partners from these territories are only permitted after individual approval. Business with existing offshore companies is only permitted if it can be ruled out that tax evasion will be committed.

On the basis of these guidelines, LBBW does not advise customers to create international structures with the aim of avoiding taxes. The Bank and its subsidiaries do not participate in transactions with international structures if it is obvious that they are aimed at avoiding taxes.

Since 2017, the Board of Managing Directors of LBBW has been adopting a „UK Tax Strategy“ specifically for the United Kingdom in accordance with local laws and published it on LBBW's external website. This is renewed annually and approved by the Chairman of the Board of Managing Directors.

<https://www.lbbw.de/legal-information/code-of-conduct>

<https://lbbw.de/uk-tax-strategy>