

# **GUIDELINES FOR SUSTAINABILITY**

## **1. Concerning the guidelines**

As an international universal bank with regional roots we act in the long-term interest of our bank, our clients and our stakeholders.

The globally increasing demand for raw materials whose availability is limited and global warming will lead to far-reaching adjustments of manufacturing processes and products. This will contribute to cost optimisation as well as reductions in carbon dioxide emissions. Huge investments will be required. Within the next ten to 15 years, environmental technologies will probably become the leading industry in Germany. Thus, the sustainability issue will gain a sharpened risk/reward profile for the bank.

Only a team of motivated, qualified and healthy employees will be able to cope with the future challenges. Already today, qualified staff is scarcely available. The demographic change is still accelerating the competition for the best and the brightest. Therefore we must sustainably promote and develop our staff resources as well.

The following “Guidelines for Sustainability” developed by LBBW’s Sustainability Council and decided by the Board of Managing Directors focus on individual responsibility. These guidelines support individuals in their active orientation towards transactions and projects that have a positive effect on the sustainability balance sheet of our bank. They are called “guidelines” because they provide a concrete orientation framework for the implementation of our sustainability goals.

We will report regularly on the progress achieved in implementing our sustainability goals.

## **2 Basic guidelines for sustainability**

As part of the international community we declare to support the human rights as laid down by the United Nations. Therefore we endeavour not to co-operate with companies or institutions of which it is known that they disregard basic human rights.

### **3 Basic guidelines of sustainability in our core business**

We are convinced that aspects of Corporate Governance, of environmental protection, social and corporate governance (ESG)<sup>1</sup> may have an impact on the result achieved by an investment and/or loan portfolio. This impact can vary depending on the company concerned, the industrial sector concerned, region, asset class/type of loan and period/maturity.

By means of these guidelines, risks arising from the core business of the bank, e.g. the investment and the lending business, not least risks associated with the reputation of the bank, can be made transparent. Furthermore, these guidelines will enable the individual decision-makers to better identify, quantify, avoid or manage the risks involved.

Thus, these guidelines support the analytical process, i.e. the risk/reward considerations, provided that sustainability is considered as a holistic approach.

#### **3.1 Guidelines for sustainability in our investment business**

Going forward, we will take more and more ESG-factors into account in our investment decisions. By doing so, we act in the best and long-term interest of our clients and stakeholders. When implementing our sustainability targets, the “Principles for Responsible Investment” (PRI)<sup>2</sup> of the United Nations serve as a benchmark.

Therefore we commit ourselves to the following, as far as this is compatible with our responsibility vis-à-vis the customer:

- We will integrate ESG-related topics in the analytical and decision-making processes in investment banking and will actively promote sustainable investments.

In our business with customers we will offer sustainable investment products for all customer groups and in all asset classes, provided that investment opportunities are available that correspond to the sustainability requirements prevailing for other offers submitted to our customers. We aim to increase the share of sustainable investments in all business areas - also with regard to our own investments.

- We will accompany corporations and entities in which we invest as active shareholders. We will urge them to provide comprehensible information about all ESG factors. If we notice any violation of our basic moral concepts, we will enter an intensive dialogue with the companies concerned.
- Whatever serves as a sustainability benchmark for our bank should serve as orientation for the whole sector as well. Therefore we will support greater

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<sup>1</sup> ESG = Environmental, Social and Corporate Governance

<sup>2</sup> Principles for Responsible Investment (PRI): Investors initiative in co-operation with UNEP Finance Initiative (UNEP FI) and the UN Global Compact

acceptance and enhanced implementation of the PRI (Principles for Responsible Investment).

### **3.2 Guidelines for sustainability in the lending business**

On the one hand, due to globalisation and stronger international orientation of the bank, we increasingly grant loans to customers in our core markets with production sites in developing and threshold countries. On the other hand, LBBW will to a growing extent win customers located in these countries.

Ecological and social conditions which are incompatible with our guidelines can jeopardize our reputation considerably.

For the lending business this means:

- We will strengthen our advisory competence with the aim of identifying risks early on in conjunction with the customer in order to take countermeasures. This co-operation characterised by openness between the consultant and the customer will promote a sustainable development of the company, the business relationship and the systematic identification of earning potential for the bank.
- We advocate an active orientation towards transactions, projects, products and customer groups with a positive impact on the sustainability balance sheet of the bank.

Thus, we spur the development and the dissemination of environmentally friendly technologies. We help reduce carbon dioxide emissions. Concurrently, we expand future-oriented asset allocation by leveraging the strong market growth. All in all, these measures will strengthen our bank's sustainability.

- We incorporate instruments for identifying, avoiding and controlling sustainability risks in certain industrial sectors and countries into the analytical and decision-making process. This particularly applies to environmental protection, human rights and working conditions.

The sustainability evaluation which forms an integral part of the analytical and decision-making process leads to a holistic risk approach.

## **4 Guidelines for sustainability in Human Resources Management**

The twelve "HPI value drivers" defined by the Federal Ministry of Labour and Social Affairs, The Human Potential Index ("HPI") determine the guidelines for sustained Human Resources Management within the LBBW Group. In the following, these HPI value drivers are listed according to the ranking of their efficiency for corporate performance and formulated explicitly for the LBBW Group as prerequisites for a sustained Human Resources Management Policy:

### **1. Compensation & Benefits**

We provide for an up-to-date remuneration package system in which salary components can be variabilised (performance-based). Attractive social benefits demonstrate adequately our appreciation to the employees.

## **2. Change Management**

We strive to continuously improve the organisation of work, workflows and working conditions, thus enhancing our attractiveness as an employer. The operational co-determination of the employees is respected and supported.

## **3. Work-Life-Balance**

Our offers in terms of employer's duty for social care towards the employees and the employer's self-obligation are geared to a sustained work-life-balance.

## **4. Communication & Information**

Our employees can only work successfully for the bank on the basis of good communication and a good exchange of information. This is a prerequisite to enable the bank to operate profitably and responsibly in the long run.

## **5. Leadership**

The employees experience appreciation and respect for their work from their executives. They can be proud of their bank, its products, its services and its leadership culture.

## **6. Personnel Development**

We strive to maintain our training and advanced vocational training measures on a high level in terms of quality.

## **7. Personnel Planning & Selection**

Our personnel planning is aimed at a long-term occupation of our employees. Avoidance of dismissals for operational reasons is a primary objective.

## **8. Employee Retention**

Once the employee is on board, we stand by him/her.

## **9. Demographic Development**

Our labour organisation is geared towards the age structure of our employees as well as to the demographic development.

## **10. Health Care Management**

Thanks to a professional in-house health care management we keep our employees healthy, motivated and efficient.

## **11. Human Resources Management**

Confidentiality and data protection, also within the scope of Performance Review Appraisals are a matter of course for us.

## **12. Equal Opportunity & Diversity**

We aim to increase the percentage of women in executive positions. We consider diversity as an opportunity. Therefore we have committed ourselves to promoting diversity by signing the “German Corporate Diversity Charter”.

LBBW does not shy away from subjecting itself also to an external review of its sustainable Human Resources Policy, aspiring to an improvement of its positioning (e.g. as to its Human Asset Rating with a good Human Potential Index (HPI) compared to other companies) and to achieve continually improved results in terms of the twelve human resources-based value drivers of corporate performance.

## 5. Guidelines for sustainability in business operations

We aim to manage our consumption of resources to ensure that sufficient resources will be available to future generations. In our efforts we focus predominantly on reducing carbon dioxide emissions and on our procurement policy.

Reduction of our relative carbon dioxide emissions by avoidance, based on the year 2006, is our primary objective.

- We aim to reduce our energy consumption by optimisation of our facility management and of our IT hardware in the data centres and at the workplace. This requires the development of appropriate technical and organisational measures:
  1. Long-term investment approach (renting and construction), including energy consumption of buildings
  2. Electricity usage facility management, on the basis of 2006: 8,058 kWh/full-time equivalent
  3. Heating energy consumption, on the basis of 2006: 129 kWh/m<sup>2</sup>
  4. Electricity consumption of the data centres in terms of storage volume of mainframes and server farms (ratio "IT electricity consumption adjusted for activities for third parties in kWh/terabyte").
  5. Workstation IT related to one standard workstation (regular measuring in spatially confined areas) in kWh/workstation and year.
- We strive for optimisation of the choice of transportation (on the basis of 2006: train 26 %, plane 25%, car 49%) in compliance with the guidelines contained in the travel policy whereby the increasing globalisation of the bank must be taken into account.
- We want to maintain the high percentage of recycled paper (on the basis of 2006: copy paper 91%, writing paper 39% in total, printed advertising material 15%).

With regard to the selection of products and services we have defined standardised criteria:

- When placing orders we always consider sustainability criteria (e.g. environment, regional economy/customer relationship), as laid down in our procurement standards.
- Environment, regional economy/customer relationship as well as fair remuneration are of material importance when reviewing services and products/materials. We strive for weighting these sustainability aspects against other decision criteria (quality, price-performance ratio, reliability, services, acceptance, and framework agreements) with 10%.

- To ensure compliance with the sustainability criteria, we oblige our suppliers to answer questions with regard to product origin, manufacturing process, materials used etc. In addition, we reserve a right to extraordinary termination in case of non-compliance with our social standards, which all suppliers have to accept.
- We cover our electricity demand under consideration of economic decision criteria by electricity from renewable energies.

## **6. Concluding remarks**

The sustainability guidelines are geared towards the requirements of the most important activities: investment business, lending operations, human resources management and the consumption of resources in business operations.

Of course, all other tasks and business segments not explicitly mentioned are asked to orient themselves along these guidelines.

These guidelines were decided by the Board of Managing Directors on 3 March 2009 and communicated to all employees on 8 June 2009.