

LB  BW

Breaking new ground

# Non-financial report 2020



# Non-financial report

## Preliminary note

The contents that follow contain the combined non-financial statement for the 2020 financial year of LBBW (Bank) and the LBBW Group within the meaning of Sections 340i (5) in conjunction with 315b and 315c, Sections 340a (1a) and in conjunction with 289b to 289e of the German Commercial Code (Handelsgesetzbuch – HGB).

LBBW provides comprehensive information on its sustained commitment in its annual Sustainability Report. The sustainability report is created in accordance with the GRI standards (GRI = Global Reporting Initiative), »Core« option.

In its non-financial statement, LBBW offers a condensed viewpoint on select topics also found in the LBBW Sustainability Report. While the statement also follows the model of the GRI standards, it does not fully comply with these.

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## Business model of LBBW

Information on the LBBW Group's business model can be found in the 2020 annual report under the »Group overview« section.

## Concepts and due diligence processes

### **Principles and guidelines for implementing LBBW's sustainability policy and goals**

The sustainability policy provides guidelines that form a framework for all sustainability activities at LBBW and forms the basis for integrating economic, ecological and social issues into our business activities as a whole. It encompasses LBBW's guiding principles for sustainable development in the areas of strategy and management, customers, employees, business operations, social commitment and communication. The sustainability policy is in effect throughout the entire LBBW Group. For purposes of implementing the sustainability policy, LBBW has defined overarching goals. These are described in the latest sustainability report (see LBBW 2019 sustainability report, LBBW's sustainability goals, page 14 et seq.). The overarching goals are broken down into individual targets and specific measures, and put into operation in the annual sustainability program (see LBBW 2019 sustainability report, sustainability program for 2020 and subsequent years, page 37 et seq.).

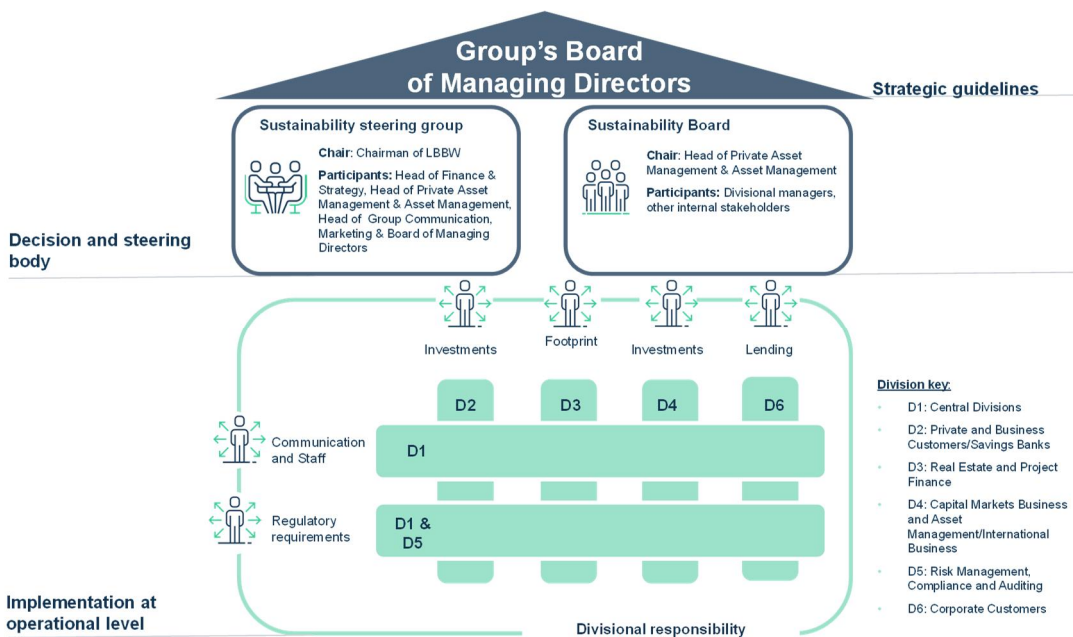
The »Principles and guidelines for implementing LBBW's sustainability policy and goals« serve as concrete guidance when it comes to performing day-to-day activities. In addition to the »sustainability guidelines«, they provide concrete exclusion criteria for individual business ventures and overarching principles such as compliance, human rights and biodiversity. The LBBW climate strategy is also integrated as an overarching principle (see LBBW 2019 sustainability report, Principles and guidelines for implementation of LBBW's sustainability policy and goals, pages 15 to 18).

In August 2019, LBBW was the first German universal bank to sign the Principles for Responsible Banking (PRB), a new, voluntary initiative. The guidelines are based on the UNEP Finance Initiative (UNEP FI), which operates under the aegis of the United Nation’s Environment Programme. The PRB provide a standardized framework to integrate sustainability into all areas of business. This allows banks to systematically aim their focus on social objectives such as the Paris Agreement and the international Sustainable Development Goals (SDGs).



### Management's involvement

Sustainability has been defined as one of LBBW’s four strategic cornerstones since 2017. Five areas of action were defined to incorporate sustainability into all of LBBW’s core areas: investments, lending, footprint, staff and communication. Systematic sustainability management is ensured by embedding this in the existing Group structure.



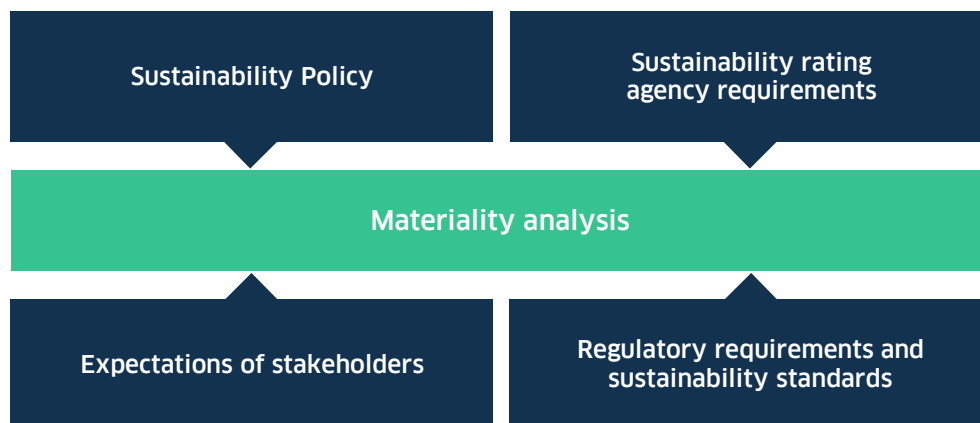
At the highest level, LBBW's Board of Managing Directors is responsible for managing the Group sustainably and for complying with its sustainability policy. Furthermore, the LBBW Group's Board of Managing Directors sets the strategic guidelines for the sustainability cornerstone. The LBBW Group's Board of Managing Directors delegates the specific design of these to »divisional managers«, who manage the sustainability issues in their respective divisions and are responsible for implementing them at operational level.

The sustainability steering group provides key momentum here and is a strategic decision-making body. The steering group's core responsibilities include overall coordination and strategic development of the sustainability cornerstone. The areas coordinate via the advisory body, the Sustainability Board. The Sustainability Board's key duties include promoting Group-wide communication and networking on sustainability issues.

Environmental/sustainability management at LBBW is regularly evaluated by top-level management (management review in accordance with ISO 14001). Key issues are presented to the Board of Managing Directors for information or decision-making purposes.

### Materiality analysis

LBBW classifies the potential effects of its business activities on its sustainability balance sheet as slight, average or substantial. Aside from the requirements set by sustainability rating agencies, in particular the expectations and standards of our stakeholders play a material role. The relevant focus areas are aligned to international sustainability standards and to our sustainability policy. The company has defined the respective sustainability measures primarily in areas that have been identified as having a substantial impact on the LBBW sustainability balance.



Taking into account the »double materiality« principle, certain non-financial aspects must be published in order to ensure that reporting meets HGB requirements. The combined non-financial statement must contain the disclosures that are required in order to understand LBBW's business performance, results of operations, and position, as well as to understand the effects of non-financial aspects on LBBW's business activities. Key areas at LBBW include:

- regulatory issues
- stakeholder dialog
- sustainability standards in the investment business and sustainable investment products
- sustainability standards in the lending business and financing with a sustainable focus
- product responsibility/consumer protection
- compliance
- personnel management, expansion and development

LBBW does not go into greater detail regarding the use of resources and its own CO<sub>2</sub> emissions in its non-financial statement because these are not deemed to be material. It does, however, report on this in more detail in the LBBW sustainability report. This is based on the Bank's environmental management system, which is certified in accordance with ISO 14001 and EMAS. The EMAS regulation calls for this information to be published in the form of an environmental statement, which LBBW has integrated into its sustainability report.

## **Regulatory issues**

The EU Commission's action plan for sustainable finance published in 2018 provides a comprehensive package of measures that act as a basis for a range of regulatory policies. Sustainability regulations were put into practice, at the latest, when the first items of legislation (e.g. Taxonomy Regulation) and the guidelines by the BaFin and the ECB that outline regulators' expectations for banks with regard to climate and environmental risks, were published. LBBW closely monitors the regulatory measures and actively supports these through consultation processes. Regulatory requirements are implemented at an early stage on a risk basis as part of project or line activities.

## **Stakeholder dialog**

### **Future dialog**

These »future dialogs« aim to develop joint solutions to the challenges facing the region in line with the global sustainability goals.

### **Starkmacher e. V. and Fair Finance Institute: »Grünblick« learning camp**

In November 2020, Starkmacher e. V. in cooperation with the Fair Finance Institute arranged a »Grünblick« environmental learning camp, where young people discussed »sustainable business and finance« issues online. For example, participants looked at how the world of finance has changed in recent years and what changes it has to make in the future as a result of current global challenges to help it contribute to a sustainable, green future.

This event also featured an interactive workshop on »sustainable banks of the future«. With guidance from LBBW, the young people worked in break out sessions to discuss how they would design a sustainable and environmentally friendly bank of the future. The results were then discussed with LBBW's head of sustainability and ESG. They developed many new, creative ideas and talked about young people's expectations for banks and their sustainable range of services.

### **Digital customer event**

A digital customer event on sustainability at BW Bank was held in November 2020, attracting around 50 participants. The sustainability cornerstone and its specifics were outlined. This was followed by discussion of the questions and expectations that customers had raised in the chat.

## **Discussion with NGOs**

### **WWF**

Discussions with the WWF that started in November 2019 were continued in January 2020. The WWF published the study »Change of course at German banks« on the basis of this. No bank succeeded in being granted the top rating of »trailblazer«. LBBW, along with two out of the other 14 banks surveyed, was assigned to the next category.

Taking this study as a starting point, various working groups were established to facilitate constructive dialog between the banks. The first outcome of this was the »Voluntary climate commitment by the German financial sector« published on 30 June 2020, for which LBBW was one of the first signatories.

LBBW still participates in the voluntary climate commitment and, together with other banks, the WWF and the Green and Sustainable Finance Cluster, is helping establish a working structure to put targets into practice.

### **Fossil Free**

The dialog with climate activists from Fossil Free Stuttgart continued in July 2020. Discussions centered around current developments in sustainable finance, potential activities and projects at LBBW and Fossil Free Stuttgart and the presentation of LBBW's sustainability management collaborations and initiatives. Representatives from Fossil Free Stuttgart explained the goals of the initiative: Abolishing coal mining across the world and abandoning the use of fossil fuels in the medium term.

Specifically, the exclusion criteria for LBBW's proprietary trading account were outlined. As well as excluding investments in companies with controversial human rights and labor law violations, companies with contentious environmental practices are also barred. There are no coal producers in the portfolio. Regarding government investment, we avoid exposures in countries under authoritarian regimes.

## Sustainable investment products

LBBW actively encourages this interest in sustainable investments and raises public awareness of the concept of sustainability at its in-house and external events. The investment services offered are geared toward the »sustainability guidelines« with the aim of avoiding risks that relate to sustainability and taking advantage of any relevant opportunities. LBBW's goal is ultimately to support its customers to the greatest extent possible when it comes to investing their assets in a responsible, ecological and ethical manner and to prove again and again that financial returns can be combined with value creation for the benefit of society and the environment.

LBBW offers retail, corporate and institutional customers an extensive portfolio of sustainable investment products. The portfolio is geared toward sustainability criteria through voluntary commitments, among other things.

By signing the United Nations' »Principles for Responsible Investment« (UN PRI), LBBW undertakes to increasingly incorporate aspects of our responsibility for the environment and society as well as corporate governance (environmental, social and corporate governance (ESG)) into analysis and decision-making processes in our investment activities.

In 2020, LBBW continued to expand its range of sustainable investment solutions, complementing its existing product portfolio in this area.

LBBW Asset Management and business with high net-worth private clients were brought together in 2020 and will operate as a joint business area in the future. Both private and institutional customers will benefit from pooling advisory and product expertise.

### Green bonds

Green bonds finance specific projects related to environmental and climate protection. LBBW aims to actively promote the market development of green bonds and thus launched its own »green bond program« in 2017. Parallel to this, a »Green Bond Committee« was established at LBBW, securing cross-divisional transfer of expertise.

The following green bonds were issued in 2020:

- GBP 500 million of green senior non-preferred (term of five years)
- GBP 250 million of green senior non-preferred (term of five years)

In order to be able to make a substantiated selection of energy-efficient buildings for property portfolios, together with a reputable external advisor LBBW developed an approach to measure and compare the carbon intensity of commercial properties and renewable energies when issuing its first green bond. The methods can also be used by other market participants and by governments.

### **Social bonds**

Social bonds fund a diverse array of social project such as education, health, drinking water supply, public infrastructure and transport.

In 2018, the initial conditions for developing a social bond program were created at LBBW. This is based on the successful green bond program and expands the range of financing for the United Nation's »sustainable development goals« (UN SDG).

LBBW issued a EUR 500 million social bond with a term of eight years for the first time in September 2019. The second social bond followed in February 2020, a senior non-preferred bond with a volume of EUR 1 billion and a term of seven years. As with the first issue, LBBW also used the proceeds from the second bond to fund social projects in healthcare and social services, vocational training, nursing homes and residences for the disabled. Other potential financing destinations include schools, hospitals, infrastructure projects and public water supply. In total, LBBW's social bond portfolio is worth EUR 2.7 billion.

### **LBBW's investments**

Sustainability criteria for LBBW's investments were established in 2011. These have been revised on an ongoing basis ever since. Since 2019, exclusion criteria for company investments have covered cases of disputed human rights and labor law, controversial environmental practices and a reduction of coal producers. Regarding government investment, we avoid exposures in countries under authoritarian regimes. The sustainability rating agency ISS-ESG (formerly ISS oekom) reviews our investments each year.

### **Asset management in line with ethical, social and ecological criteria**

BW Bank offers its customers asset management solutions taking ethical, social and ecological aspects into account. To do this it works with external suppliers and asset management companies which assess and classify financial instruments and/or issuers in line with transparent sustainability criteria.

In addition, BW-Bank offers investors two sustainable strategy funds. Both actively managed funds invest in equities and fixed-income securities from issuers who contribute to meeting the UN's sustainable development goals.

LBBW Asset Management Investmentgesellschaft mbH has exclusion criteria in place for individual business ventures and overarching principles such as compliance, human rights and biodiversity. LBBW Asset Management does not invest in companies that produce cluster munitions and/or anti-personnel mines, which are prohibited by international conventions, for any investment products or mandates.

Ever since 2002, LBBW Asset Management has offered its private and institutional customers investment products and mandates whose investment strategy takes account of environmental and sustainability aspects in addition to return and risk considerations. These take into account non-financial criteria (e.g. ESG factors) with regard to the environment, social aspects and responsible corporate governance. As at 31 December 2020, LBBW Asset Management's sustainably managed assets totaled EUR 22,506.4 million (previous year: EUR 21,683.7 million), divided between mutual funds, special funds and direct mandates. The rise in comparison to the previous year essentially reflects inflows into existing special fund mandates and mutual funds and new mandates, as well as from switching investment strategies to existing special funds and positive performance.



LBBW Asset Management also signed the United Nation's PRI (Principles for Responsible Investment) in the »investment manager« category.

## Investment business

EUR billion	2020	2019	2018
Volume of sustainable cash investments at LBBW Asset Management Investmentgesellschaft mbH	22.51	21.68	19.86
Volume of sustainable cash investments at BW-Bank-Vermögensverwaltung	1.53	1.15	0.91

The share of sustainably invested or managed assets is approximately 26.1% (LBBW Asset Management) and approximately 24.8% (asset management) of the entire invested capital.

## Sustainable financing

### Avoidance of reputation and sustainability risks in financing

Through mandatory in-house review processes and industry-specific rules, LBBW ensures that ecological, social and ethical reputation and sustainability risks 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 relationships.

Based on the internal lending rules, the respective client advisor also checks loan inquiries in respect to compliance and sustainability risks. In addition to this, an excerpt from the RepRisk AG database on the companies involved in the planned transaction can also be obtained from the sustainability team. If this results in a medium or high reputational risk, the sustainability team conducts a thorough risk assessment and recommends a plan of action to the division on the basis of this. To facilitate this, Front Office and Bank Office have specially developed inquiry forms which cover all persons involved, type and purpose of the business relationship, results of previous research and anomalies determined in respect to sustainability risks (including topics such as arms, genetic engineering, nuclear power, environmental degradation, protection of species and biodiversity, climate change, labor laws and human rights). Compliance risks (including money laundering, fraud) are assessed by Compliance where necessary. After the compliance and/or sustainability experts have made a relevant assessment, the responsible client advisor determines if the business is pursued. If this is the case, the relevant sustainability/compliance assessments are integrated into the loan application and appropriate account taken of them in the credit decision.

Our »Principles and Guidelines for Implementation of LBBW's Sustainability Policy and Goals« and the guidelines in the lending business it contains form the basis for sustainability standards for financing.

Alongside legislative requirements and regulations, with its internal policies and instructions LBBW aligns itself to internationally recognized standards and voluntary commitments. In addition to the UN Global Compact, these include the OECD guidelines for multinational enterprises and the performance standards promulgated by the International Finance Corporation (IFC).

The following internal test processes for financing projects, along with others, are implemented at LBBW:

- Review process for industry/country risks  
In order to identify, analyze and assess any sustainability risks in international financing projects, a sustainability review must be carried out for certain loan inquiries in the industries deemed especially relevant, namely wood/paper mining, petroleum/natural gas and bioenergy, in certain countries sensitive to these industries.
- Company exclusion list for controversial weapons systems  
LBBW does not enter into any business relationships with companies involved in producing cluster munitions and/or anti-personnel mines, which are prohibited by international conventions. We ensure this at the operational level with a company exclusion list that applies throughout the entire Group at LBBW (Bank) and all subsidiaries majority owned by LBBW and is also integrated into the automated embargo monitoring system of the Bank. The exclusion list is regularly updated.

#### Energy-efficient housing renovation

LBBW/BW Bank assists retail customers in renovating and modernizing buildings in line with energy-efficiency requirements and arranges related advisory services. To do so, we collaborate with the Deutsches Energieberater-Netzwerk e. V. (German Energy Advisers' Network - DEN).

#### Project financing

In 2020, LBBW again financed projects in the area of renewable energies.

The share of project financing in the area of renewable energies amounted to approximately 51% of the overall portfolio in 2020. This includes not only projects in the area of energy, but also infrastructure and public-private partnership projects.

#### Project financing

EUR billion	2020	2019	2018
Volume of renewable energies project finance (assets)	2.58	2.46	2.45

#### Issues financed

Landesbank Baden-Württemberg commissioned consultancy company MACS Energy & Water GmbH, which specializes in sustainability, to calculate the financed emissions in its exposure as part of a pilot project. MACS uses the Greenhouse Gas Protocol (GHG Protocol) as its methodological basis, which assigns financed emissions to the downstream value chain stage (scope 3). The lender's scope 3 emissions correspond to scope 1 and scope 2 issues that the borrower directly assigns to the financed project/investment. This approximate calculation conducted by MACS was based on LBBW's gross exposure, i.e. the sum total of all outstanding receivables and commitments (including secured shares) to borrowers for 2018 and 2019.

## Product responsibility/consumer protection

Our customer account managers work with customers to explore their goals – including those beyond investing – and subsequently prepare a personalized financial plan known as the »BW financial plan\_neo«. Long-term wealth accumulation and portfolio optimization are at the forefront here.

LBBW offers clear and detailed information on various types of investment and any associated risk. For each investment consultation, we prepare a »Declaration of Suitability«. In the declaration, banks must show in writing how the recommendation given – for example to buy or to sell a product – fits the respective customer and his investment targets, i.e. that it is suitable.

Our advisors are not assigned sales targets for individual securities products. There are no point systems for assessing sales and revenue targets. We are available to provide advice and support to our customers in each phase of life.

Our sustainable approach to financial advising and the rules for systematic implementation and review are set out in the »Leitlinien für die Privatkundenberatung in der BW-Bank« (»Guidelines for retail customer advice at BW-Bank«) ([www.bw-bank.de](http://www.bw-bank.de)). Our advice follows a holistic approach where the focus is the individual requirements of each individual customer. We take up customer suggestions in a continuous improvement process.

Specific work instructions and process guidelines provide the framework for the advising process. Product selection guidelines and review mechanisms aim to ensure that we always focus on the customer's interests.

## Compliance (combating corruption and bribery)

Responsible business activities are based on compliance with external and internal rules and laws. Effective compliance management prevents in particular criminal activities such as money laundering, terrorism financing, fraud, corruption or insider trading and monitors compliance with data protection and finance sanctions.

### Compliance training

All employees must take tutorials on fraud prevention and sustainability every three years. The tutorials on money laundering prevention have been mandatory for all LBBW employees who are responsible for banking operations since August 2019 (once per year). The tutorial on capital market topics is to be taken in line with the employee's area of work. Currently the average completion rate of the respective web-based training prior to the first reminder is approximately 98.7% (as at December 2020). The low percentage of employees who have not completed tuition results from long-term illnesses or job changes within the divisions.

### Code of conduct

Therefore, 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. For this purpose, a code of conduct was adopted as an overarching guideline (<https://www.lbbw.de/code-of-conduct>). This code applies to LBBW and its subsidiaries. The aim of the code is to create a reliable, normative frame of reference or guidance for responsible action by each individual that satisfies the legal requirements and is in line with ethical and societal standards. The Code of Conduct was updated in May 2020.

**Compliance function pursuant to MaRisk**

More than ever, it is important that the company react quickly to critical developments and make sound decisions based on reliable data. This means preparing risk information in a timely fashion, providing substantive risk reporting and agile risk management, and above all establishing a culture of corporate compliance that exemplifies a responsible risk culture.

LBBW has established a compliance function that meets the requirements in accordance with MaRisk and is directly integrated into its basic procedures. The key legal regulations and stipulations for the Bank are continually identified, including risk-based monitoring to ensure compliance with all appropriate, effective procedures.

**Preventing money laundering and tackling terrorism financing**

Money laundering describes the process of channeling illicitly-obtained assets from organized crime, drug trafficking, fraud or other criminal offenses into the legal financial system. The aim of this is to conceal the illegal origin of the money so that it can be »laundered« and reintroduced into the legal financial system. Terrorism financing is when banks are misused to gather legally or illegally acquired funds that are used in full or in part to carry out acts of terrorism. Accordingly, the LBBW Group developed appropriate Group-wide business and customer-related security systems and controls for preventing money laundering and terrorism financing. These include, for example, rules on relationships with politically exposed persons, the process for accepting applications from new customers, the updating of customer data and continual monitoring of business relationships as well as the integration of the Anti Money Laundering Officer in the New Product Process.

**Financial sanctions/embargoes**

LBBW is obligated to initiate measures to ensure compliance with national and international financial sanctions and embargo regulations. Financial sanctions result in restrictions to capital movements and payments, whereas embargoes limit the freedom of foreign trade.

Measures and organizational requirements for the Bank and the Group are defined in the internal rules. For example, all international payments and the entire LBBW customer portfolio are compared automatically on a daily basis against all national and international sanction and embargo lists. The same applies to the internal company exclusion list on cluster munitions and anti-personnel mines. The necessary processes and IT-supported testing methodology are firmly established internally.

**Fraud prevention (other criminal offenses)**

At LBBW, the purpose of fraud prevention is to prevent criminal acts that could expose the assets of LBBW or its customers to the risk of loss or could harm the LBBW Group's reputation. Risks are analyzed, leading indicators are tracked, and transaction and customer-related security systems and controls are implemented. The annual risk analysis identifies and evaluates all potential internal and external risks relating to criminal offenses that are relevant to the Bank and the Group. Using this as a basis, suitable preventive measures are then developed. At a general level, LBBW aligns itself to the OECD guidelines for multinational enterprises which also includes recommendations on tackling corruption.

The regulatory framework for combating criminal offenses for the Bank and the Group includes all preventive measures and general organizational requirements (e.g. paths for reporting suspicions). Employees can also report abuses or suspicious activities anonymously via an external ombudsman. This possibility has been implemented across the group in the branches and in the subordinated companies of the LBBW Group, and can also be utilized by external third parties. This is stated on LBBW's website.

In 2020, there were no corruption cases against LBBW (Bank) or subsidiaries integrated into sustainability management.

### **Capital market compliance**

In line with the »Minimum Requirements for the Compliance Function and Additional Requirements Governing Rules of Conduct, Organization and Transparency for Investment Services Enterprises«, the Compliance function ensures compliance with all legal regulations pertaining to securities products and the relevant stipulations of supervisory authorities. To this end, it issues internal guidelines and work instructions which serve as guiding principles.

A risk analysis is performed once a year. Among other factors, this focuses on the relevant statutory regulations and an analysis of individual risks.

Compliance with external and internal conditions is monitored on an ongoing basis. This is done not only on the basis of central examinations of documents, processes and instructions, but also with local checks, e.g. in the branches, the advisory centers and central units. If improvements are required, the Compliance function pursuant to MaComp works together with the areas impacted to achieve implementation in line with regulations.

The Compliance function pursuant to MaComp retains the task of preventing market abuse and securing the financial market regulations requirements of the revised EU Directive »Markets in Financial Instruments Directive« (MiFID II). For this reason, compliance on regulations regarding employee transactions, on avoiding insider transactions and market manipulation are monitored.

In line with the requirements of the Compliance function pursuant to MaComp, conflicts of interest in connection with investment and ancillary (non-core) services are to be avoided. In the matter of identifying, avoiding and managing conflicts of interests, employees of the Compliance function pursuant to MaComp provide advice.

## Employee matters

LBBW is very demanding of itself and hence of its workforce. At the same time, it offers highly attractive workplaces with development potential for ambitious employees who take pleasure in success. As an attractive employer, the Bank has always offered a wide range of training opportunities and extensive solutions for achieving a good work-life balance. It also invests in the health of its workforce.

### Personnel development

LBBW offers a comprehensive internal training program to ensure the focused qualification of all its employees. This comprises seminars and training opportunities that also include training in methodological and social competence alongside the focus on technical qualifications. These are supplemented by training to optimize foreign language skills together with subject-specific seminars run by external providers. Employees wishing to expand their business management skills also have the option of attending part-time university courses while continuing their employment. At the same time, it includes specific offerings for executives on personnel management and the careful handling of the Bank's own and external resources. Only a limited number of the normal educational activities went ahead due to the challenges posed by the COVID-19 pandemic. Starting from the end of March 2020, only urgent events or events that could be held digitally were held. LBBW (Bank)'s employees took advantage of the education opportunities on offer approximately 4,400 times in 2020. As well as its tradition of offering a wide range of further training, LBBW also focuses on promoting excellence through its talent management initiative. The objective is to employ targeted development opportunities aimed at strengthening internal senior management candidates in the competition for key positions and thus retain them for the bank. This is done by offering targeted development opportunities as part of challenging talent programs, which were continued successfully in 2020. In addition, managers can take advantage of career development coaching workshops to receive individual consulting and support relating to management and personality.

### Key figures for LBBW (Bank)<sup>1,2</sup>

	2020	2019	2018
Average age	45.7	45.5	45.3
Average length of service in years	19.5	19.3	19.4

1 The data basis for the calculation of the HR figures is the number of »active employees« as defined by HGB (excluding interns, student trainees, students at universities of cooperative education, temporary staff, employees on leave and members of controlling bodies).

2 Approximately 80.5% of Group employees are covered by LBBW (Bank).

### Diversity

LBBW has been part of »Initiative Chefsache« ([www.initiative-chefsache.de](http://www.initiative-chefsache.de)), a network to promote a balanced ratio of women and men in management positions, since 2018. In addition, LBBW (Bank) signed the Diversity Charter ([www.charta-der-vielfalt.de](http://www.charta-der-vielfalt.de)) in 2008 and has committed itself to ensuring a workplace free of prejudice for all employees.

### Promoting the careers of women

LBBW (Bank) plays a role in supporting women's career opportunities, with the goal of making competition for positions fair and thus significantly increasing the percentage of women in mid to upper management positions. To this end, we have established a comprehensive concept, which includes a mentoring program as well as individual career planning seminars. This guarantees that women's leadership potential and career ambitions are both recognized early on and supported in the long run. The development program for senior management candidates is being continued. Men and women are equally represented. There are also division-specific programs. The pilot project »Women Career« in Sales, for example, aims to substantially increase the share of female advisers in asset management and corporate customer consulting.

## Key figures for LBBW (Bank)/diversity<sup>1,2</sup>

	2020	2019	2018
Percentage of female employees	51.5%	52%	52%
Percentage of women in leadership positions	19.6%	19.3%	18.7%
Percentage of severely disabled employees or equivalent status <sup>3</sup>	5.1%	5.1%	5.0%
Percentage of employees with a foreign nationality	6.4%	6.1%	5.7%

<sup>1</sup> The data basis for the calculation of the HR figures is the number of »active employees« as defined by HGB (excluding interns, student trainees, students at universities of cooperative education, temporary staff, employees on leave and members of controlling bodies).

<sup>2</sup> Approximately 80.5% of Group employees are covered by LBBW (Bank).

<sup>3</sup> The number of severely disabled employees or those with equivalent status can vary depending on the date of compilation, due to the retroactive recognition of an employee's status as severely disabled. This may lead to discrepancies between the information contained in the non-financial statement of the Management Report and the LBBW Sustainability Report.

Additional information on the topic of diversity is available in the Human Rights section (see page 17).

### Work-life balance

To provide the best possible work-life balance, LBBW (Bank) offers various options for flexible working hours. As helping parents find childcare services is a matter of course for us as an employee-oriented company, we also allow scope for, for instance, sabbaticals. Our extremely flexible working hours system, combined with the option to arrange to work from home where necessary, particularly proved their worth in 2020, the year of the pandemic.

Support for employees who are caring for elderly relatives or disabled family members is also becoming increasingly important. Subject to prior consultation with their managers, employees who care for a family member can apply for an additional six months' leave over and above the statutory entitlement of six months. The »Pflegefall, was nun?« (Care required, what now?) seminar, which around 630 employees have attended so far, provides our employees with an overview of issues including long-term care insurance and financing of costs, dealing with home nursing services, legal precautions, and counseling centers.

Support in childcare is another offering. The Bank's employees at all head offices can utilize childcare services. These include children's day care services, emergency childcare and special arrangements during school holidays. We offer all employees an advisory and support program provided by a third-party service provider, pme Familienservice. In addition to the parental leave time guaranteed by law, mothers and fathers who have been employed by LBBW for at least three years prior can take a leave of absence called a »family year«.

LBBW has been designated a »family-friendly company« by »audit berufundfamilie« since 2010. After two successful audits in 2013 and 2016, the new audit in 2019 focused on how to make management positions appealing to women. Workshops were held with employees from different areas. The findings from the workshops were used to create a program of action. All the activities planned here for 2020 were initiated or implemented.

### Company health management

Taking the factors generally accepted to have an effect on health – ergonomics and occupational psychology – as a starting point, company health management efforts also move beyond the immediate working environment and aim to strengthen employees' general health. Whereas leadership and communication styles are of central importance in a professional sense, general healthcare promotion focuses on movement, nutrition, addictive behavior and mental health.

- The **Occupational Health Service** supports and advises all employees in basically all health-related matters while maintaining strict doctor-patient privilege. In addition to typical workplace and socio-medical issues such as returning to work after a physical or mental illness, the Occupational Health Service is also available for behavioral and environmental prevention, first aid, emergency medical care/services, travel medicine, general medical care and vaccinations. These services are closely integrated with those offered by the Social Services Department and company health promotion at LBBW to create a model that employees can access to develop their own personal health strategy.
- The **Welfare department** advises employees and executives on topics such as stress, conflicts and difficult situations at work, mental health issues (burnout, depression), addiction, and personal issues (such as the death of a loved one). Preventive advising on matters like resilience and healthcare is also offered. After an acute crisis situation such as a serious accident, sudden death or bank robbery, the Welfare Department offers immediate emergency psychological care. In addition to one-on-one advising, the Welfare Department also offers employees and managers workshops, training courses and presentations covering psychosocial issues such as resilience.
- **Occupational health and safety:** We bring in experts on occupational safety and company doctors before making workplace decisions, such as when purchasing furnishings and computer equipment, carrying out construction or renovation work or developing building standards. Conditions are examined on site during workplace inspections and, where necessary, checked to see where any potential improvements could be made. In 2020, safety-related inspections were carried out and individual workplace guidance given on ergonomics as required or scheduled. In addition, those involved in occupational safety (e.g. managers, employee representative and safety officers) received regular training. Safety officers were trained as »Ergo Scouts« in order to further improve workplace ergonomics. Our occupational safety committee, which meets four times a year and represents all LBBW employees, is an advisory and coordination body responsible for all key occupational safety and health issues.

### LBBW Ideas Management

LBBW Ideas Management gives our employees the opportunity to help actively shape the future with their ideas and their expertise. 3,179 suggestions and a calculated benefit of EUR 27.3 million in the 2020 financial year show the enormous potential this has.

Thanks to our employees' great commitment towards developing and implementing creative ideas, we create innovative, sustainable and digital solutions, efficient processes and products that offer our customers real added value. Ideas Management is a vital element of making a long-lasting and sustainable contribution to the bank's success.



## Social matters

- **Education:** As a public-sector bank with regional roots, LBBW takes its social mandate seriously and actively helps to increase young people's familiarity with the business world while giving students early guidance in choosing their career. In doing so, we do not only want to convey knowledge but also reinforce social skills and awareness of responsibility for the sustainable development of society.
- **Donations** are an important part of LBBW's commitment to society. Donations are primarily focused on social, cultural and scientific projects. In keeping with our strong regional roots, we generally support recipients in our regional core markets.
- As **sponsor**, LBBW supports projects and selected institutions in the regions it does business. In addition to cultural establishments, such as Stuttgart Opera House, we also sponsor sporting events including the renowned STUTTGART GERMAN MASTERS equestrian competition. LBBW also participates in various educational projects.
- The **Landesbank Baden-Württemberg Foundation** has sponsored more than 11,200 projects since being founded in 1984, with a total of EUR 26.4 million. LBBW's foundation activities aim to have as broad an effect as possible, to promote young people and to provide help to a continual stream of new initiatives.

## Human rights

### Company policy

To enforce its sustainability policy and sustainability goals, LBBW has defined principles and guidelines as a basis for orientation. Our commitment to the protection of human rights states, »As part of the international community, we are committed to the United Nations' Universal Declaration of Human Rights«.

### Supply chains

- **Supplier registration:** Activities with our suppliers are based on supplier registration. In order to be an approved supplier of LBBW, among other things questions about sustainability issues must be answered on LBBW's supplier portal. Every supplier is additionally required to acknowledge the »Sustainability agreement for LBBW suppliers« when registering and sign it when entering into a contract. This agreement compels our suppliers to comply with what we consider to be essential environmental and social criteria. Any supplier violating the social standards contained in the Sustainability Agreement (e.g., prohibition against human rights abuses, such as child labor) must accept such violation as grounds for termination of the Agreement without notice.
- **Group purchasing:** Centrally organized purchasing operations and binding Bank-wide standards enable us to ensure that sustainability issues are factored into investment decisions and, in cases where several product alternatives with comparable quality and cost are available, the best product in terms of sustainability is chosen. On the one hand, this enables us to guarantee that the manufacture and use of products at LBBW meet the highest sustainability standards possible. On the other hand, it allows us to promote environmentally and socially aware policies and business practices by our business partners.

### Customer relationships

In its guidelines on the loan business and those for retail customer advice, LBBW incorporates sustainability aspects in terms of the observance of human rights (see page 9 and 11).

## Treatment of our employees

- **Staff representation and representation of employees with disabilities:** Co-determination in the Staff Council is based on the State Employee Representation Act for Baden-Württemberg. Staff meetings are held regularly at LBBW's larger locations. Employees have the right to exercise the freedom of association and assembly throughout the Group. LBBW employees who hold severely disabled status are advised and represented by the General Representative Body for the Severely Disabled (GSBV- Gesamtschwerbehindertenvertretung) and six regional representative bodies for the severely disabled
- **Diversity:** A Diversity Officer is assigned to supervise and support diversity and equal opportunity efforts at LBBW. According to a works agreement on protection from discrimination and a cooperative environment in the workplace, employees who feel discriminated against may turn to the Staff Council, the representative for employees with disabilities, the responsible manager, the Welfare department or the complaints board.
- **Training:** All LBBW's employees must complete the e-learning tool »Fraud prevention and sustainability« and the tool for implementing the General Act on Equal Treatment (Allgemeines Gleichbehandlungsgesetz). The e-learning tools include human rights issues.

## Environmental management system

Our environment and sustainability management system is applicable to LBBW (Bank) including BW-Bank, Gastro Event GmbH, LBBW Immobilien Management GmbH, LBBW Corporate Real Estate Management GmbH and LBBW Asset Management Investmentgesellschaft mbH.

### Certification EMAS and ISO 14001

LBBW has committed to complying with the standards of the Eco-Management and Audit Scheme (EMAS) and ISO 14001, and has maintained a certified environmental management system since 1998. The implementation of the Scheme and ISO standard is verified once a year by means of an internal and an external audit.

The following are validated according to EMAS and certified according to ISO 14001:

- four Am Hauptbahnhof buildings and two buildings located at »Pariser Platz« in Stuttgart,
- the »Fritz-Elsas-Strasse 31« building (known as the »Bollwerk« building) in Stuttgart,
- the »Königstrasse 3« building in Stuttgart,
- the »Kleiner Schlossplatz 11« building in Stuttgart,
- the »Augustaanlage 33« building in Mannheim.

# Results of the concepts

## Sustainability ratings

- ISS ESG gave LBBW an overall grade of C+ on a scale of A+ to D-. LBBW placed third out of 277 banks analyzed internationally in the »Financials/Public & Regional Bank« sector. It ranks number two in Germany (as at November 2020). These results make LBBW a sector leader, securing the highest transparency level »very high (80-100 %)« issued by ISS ESG.
- LBBW was awarded 82 out of 100 points in Sustainalytics's 2020 sustainability rating update, putting it 19th out of 362 rated at international level in the banks sector. LBBW is ranked first among its peer group (as at July 2020).
- In the imug rating, LBBW is rated as »positive« (BB) overall and thus ranks no. 1 of 10 banks rated within the state and savings bank sector. LBBW comes in second place within the European state bank sector. In addition, LBBW was assessed very positively as an issuer of public-sector bonds (A) and positively for mortgage-backed covered bonds (BBB) (March 2020).
- LBBW was rated AA (on a scale from AAA- AAA) in the MSCI ESG's 2020 rating update (as at August 2020).

## External and internal audits

Both audits were performed successfully in 2020. During the internal and external audits, no substantive violations of environmental law were uncovered.

## Material risks and how they are handled

Risk Management at LBBW is defined as the use of a comprehensive range of tools to manage risks – including reputation risks – within the scope of LBBW's potential to bear risk and the strategy laid down by the Board of Managing Directors. Non-sustainable behavior exhibited by our customers and projects with a negative environmental impact represent reputational risks for LBBW.

- Non-transaction-related risk management of reputation risks is the responsibility (first line of defense) of Group Communication, Marketing and Board of Managing Directors and the Sustainability and Environment Social Governance group, together with all divisional managers and managing directors of Group subsidiaries.
- The transaction-related management of reputation risks, such as evaluating new business, is conducted peripherally by the front-office units, especially in the course of the New Product Process (NPP) and credit application process. There is a product certification process upstream of the NPP for OTC derivatives relating to interest-rate, currency and commodity management. Reputation risks are to be taken into account with regard to transactions. Responsibility for this is decentralized and lies with the divisions.
- The Sustainability Management team supports the relevant front office divisions in their day-to-day business in identifying and assessing transaction-related sustainability risks.
- Group Compliance is responsible for transaction-based and non-transaction-based reputation risks in the second line of defense.

The risk management guidelines set out the main principles for the consideration of opportunities and risks within the LBBW Group and form the basis of a uniform Group-wide understanding of the Bank's goals in connection with risk management.

For additional information, see the risk report in the 2020 annual report.

# Limited Assurance Report of the Independent Auditor

To Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz/Germany

## **Our engagement**

We performed an independent limited assurance engagement on the separate non-financial Group report in accordance with Section 315b HGB of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz (»the Company«), which was combined with the non-financial report in accordance with Section 289b HGB of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz (hereinafter referred to as the »combined non-financial report«), for the period from 1 January to 31 December 2020.

## **Management's responsibility**

The legal representatives of Landesbank Baden-Württemberg are responsible for the preparation of the combined non-financial report in accordance with Sections 315b, 315c in conjunction with Sections 289c to 289e HGB.

This responsibility of the Company's legal representatives includes the selection and application of appropriate methods to prepare the combined non-financial report and the use of assumptions and estimates for individual disclosures which are reasonable under the given circumstances. The legal representatives are also responsible for internal controls they have identified as necessary to allow the preparation of a combined non-financial report which is free from material misstatement, whether intentional or not.

## **Practitioner's responsibility**

Our responsibility is to express a conclusion on the combined non-financial report based on our work performed within a limited assurance engagement.

As the audit firm, we apply the quality assurance standard of the German Institute of Public Auditors (Institut der Wirtschaftsprüfer, IDW) regarding quality assurance requirements in audit practice (IDW QS 1). We observed the professional obligations in accordance with the Regulations for German Public Auditors (*Wirtschaftsprüferordnung - WPO*) and the Professional Code for German Public Auditors and Chartered Accountants (in Germany), including the requirements regarding independence.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): »Assurance Engagements Other than Audits or Reviews of Historical Financial Information« published by IAASB. This Standard requires that we plan and perform the assurance engagement to obtain limited assurance whether any matters have come to our attention that cause us to believe that the combined non-financial report has not been prepared, in all material respects in accordance with Sections 315b, 315c in conjunction with Sections 289c to 289e HGB. In a limited assurance engagement the evidence gathering procedures are more limited than in a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement. The choice of audit procedures is subject to the auditor's own judgment.

During our audit, which we conducted in the months of October 2020 to March 2021, we performed the following audit procedures and other activities:

- Gained an understanding of the structure of sustainability organization and stakeholder involvement,
- Surveyed legal representatives and relevant employees involved in preparing the combined non-financial report about the preparation process, the measures and precautions (systems) in place to prepare the combined non-financial report and the disclosures contained in this report,
- Identified risks of material misstatements in the combined non-financial report,
- Performed an analytical evaluation of selected key disclosures in the combined non-financial report,
- Compared selected disclosures in the combined non-financial report with the corresponding data in the annual and consolidated financial statements and the combined management report and
- Assessed the presentation of the disclosures.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Conclusion**

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the combined non-financial report of Landesbank Baden-Württemberg for the period from 1 January to 31 December 2020 is not prepared, in all material respects, in accordance with Sections 315b, 315c as in conjunction with 289c to 289e HGB.

## Purpose of the report

We issue this report on the basis of the engagement agreement entered into with Landesbank Baden-Württemberg. The audit was performed for the purposes of Landesbank Baden-Württemberg and the report is intended only to inform Landesbank Baden-Württemberg about the findings of the audit.

## Liability

The report is not a suitable basis for third parties to make (investment) decisions. Our responsibility is solely to Landesbank Baden-Württemberg and is also limited in accordance with the engagement agreement with Landesbank Baden-Württemberg dated 23 June 2020 and the General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften (»Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften«) in the version dated 1 January 2017 issued by the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer in Deutschland e. V.*). We assume no responsibility with regard to any third parties.

Stuttgart, Germany, 4 March 2021

Deloitte GmbH

Wirtschaftsprüfungsgesellschaft [Original German version signed by:]

(Klaus Löffler)

Statutory auditor

(Herbert Apweiler)

Statutory auditor

**Landesbank Baden-Württemberg**

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